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2:40 - 3:55 pm

[3.F.6] [Scholarship at the Crossroads of Policy and Academia](#)

Session Chair: Michael Van Beek, Mackinac Center for Public Policy

**Audio:** [Michael Van Beek](#), Mackinac Center for Public Policy,  
“How Academics and Policy Centers Can Benefit From Each Other”

Papers:

**Rea Hederman**, Buckeye Institute,  
“Impact of Energy Mandates on Ohio Businesses and Families ” **[did not attend]**

**Audio:** [Jonathan Williams](#), William Freeland, Ben Wilterdink, American Legislative Exchange Council, “The Effect of State Taxes on Charitable Giving”

**Audio:** [Michael LaFaive](#), Mackinac Center for Public Policy, Michael Hicks, Ball State University  
**[Hicks was not able to attend, as [explained during session below](#)]**  
“Are State Promotion Efforts Effective? “

**Audio:** [Question and Answer](#)

## MICHAEL VAN BEEK, MACKINAC CENTER:

[\[Audio 0:00\]](#)

Okay welcome everybody. My name is Mike Van Beek. I'm the director of research at the Mackinac Center. I don't have a paper to present today, but I'm gonna be talking about what we do at the Mackinac Center and engaging with scholars like yourselves. And the kinds of relationships that we develop and the way that we work together with academics.

I think it's fair to say we probably do it more than many other state-based think tanks, and we get a lot of value out of it. So the main point of my presentation to you is to give you some ideas about ways that you can work with your local state-based think tank, or work with us if you want to. That's the preferred option. And then give you some different project ideas potentially. And

explaining sort of a little bit about why it could be beneficial for you and obviously it's beneficial for the think tank that might be in your state or region.

[1:00]

So Mackinac Center has been around for about 30 years, we're located in Midland, Michigan. We've been working with scholars right from the beginning. I went back and looked at some of our very early studies, some of our earliest studies were commissioned by us and authored by local scholars from nearby Michigan colleges.

Studies on privatizing the state's Accident Fund. Privatizing prison services. And privatizing the Detroit Metropolitan Airport, which still hasn't been done. We're still recommending that after 30 years.

To some extent, we're really fortunate, we're well-suited, well-situated. We have Northwood University right in our same town, and they're very much a free enterprise-type school, it's kind of a theme they have throughout their entire college. They have a very free market-oriented economics department.

[2:00]

And then we have Hillsdale College, which is a couple hours away. It's in the middle of absolute nowhere. It exists and it obviously has a very strong economics department there so we work with Hillsdale scholars many time[s].

But we also have scholars from a variety of universities around the state: Central Michigan, Michigan State, University of Michigan, Northern Michigan...all over the place.

We've been working with academics for a long time. As we grew and got bigger and hired our own full-time policy experts, we needed to have academics author studies less. But we still do it, from time to time. We're working on several studies right now with scholars. And I think the main benefit of working with scholars on studies is that we can help revise for the clear policy writing that needs to take place for those studies. Studies that we publish that we're aiming towards the public, aiming towards policy makers, they need to be written in a way that's different from academic journals.

[\[3:15\]](#)

So we can help scholars frame their research in a way that is understandable to a broader audience because...that's what we do. That's all we do. And obviously the benefit we get from working with scholars is they can do great quality research and statistical analysis that we might not be able to do ourselves.

We typically think that we pay pretty well for the studies that we contract with scholars for. I know Todd [Nesbit], I know we paid him before. I don't know how much we paid him. But we paid anywhere between five- and fifteen-thousand dollars for research. You know, it's not quite like getting a science grant, but it's real money.

[4:00]

As I mentioned, we're working with several scholars right now. One project is analyzing the relationship between school spending and student achievement in Michigan. We have contracted a scholar at the University of Colorado with that. And Mike LeFaive, who will talk later, is working on several studies with different academics.

The other way that we work with scholars is not on studies but on sort of more short-form writing. Op-eds, blog posts, things like that. Again, it's a mutually-beneficial situation. Scholars have expert opinions, they know the subject material really well, but they don't necessarily know how to write for a popular audience. And, probably even more importantly, they don't have the time or the energy or the knowledge necessarily to get to know how to get the piece placed, and how to get eyeballs on it.

[5:00]

We spend a significant amount of resources on that issue specifically. We have dedicated staff whose main objective is to get our stuff in newspapers to get our stuff read by policy makers and to market our stuff to a broad audience. So when scholars come to us and they have an op-ed idea, we can use our resources to spread that out as far and wide as we can.

A good example of this is we have a scholar from the University of Michigan, Flint, who is reading about the great idea from the state of Michigan to give 250 million dollars to the Red Wings so they could build a new stadium. And of course, he knows all of the literature on sports stadium subsidies, and knows that there's almost no evidence that these things are beneficial from an economic perspective.

[\[6:00\]](#)

But every story about the Red Wings stadium was a feel-good puff piece about how great this would be for Detroit. It would, you know 'revitalize Detroit,' which we've been doing since 1971 [audience chuckles]. So he wrote an op-ed for us, we got it placed in the second-largest newspaper in the state, and he sort of, after that, became kind of the anti-sports stadium expert around the state. And a lot of articles written about the Red Wings stadium after that, you know, he got called and got quoted casting doubt on the economic benefit of this large taxpayer subsidy. Which, by the way, happened. And went to Mike Ilitch, who owns the Red Wings and the Detroit Tigers, and is one of the wealthiest people in the state. But, I digress.

The other thing that we do is we host events, and we feature scholars at these events. We have regular events in Lansing, the state capital. And we market these events to policy makers and their staff. And we've hosted scholars who come in and talk about an issue that we think policy makers should care about.

[7:11]

A recent example of this is there's a University of Michigan Law School professor who...I'm not really sure how he got interested in this issue, but he really cares about direct automobile sales. So this is the Tesla issue. I don't know if you've heard about this, where Tesla has this crazy

idea. They want to open up stores in states, and then show people cars, and then sell them cars [sarcasm]. It's a crazy, crazy idea. But it's illegal in Michigan, because all automobile sales have to go through car dealers.

So he got interested in this, and we hosted an event in Lansing with him. It got really well-attended, we had about seventy people come out. [The] legislature introduced legislation a couple of weeks later to get rid of this protectionism for auto dealers.

[8:04]

So, we haven't had it passed yet. But it's a good example of using an event on an issue that a scholar cares about to get attention in the legislature.

We also return the favor for economists and academics. A lot of them host their own events, or have programs where they want speakers to come in and speak to students. And we cover a lot of issues that are pertinent to current political debate. We have expertise on these and we often come in and present for college students for a program that's run by one of our scholars.

So I've done this several times. I've talked about Uber and the sharing economy. I've talked about the Tesla issue at a variety of campuses.

[8:58]

The other thing we do is on events is we invite scholars to come in and present to our interns. So we have about eight to ten interns every summer, and over the lunch hour, we'll have our scholars come in and give a presentation on whatever they want to. And they are sort of like our guinea pigs, as they should be. This gives an opportunity for scholars to present new research if they want to, try something out, talk about a book idea, or whatever it is. And it's really valuable for our interns because they get exposed to a scholar that they wouldn't get to know at their university. So that's another way that we interact.

The other thing that we've done with scholars is we've had them actually bring their students out to our Center, out to our office. This allows them to give the students an idea of what a public policy think tank is all about, what we do on a daily basis, what kind of issues we care about...

[\[10:06\]](#)

For a lot of students, they have very little idea about state-based, small think tanks like ours. And we've established relationships with several students who have become interns later, as a result of professors bringing them out to our offices and giving them a tour of what we're about.

A couple other ways that we engage the scholars: all of our studies, we get peer-reviewed. So we often contract with scholars to do peer-reviews of our work. So if one of our policy experts does a research paper, we often contract with a scholar to do a peer-review of it. We pay between \$300 and \$1,500 for those kinds of reviews. And typically it's something that can be done within a week, or a weekend.

[11:04]

The other element of how we interact with a number of scholars is somewhat a more-formal way. We have what we call our Board of Scholars. These are people who have pledged to be affiliated with the Mackinac Center, and we feature them on all of our publications. They're listed on our website as being affiliated with the Mackinac Center. When we created this group, we initially wanted to do it because when we were starting out, we didn't have a lot of credibility with the media or in Lansing. Getting scholars on board who affiliated with us, who came from highly-respected research institutions and universities was our way of sort of boosting our credibility.

Now we need less of that, because we've been around for a long time. People generally know the type of work that we do and we don't need that credibility boost necessarily.

[12:05]

But we still maintain that Board of Scholars and allow people to become affiliated in some official capacity with the Mackinac Center. And for young scholars in particular, this could be beneficial. It gives them an opportunity to become affiliated with a long-standing think tank that might give *them* more credibility potentially.

Those are all the different ways that we work with scholars.

I'll take questions at the end, and I think Jonathan [Williams] and Will [Freeland] are up next to present on their paper.

## JONATHAN WILLIAMS & WILLIAM FREELAND, AMERICAN LEGISLATIVE EXCHANGE COUNCIL:

[\[0:00\]](#)

[Williams] Great well I'm gonna kick things off and keep things open here and turn it over here to my lead co-author, Will Freeland, who helped us put this research paper together.

[I'm] Jonathan Williams, vice president of the Center for State Fiscal Reform at ALEC. For those of you who are not familiar with what we do, we work with free market state lawmakers on a bipartisan basis. Those are generally pretty sympathetic to free market ideas across fifty states.

The Center that I run, really the four big issue areas that we work on are tax policy, budgets, pensions, and cronyism. That is, the anti-cronyism side. It's always good job security. There's never a shortage of work to be done out there across the fifty states. Or as Justice Brandeis would say, the Laboratories of Democracy. Talking about comparative free market policy and

why it's good. Not just for legislators to pursue on a policy basis but why it's good for each and every individual across this country.

[1:00]

I think there's been a lot of ink spilled, certainly, over the years on the benefits of free market policy. Mainly, lower taxes, limited government, free enterprise policies...is something that we've certainly spilled a lot of ink over the last decade or so, during my time at ALEC. One of the things that I do every year is the *Rich States, Poor States* publication with Art Laffer and Steve Moore, generally measuring the economic competitiveness of states based on free market variables that we know to have a meaningful effect on economic growth.

Mainly, that is talk about economic competitiveness, but leads to job growth, income growth, population growth across states. In fact, over the last twenty years, we've seen roughly forty three million Americans move from one state to another, based on the AGI that they have associated with them in the year that they moved. About two trillion dollars in wealth has gone from one state to another, we know based on Census bureau data--survey data, that is--that the number one reason why people move from one state to another is economic opportunity.

[1:58]

And so that's really what most of our message has been about. Now, that being said, that's been pretty persuasive for people who are generally sympathetic to right-of-center ideas and free market policies. However, I don't think enough has been written in terms of the policy space in the area of other ways to get to policy makers who maybe aren't as sympathetic toward, generally, free market policy.

So, over the last few years in our Center for State Fiscal Reform we've tried to do more outreach to academics. We really want it to be open door and say anyone here that's interested in getting more involved in the policy space, including more and more work that we do from a peer-review basis. Studies like this, I think, will be the first of many within our center. And so we certainly encourage you, if you're interested, to work with us as well as different partners such as the Mackinac Center. I think that interaction is going to be very key for our movement, going forward.

Now, that being said, how do we reach the lawmakers that are skeptical that lower taxes are good, and that they lead to things like income growth, job growth, and population changes across states?

[3:00]

And that was a question that has not been written enough about. I think the idea that free market policy leads to a stronger civil society, maybe even the Morality of Capitalism. And that's been understudied, although Arthur Brooks has done some great work over the last few years raising the visibility of that side of the issue.

And that really is what led to the motivation for this paper that we're gonna be discussing today. In fact, state taxes on charitable giving. Once again, this is an understudied area, in this nuance. Because most of the studies that have been written in our review of the literature on charitable giving, and the effect of government policy on charitable giving, it really focused on the federal level. Mainly, the charitable deduction for people who donate to charities.

I think it's important to point out that from the start that we remain agnostic on the charitable giving deduction in this paper. We thought that with so much written about that, of course advocates for flat taxes, it's nothing to them to talk about deductions such as charitable giving. Others say that if you're going to have some deductions, that would be the first that you wanna have.

[4:07]

We decided to completely separate this involvement from the debate. Obviously, the value of the state level deduction is much, much lower anyways than the value of the federal deduction for charitable giving. So we focus on things that really matter for charitable giving across states--mainly taxes--in this paper.

Now, I remember reading, about five years ago, a study coming out of Boston College that started getting me thinking about this topic. And the study analyzed a tax change in New Jersey, from about ten years ago. If you remember that trend of state millionaires taxes, that was somewhat popular, I assume that will continue to be somewhat popular, kinda looking at the trend of the Bernie Sanders, soak the rich, theme of taxation that's continuing in policy circles.

And what Boston College found, was in the years following the New Jersey millionaire's tax, they found it an appreciable change in charitable giving rates and certainly a decline in the growth of charitable giving in the years following.

[5:05]

And that got me thinking, well, wouldn't it be great if we had a study where we looked at the fifty states to say, 'is this relationship true across the fifty states over a longer time period?' To see if that was an anomaly. Which I think, based on theory, we knew it was not. And we really wanted to put this theme together and really show that record across fifty states.

And really, the overall findings are that the level and the total burden of taxes do, in fact, matter for the level and growth rates of charitable giving across states. After correcting for various factors, as Will's gonna talk about here in a moment.

But, the real three takeaways, I think, of why it matters:

First, the obvious one is that when people have more disposable income, they give more. Taxes directly reduce disposable income. Secondly, since we find that high taxes hurt income growth in the future, it hurts future ability for individuals to give to charities that they would like to.

[6:03]

And finally, is really the crowding-out argument, that Arthur Brooks has done really similar work on. That is, if people see a greater and greater share of their income going to government, and they see government spending it on so-called 'government charity,' they feel like there's much less of an obligation from they themselves to give, individually, to charity.

So those were really the three topline findings. And really our hope is that state policy makers who believe in free markets don't just concentrate on the first order effects--higher income, higher job growth, related to higher taxes. They focus on the secondary effects and the tertiary effects, such as stronger civil society, stronger community, stronger charities to take care of the poor through a private sector approach.

So with that being said, since we're talking about the subject of charitable giving, I'm going to be charitably brief and turn it over to my friend, Will Freeland.

[\[6:55\]](#)

WILL FREELAND, ALEC: Great! So I guess I'll continue on. A couple of the specifics of the study and our aims with this. Kind of like Jonathan was saying, a lot of times when we end up having this debate on taxes within the state it pretty much centers within what is the ability of low taxes to create and foster economic growth? So we have people that are disadvantaged. The sort of egalitarian low tax argument is if we're gonna cut taxes this is gonna have a boosting effect on the economy. This is going to give them a job, higher income. This is gonna be a positive thing. For them it's what they need most in their lives as Arthur Brooks does tend to argue is even if you look at the happiness literature there's a big importance in actually having a job and not just having social assistance or something of that sort to how happy you are.

Now the other side's gonna say that there's going to be unmet needs as a result of tax cut. We're going to end up cutting benefits. Cutting benefits is gonna be sort of Draconian to these people that need them. So what too often gets left out of this calculus is the role of civil society and charity in providing for these needs, and most notably any type of dynamic effect. So if we are going to alter tax policy, is charitable giving just a given and a constant that we can double taxes, we can put in a millionaires tax, and we should expect no difference whatsoever in the amount of civil society.

Maybe a good example would be Illinois. Illinois effectively in 2010 increased, put up temporary increase into their income tax. It ended up being about 40% of their tax revenue for the next 4-5 years. What came in was the direct result of this tax increase. So right about a massive--almost doubling of their tax revenue getting extremely close. So that's big increase in a state that is already a extremely high-tax state. There's a lot of wealthy individuals that are also donors. So the question that we can ask when we look at Illinois and when legislators in Illinois say "We have to protect all of these social services. We don't have enough money for them because we've been horrible students to our pension funds and our state debts and we're underwater at

this point so we've gotta raise taxes to make sure that we can still have funds to you know help people at the bottom."

[9:20]

So then the question is okay do we just assume that [inaudible] that nothing at all will result from this almost doubling of income tax in a state that no one will give less? That there'll be the same amount of money that's available at food pantries across the board? So that's what we were trying to look at in this study. And look at in two ways. First of all, sort of the static, so, you can think of it almost ideologically do these states that create less government do they tend to give more on the charitable side of the equation? So what does Utah versus New York or New Jersey sort of look like for example. The other side of the question would be what are the dynamic effects here? As we see changes in taxes and tax burdens do we see on the other side any changes in the amount of giving that people are looking at.

So as my coauthor Jonathan pointed out, a lot of this has been looked at on the federal level. There's been an extensive, extremely robust discussion on what are the determinants of charitable giving? What are the determinants of who gives? How much? What elements of the economy affect it? A lot of debates specifically on whether the charitable deduction has any effects on in at all. There's been very little breakout on whether the states themselves. What are the differences? Even internationally there's been very little comparisons of charitable giving. This has been almost entirely something that's been done in sort of just the national time-series view or if it is broken out outside of time-series in terms of any research was only through sort of micro-[tax]-filer--if anyone's familiar with like the public use file, and micro-sim[ulation] models doing like a quasi-microsim[ulation] of individuals, the tax credits, and how they're responding. So if there was anything outside the time series, that was it at the time. So that's what we set out to do, to take a first stab at it.

[11:30]

Both because we and many legislators around the country sort of wanted the answers to "What are the implications of tax increase on charitable giving?" But also to be a sort of opening salvo, and we know a lot of other people would do work on this. That maybe if we put a paper up someone would want to dispute it, or prove our model that we could get a healthy discussion going on on what are the rules of taxes and regulatory policy and state intervention in charitable giving. So that's what we mainly looked at in the paper. We sort of had a couple different sections. Up front we try to spend a lot of time just talking about the value of civil society so just introducing our legislators to how big charitable giving is in America. Which is incredible. We're talking about over \$400 billion a year. So this is not a, sort of a paltry small sum of money. It is in the magnitude that it is--if it was a program in the federal government it would be a bit more like defense or Medicare or Medicaid and not foreign aid. We're talking about a substantial share of national income that is actually going towards a civil society despite the fact that we're all putting so much forward toward common goods and common aims already through local governments, state governments, federal governments. We're still talking about a big chunk of money.

[12:40]

This of course also ignores entirely volunteerism. The amount of donation that exists in the national economy. There is some estimates interestingly enough and you'll see the specific estimate. Interestingly enough when we start talking about how much is being given through volunteerism if you actually breakdown the amount of hours, you look at the American Time Use Survey and you breakdown the amount of hours. We're talking about 12.7 billion hours of volunteerism every year. There were some intense (fights?) in congress to put a cash valuation on that, so we're talking about another \$260 billion just in volunteer hours that's outside of the cash charitable giving component of over \$400 [billion]. So volunteerism in America, despite how big the state has gotten, despite all of the crowding out effects that Arthur Brooks has discussed, at least on the national level, still pretty large. Still pretty robust. So from there at least, it's allowing me to go through and we look and, okay who are these states that give the most? Who are the states who are growing most critically? Would this be a good time?

[13:53]

Let me briefly migrate over, show a couple charts from our paper. So, Section one, like I mentioned, we just try to focus mostly on giving a topline view of charitable giving. Hopefully the [ ] will be, this is big money. There's a lot to garnered in all from, from charitable giving. You should care about it pretty deeply. This isn't just some rounding error relative to the power of government to do good, which I gave it a tremendous amount of money that's being donated.

So section two, we try to spend a lot of time just breaking down, we're a big fan at ALEC, of just comparing top-ten to bottom-ten, just giving a feel for what states are, um, looking certain ways in terms of giving. And so to give you an idea. So first up, we just kinda compared, okay, percentage of AGI (adjusted gross income) whose we want. And so this gives you an idea of the states that are giving the most and the least. We sort of broke it down over two time periods to average it out, so you sort of see the chart on the left. That's through 2008-2012, using IRS data. We broke that out just because we thought there might be the possibilities of discontinuity, big ones potentially from the recession. A lot of the literature we had read suggested that there were pretty big changes in patterns of charitable giving after the recession. So on the right hand column, you can see a longer timeline but essentially this is charitable giving as a percentage of total state AGI. And you can see, these are pretty big differences here. We're talking about 1.3% and 2%, versus 4.75%, 4. 9%. Substantially, pretty substantial differences how much states are giving in terms of their income.

Also surprisingly, one thing we sort of expected when we went into this was that it was going to be a muddled story. So, our hypothesis here was that taxes affect charitable giving a lot, both on sort of a back end, in terms of how much people decide to give. Ideological differences, states that probably believe very strongly in high taxes, and very robust public sectors, probably believe in charitable giving less, and vice versa. And the on the back end, yea as Jonathan mentioned, there's the effects from taxes reducing income, or sort of dynamic, long run effects as well.

[16:12]

So we expected though, at the same time, that a lot of states along the lines of California and New York, that they have sort of wealthy, high-money individuals that give so much to charity

that you still see them in a lot of ways, dominating. And we didn't end up seeing that, with this as a percentage of AGI. We can see the top ten that we're talking here, and it's a lot of southern states. It's a lot of, what tends to be conservative states, states that have lower taxes, dispositionally. And sort of vice versa along the bottom ten. That was sort of our first indication, one of the things we were, looked at, flipped over, sort of the same way, looked at growth in general giving. So who's moving the fastest and slowest.

One thing we found remarkable, a good follow up if anyone ever wants to do papers, the Wyoming number, despite what an outlier it is from the rest of it, confirmed with IRS, is actually accurate (as the ) result of just one year, no one quite knows what exactly happened that year, except that the IRS has confirmed that those are indeed correct numbers. So there's a great forensic paper out there for someone for Wyoming, for why Wyoming in one year had a, such a massive increase in charitable giving. Anyone who is interested in that paper, follow up, I'm happy to chat with you about the back end of it. But, in any event, this give you an idea of who's growing the fastest in terms of their charitable giving, both in terms of, we have top-line here, table, look down, we also have, as a percentage of AGI. So, sort of, adjusting the baseline.

[17:42]

So, in terms of next direction, we went, moving quickly to follow up. We wanted to take a look at a couple different measures of taxes. So some of these might be familiar with you, I know if, how many of you have ever looked at ALEC own Rich States, Poor States, published by Jonathan Williams, Steven Moore, Art Laffer. We looked at [tax index], so we compared it to some of these measures and how quickly whether both on the growth and the static side at the level of charitable giving. So we tried to give, uh, some comparisons within in here, also using for example, tax burden, the burden study that the tax foundation does every year, [inaudible] tax burden. And then also some we're sort of finally looking at, the sort of nine states that don't have a personal income tax, comparing them to the bottom nine. So we tried to lay out a comparison to how much statically they are giving, growth here, the final level then being, doing some regression analysis on this, something that was the original genesis of inviting the panel, us to the panel, was Todd [Nesbit] was one of the peer reviewers that we had look over it, as well as Jeremy [], and Matt Michell.

[18:56]

So we did take a look, finally the last level of the paper, at some regression analysis. So doing fixed effects study of, basically what we're working off of is IRS data. We end up with about sixteen years of data given the, what the IRS has put out. So we do two different measures, in our final regression analysis. We do one which is the Tax Foundation's burden studies, and they have a baseline of sort of total state income that includes some business income and total state taxes, so we, overall taxes. We also hone in on personal income taxes. For that we look at the census bureau's data on personal income tax collections and we compare that over the IRS's tables on state AGI. We do a [inaudible] of that basically of per capita income in the study, also inequality. So people making over \$200,000 in AGI, specifically to deal with the potential of high dollar individuals having a lot of disposable income to donate, and so being able to have a disproportionate effect there. So we did a series of regressions on that. Basically, we match static levels of taxes versus static levels of charitable giving using the two different tax measures that I mentioned, also matched up growth and tax levels. Basically a first derivative of the total

tax burden, and the first derivative of the income tax burden, against the first derivative of charitable giving, per dollar.

So in all four of these regressions, we found statistical significance. We've found decent sized coefficients, I actually don't... One thing you'll always find out if you decide to publish through a public policy think tank is that some of them like very shortened and non-technical versions of regression analysis. So, believe it or not, there is no coefficient table in here, or else I would pull it up and show it to you. So if anyone is interested, I can pull it up and show it to you after the fact, but long story short, we found pretty decent statistical significance for all of the above, and pretty sizable coefficients, I think they're summarized on the first page if anyone wants to read those.

And I guess, with that. Yea, so you can see here on the first page and the backend two paragraphs, those were our relative interpreted coefficients, which I know amongst some of you is probably bad news to interpret coefficients in the public policy sphere. It's a good baseline to give legislators, because the notion of coefficients and statistical significance just could not, not only is not known by legislators, but I'm not sure you, as much as you simplify it down, as far as interpreting these types of things, you can give them much intuition about what they mean, and about why they matter, and how substantial what your finding is. Probably, there is a similar parallel there for lots of the media. Although, maybe that's an interesting discussion that we can entertain with questions.

[37:47]

And I guess with that. It's probably good to wrap up.

So we're taking questions at this point.

No?

Thank you.

## MICHAEL LAFAlVE, MACKINAC CENTER

[\[Full Audio 0:00\]](#):

Well, good afternoon. It's great to be here today. I've been looking forward to this discussion for sometime. My name is Michael LaFaive and I'm Director of Fiscal Policy at the Mackinac Center where I've worked for over 20 years. I'm the second-longest serving individual at the Mackinac Center so I've seen a lot of changes in the way we do things at the Mackinac Center not only internally but with the way we work with outside scholars. I'm very pleased to tell you that we have a new study coming out an economic development study on whether or not state promotion efforts are effective. This is something we've--I have long had an interest in. Not only in general terms--economic development terms-- but in terms of the program itself.

*My colleague, **Michael Hicks**, is a long time collaborator. He is a Ball State University econometrician and very talented and we've worked together for about 10 years now on four different products, this being the most recent. Mike wanted me to say that he wanted to be here*

*but he could not because he's taking his daughter, who's seventeen-years-old, around to university campuses this week, perhaps even yours, and so he was unable to come here and present his technical chapter himself. However I'd be happy to field and send him any question you have if you don't want to contact him directly about the technical appendix.*

[1:20]

Well the Mackinac Center has been watching economic development programs in the state of Michigan for some time. We know from our own historical research that the state has run a travel bureau since the 1940s and we have an actual department called the Michigan Economic Development Corporation which now houses the old travel bureau though it's been renamed Travel Michigan. The mission of both is to encourage economic development. The MEDC hopes that its activities which include having legislators take millions and millions of dollars from lots of people and give it to a few through the MEDC's programs would create more economic development and growth than would otherwise exist without their efforts. As part of that they've created this "Pure Michigan" promotion program and they spent, now, about 33 million dollars a year promoting the state hoping that people will come to Michigan, spend lots of money, and we'll all be better off as a result of those activities. This is up 4 million dollars year over year but it's not enough to please the tourism industry which has publicly said "We want 50 million dollars a year." Which would basically benefit very extreme direction. Here are some of the graphic work that you've may have seen in magazines or on the side of buses in Chicago should you miss the city that's one of the areas that Pure Michigan advertises hoping for people from Illinois or Ohio will come to Michigan and visit. But these are a lot less recognizable than the commercials that Pure Michigan runs, hoping that you'll come to Michigan. They have been going on now for 10 years although they started only within the state of Michigan. May of 2016 marks the first commercial that was run using the Pure Michigan brand. However, you're probably familiar with the national commercials that started running in 2009. They've spent a fortune--they're ubiquitous. And they're recognizable in part for the Tim Allen voiceover work. Tim Allen has also done the voice for Buzz Lightyear but he also does the Pure Michigan work as well and the great music from Cider House Rules. Here's an example of the first commercial ever run nationally now.

[\[3:30\]](#)

(commercial runs)

[4:00]

Well it's a wonderful commercial. In fact, the campaign won lots and lots of awards. The question is, has it been effective for drawing tourists to Michigan and paying for the 33 million dollars in advertising that it costs? That's something that we wanted to explore. The motivation for us exploring the study is that would be a number of different reasons. One of which includes the fact that the MEDC swears to the public and to lawmakers that its program really is very cost-effective and in fact returns more to the state treasury than it takes in subsidies to run these commercials outside the state of Michigan. Very specifically, they claim a return on investment of 587%. They argue in 2014 that every dollar spent on the Pure Michigan tourism promotion generated \$6.87 in state taxes within about a year's time. That's just for the state level. There's a calculation that doesn't get a lot of attention in these reports but at the

consultant that they hired to do the calculations says that if you focus in on taxes generated to local governments as well it's \$11 for every dollar invested. So that on its face led us to sort of scratch our head and think "Maybe we should investigate this to see if maybe there's still a way to look at it. If this could possibly be true," because on its face it seems to strain credulity. But there were also other issues that strain credulity, that help. For instance, the contract with their consultant who generated these numbers, Longwoods International, is a no-bid contract. This consultant was selected by the Michigan Economic Development Corporation to do this work. The consultant also has a reputation for producing mostly positive returns on investment everywhere they do this analysis including every state. There's been a few that they found to have zero and one he confesses, the donor of Longwitz has confessed, has produced a negative return on investment and he said "You know what, my client fired me." He presented the fact that it was a negative return. The client fired him. In addition to this fact, the consultant refuses to explain his methodology for calculating this ROI. He said "Look it's proprietary. I spent years developing it. I'm not gonna share it with anyone." So in other words the MEDC and the consultant are saying "Look, you're just gonna have to take our word for it. We're right and we think you should spend more money."

We took a different approach. In addition to all of that, because it's a no-bid contract, the bureaucrats at the MEDC had to fill out a sole source justification document explaining why they were choosing a contractor instead of going out to bid. Now to read to you what the bureaucrats say, they lay bare the following facts: "the objective of this contract is to prove that the benefits of conducting a paid advertising campaign for tourism outweigh the costs." Notice they did not ask the consultant to pursue a question. They did not ask could you please explain to us whether or not the benefits will outweigh the costs. The benefits exceeding the costs seem to be assumed by the bureaucracy. In addition, the same document reads "as such, the effectiveness of the program can be demonstrated and the continued funding of the program can be justified." In other words, the real goal of the contract was to help the state bureaucracy get more funding from the legislature. Longwoods itself doesn't seem to care whether or not they do that. In fact, they actually recommend it. They actually had this page at one point on their website titled "Budget Justification" where they themselves spell out Longwoods was commissioned to carry out visitor and economic impact research to demonstrate the importance of tourism and provide ammunition in the industry's effort to convince state legislature of the need for permanent funding for tourism marketing.

[\[8:02\]](#)

And this is not the only example of this. I've got another Longwoods document that spells out that "we can help you justify your budget." I've seen public statements from other state travel officials that said "Yes look Longwoods has said this you should double our funding." Last week the MEDC is once again in survival mode. It is seeing previous economic development programs fail miserably and be repealed. It has recently been forced to cut 65 people from its budget of 300 and the governor's own budget for the next years is already being mauled by lawmakers who are getting more and more skeptical of the work. Lastly we've seen the Travel Michigan VP just this year say, in public "Look we're gonna use this evidence from Longwoods

International, this high return in investment to justify our existence and the larger agency as well.”

So given the totality of what we’ve seen from the MEDC in the past and our experience with consultants working for the MEDC as well we thought that we ought to look at this and consider a different approach. The Mackinac Center again in summations motivated the research promotion efforts because it’s in our wheelhouse, a second opinion is needed, the consultants that the MEDC and MEDC are known for their secrecy, and the MEDC has repeatedly hired consultants that seem to promote their worldview. Also when you look closely at past studies that they’ve hired out they fall apart on close examination.

So we called up **Michael Hicks** who is an econometrician by training and how has worked with us in the past and has always done a magnificent job at the Mackinac Center. In fact I’m always describe him as sort of my intellectual big brother standing behind me with a baseball bat. We’re just waiting for some bully to talking. In fact we’ve used, I’ve been so confident about Mike’s scholarship that I would taunt lawmakers “Prove us wrong. I’ll give you the data set, we’ll give you the scholarship give you the explanation. Repudiate us. Replicate us. Whatever you want.” And we’ve never had anyone in the state government take us up on the challenge.

So Mike wanted to look at this with three objectives in mind. He first wanted to look at whether or not the impacts from state spending could be captured in tourism-related industries. He wanted to permit for crossborder effects to occur and he wanted to try to account for trends and spatial interactions, something I did not find in the literature review that I did prior to my putting together this model. He controlled for things like elevation in the state and distance to a large body of water which we both thought were very important in our, or his, modelling efforts. So this is his model. It’s a spatial durbin model which he chose for its flexibility. Apparently there are other spatial models but they lack flexibility. You have to know some things about the spillover effect to make them work as well as the more general, flexible form. In this particular model,  $Y$  equals the value of output or income aggregated or disaggregated by industry in either levels per capita or growth rates.  $I$  equals the state.  $T$  equals time across 48 continuous states. The alphas equal coefficient time fixed effects turn.  $X$  is real state tourism spending at state  $I$  and year  $T$ . Our dataset goes back to 1973 and the model was run in three different ways. First for the accommodations industry which we thought would experience impacts from state tourism promotion and then in recreation and entertainment and arts. As I mentioned model was populated back to 1973 and it comes from the BEA, the Department of Labor, and the Travel and Tourism Research Association for all 48 continuous states.

[\[11:55\]](#)

The results are a gross but positive result for the accommodations industry. That is it was a net loss. The elasticity [according to] Mike with respect to state promotion of hotels and motels GDP was 0.02. In other words, for every 1 million dollar increase in state promotion, Mike’s model measured a \$20,000 improvement in state economic activity for the hotel and motel and BnB industry. A very small amount and obviously one he views as a net negative. Though this was a national model, we wanted to see if Michigan differentiated itself from the mean and it really did

not. So we spent 33 million dollars on promotion every year. Indiana spends 2 million dollars and about 75 percent of that is private and the impact was the same. So the extra 4 million dollars in money that was dedicated between fiscal 15 and fiscal 16 in Michigan resulted in about a mean \$1000 in extra economic activity for hotels and motels. Maryland, Mississippi, and Nevada did distinguish themselves from the mean and in a substantial way but it was still negative. Mike found that a 1 million dollar increase led to about a \$300,000 increase in economic activity. So still a negative result.

I was asked to put this output chart up on the screen in case anybody wanted to look at the details in the regression and I realize it's a lot to take in in just a few seconds but I'd be happy to send this to you as well if you wanted to do a deeper analysis and even contribute to our literature reviews.

For amusements and recreation and art we got a number of--a couple different examples. But Mike said that there was no dollar impact on amusements and recreation. There was a small nonlinear impact on adjacent spending on own state income. The outlier nextdoor may reduce tourism GDP but only under a model with endogeneity corrected regression. In short, and Mike insisted that I say this outloud, the simple answer was that there was no effect.

With regard to arts, we were limited due to a changeover in SIC to NAICS data. So we were not able to measure GDP as it relates to arts in our model. We were however able to look at the income and Mike said that the model of 1 million dollar increase leads to an extra \$35,000 in income split between all artists. So, he said "statistically it was significant but economically it was not." Here is the table for his follow-up regression. Again, income was the only focus. This has some repeated things on here. There's no impact. The growth models sans adjustments we find statistically significant when given the impact. The 1 million leads to \$35,000 in increase in income as a result.

Mike [Van Beek] has already mentioned this but I wanted to say that the Mackinac Center has been blessed with its relationships with outside scholars. They help us sort of delegate the intellectual heft. Talents are required that go beyond our own internal skillset. And it also frees up us to concentrate on other things, like the vital narrative, like a literature review, fact checking, and all the pre-release marketing that goes on for the study.

But we'd also like to think that scholars get something in return. They get intriguing research opportunities. Usually they get compensation. Immediacy of a timely publication: for those of you who have had to wade through an academic journal's process before, you know that immediacy is not something that happens very often.

And, you get a second bite at the apple. Mike has taken our scholarship, and sort of sliced out the appendix, repackaged it, and submitted it to academic journals. So our research on the Michigan Economic Growth Authority was published in Economic Development Quarterly after we published it.

[16:02]

And just this month [April, 2016], the Cato Journal has published our work on Right To Work's economic development impacts.

So there's a lot of advantages for both sides of the transaction. And we just feel very, very blessed to have this relationship with outside scholars. From Mike, to Todd, to Anthony Davies, and perhaps you folks in the future.

So with that, I think that we're going to be ready for any questions you might have.

## QUESTION & ANSWER SESSION:

[initial silence 0:00]

LAFAIVE: ...or, we can go to happy hour. [laughter]

*["H-APEE Hour" was sponsored the first two nights by the Charles Koch Foundation. The first night was for [graduate students](#), the second night was for [undergraduate students](#).]*

[Question from audience] I'm quite curious about the, if you controlled for any kind of religious effects? In particular, on the state charities? So, in Utah we have a huge religious population and most members and [] in the church of latter day saints [] some of their income to tithing to [], so that might, that plays an interesting result, I'm just curious if there's any kind of control for religiosity in these [studies].

[0:30]

[Freeland] We try to. But there is a problem with this there's not a lot of stuff on attendance, especially there's not a lot that can [] a continuous cross sectional for a long enough timeline of religion in general, but [] certainly more critical measure, as in, because forget the exact statistic, but there's something like 80-90% of America is, in theory, claim to be religious or christian, right? There's a big difference between Utah and the amount of church attendance that exists, verses say, California. When you look at, like, the differences in people that are christian in say California v.s. Utah, it doesn't really begin to describe the substantive differences that you are talking about that I am sure are very relevant, and so, we have a hard time finding a good measure for that far and wide. I've pulled together a couple things that were... it's had far... So I looked at the sort of static one year analyses where there had been announcements of participation in church, and it didn't seem to matter a good deal, but then it's tough for me to figure out how to pull that back and take the static one year of just state comparisons, and figure out how to put that into a cross sectional regression forward from sixteen years, when there should be a new variation over the time.

[Question from the audience]

Just curiously, was your, did you use panel methods? Or,...

[A:] Yea, So, if you went from 97 to 2012, which is what it looks like. I wouldn't be too worried cause I would think your fixed effects are taking care of most of that. Utah is probably as religious now as it was in 97.

[Lafaive] I guess there'd be some reason to keep it in, just for that issue, because the other side of it surprisingly is that it didn't seem to have a massive, as big of a driving effect as you would think, in terms of statistical significance. There were a couple things we were looking at just regardless. We looked at a few different political science. There's actually four, trying to implement this, because one important question in this is like, the chicken and the egg, right. Especially on the static levels, which is, is charitable giving really high in these, in some of these states that have low taxes because they just don't tend to believe, there's just a categorical difference in the general belief in that state about the role of government and the role of civil society, and so like the ideology basically predates like, any dynamic effects from tax changes.

So, we did try to like instrument this like, looking at the political science indices that look at ideology of the state. I forget the names of them now off the top of my head, but there's about six or seven different ones that people look for when they try to... Most of them break down all the way to county levels, or voter district levels. You could also get state level data. Even those didn't seem to have a, they either had a small effect, statistically significant, or they had that even like basic control variables like the amount of income in the state even trumped that. So they either like sort of related or defined everything, or just sort of (fell) out, essentially, when we looked at it.

[\[4:08\]](#)

AUDIENCE: TODD NESBIT, OHIO STATE UNIVERSITY

I figured I would just offer a comment, not necessarily on either of these studies in particular, but working with Mackinac. I think that for anyone that does any academic research in public policy, a lot of the reason we chose that is we actually wanna have some positive influence. To be quite honest, all of those academic journals get read by, like, five to twenty people in your lifetime, right? And with much of a delay, as we've mentioned. So it's kind of refreshing to actually do some work and have it actually get out there and have it be brought forward to a Statehouse and it should have some influence there.

[\[5:03\]](#)

In addition, working with Mike [LaFaive] on taxing new cigarette smuggling aspects, we got...I don't even know how this happened really. But I ended up presenting that work over at the OECD Secretary Center over in Paris, and made the same presentation that same summer--two or three summers ago, was it?--in Vienna as well.

And so this is actually something that's gotten me a bit more notoriety in that particular area. So it kind of speaks to what Michael was mentioning early on, that working with some of the policy centers can actually bring a bit more publicity to the researchers themselves.

So anyway, I've certainly enjoyed it and have benefitted quite a bit. I'd like to see more of those relationships actually happen.

[6:05]

QUESTION: Could you tell us a little bit more about the influences these two studies can have? What happens. Have you released them, what's happening?

LAVAIVE: We haven't released our study yet. We did a teaser. We released some of the stuff that ended up on the editor's floor. He's been editing the paper, and I've taken what he's edited out and re-packaged it for an early release. And we've got very good response.

Actually, after I first did this, I waited a week or two and then I issued a Freedom of Information Act request to the Michigan Economic Development Corporation for all emails that mentioned 'Mackinac Center' or 'Mike LaFaive.' And sure enough, they did not hold back. They were firing back. They actually laid out how they were going to discredit my forthcoming study even though they have no idea how it was put together, the dataset. Nothing.

It was clear they were in defensive mode from day one. But now I know what they've got planned, and will plan accordingly.

[7:02]

WILLIAMS: In terms of ours [report on state taxes and charitable giving], it's been out now for a few months and we were able to get some initial good press coverage, even on a national level. Politico, for instance, reported on it. And some other more-specific tax publications wrote on it. Wall Street Journal, and some others. So we got some really great play out of it so far. We hope to continue and produce an academic version [...] with robust appendices all put out, with regressions and whatnot to be placed in academic journals. We have another bite at the apple when that goes by.

And then just from our work with state legislators. We've made quite a few presentations for state lawmakers where we talk about findings and I've found, a few of us for quite a while now at least a decade in state tax issues, it's somewhat rare when you actually see the direct result. You know you're making a difference out there, you kind of hear anecdotal examples.

[7:59]

I was actually able, about a month after this was released, I received a call from an Alabama state lawmaker who was in the middle of a special session. They were talking about raising the tax burden on Alabama citizens pretty dramatically. In a budget shortfall, the idea of tax increases came up. The Representative was on one of our calls to hear about the findings of

our study. He was able to take this study to the floor and say, 'we cannot raise taxes because it's going to harm our communities and charities in the state.' And they said it was a very persuasive argument, it helped save the day against the tax increase.

It's nice, once in awhile, to have those success stories come through. But this is the start and not the end in terms of this discussion reverberating more around state capitals.

FREELAND: There's been a couple more of those where it's been cited or where there's been interest in state legislators in addition to that. One other interesting tidbit about it is there was a trade association in Arizona of non profit organizations. And they were concerned with a big cut or elimination of the income tax.

[\[8:58\]](#)

Whether because, basically, smaller income tax means smaller benefit to the charitable deduction, whether they should be potentially on the other side of this due to whether the charitable deduction...they were basically gonna get hammered losing that, in terms of how that they were funded.

So we didn't take a position on the charitable deduction. We just say, either way, it probably, it may have an effect, relative to the status quo. The given level of the income tax, that's another debate. But then with lower taxes, more money in everyone's pocket. There's a huge income effect. So you're right, we could have a debate about how much the charitable deduction matters at a given, set level, but I think what our research shows is income effect drops, lowers taxes.

And so we managed to basically keep them on the sidelines, a massive association...everything from volunteer hospitals, arts associations, so on and so forth. They were considering opposing income tax cuts and plans for an income tax phase-out that a lot of legislators and governors *[sic]* are pushing for in Arizona. And that was satisfying enough for them to sort of sit on the side.

[\[10:12\]](#)

NESBIT: One other thing that I wanted to bring up, I forgot a minute ago, the other aspect that I think that working with Mackinac has really helped is their editing process is some of, probably the best that I've seen. In terms of really forcing me to think about how is it I actually phrase some certain aspects? The editing team there, they'll read every single sentence and really analyze each one of them. There's several changes in how I worded things in some of the documents and just to add that additional precision. And I think that's helped out with some of the academic work that I publish as well.

Think about how do you phrase the implications, in particular for policy. So that's been quite helpful.

[11:07]

LAFAIVE:

If I could piggyback on that...we always say internally, we have well-heeled enemies. We have to have the best of the best because they have deep pockets and they're *looking* for an error, even if it's one involving a simple term or phrase. And so we put our studies through a peer-review process that's probably more brutal than an academic peer-review process to make sure we get it exactly right.

Antony Davies is an APEE attendee and member, and he went through our process once and came away very impressed by our process for effecting study performance.

[11:50]

QUESTION: Do you guys take any of those studies and publish them in academic journals as well?

LAFAIVE:

Yeah, but they end up being re-packaged because the way we present it, we have a very-readable first part. Then we put the technical appendix in the back, in case anybody wants to see how we do it.

[12:01]

Then after that, we'll have our scholar repackage that. So the technical work is first, and the narrative is either woven throughout that or placed beyond that.

Our first feedback on our economic development piece, they actually asked for more narrative. Which surprised me. **[Michael] Hicks** jumped right into the technical aspects of our mega-model, and one of the feedbacks we got is 'we want more of the backstory.'

So twice now, I think we've published. And we had other opportunities, they just got away from us.

VAN BEEK:

We don't do it very often, I mean, to us, it doesn't really matter. We don't gain a lot from it. But if the person that we commission to work with wants to use that same work to publish elsewhere, that's perfectly acceptable in most cases.

[12:54]

NESBIT: In my case, the cigarette smuggling work, I'll be submitting that. To some extent it's nice to work on a project, get paid for some of the data collection process for work that's good for the academic side as well.

FREELAND:

Just real quick, a back side to this...on the other end. If you're writing something that you're looking to try to affect policy makers, trying to put something together on your own or with a think tank, that is consumable to legislators. The average academic paper, even to a really, really sharp staffer in the policy office, there's no time...too technical. So if you're trying to have an impact with these types of things you should probably be looking to partner with a think tank that's going to put something more consumable together. Or doing that sort of on your own, whether it be through a website, through blogging, writing an op-ed about it, what have you.

[13:51]

And again, talking to some of the folks in various state policy offices. These are... States, they don't tend to even [let] state legislators have staffs like the federal level has. You really have a number of policy staffers. And then most of the states, they maybe have one, and it's a constituent services person, outside of leadership. So the leadership staff, they may have a few policy folks behaving as an aide for the respective caucuses, you know, policy staff.

And even meanwhile those people, and they're some of the sharpest minds outside of, of course, the state think tanks and all of the other groups that are engaged in all this. They're sort of a lot of the smartest minds within government, advising the legislature. Most of them, they don't have technical degrees, they don't have the ability to consume technical research. And they're also extremely short-staffed such that they don't have the time to get through a full academic paper.

So that's probably a good follow up to that question, is thinking about the flip-side of your own research that doesn't .

WILLIAMS:

Not to argue for more government staff, of course. [laughter].

You know, that's exactly right though. A lot of times there's, like, 25 lawmakers to one staff member in these states. Michigan is somewhat of an anomaly, being a full-time legislature, being about only ten of which in the country, out of the fifty, are considered full-time.

[15:03]

The rest are varying degrees of part-time, some, very very part-time, where in many cases there's actually no staffer...[inaudible].

We've got just a couple minutes. Any other questions? Otherwise we can ...  
Thanks.

[Transcribed by UnKoch My Campus]