



DECEMBER 2016

SHOW-ME newsletter

THE FIELD OPENS WIDE FOR REAL HEALTH CARE REFORM

By Patrick Ishmael

For six years, the Affordable Care Act (ACA) has been law. Before it was enacted, we were told we had to pass the bill to see what's in it. What we found was a law damaging to millions of Americans, and calls for the law be repealed and replaced have grown stronger as time has gone on.

November's election offers us a chance to enact real healthcare reform. The opportunity couldn't have come at a better time. In 2017, Missourians' choices in the ACA marketplace will dwindle as insurers exit the exchanges. Next year, most of Missouri will have only one insurer and a limited number of plans to choose from. Rural patients will be hardest hit, often paying 50% more for insurance than their urban peers. And things could get worse in 2018: Anthem has announced it may pull out of the exchanges, leaving over half the state with no exchange insurance products at all.

With new support for change at both the federal and state levels, we can finally put patients rather than the government at the center of our health care system. At the federal level, that change will mean repealing the ACA and enacting market-based reforms for private insurance and Medicaid,

such as eliminating the insurance mandate, promoting interstate health insurance products, and giving individuals the same tax benefits as employers when they buy health insurance.

In Missouri, we should forge ahead with reforms we can achieve immediately and capitalize on opportunities that federal reforms will eventually offer. State-level reforms include:

- Ending the state's Certificate of Need law, which incumbent hospitals can use to prevent competition and, with it, lower prices for health care.
- Pursuing interstate physician reciprocity reform, so doctors in good standing elsewhere can practice in Missouri, in person or via telemedicine.
- Promoting market-based Medicaid reforms like state-backed health savings accounts, which encourage participants to limit their health care spending where they can and, eventually, leave the program entirely.

Reformers should not take for granted the opening that the recent election provides. The work for better health care in Missouri is only beginning.

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

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

When Missourians made their voices heard on election day, they didn't mince words. As a result, we believe that free-market reforms will find a receptive audience in Jefferson City in 2017.



Brenda Talent
Chief Executive Officer

We don't intend to miss this opportunity just because it "comes dressed in overalls looking like hard work." To the contrary: Show-Me Institute analysts have spent years laying a firm foundation for policy proposals that will help Missouri prosper and grow. After the election, we knew that we needed to get our work in front of lawmakers right away. Accordingly, on the morning of November 9 we began work on our *2017 Blueprint: Moving Missouri Forward* project, a set of 15 policy proposals addressing the broad range of issues that affect our state.

Each piece in the *2017 Blueprint* begins with an explanation of the **problem** the proposal is designed to address. One example is the looming crisis in the funding of public employee pensions.

Next, we present a **solution**—in the case of pensions, a switch to defined-contribution retirement plans that give workers more control over their money and protect taxpayers by avoiding unfunded liability.

To show readers that the solution is achievable, we look at **who else**

does it—other states that have begun converting some of their retirement plans to the defined-contribution model—and we underscore the **opportunity** to provide Missouri with a stable retirement system for public employees.

In the case of public pension reform, two recent policy studies and an essay establish the risks associated with traditional defined-benefit retirement plans that make open-ended funding commitments on behalf of taxpayers. Policy studies and essays like these are labor intensive and don't make for light reading, but they are crucial to our success. We can advance policy proposals with confidence because the homework has been done. The opportunity before us in the coming year is as much about our preparation as it is about the result of an election.

Among the topics covered in our *2017 Blueprint* pieces are health care, education, subsidies, and income tax reform, to name just a few. Each of them points to the potential for real improvement in the lives of Missourians. I encourage you to visit our website and have a look. I'm eager to see what 2017 holds for our state, and I look forward to watching the work of our scholars and analysts bear fruit.

As always, we at the Show-Me Institute remain grateful to the supporters who make our work possible. We hope the new year brings you health, prosperity, and happiness.



Perhaps most importantly, each blueprint piece ends with a **resources** section that refers readers to the research that underpins the proposals.

NOT WHAT WE MEANT BY “UTILITY VEHICLES”

By Michael Highsmith

From a consumer’s standpoint, new technology is constantly improving our lives. There’s not much downside to more sophisticated electronics, safer cars, or even a better mousetrap. But for businesses, innovation can change the competitive environment. Ideally, government’s role would be to stay out of the way and let businesses compete—all to the benefit of the consumer. But in markets where the government already has established a role—such as the provision of utilities—the relationship between private companies and the government can get complicated. The emergence of electric vehicles (EVs) is an example of such a situation.

EVs currently account for almost 1% of the auto market, and their growing popularity has led to demand for charging stations. Ameren Missouri appears interested in meeting this demand—earlier this year Ameren submitted a proposal to the Missouri Public Service Commission (PSC) to install six charging stations along I-70 between Saint Louis and Jefferson City.

While an electric utility might seem to be the natural fit for a network of car-charging stations, there may

be more consumer-friendly options. The prices public utilities set for ratepayers (electricity users) are regulated so that the utility turns a reasonable profit after covering its expenses. If the money spent on these charging stations is not made up completely through pay-at-the-pump prices, then Ameren’s entire user base could be burdened with higher bills. Charging everyone to help pay for a product currently used by a select few isn’t a fair model.

Perhaps more importantly, private-sector actors have already entered the market. EV owners can fully charge their cars at home overnight, or access faster recharging at commercial charging stations.

To be fair to Ameren, the problem it intends to address with the stations along I-70 is the lack of places to fuel up during longer trips between Saint Louis and the middle of the state. “Range anxiety” is a legitimate concern—as of now, there simply are no stations in some rural and isolated parts of the state. But providing stations under a utility model shifts investment risk onto ratepayers.

EVs are becoming popular because the technology behind them has improved rapidly in recent years, and they’re just gaining a foothold

in the market. It’s reasonable to expect two things: the technology will continue to get better, and the market will adjust to the popularity of EVs. If the range of EVs continues to increase through innovations in battery technology, range anxiety could become a thing of the past. And as more people start driving EVs, the potential for profit will attract investment in charging stations in more areas. It seems preemptive to give a utility a regulated role when the market is still developing and new technologies could drastically change the environment.

In October, the PSC suspended a ruling on Ameren’s request in order to determine if they even had the authority to approve such a proposal. The commission’s chairman said “As we all know, the commission exists to set prices where there is monopoly service provided. Where there is a competitive market, I’m not sure that that is a role for the commission.” *Exactly.*



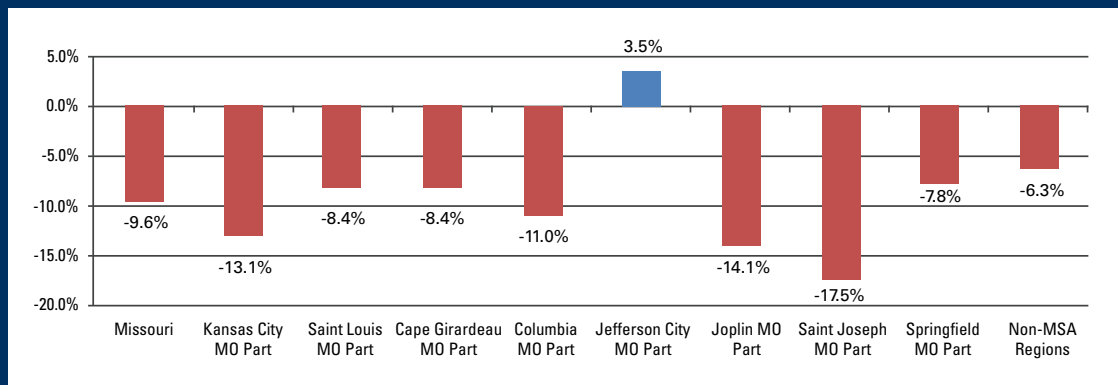
IN MISSOURI, ENTREPRENEURIAL SPIRIT IS ON LIFE SUPPORT

By Michael Austin

Share of Job Growth From Startups

Missouri and selected areas

Great recession recovery (2009–2015) relative to 20-year average (1995–2015)



Note: Bars in red indicate an area's underperformance or slower growth than the 20-year average, while bars in blue indicate an area's overperformance or faster growth than the 20-year average.

Data from U.S. Census Bureau, Quarterly Workforce Indicators.

In Missouri, some state and local elected leaders want the Show-Me State to be the next hub for entrepreneurs and business startups. Take Kansas City Mayor Sly James for example. In 2015 he stated his intention to “do what it takes to keep the entrepreneurial spirit growing in Kansas City.” This is a laudable goal; the vitality of an area economy is tied to creativity and innovation. Having strong entrepreneurial growth means more competition, lower prices for goods and services, and more local hiring. Which is exactly why it’s so disappointing that entrepreneurship in Missouri is on life support.

As the graph above shows, startups are finding the economic environment in Missouri stubbornly inhospitable.

The baseline this graph uses for measuring the contribution startups make to job growth is a 20-year period that encompasses the recession and the recovery, along with the 13 years preceding the recession. When we look only at the (recovery) period between 2009 and 2015, we see that—with the sole exception of Jefferson City—every metropolitan region in the state has seen a relatively smaller share of job growth from startups than it saw over the 20-year period as a whole. The trend almost

certainly can’t be attributed to a single cause, but all Missourians should be concerned that our state has become less welcoming to startups, cutting us off from the innovation and energy they bring.

How can Missouri increase its appeal to entrepreneurs and provide an environment conducive to their success? An obvious place to start would be with tax policy; even something as simple as a level playing field—

where subsidies for a selected few are replaced by tax cuts for all—would be a welcome change. In addition, with Missouri ranked 29th in least-burdensome regulations for startups (according to the Pacific Research Institute’s *50-State Small Business Regulation Index*), regulatory reform is another worthy goal.

Missouri hasn’t had much success at attracting startups in recent years, but a new policy approach could improve our state’s fortunes. Given a fighting chance, there’s every reason to think that startups in Missouri would soon show signs of life.

TOWARD A SUSTAINABLE FUNDING SOURCE FOR MISSOURI'S TRANSPORTATION SYSTEM

By Graham Renz

Earlier this year, Missouri dodged a bullet.

The Missouri Department of Transportation (MoDOT) was prepared to cut back dramatically on construction and maintenance due to an inability to match federal funds with local dollars. But an improving economy boosted state revenues and federal legislation guaranteed five years of support for states, averting an infrastructure crisis in the Show-Me State.

Unfortunately, we're not home free just yet. A sudden downturn in the economy or an expiration of federal assistance would put MoDOT right back into a budget crunch. We need a sustainable funding source for our transportation system. With a multi-billion-dollar rebuild of I-70 and other major projects looming on the horizon, our policymakers need to get to work *now*.

Luckily, there's a fair and economically sound solution: user fees.

User fees such as fuel taxes and toll roads ensure that the people who use roads and bridges are the ones who pay for those roads and bridges. The more you drive and wear down roads, the more you pay. Fair enough.

But Missouri's primary user fee, the fuel tax, hasn't been raised in 20 years. While lower prices at the pump are nice, the 17 cents we pay

per gallon of fuel in 2016 doesn't quite buy what it did in 1996. Inflation has eroded the purchasing power of those 17 cents such that, in today's dollars, more than 26 cents is needed to buy what 17 cents did in 1996. Predictably, this has led to funding issues for MoDOT.

A good first step toward putting MoDOT on firm financial ground would be to adjust fuel taxes for inflation, which would mean raising them by roughly 10 cents (and subsequently as inflation continues to rise). This could be phased in over several years and should generate significant funds for our transportation system. Each cent added to the fuel tax could generate approximately \$27.5 million annually to be invested in highways, roads, and bridges.

But while right-sizing our fuel taxes is a good and necessary step towards reliable transportation funding, it cannot be the only step. In the long run, as vehicles become more fuel efficient, the revenue generated by fuel taxes will diminish. That's why a more consistent and direct user fee should also be adopted: tolling.

Tolling is a direct fee for the use of a transportation facility (like a highway or bridge).

MoDOT, or a public-private partnership including MoDOT and private investors, could implement open-road tolling—which uses technology to avoid burdensome tollbooths—on major roadways and bridges to generate revenue for major capital projects and regular maintenance.

These solutions aren't far-fetched—hundreds of toll roads operate across the country, and Missouri has some of the lowest fuel taxes of any state. MoDOT's new director, Patrick McKenna, says that any solution that does not substantially include user fees is “moving in the wrong direction”.

Missouri's current funding framework is dependent on economic conditions and support from Washington, neither of which can be counted on to remain at their current levels. Missouri needs a sustainable, market-based plan for funding its transportation system, and user fees are the best foundation for such a plan.



IF YOU SUBSIDIZE IT, THEY WILL COME

By Patrick Tuohey



Kansas City has been described as the hidden jewel of the Midwest, yet our population growth has been stagnant. The people who live here know how much the region has to offer, but we're dismissed as flyover country by coastal elites. As a result, Kansas City government seems to want to play catch-up. We're constantly trying to do what other cities are doing (think streetcars, airports, convention hotels). But Kansas City would be better off simply recognizing its own strengths and developing a marketing model to take advantage of them.

In a study Wendell Cox prepared for the Show-Me Institute, he examined data from many sources, including the U.S. Census, U.S. Department of Commerce, and the Mid-America Regional Council, to better understand how the Kansas City metropolitan area performs relative to other regions. Perhaps surprisingly, Kansas City has thrived not because of what city leaders did, but because of what they chose not to do.

The Economist did not consider Kansas City for its 2016 list of "The World's Most Livable Cities," but if it had, Kansas City would have performed very well—housing here is significantly more affordable relative

to incomes than in the top-rated city (Melbourne, Australia, in case you're wondering). The reason our housing prices

have stayed under control is that while other cities were increasing land regulation through urban containment policies, Kansas City did not. For example, in 1990, Denver, Portland, and Kansas City were all similar in the relation of housing prices to median income. Since then, due largely to land-use regulation, Housing prices in Denver and Portland have skyrocketed relative to incomes, while they have not in Kansas City—where housing has remained as affordable as it was in 1990.

Despite our dispersed development, Kansas City also enjoys one of the shortest commute times in the world. Thanks to an impressive network of highways, traffic congestion is so slight that Kansas City had the least traffic congestion (tied with Richmond) in a recent international ranking of nearly 150 cities. And lack of congestion isn't due to public transit. Eighty-two percent of area residents commute to work alone in a car—including 76 percent of low-income workers. In fact, only 3 percent of low-income workers in Kansas City commute to work by transit. We're an automobile-oriented city and doing just fine.

While our climate is not ideal, our geographic location—in the center of the United States and at the intersection of major highways and railroads—can pay dividends. The recent announcement of an Amazon distribution center is an example of a business leveraging Kansas City's transportation strengths.

Residents here know we're onto something good, but what do we do with this knowledge? Rather than engage in the all-too-common metropolitan me-tooism of urban development, Kansas City should leverage its own strengths: affordable housing, short commute times, and excellent location. We should be luring not only distribution centers, but the back offices of large coastal law firms and international sales forces. Let's not fight within the metropolitan area over Applebee's and AMC; instead, let's target big firms in Los Angeles, New York City, and other high-cost metropolitan areas that people and companies are exiting.

Furthermore, let's remember that in many ways, Kansas City has benefitted not from the genius of urban planners, but from eschewing the policies that have made housing so much more expensive and transportation so much more inconvenient in other cities. Kansas City is already a great product; we just need to let this jewel shine.

THE TOP PRIORITY FOR THE UNIVERSITY OF MISSOURI'S SYSTEM'S NEW PRESIDENT? FREE SPEECH

By Michael Q. McShane

On November 2, the curators of the University of Missouri system selected Mun Y. Choi as the system's new President. Choi, an engineering professor with graduate degrees from Princeton, previously was provost at the University of Connecticut.

Dr. Choi will have a lot on his plate. The University of Missouri system is still reeling from protests that rocked Mizzou's campus last year, and with the legislature appointing an independent commission to review the workings of the system, lots of people will be giving Dr. Choi ideas on how he should prioritize the work before him.

If I were to throw my two cents in, I would say that free speech on campus should be at the top of his list.

Just this fall, Heterodox Academy released its rankings of college campuses based on commitment to viewpoint diversity, and Mizzou landed at the bottom of the list.



Heterodox Academy is a collection of university professors committed to supporting intellectual diversity and free speech on campus. Its ringleader is Jonathan Haidt, a social psychologist and professor at New York University. Haidt's work focuses primarily on business ethics, but recently he has become known for his efforts to promote civil debate and ideological diversity in the academy.

Heterodox Academy's ranking relies on four main metrics. First, it grades schools on whether they have endorsed the University of Chicago's principles on free expression. Second, it adds the Foundation for Individual Rights in Education's (FIRE) rating of the school's speech code. Third, it uses the Intercollegiate Studies Institute's (ISI) rating of openness to conservative and libertarian students from its guide "Choosing the Right College." Finally, it notes any relevant events related to free speech on campus since 2014.

The top five schools in the ranking are the University of Chicago, Purdue, Carnegie Mellon, William and Mary, and George Mason. The bottom five are the University of Oregon, Mizzou, Rutgers, Northwestern, and (ironically, given Haidt's employment there) NYU.

Mizzou was dinged for not adopting the University of Chicago's speech code and for being rated red (the lowest possible designation) by both ISI and FIRE. It also lost points for University of Missouri police asking individuals who witness incidents of hateful and/or hurtful speech to call the campus police station (or 911), for banning student protests and censoring students, and for efforts to limit press access on campus.

For Mizzou to be an elite university, it must be a place where students from across the ideological spectrum feel welcome. It must function as an intellectual arena, where ideas are tested against one another—not as a "safe space" where the status quo is sheltered from honest criticism. I implore the university to push students to question what they believe, to think deeply about their opinions, and to emerge with a more robust understanding of how the world works.

Debate on college campuses is healthy. As Haidt and his colleagues argue, ideological diversity leads to more interesting and useful research and helps guard against errors driven by group-think. The Heterodox Academy list is one that Mizzou should be ashamed to be at the bottom of. Our flagship university should take the criticism seriously and make strides to ensure its campus is more welcoming to people of different viewpoints.



5297 Washington Place
Saint Louis, MO 63108

3645 Troost Avenue
Kansas City, MO 64109

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UPCOMING EVENTS

STUCK IN THE MIDDLE WITH MIZZOU

In January, Show-Me Institute Director of Education Policy Michael McShane will speak about the goals and future direction of the University of Missouri at several venues throughout the state. Among the questions to be addressed: How well is the university preparing students for success after college? What is the value of the research currently being conducted at the university? How much are taxpayers spending on the university system? Are Missourians getting value for their dollars?

The schedule for the lectures is as follows:

- Saint Louis: Wednesday, January 4, 7:30 a.m.
- Springfield: Wednesday, January 11, 12:00 p.m.
- Kansas City: Wednesday, January 18, 7:30 a.m.

For more information, please visit
www.showmeinstitute.org/events

LET'S TALK MISSOURI

The Show-Me Institute will host a telephone town hall meeting on the evening of January 12 at 6:30 p.m. Speaking will be Show-Me Institute CEO Brenda Talent, Director of Government Accountability Patrick Ishmael, and Director of Education Policy Michael McShane. The discussion will center around our *2017 Blueprint*. Following the speakers, there will be a Q&A session with a panel of Show-Me Institute policy experts who will field questions from callers.





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