

# Seven Principles of Sound Public Policy for Kentucky

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— *Making Ideas Improve Kentucky* —

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How should Kentucky's policy leaders in government, business and academia address its pressing issues of the day, from transportation to education to health care to countless other important topics?

If parents in Jefferson County express concern about the quality of education their children receive, should public policy be directed from the single perspective of the child? If parents in Somerset can't afford after-school care, shouldn't state government view educational improvement from the view of working parents? Or should policymakers take the view of the beleaguered, under-paid and oft-appreciated teachers? Or should new directives from the General Assembly seek to subsidize small businesses that must retrain high school graduates who cannot apply simple arithmetic on the job? Which view should guide Kentucky policymakers in their quest to improve education and govern responsibly?

With such a vast array of perspectives, it's no wonder that intelligent people disagree on the most fundamental issues in Kentucky today. But in fact the question of how to set public policy has divided leaders, communities and nations since humanity began recording history. Did Egyptian leaders planning the construction of the pyramids make the best decisions? Wasn't it the Greeks and Romans who first used democracy? Why should "America's way" be any better or worse? Of fundamental importance is the question: Which policy-making process is still working?

In 1775, Americans became increasingly dissatisfied with King George III and the arbitrary manner with which he ruled the affairs of the American colonies. Nevertheless, most colonists remained committed to reconciling their differences to remain loyal subjects under British rule. Then on February 14, 1776, Thomas Paine published a simple pamphlet he entitled, "Common Sense," inspiring The American Revolution with such compelling logic as:

"But where says some is the King of America? I'll tell you Friend, he reigns above, and doth not make havoc of mankind like the Royal Brute of Britain!"

By July 4, 1776 Thomas Jefferson had penned The Declaration of Independence, uniting Americans toward a single cause: Independence from England. No longer would a Pharaoh, nor an Emperor, nor a King rule Americans. By signing the Declaration, our founding fathers decreed:

"We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights..."

Changing the course of human history, this idea – that freedom is a natural right - inspired Americans to want to live their lives in liberty, while at the same time respecting the rights and property of others. Then in 1787, the Second Continental Congress further guaranteed these rights by adopting The Constitution of the United States of America, clearly differentiating the rights and obligations of both Government and its Citizens.

Under the guidance and direction of these two documents, America has become the model of prosperity for the world. It has fed, clothed and housed more people at higher standards of living than any society the world has ever known. All other forms of government have fallen by the wayside and America has become the destination of choice for the world's citizens.

At the Bluegrass Institute for Public Policy Solutions, we use these two "settled truths," our Declaration of Independence and US Constitution, as the basis for researching and recommending prescriptions for today's policy questions in Kentucky.

When we study an issue at the Bluegrass Institute, we begin with the core assumption that private prop-

erty and free market economies are superior to state ownership and central planning. This is not simply a superficial opinion; rather, it is now the standard-bearer among people who have their eyes and ears open and for whom reason, logic, facts, evidence, economics and experience mean something.

The “Seven Principles of Sound Public Policy” that follow are pillars in a growing movement among state-based think tanks to reinforce and reinvigorate the application of these two “settled truths” toward defining sound public policy. They are not the only pillars of a free economy, but they do comprise a pretty powerful package. If every cornerstone of every Kentucky state building were emblazoned with these principles - and more importantly, if every legislator understood and attempted to be faithful to them - we’d be much stronger, much freer, more prosperous, and far better governed Kentuckians.

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## PRINCIPLE NO. 1

*Free people are not equal, and equal people are not free.*

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The “equality” to which this refers is not just equality before the law – as guaranteed by the US Constitution. Instead, this “equality” has to do with *economic* equality, the income and material wealth we earn and acquire in the marketplace of commerce, work, and exchange. Let’s take this first principle and break it into its two halves.

*Free people are not equal.* When people are free to be themselves, to be masters of their own destinies, to apply themselves in an effort to improve their well-being and that of their families, the result will not be an equality of outcomes in the marketplace. People will earn vastly different levels of income, and they will accumulate vastly different levels of wealth. While some lament this fact and speak dolefully of “the gap between rich and poor,” we think people being themselves in a free society are a wonderful thing. Each of

us is a unique entity, different in endless ways from any other single being living or dead. Why on earth should we expect our interactions in the marketplace to produce the same results?

We are different in terms of our talents. Some have more than others, or demonstrate more valuable talents. Some don’t discover their highest talents until late in life, or some not at all. Tubby Smith and Rick Pitino are exceptionally talented basketball coaches. Should it surprise anyone that they make more money coaching basketball than 99% of Kentuckians ever could?

We are different in terms of our industriousness, our willingness to work. With only a third grade education in 1939, J.L. Turner figured out that “buying right” gave his customers a bigger incentive to shop at his Dollar General store in Scottsville, and this idea in time sprouted the largest chain of retail stores in the United States. Some people work harder, longer, and smarter than others. That makes for vast differences in how others value what such hard workers do and in how much they’re willing to pay for it.

We are different also in terms of our savings. If the President could somehow snap his fingers and equalize us all in terms of income and wealth today, we would be unequal again by this time tomorrow *because some of us would save it and some of us would spend it*. Free people are simply not going to be equal economically.

*Equal people are not free*, the second half of our first principle, really gets down to brass tacks. Find people anywhere on the planet who are equal economically, and you’ll see a very *unfree* people. Why?

The only way you would have even the remotest chance of equalizing income and wealth across society is to put a gun to everyone’s head. You would have to give orders, backed up by this bullet, a guillotine, or a hangman’s noose, that would sound like this: “Don’t excel. Don’t work harder or smarter than the next guy.

Don't save more wisely than anyone else. Don't be there first with a new product. Don't provide a good or service that people might want more than anything your competitor is offering."

No one would actively choose to live in a society in which these are the orders. The Khmer Rouge in Cambodia in the late 1970s came close to it, and its barbarism resulted in the slaughter of upwards of two million of its eight million citizens in less than four years. Except for the elite at the top who wielded such power, the remaining people who survived lived at something close to Stone Age living conditions.

What's the message of this first principle? Don't get hung up on differences in income when they result from people being themselves. If they result from artificial political barriers, then get rid of them. But don't try to take unequal people and compress them into some homogenous heap. You'll never get there, and you'll wreak a lot of havoc trying.

Confiscatory tax rates, for example, don't make people any more equal; they just drive the industrious and the entrepreneurial to other places or into other endeavors while impoverishing the many who would otherwise benefit from their resourcefulness. Our Kentucky-born son, Abraham Lincoln, is reputed to have said, "You cannot pull a man up by dragging another man down."

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## PRINCIPLE NO. 2

*What belongs to you, you tend to take care of; what belongs to no one or everyone tends to fall into disrepair.*

This illuminates the magic of private property, and explains so clearly why the socialized economies the world over have so miserably failed.

In the old Soviet Empire, governments proclaimed the superiority of central planning and state ownership.

They sought to abolish private property because they thought that private ownership was selfish and counterproductive. With the government in charge, they argued, resources would be utilized for the benefit of everybody. What was once the farmer's food became "the people's food" and the people went hungry. What was once the entrepreneur's factory became "the people's factory" and the people made do with goods so shoddy there was no market for them beyond their borders.

We now know that the old Soviet Empire produced one economic failure after another, and one ecological nightmare after another. That's the lesson of every experiment with socialism: while socialists are fond of explaining that you have to break some eggs to make an omelet, they never make any omelettes. They only break eggs!

If you think you're so good at taking care of another's property, go live in a friend's house, or drive his car for a month. Neither his house nor car will look the same as yours after the same period of time. Or think when was the last time you washed a rental car before you returned it?

If you want to take the scarce resources of society and trash them, all you have to do is take them away from the people who created or earned them, and hand them over to some central authority to manage. In one fell swoop, you can ruin everything.

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## PRINCIPLE NO. 3

*Sound policy requires that we consider long-run effects and all people, not simply short-run effects and a few people.*

It may be true, as Keynes once declared, "In the long run, we're all dead anyway." But that shouldn't be a license to enact policies that make a few people feel good now at the cost of hurting many people tomorrow.

When Lyndon Johnson cranked up the Great Society, he aroused the notion that some people would

benefit today from a welfare check. In retrospect, we now realize that this federal entitlement to welfare encouraged idleness, broke up families, produced intergenerational dependency and hopelessness, cost taxpayers a fortune, and yielded harmful cultural pathologies that will take generations to undo. Likewise, policies of deficit spending and governmental growth - while enriching a few at the start - have eroded the moral fiber of our nation's economy for decades.

This principle is actually a call to be thorough in our thinking, and profound in our judgments. If a thief goes from bank to bank in Bowling Green, stealing all the cash he can get his hands on, and then spends it all at the Mall, you wouldn't be thorough in your thinking if all you did was survey the store owners to conclude that this guy stimulated the economy.

We should remember that today *is* the tomorrow that yesterday's poor policy makers told us we could ignore. If we want to be responsible adults, we can't behave like infants whose concern is overwhelmingly focused on self and the here-and-now.

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## PRINCIPLE NO. 4

*If you encourage something, you get more of it; if you discourage something, you get less of it.*

Human beings are creatures of incentives and disincentives, responding to them as naturally as breathing in and out. Policy makers who forget this do dumb things such as increasing taxes on something, and then expecting people to maintain that level of activity, as if they are sheep lining up to be sheared.

Remember when George Bush (the first one) reneged under pressure on his 1988 "No New Taxes!" pledge? We got big tax hikes in the summer of 1990. Among other things, Congress dramatically boosted the taxes on boats, aircraft and jewelry in that package.

They thought that since rich people buy such things, they could let them have it with higher taxes. They expected \$31 million in new revenue in the first year from this new tax. We now know that the higher levies brought in just \$16 million, yet government paid out \$24 million in additional unemployment benefits to the people thrown out of work in those industries. Lawmakers conveniently forget the importance of incentives: Aiming for 31, getting only 16, then spending 24 as a result, and bragging that somehow they've done some good!

Want to break up families? Offer a bigger welfare check if the father splits. Want to reduce savings and investment? Double-tax them, and pile on a high capital gains tax on top of it. Want to get less work? Impose such high tax penalties on it that people decide it's not worth the effort.

Right now in Frankfort, much attention is being directed to the question of how to deal with a deficit due to declining state revenues and chronic overspending by the General Assembly. At the Bluegrass Institute, we believe that Legislators ought to deal with such issues the way families all across Kentucky deal with similar circumstances: reduce their spending. That's especially true if we want to stimulate a weak economy so it will produce more jobs and more revenue. Medical science now confirms that when patients are ill, their doctors don't need to bleed them!

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## PRINCIPLE NO. 5

*Nobody spends somebody else's money as carefully as he spends his own.*

Ever wonder about those stories of \$600 hammers and \$800 toilet seats that government sometimes buys? You could walk every street in Lexington and not find a soul who would say he'd gladly spend his own money that way. And yet, it often happens in government and sometimes in other walks of life, too. Why? Because the spender is spending somebody else's money!

Economist Milton Friedman elaborated on this principle sometime ago pointing out that there are only four ways to spend money.

1. When you spend your own money on yourself, you make occasional mistakes but they're few and far between. The connection between the one who earned it, the one who is spending it, and the one who is reaping the final benefit is pretty strong.

2. When you use your money to buy someone else a gift, you have an incentive to get your money's worth but you might not end up getting something the intended recipient really needs or values.

3. When you use somebody else's money to buy something for yourself, such as lunch on an expense account, you have some incentive to get the right thing but little reason to economize.

4. Finally, when you spend other people's money to buy something for yet someone else, the connection between the earner, the spender and the recipient is the most remote - and the potential for mischief and waste is the greatest. Let's see...somebody spending somebody else's money on yet somebody else...yep, that's what goes on in Frankfort all the time!

Nobody-repeat, *nobody* spends someone else's money as carefully as he spends his own.

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## PRINCIPLE NO. 6

*Government has nothing to give anybody except what it first takes from somebody, and a government that's big enough to give you everything you want is big enough to take away everything you've got.*

This is not a radical, ideological, anti-government statement. It simply states the way things are. It speaks volumes about the very nature of govern-

ment, and is in perfect harmony with the philosophy and advice of America's best thinkers:

George Washington once said, "Government is not reason. It is not eloquence. It is force. Like fire, it can be a dangerous servant or a fearful master."

As another famous American, Groucho Marx once said of his brother, Harpo, "He's honest, but you've got to watch him." You've got to keep your eye on even the best and smallest of governments because, as Jefferson warned, the natural tendency of government is to grow, which bids liberty to retreat.

The so-called "welfare state" is really not much more than robbing Peter to pay Paul, after laundering and squandering much of Peter's wealth through an indifferent, costly bureaucracy, or like feeding the sparrows through the horses, if you know what we mean!

Free and independent Kentuckians do not look to Frankfort for their sustenance. They see government not as a fountain of "free" goodies but rather as a protector of their liberties, confined to certain minimal functions that revolve around keeping the peace, maximizing everyone's opportunities, and otherwise leaving us alone. There is a deadly trade-off to relying upon government, as civilizations as far back as ancient Rome have painfully learned.

When one of our Kentucky congressional representatives comes home and proclaims, "Look what I have brought for you!" you should demand that he tell you who's paying for it! If he's honest, he'll tell you that the only reason he was able to bring you something was that he had to first vote for the goodies that another congressman wanted to take home to his constituents...and this costs you, too!

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## PRINCIPLE NO. 7

*Liberty makes all the difference in the world.*

Liberty is much more than a happy circumstance. It's what makes just about everything else happen. Public policy that fails to preserve or strengthen our liberty should be held immediately suspect in the minds of vigilant Kentuckians. When required to fasten our seatbelts as we drive home, we should ask, "What are we getting in return if we're being asked to give up some of our freedom?" And if we allow such small encroachments, then we shouldn't complain when automakers are then forced by government decree to design ignition systems that won't start unless our seatbelts are snugly fastened.

Ben Franklin gave us this advice: "He who gives up essential liberty for a little temporary security deserves neither liberty nor security."

Too often today, policy makers give no thought whatsoever to the general state of liberty when they

craft new policies. If it feels good or sounds good or gets them elected, they just do it. Anyone along the way who might raise liberty-based objections is ridiculed or ignored. In addition, government at all levels consumes more than 42% of all that we produce - compared to perhaps 6 or 7% in 1900. Yet, few people seem interested in asking the advocates of still more government such simple questions as "Why isn't 42 percent enough?" or "To what degree do you think a person is entitled to the fruits of his labor?"

We yearn for the day when Kentuckians practice these seven principles. Our past devotion to them, in one form or another, explains how and why America has fed, clothed, and housed more people at higher levels than any other people in the history of the planet. These seven principles are key to preserving that crucial element of life we call liberty.

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### *About the Bluegrass Institute for Public Policy Solutions*

The Bluegrass Institute for Public Policy Solutions is an independent, non-profit, non-partisan center, which analyzes local and state laws and regulations, and presents free-market solutions to the most pressing issues that face Kentuckians.

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