Show-Me Institute
Where Liberty Comes First

October 2015

SHOW-ME newsletter

DIRECT PATIENT CARE: A WAY OUT OF THE AFFORDABLE CARE ACT MAZE

By Patrick Ishmael

The Affordable Care Act has created a lot of problems. From skyrocketing insurance prices to crashing websites, the law more commonly known as "Obamacare" has exacerbated, rather than fixed, the cost, care, and access problems that have long bedeviled America's health care system.

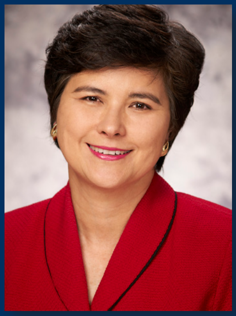
But while the ACA will be with us for at least a little longer, one innovation in American health care may offer a sort of escape hatch for patients seeking reliable, reasonably-priced access to quality care during the Obamacare era. That innovation: direct primary care, or DPC.

DPC is a practice model for primary care physicians that typically cuts out middleman insurers. Rather than bill insurers on a fee-for-service basis—a system that costs doctors a great deal of time and money to manage—the DPC model allows physicians to arrange for payments directly with patients for a set price. In return, doctors guarantee broad and generally unlimited access to their services.

Moving to a direct primary care payment system has benefits for both doctors and patients. For doctors, it means largely removing the administrative costs of the fee-for-service model, so physicians spend less time on bill collections and more time with patients. For patients, it means reliable access to a physician at a reasonable price—thanks in part to the removal of the insurance billing overhead.

As we have written before, there are numerous reforms that state and federal policymakers should pursue in their efforts to make Americans' health care better. Reforms that facilitate DPC arrangements are high on that list. Indeed, instead of relying on another broken government program, we should be looking to innovations like DPC to address the cost and access issues of our health care system.

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Brenda Talent
Chief Executive Officer

In September, the Show-Me Institute (along with several other policy research and educational organizations) filed an amicus brief in support of the plaintiffs in *Friedrichs v. California Teachers Association*. This was not something we undertook lightly, but we could not stand idly by while a case of this importance was being argued.

The basics of the case are as follows: Rebecca Friedrichs and nine other California public school teachers have filed a suit arguing that they should not be required to pay agency fees (also called "fair share" fees) to the California Teachers Association (CTA), in part because they disagree with the political positions taken by the CTA.

The union defends itself by making much of a dubious distinction between union dues and agency fees. Under current law, teachers may opt out of full union membership. Teachers who opt out do not pay full union dues, but still pay a somewhat smaller amount as agency fees. According to the CTA, paying the smaller amount allows these teachers to keep the money that the union would spend on political activity on their behalf, and pay only their fair share of the expenses associated with collective bargaining and other allegedly less-political activities. But this highlights a critical difference between private-sector unions and their counterparts in the public sector.

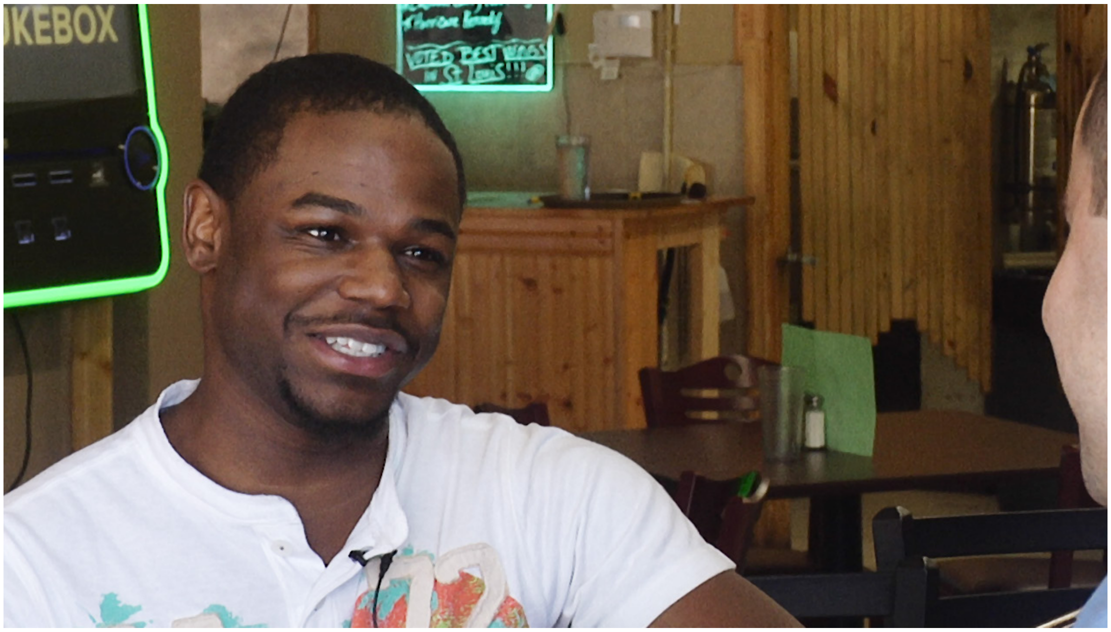
Unlike private-sector unions, public-sector unions negotiate with the government—and *any* agreement or contract that the government enters into is political. Teacher compensation, for example, is at the heart of collective bargaining, and the political implications of our current system of compensating teachers are painfully obvious. States across the country are already struggling with a precipitous rise in the costs of defined-benefit pension plans provided to many teachers and other public employees, and anyone who thinks the response to this looming crisis won't affect other areas of public policy simply doesn't understand the scale of the problem.

Every state should be having a healthy and vigorous debate about the future of defined-benefit retirement plans for public employees, and this is only one of numerous controversial topics that come up during collective bargaining; teacher tenure, school choice, and merit pay come to mind as just a few other examples. For the CTA to claim that Rebecca Friedrichs should be forced to *pay for the privilege* of having it speak for her on any of these issues, even when she opposes the positions taken by the union, is beyond arrogance. It is a violation of her First Amendment rights, just as it would be if she were forced to give financial support to a church or political party. At the Show-Me Institute we are proud to add our voice to those siding with Ms. Friedrichs and the other plaintiffs in this case. A victory in the Supreme Court will let public-sector unions know that the employees they serve are not merely a source of revenue, but are instead individuals who will decide for themselves whether or not the unions' activities deserve their support.

MINIMUM WAGE HIKE THREATENS GROWTH IN SAINT LOUIS

By John Wright

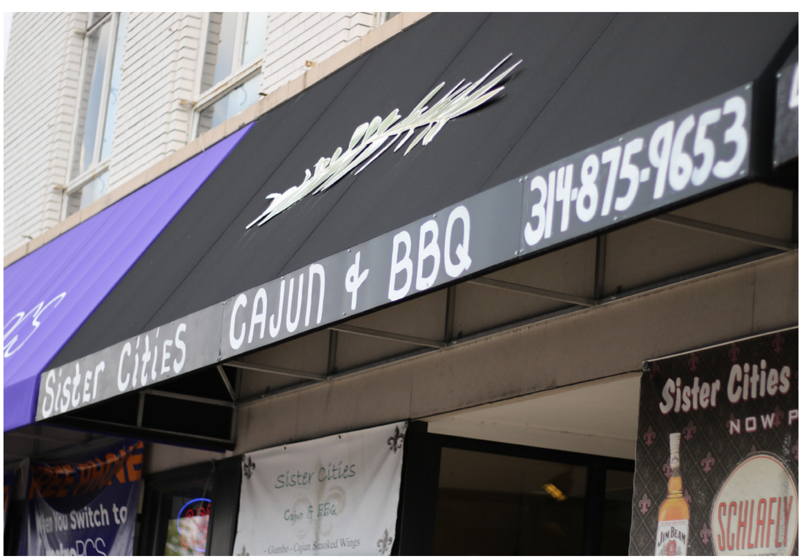
Javion Johnson (who goes by JJ) works the front of a Cajun and barbecue restaurant called Sister Cities in the Dutchtown neighborhood of Saint Louis. The story of how JJ began working at Sister Cities and advanced to his current position will be familiar to many readers. Unfortunately, a mandated increase to the minimum wage in Saint Louis could keep others from following in his path.



JJ is 22 years old and lives in the neighborhood. He started working at Sister Cities when the co-owner, Pam Melton, needed a dishwasher in a pinch. JJ had come in after smelling the food from outside, and Pam asked him if he'd like to make some extra money.

JJ quickly worked his way up from his dishwashing position. He recalls Pam telling him, "You have a good smile. You have a good personality. I need you in the front. You can't be nice to the dishes anymore. They're clean now."

He now runs the front of the house. He seats customers, takes orders, handles checks, and stocks the bar. When Sister Cities put up a chalkboard, JJ taught himself chalk art from a YouTube channel. He now does much of the signage for Sister Cities.



JJ's story is not unusual. No one is born with job skills. The normal way to acquire them is to start at an entry-level position that may not pay very much but offers the chance to acquire the skills required to move up.

This reality underscores the problem a minimum wage increase poses for people who do not have formal work experience. If Sister Cities had been forced to pay a higher starting wage, it wouldn't have taken a risk on someone like JJ, who lacked restaurant experience. Raising the minimum wage pulls out the bottom rung on the economic ladder, putting jobs out of the reach of people who are looking for a way to enter the workforce.

At the Show-Me Institute we are committed to sharing the stories of people like JJ, so that Missourians can see the other side of well-intentioned but flawed government programs that are still all too common in our state.

SHOW-ME INSTITUTE WELCOMES NEW DIRECTOR OF EDUCATION POLICY

Mike McShane hit the ground running in his new position as Director of Education Policy at the Show-Me Institute, writing several pieces that have appeared in print and online. We couldn't be happier to have him aboard—the breadth of his experience in education makes him a perfect fit here. Before coming to the Institute, Mike taught high school in Montgomery, Alabama, and more recently was a research fellow at the American Enterprise Institute, so he looks at ideas for educational reform with an eye to how they will actually play out in the classroom.

But it's not enough to understand the challenges facing our schools, or even to have innovative ideas for solving them. Compelling arguments for education reform need to reach an audience large enough to bring about change, and Mike has a history of getting his message out to the people who need to hear it. His work has appeared in mainstream outlets including the *Huffington Post, National Affairs, USA Today,* and *The Washington Post.* He has also been featured in education-specific publications such as *Phi Delta Kappan* and *Education Week,* and he has written or edited five books on education policy topics including the Common Core standards, teacher quality, and school choice.

Mike has consistently made the case that our education system should foster innovation and entrepreneurship. He has argued that school choice programs like charter schooling, school vouchers, tuition tax credits, course access programs, and education savings accounts create an environment where dedicated teachers and school leaders can create new schools and new courses to meet the needs of the students of today and tomorrow. Simply tweaking the current system is not enough: we need a new system driven by the choices of parents rather than the interests of centralized bureaucrats.

Since joining the Institute, Mike has made persuasive arguments in favor of sensible education reform in both local and national news publications. In August he wrote an op-ed for *National Review Online* defending school choice against attacks from the right, and he co-authored (with James Shuls) an editorial for the *Columbia Missourian* urging education officials to learn from charter schools rather than rushing to regulate them. In September he delivered a lecture on "Myths of Education Reform" at the Show-Me Institute's Kansas City office, and his op-ed pointing out hypocrisy among critics of school vouchers was published in *US News and World Report*. He has also made radio appearances and contributed several pieces to the Show-Me Institute's website.

Look for more from Mike in the future. With so many issues confronting our schools, and so many ideas for reform competing for attention, his voice will be a welcome counterweight to an entrenched education establishment that is content with business as usual.

THE INCREDIBLE SHRINKING TAXICAB COMMISSION

By Joseph Miller

At long last, UberX is operating in Saint Louis.

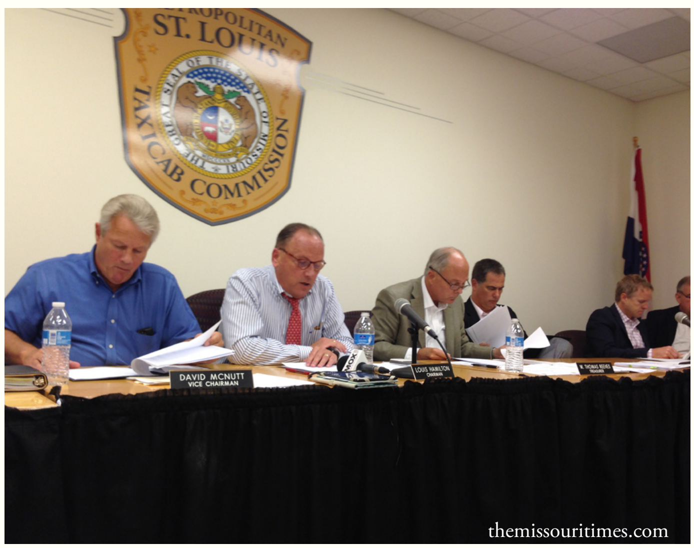
Just not legally.

On September 18, Uber, the prominent national ridesharing company, simultaneously filed an anti-trust lawsuit against the Saint Louis Metropolitan Taxicab Commission (MTC) and launched UberX in defiance of that commission. This action came after negotiations broke down between MTC, Uber, and local officials over ridesharing regulations. On the same day, the MTC passed changes to its for-hire vehicle code. The MTC claims it is simply enforcing state statute on fingerprinting and background checks.

But history tells a different story. Far from willingly altering its regulations to welcome ridesharing companies to Saint Louis, the MTC has fought against regulatory reform every step of the way.

In April 2014, when Lyft (another ridesharing service) tried to launch in Saint Louis City, the MTC demanded that Lyft drivers comply with all the background checks, inspections, and other controls that the MTC had created for for-hire vehicles. Also at that time, the MTC had stopped issuing new permits while it performed a study on market demand.

Even when the MTC altered the taxicab code to allow Uberblack (Uber's premium sedan option) in October 2014, the commission worried openly about managing demand in the for-hire vehicle market. In that code change, the MTC only allowed Uber to use a limited number of sedans, previously licensed by the MTC, making Uberblack difficult to use.



themissouritimes.com

In early 2015, with public pressure mounting, the MTC stopped arguing that Uber would cause "oversupply" in Saint Louis and claimed to care only about protecting the consumer. Such protection included MTC vehicle inspections, background checks, fingerprinting, drug testing, physical exams, and resistance to Uber's practice of charging more during peak hours than during non-peak hours. The pricing complaints were eventually dropped in June, and from July to September, the MTC claimed that it had only cared about basic safety provisions like drug testing, background checks, insurance, and vehicle inspections.

As of September 10, the MTC has abandoned its arguments for inspections, dress codes, and background checks. The commission seems to be making its last stand on the issue of fingerprinting, because that's supposedly required by state statute. And according to the MTC, that's all it has ever cared about.

But over the past 17 months the MTC has always found reasons to say "no" to cheap ridesharing in Saint Louis. It has seemed more concerned with protecting vested interests (taxi company representatives make up half the commission) than with working for the residents and economic well-being of Saint Louis. All of the MTC's concessions have come in response to public pressure.

Saint Louisans, not the MTC, should decide whether they want to use a cab or Uber or Lyft or any other way of getting around town. And we should not have to drag the MTC into the 21st century to get that right.

TEACHER PENSION PLANS SHIFTING TO RISKIER ASSETS

By Michael Rathbone

You won't win any popularity contests by issuing warnings when things seem to be going well. My colleague, James Shuls, and I took on this unpleasant but necessary task in a paper examining the changing composition of teacher pension plan investments. So far, these changes haven't hurt the plans' finances. But if these investments do underperform, Missouri taxpayers could learn an expensive lesson on the relationship between investment risk and returns.

Like many other public employees, teachers in Missouri are on a defined-benefit pension plan. This means that their benefits are guaranteed based on a preexisting formula and are payable over an employee's lifetime. Employer and employee contributions partially fund these plans, but the main source of revenue for these pensions is investment income. Without this income, these pensions would not have enough money to meet their obligations to retirees.

However, these investments have grown riskier over time. The Pew Charitable Trusts and the John and Laura Arnold Foundation examined public pension investments over the past 30 years. The study found public pension systems have gradually shifted away from fixed-income investments towards riskier assets in search of larger returns.

Risk is not inherently bad. Investors who buy riskier assets can typically expect higher returns. The issue for public pensions is that their liabilities—the promised benefits to their members—are guaranteed. Thus, for all intents and purposes, public pension plans are inherently riskless. If a riskier asset fails to generate enough in returns for the pension plan to pay out promised benefits, taxpayers could be forced to make up the difference.

In our paper, "Betting on the Big Returns: How Missouri's Teacher Pension Plans Have Shifted to Riskier Assets," James Shuls and I looked at the question of whether this shift in investments was occurring in Missouri. In particular, we wanted to know whether Missouri's public school teacher pensions are exhibiting the same type of behavior as those monitored in the Pew Report. We examined the investment holdings of the three public school pension plans in Missouri over a 20-year period.

We found that these pension plans were exhibiting the same behavior as those plans studied in the Pew report. Each plan's percentage of investments in fixed-income securities (which tend to carry less risk compared to other types of investments) fell over time. While this was occurring, two of the three plans saw their investments in equities grow. Every plan saw large growth in the percentage of their investments in alternative assets. Alternative assets include commodities, private equity, and real estate, and tend to be riskier than both fixed-income securities and equities.

Just because these plans are invested in riskier assets does not mean they are in worse financial shape. However, the chance that these investments could fail to deliver expected returns or even fall in value has increased. Policymakers should be aware of this situation and acknowledge it when planning for the future.

PLANTING THE SEEDS FOR SCHOOL CHOICE

By Michael Q. McShane

When economist F.A. Hayek received his Nobel Prize in 1974, he gave a valedictory address titled "The Pretense of Knowledge." As it came to a close, he made the following statement:

> *"If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants."*

There is a reason he won the Nobel! Put directly, we cannot centrally plan our way to success. Humans are complicated creatures with competing and hard-to divine motivations. Trying to design a system that benefits all of them is impossible. It is much better, rather, to create the conditions under which individuals can guide their own lives—to till the soil and plant the seeds like a gardener tending to flowers.

Creating school choice policies is like gardening for our education system. We don't know what will emerge.

Will it be an urban, religious school like St. Marcus Lutheran in Milwaukee? Originally founded in 1872, the school's enrollment had dipped as low as 54 students in the 1980s. Through participation in the Milwaukee Parental Choice Program along with the hard work of a legion of talented educators, the school has grown to serve almost 900 students on two campuses and routinely posts some of the highest standardized test scores in the state.

Will it be a charter school like De La Salle in Kansas City? Founded in 1971, the school operated as a private contract school with the Kansas City, Missouri, School District to serve students who had dropped out or were otherwise poorly served by the traditional public school system. It became a charter school in 2010, and now serves over 200 students who otherwise might have no viable school option.

These are just two of the stories of beautiful flowers that grew up from the concrete of two Midwestern cities. With more options for accessing public funding, who knows what other schools might emerge? By educating legislators and the public about education savings accounts, tuition tax credit scholarships, course access programs, and expansion of charter schools across the state, the Show-Me Institute is doing its part to till the soil.

EVENTS

Policy Breakfast in Springfield

"Transportation Funding: I-44, Tolling, and the Road to Tomorrow"

Joseph Miller, *Show-Me Institute Policy Analyst*

Roberta Miller, *Interim Director of the Missouri Department of Transportation*

Tuesday, October 20

Library doors open at **7:30 a.m.**
Program begins at **7:45 a.m.**
Ends at **8:45 a.m.**

The Library Center
Room B
4653 S. Campbell,
Springfield, MO 65810

(on South Campbell, South of the James River Freeway, near Academy Sports)

Seating is limited—Please RSVP today.

Show-Me Forum

"Myths of Education Reform"

Michael Q. McShane, *Show-Me Institute Director of Education Policy*

Monday, November 2

Program begins at **7:30 a.m.**
Ends at **8:30 a.m.**

Cost: $10 (Breakfast Included)

Rock Bridge Hy-Vee Club Room
405 E. Nifong Blvd.
Columbia, MO 65201
(corner of S. Providence Blvd. & E. Nifong Blvd.)

For more information about these and other events, please contact Kevin Roach at (314) 454-0647 or kevin.roach@showmeopportunity.org

SHOW-ME INSTITUTE
WHERE LIBERTY COMES FIRST

5297 Washington Place
Saint Louis, MO 63108

3645 Troost Avenue
Kansas City, MO 64109

Visit Us at:
showmeinstitute.org

Use Our Interactive Database:
showmedata.org

View State Government Spending:
showmeliving.org

Find Us on Facebook:
facebook.com/showmeinstitute

Follow Us on Twitter:
twitter.com/showme

SHOW-ME INSTITUTE'S NEW SPACE IN KANSAS CITY

As of September 1, the Show-Me Institute has a new home in Kansas City. We occupy 2,000 square feet at 3645 Troost, in the heart of the city. We're minutes away from Country Club Plaza, downtown, and the highway. The former store front was repurposed as office space in the past few years using reclaimed materials, including two high school gym floors. Those floors, the exposed brick walls, and the stamped tin ceiling tiles lend the space a casual feel.

Working from the office are our new Director of Education Policy Mike McShane, Director of Government Accountability Patrick Ishmael, and Western Missouri Field Manager Patrick Tuohey.

The Kansas City space gives us a home for policy breakfasts such as Mike McShane's September 17 talk on education reform and Mike Podgursky's November 4 talk on the minimum wage. We also look forward to hosting evening social events as opportunities arise. If you are ever in the area, please make time to visit.