



Road map to prosperity

*How Hawaii can recover and even excel
after the coronavirus lockdown*



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Introduction

On March 4, 2020, Hawaii Gov. David Ige declared a state of emergency and soon afterward shut down most businesses and social activities in the state in an attempt to halt the spread of the coronavirus.¹

At the time, the governor was relying on the opinions of experts as to the best way to preserve the health and safety of all those residing in our state.² However, as the shutdown progressed, it became clear that economic recovery from this catastrophe must become the government's highest priority.

No state has been hit harder by the economic effects of the lockdown than Hawaii.³ Even before the governor's order, businesses were looking at a lean year. After a strong start in January, the state's leading industry, tourism, was anticipating fewer visitor arrivals and less visitor spending because of increasing fears about the coronavirus.⁴

Between March 1 and April 17, more than one-third of the

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state's workforce, almost 250,000 people, filed for unemployment,⁵ as tourism — which in 2019 generated \$17.75 billion in revenues and \$2.07 billion in state tax revenue⁶— ground to a halt.

And tourism-related businesses weren't the only victims. All around the state, retailers, restaurants and bars, professional services and many other commercial operations, having no income, have struggled to survive.⁷ Bankruptcies in 2019 already were at a five-year high, and likely will continue apace in 2020.⁸

Is it any wonder that Hawaii residents want to return to work?

In early May, the Grassroot Institute of Hawaii sponsored a petition calling on the governor to "Let Hawaii Work." It garnered thousands of signatures within a matter of days and drove home the point that a roadmap to economic recovery is essential for the state.⁹



Focus on the fundamentals

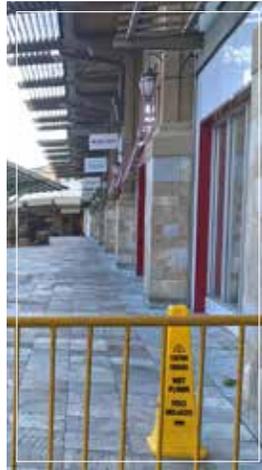
Gov. Ige and the state's four county mayors were able to shut down Hawaii's economy quickly, but restarting it is a different matter. It is not as simple as flipping on a switch.

Even with the best of intentions, our state and county governments do not have the resources or ability to bail out every business or family in the state. Nor is it possible to manage away all health and safety risks.

Some policymakers have proposed increased government spending as a way to jump-start the state's economy. Their theory is that money pumped into the economy via public works projects and other government programs will ripple through the economy as a whole, benefiting all businesses and residents.¹⁰

Unfortunately, this perspective overlooks a fundamental truth about finances: Even government money has to come from somewhere. Whether the state issues bonds and borrows the money, tries to get it from the federal government or attempts to raise tax revenues, the ultimate burden of increased spending falls on the taxpayer.

Hawaii residents don't need the state government to act as an expensive middle man between their wallets and local businesses. It is far more efficient to allow that process to happen with as little government intrusion as necessary.¹¹ In other words, the government should not try to spend its way to economic recovery. To do so is inefficient and expensive. Rather, the government should look to minimize its interference in the market and "Let Hawaii Work."



Letting Hawaii work means clearing away the tax and regulatory obstacles that prevent entrepreneurs and businesses from reaching their potentials. It means allowing people to earn a living and make their own decisions about the health risks involved.

It should not be the state's role to favor one industry over another, through tax policies, protective regulations or subsidies. A diversified economy less dependent on tourism might be a laudable goal, but not one that the state should try to achieve by government fiat.

As best practices from around the globe attest, a strong and diverse economy is best achieved through economic freedom, characterized by "personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property."¹² These are the fundamental values that can serve as guideposts for us to maximize opportunity and prosperity in Hawaii, along with restoring our civil liberties and the spirit of Aloha that has always defined our state's philosophy.

In this report we follow those guideposts and apply them to the following challenges facing our state: economic opportunity, healthcare, transportation and the state budget.

Let us now start on that path, following this Grassroot Institute of Hawaii "Road map for prosperity" in the wake of the state's devastating coronavirus crisis.



Economic opportunity

State and county officials have made it clear that they think they can plan or “navigate” Hawaii’s economy back to strength. But there are far too many variables in the equation, and the economy, after all, is not a machine. It is the result of Hawaii’s 1.4 million residents all interacting with each other, pursuing their own needs and wants, through a market system that rewards those who invest, work hard and take risks.

Greater prosperity also makes it easier to aid the less fortunate, and philanthropy typically thrives in societies enjoying higher levels of economic freedom and prosperity.¹³

Some policy analysts have recommended maintaining current spending levels by borrowing and raising taxes.¹⁴ They would use their newfound cash for subsidies and publicly funded capital improvement projects,¹⁵ reasoning that, because of the so-called multiplier effect, public spending yields greater benefits to the economy than leaving it in the private sector.¹⁶

Others will want to increase the minimum wage,¹⁷ erect legal barriers to protect their industries or occupations,¹⁸ or just generally pile on more restrictions.

Perhaps in recognition of the challenge inherent in rebuilding the tourism industry — as well as not wanting to put all the state’s economic eggs in one basket — several policymakers have suggested that “diversification” is the answer to our economic problems.¹⁹

The reality is that tourism will always be an essential part of Hawaii’s economy. Thus, the regrowth of the industry

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must occur with the input of both the large and small businesses that rely on tourist dollars. Along the way, the governor, Legislature, mayors and county councils should roll back the many laws and regulations that stifle the industry, from high taxes²⁰ and excessive regulations aimed at the industry generally to the draconian rules and fines aimed specifically at short-term vacation rentals.²¹

The biggest hurdles for the tourism industry right now are the 14-day quarantine and widespread fear of tourists being possible carriers of the coronavirus. But at some point, Hawaii residents will need to accept the risks of welcoming visitors back to the islands, and whenever that happens, lawmakers should get out of the way and allow the vacation industry to pursue its own strategies to attract customers.

As successful economies worldwide have demonstrated, greater economic freedom would best enable Hawaii’s businesses to rebound and prosper.²² This is especially true for the state’s small businesses, which lacked the resources that larger companies had to help them survive the coronavirus lockdown.

The list of regulations that could be revised to help Hawaii’s small businesses is too long to enumerate here, but one example might help. During the lockdown, Gov. Ige allowed liquor licensees to sell unopened beer, wine and prepackaged cocktails with food purchases for pickup, delivery or takeout.²³ The state could help Hawaii’s distillers (some of which helped during the crisis by making hand sanitizer)²⁴ by revising statutory restrictions preventing direct-to-consumer sales and deliveries, both inside and out of the state.



The best way to revive Hawaii's economy and nurture diversification is to create a climate where investment and entrepreneurs are rewarded. Reduce taxes and regulations. Reform or repeal occupational licensing laws. Reduce restrictions on home-based businesses. Reform or repeal zoning laws. Designate more land for housing. Rely more on private contractors to deliver public services.

In the short term, the state and counties could waive, delay or suspend certain taxes, including the general excise tax, for businesses most affected by the lockdown.

For the longer term, they could commit to no new taxes or fees, including tax or fee increases, for at least two years.

Recommendations to improve Hawaii's economy:

- Permanently exempt food and medicine from the state general excise tax.
- Delay or suspend tax and fee collections for local businesses.
- Consider a temporary reduction in the general excise tax, the transient accommodations tax and other taxes that burden the retail, restaurant and tourism sectors.
- Defer occupational licensing renewal requirements across the board, not just in medicine but in any licensed occupation, including continuing-education requirements, for a period of a minimum of six months, unless those requirements can be satisfied online.
- Remove county zoning and licensing restrictions on home-based businesses and state restrictions on cottage foods. The simplest approach would be to enact statewide legislation that protects home-based businesses that are compatible with residential use, secondary to residential use, and do not adversely impact the community. The Grassroot Institute is developing model legislation that would protect home-based businesses without infringing upon municipalities' need to protect public health and safety.
- Roll back the strict regulations and harsh fines that shut down most of the transient vacation rentals in the state.
- Solicit input from local businesses, both large and small, about regulatory reforms that would help them reach new customers and save their businesses, such as lifting restrictions on direct-to-customer sales for distillers.
- Encourage more housing development by expanding urban boundaries, reforming zoning laws on existing urban land and streamlining the permitting process.
- Enact tort reform to protect businesses during the reopening period from coronavirus-related lawsuits, so long as they comply with the state's recommended health and safety guidelines.
- Reject any new taxes or fees, including tax or fee increases, for at least two years, at both the state and county levels.

Healthcare

One of the best things the governor did through his various emergency proclamations was to lift the state's medical licensing restrictions so out-of-state physicians and nurses could practice in Hawaii.²⁵ He also eased restrictions on telehealth,²⁶ another step in the right direction. Those are changes we should keep and improve upon, even after the coronavirus crisis has passed.

Unfortunately, there are many other regulations that frustrate healthcare delivery in Hawaii, and all of them need to be identified so they can be reformed or repealed as well.

Hawaii's certificate-of-need laws, for example, prevent or delay the construction of new medical facilities.²⁷ Pharmacists are prohibited from testing and treating patients with minor ailments such as the flu, or extending prescriptions.²⁸ Eliminating such restrictions would help relieve Hawaii's documented shortage of medical providers and services, as would a targeted exemption from the state general excise tax. A study commissioned by the Grassroot Institute of Hawaii found that such an exemption could save \$222 million in additional costs borne by doctors and patients, and perhaps reverse the shortage of doctors in the state.²⁹

Recommendations to improve Hawaii's healthcare sector:

- Make permanent the emergency measures that expanded telehealth and allowed out-of-state doctors to practice in Hawaii. Consider expanding them to include other medical professionals.
- Give pharmacists greater leeway to test or treat minor ailments and extend prescriptions.
- Exempt healthcare providers and services from the state general excise tax.
- Enact statewide "right to try" legislation (vetoed by the governor in 2016)³⁰ to allow terminally ill patients to access certain experimental treatments that have not yet been approved by the FDA.
- Exempt all certified registered nurse anesthetists from the optional federal regulation that requires them to work under direct supervision by a surgeon or anesthesiologist when treating Medicare and Medicaid patients.³¹ Other unnecessary, burdensome oversight regulations affecting nurses and medical staff should be identified and also reformed or repealed.



Transportation

With Hawaii heavily dependent on travel and vulnerable to supply-chain disruptions, our lawmakers must address the most serious deficiencies in the state's transportation sector.

First and foremost, we must create as soon as possible a semi-independent airport corporation to take over management of the state's dilapidated airports. The airlines, concessionaires and other airport stakeholders already provide all of the funding for airport operations.³² The state's airports must be able to respond quickly and flexibly to changing conditions, without needing approval from the Legislature.³³

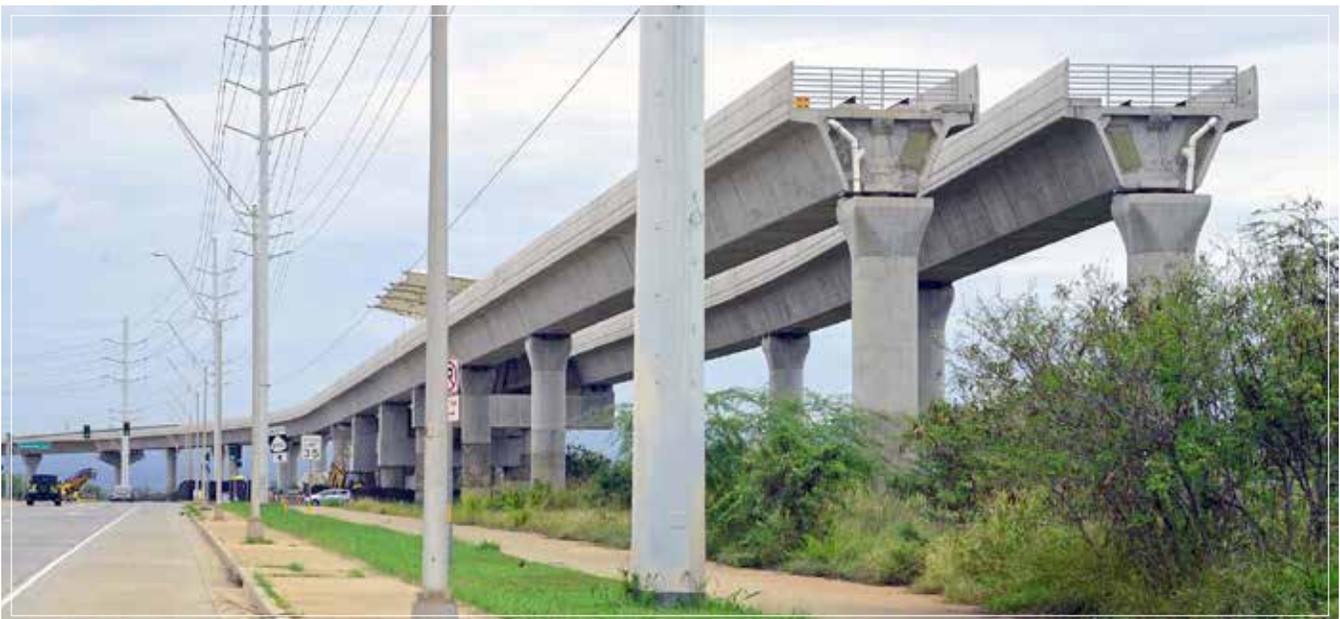


Hawaii policymakers also should urge Congress to update the protectionist federal maritime legislation known as the Jones Act, which contributes to Hawaii's high cost of living, affecting everything from our grocery bills to the amounts we pay for energy and construction.³⁴

Finally, this is not the time to keep throwing billions of dollars into the bottomless money pit of public works projects — for example, Honolulu's over-budget and behind-schedule rail system.³⁵

Recommendations to improve Hawaii's transportation sector:

- Create a semi-independent airport corporation to manage the state's airports system.
- Urge Congress to reform the Jones Act by modifying the build requirement to allow U.S. ocean cargo companies to buy ships on the world market.
- Pause construction of the Honolulu rail for a thorough, cost-benefit evaluation.



State budget

There is no way to avoid the hard truth: The state is facing a significant budget shortfall. Tax revenues are expected to drop by as much as 25%.³⁶ A Grassroot Institute of Hawaii analysis indicates that this would create a budget deficit for fiscal 2021 of between \$710 million to \$1.8 billion.³⁷ The counties will experience similar issues.

Hawaii's fiscal 2021 general fund budget is \$8.72 billion.³⁸ In fiscal 2015, the budget totaled \$6.98 billion, adjusted for inflation,³⁹ which means today's taxpayers are paying an extra \$1.74 billion annually to provide public services for fewer people.⁴⁰ This suggests that there is plenty of room to reduce spending, since even the fiscal 2015 budget could've been trimmed, as we noted at the time.⁴¹

Had Hawaii's state government been cutting in previous years and saving for a rainy day, which we have recommended many times,⁴² the savings would have enabled the state to better cope with the current coronavirus crisis. Instead, the state whittled away a \$1 billion surplus on growing department budgets, payroll increases and other nonemergency items.

Clearly our state and county governments need to tighten their belts. Hawaii's state and county governments enjoyed decades of lavish revenues from the tourism industry, but now those windfalls have ended, and it may take years to

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again reach those levels.

One way to reduce government spending would be to make significant cuts in payroll and departmental expenditures.

We also should allow the state and counties to rely more on private contractors to deliver public services⁴³ and on nonunion contractors to work on public works projects.⁴⁴

The state Employee Retirement System and Hawaii Employee-Union Health Benefits Trust fund are both threatened by enormous unfunded liabilities.⁴⁵ Major reforms are needed to make them more sustainable, such as changing the vesting times, offering new plan options for new employees and ending pension spiking.⁴⁶

The state also could conduct an inventory of all its vacant or under-utilized lands and buildings it owns and consider selling them to raise capital and reduce expenses.⁴⁷

Finally, to prevent profligate spending in the future, the Legislature could propose an amendment to the state Constitution that would enact a "spending cap with teeth." The current spending controls amount to little more than a rubber stamp arrangement between the governor and the Legislature. A stricter regime is needed if we are to bring spending under control.⁴⁸

Recommendations to improve our state and county budgets:

- Cut nonemergency spending and cut department budgets by at least 10%. This includes deferring discretionary public construction projects.
- Delay and reevaluate proposed salary increases for politicians and public workers. Consider furloughs for nonessential public services.
- Lower barriers to the use of private contractors for the delivery of public services and nonunion contractors on public works projects
- Reform the state's public pension system.
- Create a state spending cap protected by a vote of the people.

Conclusion

The coronavirus pandemic and accompanying shutdowns have created a difficult challenge for Hawaii policymakers. But there is a clear road map, based on historical precedent and best practices,⁴⁹ that can put Hawaii back on the road to a strong, healthy and vibrant recovery.

All that is needed is for policymakers to embrace the principles of economic freedom. Encourage entrepreneurship, labor mobility, opportunity and prosperity — by removing taxes, regulations and other public policies that stand in the way.

Hawaii's economy will start working again when we let Hawaii's residents work, without hindrance or interference from the government. As Hawaii's economy recovers, personal incomes will grow, government finances will improve and residents will be able to enjoy living in the islands again. At the end of the day, Hawaii lawmakers might wonder why they didn't implement these reforms sooner.

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