SHOW-ME newsletter

2018 | Issue 3

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

A MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER

Brenda Talent

When your state has lagged the nation in GDP growth for eight of the last ten years (including the last four), you take good news where you can find it. In Missouri, we can take some solace from the fact that our unemployment rate (3.9 percent for July, according to the Bureau of Labor Statistics) is a half-point lower than that of the nation as a whole. That is good news, but it may not last very long.

The proposed increase to the state minimum wage, which will be on the ballot in November, is exactly what Missouri doesn't need as it tries to find its economic footing. The intentions of its proponents are no doubt good; they want to help people (in particular, parents) who work long hours and still can't make ends meet. But the simplicity of the reasoning— "If workers aren't making enough money, then we should pass a law requiring they be paid more" —should serve as a warning. For that proposition to hold up, we'd need to accept another one: "If the price of labor goes up, then employers will simply pay the new price and go on as if nothing had happened."

But they won't, because they can't. Businesses have to control costs; if labor costs go up, companies will have to compensate. It might mean investing in automation, or it might be as simple as a restaurant or store owner working longer hours rather than taking on another employee, but labor is like any other commodity in one respect: If you raise the price of it, people will buy less of it.

A study commissioned by the Show-Me Institute and released this month reinforces this basic truth, projecting that approximately 11,000 jobs will be lost between 2019 and 2023 in Missouri should the minimum wage be increased incrementally to $12 per hour by 2023.

The same study examines who a minimum wage hike would benefit, and the findings might surprise proponents. Less than 10 percent of those who received pay raises would be single parents, and only about 19 percent of them would be in families with incomes below the poverty level. Moreover, 32 percent of them would be workers who live at home with their parents.

With these numbers in mind, let's summarize the likely effects of a minimum wage increase:

1. It would place a burden on business owners.
2. It would cost our state thousands of jobs.
3. It would help three times as many people who are living with their parents as it would single parents raising kids on their own.

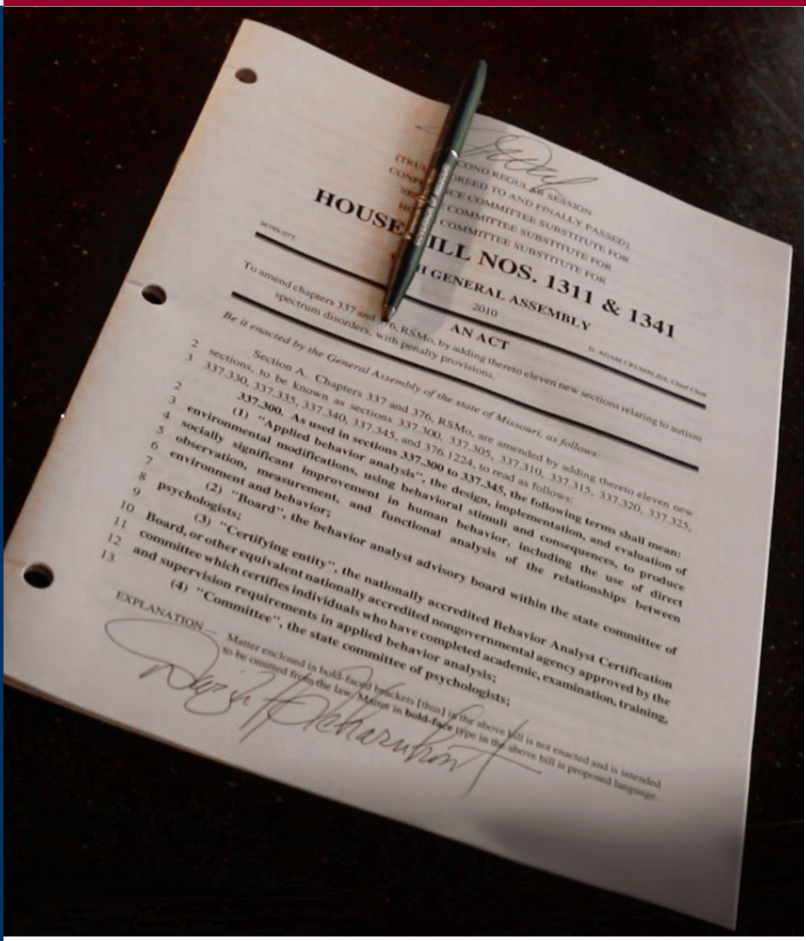
An ideal policy would work in exactly the opposite way on all three counts. It would improve the business climate, protect jobs, and focus assistance on heads of households working full-time but earning less than they need to support their families.

Fortunately, such a policy exists. It is called the earned-income tax credit (EITC). The EITC allows low-income workers to keep more of the money they earn. A non-refundable state EITC could be targeted exclusively to those who really need the help, and the cost would not fall on their employers, so it wouldn't cause businesses to eliminate jobs or to cut back on hiring.

An EITC isn't as easy to explain as an increase to the minimum wage. There would be eligibility criteria, so that the credit would be reserved for those who need it the most. There would also be a gradual reduction in the amount of the credit as a worker earns more, so that no one would face a drop-off point at which an increase in earnings isn't worth the loss of the tax credit. But this relative complexity would be a small price to pay for a policy that actually helps low-wage workers and doesn't threaten Missouri's progress in one of the few areas where it is performing better than most other states.

LET BRYCE'S LAW LIVE UP TO ITS POTENTIAL

Susan Pendergrass



Parents of children with special needs face especially daunting challenges. Upon finding out that they will be raising a child with a disability, they must immediately learn as much as they can about their child's condition. As the child approaches school age, the parents have to think about so much more than just a classroom and a teacher. It's not surprising, therefore, that parents of students with disabilities have a particular need for more options regarding their child's education.

Fortunately, four years ago the Missouri legislature recognized this need and passed Bryce's Law, named for Rep. Dwight Scharnhorst's grandson, who was born with severe autism. Bryce's Law allows parents of children with autism, Down Syndrome, and several other disabilities to seek scholarships to private schools through certain scholarship-granting organizations.

Unfortunately, the legislative process resulted in a final bill that was materially different than the one Scharnhorst proposed. The final version of the law was structured in such a way that not a single child has received a scholarship. In fact, not even one of the scholarship-granting organizations—which are required to seek their own private donations—has even materialized. Imagine the hundreds or thousands of children who have missed out on scholarships because of inaction in Jefferson City.

The law will be up for renewal in 2019, and the state legislature has an opportunity to amend Bryce's Law so that children with disabilities will actually benefit from it. Missouri could put real funding behind Bryce's Law to make it a functioning program. There were concerns in the past with "public" funding going to "private" (often religious) schools, but the recent Supreme Court decision in *Trinity Lutheran v. Comer*, from right in our back yard in Columbia, would seem to permit such funding so long as it is generally available to religious and nonreligious schools alike and that religious schools are neither favored nor disfavored in the application process.

Alternatively, the program could be funded through tax credits (as Rep. Scharnhorst had originally intended), rather than tax deductions. It is much more likely that scholarship-granting organizations would form if they had an advantage in fundraising. Multiple court cases have found tax credit programs to be constitutional.

There is a bitter irony to having a law on the books that could do so much for children with special needs, but deriving no benefit from that law for lack of funding. Fortunately, the time is ripe for the Missouri Legislature to fix its past mistakes and put Bryce's Law to work for the families it was intended to help.

TRASH TALK

Philip Oehlerking

Providing basic services is one of the most important things a city can do, and there's reason to think St. Louis is falling short in that regard. A recent report produced by the personal finance website Wallethub found that St. Louis has some of the poorest quality city services in the nation. One specific area that is gaining attention is trash collection; trash is piling up as the city falls behind on collection, and residents aren't thrilled. This situation quite literally stinks. How did we get here?

Originally, the city paid for solid waste collection from ordinary tax revenues. However, when more money was needed, the Board of Aldermen passed a bill in 2010 to implement an $11 monthly fee per household to help cover refuse costs. Last August, the Board voted to increase the fee to $14. The additional money was for, among other things, obtaining new garbage trucks to "ensure garbage collectors won't be forced to work overtime because they're stuck with poorly functioning trucks."

And what have the results been? The city has leased 12 new trucks and expanded the working hours for Refuse Division workers. Even so, the city still lacks the resources to pick up the trash on time. One major problem is the continued deterioration of the city's fleet of garbage trucks; roughly half of the 84 trucks owned by the city are in disrepair.

I am not suggesting that the problem here is exclusively the fault of city officials. They are dealing with limited resources, and problems like this aren't often fixed overnight. The decision to lease new trucks rather than buy them seems like a reasonable response from a city that is behind on maintenance for the trucks it already owns.

Maybe the larger issue is that garbage collection is a better fit for private companies. Privatizing this service would allow residents to choose their garbage collector, creating competition among service providers and incentivizing high-quality, efficient operations. Wichita, Kansas, a city with 80,000 more people than St. Louis, has no city-run solid waste collection system. The average household in Wichita spends $25 per month on garbage collection. (In comparing this rate to costs in Saint Louis, keep in mind that St. Louis's current $14 per month fee is *in addition to* the money from the overall city budget that goes toward trash collection.)

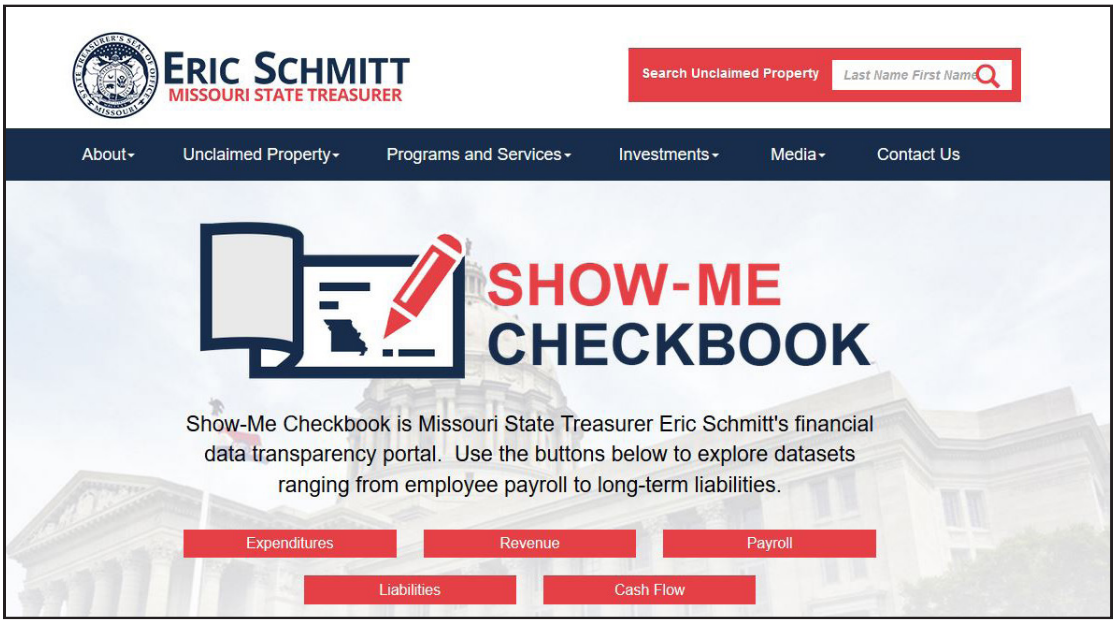
In Detroit—which has twice the population of Saint Louis—privatizing trash collection services in 2014 has not only saved the city an estimated $6 million annually, but also allowed it to avoid a projected $35 million in future fleet repair costs. Given the cost of maintaining the Saint Louis' aging fleet ($1.3 million in fiscal year 2018—and as stated above, only half of the fleet is in working order), privatizing could save millions of dollars in the future in fleet maintenance alone.

As for the quality of service provided, I can't claim to have my finger on the pulse of the Wichita or Detroit trash-collection scene, but my internet searches didn't yield pictures of overflowing dumpsters or news stories about angry calls from citizens to their local officials regarding a lack of garbage pickup in either city.

Maybe it's time to see if the private sector has an answer to St. Louis's embarrassing—and smelly—problem.

TREASURER'S "SHOW-ME CHECKBOOK" IS A BIG STEP IN THE RIGHT DIRECTION

Patrick Ishmael



My colleague Philip Oehlerking and I have written on several occasions about the importance of "checkbook transparency" in the state. If government can take your money and spend it, they should be able to show you what they spent it on. And if they can't, or won't, then we have a problem.

That's why we were so happy to see the Treasurer's office introduce the "Show-Me Checkbook" website, which you can find at **showmecheckbook.mo.gov.** The site explores Missouri's state finances at great length. Taxpayers can find information not only about where their money is going, but also about where the money is coming from and what sorts of future obligations, like pensions, lie ahead and need to be planned for.

Over the course of the last year the Show-Me Institute has published similar resources dealing with these state spending records—from making raw spending data dating back to 1999 available for download, to the construction of an online "dashboard" on the Show-Me Institute website where users can easily explore some of the state's Fiscal Year 2017 spending. The Treasurer's office takes a similar approach to ours, but it expands on it in at least one way we never reasonably could—by making new state spending data available to the public on a near-daily basis.

That's a big deal, and the Treasurer's office deserves credit for what it is doing to advance transparent government in Missouri. But I hope this is the beginning and not the end.

While our own "Show-Me Checkbook Project" features state spending as a component, that information is only one part of a larger and more comprehensive view of state and local spending. That wider view includes municipal, county, special taxing district, and school district spending, which together account for billions of dollars in expenditures made by Missouri government annually.

We are committed to continuing to make these "lower profile" checkbooks public, too, and there are indications that our government officials are beginning to agree. Thanks to legislation passed this year, school district checkbooks will now be published regularly by the state itself as a matter of practice.

It's time for the state to finish the job and close the remaining information gaps in state and local government spending in Missouri—to make local checkbooks available in much the same way that state spending is now being directly published by the Treasurer's office. That way, taxpayers can more easily see where all of their money is going and can decide for themselves if they're happy with how their hard-earned money is being spent. Good governance demands it, and modern technology allows for it. I'm glad to see the state moving in this direction.

FILLING THE GAP IN CHILD SUPPORT PAYMENTS

Emily Stahly

For fiscal year 2019, the Missouri General Assembly designated $9.3 billion of the $28.3 billion state budget to the Department of Social Services (DSS), which administers Medicaid and other public assistance programs. That's nearly one-third of the total budget going toward welfare expenditures, crowding out funding for other vital programs such as education and infrastructure.

While DSS's budget is slightly smaller than in fiscal year 2018—about 0.7 percent less—Missouri needs to further reduce state welfare spending by moving people out of poverty and toward self-sufficiency. Otherwise, the state will face a choice of either increasing taxes or cutting spending elsewhere in the budget—or possibly both.

One promising idea is increasing child support collection rates. Over the past 3 years, only about 60 percent of child support owed in Missouri has been collected. Since $870 million was paid in child support last year, that means that almost half a billion dollars was uncollected. If Missouri could meet even the federal benchmark for child support payment, which is 80 percent, it would mean collection of another $290 million that is owed to children of Missouri.

That would make a difference in the stress on Missouri's budget, because there is a correlation between child support payment and welfare dependency. According to the Foundation for Government Accountability, 46 percent of single-parent families who are not receiving child support payments are on welfare.

Missouri should consider reforms such as those implemented in Kansas and Colorado, which have had some success in increasing compliance with child support orders. In 2015, Kansas started disqualifying noncustodial parents from its food stamp program if they did not make their court-ordered payments or cooperate with the enforcement agency. Subsequently, incomes of single-parent families increased by 39 percent and more than 3,500 people no longer needed support from welfare programs.

Colorado used a different approach with even more encouraging results: Instead of imposing more sanctions on noncustodial parents behind on payments, it offered them support services to help them secure more stable employment. After interviewing parents who were behind on payments, officials in Colorado found that many wanted to support their children but were unable to do so. The state established a program that incorporated intensive case management and job training. The result? Two-thirds of the parents participating in the program had full-time employment within six months, and three-fourths of participating parents were working and could increase payments within the first year. Colorado is currently working on expanding the program.

Determining the right reforms for Missouri will take additional research, but the results in Kansas and Colorado are promising. Any time the state can adjust its assistance programs and move people toward economic independence, it helps both the recipients and the taxpayers. At the end of the day, success in welfare should be measured not by how many people are on the programs, but by how many get the help they need to get off the programs and support themselves and their families.

WHEN RESEARCH ISN'T RESEARCH

Patrick Tuohey

Thanks in part to the work of the Show-Me Institute, taxpayers in Kansas City are increasingly skeptical of economic development subsidies such as tax-increment financing. Pressured by activists and policymakers alike, the mayor committed back in 2016 to an analysis of the city's economic development incentive programs. But with clumsy foreshadowing, the Mayor added, "City Hall doesn't do a good enough job of promoting how economic development benefits the city."

Two years and $350,000 later, a report on the study's conclusions is finally available. Before we discuss its findings, let's quickly review how we got here. The city issued a request for proposals and received eight bids, including one from the PFM Group—which studied economic development incentives at the behest of the St. Louis Development Corporation and issued a scathing report in May 2016. Kansas City hired the highest bidder, the Council of Development Finance Agencies (CDFA), a trade association whose mission is—more foreshadowing here— "to promote the common interest of Development Finance Agencies with respect to public policies and programs." The contract was signed on November 1, 2016, and the report was due on May 1, 2017. The deadline was extended at least four times, and the final report was not released publicly until August 16, 2018.

The researchers seem merely to have tabulated the value of the incentives handed out in Kansas City over a recent 10-year period and then tabulated the increases in jobs, tax revenue, and population over the same time. They then divided the latter by the former while assuming (amazingly) that because these developments happened *after* subsidies were awarded, they happened *because* subsidies were awarded. So the study's conclusion—that "each incentive dollar invested generated $3.83 in additional tax revenue" rests on a logical fallacy so large as to almost seem intentional.

In other studies conducted by academics and private firms, researchers have attempted to discern exactly how much growth is due to subsidies—as opposed to growth that would have occurred even if subsidies had not been awarded. And from the University of North Carolina–Chapel Hill to the Show-Me Institute to the East-West Gateway Council of Governments to the Upjohn Institute for Employment Research, the conclusions are the same: *Economic development subsidies are expensive and cannot be shown to be driving development.* In fact, according to a 2018 study by Upjohn, "for at least 75 percent of incented firms, the firm would have made a similar location/expansion/retention decision without the incentive." That is an amazing conclusion that bears rereading. It's not that the Kansas City study found a different result—it wasn't even designed to measure the right thing.

In the City Council's August 16 meeting, the CDFA and the director of the city's Office of Economic Development presented the results of the study. Council members were not impressed and seemed acutely aware that the study suffered from this huge methodological flaw. After 90 minutes of questions and answers, Mayor James tried his hand at demonstrating incentives' return on investment:

> **Mayor Sly James**: If $288 million is as a result of some incentive being used, if there is no incentive being used, would the number be zero?
>
> **Adam Stroud, PGAV Planners**: I can't answer that.
>
> **James**: Would it be less than the $288 [million]?
>
> **Stroud**: I also can't answer that.

The consultant should be credited for answering forthrightly: The study simply was not designed to measure the degree to which incentives drove development. It is difficult even to speculate why two years and $350,000 worth of economic development "research" did not examine this basic question. One can only wonder about the purpose behind a study that is so short on analytic rigor but so sanguine about the benefits of lavishing subsidies on developers.

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UPCOMING EVENTS

Government Employee Pensions

On Wednesday, November 7, in St. Louis, Andrew Biggs will deliver a lecture on pension reform. On November 8, Biggs will participate in a moderated discussion on the same topic at the University of Missouri in Columbia.

Policy Breakfast (St. Louis)

On Thursday, November 15, Show-Me Institute Director of Research and Education Policy Susan Pendergrass will present on Bryce's Law at a St. Louis Policy Breakfast.

Missouri's 1943–44 Constitutional Convention

Justin Dyer will give two presentations in December on Missouri's 1943–44 constitutional convention and an upcoming referendum vote in 2022, when voters will be asked whether to call another convention.
Wednesday, December 5—Springfield
Thursday, December 6—Columbia

Policy Breakfast (Kansas City)

On Tuesday, November 13, Michael McShane, the Show-Me Institute's former Director of Education Policy, will present on Bryce's Law at a Kansas City Policy Breakfast.

for more information please go to **showmeinstitute.org/events**