

Eapen Thampy Global Issues Testimony

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 there's a --

2 CHAIRPERSON STOGEL: Ron, we're not --

3 MR. CALZONE: No one else wants to come
4 into the area.

5 CHAIRPERSON STOGEL: We're not talking
6 about project specific stuff. We want to try to stay
7 on programs and process, not particular projects, so
8 I'm going to ask you to --

9 MR. CALZONE: Okay. My point was is
10 that's just an example of the overall system. And I
11 do hope that the committee does more than just figure
12 out how to patch a sinking ship.

13 CHAIRPERSON STOGEL: I'm not defending
14 any specific thing, but there are boundaries for
15 public testimony.

16 MR. CALZONE: I understand.

17 CHAIRPERSON STOGEL: We're not going to
18 allow attacks on individuals.

19 CHAIRPERSON GROSS: Any questions for
20 Mr. Calzone?

21 Ron, thank you for being here.

22 MR. CALZONE: Thank you.

23 CHAIRPERSON GROSS: Next is Eapen
24 Thampy. I think I said that close to correct.

25 MR. THAMPY: Hi, I'm Eapen Thampy. I

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 work for a nonprofit on property seizure law and
2 we --

3 CHAIRPERSON GROSS: Did you spell your
4 name? I'm sorry, I was talking. If you would please
5 spell it for the reporter.

6 MR. THAMPY: E-a-p-e-n T-h-a-m-p-y.

7 CHAIRPERSON GROSS: Thank you. Go ahead.

8 MR. THAMPY: Cool. So I had something of
9 a prepared statement, but after the -- it was very
10 interesting the first half of the session, so I just
11 decided to be a little bit more extemporaneous and
12 responsive.

13 And I thought, Mr. Van Matre, that your
14 question to the last speaker was -- was a very good
15 question, specifically when you asked, you know,
16 if -- if Missouri is giving a flat tax rate or
17 whatever and all these other states around us are
18 offering tax incentives to businesses to relocate
19 there, you know, isn't -- doesn't Missouri lose.
20 And I wanted to suggest to you that maybe the answer
21 is not really.

22 And I wanted to talk to you about some --
23 some interesting research and auction theory, which
24 is a subset of price theory. And economists use
25 auction theory to describe a lot of economic

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 situations because -- well, first off, you can use --
2 it's a very versatile model format so -- and it makes
3 math pretty -- fairly easy.

4 In 1971 some petroleum engineers
5 published a study on bids for oil leases in the Gulf
6 of Mexico. And what they -- what they -- what led to
7 their study was they noticed that often time -- and
8 they actually say this directly in the abstract --
9 they noticed that often time people would put in bids
10 for property leases in the Gulf of Mexico where you
11 have somewhat of an unknown quantity of -- unknown
12 value. You have to do a lot of science and a lot of
13 the stuff is unknown and it's hard to measure, how
14 much oil, what gas might get out of the well
15 eventually. But there was a lot of uncertainty about
16 the value of the property. And they found that the
17 people who ended up winning these auctions for these
18 leases ended up not making very much money at all.
19 And they -- they -- their finding was very
20 specifically that in this kind of auction situation,
21 the people who win the auction most likely have
22 overvalued the product, okay.

23 And I wanted to suggest to you that maybe
24 sometimes we overvalue the value of -- of economic
25 development tax credits and those programs very

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 specifically. I don't want to talk about social
2 programs that are -- that are accomplished through
3 the tax credit system; I think that there are some
4 very fundamental ways in which those programs help
5 create the institutions that are necessary for
6 democracies and markets to function. And so, you
7 know, generally speaking I think that tax credits for
8 nursing homes or, you know, retirement facilities are
9 good ideas.

10 But economic development however I think
11 you get into a whole -- a maze of other issues.
12 Christine Herman who's a scholar at the Show-Me
13 Institute did an interesting analysis of the \$31
14 million tax credit package, incentive package that
15 the City of Columbia, Boone County, and the State
16 gave to IBM to relocate here. And I think the
17 calculation she came up with is that if you go off
18 the figure of I think 600 jobs that pay something
19 like \$43,000 apiece, you end up realizing -- and you
20 do the math, you end up realizing the taxpayers are
21 subsidizing each job to the tune of \$51,000. And --
22 and the \$31 million subsidy isn't even quite an
23 accurate one because there is some uncertain parts
24 going forward including the property tax abatement
25 which, you know, depends on what the land is valued

1 at in the future.

2 But what you end up -- but the question I
3 asked was then, you know, is this revenue neutral. I
4 mean, does it -- and the question to answer there is
5 not just acquiring, you know, \$31 million of economic
6 activity or \$62 million of economic activity, but
7 what level of economic activity does it take to
8 replenish that \$31 million of funds.

9 And -- and, you know, without -- to make
10 the -- to do a back-of-the-envelope calculation, just
11 imagine, you know, you're tellers and you have to tax
12 your sales transactions at, you know, 7.75 percent.
13 To -- for the State to generate 31 million in tax
14 revenue, you'd have to be responsible for creating,
15 you know, \$400 million of economic -- of economic
16 activity. You know, that's a multiplier of that 12.
17 That's like 12, 11 or 12. And while there might be
18 some value and you might be able to stimulate some --
19 some -- you might be able to create some jobs, you --
20 it's important to understand that these are not
21 necessarily jobs that are economically -- or that are
22 the most efficient for the economy to create. You're
23 subsidizing them and that fundamentally distorts the
24 market structure.

25 If you're subsidizing for instance a

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 historic development of homes, you're giving powerful
2 incentives to everyone along the supply chain to
3 remain in their jobs, to not be forward thinking,
4 and -- and, you know, consider, you know, how -- how
5 the economy is changing.

6 And the economy is changing in some very
7 fundamental ways. The financial sector is twice as
8 big as it should be and attracted millions and
9 millions of -- or thousands and thousands of
10 extremely bright people whose talents were seduced
11 from medicine or, you know, the law, or you know,
12 governance. And that's an economic distortion, you
13 know, a brain drain if you will. And think about
14 the -- the unseen consequences of all those minds,
15 you know.

16 And I -- and I want to think of -- of
17 the -- you know, I'm not fluent with Bastiat enough
18 to -- to talk of the seen and the unseen as
19 eloquently as the speaker previously, but I think
20 that -- I think that where markets are dynamic and
21 adaptive and capable and indeed going through a
22 recalculation if you will, this economy is very
23 one -- is one that that's experiencing a very sharp,
24 a very rapid and very painful transition. The
25 information economy is flattening things in ways that

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 we have never really understood, that we still don't
2 understand. Perhaps economic developments, subsidies
3 and tax credits are appropriate in a low technology
4 world where transaction costs and search costs are
5 high, but that's no longer the case. And I think
6 that, you know, on those grounds at least it might be
7 wise to -- to rearticulate or at least
8 reconceptualize how we use tax credits to pursue
9 economic development in the state, so.

10 CHAIRPERSON STOGEL: Let me make one
11 comment before the other commissioners jump in. Just
12 for the record the eight states that border Missouri
13 have 218 programs to -- just focused on economic
14 developments. So if we were to zero out that of the
15 nine-state subregion, we'd be quickly in last place.

16 MR. THAMPY: But also think of the -- of
17 being able to lower the marginal tax rate increasing
18 the incentive to people across the board to work. I
19 mean, there's a trade off there too and perhaps
20 there's a bigger trade off than we realize and that's
21 all I'm suggesting.

22 CHAIRPERSON STOGEL: Right. Well,
23 that's -- that's for economists beyond the scope of
24 this commission too.

25 COMMISSIONER VAN MATRE: It's not that

1 the points you're not making don't have validity,
2 it's not that the points you're making aren't
3 supported by a lot of mainstream codas, all that is
4 true. The trouble is it's the first guy over that
5 cliff is taking a giant leap of faith that everybody
6 else is going to see the wisdom of that leap and join
7 them. But if they don't, if everybody pursues their
8 own parochial self-interest, then we wind up losing
9 jobs and losing economic base.

10 So when you have the luxury of being an
11 academician, you can make those statements and see if
12 people will sign on to them. But when you're in a
13 public arena like this, and I'm being continually
14 reminded that we have to bring along large groups of
15 people with us, we can't just make decisions behind
16 closed doors ourselves as to what we think ought to
17 be done, which would be a lot more efficient than
18 this process I might point out, you have to deal with
19 the real world.

20 MR. THAMPY: Yeah, yeah. I mean, I
21 understand that a lot of psychometric solutions are
22 all we can really settle for. I mean, eliminating
23 for instance the film credit program might be a good
24 step. You know, that's --

25 COMMISSIONER VAN MATRE: Okay. Now,

Thampy(cont)

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 what -- you say that and that is the first thing
2 you've said that we possibly could use in our
3 analysis. why do you select that one?

4 MR. THAMPY: I'm more aware of the
5 research on that specific subject than -- than --

6 COMMISSIONER VAN MATRE: what is it? The
7 nature of that credit, that we're giving money --

8 MR. THAMPY: There's also I understand a
9 credit for yachts over 30 feet.

10 COMMISSIONER VAN MATRE: well, let's just
11 focus on film. That's one of the credits that we're
12 supposed to study. why do you --

13 CHAIRPERSON STOGEL: Take the yachts off.

14 MS. HEMENWAY: There's a sales tax
15 exemption.

16 CHAIRPERSON STOGEL: There's a sales tax
17 exemption, that's not credit.

18 MR. THAMPY: I'm sorry?

19 COMMISSIONER VAN MATRE: Pick one of the
20 credits that you think ought to be abolished and tell
21 me why. what criteria are you using to make that
22 selection?

23 MR. THAMPY: That's a good one. I
24 would -- I would hazard a guess that -- well, I would
25 hazard the statement first that Susan Montee's --

1 okay. I would -- I would probably go with that film
2 credit program, and the reason is is I -- I mean, I
3 simply -- I've seen some of the numbers on -- on that
4 program including the subsidy that that George
5 Clooney movie, Up in the Air got, like \$4 million. I
6 mean, what did that bring Missouri?

7 COMMISSIONER WRIGHT-JONES: \$12 million.

8 MR. THAMPY: Twelve million. I mean,
9 they mentioned Lambert Field in a song?

10 COMMISSIONER WRIGHT-JONES: No, they
11 actually filmed it in St. Louis, all of it actually.

12 CHAIRPERSON STOGEL: The facts in the
13 film credit are -- when you -- the argument that
14 people make for the film credit, it's a fine line
15 sometimes, is State puts out a dollar and gets
16 back -- it's either 18 or 24 cents immediately.
17 Local communities get like \$2. One of the issues on
18 the film credit that people have suggested as an idea
19 for the Commission could be, how do you measure the
20 return to the State. Should it be just the State or
21 should it be local or should the local folks
22 participate in that because there's a mechanism under
23 state law to do that. So the State's return for its
24 dollar is a dollar and then the local communities
25 participate for 75 cents, so that they get \$2 in that

1 community, so.

2 MR. THAMPY: Is it \$2 in revenue? I
3 mean, is this net? I mean --

4 CHAIRPERSON STOGEL: There are very high-
5 paying jobs for three or four months and they
6 generate a huge payroll bank.

7 CHAIRPERSON GROSS: And the reason the
8 state return is not higher is because they're not
9 permanent jobs. They come in, they spend a lot of
10 money for a period of time, and then they leave.

11 MR. THAMPY: The other thing I'd suggest
12 is that sometimes some of these programs I think
13 create path dependence in economies where they create
14 subsidiary economies or markets. For instance this
15 market for -- that arbitrage is tax credits among
16 people, you know, after market transactions. You
17 know, that also indicates to me that there is more
18 than just, you know, market distortions or
19 opportunity costs that are -- I mean, I think that
20 there is a lot more in those terms to consider too.

21 CHAIRPERSON STOGEL: The financial side
22 of the transaction, there is markets for people to
23 buy and sell the credits because you can buy a big
24 block and you break it down and then you remarket it,
25 so. That's a fairly efficient, wide open, totally

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 competitive market for that subindustry.

2 MR. THAMPY: Well, let me also suggest
3 that --

4 CHAIRPERSON GROSS: Senator Jones had a
5 question for you before you go on.

6 COMMISSIONER WRIGHT-JONES: Could you
7 define for me, because I heard what you said and I
8 heard what Mr. Calzone said, tell me what would the
9 perfect economic world be.

10 MR. THAMPY: You know, that's a good
11 question.

12 COMMISSIONER WRIGHT-JONES: I know it is;
13 I want an answer.

14 MR. THAMPY: That's a good question. I'm
15 not --

16 COMMISSIONER WRIGHT-JONES: Tell me --
17 just construct one. You know, out here on the web,
18 you can do, what's the thing, building castles and
19 stuff. Build me a world real quick. What is the
20 perfect free market world? What would it look like
21 if we could stop --

22 MR. THAMPY: You know, I'm not -- I'm not
23 as free market as you think I am.

24 COMMISSIONER WRIGHT-JONES: I hope you
25 are because that's what you're talking about.

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 MR. THAMPY: I'm really not. I'm really
2 not.

3 COMMISSIONER WRIGHT-JONES: But even so,
4 just tell me -- it's easy to sit here and tell us
5 what's wrong with what we've got, so tell me what
6 would be perfect. Please, tell me.

7 MR. THAMPY: You know, that's a good
8 question. I'm far too humble to tell you what --

9 COMMISSIONER WRIGHT-JONES: No, you're
10 not.

11 MR. THAMPY: -- I think would be perfect.
12 I think that -- I think that a characteristic of a
13 well-functioning economy is that it's dynamic and
14 adaptive.

15 COMMISSIONER WRIGHT-JONES: Keep on.
16 Give me specifics. That's a good general, I need
17 some specifics.

18 MR. THAMPY: But that's -- that means
19 different things --

20 COMMISSIONER WRIGHT-JONES: what would
21 our corporations be doing? would we have
22 corporations? would we have a Boeing?

23 MR. THAMPY: You know, I think the common
24 law innovations that allow corporations a deferred
25 liability are excellent vehicles --

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 COMMISSIONER WRIGHT-JONES: Well, what
2 would it look on the street where the stores and the
3 shops and the schools and the senior centers are,
4 what would that look like? I need you to build that
5 for me real quick. What would that look like? What
6 would we do be doing? If we weren't here --

7 MR. THAMPY: You know --

8 COMMISSIONER WRIGHT-JONES: -- doing
9 this, what would we be doing?

10 MR. THAMPY: Productive activities.

11 COMMISSIONER WRIGHT-JONES: This is
12 productive.

13 MR. THAMPY: I mean --

14 COMMISSIONER WRIGHT-JONES: But what?
15 I'm serious.

16 MR. THAMPY: More productive activities.
17 I mean maybe, I don't know.

18 COMMISSIONER WRIGHT-JONES: What? Just
19 give me a name. I need to hear it. Because see, I'm
20 60 years old.

21 MR. THAMPY: Sure.

22 COMMISSIONER WRIGHT-JONES: And when I
23 was in college at UMSL --

24 MR. THAMPY: Uh-huh.

25 COMMISSIONER WRIGHT-JONES: -- we had

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 these very discussions with the powers that be, okay,
2 about what we thought the world should be like in the
3 '60s, why -- you know, what would that be like. And
4 then we all grew up and got jobs and briefcases and
5 went on into the world that was there, okay. So I'm
6 kind of -- you're taking me back to a time --

7 MR. THAMPY: Let -- let me --

8 COMMISSIONER WRIGHT-JONES: -- when I was
9 on that side of the table --

10 MR. THAMPY: Maybe -- maybe --

11 COMMISSIONER WRIGHT-JONES: -- and they
12 asked us that question. We gave them specifics.
13 Just real quickly can you --

14 MR. THAMPY: Maybe I can go -- maybe I
15 can give you a specific.

16 COMMISSIONER WRIGHT-JONES: Okay.

17 MR. THAMPY: Okay. Imagine a Missouri
18 where instead of tax credits, you didn't give any tax
19 credits. In that, Missouri people know that the
20 governance is robust and resilient. It won't give
21 special favors to anyone who has enough money and
22 enough power, okay.

23 COMMISSIONER WRIGHT-JONES: How do we go
24 about progressing? How do we progress? How do we
25 build? How do we rebuild? How do we keep buildings

1 in America like they've had buildings in Europe for
2 six, seven hundred years?

3 MR. THAMPY: We keep -- we keep people
4 coming to America, keep people investing in America,
5 keep America's, you know, basic economy vibrant, its
6 information economy vibrant.

7 COMMISSIONER WRIGHT-JONES: Okay. But --

8 MR. THAMPY: And that means --

9 COMMISSIONER WRIGHT-JONES: -- how do
10 we -- how do we sell --

11 MR. THAMPY: And I don't -- I don't
12 advocate against regulation; I advocate for good
13 regulation.

14 COMMISSIONER WRIGHT-JONES: Okay. But
15 how -- what is daily life like? Where do I get paid
16 and what do I do with that money and who does what to
17 create infrastructure in my neighborhood?

18 MR. THAMPY: You know, I -- I'm not one
19 of those people who denies the role of the government
20 or public institutions.

21 COMMISSIONER WRIGHT-JONES: Where do
22 those dollars come from?

23 MR. THAMPY: I don't deny the need for
24 taxes either, you know. I mean, I think some tax
25 mechanisms are more sophisticated, are more efficient

1 than others. I think that generally those are more
2 desirable, but I -- you know, I'm not one of those
3 radical, anti-government types. I think that the
4 latest Nobel laureates in economics, Eleanor Ostrom
5 and Oliver Williamson, are great institutional
6 economics people and they talk about how we need
7 robust institutions, courts, the law.

8 COMMISSIONER WRIGHT-JONES: And they
9 become robust --

10 MR. THAMPY: You know, systems of the
11 courts.

12 COMMISSIONER WRIGHT-JONES: -- how? How
13 do they become robust?

14 MR. THAMPY: You know, robust protections
15 of property, speech rights, due process rights.

16 COMMISSIONER WRIGHT-JONES: I'm not
17 hearing how dollars are made, generated, and used;
18 that's what I'm not hearing. But thank you --

19 MR. THAMPY: I -- I would say --

20 COMMISSIONER WRIGHT-JONES: -- for your
21 answer.

22 MR. THAMPY: -- that tax and consumption
23 and not wealth is generally preferable.

24 CHAIRPERSON GROSS: All right.

25 COMMISSIONER WRIGHT-JONES: Thank you.

Abhi Sivasailam Global Issues Testimony

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 program that the seniors are getting. They have put
2 transportation into these buildings; now they have
3 buses so that the seniors have a way out. How are
4 our seniors going to be get transported? I mean,
5 there's just not enough agencies to provide all these
6 services, so they have put transportation into their
7 communities. They had -- I don't know how they did
8 it, but they've built carports, I think that's what
9 you call them, but -- so those were some ways where
10 they were putting money, more money into the
11 communities to provide better care and services for
12 their seniors.

13 CHAIRPERSON GROSS: Thank you very much.

14 MS. PRIAULX: You're welcome.

15 CHAIRPERSON GROSS: Appreciate you being
16 here. Next is Abhi Sivasailam.

17 MR. SIVASAILAM: Spell my name?

18 CHAIRPERSON GROSS: Please.

19 MR. SIVASAILAM: A-b-h-i, first name.

20 S-i-v as in Victor, a-s-a-i-l-a-m as in Mary. Is
21 that it?

22 CHAIRPERSON GROSS: welcome. Proceed.

23 MR. SIVASAILAM: well, I am, like Ron and
24 Eapen and other individuals that have spoken tonight,
25 one of these free market proponents who want to see

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 tax credits minimized across the board. But
2 listening to these speeches, I -- I think I
3 understand that that's really not something that
4 you're interested in hearing, partly because it's not
5 very useful for you and if I'm understanding what
6 some of the commission members here have said, it's
7 that you're thirsting for some kind of a paradigm
8 that's useful rather than just these kind of broad
9 ideological platitudes about, you know, free
10 markets. And so I think I'm going to try and answer
11 that, you know, in response to your -- to your
12 question and your question.

13 So the focus of my speech is going to be
14 twofold. I'm going to take a mediated approach from
15 my, you know, general, you everyone, antitax credits
16 approach and try and -- and try and meet somewhere in
17 the middle. And so first I'm going to talk about a
18 different paradigm for looking at how tax credits
19 function in the macro economy as a student of
20 economics. And then -- and hopefully that will
21 furnish us with the tools to look at alternate models
22 that we can use to evaluate the effectiveness of
23 certain tax credits.

24 And then second I'm going to try and
25 address, I forget who he was, whether it was

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 Mr. Burlison or yourself, this idea that, you know,
2 if everyone else is doing tax credits and Missouri
3 gets out of the tax credit game, then somehow we're
4 going to be worse off. And I'm going to try and
5 address that with some -- inside some economics.

6 So let me begin with the model of tax
7 credits that I like to look at which is, you know,
8 freeing ourselves from traditional free market
9 platitudes, why is a free market good. Well, a free
10 market is good because a market is a forum for
11 communication, right. A market is a place whether
12 it's a market for bananas or a market for nuclear
13 weapons, for actors, whether they're separated by a
14 few feet or few continents, come together and
15 communicate about scarcity and subjective value. So
16 sellers communicate scarcity --

17 COURT REPORTER: Could you please slow
18 down.

19 MR. SIVASAILAM: Sorry. So sellers
20 communicate scarcity and buyers communicate
21 subjective value. And they do this using the
22 language of the price mechanism, right. So the
23 issue about interfering with free markets from an
24 economic -- from an economist's standpoint is this
25 idea that it interferes with the efficiency, the

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 communicative efficiency, because there are different
2 types of efficiency. There's Pareto efficiency,
3 there's wealth -- wealth maximizing efficiency,
4 there's bang for the buck efficiency which I'll get
5 to. And then there's this idea of allocative
6 efficiency.

7 MR. BURLISON: You need to slow down.
8 She's -- she's smoking over here.

9 MR. SIVASAILAM: I'm sorry. So my point
10 is that when we -- when we implement -- when we
11 interfere with free markets, what we're doing is
12 interfering with the communicative signals that are
13 being sent back and forth. Now, this argument can
14 be -- can be abused, right. This argument can be
15 used to say, well, then, we don't need the government
16 at all, government should get out of everything
17 because government is just going to interfere with
18 signals. But in the real world, you know, we don't
19 need government if transaction costs are zero. If
20 transaction costs were zero, then we could all just
21 bargain with each other. We wouldn't need
22 government. But we don't live in that world.

23 We -- in a world where there's no
24 prisoner's dilemmas, where there's no coordination
25 problems, what we, economists and political

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 scientists, call coordination problems, we don't need
2 government. But we don't live in that world. And in
3 a world where there's no information asymmetry, then
4 you don't need government because actors can -- can
5 assimilate information into, you know, their -- their
6 models of reason and you don't need a government, but
7 we don't live in such a world.

8 So there is a role for government in
9 mediating these problems, okay, what we would call
10 market failures, what we would call externality
11 problems, information asymmetry problems,
12 coordination problems, and trans-- and minimizing
13 transaction costs.

14 So what I'd like to suggest then is that
15 we should view, you know, this commission here not
16 as, you know, bumbling fools that are acting as
17 planners that think that they know better than us on
18 how to organize a market; it's not that you're bad
19 people, it's that like -- like the child's game of
20 playing telephone, you know, where if I were to send
21 a message from -- from Mr. Levi over here down to
22 Ms. Weber, empirics would suggest that the story gets
23 lost in translation along the way, right. And it's
24 not because Mr. Burlison's a bad person and is
25 intentionally distorting my message; it's that the

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 existence of a new actor distorts the message. And
2 this is an empirical fact.

3 So your existence here is distorting
4 signals, but our goal then, our paradigm is how best
5 to focus these distortion of signals because -- I'm
6 not saying let's eliminate this commission, because
7 that's just not feasible, that's not viable. So what
8 I am saying is how can we minimize the allocative
9 efficiency problems.

10 And then so let's talk about allocative
11 efficiency. You know, the type efficiency that's
12 been bandied about in this commission is the kind of
13 bang for the buck efficiency that if you have option
14 A and Option B, and Option A, I put in one dollar, I
15 get out five dollars. Option B, I put in one dollar,
16 I get three dollars. That's a -- that's an
17 accountant's version of efficiency; that's not an
18 economist's version of efficiency.

19 The -- the accountant's version of
20 efficiency would say that food pantries shouldn't get
21 the tax credit and film taxes should, but, you know,
22 fundamentally, the film tax doesn't represent the
23 market value, it doesn't represent an allocative
24 efficiency; it represents, you know, a bang for the
25 buck efficiency. And it's not meaningful, you know,

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 partly because we can't compute these psychic
2 externalities and also partly because these
3 multipliers themselves that the -- that the -- that
4 the commission is given aren't necessarily computed
5 correctly.

6 Because, you know, as a student of
7 economics, I know this is not a hard science. I know
8 these multipliers that are technically -- they aren't
9 necessarily correct. But also there's a
10 counterfactual, right.

11 So when we -- when we give a tax credit
12 to a company that makes hot dogs, we lower the
13 marginal cost that the hot dog manufacturer faces and
14 we distort incentives throughout the macro economy.
15 We don't just distort incentives for the hot dog
16 manufacturers, we distort incentives for the
17 complimentary goods, we distort incentives for the
18 substitute goods, and so we don't know the
19 counterfactual.

20 So just because I can say, you know, with
21 the accountant's efficiency that, you know, I put in
22 one dollar here, I get twenty dollars back, well, we
23 don't know what that one dollar would have serviced
24 elsewhere. And this is why these quantitative models
25 of efficiency aren't really particularly useful.

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 And so what I would suggest instead is a
2 more qualitative model of market failure, right?
3 Because as I've said, there is a role for government,
4 okay, and the role for government is mediating
5 externality problems, is mediating coordination
6 problems, is mediating information asymmetry
7 problems. And so what the commission here should do
8 instead of looking at the quantitative numbers, look
9 at the qualitative figures of market failure, okay?
10 Use the proper role of government and step in when
11 you can internalize externalities, when you can
12 minimize information asymmetry problems.

13 COMMISSIONER STILL: How are market
14 failures going to help us?

15 MR. SIVASAILAM: What?

16 COMMISSIONER STILL: Slow down here.
17 what -- how are market -- we're looking at market
18 failure.

19 MR. SIVASAILAM: Uh-huh.

20 COMMISSIONER STILL: How -- well, the
21 people that came from Macon, they have a GED
22 program. Private market is not going to start a
23 business training people to get their GED's in Macon,
24 right? Is that a market failure? Is that what
25 you're talking about?

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 MR. SIVASAILAM: I think -- I think that
2 it's up to you to determine, you know, what a market
3 failure is. And, you know, the -- the various types
4 of market failure are just beyond the scope of this
5 conversation because we'd be here for, you know,
6 quite a while. But, you know, if anything, I suggest
7 you look into what a market failure is and how
8 economists and political scientists have
9 conceptualized these things. These don't --

10 COMMISSIONER STILL: I'm thinking it's
11 businesses that fail, it goes out of business, that's
12 a market failure.

13 MR. SIVASAILAM: That's not exactly --
14 market failure is -- see, it's not a market failure
15 if a hot dog manufacturer goes out of business,
16 right? It's a market failure in an economist's
17 parlance if there are externalities that aren't being
18 encapsulated in the price of a good, right? So a
19 market failure --

20 COMMISSIONER STILL: When you say a
21 market failure, you mean a failure in the operation
22 of a market?

23 MR. SIVASAILAM: Sure, sure.

24 COMMISSIONER STILL: All right.

25 MR. SIVASAILAM: So a market failure --

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 COMMISSIONER STILL: I wasn't with you.

2 MR. SIVASAILAM: -- to an economist would
3 be a common poor resource problem, right? So a
4 market failure to an economist may be, you know, hey,
5 we need cigarette taxes because cigarette taxes cause
6 externalities on other people, you know, in terms of
7 pollution, in terms of secondhand smoke damage, in
8 terms of, you know, groundwater damage, you know,
9 what have you. And all these costs, these social
10 aren't encapsulated in the price and so we need, you
11 know, corrected mechanisms, govian taxation.

12 And, you know, insofar as you're going to
13 have a tax commission, you should focus it to
14 acceptable modes of governmental operation, and I
15 would argue that market failure is a good criteria.
16 And you can -- I don't know what you have in front of
17 you; and, you know, if you ask me for specific
18 examples, hey, you talk about market failure, give us
19 an example of a market failure where you would apply
20 a tax credit, I couldn't answer that question because
21 I just don't know --

22 COURT REPORTER: Please slow down.

23 MR. SIVASAILAM: I just don't know what
24 you have in front of you. But what I encourage you
25 to do is to look at the paradigm of using market

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 failure as a paradigm for evaluating tax credits and
2 say, hey, film taxes don't represent a market failure
3 in any way, there's no information asymmetry here,
4 there's no coordination --

5 COMMISSIONER STILL: You're going too
6 fast.

7 MR. SIVASAILAM: There's no coordination
8 problem here, there's no -- there's no heavy
9 transaction costs that interfere with bargaining
10 here. But on the other hand --

11 CHAIRPERSON GROSS: You have two minutes.

12 MR. SIVASAILAM: Okay. But on the other
13 hand the food pantry may represent a market failure.
14 So start from the -- start from the ground up and
15 weed out these market failures, weed out these
16 options that are definitely not market failures and
17 focus on the market failures. Don't just look at an
18 accountant's definition of efficiency, look at an
19 economist's definition of efficiency.

20 And the last thing about the last place
21 argument is this idea of comparative advantage, okay.
22 So --

23 CHAIRPERSON GROSS: This idea of what?

24 MR. SIVASAILAM: Comparative advantage.
25 Comparative advantage, right. This idea that

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 economists talk about for trade which is that, you
2 know, California if they have tax credits and
3 Missouri gets out of the tax credit market, well,
4 California can't give a tax credit to everything,
5 they can only give a tax credit to certain things.
6 If they gave a tax credit out to everything, then
7 they'd just have a lower tax rate and so they have to
8 pick and choose. So let's imagine --

9 CHAIRPERSON STOGEL: Less revenue.

10 MR. SIVASAILAM: -- an economy -- right.
11 Let's imagine an economy where there are two goods,
12 there are cars and computers. And let's imagine
13 that both of those goods are subsidized by
14 California taxpayers and -- through tax credits and
15 none of those goods are subsidized by Missouri,
16 right.

17 So the idea would be, hey, Missouri's
18 getting out, so now we're all going to be screwed.
19 But the economic way to look at it is, okay, for one
20 unit of labor -- because of tax credits, California
21 can produce three cars or ten computers, okay. And
22 Missouri, because they don't have tax credits can
23 produce less cars. For one unit of labor Missouri
24 can produce one car or two computers, right.
25 California has an absolute advantage, but that

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 doesn't mean the jobs are going to go to California,
2 because as economists have taught us, as David
3 Ricardo taught us 200 years ago, there's a thing
4 called comparative advantage.

5 So if you look at the three cars to ten
6 computers ratio that California faces, and the one
7 car to two computers ratio that Missouri faces, the
8 opportunity cost in terms of real goods for Missouri
9 is one car equals two computers and the opportunity
10 cost of one computer is five cars. And California's
11 opportunity costs on the other hand is one car
12 equals three and a third computers and one computer
13 equals .3 cars, right?

14 So in this example we see that Missouri's
15 opportunity cost for one car is two computers, and
16 California's opportunity cost for a car is three and
17 a third computers. well, California had an absolute
18 advantage in both goods and yet Missouri comes out
19 with a comparative advantage. And so economic
20 efficiency will dictate that Missouri will produce --
21 will produce the computers.

22 So even if you had absolute advantages
23 that are produced by tax credits, comparative
24 advantages still surface. Even if California uses
25 their tax credits and makes all their goods cheaper

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 to produce, Missouri will still produce goods because
2 comparative advantage will still exist.

3 CHAIRPERSON GROSS: You need to
4 summarize.

5 MR. SIVASAILAM: That's it, that's it.

6 CHAIRPERSON GROSS: Questions?

7 COMMISSIONER WRIGHT-JONES: I have a
8 question.

9 CHAIRPERSON GROSS: Question from Senator
10 Jones.

11 COMMISSIONER WRIGHT-JONES: Who -- on
12 whose behalf are you testifying?

13 MR. SIVASAILAM: No one actually. I just
14 came in to just listen and at a certain point I was
15 interested enough to speak.

16 COMMISSIONER WRIGHT-JONES: Are you a
17 student?

18 MR. SIVASAILAM: I am a student at
19 Mizzou, correct.

20 COMMISSIONER WRIGHT-JONES: At Mizzou.

21 MR. SIVASAILAM: Uh-huh.

22 MR. BURLISON: Can you tell me what
23 market effects the State has put into your -- to
24 your, the amount of tuition that you pay to Mizzou to
25 go there?

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 MR. SIVASAILAM: That's --

2 MR. BURLISON: And whether or not you
3 could have negotiated a better deal if -- if there
4 was no effects on the market?

5 MR. SIVASAILAM: Well, this is
6 actually --

7 MR. BURLISON: Can you -- can you answer
8 that?

9 MR. SIVASAILAM: Yeah. This is a nuanced
10 question. First of all I would argue that, you know,
11 in the -- there are huge transaction costs there that
12 would warrant, you know, government intervention,
13 one, perhaps. Number two, you could argue that
14 government has a role in subsidizing higher education
15 because education produces this Jeffersonian idea of,
16 you know, positive externalities for, you know, civic
17 code, you know, et cetera. And so there may be a
18 role for government.

19 But I would argue personally that I
20 would prefer the government, you know, not
21 interfere with higher education just because if the
22 government subsidizes my higher education, I'm
23 convinced and --

24 MR. BURLISON: But you're --

25 MR. SIVASAILAM: -- there's plenty of

TRANSCRIPT OF PUBLIC MEETING 09-28-2010

1 empirical evidence --

2 MR. BURLISON: -- fine with the
3 subsidized --

4 MR. SIVASAILAM: No, I'm not. I would
5 prefer no subsidies for higher education.

6 MR. BURLISON: Well, you're enrolled and
7 you're enjoying that subsidy. But let me tell you
8 where I am.

9 MR. SIVASAILAM: Uh-huh.

10 MR. BURLISON: After I hear you talk, I
11 think I'm getting plenty of good money for your
12 education, because you are a smart kid and I hope you
13 keep -- I hope you keep talking and pursuing that
14 because I really liked what you said. That doesn't
15 have any practical effect on what we can do in the
16 next year, but I think I'm getting my bang for the
17 buck out of your education.

18 MS. HEMENWAY: That is return on
19 investment.

20 MR. BURLISON: Yeah, that's a return.
21 You are a return on our investment.

22 CHAIRPERSON GROSS: Do we have a
23 motion?

24 CHAIRPERSON STOGEL: Motion to adjourn.

25 COMMISSIONER WRIGHT-JONES: Second.