



SHOW-ME newsletter

OCTOBER 2012

MOVING MISSOURI FORWARD: PRINCIPLES OR POLITICS?

Do you want to become more engaged in your local or state government? Are you interested in free-market solutions to the problems facing Missouri? The Show-Me Institute has developed a list of questions that may assist you in determining where an elected official or candidate for public office stands on key issues.

Our questionnaire — “Principles or Politics?” — will assist you in asking detailed questions about issues such as:

- Quality schools and teachers, innovation in education, and funding for public and private education.
- Protecting Missouri’s health as it relates to regulations and government mandates.
- Reshaping our tax system, economic development model, infrastructure, and regulations on business to promote growth in our state.
- Promoting transparency in all governmental actions.

Anyone interested in our government may use this document to ask common-sense questions of policymakers. It also directs citizens, lawmakers, candidates, and the media to our website, where a host of resources are available.

The intent is to get all Missourians involved so they are able to make informed decisions when choosing or evaluating policymakers. In turn, public servants who want to find real solutions that foster economic growth and move Missouri forward can find them here.

To learn more about the Institute’s research with respect to these questions, please visit our website (www.showmeinstitute.org). There, you may click on each question to guide you to research and analysis of each topic. If you would like to receive copies of our free questionnaire, please call (314) 454-0647.

NOTE: The Show-Me Institute is a nonpartisan organization that neither supports nor opposes any political party or candidate for office.

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

A MESSAGE FROM THE EXECUTIVE DIRECTOR



Brenda Talent
Executive Director

Individuals are most likely to prosper in a society where entrepreneurs are free to pursue their dreams, where parents are free to direct the education and upbringing of their children, and where government functions according to principles that enhance freedom.

In Missouri, decades of poor public policy decisions have diminished our freedom and hampered individuals' abilities to prosper. Missouri ranked last in economic growth from 1997 through 2010 compared to the eight states surrounding its borders. It ranked 48th in GDP growth (*i.e.*, growth in annual output of goods and services). It also lagged behind all but one other Midwestern state (Illinois) in growth of employment.

Missouri currently ranks fifth in per capita income — the best measure of relative prosperity — behind Illinois, Kansas, Nebraska, and Iowa. On current trends, we are in danger of falling into last place.

Between 1997 and 2010, the growth in output for the U.S. economy as a whole was 33 percent. None of the nine Midwestern states matched or exceeded that, but three (Nebraska, Iowa, and Oklahoma) came close at 32 percent, and another three were not far off the pace, with Arkansas and Kansas both at 29 percent and Tennessee at 25 percent. The three laggards in terms of their overall growth over the 14 years were Illinois at 19 percent, Kentucky at 17 percent, and Missouri at 14 percent. Missouri ranked 48th out of the 50 states in GDP growth, ahead of only Ohio and Michigan, down at 7 and 1 percent, respectively.

Missouri lawmakers have clung to a faulty set of policy prescriptions that try to pick winners and losers, and have failed to implement serious tax reform to improve Missouri's competitiveness.

Now, our state is under increased pressure from policy changes enacted in Kansas that will appeal to entrepreneurs and small businesses. These changes pose a threat to future growth and prosperity in Missouri unless our lawmakers start thinking seriously about creating a more favorable environment for economic growth and job formation.

Yes, Missouri is falling behind, but we can still compete despite recent poor economic performance. At the Show-Me Institute, we are working to advance a discussion on policy proposals that will lead to growth and prosperity in the state. By developing solid public policy based on free-market principles, together we can promote a peaceful and prosperous society of free and responsible individuals.

SHOW-ME INSTITUTE WELCOMES THREE NEW STAFF MEMBERS



The Show-Me Institute is pleased to welcome the following additions to our staff.

PAUL SMITH, Development Assistant

He is a 2010 graduate of Hillsdale College, where he received a B.A. in English literature and religious studies. Smith previously worked as an English teacher in South Korea, completed an internship with the Ron Paul presidential campaign, and served as a field director for the Ted Cruz Senate campaign in Texas.

KACIE GALBRAITH, Research Assistant

She graduated from New York University in 2009 with a B.A. in economics and business. In 2011, she completed her master of public administration degree at the Maxwell School of Syracuse University, specializing in state and local government policy and finance. She previously worked for a municipality in Saint Louis County in the city manager's office and finance department.

JAMES V. SHULS, Education Policy Analyst

Shuls is a former teacher, has a bachelor's degree from Missouri Southern State University and a master's degree from Missouri State University, both in elementary education. He is a Ph.D. candidate in education policy at the University of Arkansas.



BAD NEWS FOR MISSOURI COMPETITIVENESS

By Andrew B. Wilson

Do you hear a giant sucking sound?

It is the sound of thousands of jobs and scores of job-creating businesses being sucked across the state line from Missouri into Kansas.

At the end of the last session of the state legislature, Kansas Gov. Sam Brownback signed a law aimed at making Kansas the location of choice for small business owners and entrepreneurs within the Midwest region. The new law reduces the state's top tax on wage income from 6.45 percent to 4.9 percent. That is a big step in the right direction.

Even more dramatically, however, the new law eliminates the income tax for many, or even most, entrepreneurs and small business owners — including all businesses that operate as sole proprietorships, limited liability partnerships, and S-corporations. What those organizational models have in common is that the owner or owners of a business report their income not as corporations but as individuals.

Beginning in 2013, the owner of an enterprise with \$10 million in sales and \$500,000 in “pass-through” income — meaning income after wages and other expenses — will pay no portion of that income to the state of Kansas. Not one cent. By contrast, the owner of an identical business in Missouri would pay the state's top income rate of 6 percent — or \$30,000 on \$500,000 in income.

How big a threat does the new tax regime in Kansas pose to the future growth and prosperity of our state? For starters, it could lead to a loss of about 4,500 jobs in the 11 Missouri counties bordering Kansas.

That is one of the conclusions in a recent commentary by Joseph Haslag, chief economist at the Show-Me Institute, and fellow economist Michael Podgursky, a director at the Institute. Haslag and Podgursky point out in their commentary (smiinfo.org/morebadnews) that the total pass-through income for partnerships, S-corporations, limited liability partnerships,

and sole proprietorships in the state of Missouri is \$13.2 billion.

Based on population and income distribution, the 11 border counties are believed to account for 24 percent of the \$13.2 billion, or \$3.17 billion.

Haslag and Podgursky made the seemingly conservative assumption that 10 percent of the business owners filing individual income tax forms in the 11 border counties might deem it worthwhile to relocate their businesses to Kansas in order to avoid the 6 percent Missouri tax.

That translates into a \$317 million reduction in goods and services in the 11 counties and about 4,500 jobs going across the border.

Andrew B. Wilson is a resident fellow and senior writer at the Show-Me Institute.



DONOR KNOWS HOW TO FIX WHAT AILS AMERICA



Charles Willey, M.D.

Longtime physician Chuck Willey is no stranger to health care policy. A graduate of the University of Missouri's medical school and founder of an innovative health care business, Willey knows what does and does not work regarding quality, accessible patient care. From commentaries in national publications to public events, Willey and his wife Anne are tireless advocates and activists for free-market solutions to treat what literally and figuratively ails America.

This passion is also why they donate to the Show-Me Institute.

"The country was designed to run by the consent of the governed," Willey said. "We, the governed, have a duty to be informed and organized to affect our consent. My contribution and participation with the Show-Me Institute helps me be informed and lends organization and strength to my civic duty."

"We simply have to throw off this government regulatory burden and return responsibility and accountability for clinical and economic decisions in health care back to the citizens and their doctors."

The Willeys have supported free-market causes for many years, including the long-running and hugely popular Heritage Taverns: a series of periodic get-togethers around Saint Louis that have hosted a variety of public policy movers and shakers, including national health care experts like Bob Moffitt.

The Willeys recognize that health care is a state and local issue and have worked with the Show-Me Institute to help educate Missourians about health policy issues. This summer, Willey joined Donald Palmisano, a physician and former president of the American Medical Association, and Show-Me Institute Policy Analyst Patrick Ishmael to discuss the implications of the U.S. Supreme Court's ruling on the Affordable Care Act, also known as ObamaCare.

The forum, "Where Do We Go From Here? A Healthcare Expert Panel Discussion," laid out what the Supreme Court's decision means for the future of health care policy in America. Willey's personal stories were an invaluable contribution to the discussion (view

the video here:

smiinfo.org/willey).



"My profession and its business model are being crushed by government regulation, and ObamaCare

is the anvil that breaks the camel's back," Willey said. "We simply have to throw off this government regulatory burden and return responsibility and accountability for clinical and economic

decisions in health care back to the citizens and their doctors."

Willey also was instrumental in making one of this year's marquee Institute events a reality: an evening with John C. Goodman, Ph.D., president and CEO of the National Center for Policy Analysis, and author of the book *Priceless: Curing the Healthcare Crisis*. Goodman's presentation, "Reforming Healthcare By Seeding Free-Market Formation," takes the Affordable Care Act bull by the horns and lays out another approach to solving America's health care crisis — one that trusts in individuals as consumers.

"In reading Dr. Goodman's book, I find agreement with a number of my own ideas about reforming health care from the marketplace and many new ideas as well," Willey said. "His learned economic approach gives me hope for finding practical solutions that can become policy to strategically liberate citizens and their doctors to improve long-term health, which is the only way to save money in health care."

Goodman suggests that one way to save money is with health savings accounts.

"Health savings accounts allow patients to control more of their health care dollars," Goodman has said. "When they are controlling those dollars, they make more prudent, conservative decisions on the buyer side. On the seller side, when patients are controlling their own money, doctors and other providers start competing on price. When they compete on price, they also compete on quality. So, if you want the market to work, first you have to empower the consumer."

An investment in the Show-Me Institute opens doors to unparalleled networking opportunities with scholars of national renown.

Goodman's talk is a great fit for the Show-Me Institute. Yet the event would not have been possible without the Willeys' commitment to the free-market movement. Why do they devote their time, energy and dollars to promoting free markets? Willey said it all goes back to their deeply held convictions that free people can and do make a difference.

"The best performance comes when the individuals doing the small jobs that make up the larger projects are free to make the on-the-spot decisions necessary for success of the endeavor," Willey said. "A free market harnesses each individual's astute on-the-job decision-making and their personal incentive to succeed and prosper. A free market is critical to individual and population health. Separating a person too much from the adverse health and economic consequences of their health decisions will lead to them becoming sicker in time, especially when there is delay in adverse consequence such as in smoking, obesity and diabetes."

The Willeys are doing their part to empower people to make a difference in their own lives and foster free markets in tandem with the Show-Me Institute. For more information on ways to support the Show-Me Institute, visit showmeinstitute.org/donate.

THE MORAL CASE FOR FREE ENTERPRISE

In his latest book, Arthur C. Brooks, the president of the American Enterprise Institute, gives free enterprise its third cheer. That is the one that Irving Kristol, the so-called "godfather of neo conservatism," withheld in his essay "Two Cheers for Capitalism."

Kristol gave capitalism a first cheer because "it works, in a material sense," and a second cheer because it is "congenial to a large measure of personal liberty." But Kristol went on to complain that capitalism creates a "spiritual malaise" and fails to meet "existential human needs."

In *Road to Freedom: How to Win the Fight for Free Enterprise*, Brooks argues that a narrow reliance on citing the advantages of free enterprise in producing the most wealth for the greatest number of people is "a gift" to the "statists," the champions of big government. He writes: "It allows them to paint free enterprise advocates as selfish and motivated only by money. Those who would expand government have successfully appropriated the language of morality for their political ends; redistributionist policies, they have claimed to great effect, are fairer, kinder, and more virtuous."

Brooks goes on to build the moral (and, indeed, the spiritual) case for free enterprise around two concepts: earned success and learned helplessness.

True happiness comes from earned success, Brooks argues, much more so than the money or riches that accrue to someone who wins the lottery or inherits a fortune. The flip side of earned success is learned helplessness. Redistributionist policies spread misery more than wealth. They create dependency on the state and strip people of the dignity that comes from earning their own way. That is the pernicious and, indeed, immoral effect of learned helplessness.

In easily readable and yet eloquent language, Brooks makes a valuable contribution to free-market literature.



Along with the Saint Louis University John Cook School of Business and the Sinquefeld Charitable Foundation, the Show-Me Institute sponsored Arthur Brooks as our guest lecturer in the 10th Speakers Series on Economic Policy.



HOW DO WE BECOME 'UNSTUCK' IN THE MIDDLE?

By James V. Shuls

Hopefully there are not any “clowns to the left of you” or “jokers to the right,” but if you live in Missouri, you are certainly stuck in the middle. No, I am not referring to the geographic location of Missouri; rather, I am talking about academic achievement in Missouri.

On a number of measures, Missouri students rank near the middle when compared to other students around the country; this in a nation that has fallen well behind many other countries in terms of academic performance. The fact is that Missouri is stuck in the middle and needs bold education policies that will allow schools to innovate and parents to choose.



James V. Shuls joined the Show-Me Institute as its new education policy analyst in July. He has written a series of blog posts about Missouri's education being stuck in the middle. To read more from Shuls, visit smiinfo.org/jamesshuls.

How Does Missouri Stack Up?

Most colleges and universities require prospective students to take a college entrance exam. One of the most popular exams is the ACT. The state's average ACT score has remained unchanged at 21.6 for the past eight years. In 2012, Missouri ranked 26th in the country. To be fair, a state-to-state ACT comparison is not comparing apples to apples because ACT participation rates vary.

The best state-to-state comparison of educational achievement is the National Assessment of Educational Progress (NAEP). Since 1990, the National Center for Education Statistics has used the NAEP to gauge the performance of students in the states. In fact, the test is often referred to as the nation's report card. The test is administered annually on varying subjects. Every other year, a representative sample of fourth- and eighth-grade students in each state are tested in mathematics and reading. In 2011, Missouri fourth graders ranked 28th in math and 32nd in reading. Missouri's eighth graders ranked 33rd and 25th in math and reading, respectively. Thus, comparing apples to apples, Missouri is in the middle of the pack.

Unfortunately, Missouri does not seem to be improving rapidly in comparison to other states or other countries. Using data from NAEP and several international comparison tests, notable education scholars Eric Hanushek, Paul Peterson, and Ludger Woessmann analyzed national and state level trends in achievement. They found the United States performance to be middling in comparison to other countries. From 1995 to 2009, 24 countries had educational gains larger than the United States and 24 had smaller gains. In their analysis, Missouri once again appears average when compared to other states, ranking 27th in the annual rate of growth in math, reading, and science achievement.

How Do We Become “Unstuck” In The Middle?

To have a workforce that can compete in today's economy, Missouri's education system must improve. Last year, the Missouri Department of Elementary and Secondary Education (DESE) released a bold vision to move Missouri into the top 10 in national education comparisons by the year 2020. For this to happen, Missouri must become unstuck; not just in the rankings, but unstuck from the bureaucratic system and policies that have hindered our state from advancing and our schools from innovating.

Below are two broad policy solutions that have the potential to transform Missouri into a top 10 state.

1. Empower schools to attract and retain the best teachers and promote a system that equips schools to remediate or remove the worst.

Great teachers can have a tremendous impact on student achievement. Top-performing teachers generate learning gains almost double that of teachers in the bottom 20 percent, equivalent to almost six months of learning. These terrific teachers make lasting impacts on their students that translate into beneficial life outcomes. Unfortunately, feckless leadership and outdated rules make it difficult for schools to hire and retain great teachers or to remove low-performing ones.

In fact, a recent study by TNTP revealed schools retain teachers from the top and bottom at “strikingly similar rates.”

2. Provide parents with options so they can choose the school and type of education that best meets their family’s needs.

Not only do schools lack the power to make important staffing decisions, some also lack the motivation to make changes in how they operate. Many schools function in the same way they have for decades. To make schools more responsive to students and their families, we need to enable parents to

send their child to the school of their choice, rather than have them assigned to one.

When parents have the ability to choose from a host of educational providers, including public charter and private schools, they likely will be more engaged and satisfied with their child’s school and students have the potential to thrive.

Missouri has been stuck in the middle in terms of academic achievement for some time now, and we will remain stuck if we keep doing things the same way. As the old adage goes, “doing the same thing and expecting different results is the definition of insanity.”

By freeing schools to make important decisions and allowing parents to choose, we can begin to unleash Missouri’s potential for real academic success.



Executive Director Brenda Talent discussing health care and tax subsidies on *Donnybrook* in August 2012.



Policy Analyst David Stokes discusses hot topics on the *McGraw Show* radio program at 8:35 a.m. every Monday.

SHOW-ME ON THE AIR

The Show-Me Institute has received a lot of air time and has shared its message via radio and television.

Show-Me Institute Policy Analyst David Stokes now has a regular appearance on the *McGraw Show* radio program. Stokes and host McGraw Milhaven discuss hot topics of the day every Monday on the Big 550 KTRS in Saint Louis.

Stokes’ first appearance was on June 25. He and McGraw have discussed issues such as toll roads, the state’s uniquely low cigarette tax rate, the Supreme Court’s decision on health care, this year’s election, tax subsidies, and Stokes’ personal experience appealing his property tax.

To hear previous broadcasts, visit [smiinfo.org/McGraw-Stokes](http://www.smiinfo.org/McGraw-Stokes). And remember to tune in at 8:35 a.m. every Monday. Listeners also can hear the broadcast live on the Internet at <http://www.ktrs.com/listen-now>.

Show-Me Institute Executive Director Brenda Talent has appeared several times on the popular television talk show *Donnybrook* on KETC Channel 9 in Saint Louis.

Talent has participated in some lively panel discussions, including the outcomes of the primary elections and the possible impact in November, whether Missouri should elect to expand Medicaid, the impact of the Supreme Court’s ruling regarding the Affordable Care Act, and the harmful effects of tax subsidies.

To view Talent’s appearances, and to see other videos that the Show-Me Institute has produced, visit smiinfo.org/brendatalent.

WHO DOES TIF AND EMINENT DOMAIN ABUSE HURT?

The historic African-American neighborhood of Hadley Township in Richmond Heights, Mo., has been devastated by the threat of eminent domain for the past decade. The redevelopment proposals that city officials have encouraged pitted neighbor against neighbor, discouraged property upkeep, and severely harmed the residents and the neighborhood.

Hadley Township was a strong community until city officials decided it would engage in centralized economic planning. The starts and stops of proposed developments, Tax Increment Financing (TIF), and the threat of eminent domain have devastated the neighborhood. The city played the role of real estate developer, attempting to plan who, what, where, when, and how the community would be altered.

Richmond Heights officials hired a professional planning firm to assess the neighborhood in 2002 and began seeking proposals from developers in 2003; the city has rejected some proposals and developers have rescinded others over the years. Numerous plans have been proposed and each has included more big-box retail that would bring more sales taxes to Richmond Heights.

As a result, residents have been stuck in a state of uncertainty for years as the city and various developers have planned to buy or take their homes. That uncertainty led to some residents allowing their properties to deteriorate while others tried valiantly to maintain their homes and the neighborhood they love.



Until recently, there were two more proposals for the neighborhood. However, in mid-

September, Pace Properties pulled its proposal because it could not reach agreement with all of the homeowners. The good news from this move is that Pace will not be exercising its right to use eminent domain to take the property of the people who did not want to sell. The other current proposal remains alive, however, and the Show-Me Institute is monitoring what will happen with that project.

Hadley Township is the ultimate example of the harm that comes when cities think they can plan an economy better than free-market forces. The Show-Me Institute produced a series of videos discussing the situation with the residents, which may be viewed at smiinfo.org/hadley.

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