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MINUTES

Special Commission on a Public Agenda for Kansas
August 22, 1985
1:00 p.m.

Present: Arasmith, Barkis, Bennett, Borgen, Braden, Edmiston, Finley, Frey, Johnston, McGlothlin, Moore, Shumway, and Warner.

Absent: Dykes, Hayden, and Lee.

Vice-chairman Johnston chaired the meeting.

Flentje reviewed the "Plan for Initiating and Guiding the Work of the Special Commission" ^(Attach 1) (adopted by the Legislative Coordinating Council) and proposed the following meeting schedule through 1985:

October 3 and/or 4

- Review issues suggested by individuals, groups, and agencies
- Begin prioritizing issues

October 31 and/or November 1

- Select issues for further study
- Review policy choices relevant to each issue area

December 5 and/or 6

- Select policy choices for further study

Members of the Commission discussed whether the Commission should identify a number of alternatives available to Kansas in responding to each important issue or should recommend a preferred alternative on each issue. Barkis stated the Commission should identify and analyze a number of feasible approaches to policy issues and not attempt to select only one approach. Bennett noted that the concurrent resolution creating the Commission prohibited recommending only a preferred alternative on each issue.

Flentje reviewed what actions had been taken to solicit public views concerning the assignment given to Commission. During late July and early August Chairman Hayden and Vice-chairman Johnston issued three joint letters requesting advice and suggestions on the charge to the Commission: 1) an "Open Letter to Kansans" sent to all daily and weekly Kansas newspapers; 2) a request to all state agency heads; and 3) a request to 150 statewide interest groups. Members of the Commission discussed what additional public participation should be sought but deferred action on the question.

Flentje then proposed criteria for selecting policy issues for further study:

1. Select issues which have long-term impact on the economic and social welfare of Kansans, ie., avoid issue of issues of short-term significance.
2. Select issues which affect state as a whole, ie., avoid issues that focus on narrow segments of the population or geographic areas.
3. Select issues which present an opportunity for significant change, ie., avoid issues of incremental nature.
4. Select issues which are not currently receiving (or have not recently received) careful attention, ie., avoid issues currently receiving policy attention.
5. Select a manageable number of issues given the timeframe and resources available to the Commission.

Flentje noted that these criteria were proposed as a basis for thinking about possible issues not as arbitrary rules.

Dr. Anthony Redwood made a presentation, "Long-Term Structural Changes in the Kansas Economy," and then responded to questions from Commission members.

Dr. Glenn Fisher made a presentation, "Trends in Kansas Government Finance," and then responded to questions from Commission members.

The meeting adjourned at 4:30 p.m.

APPENDIX APLAN FOR INITIATING AND GUIDING THE WORK
OF THE
SPECIAL COMMISSION ON A PUBLIC AGENDA FOR KANSAS

A. Mission of Special Commission

1. To focus public attention on state government and policy issues affecting state government and encourage on-going study and public discussion of these issues;
2. To assist the Kansas Legislature in setting the public policy agenda of Kansas; and
3. To improve the quality of public policy in Kansas.

B. Assignment to Special Commission

1. Identify public issues critical to the future of Kansas;
2. Identify policy choices available to Kansas in responding to these issues;
3. Draw upon leadership and expertise within Kansas to analyze these public issues and policy choices;
4. Solicit views from the public at large on these issues and policy choices;
5. Report to the Kansas Legislature by July 1, 1986.

C. Principles of Operation

1. The Special Commission should begin work as soon after July 1, 1985, as is feasible and complete its business within one year, but in no event later than June 30, 1986.
2. The Special Commission should supplement not supplant the regular work of the Kansas Legislature. Therefore, the Commission will be staffed by a coordinator and such other assistance as may be necessary and as determined by the Special Commission in order to avoid disrupting or interfering with the work of legislative interim committees or with the 1986 legislative session. The coordinator shall be supervised by agreement of the chair and vice-chair of the Special Commission. Any disagreements concerning supervision shall be resolved by the full commission.
3. The Special Commission is charged to identify the important

public issues and viable policy choices for Kansas but shall not seek to recommend a preferred policy choice on any issue.

4. The final report of the Special Commission shall be published, made widely available, and be distributed to all public libraries in Kansas.

D. Proposed Work Schedule for Special Commission

1. Organization of the Commission (June-July)

Work to be accomplished:

--By legislative leadership:

- a) appointment of Commission members; and
- b) designation of Commission chair and vice-chair.

--By Legislative Coordinating Council:

- a) approval of overall plan for Commission operation;
- b) approval of budget for Commission activities; and
- c) appointment of coordinator for Commission.

--By Commission Chair:

- a) call first meeting of Commission.

2. Issue Identification (July-October)

- a) Solicit views on policy issues critical to the future of Kansas and policy choices available to Kansas in responding to these issues:
 - 1) Request interested groups and agencies to respond in writing to the charge of the Special Commission;
 - 2) Solicit advice from public policy specialists on the charge to the Special Commission; and
 - 3) Synthesize suggestions from interested agencies and groups and from expert testimony into a long list of important public issues.
- b) Identify public issues critical to the future of Kansas:
 - 1) Confer with public policy specialists and as needed with representatives of interested groups and agencies and the public; and
 - 2) Select the most critical public issues which deserve further study.
- c) Analyze selected public issues and policy choices:
 - 1) For each public issue select the best available specialist to research and analyze the issue; and
 - 2) Commission the selected public policy specialists to research and analyze the historical development of each issue, current public policy affecting the issue, and the feasibility of policy choices relevant to the issue.

3. Identification of Policy Choices (September-November)

- a) Begin identification of policy choices relevant to the selected public issues;
 - b) Confer with public policy specialists on availability and feasibility of policy choices; and
 - c) Select policy choices which deserve further study.
4. Research and Analysis (November-May)
- a) Research and analysis of public issues and relevant policy choices by public policy specialists; and
 - b) Periodic reports and conference with Special Commission on research and analysis being conducted.
5. Draft Reports on Public Issues for Review (May-June)
- a) Review and release draft reports on public issues;
 - b) Solicit public comment on draft reports;
 - c) Revise draft reports as needed in response to public comments.
6. Final Report on Kansas Policy Choices (July)

Approved by Legislative Coordinating Council
June 27, 1985

Special
Commission On
A Public Agenda
For Kansas

1845 Fairmount, Box 61
Wichita, Kansas 67208
(316) 689-3737

FOR RELEASE
July 26, 1985

Open Letter to Kansans:

Rep. Mike Hayden
Chairman
Atwood

Sen. Michael L. Johnston
Vice-Chairman
Parsons

Sen. Neil H. Arasmith
Phillipsburg

Rep. Marvin Wm. Barkis
Louisburg

Robert F. Bennett
Prairie Village

Rex R. Borgen
Beloit

Rep. James D. Braden
Clay Center

Archie R. Dykes
Topeka

Kathleen Edmiston
Wichita

Phillip Finley
Colby

Sen. Robert G. Frey
Liberal

John Lee
Hutchinson

Jack McGlothlin
Pittsburg

John E. Moore
Wichita

Keith Shumway
Ottawa

Sid Warner
Cimarron

H. Edward Flentje
Coordinator

The 1985 Kansas Legislature created a Special Commission on a Public Agenda for Kansas. The principal motivation in taking this action was to give the Legislature better control over its own agenda and to assure that the important public policy issues of Kansas were being addressed. The assignment given to this Special Commission is straightforward:

1. Identify public issues most critical to the future of Kansas;
2. Identify policy choices available to Kansas in responding to these issues;
3. Draw upon leadership and expertise within Kansas to analyze these public issues and policy choices;
4. Solicit views from the public at-large on these issues and policy choices; and
5. Report to the Kansas Legislature by July 1, 1986.

On behalf of the Special Commission we invite the suggestions of every Kansas citizen in responding to this charge.

The first task of the Special Commission will be to identify those public problems or issues most critical to the future of our state. In completing this task, we want to assess current trends affecting Kansas and identify those which threaten us, as well as those which present opportunities for us. We also want to assess the strengths and weaknesses of our state and of our government in order that we may find ways to build on our strong points and improve in areas which are weak.

The Special Commission will begin work on sorting the more important from the less important public issues in September. We welcome and encourage each Kansan to help us by identifying the one or two (or more) critical matters which deserve special attention and should be placed on a Public Agenda for Kansas. We ask you to place your suggestions in writing and send them to us in care of: Special Commission on a Public Agenda for Kansas, Box 61, 1845 Fairmount, Wichita, Kansas, 67208. Thank you.

Sincerely,

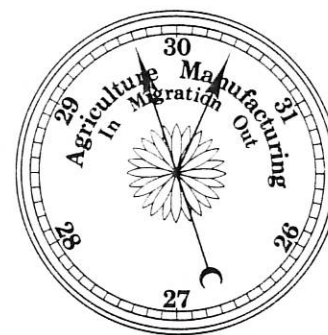


Mike Hayden
Chairman



Michael L. Johnston
Vice-Chairman

Long-Term Structural Changes in the Kansas Economy



Anthony Redwood
Daniel L. Petree
Gary R. Albrecht

Dr. Redwood is the Executive Director of the Center for Public Affairs/Institute for Economic and Business Research and a Professor in the School of Business at the University of Kansas. Dan Petree is a research assistant for the National Bureau of Economic Research and a student in the Ph.D. program of the KU School of Business. Gary Albrecht is a research economist for the Institute for Economic and Business Research.

Introduction

The purpose of this article is to identify certain significant long-term changes in the state's economic structure—changes that have brought in their wake a profound, albeit gradual, transformation in the state's demographic character, particularly as expressed in the composition and behavior of the Kansas labor force. A further purpose of this study is to argue the contention that these long-run trends are responsible, in large part, for the current relative weakness of the Kansas economy and that their continuation does not augur well for the state's economy in the years to come. In this sense, publication of the study's findings is intended to bring these changes and their effects to the attention of Kansans as well as to suggest that the present marks the time for new policies and efforts that acknowledge the changed and changing nature of the Kansas economy.¹ The alternative strongly implied by the data discussed in this study is that, failing a renewed response by state planners and decision makers, Kansas runs the very real risk of being held hostage to a past that portends, at best, a difficult economic future.

The note of urgency sounded in this statement of purpose may seem an alien chord to many citizens of the state, especially to those

who have taken comfort from—and found a source of pride in—the traditional view of Kansas enjoying a calm, strong economy within, while the country without fell prey to the convulsive swings of the national business cycle. Whereas at one time such a view was born out by Kansas' economic behavior, recent research generally supports the proposition put forward in an article published in this journal two years ago: "Kansas' historical tendency to be recession proof may have been, in many cases, the result of a fortuitous combination of events rather than the effect of an inherently stable economy," and since the early '70s the state's pattern of economic behavior has been notably less than stable²

Moreover, little comfort (or pride) can be taken from the fact, that during and following the 1980-82 recessions, the Kansas economy fell farther, started to recover later, and has grown more slowly than the national economy. Among a host of indicators suggesting that Kansas is now quite susceptible to the national business cycle and that its ability to rebound vigorously from periodic downswings of the national economy has been compromised, perhaps the most telling piece of evidence is that the state employment level has only now returned to its 1979 level.

Of course, the present weakness of the Kansas economy is due partially to some factors independent of the state's economic structure. Some observers, therefore, might choose to think that factors specific to the current situation (such as the depressing effect of the strength of the dollar in foreign markets and the global decline of oil prices on, respectively, the state's agricultural and manufacturing sectors and mining industry) argue that Kansas' failure to participate fully in the recovery period from the latest downturn is an unusual development rather than one implying a trend.

As important as these factors are to the present instance, however, this study contends

that long-term changes in the very nature of the state's economy have had a debilitating effect on its economic vitality—specifically, an erosion of the economic and human resource base that sapped the state's ability to come out of the last recessions with any substantive strength. Furthermore, this interpretation of the causes for Kansas' current economic malaise forecasts, if redress is wanting, the likely pattern of declining strength during the remainder of the decade and that ahead as well. That is to say, the possible danger awaiting the state in the not-too-distant future is that when the national economy turns down again—as it inevitably must given its cyclical character—the Kansas economy will experience once more an above-average impact and, then, will rebound more weakly than ever before. In this respect, it can also be said that the study's thesis is that the long term has caught up with the short term: Kansas is simply no longer well positioned to ride out with equanimity the fluctuations of the national business cycle.

Speaking summarily, the picture painted is of a state whose base of economic resources has eroded slowly over the years, creating, if one likes, a fine network of hairline fractures in the economic infrastructure—a tissue of potential fault lines that could become sharp cracks in the state's economic foundation.

The paper is organized as follows. Section I describes the long-term changes in the state's economic structure, particularly the evolution in the constituent elements of gross state product, civilian income, and total employment. Section II reviews the effects of those structural changes in the demographic profile of the state with particular attention paid to a migrating and, proportionately, a declining and aging population. In turn, the next section discusses the impact of the economic and demographic changes on recent employment trends in the state. The fourth section seeks to show that the current performance of the Kansas economy expresses, to a significant

Kansas runs the very real risk of being held hostage to a past that portends, at best, a difficult economic future.

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extent, the legacy of the past, especially as the correlation between employment growth and the state's industrial character is delineated by a method known as shift-share analysis. In Section V, a brief summary implying some policy considerations is presented.

Essentially, this organization provides an interpretive framework for the history of the Kansas economy evolving from its early agricultural orientation toward a mixed economy that is tending to resemble the economic structure of the United States as a whole. In other words, the story of the state's economy in the 20th century primarily concerns the long transition out of farming to other forms of economic activity, with its demographics reflecting the degree of success or otherwise of the state's generating alternative employment opportunities for its citizens. As suggested above, the chapter currently being written in this ongoing chronicle concerns the Kansas economy becoming—as its character comes to reflect more closely that of the nation—more sensitive and vulnerable to the vagaries of the national business cycle.

I. Long-Term Changes in the Economic Structure

Changes in the structure of gross state product, civilian income, and total employment by sector (illustrated, respectively, in Tables 1, 2 and 3) clearly demonstrate the decline in the importance of the farm sector and a concurrent rise in the importance of manufacturing in Kansas. In this respect, Kansas' economic pattern is converging to approximate that of the U.S., particularly as it shows manufacturing's rise to accommodate the slack created by farming's decline. Nevertheless, it should be noted that combined farm and manufacturing employment in Kansas (21.69 percent of the state total) remains significantly below that for the nation as a whole (26.78 percent) and that employment in farming is projected to fall farther in the coming years.³ Services and trade have been growing in Kansas as well, but, as their percentages approach the national average, it is likely that this growth is approaching a saturation stage.

The problem that this pattern of change poses for the state, therefore, is to continue to develop sources of economic growth to offset the farm sector's decline and the imminent leveling of the upsurge in trade and services.

In addition to that challenge, yet another is posed by the very significant changes which have occurred in Kansas' agricultural economy. Over time, the state's farms have be-

come fewer, larger, and more capital intensive. Figure 1 outlines the decline in farm numbers since World War II: as shown, the number of farms has declined in all acreage categories except the very largest, 500-999 acres and 1,000 or more acres.

Figure 2 employs the sales-size classification to measure the percentage of total agricultural sales from each class. It shows that less than 1.0 percent of the state's farms

(those with \$500,000 or more in sales) accounted for almost half of the state's agricultural output for 1978 (the most recent year for which such comprehensive data is presently available). Finally, farm input use over time exhibits an increasing capital intensity and the dramatic rise in chemical use. Equally important is the decline in labor employed on the farm. Interestingly, land input remains remarkably constant—tending to contradict

Table 1
Kansas and U.S. Gross National Product by Industry (Percentage)

	1960	1970	1980
KANSAS			
Farming	13.05	9.99	8.63
Manufacturing	19.08	19.48	20.20
Service	8.01	9.99	10.86
Government	13.07	14.74	11.33
Trade	15.33	17.38	17.11
Construction	4.95	4.38	5.06

SOURCE: Kansas Department of Economic Development

UNITED STATES			
Farming	4.01	2.64	2.91
Manufacturing	28.57	25.59	22.10
Government	9.35	11.73	11.80

SOURCE: Survey of Current Business, 1981

Table 2
Percentage of Civilian Income by Industry

	1960		1970		1980	
	US	KS	US	KS	US	KS
Farm	3.45	13.90	2.24	8.30	1.45	5.40
Manufacturing	22.63	18.90	19.68	13.70	16.37	15.30
Service	7.39	11.00	8.84	9.40	10.12	10.37
Government	11.67	12.20	13.70	14.20	11.68	10.87
Trade	11.49	20.00	11.18	12.20	10.51	11.99
Construction	3.97	NA	4.13	NA	3.50	4.48
Other	39.40	24.00	40.23	42.20	46.57	41.59
Total	100.00	100.00	100.00	100.00	100.00	100.00

SOURCE: Bureau of Economic Analysis

Table 3
Percentage of Total Employment Contributed by Sector

	1969		1978		Projected 1990	
	KS	US	KS	US	KS	US
Agriculture	9.77%	3.24%	7.00%	2.93%	4.91%	2.29%
Mining	1.28	1.00	1.18	1.56	.96	1.77
Construction	5.04	6.37	5.78	6.06	5.72	6.11
Manufacturing	15.89	28.73	16.55	26.22	17.09	25.63
Transportation, Communication, and Public Utilities	5.79	7.05	5.88	7.64	5.79	7.79
Wholesale Trade	3.80	5.99	5.56	6.55	5.57	6.43
Retail Trade	16.21	10.77	16.06	9.99	16.26	9.73
Finance, Insurance, and Real Estate	3.64	5.37	4.47	5.78	5.08	6.27
Services	16.27	15.09	18.25	16.83	20.59	19.13
Government	22.31	16.46	19.33	16.45	18.04	14.87

SOURCE: Bureau of Economic Analysis

particular, in the northeast as well as in a corridor in central Kansas along I-35 and along the Kansas turnpike.

In essence, population movement and distribution are patterned toward economic opportunity which, in Kansas, is presently concentrated in the east and south central portions of the state. As a result, the proportion of urban population of Kansas has increased from 22.4 percent in 1900 to 66.7 percent in 1980. Furthermore, the Census-identified 68 "rural agriculture" counties contained only 28 percent of the population in 1980, while the remaining 37 counties had 72 percent.

A. Migration

Necessarily, the Kansas economy and population are affected by both interstate and intra-state migration as the work force moves to seek its greatest opportunity, be that in terms of enhanced earnings or job choice. Furthermore, the primary influence can be either a "pull" (higher wages and more interesting jobs elsewhere) or a "push" phenomenon (lack of opportunity in the current situation), and often both elements are present, as would seem to be the case with Kansas.

Census figures show that Kansas experienced net outmigration of 130,473 (6.1 percent of the base population) during 1960-70 and 31,617 (1.4 percent of base) during 1970-80. An analysis of migration among

the myth that land is leaving agriculture. Quite clearly, it is labor that is leaving.

These changes are of considerable significance to Kansas. In one respect, as farms become larger and more capital intensive, agriculture tends to become vulnerable to fluctuations in financial markets and easily damaged by adverse price movements. Another impact is the clear and present threat to the vitality of the state's most rural counties: as resources leave farming, no alternative employment opportunities present themselves in farm-dominated communities. The result is a migration of resources from the affected area and a weakening of its economic structure.

II. Long-Term Changes in the Demographic Structure

There is, of course, a close link between economic and demographic characteristics and trends within Kansas. The preceding discussion of farm structure suggested that present structural trends in farming may cause population declines in rural counties, and, in fact, a close correlation exists between population declines between 1970-80 and those counties which are predominantly farm oriented. Noteworthy is that the pattern is less apt to hold for those agricultural counties near urban centers (for example, around Wichita) than for those more distant from metropolitan areas. The reason is that the urban centers provide off-farm employment for those who quit farming or farm only on a part-time basis.

Map 1 details population density in Kansas and reveals the concentration of population in the state's eastern region. The bulk of economic activity is located in this region and, in

Figure 1
Number of Kansas Farms by Acres Harvested (1945-82)

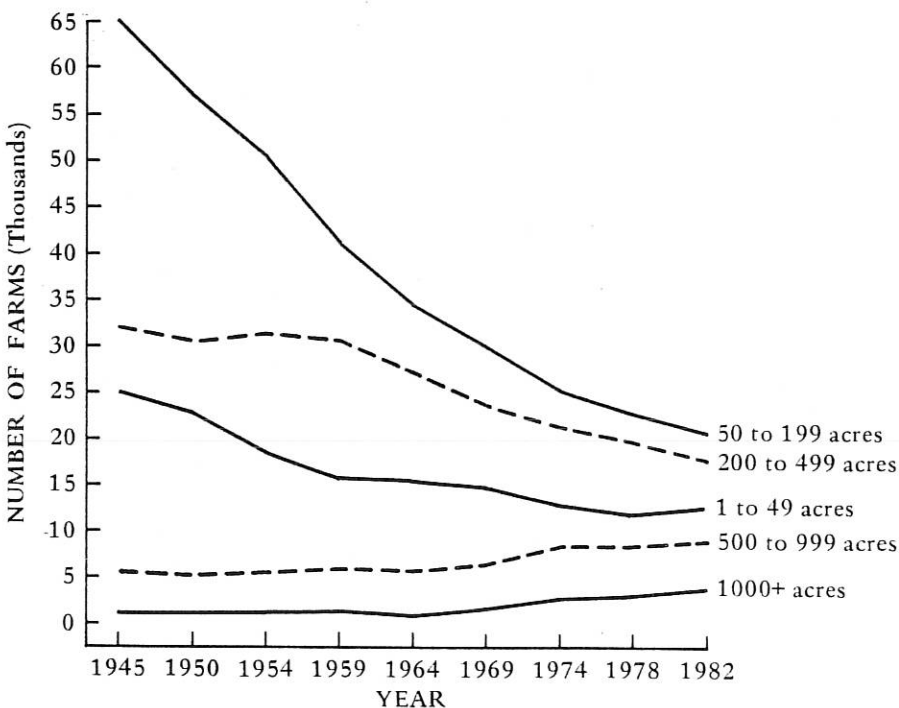
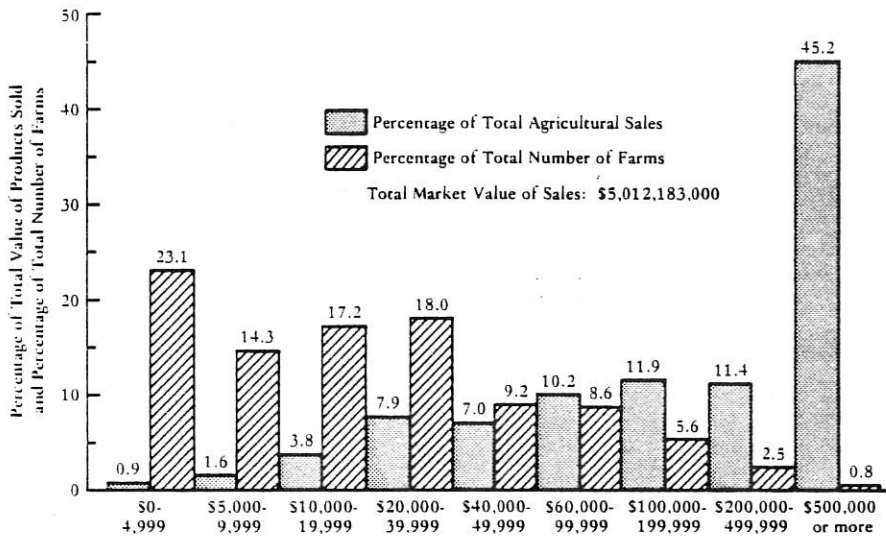


Figure 2
Percentage of Total Agricultural Sales in Kansas
by Farms Classified by Sales (1978)



workers for the period 1965-75 shows how extensive the movement of Kansas workers was: 12-13 percent of the covered (Social Security) work force comprising in-migrants, 13-15.5 percent migrating out of state, and a further 12-13 percent moving intrastate.⁴ While a large amount of migration was among neighboring states, in-migrants tended to come from surrounding Plains states and states to the east, whereas out-migrants mostly went to the southwest and west. Most important of all, this analysis confirms that interstate migration consists largely of higher paid/higher skilled workers and, moreover, that out-migrants will experience a substantially greater improvement in earnings than those who remain in the state, further evidence of the state's "brain-drain" problem, especially so as the largest group of these out-migrants are young educated adults.

Another study of worker mobility for the period 1971-73 demonstrates that there were significant variations in the sex, race, and skill patterns of migrants to and from the state's major urban areas (the Wichita, Kansas City, and Topeka SMSAs).⁵ In general, each SMSA "turned over" 10-15 percent of its work force (the proportion moving out and replaced) over the two-year period; migrants were more often male than female; the 25-34 and 19-24 age groups constituted over half of all mi-

grants in all three SMSAs; and, while whites were the largest group, black and "other" migrants represented greater percentages of their work forces. Significantly, this analysis

revealed substantial movement of lower paid workers as well as the higher paid, indicating the existence also of strong "push" influences; that is, migration motivated by the lack of opportunity at the home base.

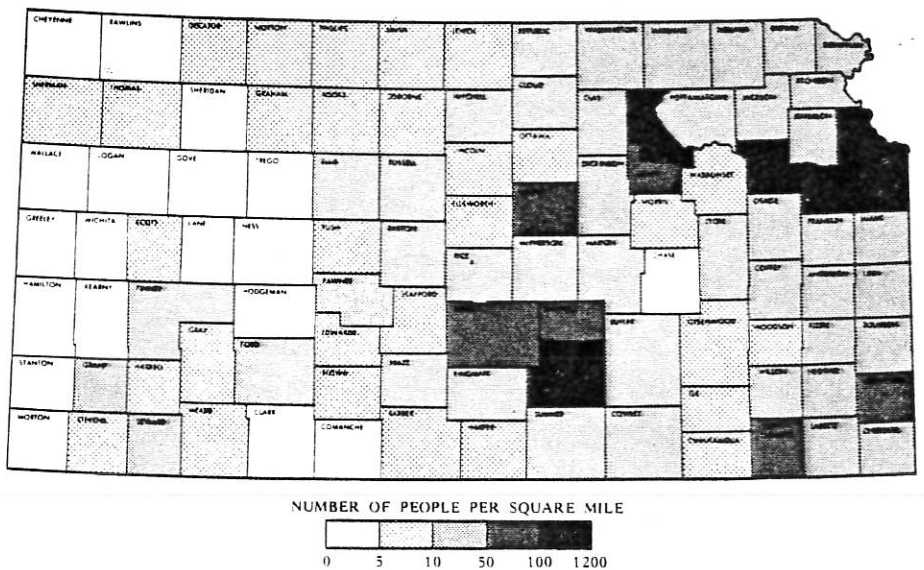
Net migration for each Kansas county is shown in Maps 2 and 3 for the periods 1960-70 and 1970-80. The vast majority of counties in the western portion of the state experienced net outmigration—in many instances, over 10 percent of their population for the decade and "for some counties over 20 percent— while immigration predominated for counties in the eastern sector.

In summary, then, all these migration data detail an evolving disequilibrium in terms of population density and economic activity within the state—in itself perhaps neither a negative or positive development, yet one that both represents a change and demands attention, particularly in the context of farming's decline and the need for a stable, skilled human resources base to "stock" those industries which must take up the slack in the economic activity.

B. Age Structure

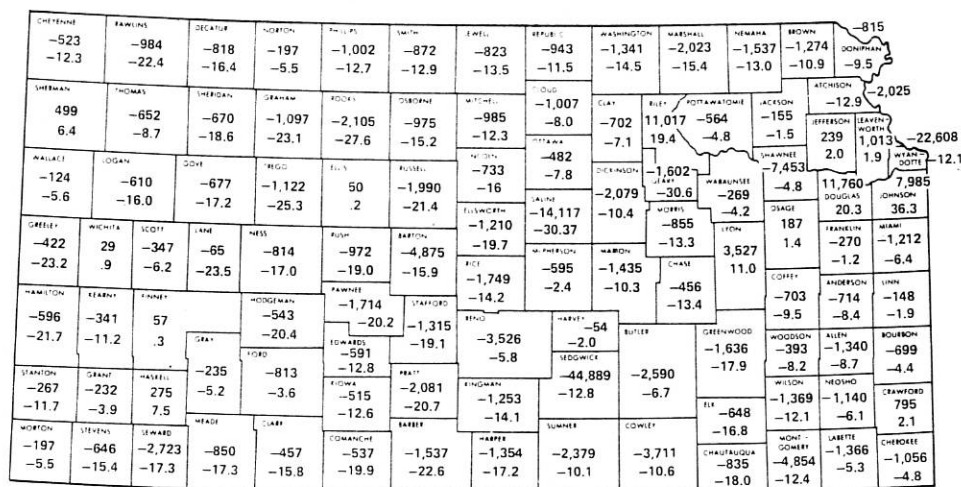
Another aspect of demographic imbalance concerns the relative age of the Kansas population. Although the Kansas age pattern closely approximates that of the U.S., in that

Map 1
Population Density of Kansas Counties (1980)



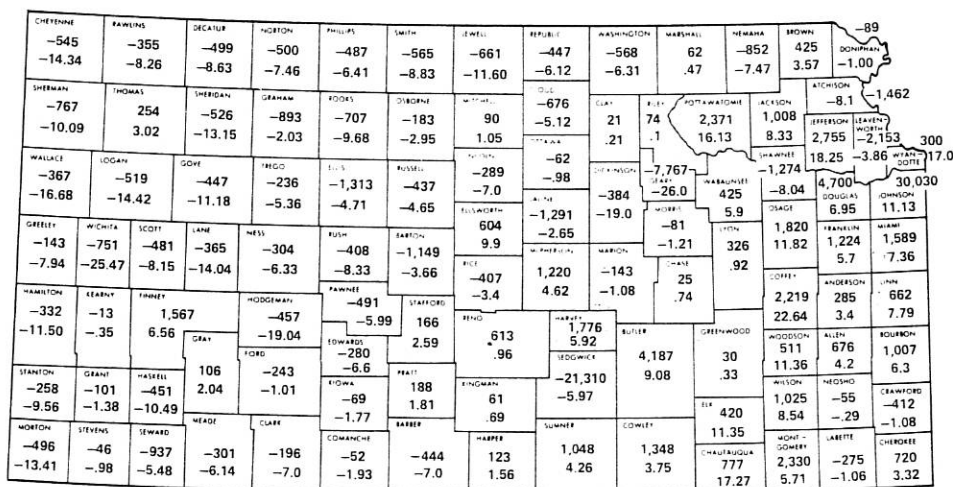
The story of the state's economy in the 20th century primarily concerns the long transition out of farming to other forms of economic activity, with its demographics reflecting the degree of success or otherwise of the state's generating alternative employment opportunities for its citizens.

Map 2 Migration in Kansas (1960-70)



Source: U.S. Department of Commerce, Bureau of the Census.

Map 3 Migration in Kansas (1970-80)



Source: U.S. Department of Commerce, Bureau of the Census.

has been significantly below the overall U.S. rate (growth rates for three of the state's neighbors are included for perspective). The result of these many years of below-average population growth is indicated in Figure 3 which shows that the Kansas population as a percent of the national total has declined with every Census since 1900. At present, the state comprises about 1.0 percent of the national population after being nearly 2.0 percent at the turn of the century, and Census Bureau projections for 1990 clearly suggest that Kansas will fall below 1.0 percent. Furthermore, in ranking by size, longer term Census projections call for the state dropping from 31st in 1980 to 33rd by the year 2000.

Given that Kansas' birth and death rates closely approximate those of the nation, it is possible to conclude that one major cause for the state's comparative decline in population is outmigration; that is, to an above-average proportion of the populace seeking employment out of state.

III. Recent Kansas Employment Trends and Their Implications

Although employment in the state grew faster than the national average during the '70s—only modestly so, however, for the period 1976-81—and did moderate the state's net outmigration pattern during the decade, this favorable job creation was insufficient to reverse the chronic outflow. Therefore, one central question raised by the data presented in the preceding sections remains: can the principal industries of the Kansas economy grow sufficiently to absorb the projected expansion of the Kansas labor force during the '80s (5.6 percent by 1987), and, if not, can sufficient new industries be attracted to or developed in the state to meet the deficiency in the number of jobs and to provide employment for the higher skilled/better educated portion of the Kansas labor force.

To define more specifically the terms of this twofold question, it is helpful to review briefly some of the material discussed above. As noted, the historical decline in agricultural employment is projected to continue unabated in the future, the effects of which will likely be exacerbated by the anticipated weak growth in agricultural exports in the '80s.⁶ As a result, there is little reason to suspect that in the years ahead the farm sector and the industries dependent on it will expand as sources of employment—indeed, there are compelling reasons to think that they will shrink. Also noted was that sectors such as services, trade, and government have played an important role in the provision of jobs for Kansans while the agricultural sectors diminished in that capacity. And yet, as discussed, such industries do not have much growth potential themselves,

the basic trend is toward an aging population, the Kansas proportion of the over-65 group is notably higher: 13 percent in 1980 as opposed to 11 percent nationally. There is, moreover, significant variation within the state. In 1980, the median age of 84 counties exceeded the state median age (Map 4). Furthermore, while 13 percent of the state population in 1980 were 65 and over, 79 counties had a higher proportion of this age group than the state, and 33 counties had over 20 percent of their population over 65 (Map 5).

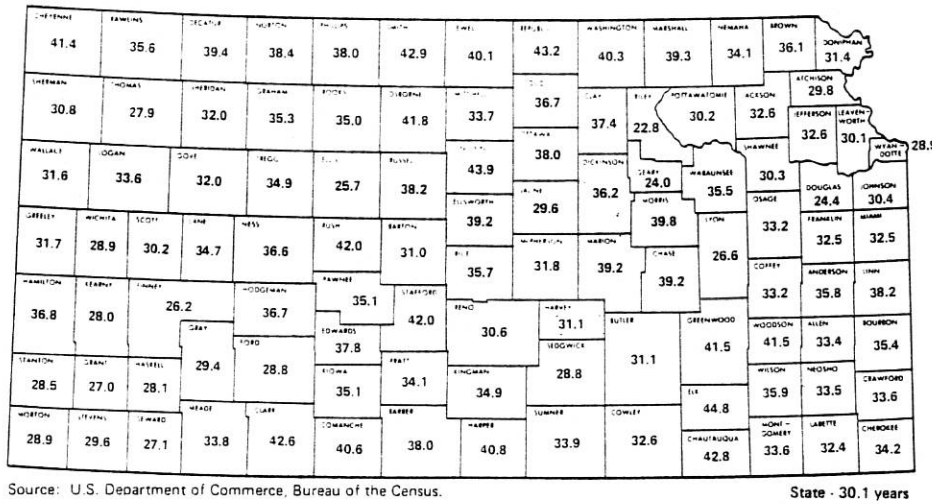
These data suggest that Kansas has an older-than-average population not only because people in this state live longer but also because, as noted, the state has experienced a

significant outmigration of youth in recent decades. One important consequence of this trend that deserves consideration is the fact that large portions of nonworking-age people place disproportionate burdens on the public service capacity without significantly contributing to the tax base.

C. Population

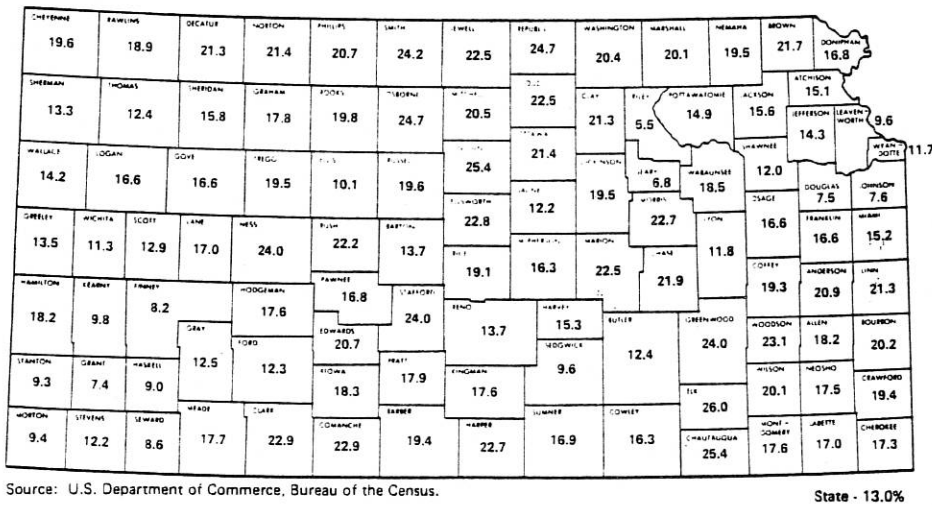
A further instance of the economic-demographic interrelationship is indicated by the pattern of the state's population growth relative to the nation's. Kansas' slow population growth rate over the past three Censuses is shown in Table 4: in all cases, Kansas' growth

Map 4
Median Age of Population by County (1980)



Source: U.S. Department of Commerce, Bureau of the Census.

Map 5
Percentage of Population 65 Years and Over (1980)



Source: U.S. Department of Commerce, Bureau of the Census.

being dependent upon concurrent, catalytic growth in agriculture, mining, and manufacturing, the basic industries.

Given, then, that agriculture is on the decline and that mining's contribution to employment is discrete and limited by the restricted nature of the state's resources and that the relative size of services, trade, and government is approaching the national average (the likely saturation stage for growth), manufacturing appears, by the process of elimination, to be the principal industry with the potential for growth and increased employment opportunities.

At this point, the question is now a matter of whether extant manufacturing can grow

enough, and, if not, can new manufacturing be drawn to or nurtured in the state. An answer to the question's first part is strongly implied upon considering that the existing manufacturing mix of Kansas, although diverse, tends to be of below-average technology and traditional in character.⁷ In an article published in the preceding issue of this journal, McLean concluded, upon surveying the prospects for economic development in Kansas in the decade ahead, that 1) the state does not currently "have a high degree of investment in those industries most likely to grow rapidly in the next decade" and 2) that of those select Kansas industries likely to grow in the near future very few are "high-tech indus-

tries."⁸ In the light of these findings, it is, therefore, difficult to avoid the conclusion that the potential for rapid growth in the existing set of state industries is not great, a conclusion also implied by the sluggish rate of new business formation in Kansas.⁹

Against this projected context of a comparatively stagnant manufacturing sector in the future, the attraction of new firms to Kansas assumes particular importance, especially those high-tech industries which will be growth leaders in the years ahead. However, a growth scenario based on the continuation of past trends projects an increase of 53-57 percent in the state's present 41,000 high-tech jobs by 1990, with such growth creating about 23,000 new jobs, an expansion rate that would not be sufficient to absorb all the state's output of professional workers with skills in high-tech areas.¹⁰ Thus, the "brain drain" for Kansas would presumably continue. The conclusion suggested by this projection is that, if the expansion of high-tech employment in the state is to have more than a ripple effect on the demand (and opportunities) for labor, Kansas will have to capture more than its proportionate share of the forecasted growth of high-tech industry.

With the prospects problematic either for significant growth in the extant principal industries of Kansas or for attracting a significant number of the most dynamic industries to the state, the endemic problem of generating sufficient jobs to minimize unemployment and the outmigration of workers—particularly those with higher occupational qualifications—appears likely to continue.

This forecast suggests, in turn, that unless past and present trends are reversed a "chicken-and-egg" situation may develop with a shortage of skilled labor hampering the requisite growth necessary to accommodate the growing labor force. Indicative of this possibility is the fact that, in certain years during the period 1978-82, the incidence of CETA-eligibility among the more educated workers in Kansas was higher than it was among such groups nationally, particularly among males, as shown by Table 5. In 1982, the phenomenon was pronounced—all three male Kansas groups with twelve or more years schooling had a higher incidence of CETA-eligibility than the corresponding United States groups, and two of the female groups with twelve or more years of schooling had a higher incidence than the corresponding United States groups. These data are especially significant in view of the fact, at the national level, there was a steady decrease in CETA-eligibility from the least to the most educated group, with each succeeding group with more years of schooling being less prone to CETA-eligibility than the group immediately below it in years of schooling.

In summary, the profile of employment

Table 4
Population Growth Rates (in Percentage)

Period	U.S.	Kansas	Nebraska	Oklahoma	Missouri
1950-60	18.5	14.4	6.5	4.3	9.2
1960-70	13.2	3.2	5.2	9.9	8.3
1970-80	11.9	5.1	5.7	18.2	5.1

SOURCE: Bureau of the Census

patterns as impacted by industrial development discussed in this section does not suggest that the situation during the 1980s will change markedly from that of the 1970s unless high-tech developments in Kansas prove to be substantially greater than present trends indicate or the manufacturing sector grows much more than anticipated. That is, it seems unlikely that the quantity or quality of jobs generated in Kansas will rise sufficiently to reverse the pattern of outmigration or of a shortage of appropriate employment opportunities for the better qualified individuals unless deliberate steps are taken to change the situation.

IV. The Current Performance of the Kansas Economy

To describe what has happened in the last five years to employment in Kansas, as well as to suggest, by using employment as a barometer for the state's economic condition, why the Kansas economy fell so sharply during and recovered so slowly following the last recessions, a method referred to as shift-share analysis is telling. The starting point for such an analysis is the fact that the rate of employment growth in a state can differ from the rate of employment growth in the nation for two reasons: 1) the industrial mix of the state can be different from the nation, or 2) a particular industry's rate of growth may be different between the state and nation. A state may, for example, have a disproportionate share of slow growing industries, yet these industries may be growing at the same rate as their national counterpart. On the other hand, a state's proportion of slow and fast growing industries may be the same as the nation's, yet the particular industries may grow at a slower rate than their national counterparts. Slow growth, then, may occur for either of these two entirely differing reasons; shift-share analysis is a method to identify the cause. This analysis will show that particular industries in Kansas have, in general, been growing at a slower rate than their national counterparts and that the industrial mix is, practically speaking, merely neutral in terms of its effect on growth.

The data used to perform this analysis are the November 1979 and November 1984 employment numbers for Kansas and the nation. The period of November 1979 was chosen because it is immediately prior to the downward drift in Kansas employment associated with the national recessions; the November 1984 follows the period of recovery and, as such, gives an indication of the strength of the state's response.

The first calculation is to determine what employment in Kansas would have been in November 1984 if the Kansas rate of growth in employment had been the same as the U.S. rate of growth. To do this, the formula used is:

$$E_{K\ 84} = E_{K\ 79} \cdot \frac{E_{US\ 84}}{E_{US\ 79}}$$

where, E is employment, K refers to Kansas, US refers to the United States, and, of course, 79 and 84 refer to November 1979 and No-

vember 1984, respectively. Employment in the U.S. was 90,552 thousand in November 1979 and 95,453 thousand in November 1984. Employment in Kansas in November 1979 was 966.7 thousand. Plugging these numbers into the above equation and solving gives 1,019.0 thousand. Thus, if the rate of the employment growth had been the same in Kansas as it was in the U.S. over this period, there would have been 1,019.0 thousand people employed in Kansas in November 1984. In fact, however, in November 1984 there were only 980.9 thousand people employed in Kansas, a difference of 38.1 thousand.

Shift-share analysis will now be used to separate this 38.1 thousand into the part that is explained by the different performances of the particular industries between Kansas and the U.S. and that part that is explained by the different industrial mix.

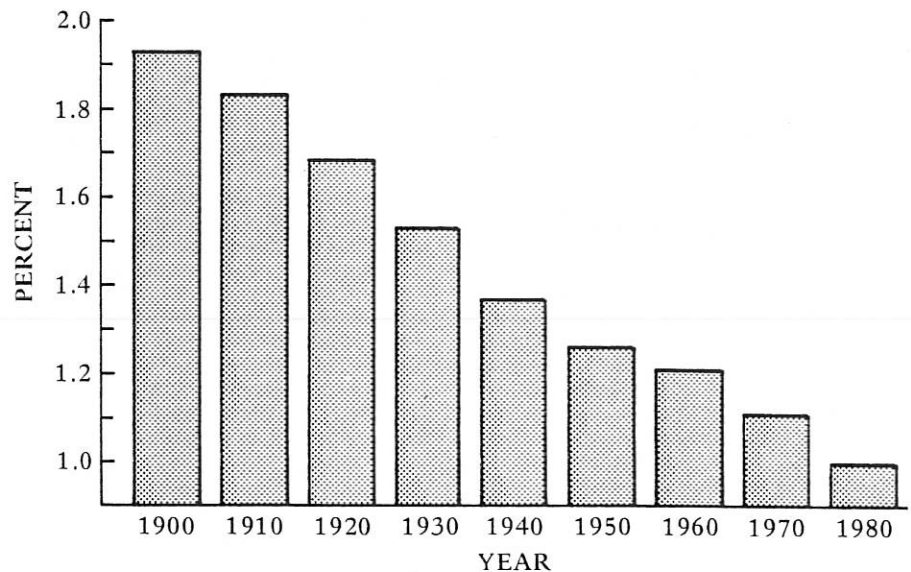
To calculate the former aspect, the formula to be used is:

$$E_{K\ 84}^i = E_{K\ 79}^i \cdot \frac{US^i\ 84}{US^i\ 79}$$

where the interpretation of the symbols is the same as above with the addition of "i" referring to particular industries.

This formula is used in the calculation of Table 6. Column 1 is the actual employment in Kansas in November 1979 in the indicated industry. Column 2 is the actual employment in Kansas in November 1984 in the indicated industry. Column 3 is calculated by using the above formula. This column represents the number of people who would have been employed in the particular industry if growth in

Figure 3
Kansas Population as a Percentage of U.S.



that industry had been the same in Kansas as it was in the U.S. Column 4 is the difference between Columns 2 and 3. For example, it is seen that employment in Stone, Clay, and Glass was 8.3 thousand in November 1979 and 7.1 thousand in November 1984. If the rate of employment growth in this industry had been the same in Kansas as it was in the U.S. in this period, 7.2 thousand Kansans would have been employed in Stone, Clay and Glass rather than 7.1 thousand. This pattern of loss holds for two thirds of the subsectors in the manufacturing sector and for the services sector, as seen in Table 6.

Summing Column 4 gives -38.4. This figure means that, if the industries in Kansas had grown at the same rate as their national counterparts, employment in Kansas in November 1984 would have been 1,019.3 (980.9 plus 38.4) people employed rather than the actual 980.9.

The influence of the industrial mix can be determined upon noting again that, if employment in Kansas and U.S. had grown at the same rate, there would have been 1,019.0 people employed in Kansas in November

1984. The difference between 1,019.0 and 1,019.3 is insignificant. The different industrial mix in Kansas and in the U.S., therefore, is not the reason for the slower Kansas growth: the reason is simply that the industries in Kansas grew more slowly than their national counterparts.

One problem that this analysis points to—and that is evident upon examining the industrial sectors and their corresponding data listed in Table 6—is that the manufacturing industries are not keeping up with the rates of growth of their national counterparts. These industries are, in general, high paying and exporting industries, particularly so in Kansas, and both aspects mean that jobs lost in these sectors initiate a significant “multiplier” effect throughout the state economy. For example, one study has shown “that employment changes in Wichita are multiplied about 2.5-3.0 times as they diffuse through the state”—employment changes that in the last 15 years are directly traceable to the varying performance of the aircraft industry in that city.¹¹

Conclusions to be drawn from this analysis,

given its relatively short-term, descriptive character, are necessarily tentative. However, what is suggested is that the manufacturing sector, which has become over time the principal source of the state’s economic health, was not strong enough either to resist or to respond vigorously to the recessions of the early ‘80s as a result, in great part, of the cumulative effects of the debilitating long-term trends described in this study’s first three sections.

V. Conclusions

The preceding discussion strongly suggests that efforts to date have not blunted or mitigated the long-term structural changes that have weakened the state’s economic and demographic vitality. To summarize, this study foresees—without remedial action—the strong likelihood that the key traditional industries in Kansas will continue their evolving historical record of declining and/or unstable influence and that the traditional service sectors dependent upon them will reflect their relative weakness. Further, the demographic consequences described in Section III are foreseen to continue as well, most notably the migration of human resources either out of state or out of rural Kansas to the state’s urban centers. Perhaps, then, this report’s key finding in respect to the call for action it poses is that there have been no changes in the evolution of these underlying conditions—conditions that led to the state’s acute vulnerability to the 1980 and 1981-82 recessions and that will engender, unless changed, an above-average impact with the next recession.

Given this description of—and forecast for—the Kansas economy, several important points for policy consideration present themselves.

- There is the pressing need to develop the sense, the frame of mind, that economic development is an imperative. Kansans are not aware of the problem giving rise to this need, its dimensions, nor its potential seriousness. There is a dearth of studies, conferences, legislative committee hearings, and the like that would focus on what the problems are and what the policy choices are to deal with them. The issues are too complex, and the world is too competitive, for “knee jerk” reactions. The alternative to growth will include, in a relative sense, reduced incomes, fewer job opportunities, an increased tax burden to maintain roads and other infrastructure, and lower quality education opportunities, to name only some of the more widespread impacts.

- Due to the lack of natural advantage, the state effort will need to be integrated and

Table 5
Percentage Ratio of Incidence of CETA-Eligibility
in Kansas and U.S.* (1978-82)

Years of Schooling	1978	1979	1980	1981	1982
	Males and Females				
Less than 9	106	82	66	88	67
9 - 11	86	71	77	93	79
12	79	87	48	87	132
13 - 15	106	69	85	64	87
16 and over	119	112	91	76	155
	Males				
Less than 9	116	96	64	80	65
9 - 11	79	77	65	108	85
12	53	74	65	97	119
13 - 15	128	50	79	62	107
16 and over	180	143	27	62	193
	Females				
Less than 9	98	72	70	96	70
9 - 11	92	67	83	82	75
12	95	94	38	81	139
13 - 15	90	83	92	66	72
16 and over	25	76	161	90	105

*Incidence in Kansas as a percentage of incidence in the United States

SOURCE: Calculated from *Current Population Survey*

orchestrated to be efficient and productive. It must necessarily transcend the traditional approach of state agencies by narrow function and will need to enlist other organizations such as professional and labor groups, local governments, and the universities.

- The state needs to devise a multifaceted strategy based on the premise that the potential and needs of different regions of the state vary. Within this framework, the need exists to identify the strengths and attributes that are statewide (e.g., location, education, and productive qualities of the work force) and those that are local and regional (e.g., wage levels and labor availability) and then to market these qualities in a targeted manner by focusing on that subset of industries that would be attracted to those qualities.
- While the attraction of industry to the state is important, much future development and job creation will come from homespun entrepreneurship and small business development as well as from the expansion and modernization of existing industry. The nurturing of the intra-Kansas potential is less glamorous than competing for a full participatory share of the new "industrial revolution," but equally important and promising.
- The state needs to include one of its best resources—its universities—in the development effort. It is not currently doing so in any consistent or meaningful way.

It needs to be recognized, once the in-state problems have been identified and the need for an enthusiastic policy response acknowledged, that the enemy (the state's competition) is without (other states) and not within (in Kansas, west versus east, northeast versus south central). Other states are mounting a much bigger and much better effort than Kansas is. If the state does not have the resources to emulate the size of their programs, then Kansas must compete by being better organized and more committed.

Table 6
Estimate of Employment "Lost" in Kansas (Nov. '79-Nov. '84)

	Kansas Actual		Industry	Difference
	Employment		Projected	
	Nov. 79	Nov. 84	Employment* Nov. 84	Between Actual and Projected
Manufacturing	203.2	177.6	193.8	-16.2
Stone, Clay, Glass	8.3	7.1	7.2	-.1
Primary Metals	4.4	3.3	3.1	.2
Fabricated Metals	14.3	11.5	12.4	-.9
Machinery	37.3	27.3	36.6	-9.3
Transportation Equip.	57.0	45.0	54.6	-9.6
Other Durables	12.4	11.3	12.1	-.8
Food and Kindred				
Products	23.4	26.8	22.2	4.6
Apparel	3.7	3.5	3.4	.1
Printing and				
Publications	16.6	18.0	18.2	-.2
Chemical	9.1	8.5	8.7	-.2
Petroleum and Coal	4.7	3.3	4.1	-.8
Other Non-Durables	12.0	12.0	11.2	.8
Mining	14.2	18.0	14.6	3.4
Construction	52.1	43.8	50.5	-6.7
Trans. Public Utilities	65.6	64.8	66.0	-1.2
Wholesale Trade	63.5	66.8	67.8	-1.0
Retail Trade	165.6	179.6	180.7	-1.1
Finance	46.7	52.1	53.0	-.9
Services	167.4	186.0	203.6	-17.6
Federal Government	25.9	26.4	26.0	.4
State and Local				
Government	162.5	165.8	163.3	2.5
Total	966.7	980.9	1,019.3	-38.4

*This column gives the KS employment in the industry if the rate of growth from November 1979 to November 1984 had been the same as the US rate of growth in the industry.

Footnotes

¹ This article was adapted, in part, from the Institute's Labor Market Information Project Monograph No. 15. The Project was funded by the Governor's Special Grant Component of the Comprehensive Employment and Training Act and was sponsored by the Kansas Council on Employment and Training and the Kansas Department of Human Resources. As well, a portion of the material published here has been drawn from Dr. Redwood's address to the Economic Outlook Conference for Kansas and the Nation—1985, held last fall at the University of Kansas.

² Richard Sexton and Robert Glass, "Instability in the Kansas Economy," *Kansas Business Review*, Vol. 6, No. 4-5, March, April-May, June, 1983, p. 1.

³ See *Kansas Annual Planning Information*, Kansas Department of Human Resources, 1983, p. 39.

⁴ Bharati Bhattacharyya, Morris Kleiner, and Anthony Redwood, *The Kansas Labor Market and Migration*, The Institute for Economic and Business Research, Monograph No. 2, Kansas Labor Market Information Project, May, 1982, pp. 3-18.

⁵ Kenneth F. Walker, *Young Disadvantaged Workers in Kansas and the United States: 1978-1982*, The Institute for Economic and Business Research, Monograph No. 10, Kansas Labor Market Information Project, October, 1983, pp. 9-17, 39-42.

⁶ M. Drabenstot, "The 1980s: A Turning Point for U.S. Agricultural Exports?" Federal Reserve Bank of Kansas City, *Economic Review*, April, 1983.

⁷ For a discussion of this contention, see Sexton and Glass above and Robert A. McLean, "Kansas Economic Development in the Decade Ahead: A Method and Application," *Kansas Business Review*, Vol. 8, No. 1, Fall, 1984, pp. 1-7.

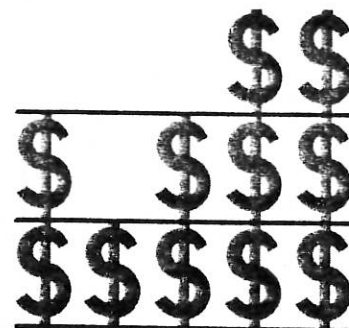
⁸ McLean, p. 6.

⁹ Note that, from 1978-81, Kansas outperformed the national average in new business formation in only two of the nine major industrial sectors.

¹¹ Kenneth F. Walker and Anthony Redwood, *Goals and Strategies for Kansas Human Resource Policy*, The Institute for Economic and Business Research, Monograph No. 15, Kansas Labor Market Information Project, January, 1984, p. 36.

¹² Sexton and Glass, p. 10.

The Economic Outlook for the Year Ahead: The Deficit and the Budget



Rudolph Penner

Current Director of the Congressional Budget Office, Dr. Rudolph Penner is former Director of Fiscal Policy Studies and Resident Scholar at the American Enterprise Institute for Public Policy Research. He was formerly Assistant Director for Economic Policy at the Office of Management and Budget and has also served as Deputy Assistant Secretary for Economic Affairs at the Department of Housing and Urban Development. Dr. Penner has edited a compilation of articles on *Taxing the Family*, *The Congressional Budget Process After Five Years*, and *The Constitution and the Budget* and authored *Social Security Financing Proposals* and *The Budget in Transition*. He has also written numerous articles on tax and spending, contributing columns for various newspapers, including the *New York Times*, *Washington Post*, and *Los Angeles Times*. Dr. Penner was the keynote speaker at the Economic Outlook Conference for Kansas and the Nation—1985 held at the University of Kansas this past fall. The following article is an edited transcript of his address.

Introduction

Although I will talk a little about the economic outlook, I would like to spend most of my time discussing the budget situation because I think it is so vitally important to any forecast for the year ahead. This focus on the budget may actually show that economics is not an entirely "dismal science," though this may come as a surprise to many of you in the audience. In fact, we at the Congressional Budget Office (CBO) are reasonably optimistic about the outlook and, even, the budget situation.

The Economic Outlook and the Deficit

Although CBO forecast the kind of slowdown and the rate of economic growth that we have been experiencing recently (third quarter, 1984), we actually think this development is healthy for the long run, and we see only a

very small probability of a recession through 1985. Indeed, we believe the recovery will continue. Moreover, while we expect a slight rise in inflation next year, we don't view that very modest increase as an interruption of the current downward trend. Rather, the increase results entirely from temporary factors, the most important of which is the end of the appreciation of the dollar which we forecast for next year—a development we have assumed year after year, I have to confess. Nonetheless, we assume it again for next year and assume also that unemployment will continue to fall.

What does this outlook mean for the deficit? In 1984, the deficit was in the mid-\$170 billions, and we expect it to stay at that level for fiscal year 1985. After that, given current law and the nature of CBO's economic projections (which essentially assume a repetition of history), we see that deficit rising in absolute terms. Getting very precise about 1989, which one really shouldn't do, we project a deficit of \$263 billion.

As gloomy as that picture is, however, it is a lot brighter than the forecast we were making as recently as last February. Although it is almost a state secret, the Congress—in a complicated and somewhat muddled way—has been making considerable progress against the deficit over the last couple of years. Two years ago, for example, it would have been reasonable to expect that defense spending would have been much higher than it is today. Congress also has nibbled away at Social Security and civil service pensions. Granted, they've been small nibbles, but those programs are so huge that even small nibbles add up to substantial savings. Furthermore, the Congress has been very stringent with non-defense, nonentitlement programs and has passed four tax increases in the last three years: TEFRA in 1982, the gas tax, the Social Security payroll tax increases, and this year the Deficit Reduction Act. This legislation has had a big impact. Last February, for example, we predicted the deficit rising steadily from then on—relative to GNP—from about 5.0 percent to about 6.0 percent in 1989. In light of those actions, we now expect it will hold

close to 5.0 percent, quite a significant difference. That's all the good news, and it's not entirely "dismal."

But note that I said "not entirely"; one also has to relay the bad news. The bad news is that although we've stabilized the deficit, we have done so at an extraordinarily high level relative to recent history and certainly relative to what one would expect when the economy is, after all, performing extremely well. Moreover, the basic characteristics of the budget remain the same as they have been for the last five or six years; indeed, really as they have been since the mid-1970s.

In terms of growth items in the budget, the two programmatic areas growing fastest are *defense*, which I assume will grow at about 5.0 percent a year in real terms, and *health*, which is growing at a nominal rate of about 12 percent a year, or at a real rate close to 7.0 percent. Defense and health share several interesting characteristics. Neither are delivered with utmost efficiency, and I would argue that, even were both delivered with 100 percent efficiency, they would still be very, very expensive given the fundamentals.

The fundamentals in defense are the enormous commitments that the United States has to defend a great number of geographic areas and to maintain a strategic deterrent. In other words, if you really want to debate the defense budget, you should start a debate on foreign policy; yet this subject does not seem to be very "debatable" in this country. You can debate our defense budget involving 3.0 percent real growth or 7.0 percent real growth, but I think, given the exigencies of our foreign policy, you cannot debate whether growth should be minus 5.0 percent or some figure like that.

With health, the fundamentals are the aging of the population and, perhaps more important in the longer run, the aging of the aging as the number of people over 80 grows so much faster than the number of people over 65.

Furthermore, I would argue that both defense and health are affected by technological change in a similar, rather ironic way. In most businesses, technological change is a development that saves money. In defense and health,

The Eclipsed State

"WHEN ANYTHING IS GOING TO HAPPEN in this country, it happens first in Kansas," William Allen White, fabled editor of the *Emporia Gazette*, once wrote. Kansas, he said, is "hardly a state but a kind of prophecy."

On went the list of Kansas firsts: scene of fiery abolitionist crusades of the 1850s led by John Brown, who was executed after his abortive attack on Harper's Ferry; birthplace of the prohibitionist movement in America; seedbed of the Populist party and embittered agrarian dissent; early and strong adherent to Bull Moose Progressivism.

White wrote between the world wars. Today Kansas, home to 2,363,679 people in 1980, 31 percent more than in 1940, is scarcely the place where things happen "first." Indeed, nowhere on the American continent can the eclipse of a region or state as a vital force—a focal point of creative change or exemplar of national life—be felt so strongly and poignantly as in Kansas. If the Plains States became an economic and political backwater in the postwar years (a case not difficult to document), then the slide into obscurity is all the more tragic for Kansas, simply because she stood for so much and gave so much to the nation in her earlier years.

William Allen White's Kansas

As time goes on, White appears more and more as the pivotal figure of Kansas history, the man in whom her strange voices of protest and conservatism, ruralism and wise worldliness, all seemed to have been concentrated—and whose death diminished his home state.

It was only 14 years before William Allen White's birth, in 1868, that the Kansas-Nebraska Act repealed the Missouri Compromise and opened the way for proslavers and freestaters to fight it out for possession of the new land. In the "Bleeding Kansas" of 1854-57 was held the dress rehearsal for the Civil War; the state's admittance to the Union as a free state in 1861 marked an historic victory for a determined contingent of New England abolitionists whose fierce piety would dominate Kansas culture for years to come.

In describing the peopling of Kansas, White emphasized the Yankee nature of the blood flowing in Kansas veins, derived from the first wave of New England settlers in the 1850s and later a wave of Union veterans and their wives seeking free homesteads. Kansas, White noted, adopted prohibition and advertised it to keep out "the beer drinking, liberty-loving immigrants from

northern Europe which Kansas needed so badly to enrich her blood." But contrary to White, New Englanders were never numerically dominant; in 1860, there were only 4,208 Kansans of New England birth compared to a total of 78,539 born in other states. Francis H. Heller, of the University of Kansas, points out that it took three tries to produce a state constitution, largely because the proslavery and antislavery forces were so evenly matched. "Leavenworth and Atchison," Heller notes, "are to this day as Southern in atmosphere and outlook as if the Mason and Dixon line were at the Nebraska border."

Most of White's childhood was actually spent in the little frontier town of El Dorado, Kansas, some 60 miles from Emporia; visits by Indians, shootings, lynchings, cowboys, open gambling, and wide-open saloons were all part of life in the town. As a boy, White also witnessed prairie fires, tornadoes, terrible droughts, and infestations of grasshoppers; and he watched thousands of "mover" wagons carrying settlers toward the open prairie lands of western Kansas. White's childhood and early professional years embraced some of Kansas' historic reforms: state regulation of the freight and passenger rates of the rapacious railroads, an eight-hour labor law, compulsory education, outlawing of child labor, control of oil and gas companies, "blue sky" legislation to control investment companies, banking regulation, and pioneering in women's suffrage.

At the age of 27 White purchased the *Emporia Gazette*; just a year later he wrote the editorial that would make him famous, "What's the Matter with Kansas?" As White saw it then, Kansas' trouble was a surfeit of free silver, Democrats, and hell-raising Populists; under their domination, he said, Kansas had become "poorer and ornerier and meaner than a spavined, distempered mule." In time though, White freely acknowledged his error in condemning the radicals of the 1890s and decided Kansas suffered from too much conservatism. "Being what I was, a child of the governing class, I was blinded by my birthright," White wrote.

In the first decades of the century, White became a confidant of and publicist for President Theodore Roosevelt and the Progressive Movement. He backed American entrance into the League of Nations and ran for governor on an anti-Ku Klux Klan platform when the Klan reared its head in Kansas. In the 1930s, he helped launch Herbert Hoover's and Alf Landon's presidential campaigns; while remaining true to the GOP at election time, he did support many New Deal laws to tame monopoly capitalism. Just before World War II, he was an active opponent of isolationism. The Republican party had no more influential and tenacious spokesman for moderation, liberalism, internationalism, and adaptation to changing times.

And yet it was White's special sensitivity to human qualities that gave him the power he had. In 1921, when White's daughter, Mary, only 17, died after a horseback riding accident, the editorial White wrote for the *Gazette*, picked up and printed throughout the land, established his national role as a sensitive interpreter of life. After commenting on Mary White's simple life, her pure,

intense, girlish enthusiasms, her fight to get a restroom for the black girls at her high school, her father concluded,

For her pallbearers only her friends were chosen: her Latin teacher, W.L. Holtz; her High School principal, Rice Brown; her doctor, Frank Foncannon; her friend W.W. Finney; her pal at the *Gazette* office, Walter Hughes; and her brother Bill. It would have made her happy to know that her friend, Charley O'Brien, the traffic cop, had been transferred from Sixth and Commercial to the corner near the church to direct her friends who came to bid her good-bye.

A rift in the clouds in a gray day threw a shaft of sunlight upon her coffin and her nervous, energetic little body sank to its last sleep. But the soul of her, the glowing, gorgeous, fervent soul of her, surely was flaming in eager joy upon some other dawn.

Increasing steadily in influence in Kansas and the nation at large, White lived on for two more decades. In 1944, a *Chicago Sun* reporter would send his report of White's own funeral: "In the cemetery, in the dying sun, under the dead trees, William Allen White was only a tired editor gone home to greet his little girl."

Kansas in the Shadows

By the sheer force of his personality and writing, White had kept Kansas name alive—if no longer as a driving political force, at least an exemplar of the best of American life. Since his passing, the Sunflower State seems to have slipped into the shadows. Occasionally a Kansan name appears in newspaper headlines across the country—Alf Landon reaching another birthday, his daughter, Nancy Kassebaum, winning election to the U.S. Senate in 1978, or Senator Robert Dole speaking out for the Republican cause.* Kansas also makes news whenever the state considers revising its constitutional ban on sales of liquor "in open saloons"—and then rejects the idea, sending Kansans back to their hypocritical private clubs. But as a general rule, people or events in Kansas are rarely of enough importance to be reported outside the state's borders. Kansas seems to have become an extraordinarily ordinary place unnoticed by most Americans.

Kansans, quite understandably, may take exception to our analysis. After reading an early draft of this chapter, Francis Heller, of the University of

*Despite Kansas' general national eclipse of recent decades, a special niche in the hearts of his countrymen has been carved out in his twilight years by Alf M. Landon. Unfairly characterized by Democrats and many in the media as a colorless, standpat Midwesterner during and after his disastrous race against F.D.R. in 1936, Landon did, in fact, initiate the long process of reshaping the Republican party from its Depression-era neanderthalism into a broadened vehicle that could deal in rational terms with the emerging phenomena of big government, conservation, farm relief, and social security.

Kansas, wrote: "I think you have very accurately perceived the stagnant mood of the public scene in Kansas today. *I wish you were wrong.*" Perhaps, Heller suggested, Kansas ought to be declared "a national monument, the best source of quality human talent—most of it for export." The University of Kansas has produced an unusual number of Rhodes Scholars, Heller noted, but today those scholars are "scattered from Boston to Australia." Perhaps, Heller concluded, "Kansas is not the eclipsed state, but the exporting state. Somehow that sounds less depressing."

When one speaks of famous Kansas exports, the name of Dwight David Eisenhower must head the list. Eisenhower spent his boyhood in Abilene, that little Kansas city that had once been the great receiving station for the massive cattle drives from Texas. His military career removed him from the Kansas scene, though he did come back for rather frequent visits. But in Eisenhower's selection for the Republican presidential nomination in 1952 an important role was played by three Kansans: Roy Roberts, famed editor of the *Kansas City Star*; former Senate and Republican National Committeeman Harry Darby; and Senator Frank Carlson. This Kansas group recruited Eisenhower to run for president and conceived the strategy of demanding openly approved rules in an open convention and challenging the rigged Southern delegations supporting Senator Robert A. Taft. Later, Eisenhower chose Abilene as the place for his Presidential Library and final resting place, to which he came in 1969. But he had lived so many places and had been away from Kansas so many decades that no one thought of him primarily as a Kansas president. There was no "Kansas gang" in the White House when he was president, and it will be recalled that Eisenhower chose Gettysburg, Pennsylvania, rather than Abilene, as his home for the last two decades of his life.

Since an aging Arthur Capper—a battler for social reform and father of the co-op banking system—stepped down in 1948, Kansas has sent few powerful leaders to Congress. In the postwar years, Senators Frank Carlson, Andrew F. Schoepel, and James Pearson were hard-working and thoughtful, but low-key senators. Robert Dole, who took over Carlson's old seat in 1969, is a tough ambitious partisan who singlehandedly fought his way up in national politics to become the Republican vice presidential nominee in 1976 and, for a short time, a presidential candidate in 1980. As chairman of the Republican National Committee during the Watergate period of the early '70s, Dole developed a reputation as a highly articulate, self-appointed defender of the Nixon administration. Dole's wise-cracking, strident image softened in the early 1980s when Republicans took control of the Senate for the first time in nearly 20 years. Suddenly one of the three most powerful members as chairman of the Finance Committee at a time of economic turmoil, Dole almost overnight grew in maturity and stature as he helped achieve the compromise to assure extension of the Voting Rights Act, resisted cuts in the food stamp program, and wrote and nurtured the 1982 bill raising taxes over the opposition of many of his Republican colleagues. Part of Dole's apparent concern for the less fortunate stemmed from his own memories of the disabling wounds he suffered in World War II and his difficult recovery, but he also

believed that if the Republicans were going to be a majority party, they would have to reach out to broader constituencies.

With few exceptions, obscurity has been the fate of Kansas' other politicians and its state government. Its U.S. House delegation had the disadvantage of often being 100 percent Republican in an era when the Democrats controlled Congress. Kansas state government, actually controlled by Populist governors for a period in the turbulent 1890s, has settled down to complete typicality in modern times. Take any measure of government policy and performance—from taxation to services, highways to education—and Kansas will rank about midway in the 50 states. The outstanding governor from the 1940s onward was John A. Anderson, Jr. (1961–65), a thoughtful moderate who began major strides in reform of the state prison system and a sweeping program to consolidate school districts.

Kansas' political history is inextricably bound up with its newspapers. For decades, no influence could rival that of the *Kansas City Star*, edited and printed in Missouri but carried wherever the rails went, and farther, into Kansas. (John Gunther had this to say about Kansas City, Missouri, home of the *Star*: "This great and extraordinary city, while not the capital of its own state, is in effect the capital of another, a situation without parallel in the country.") No paper now published or distributed in the state of Kansas has either the distinction or influence of papers like the old *Star* under its 300-pound domineering editor Roy Roberts, who died in 1967, or White's *Emporia Gazette*, John P. Harris' *Hutchinson News*, or Ed Howe's *Atchison Globe*. Real power in Kansas today, close observers of the legislature relate, is with the banks, the power companies, and still to a substantial degree, the railroads. Among the farm groups, only the Farm Bureau can exert substantial influence, but even it triumphs only when its stands coincide with those of the economic interests named above.

The Economy: From Dust Bowl to Vegetable Bowl and Industry

The strange irony of modern Kansas is that while its national role has diminished, the life of its people has improved immeasurably since the dust bowl and Depression days of the 1930s. In those lean years, the dust storms howled so unremittingly across the High Plains that many lost their faith in the land. Thousands fled the state. The situation was the worst in the High Plains of western Kansas, but serious enough in the Flint Hills region of center state (an area of rolling hills with heavy grass cover) and in traditionally more moist and fertile eastern Kansas. But today, even on the High Plains, an agriculture of abundance has emerged through irrigation, soil conservation, and new farming techniques. To be sure, High Plains weather still brings hazards; hail and disease and drought such as the one in 1980 wipe out hundreds of acres

in family farming with inflationary pressures and poor markets forcing many farmers to sell out to big-scale corporate operations or land developers. Some 1,000 farms were lost between 1975 and 1981 alone. Depending on the year, Kansas remains America's No. 1 or No. 2 wheat producer. In raw dollar terms it is not wheat, but livestock that produces a majority of the Kansas agricultural dollar. Thanks to federally aided construction of farmponds and irrigation by subterranean water, Kansas also grows cucumbers, tomatoes, carrots, beans, even lettuce and cantaloupes on the High Plains that were once the very heart of the dustbowl. But there may be a dark cloud on the horizon: not rain, not a grasshopper plague like that of the '30s, but depletion of the great Ogallala Aquifer.

Not normally included in government crop reports is one that thrives happily in Kansas, when allowed: *Cannabis sativa*, better known as marijuana. The weed flourishes across the Plains States, but nowhere in such profusion as in Kansas, where it was once planted intentionally by farmers who sold its strong fibers to rope manufacturers. The Kansas name is "loco weed," for its giddy effect on farm animals.

Not all Kansas' wealth comes from its fields. Wichita, Kansas' only serious metropolis (pop. 279,272, metropolitan area 411,313), busily produces jet parts and general aviation craft, processes grain and livestock, mills flour, and even refines some oil. Wichita was once an important point on the Chisholm Trail over which Texas longhorns were driven north to the railheads of Kansas, and its stockyards still process thousands of head of cattle a year. Wichita's most prominent modern industry, however, is aerospace; Cessna, Beach, Gates, Learjet, and Boeing are all in Wichita and produce a substantial portion of the nation's private and commuter airplanes. Wichita is a well-managed town governmentally but has suffered from ongoing racial discord.

Kansas City, Kansas (pop. 161,087), the state's second-largest city, inevitably lives under the shadow of its big brother across the river, Kansas City, Missouri. Kansas City, Kansas, which used to live off the railroads and packing houses, has maintained its strong industrial base by building the first industrial park in the West and attracting food-processing, electronics, and automobile assembly plants.

The Department of Defense spends about \$1.2 billion in Kansas each year at military installations, including two that date back to the Indian wars of the 19th century: Fort Riley, the home of the First Infantry Division, and Fort Leavenworth, which houses the world's largest tactical school for advanced military training and is better known for its federal military and civilian prisons.

Kansas also has significant oil and gas production, an asset of no small value in today's world: studies of the late 1970s showed the state produced, in aggregate, 134 percent of its energy needs, compared to only 21 percent in Nebraska, or 9 percent in Missouri. And through decontrol of oil prices, state government revenues were expected to climb \$900 million during the '80s.

Economically, Kansas' Achilles heel has been its southeast corner, known as the "Kansas Balkans" because of its variegated East European ethnic base

and divisive, sometimes radical, politics. The area also has a history of labor discord in its coal, lead, and zinc mines. In the last 25 years, a 10-country development group named Mid-America, Inc. has been so successful in attracting industries that the unemployment rate is usually far below the national average, even if wage levels lag.*

A lot of tourist dollars are dropped by travelers on their way to or from Kansas' western neighbor, Colorado; as they race across the prairies, a few even pause to look at Holcomb, site of the mass murder of the Clutter family made famous by Truman Capote's *In Cold Blood*. The more usual sights include the Eisenhower Center at Abilene, Dodge City of Old West fame, the Agricultural Hall of Fame near Kansas City, the Wichita Art Museum, and recreational lands around federal reservoirs and lakes. If the tourists take the time to look carefully as they drive across the Flint Hills region of eastern Kansas, they will catch a glimpse of what the prairie was like before men tilled most of it for fields of corn and wheat. This area contains what is possibly the largest area of essentially untouched prairie anywhere on the continent, with rolling hills and flats and broad vistas, the original tall bluestem grass, the magnificent wildflowers from spring into the autumn.

The Amazing Menningers

With logic that is hard to question, many Kansans regard the Menninger Foundation in Topeka as their state's most important institution. The internationally known psychiatric treatment center has been run with an amazingly practical and inventive bent by Drs. Karl and Will Menninger and their sons ever since its doors first opened in 1919.

Clinical services have always been the backbone of Menninger programs and more than 100,000 patients have registered since the sanitarium opened. Since the foundation can handle only about 500 adults and children as hospital patients and another 12,000 on an outpatient basis per year, its directors have focused on preventive psychiatry, or put in a broader context, fostering the mental health of society. The Menningers have led the way for psychiatric involvement in industry, in poor neighborhoods, in rehabilitation of criminal offenders, and more recently in developing model group homes for neglected children and finding unsubsidized jobs for disabled individuals.

We asked Menninger psychiatrists if there has been an increase in the rate of mental illness in America since World War II. Their reply was that it

*The Balkans city of Pittsburg plays an important, little known part in American life: it is the home of "Pittsburg Personal Census Service Branch," where the U.S. Census Bureau keeps more than a billion Census listings—one for every household and its inhabitants in the nine Census counts from 1900 through 1980. Just by giving the name of the head of household, the Census year, and state, a person can obtain a certificate attesting to his age at the time of the Census, his place of birth, race, and sometimes even his occupation—legal proof, often unobtainable elsewhere, for inheritance and insurance claims, passports, Social Security and Medicare benefits, and naturalization.

terms of classic psychoses and neuroses, apparently not. But there has been a dramatic rise in the indexes of American divorces, crime, juvenile delinquency, illegitimate births, and drug use. "The very processes of living in America today seem increasingly stressful," the foundation's J. Cotter Hirschberg, M.D., told us. But Hirschberg is also concerned about our affluent society's tendency "to seek instant relief for whatever ails us by popping a pill, by running to the doctor for the slightest complaint with a request for a prescription." As an alternative, Menninger psychiatrists are now promoting the development of better "coping" strategies to relieve or manage stress, including biofeedback training, which enables people to control or prevent disorders such as hypertension, anxiety, and migraine headaches and to reduce the symptoms of asthmatic and arthritic patients. "Just as we are finding that our national gluttony in energy is going to force us to change the way we live, we also will find future availability of health care and the skyrocketing health costs will force us to take some individual responsibility to change our lifestyles to avoid illness," Hirschberg said. Coming from the prestigious Menninger Foundation, those were important and timely words for both the mental health profession and society.

TRENDS IN KANSAS GOVERNMENT FINANCE

An analysis of government financial trends can provide perspective from the past and guidance for the future. It can provide a broad picture of how resources are being used and how they are obtained. Such an analysis may indicate which programs and which revenue sources are growing in importance and which are declining. It facilitates comparisons with the states with which we compete.

Financial trend analysis will not provide the final answers to questions regarding the effectiveness of existing programs nor indicate what future priorities should be, but it often provides useful evidence or suggests hypotheses for further investigation. It is the first step in analyzing the equity, economy and adequacy of a revenue system.

This compilation of data is drawn largely from publications of the U.S. Census. Data are presented in the standard classifications developed by the Census Bureau. Although these data have weaknesses, they are designed to provide a useful picture of what government does and where the money comes from. The standard classification system also facilitates interstate comparisons. Detailed analysis of Kansas finance will require that these data be supplemented with more recent data which reflect the fund structure, government structure and legal classifications used in Kansas--but it is important to study the forest before examining the trees.

Glenn Fisher
Hugo Wall Center for Urban Studies
Wichita State University
August 7, 1985

What do financial and employment data reveal about Kansas governments and their course during the last 20/25 years?

Employment Data:

Full time equivalent employment in state and local government has increased by 84.4 percent in 25 years.

More than 50 percent of all Kansas state and local government employees are employed in education.

The most rapid increase has been for police protection and natural resources. Public welfare and education are next.

Only for the highway function are there fewer employees than in 1957.

State government employment has grown more rapidly than has local employment.

Expenditure Data:

In the twenty years 1962-82 state and local government expenditures in Kansas have grown by more than 500 percent.

More than 25 percent of all Kansas state and local expenditures are for elementary and secondary education.

Higher education, highways and public welfare each account for 10 to 12 percent of state and local expenditures. Higher education and welfare expenditure have grown more than 650% in twenty years. Highway expenditure have grown less than any other category.

Interest on general debt was the most rapidly growing expenditure category. Other rapidly growing functions are: health, other administration, and parks and recreation.

State and local government expenditures have increased slightly more rapidly than personal income in the state. In 1962 such expenditures were equal to 14.3 percent of personal income. In 1982 they were equal to 15.4 percent.

Only highway expenditure, expenditure on elementary and secondary education and expenditure on sewerage and sanitation have declined as a percent of personal income.

Revenue Data.

The property tax provided 40.8 percent of state and local tax revenue in 1982. It remains the largest single revenue source, but its share is down from 56.1 percent of tax revenue in 1962.

The state income tax (individual and corporate) was the second largest source of tax revenue. It is also the most rapidly growing source--up more than 1400 percent in 20 years.

The state sales tax has grown only slightly faster than personal income and, in 1982, provided 18.9 percent of state and local revenue.

The motor fuel tax was the slowest growing revenue source.

Five taxes have declined as a percent of personal income. They are:

- Motor fuel taxes
- Motor vehicle and operator taxes
- Property taxes
- Other sales and gross receipts taxes
(Includes liquor and cigarettes taxes)
- Other state taxes.

Taxes as a percent of personal income have declined from 10.3 percent in 1962 to 8.8 percent in 1982.

Charges and miscellaneous revenues (includes interest earning) have increased faster than any revenue source, except income taxes. Charges and miscellaneous revenues produce more revenue than any tax. [Note that some of this revenue, such as dormitory fees at universities, may not be available for general use]

Revenues from the Federal Government rose throughout the period, but declined as a percent of income between 1977 and 1982.

Data on Tax Capacity and Comparisons with Other States.

The Advisory Commission on Intergovernmental Relations calculation of tax capacity and tax effort shows that since 1975 Kansas tax capacity has been well above the national average and that tax effort has been well below the average.

According to the ACIR calculations, the property tax is the only major tax for which the Kansas "effort" is greater than the national average.

Per capita taxes in Kansas are less than in Colorado, Nebraska, and Oklahoma, but substantially more than in Missouri. Kansas is also below the national average.

Full-Time Equivalent Employment of Kansas State and Local Government
By Function, Selected Years, 1957-1982

	April 1957	October 1962	October 1967	October 1972	October 1977	October 1982	Percent of Total (1982)	Increase 57-82
Education	32,991	40,874	49,794	56,694	64,712	67,717	53.6%	105.3%
Health and Hospitals	7,042	8,267	11,286	11,741	13,033	13,224	10.5%	87.8%
Highways	8,961	9,427	9,287	9,201	8,888	8,203	6.5%	-8.5%
Police Protection	2,424	2,938	3,498	4,450	5,246	5,933	4.7%	144.8%
Local Utilities	2,525	2,822	2,761	2,730	3,101	3,293	2.6%	30.4%
Public Welfare	1,401	1,672	2,129	2,397	3,030	2,906	2.3%	107.4%
Natural Resources	1,132	1,754	2,282	2,299	2,582	2,556	2.0%	125.8%
Local Fire Protection	1,326	1,491	1,794	2,480	1,829	2,303	1.8%	73.7%
Sewerage and Sanitation	969	1,121	1,320	1,304	1,689	1,607	1.3%	65.8%
Other and Unallocable	9,693	9,210	11,297	14,104	19,411	18,524	14.7%	91.1%
TOTAL	68,464	79,576	95,448	107,400	123,521	126,266	100.0%	84.4%
State Government	17,662	21,164	27,891	31,599	37,928	38,627	30.6%	118.7%
Local Government	50,802	58,410	67,557	75,801	85,593	87,639	69.4%	72.5%

Expenditure, by Function, Kansas State and Local Governments
Selected Years, 1962-1982

	1962	1966-67	1971-72	1976-77	1981-82	Percent of Increase	
						Total (1982)	1962-82
(Expenditure in 1,000's)							
Elementary and Secondary Ed	\$217,682	\$318,190	\$455,524	\$724,236	\$1,118,054	25.6%	413.6%
Higher Education	70,904	133,418	222,003	350,437	532,305	12.2%	650.7%
Highways	158,832	186,461	259,120	347,036	508,751	11.6%	220.3%
Public Welfare	57,695	71,263	111,984	296,398	444,503	10.2%	670.4%
Hospitals	43,283	63,652	100,833	227,456	332,890	7.6%	669.1%
Interest on General Debt	21,655	24,141	39,527	65,535	258,510	5.9%	1093.8%
Other Administration	14,596	17,992	33,124	65,053	148,212	3.4%	915.4%
Police Protection	16,478	22,399	38,846	73,334	125,106	2.9%	659.2%
Sewerage and Sanitation	20,177	16,528	23,246	61,429	109,172	2.5%	441.1%
Financial Adm.	12,570	16,515	20,787	45,499	93,922	2.1%	647.2%
Health	6,661	8,494	19,840	37,050	73,156	1.7%	998.3%
Local Fire Protection	9,230	11,366	18,168	33,128	54,508	1.2%	490.6%
Parks and Recreation	5,286	10,037	13,374	27,242	52,861	1.2%	900.0%
Other Education	4,347	9,839	18,375	27,979	33,698	0.8%	675.2%
Other and Unallocable	63,524	109,446	189,446	376,662	483,168	11.1%	660.6%
TOTAL	\$722,920	\$1,019,741	\$1,564,197	\$2,758,474	\$4,368,816	100.0%	504.3%

(Expenditure as Percent of Personal Income)

Elementary and Secondary Ed	4.30%	4.80%	4.44%	4.37%	3.95%		-8.3%
Higher Education	1.40%	2.01%	2.16%	2.11%	1.88%		34.1%
Highways	3.14%	2.81%	2.53%	2.09%	1.80%		-42.8%
Public Welfare	1.14%	1.07%	1.09%	1.79%	1.57%		37.6%
Hospitals	0.86%	0.96%	0.98%	1.37%	1.18%		37.3%
Interest on General Debt	0.43%	0.36%	0.39%	0.40%	0.91%		113.2%
Other Administration	0.29%	0.27%	0.32%	0.39%	0.52%		81.3%
Police Protection	0.33%	0.34%	0.38%	0.44%	0.44%		35.6%
Sewerage and Sanitation	0.40%	0.25%	0.23%	0.37%	0.39%		-3.4%
Financial Adm.	0.25%	0.25%	0.20%	0.27%	0.33%		33.4%
Health	0.13%	0.13%	0.19%	0.22%	0.26%		96.1%
Local Fire Protection	0.18%	0.17%	0.18%	0.20%	0.19%		5.5%
Parks and Recreation	0.10%	0.15%	0.13%	0.16%	0.19%		78.6%
Other Education	0.09%	0.15%	0.18%	0.17%	0.12%		38.4%
Other and Unallocable	1.26%	1.65%	1.85%	2.27%	1.71%		35.8%
TOTAL	14.29%	15.38%	15.25%	16.65%	15.42%		7.9%

Source: U. S. Census of Governments

Revenue, by Type, Kansas State and Local Government
Selected Years, 1962-82

	1962	1966-67	1971-72	1976-77	1981-82	Percent of Total (1982)	Increase 1962-82
(Revenues in 1,000's)							
Property Taxes	\$290,789	\$360,487	\$514,754	\$693,058	\$1,016,146	22.6%	249.4%
Income Taxes	36,060	94,959	128,498	331,883	542,370	12.0%	1404.1%
State Sales Taxes	79,765	118,160	179,557	326,708	470,762	10.5%	490.2%
Motor Fuel Taxes	42,833	51,898	89,757	119,001	116,416	2.6%	171.8%
Other Sales & Gross Rec.	22,463	35,126	55,233	74,940	108,625	2.4%	383.6%
Local, Non-property	8,807	10,056	18,694	42,344	98,016	2.2%	1012.9%
Motor Vehicle & Operator	24,587	30,980	41,442	61,539	74,341	1.7%	202.4%
Other State Taxes	13,297	15,428	21,996	39,487	66,052	1.5%	396.7%
Total Taxes	518,601	717,094	1,049,931	1,688,960	2,492,728	55.4%	380.7%
Charges & Misc.	110,454	188,448	299,151	541,209	1,271,796	28.2%	1051.0%
From Federal Govern.	93,623	158,510	287,388	547,745	737,861	16.4%	688.1%
TOTAL	\$722,718	\$1,064,052	\$1,636,470	\$2,777,914	\$4,502,385	100.0%	523.0%
PERSONAL INCOME (million)	5058	6632	10260	16572	28325		

(Revenue as Percent of Personal Income)

Property Taxes	5.75%	5.44%	5.02%	4.18%	3.59%	-37.6%
Income Taxes	0.71%	1.43%	1.25%	2.00%	1.91%	168.6%
State Sales Taxes	1.58%	1.78%	1.75%	1.97%	1.66%	5.4%
Motor Fuel Taxes	0.85%	0.78%	0.87%	0.72%	0.41%	-51.5%
Other Sales & Gross Rec.	0.44%	0.53%	0.54%	0.45%	0.38%	-13.6%
Local, Non-property	0.17%	0.15%	0.18%	0.26%	0.35%	98.7%
Motor Vehicle & Operator	0.49%	0.47%	0.40%	0.37%	0.26%	-46.0%
Other State Taxes	0.26%	0.23%	0.21%	0.24%	0.23%	-11.3%
Total Taxes	10.25%	10.81%	10.23%	10.19%	8.80%	-14.2%
Charges & Misc.	2.18%	2.84%	2.92%	3.27%	4.49%	105.5%
From Federal Govern.	1.85%	2.39%	2.80%	3.31%	2.60%	40.7%
TOTAL	14.29%	16.04%	15.95%	16.76%	15.90%	11.2%

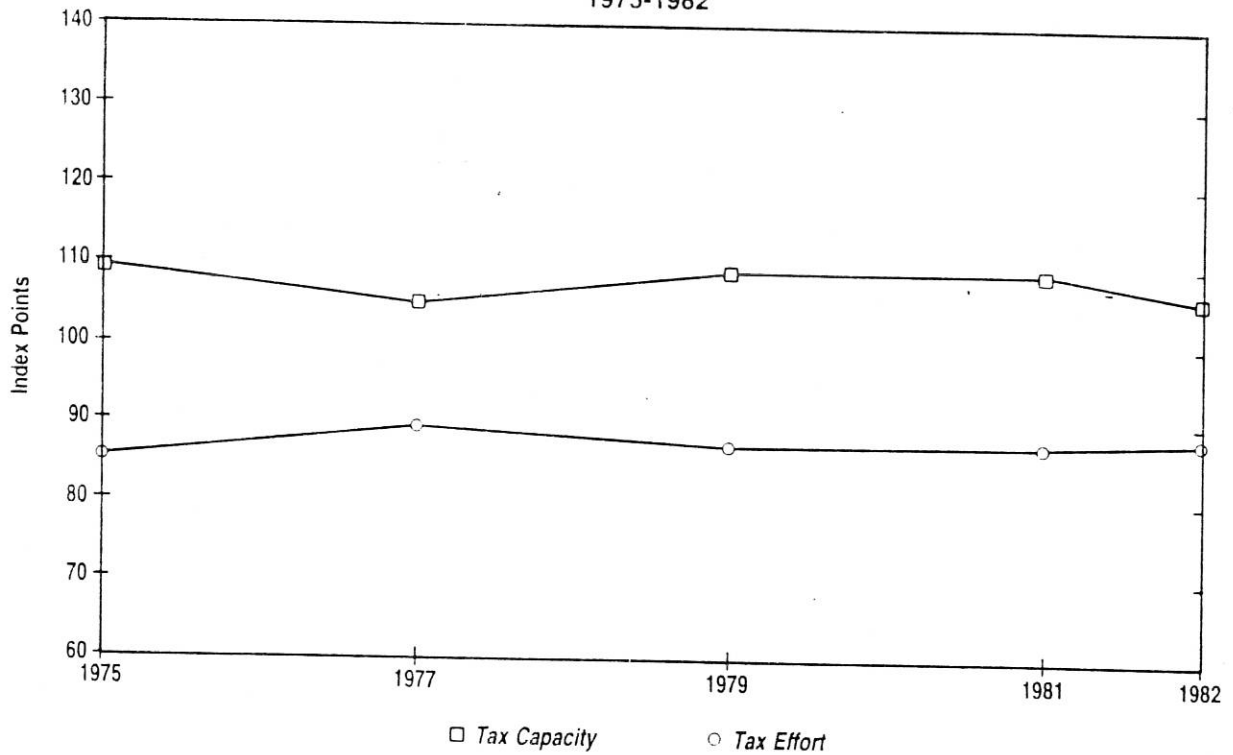
Source: U.S. Census Bureau

PER CAPITA REVENUE AND EXPENDITURES
Kansas and Surrounding States, 1981-82

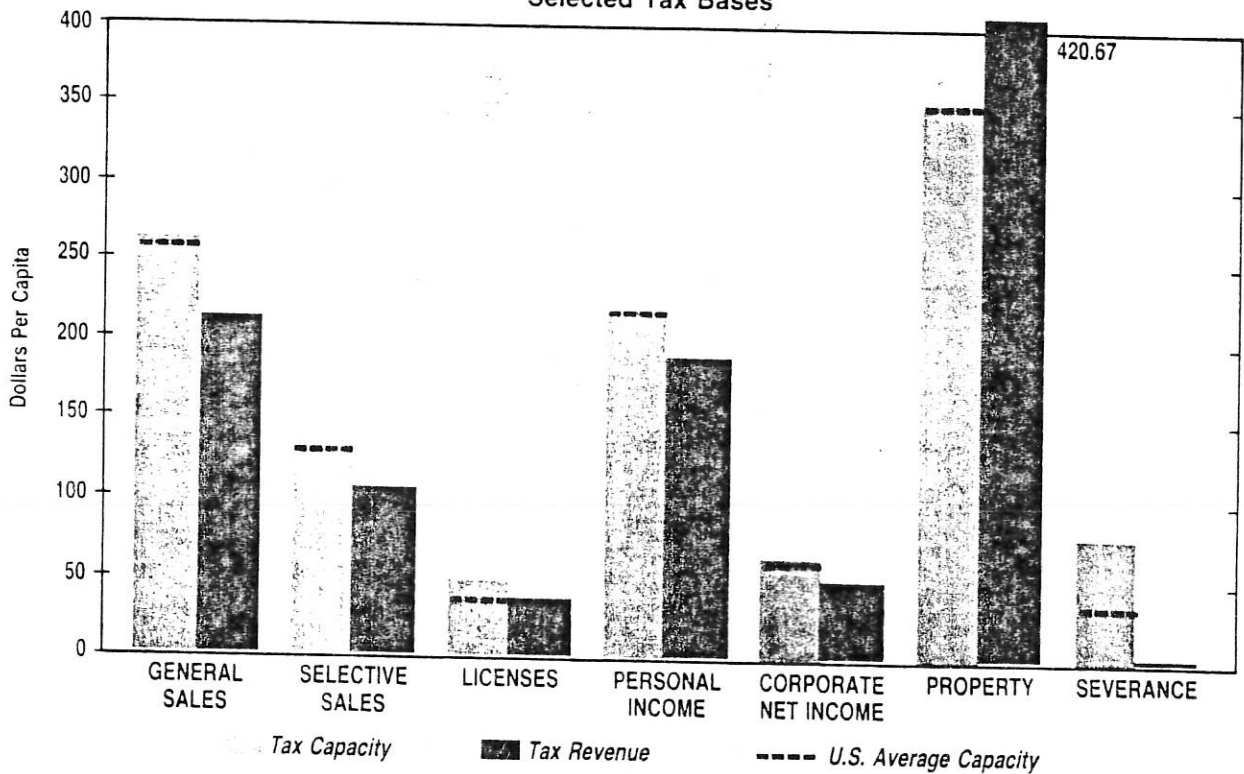
	KANSAS	Colorado	Missouri	Nebraska	Oklahoma
Property Taxes	\$429.84	\$418.91	\$233.00	\$449.40	\$181.73
Other Taxes	624.61	772.26	613.41	599.35	1,037.29
Charges and Misc.	537.98	576.76	328.35	552.56	578.24
From Federal Gov't	312.12	375.31	314.90	316.85	317.28
TOTAL REVENUES	\$1,904.55	\$2,143.24	\$1,489.66	\$1,918.16	\$2,114.54
Education Expenditure	\$712.38	\$821.22	\$530.91	\$729.57	\$727.96
Highway Expenditure	215.21	180.25	127.08	232.42	166.22
Welfare	188.03	198.16	161.62	159.00	228.13
Health and Hospitals	171.77	173.65	167.52	182.82	206.51
Other and Unallocable	560.67	648.84	444.46	512.99	558.14
TOTAL EXPENDITURES	\$1,848.06	\$2,022.12	\$1,431.59	\$1,816.80	\$1,886.96
Full Faith and Credit	\$475.99	\$689.69	\$279.75	\$503.42	\$564.51
Nonguaranteed Debt	1,550.55	1,179.32	677.29	2,632.25	1,096.20
TOTAL DEBT	\$2,026.54	\$1,869.01	\$957.04	\$3,135.67	\$1,660.71

Kansas

Total Tax Capacity and Tax Effort
1975-1982



1982 Tax Capacity and Tax Revenue
Selected Tax Bases



CALIFORNIA POLICY CHOICES, 1984

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CALIFORNIA POLICY CHOICES, 1984

EXECUTIVE SUMMARY

Policy choices by California governments are critical to the people of this state. They influence economic activities, shape careers and lifestyle opportunities, control acquisition and use of property, establish norms of legal behavior, and judicial and correctional systems to enforce those norms. They also result, for example, in a myriad of services, ranging from police and fire protection through control of the safety of work places and protection of the environment.

California Policy Choices is an annual, edited volume seeking to improve public policy choices made in California political systems. It does so not by advocating particular policy choices, but by analyzing the consequences of choices already made, by increasing knowledge of forces shaping California, and by analyzing choices available for the future. Rarely is a preferred choice identified. More commonly, the analysis seeks to understand the context of choice, including results obtained through previous choices, and to identify and evaluate available alternatives.

The inaugural issue of *California Policy Choices* contains ten chapters, briefly summarized as follows.

1. **California Policy Choices** analyzes public policy processes in California and examines the contribution that an annual volume such as *California Policy Changes* can make to improve public policy choices. Policy choices are not made in a perfectly rational manner in a context of consensus and certainty. Instead, public policy choices are made in a context of conflict, uncertainty, error and change. Ideally, learning occurs over time, and policy choices ultimately result in creation of a widely-desired future. Achieving such a desired future through public policy choices is the critical role of political systems, the most encompassing institutions available in society for exercise of collective choice.

- Any policy choice consists of four factors:
 - a goal, a desired future state of affairs
 - an understanding of the causes of this problem
 - development of a strategy to achieve the goal
 - mechanisms to carry out the strategy
- Policy-makers sometimes seek to shortcut this complexity by relying on:
 - habit
 - ideology
 - partisanship
 - fad
- These shortcuts often result in several defects in policy-making:
 - inability to achieve the policy goal
 - waste of resources
 - barriers to future policy choices
 - diminished capacity of the political system to make choices
- To improve policy choices, officials and the public should:
 - recognize complexities of policy choice-making
 - avoid premature closure upon a policy goal and remedial strategy

—use existing data, simple calculations, and available theory to inform policy choices

- *California Policy Choices* seeks to improve policy choices made in California by:
 - providing longer-term, broader-ranging analyses of consequences of previous choices and of available choices than are currently available
 - providing these analyses to policy-makers, their staffs, mass media, and university and college classrooms

The chapter is authored by Professors John J. Kirlin and Donald R. Winkler of the School of Public Administration, University of Southern California, and co-editors of this volume.

II. The Fiscal Context of California Policy Choices analyzes revenues and expenditures of California governments since 1969-70, and fiscal policy choices confronting the state in the next few years.

- While Proposition 13 and other voter-approved initiatives have reduced revenues available to California governments recently, the important pattern is of *increase* until 1977-78 and then *decrease* in response to cycles in performance of the California economy:
 - in per capita, constant-dollar terms, revenues and expenditures of California governments in total peaked in 1977-78 and now roughly approximate levels of the mid-1970s
 - total revenues and expenditures of California governments still exceeded the national average, both in per capita and per \$1,000 of personal income basis in 1981-82, but less so than in 1977-78
 - recession-caused shortfalls of revenues are particularly troublesome to the State government because it derives most of its revenues from taxes, especially from the sales and personal income taxes, which fluctuate with performance of the economy; in 1982-83 state revenues fell \$2.8 billion short of the projection of the governor's budget (prepared in January 1982)
 - the State patched over this revenue shortfall by four extraordinary strategies:
 - accelerated tax collections
 - diverting money from special funds
 - delaying capital projects
 - reducing subventions to cities and counties
 - cities, and to a lesser extent, counties, coped with loss of revenue caused by Proposition 13, recessionary impacts upon sales tax receipts, and reductions in state aid by generating more revenues from special taxes, fees and charges, and assessments — all alternatives to general taxes
- Among major conclusions concerning the current fiscal situation of California governments are:
 - the State is now the dominant policy-maker:
 - in 1981-82, the State collected 57.6 percent of total own-source revenues of all California governments, up from 45.5 percent in 1969-70
 - the State transfers about one-third of its revenues to local education and counties for expenditure

—State policy-makers have been unable to provide a predictable revenue base for local governments to replace that lost by Proposition 13

—When adjusted for inflation and population changes, the expenditures of the state and cities have increased, K-12 education has held steady, counties have declined modestly and community colleges dropped by a quarter.

- Three future fiscal policy choices are analyzed.

1) alternatives to general taxes:

—general taxes, broadly imposed with proceeds going into general funds (such as personal income, sales and property taxes), have declined in importance: they provided 70 percent of total own-source revenues to California governments in 1969-70, but only about 60 percent in 1981-82

—of the \$13.7 billion in additional revenue received by California governments in the 1977-78 through 1981-82 period, taxes generated only \$5.6 billion; non-tax sources generated \$8.1 billion

—fees and charges, enterprises and "other" revenue provided 51.3 percent of city and 26.9 percent of county revenues in 1981-82, up from 39.4 and 16.8 percent respectively in 1977-78

—in contrast, the State generated only 11 percent of its revenues from these sources in 1981-82, up modestly from 8.5 percent in 1977-78

—if the State and local education could increase revenues they derive from alternatives to general taxes, their revenues would fluctuate less in response to economic cycles

2) State-local fiscal relationships should be restructured to satisfy three criteria:

—recognition of the critical *choice-making* functions of cities and counties, especially concerning land-use, and provide appropriate fiscal resources and incentives to protect those functions

—achievement of long-term predictability for both local governments and the State

—provision of sufficient resources to cover the most important service provision responsibilities of both local governments and the State

3) Theories underlying policy and program design need to be reformulated to meet two challenges:

—substantial increases in revenues available to California governments are unlikely, but neither will pressure for public policies diminish; ways must be found to achieve collective goals other than the traditional public bureaucracy funded by general taxes

—revenues are cyclical, increasing and decreasing even in the absence of explicit policy choice, while expenditures tend to increase steadily, and are modified through explicit policy choice; to mitigate these imbalances, policy-makers should make revenues less cyclical (by use of fees and charges, for example) or make expenditures more cyclical (directing "surpluses" to

capital infrastructure or underfunded public pensions, for example)

John J. Kirlin is author of this chapter.

III. The California Economy: Changing Structure and Policy Responses advances the argument that the California economy is now "maturing" with the consequence that creation of jobs and income to meet expectations of Californians over the balance of the next two decades will severely challenge policy-makers. The metaphor of transition from a youthful, dynamically-growing economy to a mature economy — in which not only are the major directions for growth of the economy established, but currently advantaged social and political forces significantly influence future economic decisions — is an imperfect metaphor, as are all metaphors. But it illuminates important changes in the California economy. The chapter is divided into four sections:

1) Economic Growth: Production, Employment and Income:

- California's estimated gross product has approximately doubled in real terms since 1960 and accounts for about 12 percent of the national gross product
- adjusted for inflation and population changes, the annual compound growth rates of California *lagged behind* the total U.S. in the 1950s (1.0 percent for California vs. 1.3 percent for the U.S.) and in the 1960s (1.8 vs. 2.6 percent) and have only very slightly exceeded the national average in the 1970s (2.1 vs. 2.0 percent)
- between 1950 and 1980, California's labor force grew by more than 250 percent (to more than 12 million people), versus a national growth of about 170 percent.
- while personal income per capita of Californians exceeds the national average, the margin has fallen from 123 percent in 1959 (third highest among all states) to 114 percent in 1979 (fifth highest)
- disturbingly, median family income in California is now only 12th highest among states, and 15.2 percent of children under age 18 were in families with incomes below the federal poverty line in 1979, an enormous increase from 12.9 percent in 1969

2) The Changing Structure of Production and Employment:

- California's economy is far down the road of maturation from primary activity (agriculture and mineral extraction) through secondary activity (manufacturing) to tertiary activity (services)
- by 1980, over 69 percent of non-agricultural employment in California was in four major tertiary sectors (wholesale and retail trade; finance, insurance and real estate, services; and government), and only 20 percent was in manufacturing
- trade, finance, services and government accounted for over 76 percent of the net growth in employment between 1970 and 1980 (2.2 million of 2.9 million net new jobs)
- high-tech sectors, electronics and instruments, were the most rapidly-increasing manufacturing employment, but they created less than two-thirds as much employment as medical services alone in the 1970s

- manufacturing is still important to the California economy: California ranks first among states in manufacturing employment, in value added, and in value of shipments
- in 1980, average earnings per employee were about 40 percent higher in manufacturing than in service, and twice those in retail trade

3) Economic Development: Prospects and Constraints

- California's huge market is subject to fierce foreign competition
- California remains innovative in production and consumption
- to provide employment and income to meet expectations of a growing population (both from natural increase and immigration), California must grow
- if employment is to grow 2 percent annually, a conservative projection well below historic averages, California will have to create five million *net* new jobs between 1980 and 2000, requiring creation of a total of about 20 million new jobs to also offset losses of existing jobs
- two likely sources for economic growth and employment are high tech manufacturing and finance and business services, but they are unlikely to provide enough jobs or high enough incomes to meet expectations
- electronics, aerospace, and bioengineering now account for a total of 500,000 jobs, about one-fourth of all manufacturing jobs, and are growing
- however, there are disadvantages and weaknesses in high-tech manufacturing:
 - a) not all areas are attractive to high-tech firms; California is blessed with two (Santa Clara Valley and Los Angeles/Orange County), but may not be able to develop more
 - b) as production processes become standardized, electronics manufacturing tends to move to low labor-cost locales, including outside the U.S.
 - c) electronics manufacturing requires a higher percentage of technical and professional workers than typical manufacturing, and pays them well; but actual production work is highly-routinized, is relatively low-skilled, and commonly pays below the average wage for manufacturing labor
 - d) high housing costs may threaten viability of high-tech manufacturing at its present core locations
- California may be well-poised to exploit growth in the services sectors of the economy, possessing:
 - a) advantageous geographical location for the Western U.S. and the Pacific
 - b) the strongest venture capital market in the world
 - c) major enterprises whose product is services have emerged in California
 - d) whole new products, such as computer software, are intermediate between services and conventional products
 - e) San Francisco and Los Angeles are major financial centers

- however, the services sector also has weaknesses:
 - a) these firms typically employ a few highly-paid and many low-paid individuals
 - b) office automation may reduce employment, although increasing productivity and wages in this sector
 - c) office expansion in downtown locations may be curbed, and while suburban office construction is now growing, that too may be curbed in time
 - what about agriculture as a growth sector?
 - with associated processing, agriculture employs 500,000 individuals
 - this sector is a highly-productive combination of individual enterprise and collectively-provided, subsidized irrigation water
 - overall, agriculture is unlikely to provide much net new employment, as it encounters: resistance to new subsidized water projects, shifts from labor to machinery, fierce foreign competition, and new spurts of productivity.
- 4) Policy Choices for California:
- now that California has succeeded in developing a dynamic economy, growth cannot be turned off without great cost and social dislocation
 - California's population will increase, regardless of public policy choices; the dilemma encountered is that if sufficient jobs at good incomes are provided to meet expectations, further population increases will result as migrants are attracted
 - one choice, thus, is for or against growth: both mean injustice, as not all benefit equally and some will suffer under either choice
 - what may be done, if growth is accepted:
 - a) direct capital grants and other incentives to places allowing growth
 - b) develop a two-track jobs/economic development strategy: one to create conditions attractive to growing firms, and one to retain existing jobs
 - c) consider "nurturing" growth of a new metropolis in the Central Valley
 - d) develop a quality labor force, remedying the degradation of educational performance of the state's public elementary and secondary schools (for example, in 1982, only 68.9 percent of the eligible-age group graduated from high school, versus 79.9 percent in 1972); among options are training opportunities/requirements for dropouts; increased funding of education; and perhaps deregulation of public schools through a device such as vouchers.

Professor Michael B. Teitz of the Department of City and Regional Planning, University of California, Berkeley, is author of this chapter.

IV. The Revenue Structure of California State and Local Government: A Framework for Choice describes recent changes in the California tax struc-

ture, develops four criteria for evaluating increases or decreases in tax revenues, and then analyzes several possible policy choices regarding changes in revenues using those criteria.

- changes in California's revenue structure:
 - increases in state personal income taxes and bank and corporation taxes in 1967, enacted in response to recession-induced revenue short-falls, generated large revenue increases as the economy rebounded and inflation pushed taxpayers into higher income tax brackets
 - in the decade before passage of Proposition 13, many attempts were made to reform the property tax
 - between 1967 and 1979, the property tax on business inventories was gradually eliminated
 - the sales tax rate was increased in 1972 and small additions made to the sales tax base since 1967
 - the personal income tax burden of individuals increased over the past 15 years as maximum tax rates increased, withholding accelerated tax payments (and increased compliance), and inflation-caused bracket creep
 - bank and corporation tax rates were increased in 1967, 1971 and 1972
 - Proposition 13 reduced property taxes by \$7 billion, but resulted in higher personal and corporate income tax payments to both federal and state governments.
- four criteria are appropriate for evaluating changes in revenue structures of governments:
 - efficiency* in the use of society's resources, changed as a result of substituting collective for individual decisions, and by businesses and individuals altering their behaviors in response to taxes
 - administrative efficiency*, the governmental costs of collecting revenues and private costs of complying with tax laws in proportion to revenues raised
 - equity*, the relative distribution of tax burden among categories of tax payers, such as income-earners, consumers, owners of capital, or businesses, but most importantly by income and wealth distributions of individuals, who ultimately bear any tax
 - political and administrative *feasibility of implementation*
- the efficiency and equity effects of four recent California tax changes (Proposition 7, indexing the personal income tax; Proposition 6, abolishing the inheritance tax, and increases in current service charges by local governments) are complicated and no comprehensive analysis of their impacts exists.
- four competing premises regarding the revenue structure of California governments lead to competing policy proposals:
 - when the premise is that long-term State government revenues are too low, the policy proposed is a permanent increase in revenues, achieved by increasing tax rates, expanding the tax base, or introducing new revenue sources

- when the premise is that long-term State government revenues are too high, the policy proposed is a permanent reduction in revenues, achieved by decreasing tax rates, shrinking the tax base, or eliminating existing taxes or charges
 - when the premise is that cyclical revenue shortfalls are to be avoided, the proposal is for temporary revenue increases, achieved by borrowing from special funds, accelerating revenue collections, or introducing automatic budget stabilizers
 - when the premise is that State government is too powerful relative to local governments, the proposal is to permanently increase local government revenues, achieved by increasing local taxing powers, shifting state revenue sources to local governments, or increasing direct state aid to local governments
- An extensive analysis of eight alternative policy choices is presented: four to raise revenues, two to reduce revenues, and allocation of a portion of the State's share of the sales tax to local governments under two formula

This chapter is authored by Professors Jeffrey I. Chapman and Donald R. Winkler, of the School of Public Administration, University of Southern California.

V. **Reforming Political Finance** analyzes the impacts of California's Political Reform Act of 1974 (Proposition 9) upon campaign finance, discusses why campaign finance is again an area of pressure for new policies, and explores alternative reforms.

- Proposition 9 contained several features:
 - campaign committees were required to file organizational statements and regular campaign disclosure statements
 - contributors of more than \$50, and those to whom expenditures of like amount were made, were to be identified
 - late contributions of \$1,000 or more were to be reported within 48 hours
 - cash contributions of \$50 or more, anonymous contributions and contributions made in the name of another were prohibited
 - spending for statewide offices was limited according to a formula based on voting-age population
 - limits were imposed on spending by party state committees, independent committees and initiative qualification and ballot measure committees
 - lobbyists were required to register with the secretary of state, to disclose expenditures for lobbying, and were prohibited from spending more than \$10 a month on a single public official, and from making or arranging contributions to public officials or candidates
 - public officials were required to disclose financial holdings and interests

- state agencies were required to adopt conflict-of-interest codes
 - informational ballot pamphlets were to be mailed to all voters
 - incumbent candidates were prohibited from sending out mass mailings at public expense
 - incumbency was eliminated as a factor in determining the order of names on ballots
 - campaign audits were to be conducted by the state Franchise Tax Board
 - a five-member Fair Political Practices Commission (FPPC) was established to implement and administer the law; among powers of the FPPC were to formulate regulations, to investigate, to issue cease and desist orders and to levy fines, and to publish opinions, manuals, and instructions; provisions for civil and criminal remedies were included, the latter to be enforced by the attorney general
- over time, provisions of Proposition 9 were weakened through court decisions and legislation:
 - conforming to the decision of the U.S. Supreme Court in *Buckley v. Valeo* invalidating expenditure limits in federal campaigns, California courts and the legislature repealed such expenditure limits in California
 - in a series of cases from 1977 through 1980, California courts invalidated virtually all bans on lobbyist contributions to officeholders and candidates
 - among legislative actions changing Proposition 9 (many suggested by the FPPC) were:
 - random audits
 - 50 percent reduction in audits of lobbyists and campaign committees
 - reduction in bookkeeping and reporting requirements of lobbyists
 - raised level of compulsory reporting of campaign contributions from \$50 to \$100
 - imposed tighter reporting requirements on contributions received through intermediaries and late contributions
 - concern for reform of political finance is again increasing:
 - among the organizations and individuals proposing further reforms in campaign financing are:
 - the FPPC
 - Common Cause
 - the media
 - legislators
 - complaints about the present situation include:
 - high campaign costs
 - possible effects of large contributions
 - the rise of political action committees (PACs) as major campaign contributors
 - the high percentage of campaign contributions coming from outside legislators' districts

- the amount of time that legislators spend raising contributions
 - advantages accruing to incumbents in raising contributions
 - perceptions that contributions influence actions of elected officials
 - violations of disclosure requirements
 - growing use of negative and misleading campaign materials
 - reduction in the number of competitive legislative districts
 - advantages accruing to incumbents through use of publically-paid staff for political activities
- value and political issues involved in reforming political finance:
 - several values are at stake, and sometimes in conflict, in political finance:
 - open access to the political arena, including access to running for office, and to officeholders
 - public confidence in the political system and in officeholders
 - open, pluralistic political dialogue and participation
 - strong, effective political parties
 - practical responses to current problems
 - appropriate public and private roles in campaign finances
 - similarly, several political issues are at stake:
 - any reform must conform to court interpretations of permissible limitations
 - if reforms originate in the legislative arena (as opposed to through an initiative), they must satisfy those incumbents
 - various legislators want credit for authoring reform legislation, posing “ego” problems that must be surmounted, and there is similar rivalry between the Senate and the Assembly
 - the increasing partisanship of state-level politics, one evidence of which has been the battle over reapportionment, increase the stakes of Republicans and Democrats in political finance while making bipartisan reform more difficult
 - any reform including public funding of campaigns must deal with public resistance to increased public spending
- eight possible reforms to political finance are analyzed, emphasizing consequences of choice of any one or some combination of the eight:
 - campaign expenditure limits
 - limits upon contributions from any one source
 - limits upon contributions from a particular category of contributor, such as PACs
 - limits or prohibitions upon contributions from corporations or labor unions
 - limits on non-election year contributions
 - limits on contributions from political parties
 - limits on personal spending
 - public funding

- increasingly, limits of one or another type are joined to proposals for at least partial public funding of campaigns, a system now used in 17 other states, but which confronts several knotty problems:
 - public resistance to spending
 - definition of major and minor parties, and serious versus frivolous candidates, and determining the subsidies each is to receive
 - whether public funding should go directly to candidates, thus further encouraging political fragmentation and weakening of parties, or be directed to parties
 - determination of what expenditure or contribution limits should be imposed, and how they affect incumbents and challengers (incumbents are favored by low limits)

This chapter is authored by Herbert E. Alexander, professor of Political Science and Director of the Citizens' Research Foundation, University of Southern California.

VI. **California School Finance: Policy Perspectives** provides extensive analysis of events affecting California public schools over the past two decades, advances a framework distinguishing between public finance and public provision of education, and a rationale for choosing among various combinations of the two. It analyzes costs and likely consequences of three alternative policy strategies for increased funding of public elementary and secondary (K-12) education, ending with an argument that vouchers, an alternative apparently more popular with citizens than with professional educators or policy-makers, should be given serious consideration. Thus, policy choices available in school finance concern not only the level of funding provided, but also the mode of producing education.

- trends and status of California elementary and secondary education:
 - K-12 consumes more resources than any other governmental function in California: nearly \$9 billion of state funds and over \$2 billion in local funds
 - since the *Serrano v. Priest* decision of 1972, which held the then existing school finance system unconstitutional, the State has played a large role in K-12 finances
 - in 1972 (SB 90), a system of revenue limits was imposed upon school districts, in which revenues of low-spending districts were to converge upward toward high-spending districts
 - in 1977 (AB 65), revenues from high-wealth districts were to be shared with low-wealth districts
 - Proposition 13 upset this system by slashing property tax revenues, to which the Legislature responded in 1978 (SB 154) with a block grant of \$2 billion dollars from the State's treasury, allocated to school districts
 - in 1979, AB 8 established a “long-term” fiscal system for local governments, shifting property tax revenues from K-12 to cities and counties, replacing those losses with state funds
 - in addition to general purpose funding, the State provides categorical program funds to schools for specified purposes; these funds are about 25 percent of total state aid

- in April 1983, the existing system of K-12 finance was declared constitutional; the range of revenue limits for elementary districts serving 90 percent of the state's students were within \$186 of each other in annual expenditures (vs. \$279 in 1977-78)
- in constant 1972-73 dollars, per student unit (average daily attendance — ADA) spending peaked in 1979-80 at \$1,525, and was estimated to be \$1,460 in 1982-83, a 4.3 percent decline
- in 1982-83, California spent 96 percent of the national average per ADA, down from 106 percent in 1979-80
- in 1982-83, California spent 89 percent of the national percentage of its personal income on K-12 (not adjusted for ADA), down from 102 percent in 1973-74, but the same as in 1975-76
- in 1982-83, California teacher salaries were 116 percent of the national average
- in fall 1982, the California student-teacher ratio was 23.05 to 1, vs. a national average of 17.14 to 1
- California K-12 education receives funds from three sources: 6.8 percent from federal, 74.3 percent from state, and 18.9 percent from local sources in 1981-82.
- the State's role in school finance has increased dramatically since Proposition 13; in 1977-78, it provided 38.8 percent of total funds
- school enrollments are expected to decline in the first half of the 1980s and then to increase, but new enrollments will often occur outside the area and districts previously experiencing declines
- as the percentage of school age children and persons 65 years and older both increase faster than total population beginning in the late 1980s, the two age groups will compete for revenues from a proportionately smaller earning population
- in a 1983 California poll, 62 percent of respondents favored increasing taxes to provide more money to public schools
- performance of California schools:
 - scores on verbal and mathematics sections of the Scholastic Aptitude Tests (SAT) have declined in the last decade, paralleling a national trend
 - whereas 80 percent of respondents felt schools in their neighborhoods were doing an excellent or very good job in 1967, that response fell to 51 percent in 1978 and to 31 percent by 1983
 - among specific concerns revealed in a 1983 California Poll were lack of emphasis upon fundamentals (mentioned by 48 percent of respondents), lack of student discipline (35 percent), lower quality teaching (24 percent) and lax requirements (22 percent)
 - California students spend less time in classrooms than the national average: 91.1 percent of the average school day, and 98.6 percent of the average number of school days per year.
- improving California's schools can be attempted via three alternative strategies: getting more from current resources, increasing resources, and changes in the fundamental structure of public education
 - concerning more efficient use of current resources, improvements can almost certainly be made within individual classrooms, at the school level, and within districts; these actions must come at those levels, and some schools are actively moving in this direction
 - increasing teacher pay, reducing class size, and increasing students' time in class are evaluated as alternative uses of increased funds
 - if California raised its expenditures to the national average per student, it would have spent an additional \$530 million in 1982-83
 - an increase to the national average as a percent of personal income would require taxes equivalent to approximately \$70 per Californian; while this level of funding would cover any one of the three alternatives identified, odds lengthen against finding more than one (for example, increasing teacher pay and reducing class size), especially given other claimants for public sector resources
 - more fundamental restructuring of public education may be desirable:
 - strong rationales exist for at least partial public funding of K-12 education as a good with benefits beyond the individual student and family; education provides external benefits, can be considered a meritorious good, and can serve as a vehicle for income redistribution to current and future generations
 - there are no equally-strong rationales for public production of schooling
 - policy-makers seeking structural reform of schools should explore options which give more choice to consumers of education and which encourage competition among producers of education, both of which should increase efficiency and consumer satisfaction with schools
 - of the alternatives in this vein, including more student choice of schools within districts, more interdistrict transfers, tuition tax credits, and vouchers, the latter offers the most promise, although (and because) it requires the most extensive changes in K-12 education
 - vouchers, which encourage more choice for families (by providing vouchers which can be used only for educational services from authorized schools) and more efficiency in production of education (by allowing private producers to compete with public schools) have been criticized on three grounds (that they would lead to increased income segregation, increased racial segregation, and increased costs), all criticisms which can be met with a properly-designed voucher system
 - vouchers warrant serious consideration now because they offer the best hope of improving performance of elementary and secondary education
 - structural reforms are likely to gain more supporters as the competition for public resources intensifies in the next few years
 - public support for vouchers is already increasing, with 51 percent of respondents in a June 1983 national Gallup Poll favoring vouchers (up from 43 percent in 1970 and 1981), versus 38 per-

cent opposed and 11 percent with no opinion

— support for vouchers is high among blacks (64 percent in favor), those aged 18-29 (with most recent experience in schools: 60 percent), and non-public school parents (64 percent); support is higher among Democrats (52 percent) than Republicans (48 percent)

- After analyzing alternative features of vouchers, the authors conclude that a voucher system of financing K-12 education with the following features should be considered:
 - the size of vouchers should cover basic educational expenditure, roughly equal to the current average cost per student in public schools
 - income-segregation potentials should be curbed, either by not allowing families to augment vouchers, or by allowing such "add-ons" and providing income-neutral supplementary vouchers
 - that vouchers be available to all students, whether attending public or private schools
 - that a permanent voucher system be phased in systematically over several years
 - that some subsidy for transportation costs be provided so that choice can extend beyond students' neighborhoods

The chapter is authored by Professors Jack Osman and John Gemello, of the Department of Economics, San Francisco State University.

VII. Block Grants: Reagan's, Deukmejian's, and Choice's for the Future analyzes California's response to Reagan administration block grant programs enacted since 1981, the reception given Governor Deukmejian's proposals to change some state fiscal transfers to local governments from categorical to block grants, and explores the future of intergovernmental fiscal relationships. Block grants have long been reformers' suggestion for reforming the mechanisms by which funds are transferred from higher to lower units of government. Such transfers from the national government represent 17.8 percent of the total expenditures of California State and local governments, and transfers from the State represent 27.4 percent of expenditures of California local governments in 1981-82. Categorical transfers closely specify how transferred funds are to be expended by recipient governments; block grants give them more discretion, while still stipulating major purposes for which funds are to be used.

- the Reagan block grants of 1981 differed from block grants of the Nixon-Ford presidencies in increasing the role of states and cutting federal funding
- nine block grants were adopted in 1981: Social Services, Low Income Home Energy Assistance, Alcohol, Drug Abuse and Mental Health, Community Services, Maternal and Child Health, Preventive Health Services, Primary Care (which California chose not to accept; it remains a federal program), Community Development, and Education
- in 1982, a Mass Transit block grant was launched, and in 1983, the Job Partnership Training Act block was enacted
- California's initial responses to Reagan block grants had three features:

— delayed assumption of block grants as long as possible, and creation of a task force to provide recommendations

— a conservative style of response to blocks, making minimal administrative and policy changes needed

— modest effects of block grants, fiscally, programatically and in regulations

- only modest effects were felt in 1982, largely because availability of carry over funds and forward funding cushioned impacts of fund cuts in the blocks.
- cuts actually made in California are difficult to determine precisely, but averaged less than the 25 percent originally projected, ranging from a 28 percent decrease in education to no decrease, or a slight increase in funds for Community Development
- only modest changes in program structure occurred in California; two changes that did occur were directing Alcohol, Drug and Mental Health funds to counties rather than to local service providers, and reducing the number of state-mandated programs under the Social Services block from ten to six
- while the Block Grant Task Force recommended minimal responses in 1981 (pro rata reductions in funding existing eligible programs, capping of state and local administrative costs, no transfers among programs, and no state replacement of lost federal dollars with state general funds), in 1983, the task force proposed more substantial changes:
 - counties were to be primarily responsible for local allocation of funds
 - counties should create local advisory bodies composed of county representatives of the community at large, who would make allocation recommendations to the board of supervisors based upon a competitive proposal process of submissions from public and private local service providers
 - the State should revise the system for allocating block grant funds to counties, set standards and guidelines for targeting funds to low-income persons and for reporting, and provide oversight to ensure compliance with applicable federal and state law
- implementation of block grants has become intensely political and partisan: blocks are now seen as "Republican" grants and efforts to reduce funding, both at the national and state level
- block grants became a partisan state issue when Governor Deukmejian's 1983-84 budget proposed consolidation of 21 state programs into three block grants: public health, education and alcohol and drugs
- these proposals were initially criticized by the legislative analyst and others as lacking sufficient detail
- affected service providers and clientele, organized into a "Block the Block" coalition of about 140 organizations, strongly opposed the Deukmejian proposals
- in addition, the California Taxpayers' Association and the California Medical Association opposed the proposals and the County Supervisors Association of California did not support the switch to blocks
- as a result of this opposition, the governor's proposals never passed out of the committee hearing stage
- future choices are now constrained by the intensity of opposition among

provider groups and clientele; block grants have been transformed from a "good government reform" proposal to partisan Republican budget-cutting versus Democratic clientele-protecting acrimony

- other issues are now intruding into choice-making about block grants:
 - general partisan fighting is a significant barrier to acceptance of Republican programs in a Democrat-controlled Legislature
 - discussion of a long-term, encompassing restructuring of state-local fiscal relationships, still unsettled since Proposition 13
 - county fears that "reforms" may leave them with greater service delivery responsibilities without additional resources
- among options now available are:
 - defer any further changes in block grants or movement toward state blocks, perhaps using such actions as bargaining chips in more encompassing changes in state-local fiscal relations
 - make state block grants more palatable by increasing, rather than cutting, funds
 - adopt only those changes with broader support, such as a state alcohol and drug block
 - continue to make incremental improvements in the intergovernmental fiscal system

The chapter is authored by Professor Dale Rogers Marshall, of the Department of Political Science, University of California, Davis.

VII. **California Water Policies: Future Options** briefly reviews the present context of water policy in California and then analyzes four alternative future approaches to water policy: no change, market, construction, and conservation/regulation.

- the present context of water policy includes:
 - 37 million acre-feet (each acre-foot equals about 326,600 gallons) of water are captured and diverted through the federal Central Valley Project and the State Water Project, and other systems of water-capture and transportation; in addition, pumping of ground water is substantial
 - 90 percent of the water used in California is used by agriculture, but 90 percent of voters are not involved in agricultural production
 - historically, large-scale federal water projects provided significant subsidies to agricultural users
 - large scale construction projects are increasingly rare:
 - fiscal stress makes expensive public works providing subsidies to small groups difficult to fund
 - irrigated agriculture and associated political interests no longer dominate water policy
 - individuals and groups interested in environmental protection and such non-agricultural uses of water as sport fishing oppose construction projects
 - non-agricultural users, such as industry or residences, can afford to pay much more for water than can agriculture, but need much less water

- voters have signalled their hesitation about both new construction, through defeat of the proposed Peripheral Canal, and of ambitious conservation programs, through defeat of Proposition 13 (November 1982); thus the two polar policy choices have been rejected

- consequences of no policy change include:
 - no substantial new construction of water projects
 - continued overdrafting of ground water basins of the San Joaquin Valley by approximately 1.5 million acre-feet annually, resulting in lowered water tables, higher pumping costs, and use of lower-quality water
 - a substantial number of acres presently irrigated would probably go out of production
 - continued increases in salinity of water in the Delta, threatening agricultural, municipal, and industrial users
 - inability of the State Water Project to meet contractual obligations for water deliveries to Southern California
 - uncertainty over water rights
 - encouraging development of markets in which water rights could be sold
 - ceding policy choice to the courts
- the market approach:
 - economists have long argued that there is no "shortage" of water, only of cheap water
 - at present, the subsidy to irrigated agriculture approaches \$1,100 per acre in the Central Valley Project
 - demand for water is elastic; water use varies inversely, and substantially, with price
 - several impediments exist to establishment of a full-blown market for water in California, among which the most important are:
 - uncertainty about water rights
 - public opposition to large-scale transfers
 - inadequate facilities for water transfers
 - in recent years, the California Legislature has removed some impediments to water markets, and during drought years market based transfers currently occur
- the construction approach:
 - favored by agriculture generally, and by Southern California interests at least partially
 - the focus for new construction is often the North Coast rivers — the Eel, the Klamath-Trinity, and the Smith, which could provide an additional 13 million acre-feet annually
 - these rivers are protected by inclusion under the California Wild and Scenic Rivers Act of 1972 and by designation in the federal wild and scenic rivers system
 - agricultural interests want new construction as a trade-off for any ground water management
 - new construction is costly; estimates for the Peripheral Canal ranged from \$3 billion to \$23 billion

- the conservation/regulation approach:
 - the goal of the approach is balancing of interests in water through a regulatory process established by law (as distinguished from a balance reached through markets)
 - advocates of this approach have focused upon eliminating water "waste," upon avoiding overdrafts through groundwater management, and upon protecting such "in-stream" uses as fisheries or esthetics
 - advocates contend that new large-scale water capture and transfer projects are not needed
 - the computational abilities and political trade-offs required to implement a statewide regulatory system to implement the conservation approach are so large as to be unlikely to occur
 - voters rejected a version of this approach in Proposition 13 of 1982
- water policy issues are increasingly decided at the ballot box, through votes on initiatives, referenda, and bond authorizations
- three recent initiatives are analyzed:
 - a 1974 initiative to halt construction of the New Melones Dam, defeated 55 to 45 percent
 - in June 1982, the Peripheral Canal was defeated 62 to 38 percent
 - in November 1982, the water conservation measure was defeated 65 to 35 percent
- voting patterns on these initiatives suggest a split between well-educated persons in managerial and professional classes who want to protect the environment and are generally hostile to new construction, versus working-class individuals who tend to favor projects that provide jobs, including dams and canals
- given the apparent stalemate on large-scale construction or strict regulation to ensure conservation, piecemeal policy choices may be the most feasible:
 - some groundwater management
 - some structural protection of the Delta against salinity
 - some construction of water capture and transfer systems fully-paid for by users
- further development of water markets could "provide" needed water without high public investment costs nor need for resolution of the most divisive political issues; thus, this alternative should be pursued

This chapter is authored by Dean E. Mann, professor of political science, University of California, Santa Barbara.

IX. Dealing with Offenders: The California Prison Crisis examines causes of the present crisis in prison crowding and analyzes three alternative policy strategies with which to respond: expansion of prison capacity, reduction in prison admission rates, and reduction in length of prison terms. California now has the largest state prison population of any state: 37,238 prisoners in June 1983 — 140 percent of the design capacity. Reliable estimates project this inmate population increasing to 55,000 in five years.

- among the causes of state prison crowding in California are:
 - large increases in admissions, which increased from 82 per 100,000 population in 1978 to 130 per 100,000 in 1982
 - increased lengths of prison sentences, from an average of 43 months under the determinate sentencing law in 1979 to 46 months in 1982 (the number of life sentences also increased dramatically)
- prior to adoption of the Uniform Sentencing Law of 1977, California state prisons were not occupied above capacity, and a large portion of the explanation of the current crisis is found in that law, which:
 - placed the Legislature at center stage in the sentencing process, setting prison terms became sharply politicized, and legislators increased mandatory sentences for many offenses
 - abolished the capacity of state officials to use accelerated parole as a device for reducing prison populations in times of overcrowding
 - made punishment the explicit and sole purpose of the penal code
- local jails are also stressed beyond design capacity: the average daily population in local jails increased from 25,263 in 1980, to 36,690 in 1982, and to 41,391 in 1983, overloading a design capacity of 33,026 inmates
- expansion of prison capacity as a policy strategy:
 - California voters have approved issuance of \$495 million in bonds for state prison construction and \$280 million in state bonds for local prison construction (to be matched with \$70 million in local funds)
 - new prisons cost approximately \$80,000 per bed, and operating costs are also very high
 - currently-planned state prisons will cost \$942 million, nearly twice the amount of bond financing now available
 - even if that construction is completed and the State succeeds in building an additional 11,900 beds projected to be needed for the 1989-1992 period at an estimated additional cost of over \$1 billion, the State will still need temporary quarters for inmates, having inmate populations larger than the design capacity of the prisons
- reduction of prison admission rates as a policy strategy:
 - advocates of this strategy argue that an identifiable group of present prison inmates is not sufficiently dangerous to warrant incarceration
 - instead, they advocate a range of alternatives to imprisonment
 - some states have adopted policies intended to divert certain types of offenders to alternatives to prisons; indeed, California was historically a leader in these efforts
 - despite the range of experiments and alternative programs developed, there is scant evidence that greater use of these alternatives has reduced or moderated rates of incarceration
 - short staffing and low support from local law enforcement officials weaken the capacity of probation and other community-based alternatives to prison

- these alternatives may be more effective in reducing the inmate load at local prisons, the inmates of which are generally less violent
- reduction in prison term lengths as a policy strategy:
 - in this strategy, the rate of inmates leaving prisons is increased, often through programs such as intensive parole supervision, residential placements, or work assignments, as part of the release plan
 - as in alternatives to sentencing, California has been a leader in developing postincarceration programs
 - however, these programs typically only shift inmates from one type of facility to another, perhaps freeing up traditional prison beds for more inmates coming through the front door of the system
 - public resistance to community correctional centers and the extreme sensitivity to escapes impede wide usage
 - an alternative approach allows prison officials to reduce time served, for good behavior; Illinois has used discretionary elements of such a system to release prisoners early to reduce crowding
 - Minnesota and Washington have established prison sentencing committees whose explicit charges included consideration of their guidelines upon correctional resources
- barriers to reducing prison crowding are largely found in constraints that public officials believe themselves to be under as a result of public concern about crime: so long as they only perceived response to fears about crime is imprisonment, prisons are likely to be crowded, particularly when funds for prison construction and operation are in sharp competition with alternative uses and people resist having prisons built in their areas.

This chapter is authored by Barry Krisberg, Ph.D., and James Austin, Ph.D., both of the National Council on Crime and Delinquency

X. **Public Pension Policies for California** analyzes the status of public pension funds in California and evaluates three alternatives by which underfunding could be reduced: increased contributions, reduced benefits, and improved investment performance.

- status of public pension plans in California:
 - California State and local governments have promised more than \$70 billion in pension benefits to current and past employees, but more than \$30 billion of this obligation is unfunded
 - while no current pensioner is not receiving benefits, future benefits maybe threatened, or future taxpayers very heavily taxed
 - pensions are provided through five state plans (the largest of which is the Public Employees' Retirement System, 65 percent of whose members come from local governments: 359 cities, 35 counties, and 604 special districts), and over 100 additional local government pension plans
 - virtually all public pensions define benefits retirees receive (commonly as a percentage, such as 2 percent of compensation for the three highest-paid years for each year of service), as opposed to

having benefits be a function of defined contributions made by the employee and employer, as is more common in the private sector

- underfunding occurs in public pensions systems because the defined benefit system invites deferring costs of pensions forward, a particularly appealing option when employees and officials are seeking to keep visible costs of public employment low, and during periods of fiscal stress. In both situations, contributions needed to ultimately pay pensions obligations currently incurred may not be made
- "advanced funding," in which actuarially-estimated future pension obligations are covered as they are incurred is important for both economic and legal reasons.
 - if pension costs are not covered as incurred, the full costs of public employment are not visible, and society may consume more of its resources for such employment than if full costs were known
 - underfunding of pensions also shifts costs forward, effectively making consumption in the present more valuable than consumption in the future and by future generations
 - legally, pension plans are being interpreted as "contracts" between the government and the employee. The best way to ensure that this legal obligation is fulfilled is to provide for its funding as it is incurred
 - both analysis of funded ratios and amount of unfunded obligations per member reveal that California public pension funds have significant unfunded liabilities, but that improvement is being made
- increased contributions as a policy option:
 - increasing contribution rates by employers and/or employees has not been easy
 - governments should consider increasing contributions to underfunded pension systems in years when their current revenues increase in response to strong economic performance
 - at minimum, contribution rates should cover pension costs incurred in current years if underfunding is not to worsen, two funds which fail this test are the Judges Retirement System and the State Teachers Retirement Systems
- reduced benefits as a policy strategy:
 - this strategy is popular among citizens because it reduces claims upon tax revenues
 - the strategy is also popular because of widespread perceptions that public pensions are higher than in the private sector, a generally accurate perception
 - however popular, reduction in benefits of current employees encounters stiff resistance from the affected employees and the legal barrier of violating the employment contract
 - to surmount these political and legal problems, some jurisdictions are developing tiered pension systems in which future employees

have lower benefits than do current employees; San Francisco and the City of Los Angeles are two examples

- Improved investment performance as a policy strategy:
 - improving the yield received on investments of pension funds is the least painful way of improving their funding status
 - one impediment to maximizing the yield from pension funds is pressure to invest them for desired public policies, such as economic development or housing
 - another impediment to securing higher yields is overly restrictive investment guidelines concerning the types of investments and securities that may be held

The author of this chapter is Professor James M. Ferris, of the School of Public Administration, University of Southern California

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Chapter 1 California Policy Choices

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INTRODUCTION

The policy choices made in the California political system — through the State government, 58 counties, 430 cities, 70 community college districts, 1,044 school districts, 5173 special districts, and numerous other governmental entities — are critical to Californians. Political systems are instruments of collective choice; public policies are those choices.

Public policy choices shape the opportunities available to individuals, influencing the availability of jobs, the cost of housing, and access to education. Public policy choices determine property rights, including controlling the acquisition of property and the forms in which property may be held. Public policy choices influence the organization structures of business firms and non-profit organizations.

Public policy choices produce a variety of services, such as police and fire, education, and parks. Public policy choices influence environmental quality and workplace safety. Public policy choices define criminal conduct, establish judicial systems, and determine punishment for those found guilty. Public policy choices control access of citizens to government officials, and delineate permissible forms of governmental organization.

Public policy choices shape the future of California and its citizenry. Today's choices often have their greatest, and often unanticipated, consequences in the future.

California Policy Choices seeks to increase understanding of public policy choices in California. It does so by analyzing the consequences of choices already made and by identifying and analyzing choices available for the future. This effort is based in the beliefs that policy choices can be improved and that the type of analyses presented in *California Policy Choices* can contribute to that improvement.

Policy choices made in California are important. California is the most populous state in the nation. Were it a nation, the production of the California economy would rank eighth in the world, just behind the United Kingdom and ahead of Canada and Italy. The public sector of California is similarly substantial. All together, California governments raised \$51 billion in revenues in 1981-82. California is widely viewed as a leader; policy choices made by the governments of this state are studied and often emulated by state and local governments elsewhere, and by the national government. Thus, the importance of the task undertaken in *California Policy Choices*, of improving policy choices in this state, derives from the importance of those choices in California and elsewhere.

Choice-making involves five related parts:

- Agreement that a problem exists and selection of a desired objective.
- Understanding the causal forces that give rise to the current problem.
- Devising policy options for resolving the problem.
- Selecting the best policy or strategy available.

- Enacting and implementing the adopted policy

As an example, the problem may be low reading achievement among California school children, compared to other states, and thus the objective may be to increase achievement levels. A cause or causes of inadequate achievement must be identified. While there are likely to be several factors contributing to the problem, perhaps it is agreed that the most important one is an inappropriate curriculum. Policy options then consist of alternative reforms of the curriculum. And choice of a particular option presumes knowledge of how to achieve the desired policy objective.

To continue the example, a policy choice of increased time spent on reading skills in the first three grades presumes that this is an effective strategy for attaining desired improvements. Finally, once the policy choice is made at an analytic level, legislative action may be required at the political level, and the policy choice must be implemented at the administrative level.

A common error in policy choice-making is to focus solely, or at least overwhelmingly, upon selecting a desired objective. Ignoring other elements of the choice process invites ineffective policy choices. It is particularly in those other areas that analysis can improve policy choice. As is elaborated below, *California Policy Choices* focuses much more upon the elements of what is occurring, of causal forces, of policy options, and of alternative implementation strategies, than upon selection of policy objectives. In the analyses presented in *California Policy Choices*, close attention is also paid to innovative policy options not necessarily in current political currency, to long-run consequences of present-day policy choices, and to the possibility of change in government institutions to facilitate making effective policy choices.

Accomplishment of chosen policy objectives requires reallocation of resources to the chosen strategy. If no resource reallocation occurs, no significant choice has been made. Resource reallocation includes both the financial resources of government and the financial and other resources of individuals and non-governmental organizations. For example, some policy strategies entail reallocating government resources from one program to another, while other strategies change incentives or constraints facing individuals and non-government organizations, thereby changing their allocation of resources. Because policy choices are reflected in resource use, significant attention is paid in this volume to the question of how resources are presently allocated in California government, as well as the question of how policy changes would affect both public and private resource allocation in the state.

IMPROVING CALIFORNIA POLICY CHOICES

The policy process described above may not bear much resemblance to political reality as viewed by elected and non-elected public decision-makers. After all, are not policies frequently made without consideration of all the complicating factors enumerated above? Of course they are. But many policies enacted via legislation, or via the initiative process, end up being ineffective — or even yield results contrary to those anticipated. If policy choices are to be improved, complexities of choice must be made explicit and addressed.

Consider the alternatives to more informed policy choice-making: habit, ideology, partisanship, common knowledge, or the latest fad. None is wholly

satisfactory, although each will always be present in the policy process. Habit presumes that previous policy choices should be continued. Ideology assumes that all policy choices can be determined by some consistent, enduring set of beliefs. Partisanship assumes that Democrats, Republicans, or whatever other political group, will always discern the correct policy choice. Reliance upon common knowledge assumes that popular opinion will always be accurate. And reliance upon the latest fad or "good idea" assumes the adequacy of those ideas to fit the specific choices confronted. More elaborate critiques of each of these alternatives could be developed, but the improbability that any one of these shortcuts is a sufficient alternative to the sort of full exploration of policy choices discussed above is obvious.

The fundamental adjustment needed to improve policy choice-making in California is attitudinal. Policy-makers, analysts and citizens must abandon simplistic ways of thinking about policy choices. They must internalize more complicated, but also more realistic, images of the policy process if choices are to be improved. This change will not be an easy transition.

However, there are strong forces urging such changes. First, the limitation of government's fiscal resources in California argues for more effective use of those resources. That resources are limited, or at least more limited than was true in the 1960s and 1970s, is incontrovertible. Transfers from the federal government are declining, the California tax system has lost some of its ability to generate revenue from a growing economy, and public officials (and citizens) appear reluctant to pass tax increases.

Another force encouraging changes in attitudes concerning policy choices arises from the accumulation of evidence that many policy initiatives of the 1960s and 1970s did not accomplish their intended objectives. Many of those policies were adopted on the argument that "something must be done" about the problem, and with woefully inadequate understanding of the causal forces generating the problem or of difficulties in implementing a chosen policy strategy.

It should now be evident that policy-making occurs in the context of understanding what is occurring in society, of causes of these events, of what should be done, and of effective policy strategies. These are all "theories" in the sense that they are neither "truth" nor "reality," but rather social constructions. Policy-making occurs not in a static, well-defined and widely-accepted context, but rather in one characterized by misperception, uncertainty, conflict and change.

With respect to perceptions, policy-makers (and citizens and analysts) do not agree as to what is happening in California. Is the California public sector impoverished? While most policy debate since passage of Proposition 13 has assumed fiscal distress, the analysis reported in Chapter 2 of this volume shows a more complex picture. Are public school teachers underpaid? The analysis in Chapter 6 indicates that relative to national averages, California teachers are paid more to work less. Did voter-passage of Proposition 9 in 1974 effectively reform campaign finance? Chapter 5 suggests otherwise.

There are also differing perceptions and understandings as to causes of various public "problems." If performance of the California economy is not satisfactory, is this the result of high taxation, over-regulation by public authorities or the inevitable consequence of a maturing economy? In Chapter 3, the possibility is explored that the economy of the state is "maturing" and

may not again attain the levels of growth seen in the past three decades.

Is the cause of underfunded public pensions poor investment performance? Chapter 10 indicates several factors give rise to underfunding, but one of the more important has been government reluctance to make taxpayers bear the full cost of public employees; the result has been inadequate pension funding and deferring costs of such funding to the future.

Similarly, if agreement exists that "something" should be done (that is, that a remedial public policy should be developed), what is an effective policy strategy? For example, in solving the problem of prison overcrowding, is the more effective policy prison construction, reduced sentence lengths, or sending fewer criminals to prison? Chapter 9 argues that the answer cannot solely be new prison construction. Or, in improving elementary-secondary education, is the best alternative increasing school expenditures, reforming curricula, new institutional arrangements or some other reform? Chapter 6 concludes the problem is serious enough to consider experimenting with new institutional arrangements.

Finally, disagreement commonly exists over goals of policy choices. Conflicts are clearly shown in Chapter 4 and discussion of tax policy. Tax policies that bring about a more equal distribution of income among individuals in California may do so at the expense of economic efficiency and economic growth. This trade-off need not always occur, but it frequently does.

Four important conclusions emerge from the discussion to this point concerning policy processes. First, policy choices are made in an atmosphere of disagreement and uncertainty. Second, improving the understanding of how we have arrived at the present state of affairs is likely to reduce disagreement and promote choice of effective policies. Third, any policy objective may be pursued by more than one strategy.

Selecting the appropriate strategy is a complex issue, often simplified by resorting to habit, ideology, partisanship, or the latest fad. Such simplification ill-serves the pursuit of effective policies. On the other hand, more thorough analysis of alternative policies can contribute to selecting the most effective or cost-effective strategies. Fourth, virtually no public policy objective is achieved solely by actions of public officials. Supportive action by individuals and non-governmental organizations is required to achieve the desired objective. To be successful, public policy design must include how these supportive behaviors are to be obtained.

CALIFORNIA POLICY CHOICES

California's political system is the collective mechanism by which public policy choices are made. Those decisions will be made with or without analysis. The principal objective of efforts published in this volume is that California policy-makers and citizens be as well-informed as possible in carrying out this most important responsibility.

The tenets underlying this volume have been expressed above. One is that analyses of California policy problems will contribute to effective policy-making. A second tenet is that existing means of simplifying policy problems like habit, ideology, and partisanship lead to a premature narrowing of policy alternatives for treating public problems. An understanding of the immense

complexity entailed in policy choices will facilitate consideration of a broader set of options and a more reasoned selection.

This discussion should not be read as implying that California governments currently lack policy analysis or analytic capabilities. Indeed, relative to other states, California is blessed with fairly sophisticated analyses by interest groups, legislative analysts and executive departments. What is lacking, however, is systematic policy analysis from outside government, such as is provided by the Brookings Institution and the American Enterprise Institute at the federal level. If successful, this volume will help fill this gap.

Nor should this discussion be understood as an argument that sophisticated quantitative analyses, simulations, or large-scale policy experiments are desirable or necessary. While these techniques may occasionally inform policy-makers, analyses advocated here are largely theoretical ("What are the possible causes of this phenomenon?") and logical ("What is the probable consequence of choosing this policy strategy, given what is known about the social systems and technologies involved?"). Empirical observations are critical to these processes of theory-building and logical analysis, but the tasks of data collection and statistical manipulation should inform and never dominate processes of policy choice. In most cases, ratio analyses of publically available data provide improved information concerning the operation of existing programs, and the likely consequences of alternatives for policy-makers. More sophisticated social science research is most useful as an aid in understanding causes of phenomena (such as the factors contributing to economic growth) or the dynamics of social systems (such as the relationship between size and formalization of a bureaucracy and its resistance to change).

Finally, one cannot escape California's role as a national trendsetter in business, government, and society. In this respect, it is appropriate that an innovative approach to improving state and local policy decisions be initiated in California. By drawing on the rich academic and non-academic research talent in the state to contribute to effective policy-making, it is hoped that once again California is establishing a precedent that will be emulated in other states.