SHOW-ME newsletter

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

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Missouri students and families recently surpassed the one-year mark of schooling—or perhaps we should say non-schooling—in COVID times. For many, it has been a fractured and frustrating experience. But with vaccinations ramping up, there finally is a light at the end of the tunnel.

Or maybe not, depending on who you ask. A recent *Post-Dispatch* story highlighted some who seem skeptical about schools reopening. A superintendent in a Texas school district is quoted as saying: "As far as 2021–22, at least some part of that school year is likely still going to be pandemic response–related on the assumption that children won't have access to the vaccine, or at least many won't." The article also quotes Michael Mulgrew, head of the United Federation of Teachers in New York, who says it is impossible to commit to in-person schooling in the fall because it is theoretically possible that those who get vaccinated might still spread the virus.

In Fairfax, Virginia, teachers jumped to the front of the vaccine line, but the district isn't reopening in-person schooling even though a large majority of teachers have now been vaccinated—and the union won't even commit to in-person schooling in the fall. The union also said that schools shouldn't be reopened until all students have been vaccinated (never mind that no vaccine has been approved for kids under 16 yet).

In Chicago, teachers went on strike in the fall, and then the union issued a laundry list of demands for reopening in December. This list including some untenable items like a ban on simultaneous teaching—where teachers both instruct in-person and remotely—and reducing remote learning screen time. The union then defied an order from Chicago Public Schools to return to classrooms in late January, and narrowly avoided a strike by recently agreeing to a partial reopening of schools.

Similar stories have played out in San Francisco and Baltimore, among many other places.

Show-Me Opportunity's Scott Tanner got to the heart of the problem in a recent blog post: the goalposts are constantly moving, and the pretexts for not reopening the schools are increasingly flimsy. Unless it is no longer important for children to get an education, the schools must reopen; in fact, they should have reopened last fall.

We now have a year's worth of practical experience with COVID-19, and we know, to the extent we know anything about the disease, that children are at very low risk and that the schools are not significant sources of COVID spread. COVID rates for students and teachers mirror the rates in the surrounding community (this doesn't include elementary and middle-school students, whose rates are predictably lower than the population at large). The CDC director recently said that schools do not need to wait for all teachers to be vaccinated before safely reopening, and a CDC study released in January concluded: "There has been little evidence that schools have contributed meaningfully to increased community transmission."

Meanwhile, school closures are taking an unbearable toll on students. Very few people seem to think remote learning works particularly well, at least for younger children; more than a quarter of Missouri parents rated their children's remote learning experience as a D or F. Public school enrollment declined by more than 28,000 in Missouri last fall as parents dissatisfied with the remote experience sought other options. Remote learning has also left many students and families behind and has exacerbated existing achievement gaps. We're still early in the process, but initial projections indicate the overall learning loss could be enormous and long-lasting.

Education is of course a cumulative process. When children stop learning for long periods, they regress; they begin to forget what they have learned. This whole episode has highlighted the major underlying problem with education policy in Missouri. It's this: The needs of students and their families should come before the demands of special interests, and too often they don't. That was clear before COVID and is even more clear now. There is so much that can and should be done to give our kids better schools and a brighter future, but it won't happen until we decide that their needs are more important than the political influence exercised by interests that have entrenched themselves in the system.

—Brenda Talent

MORE TAXES, MORE PROBLEMS

Elias Tsapelas

Missourians may soon face higher costs when shopping online. In the coming months, the state's legislature appears poised to approve the collection of a new online sales tax. And while there are merits to Missouri adopting a more comprehensive approach for collecting taxes from online sales, the prospect of raising taxes on Missourians represents a serious problem.

The idea behind this year's legislation is straightforward: every online purchase should be taxed the same no matter the location of the seller. Today, if you shop online, only businesses with a physical presence in Missouri are required to collect sales taxes. But in 2017, the *South Dakota v. Wayfair* Supreme Court decision paved the way for states to begin collecting taxes from out-of-state retailers as well. Over the past few years, states across the country have adjusted their laws to begin collecting this newly allowed stream of revenue. Missouri is now one of the few remaining states that has yet to act.

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Because of the impact of COVID-19, it's easy to see why the prospect of an online sales tax is picking up steam. The pandemic accelerated our already existing consumption trends toward even more online commerce. In addition, there's been considerable state and local tax revenue uncertainty as many businesses have closed and unemployment rates remain above their pre-pandemic levels. But make no mistake, simply adding a new tax on top of Missouri's existing sales tax system would be a step in the wrong direction.

For years, Show-Me Institute researchers have written about the importance of bringing transparency and accountability to our state and local governments. Many localities will likely follow the state's lead and update their laws if the state begins collecting an online sales tax so that they too can capture all available sales and use tax revenues. If Missouri's elected officials want to collect a new tax, it's essential that taxpayers be able to track how much is being raised and where their dollars are being spent.

Additionally, any effort to collect a new tax should be done in such a way that it doesn't raise the overall tax burden on Missourians. Several bills being considered in Jefferson City this year rightfully accompany the online sales tax with a similarly sized tax cut. Perhaps the best way to accomplish revenue-neutrality would be to lower the state's income tax rate. Show-Me Institute research suggests that broadening the state's sales tax base (by collecting an online sales tax) and correspondingly lowering the income tax rate would benefit the state's economy.

As with most things tax related, if Missouri's elected officials decide to adopt an online sales tax, the details of any eventual legislation will be incredibly important. Collecting an online sales tax can be done in a responsible way, but under no circumstances should the budgetary uncertainty of today be used to justify raising taxes on Missourians for years to come.

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KICKING THE EARNINGS TAX HABIT

David Stokes

On April 6, voters in Kansas City and St. Louis City will vote on whether to retain the local earnings taxes imposed on residents and workers within those two cities.

There is perhaps no issue with which the Show-Me Institute is more closely associated with than the earnings tax. It was the subject of our very first policy study in 2006, as well as four major studies in subsequent years and numerous other reports, commentaries, and media appearances.

State law only allows earnings taxes in our two largest cities and requires residents to vote on their reauthorization every 5 years. Previous votes on retention have passed by wide margins, proving the essential point that people like to export portions of their tax burden to someone else whenever possible.

The economic arguments against local earnings taxes are powerful. Professors Joe Haslag and Howard Wall have demonstrated in multiple studies for the institute how the earnings tax harms economic and population growth rates in St. Louis and Kansas City. The earnings tax drives some economic activity from the central cities to the suburbs, reducing the overall welfare of both communities in the process.

Issues with the earnings tax are front and center during the ongoing pandemic, as both cities have declared their intentions to continue collecting the tax from nonresidents who are now working from home instead of coming to their places of employment in the cities. This decision is highly questionable according to the law and will almost certainly be subject to legal challenges.

Perhaps the most frustrating thing for those of us interested in good policy in Missouri is that both cities have made bad choices worse when it comes to the possibility of operating local government without an earnings tax. Both cities routinely grant property tax subsidies, abatements, and other giveaways to companies and residents. That hollows out the property tax base, which is what should be used primarily to fund local governments instead of an earnings tax. So, the cites are unable to get out from under one bad policy (the earnings tax), because of their abuse of another bad policy (tax subsidies). We call it Catch one percent, Missouri's own version of Catch 22.

As mentioned above, the pandemic is exposing further problems with relying on the earnings tax. As more people work from home, relying on earnings tax revenue from nonresidents will be precarious for the cities. Even if St. Louis and Kansas City improperly insist on maintaining the earnings taxes in these situations (and I hope they are not allowed to), people and companies will adjust to address this and limit the tax liability for those who neither live nor work in our two main cities.

Nobody at the Institute has contended that replacing the earnings taxes would be easy. But if voters decide to end them, raising alternative (and less economically harmful) taxes, budget cuts, continued pension reforms, and privatization efforts (e.g., the water utility) would allow St. Louis and Kansas City to continue to fund necessary services. Additionally, the taxes would be phased out over 10 years, which would give the cities breathing room as they adjust. It bears noting that most comparable cities, including Chicago, Memphis, Omaha, Tulsa, and Nashville, fund their local services without local income taxes.

The voters in Kansas City and St. Louis have a major decision on April 6. Like quitting smoking, phasing out the earnings tax will be challenging for Kansas City and St. Louis, but it would be well worth it in the long run.

CONSUMERS ALREADY HURT BY ST. LOUIS CITY REGULATION

Corianna Baier

Months ago, I wrote about the St. Louis Board of Aldermen placing a cap on delivery fees that third-party delivery services can charge restaurants in the city. Companies like DoorDash and GrubHub deliver food to customers on behalf of restaurants, but they charge restaurants a fee for the service. These fees were agreed upon by the restaurants and the food delivery services and could be as high as fifty percent of the food cost. Now they are capped at twenty percent for specified periods of time.

I previously said that "this bill could ultimately hurt consumers, delivery drivers, and restaurants in St. Louis City," and we're quickly seeing proof that this is happening.

I was recently considering an order on DoorDash and I noticed a new "Regulatory Response Fee" included during checkout. When I clicked on the fee icon for more information, it said the following:

> A local regulation has temporarily capped the fees that we may charge local restaurants. To continue to offer you convenient delivery while ensuring that Dashers are active and earning, you will now see an additional fee that we are charging for local orders in this area.

It can't get any clearer than that. It is no longer a hypothetical; this bill *is* impacting consumers.

I don't revel in this "I told you so" moment. The city has artificially lowered delivery fees that services can charge restaurants, and as I predicted, delivery services haven't just absorbed this blow and continued business as usual. This cap means lost revenue for them, and now they are charging consumers for that loss.

I sympathize with restaurants enduring this trying time, and a delivery fee of 50 percent of the food cost does seem high. But restaurants weren't being duped here; they were not forced to work with delivery services but did so to serve more customers. The previous fees were agreed upon in the market by two consenting parties.

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And the restaurants were free to determine how much of their cost would be passed on to consumers.

This regulation is just another example of government overreach and lawmakers trying to pick winners and losers. Lawmakers thought they were protecting small businesses, but instead they are hurting consumers and the businesses they intended to help. Sure, consumers may have paid a portion of the higher delivery fees before, but they are certainly paying this obvious fee now. While a small fee of a dollar or so may not be budget breaking, these charges can add up, and if consumers respond by ordering delivery less often, the small businesses this move was designed to protect will be the ones that end up getting hurt.

The negative consequences of this government overreach were entirely predictable. When will lawmakers in St. Louis learn to let the market work?

THE COST OF NOT MAINTAINING THE ROADS

Jakob Puckett


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Missouri's roads and bridges need a tune-up, and the costs of delaying repairs are starting to become clearer.

The Missouri Department of Transportation estimates that $745 million of high-priority road and bridge projects go unfunded each year.

The costs of ignoring these needs are borne by both drivers and Missouri's economy as a whole.

Delaying road repairs today means they will cost more in the future. This is because roads deteriorate faster each year that they are left untouched. A study from Cornell University's Local Roads Program found that $1 spent to improve roads from fair condition to good condition saves up to $5 of future repair costs. Other studies place this number as high as $15. These numbers will vary with the cost of raw materials needed for maintenance, but the point remains that a dollar of prevention is worth several dollars of cure.

That's the future—but drivers dealing with unrepaired roads today face immediate costs. Driving on roads in poor condition means higher maintenance costs for cars because of potholes, ruts, and rough surfaces. These lead to additional vehicle repair costs, increased fuel consumption, increased tire wear, and a faster decrease in the value of your vehicle. MoDOT estimates that poor road maintenance costs the average driver $59 each month, and drivers statewide $3 billion each year.

Repair and damage costs are only part of the story. Missouri's roads are also an economic asset right now and should become more valuable over time.

Roughly 83,500 Missourians are employed in transportation and warehousing jobs. Over $700 billion worth of products travel over Missouri's roads each year, and that figure is expected to grow to $1.2 trillion annually by 2030. We can't afford to neglect such an important asset.

Policymakers need to consider ways to increase road and bridge funding if we want these industries to continue to grow. Show-Me Institute analysts have advocated for ways to increase transportation funding that are fair and stick to a "user pays" principle—those who use the roads should pay for them.

To raise money for specific routes that carry a lot of traffic—like our interstates—policymakers should consider tolling. Vehicles could be charged based on how much they travel on a road and how much damage they do to it—based on their weight—and the revenues could be invested in keeping that route in good shape.

Additionally, part of the reason MoDOT's funding has fallen behind is because taxes and fees set decades ago haven't been updated. Missouri's gas tax has stayed at 17.4 cents per gallon for 25 years; due to inflation, 17 cents in 1996 is worth 8 cents today. Missouri's vehicle registration fees haven't been raised since 1980, and each dollar in 1980 is worth 30 cents today. Together, the gas tax and registration fees account for 40 percent of MoDOT's budget that can be spent on roads and bridges. A simple solution is to index them to inflation.

Missouri's roads and bridges are economic assets that provide more than just a way to get around. Making sure we have the money to keep them in good shape—while ensuring those who use them pay for them—is something policymakers need to address.

MISSOURIANS NEED LESS GOVERNMENT IN THEIR HOUSING, NOT MORE

Patrick Ishmael

Famed economist John Maynard Keynes once noted that "in the long run, we're all dead"—a humorous, albeit shortsighted observation that whatever we might think will happen in the future, policymakers still have to deal with the present. It's certainly not a new notion. The "do something, anything" mentality weaves its way through our political history, with politicians thinking they're duty-bound to offer up patchwork solutions now, even if it means worse outcomes tomorrow.

This shortsighted approach to lawmaking is certainly alive and well in housing policy, both at the state and federal levels. Analysts at the Show-Me Institute (and elsewhere) have opined extensively about Missouri's Rube Goldberg-esque approach to underwriting housing for low-income individuals, which makes heavy use of tax credits for developers and has bled billions of dollars from state coffers in just the last two decades. Federal policymaking fares no better in its foresight, or lack thereof, for solving the housing problems of low-income individuals. The Pruitt–Igoe-style public housing projects of the mid-twentieth century may have fallen out of favor, but the federal government's penchant for overpaying for bad ideas is as active now as it ever was.

Americans should therefore be extremely wary of lawmaking being debated today in Washington D.C. and elsewhere that promises to make housing "more affordable." Kansas City Rep. Emanuel Cleaver made clear his intention of passing legislation that, as reported by the *Kansas City Star*, would make "a $640 billion federal investment over 10 years to increase the supply, lower the cost and improve the quality of housing," focused in large part on the construction of new public housing projects.

"It sounds like it's a ton of spending," was the quote *The Star* carried as my instant response, though in my defense, I was quoted for more later in the article, and said more than what appeared in print. But over a half-trillion dollars in spending on new public housing sounds like a ton of spending *because it is a ton of spending*, and it's spending that doubles down on the failed shortsighted housing policy decisions that have been made by state and federal governments for decades.

My colleagues and I will be talking about these issues at length in the months and years ahead, but the short story on affordable housing in Missouri isn't that there's necessarily too little housing for low-income households, but that *there's too much government in our low-income housing*. From tax incentives to zoning challenges to the displacement of investors who could otherwise offer housing stock, the government's go-to response is to "do something, anything," and that approach is precisely why we have struggled with affordable housing. As my colleague Elias Tsapelas has noted before: "Restrictive regulations and zoning laws add to project costs, which discourage investment in neighborhoods where an increase in housing supply may be needed." Indeed, government often finds itself in the position of trying to solve a problem government caused, justifying yet more government and continuing the cycle of bad policy.

While Keynes was right that no one escapes this life alive, that shouldn't imply that those in power might as well pursue policies that are long-term losers, so long as the short-term "winners" are worth it politically. In housing, spending billions or even trillions of dollars may create the illusion that something is being done to make housing more affordable for those who need it, but the negative long-term effects matter, and that debt will have to be paid—sooner, not later.

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SHOW-ME INSTITUTE NAMES DR. AARON HEDLUND AS CHIEF ECONOMIST

Dr. Aaron Hedlund is the new chief economist at the Show-Me Institute. Previously, Dr. Hedlund held the role of research fellow at the Institute.

"Missouri has boundless economic potential that is too often undiscovered, untapped, or shackled by ineffective policies" Dr. Hedlund said. "Rather than tolerate this status quo, the Show-Me Institute is committed to the pursuit of principled and practical solutions that unleash economic freedom and opportunity. I look forward to collaborating in my new capacity as chief economist with the talented, hard-working, and committed staff in service of this mission."

"Sound economics is at the center of everything we do at the Institute," Show-Me Institute CEO Brenda Talent said. "Dr. Hedlund brings with him tremendous knowledge and experience and we're excited to have him in his new role."

Dr. Hedlund is an associate professor with tenure in the economics department at the University of Missouri-Columbia as well as a research fellow at the Federal Reserve Bank of St. Louis. He received his Ph.D. in economics from the University of Pennsylvania and his bachelor's in economics and mathematics from Duke University.