Show-Me Institute

Where Liberty Comes First

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SHOW-ME newsletter

TOP EDUCATION SCHOLARS MEET IN KANSAS CITY TO TALK FAILURE

By Michael McShane

On May 22, the Show-Me Institute hosted “Eye on Education: From Failure to Fixes” at the Kansas City Central Library in conjunction with the University of Arkansas’s Department of Education Reform.

In the Helzberg Auditorium, with an audience of over 100 members of the Kansas City education community, nine top education scholars from across the country presented papers on the topic of failure. Papers were presented in three panels, each of which also featured local education figures as discussants, including Kansas City Public Schools Superintendent Mark Bedell.

The papers covered the entire political spectrum. Rick Hess of the American Enterprise Institute opened with a rousing takedown of the way that “expertise” is used in education policy and argued that rather than handing over our education system to allegedly disinterested technocrats, we should engage in the political process to work out what our school system should look like. Martin West of the Harvard Graduate School of Education dissected No Child Left Behind and explained the limits of federal policy in affecting the behavior of individual schools and teachers. Matthew Ladner of the Charles Koch Institute made a persuasive case that in many cities, so called “No Excuses” charter schools are taking up so much market share that they are crowding out other alternative schooling models.

There was debate and disagreement throughout the day. Should education reform come from the top down or bottom up? Given the great needs of the education system, shouldn’t we try to move as quickly as possible? Or does moving quickly set reforms up for failure when they come out half-baked? Is politics the problem or the solution to schooling issues?

The local public television station, KCPT, taped the entire day’s events and has already started publishing snippets as part of its multi-year “Take Note” education series.

All nine papers presented at the conference will be available on the Show Me Institute’s website until mid-July, when they head to Rowman and Littlefield to become chapters in a book released later this year, co-edited by Jay P. Greene of the University of Arkansas and myself.

ADVANCING LIBERTY WITH RESPONSIBILITY BY PROMOTING MARKET SOLUTIONS FOR MISSOURI PUBLIC POLICY

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Brenda Talent
Chief Executive Officer

One strategy for forging consensus among people with widely differing views is to establish some common ground—even if it's only a tiny patch—and work outward from there. To have a productive debate, you need at least a few shared assumptions among the participants. When discussing tax policy, you might begin with something like "tax revenue should be spent in ways that benefit the public rather than private interests." It might be embarrassingly self-evident, but at least it's a starting point.

Or maybe not. Even the statement above can be a tough sell to policymakers in Missouri. In fact, in their quixotic mission to rejuvenate our economy through government intervention, some of them seem resigned to the idea that taxpayer money is something developers and businesses can reasonably expect if they decide to set up shop here.

We saw this sense of resignation in December of 2016 when former Governor Jay Nixon described a proposed offer of $120 million in public money to help build a stadium in Saint Louis for a Major League Soccer franchise as "the price of doing business."

Saint Louis voters didn't see it that way. They showed as much on April 4 when they rejected the stadium proposal that then-Governor Nixon had promoted, even after the amount asked for was lowered to $60 million. The election result was a welcome repudiation of the idea that taxpayers have a duty to ensure the profitability of private business ventures. It was also a relief, because public acceptance of such an idea can be more costly than the dollar value of the subsidies themselves.

If the government is ready to hand out taxpayer money to lure businesses to an area—whether they're sports teams, hotels, or retail establishments—we shouldn't expect business owners to argue, even if they would have been willing to move there without the subsidy. And the premise that public money is necessary for development becomes more plausible—but no less harmful—with each taxpayer dollar that is given away. Entering a market in which competitors are receiving tax credits puts you at a disadvantage unless you're receiving them as well.

Seeing voters reject the stadium subsidy was gratifying, especially to the Show-Me Institute analysts who spent months explaining why it was bad public policy. Their arguments work from the same basic assumption that begins this letter, and those arguments resonate with citizens who are tired of seeing their tax dollars go to private interests rather than the public good.

With that victory behind us, expect to see our analysts examine other policy proposals throughout the state by applying the principle introduced earlier (along with its corollary, that the costs of a program should be borne by those who benefit from it). Development subsidy programs might be the most common example, but any case in which one group is asked to pay so that others benefit is open to question.

The need to rebuild Missouri's interstate highways over the next decade provides an immediate opportunity to align costs with benefits. The job will require serious money; we aren't talking about filling a few potholes, but rather a rebuild of many of our interstates, and the expense for I-70 alone is likely to exceed $2 billion. Show-Me Institute researchers have proposed raising the required funds through fuel taxes and tolling, both of which would establish a relationship between how much people use the roads and how much they pay.

Getting Missourians excited about toll roads, fuel taxes, or any other taxes might be beyond the capacity of even the Show-Me Institute. We shouldn't expect taxes to be popular, even when they are necessary to fulfill a clear government obligation. But we should expect them to be fair.

WE FULLY FUNDED THE K-12 FORMULA—BUT WHERE IS THAT MONEY GOING?

By Emily Stahly

For the first time, legislators in Jefferson City have approved a budget that fully funds the K-12 foundation formula. The total price tag? $3.4 billion. But does a fully funded formula mean that we are adequately funding classrooms? Or does Missouri have a larger problem with prioritizing spending in the education budget?

According to a report released by EdChoice, growth in state education spending is not improving the quality of education or increasing teachers' pay; instead, it's funding an unnecessary "staffing surge."

This report found that, adjusted for inflation, per-student spending has increased by 33 percent in Missouri between fiscal years 1992 and 2014, while teachers have actually seen a 4 percent pay cut during the same period.

How can this be? The author, Dr. Ben Scafidi, makes the case that schools are too focused on hiring more teachers and administrative staff, adding significantly to costs without corresponding improvement in student performance. Scafidi points out that academic achievement has flat-lined nationally despite smaller classrooms and more support staff.

The table to the right shows that in Missouri and nationwide, growth in school staff far outpaces growth in enrollment. In Missouri, school staff grew almost three times faster than student enrollment.

With such a dramatic increase in staffing and spending, shouldn't we see students improving academically? Unfortunately, this has not been the case.

According to the results of the National Assessment for Education Progress (NAEP) Long-Term Trend Assessments, student test scores have stagnated. When comparing the scores for 17-year-olds from 1992 to 2012 (Scafidi used this age because "these scores reflect the culmination of students' public school careers"), reading scores went down from 288 to 285 and math scores remained the same at 305.

Without positive correlation between larger school staffs and student achievement, it would be wise to reassess how we spend education dollars. Hiring more teachers and administrators than necessary to keep pace with student growth creates a tradeoff. Money spent hiring more teachers and administrators is money that can't be spent on other programs or priorities—including pay raises for the best-performing teachers.

To illustrate the cost of the staffing surge, Scafidi estimates that, nationwide, if the increase in administrators and all other staff matched the change in student enrollment, every teacher could receive a permanent $11,110 raise from the money saved. Since Missouri's administrative growth is not as drastic as that in other states, our teachers could have a $6,544 raise by getting rid of extra staff. We can debate whether or not that is the best use of dollars, but we should be clear-eyed about the tradeoffs.

When we discuss education spending, it's not enough to look at the total budget figure or per-pupil spending. Over the past 25 years, we have tried to solve poor performance by adding more staff. This approach doesn't appear to be working. Now that Missouri is fully funding the formula, policymakers are well advised look for better ways that this additional money can be spent in order to improve student outcomes.

Growth in Students and Staff from FY 1992 to FY 2015

	Growth in Number of Students	Growth in All Staff	Growth in Teachers	Growth in All Other Staff
Missouri	9%	26%	28%	24%
United States	20%	37%	29%	47%

Source: Scafidi, B. "Back to the Staffing Surge." EdChoice, May 2017, Appendix 1, Table 2.

JOPLIN'S PEOPLE—NOT ITS GOVERNMENT—SPURRED ITS RECOVERY

By Patrick Tuohey

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The devastation wrought by the tornado that swept through Joplin, Missouri, on May 22, 2011 cannot be overstated. In a matter of minutes, a third of the town was destroyed. Over 150 people died and another 1,100 were injured. The National Weather Service declared it the deadliest single tornado since modern record keeping began in 1950, and it is ranked as the 7th-deadliest in U.S. history.

The damage to structures was unparalleled in modern times: 4,000 dwellings were destroyed, and another 3,500 were damaged; 9,200 people were displaced. Damage was estimated at between $2 and $2.8 billion. Surveying the acres of ruin, many doubtlessly feared that Joplin could never fully recover, but some remained steadfast. Two days after the storm, Joplin School District Superintendent C. J. Huff announced that schools would open again on August 17 as previously scheduled.

Aiding the people of Joplin became a national cause. President Obama said that, “It’s in these moments, through our actions, that we often see the glimpse of what makes life worth living in the first place.” He quoted scripture, promised national support, and said that there was no doubt that Joplin would rebuild. Radio host Rush Limbaugh said on a subsequent trip to Joplin, “It’s going to be rebuilt. It’s going to be better than it ever was. You are going to show the rest of the country how it’s done because you represent the best of what this country has to offer.”

Joplin was rebuilt. Just six years later, not only has Joplin’s population grown beyond its 2011 mark, but the city has more than recaptured the $34 million in assessed property valuation lost to the storm. The rapid reconstruction stands as a testament to the people of Joplin and a can-do attitude that did not rely on government assistance or oversight. In fact, one reason why reconstruction happened so quickly is that government got out of the way.

Bill Scearce, a member of the Joplin City Council, was quoted in *The Wall Street Journal*, saying, “We need to say to our businesses, community, and to our citizens, ‘If you guys want to rebuild your houses, we’ll do everything we can to make it happen.’” *The Journal* continues:

> According to interviews with local business owners, right after disaster struck the city council formally and informally rolled back existing regulations, liberally waiving licensing and zoning mandates. It even resisted the temptation to make “safe rooms” a condition of rebuilding.

> The owner of one Joplin construction company told us that when it came to regulations, the “city just sort of backed out. . . . We had projects that we completed before we got building permits.” Said another Joplin resident: “When you have the magnitude of that disaster, really

> the old ways of doing things are suspended for a while until you create whatever normal is. . . . The government was realistic to know that there is a period of time when common sense, codes and laws that are in place to protect people are suspended for the sake of the greater good."

One government planning exercise Joplin did engage in turned out to be mostly a waste of effort. Joplin made available tax increment financing (TIF), an economic development measure intended to address areas of persistent economic decline, to help developers reduce the cost of investment by returning to them a portion of the taxes paid on new developments.

However, before any major redevelopment projects could begin, the master developer of the project, Wallace Bajjali, closed down. As a result, Joplin benefitted from only the development completed by individual private builders—residential, commercial and industrial—funded by private investment and about $2.8 billion in private insurance claims. That investment, supported by a local government that knew when to get out of the way—and not the much-ballyhooed, taxpayer-subsidized TIF construction—rebuilt Joplin. The same councilman, Bill Scearce, who was eager to get government out of the way of builders, was on record as skeptical of the ill-fated taxpayer subsidized development scheme. He was right.

Looking back on the Joplin experience with TIF is instructive to any community in similar straits. Despite good intentions, the scheme was riddled with flawed contracts and poor oversight. Had Joplin gone the way of other cities rebuilding from a disaster, such as Tuscaloosa, Alabama, and sought to control reconstruction from the top, its misadventure with public subsidies would have been much worse.

As one person said in a *The Wall Street Journal* story contrasting Joplin's redevelopment with that of Tuscaloosa, Alabama:

> Joplin took the classical conservative path, a realistic one that gave wide berth to private citizens and businesses in the reconstruction process. Tuscaloosa opted for state-of-the-art planning that could produce ideal communities as conceived by urban visionaries.

It turns out, though, that unbuilt "showpiece" neighborhoods and "village centers" in Tuscaloosa are no match for the real homes and businesses that are springing up in Joplin, even if the Joplin reality is less than perfect.

By trusting in the many voices of the free market—in short, the many voices of the people themselves—Joplin succeeded where other cities' disaster recovery programs have stalled. Joplin residents do "represent the best of what this country has to offer," and ought to be lauded not just for trusting themselves, but for avoiding, even if accidentally, the pitfall-laden path of centralized urban planning.

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THE ART OF THE DEAL: PRIVATIZING LAMBERT AIRPORT

By Graham Renz

Officials in Saint Louis are exploring an exciting opportunity: the privatization of Lambert International Airport. At the end of his 16-year tenure, Mayor Francis Slay announced the city was moving an application through the Federal Aviation Administration's (FFA) Airport Privatization Pilot Program (APPP).

Under the APPP, a limited number of private firms can gain the right to operate and manage public airports. The private firms are then able to pursue profits, and in exchange they give substantial upfront cash payments, a share of future revenue, and major capital investments to the public entity.

Privatizing Lambert could be a win–win–win proposition for Saint Louis. The city could get an infusion of cash; private firms could get the opportunity to pursue profits; and the traveling public could get an improved and more efficient airport. But skeptics point out that a limited number of airports have gone through the APPP. For her part, Mayor Slay's successor, Lyda Krewson, said of privatization that the "devil is in the details".

Both skeptics and Mayor Krewson are right; few U.S. airports have been privatized through the APPP, and if policymakers are to negotiate a good deal, they'll need to do their homework. But these aren't arguments against privatizing Lambert; they're simply cautions to do things right.

So what do we know about airport privatization?

Globally, airport privatization is an established and growing trend. According to Airports Council International (ACI), in 2016, 41percent of European airports were partially or fully privatized (compared to 22 percent in 2010). In fact, 75 percent of European passenger trips are made through airports with some level of private-sector participation. And in the early 1990s, the Canadian government privatized the management and operation of its 26 largest airports—the so-called National Airport System (NAS). The Canadian government leases the rights to NAS operations to nonprofit private firms in exchange for the same compensation proposed in the APPP: up-front cash payments, a share of revenues, and investments in airport infrastructure. In brief, privatization works, and advanced nations have been doing it for years.

So why has privatization via the APPP not taken off? One problem is that the APPP can be overly restrictive, and the FAA often takes years to approve applications. For example, private operators must often comply with federal grant assurances agreed to by the previous, public operator. And once an airport is privatized, it can no longer borrow at an artificially low rate like its public competitors can. These hurdles, on top of major capital costs and up-front payments, make privatizing U.S. airports challenging.

Given these challenges, and the duty of policymakers to protect taxpayers and the traveling public, what details should any privatization agreement have? First, it should require capital improvements that expose airlines to competition. Markets must be *competitive*, and so, while capital improvements should benefit all parties, they shouldn't favor incumbent airlines over newcomers. Second, there must be reasonable safeguards against insolvency that would revert operations to the city and keep travelers' experiences consistent should a private operator go under. Lastly, the compensation required by the city shouldn't be prohibitive. The goals of privatization should be to improve the airport for passengers and grow the regional economy as a whole—not simply to raise cash for the city.

Privatizing the heart of Saint Louis's airway infrastructure could indeed be a boon for the regional economy. As a 2015 review of the Canadian Transportation Act concluded, "A system based on competition, market forces, and the user-pay principle is the best means to deliver a robust air transport sector." I hope policymakers will craft a meaningful privatization agreement that lets market forces deliver high-quality and affordable travel options for Saint Louis residents and businesses.

CERTIFICATE OF NEED REFORM WOULD BE A SUPPLY-SIDE VICTORY FOR PATIENTS

By Patrick Ishmael

Since the November elections, much of the attention on health care policy has been focused on federal policies. To an extent, this is justified; many of the health care policy mistakes of the last few decades originated there. With the passage of the Affordable Care Act, or Obamacare, in 2010, long-standing problems in health care cost and access were exacerbated for countless Americans. Since then, progress on solutions to these problems has been painfully slow.

Meanwhile, as the wheels on Obamacare have begun to come off, Missouri has suffered the consequences. Last year I wrote in *Forbes* that some of the people hurt the most in the present health care system were Missourians living in rural communities, who not only had limited care options in the healthcare marketplace, but whose insurance options were dramatically more expensive than those of their urban counterparts—sometimes up to 50% more expensive for the very same plans sold in the cities.

Those cost and insurance access problems seem likely to accelerate thanks to decisions by two insurers (at this writing) who have indicated they will not be selling plans in the Obamacare exchanges in Missouri next year. In February, Humana announced it would be exiting the exchanges, leaving thousands in southwest Missouri with only one insurer to "choose" from in 2018. Matters were made worse in May, when Blue Cross Blue Shield of Kansas City announced that it was withdrawing its insurance products from the marketplace next year as well—leaving dozens of counties in the state with no insurers in the marketplace at all.

Intense regulation of products and services is often marketed as the government "protecting" consumers, but in health care such regulation has often done precisely the opposite—far from protecting patients, it has harmed them needlessly, and often seriously.

We believe, in short, that regardless of what happens in Washington, there is plenty that the state can do on its own to make health care more affordable and accessible for Missouri patients.

And that includes drawing down antiquated policies like the state's Certificate of Need (CON) law, which imposes an artificial barrier to entry for a wide array of health care facilities to open and serve patients in the Show-Me State. Missouri's CON law requires state approval before a healthcare provider can enter the market. As you may have guessed, CON laws were initially instituted around the country to supposedly guarantee health care services by protecting against an oversupply of providers, and yet the research has shown repeatedly that these laws do the opposite—CON tends to raise costs and decrease access for some of the country's neediest patients. It's no wonder that many states have abandoned their failed CON programs. Missouri should do likewise.

Show-Me Institute analysts have talked for years about state-based reform, including turning away from attempts to manipulate demand for services by mandating purchase and coverage of insurance, and instead moving toward efforts to unshackle the supply of health care. We've talked about protecting direct primary care physicians. We've talked about getting providers to compete to serve Medicaid recipients and opening the door to qualified physicians nationwide to help all Missourians.

President Ronald Reagan famously said that "[t]he nine most terrifying words in the English language are 'I'm from the government, and I'm here to help.'" That is undoubtedly true in health care policy. Rather than let government interpose itself between patients and their doctors, hospitals, and insurers, policymakers should concentrate on getting government out of the way. And on CON, like so many other state-based reforms, our legislators don't have to wait for the federal government to get its act together.

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