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SHOW-ME QUARTERLY

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EDUCATION REFORM EXPERT SPEAKS IN KC

On Feb. 18, the Show-Me Institute proudly presented featured speaker Dr. Jay Greene in conjunction with the Kansas City Public Library. His presentation, "Which Education Reforms Are Most Likely to Succeed," is part of our successful continuing series with the library, "What Works in Urban Education." Greene is a professor and head of the Department of Education Reform at the University of Arkansas. He holds a B.A. in history from Tufts University and an A.M. and Ph.D. in political science from Harvard University. Greene's work has appeared in scholarly publications

such as *The Public Interest* and *City Journal*, as well as popular outlets like the *Wall Street Journal* and the *Washington Post*.

Greene began by stating that we know what does not work in urban education because it is what we have been doing for the past few decades: pouring more money into urban schools, in order to reduce class sizes. Spending since 1970 has more than doubled to \$11,000 per pupil, and the student-teacher ratio has fallen during the same time frame, from 22:1 down to 15:1. People employed by public schools now make up 5 percent of all workers.



Education expert Dr. Jay Greene speaks at the Kansas City Public Library in a Feb. 18 event cosponsored by the library and the Show-Me Institute, before an audience of about 150 attendees.

However, despite all the extra resources devoted to education, outcomes are flat as measured both by graduation rates and scores on the National Assessment of Educational Progress (NAEP) test. According to Greene, the reason it is so difficult to reform schools is

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A MESSAGE FROM REX SINQUEFIELD



The Show-Me Institute recently published an essay that I wrote with Jack Naudi, editor and senior writer at Slay and Associates and former business editor with the *St. Louis Post-Dispatch*. Our work on the issue has received a tremendous amount of statewide attention. The essay details why a sales tax, such as the one currently being considered by the General Assembly, is preferable to Missouri's current system of income taxation. If implemented, even a revenue-neutral sales tax would boost economic growth in Missouri, and it could also put pressure on the state to lower overall levels of taxation.

We show that the state's economic growth has been sluggish by national standards, but that the nine states without an income tax have added more than twice as many jobs as the national average. Not all of this extra growth can be attributed to differing tax systems, but some of it certainly stems from the fact that the lack of an income tax lowers business costs. States without an income tax also have lower overall rates of taxation; the eight states with the lowest taxation rates in the country are eight of the nine states with no income tax. Multiple studies have shown that lower levels of taxation also boost economic growth, so implementing a sales tax to replace the income tax could boost growth in more than one way.

Using information from Joseph Haslag, the Show-Me Institute's executive vice president and a



ESSAY

DECEMBER 18, 2009

WHY A SALES TAX IS BETTER FOR MISSOURI THAN AN INCOME TAX

By Rex Sinquefield and Jack Naudi

By most measures, Missouri is not a high-tax state. Its property and corporate tax rates are among the lowest in the country. It doesn't have an inheritance tax. In a study for the American Legislative Exchange Council (ALEC), economist Arthur Laffer, financial journalist Stephen Moore, and Jonathan Williams, director of ALEC's Tax and Fiscal Policy Task Force, rank Missouri's economic outlook at 23rd among states.

But all isn't well. Missouri's economic development and growth rates are chronically below average. During the past 10 years, employment has grown 8.8 percent nationally, while Missouri has

boosted jobs by only 6 percent. In their study, Laffer, Moore, and Williams provide one explanation for the state's lagging performance: Missouri's personal income tax rates. The highest rate of 7 percent, which includes the state's top marginal rate of 6 percent plus a

Show-Me State Warning Signs

- National 10-year growth rate, 8.8 percent
- Missouri 10-year growth rate, 6 percent
- 7-percent income tax (in St. Louis and Kansas City), 32nd highest in nation
- Kansas portion of Kansas City and Illinois portion of St. Louis growing faster than respective Missouri portions

Sources: Arthur Laffer and Stephen Moore, "Rich States, Poor States," American Legislative Economic Council, 2009; and: Richard Vedder and Stephen Moore, "Repealing the State Income Tax by 2020," Show-Me Institute, Dec. 11, 2008.

Rex Sinquefield is president of the Show-Me Institute and a member of the institute's board of directors.

Jack Naudi is editor and senior writer for Slay and Associates.

professor of economics at the University of Missouri–Columbia, our essay compared Missouri's economic growth rate with that of Tennessee and found that our neighbor to the southeast has grown much more quickly during the past decade than Missouri. We pointed out that the "The economic disparity between the two states keeps widening despite similarities in geography, contract law, and property rights laws."

It's true that a sales tax can be regressive, which is why it's important to exempt low-income families from paying such increased taxes. If Missouri were to eliminate the income tax in favor of a slightly higher and more comprehensive sales tax, we could eliminate the penalty that the state's tax policy imposes on business investment, and instead spur economic growth while simultaneously providing a more stable source of revenue for essential government functions.

YOU CAN MAKE A DIFFERENCE!

\$100 will provide all state senators with copies of the Show-Me Institute's essay comparing sales taxes with income taxes, by institute president Rex Sinquefield and cowriter Jack Naudi.

SMI SCHOLARS, STUDIES EDUCATE MISSOURI ABOUT INCOME TAXES

During the past few months, the Show-Me Institute has directed much of its efforts to educating policymakers and the public about the detrimental effects of Missouri's income tax. Our scholars have published work, spoke at public events, and testified before politicians in Jefferson City to support a different tax structure for Missourians.

The Show-Me Institute published a study on March 10 by Mark Skidmore and Nicole Bradshaw —

both in the Department of Agricultural, Food, and Resource Economics at Michigan State University — showing that both taxes and government spending have a detrimental impact on economic activity. Drawing on a broad survey of relevant economic literature, Skidmore and Bradshaw further contend that nearby states compete to have the best tax policies, so a change in one state's tax policies can lead to a similar change in another state. This is exciting news,

because it broadens the potential impact of the Show-Me Institute's work to educate Missourians about the value of a better tax structure. Evidence shows that such changes in tax policy here could influence states like Illinois, Iowa, and Kansas to adopt more efficient policies, as well.

Joseph Haslag, the Show-Me Institute's executive vice president, argued for the replacement of the income tax with a sales tax in his

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Chairman R. Crosby Kemper III is executive director and CEO of the Kansas City Public Library, and past chairman and CEO of UMB Financial Corporation and UMB Bank.

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EDUCATING MISSOURI ABOUT INCOME TAXES

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Jan. 12 testimony at a seminar on tax policy for state senators. Haslag argued that Missouri's economic growth has been slower than the national average in recent years, which means a lower comparative standard of living for all Missourians, and this is partly attributable to the state income tax. Using a robust economic model, Haslag estimated that without the income tax, Missouri's economic growth rates would be 0.7 percent higher per year. This may seem insignificant, but when compounded over 25 years it would translate to \$438.6 billion in extra goods and services for Missourians.

We devoted a Feb. 1 Show-Me Forum in Columbia to Missouri's tax system, featuring a spirited debate between three participants. First, Show-Me Institute research analyst

Ed Robb defended a "Fair Tax," and argued that by replacing the state income and corporate taxes with a somewhat higher and broader sales tax (with an exemption for the poor), Missouri could significantly boost its economic growth, making us all better off. However, Amy Blouin of the Missouri Budget Project countered that the sales tax would have to be much higher than Robb estimates in order to offset all the revenue the state would lose by eliminating other taxes. Finally, University of Missouri-Columbia economics professor and Cato Institute fellow Jeff Milyo made the case that the type of taxation is not nearly as important for economic growth as the level of taxation (lower taxes result in higher growth), but a sales tax might be marginally preferable over an income tax because it is lower and broader. The forum generated a large turnout, with 68 people in attendance.

Most importantly, the Show-Me Institute's efforts are having an impact on those in power in Jefferson City. State representatives Chris Kelly and Ed Emery both attended the Show-Me Forum on taxes and asked questions. In the Senate, the idea is being advanced by Majority Leader Kevin Engler. In a Jan. 3 *Post-Dispatch* story, Engler is quoted as saying, "There's enough of my senators that are interested in it that I think we will have some fair discussion." This is certainly exciting news, but our educational work is far from done because, as Engler added, "Whether it can get passed, I don't know."

The Show-Me Institute is steadily advancing the message of lower taxes and greater individual freedom, and will continue to do so regardless of how many sessions it takes for the General Assembly to understand the benefits of repealing the income tax.

EDUCATION EXPERT SPEAKS IN KC

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because they are set up as patronage systems, which emphasizes hiring more people rather than increasing pay for existing employees.

Greene divided reforms into structural and instructional categories, with the former changing the incentive structure outside the school and the latter changing what is taught, and how, inside the school. Although there is evidence that almost all proposed reforms can be successful

YOU CAN MAKE A DIFFERENCE!
\$5,000 will support a statewide lecture series with a national expert, such as the Show-Me Institute's lecture series with the Kansas City Public Library and Saint Louis University.

for the right students in the right circumstances, school reformers spend a great deal of their time fighting each other instead of working to improve the status quo.

In order to overcome the entrenched interests of school

systems, Greene recommended trying all reforms at once. Florida tried such an approach under Gov. Jeb Bush, and within 10 years, student NAEP test scores improved by two grade levels. Greene also emphasized that market-oriented structural reforms will keep special interests from gutting instructional reforms.

It is important to remember that although changing urban education for the better may at times seem hopeless, there are a plethora of effective reforms out there if we are willing to try them.

WHO IS FIGHTING THE BATTLE FOR FREEDOM?

Many of us are holding our breath, as we anticipate the potential effects of monumental health care legislation in Washington, D.C. The passing of this bill is synonymous with the expansion of government and the limitation of freedom. Rep. Patrick Kennedy's quote, "the unfinished business is done," may be a victory cry for



Rebecca Bruchhauser,
Director of Development

supporters of the legislation — but what does this mean to us in Missouri? It means that our business is far from done. It means that the fight for individual liberty is more critical than ever. It means that our voice educating Missourians must grow louder and stronger. And with your help, it is. Our voice is so loud that even the *New York Times* heard it. You can find that article online here: tinyurl.com/ydx3rk7

Our fight continues, and Missouri leaders are eager to learn sound principles of limited government. They

have often turned to us for a helping hand, recognizing that we stand strong as a quality informational resource. Halfway through the 2010 legislative session, lawmakers have frequently called on our analysts to provide reliable expert testimony. Senators have called on Dr. Joseph Haslag, the institute's executive vice president, to provide information about tax policy in Jefferson City. Legislators have called policy analyst David Stokes to educate them on property taxation, and tapped

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YOU CAN STRETCH YOUR DONOR DOLLARS!

A financial contribution is one clear way you can unquestionably defend America's heritage of free markets, individual liberty, and constitutionally limited government. The Show-Me Institute depends exclusively on tax-deductible contributions from sponsors who share our commitment to a free and prosperous society. As 100 percent of the board of directors supports the institute's operations, your donation strictly funds our programs. Our supporters have made a difference in Missouri by funding the Show-Me Institute's work to educate elected officials, business and community leaders, and the media, so that they may share our findings in a variety of Missouri public policy areas. Elected officials requested testimony from our policy analysts and scholars during this past legislative session, in order to provide Senate and House committees with the facts they need in formulating decisions.

As a nonprofit organization, one of our important objectives is to be good financial stewards. To help stretch your donor dollars, you can sign up to receive this newsletter electronically. If you would like to help us efficiently use our funding, please call or email rebecca.bruchhauser@showmeinstitute.org to participate. We will continue to strictly abide by our policy to never sell or distribute your personal information to any other organization. To keep up to date on new developments, we encourage you to visit our main website, ShowMeInstitute.org, to register for "My SMI." By selecting the policy areas that interest you most, you will automatically receive information about new studies, opinion pieces and events.

Your support will make a difference! Please tell us how we should use your tax-deductible gift:

- I'd like for my donation to count twice, by supporting transparency in Missouri
- Promoting the principles of limited government and fiscal responsibility
- Support sending our policy experts to testify about free-market solutions in Jefferson City.
- Highlighting burdensome regulations that stifle economic growth and innovation
- Educating policymakers and the public about the benefits of market-based health care coverage
- Analyzing public programs to determine how taxpayers can benefit from market-based alternatives

Please complete the form on the envelope that has been enclosed, for your convenience. You may also visit our website — ShowMeInstitute.org — to learn more about the ways you may support the Show-Me Institute, or call our director of development: Rebecca Bruchhauser: (314) 454-0647

WHO IS FIGHTING THE BATTLE FOR FREEDOM?

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our constitutional expert, Dave Roland, for information on the constitutionality of the federal health care mandate.

The financial support of our donors in advancing our mission helps ensure that the expertise of our analysts and the research of our scholars is available when legislators and community leaders need it. Will your voice be heard against the threats that face Missouri? It will be heard if we all stand together. A united voice of many can't be ignored.

The media has referred to the



Dave Roland, a policy analyst with the Show-Me Institute, testifies before the Senate Governmental Accountability and Fiscal Oversight Committee and the House Special Standing Committee on General Laws about SJR 25 and HJR 57, also known as the Health Care Freedom Act.

Show-Me Institute as “government watchdogs,” and we fully intend to live up to that title. To promote government transparency, we have added a state spending tracker to our suite of

online tools. It can be found online at ShowMeLiving.org.

The Show-Me Institute is a cure for the plague of bad government policy. Let your voice be heard today by making a contribution. Consider an investment in the gift of freedom for your children and grandchildren. It's a gift for which they will be certain to thank you. Your support will help ensure the continuation of all educational programming, bringing free-market solutions to the problems we are currently facing — and, most importantly, helping limit the potential for poor policy implementation before it occurs.

SMI BOOK CLUB SPREADS IDEAS IN NOVEL WAY

The Show-Me Institute's book club attracts a wide range of bright, energetic young students (whether current or recent), and one of the advantages of youth is the ability to think of innovative new ways to spread the ideas of liberty.

Several club members, being fans of science fiction and other related genres, hit upon the idea of having the book club sponsor a table at Visioncon, an annual convention held in Springfield.

Club participants organized the logistics and paid for the table fee themselves. They also asked for donations of books about liberty that book club members and others were no longer likely to use, and ended up with quite a selection. They wanted to share the ideas these books contain, so that instead of simply taking up space on somebody's shelf, they would now have the chance to enlighten somebody else.

From Tom Palmer's *Realizing Freedom* and Brian Doherty's *Radicals for Capitalism* to Rose Wilder Lane's *The Discovery of Freedom* and Robert Levy's *The Dirty Dozen*, book club members took turns manning the table for the convention's duration, engaging curious attendees in many conversations about the principles of freedom, and providing them with information about the Show-Me Institute in the process. About 90 percent of the books found new homes that weekend, spreading the ideas of liberty to people who might not have encountered them otherwise.



SMI MAKES A SPLASH IN MISSOURI MEDIA

During the past few months, the work of Show-Me Institute scholars has appeared in media outlets all across Missouri. This media coverage touched on many different aspects of our work, from our opposition to eminent domain abuse and support for charter schools to questions about federal stimulus spending.

The issue of eminent domain has proven to be popular with the media, as the development project in the north side of Saint Louis moves to the center of local discussion. Our scholars have been a major part of that discussion. Policy analyst Dave Roland was quoted in *Saint Louis* magazine on Nov. 17, in a feature titled “North Side Story: Quotes from the Cutting Room Floor.” Roland explained that using eminent domain for the north side plan would almost exclusively help a private developer, and that it is deeply unfair to use eminent domain against those without the resources to fight back effectively. On Dec. 3, Charlie Brennan interviewed Roland about this topic on KMOX. Roland argued that the government’s quest to condemn the north side properties in question has led officials to infringe on citizens’ rights to speak out against the plans. Roland pointed out that if we do not defend our economic freedoms, we may soon lose our political freedoms, as well.



Roland also garnered a fair amount of attention for his writings about education policy. The *Springfield News-Leader* printed his commentary, “Reports say charter schools aid state’s struggling students,” on Dec. 7. This article promoted the Show-Me Institute’s latest study, “Charter Schools: Rationale & Research” by economists

Timothy Gronberg and Dennis Jansen, which showed that charter schools generate the same levels of student achievement for a much lower cost than traditional public schools. Roland again explained the advantages of expanded school choice when the *News-Leader* interviewed him for a Dec. 29 article, “Charters Operate Like Businesses.”

Research analyst Christine Harbin had an article published in both the Dec. 14–20 issue of the *Springfield Business Journal* and the Dec. 14 *Columbia Missourian*, arguing that film tax credits are a losing proposition for Missouri. Such tax credits require the government to pick economic winners and losers, distorting the market. Instead, Harbin recommends more fundamental reforms to tax policy — such as

eliminating the commercial property tax and the earnings tax in Saint Louis — to stimulate business investment in Missouri.

Show-Me Institute scholars also had significant opportunities to discuss health care. On Dec. 30, former State Treasurer Sarah Steelman interviewed Show-Me Institute research fellow Beverly Gossage on KWTO NewsTalk Radio in Springfield for 25 minutes about the national health care bills and how they could affect Missourians. Specifically, Gossage discussed guarantee issue, community rating, mandates, exchanges, subsidies and the impact that the legislation would have on small businesses. The following day, the *Schuyler County Times* printed an op-ed by Dave Roland titled, “Individual Health Insurance Mandate Would Violate Constitutional Liberties.” In the article, Roland suggests that proposing an amendment to the Missouri Constitution in response to the proposed mandate might be a useful step toward protecting individual freedoms.

Finally, institute scholars have even covered issues of national importance. On Nov. 20, investigative reporter Audrey Spalding was interviewed on KMOX regarding the difficulties involved in tracking local stimulus dollars. Spalding’s article, “Stimulus reporting riddled with (human) errors,” generated KMOX’s interest in the interview.

YOU CAN MAKE A DIFFERENCE!
 \$1,000 will support sending a policy analyst to provide legislators in Jeff City with solid research and expert testimony about free-market solutions.



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Each year, hundreds of special-interest lobbyists flood the halls and hearing rooms of the Missouri Capitol, the vast majority of them eager to rig state laws in favor of the unions, corporations, and organizations they represent. Who is there to argue that the best solution is to offer an even playing field for all, with special favors to none? The Show-Me Institute, that's who!



Dave Roland,
Policy Analyst

One of the most direct, effective ways that the institute pursues its goals of advancing liberty and promoting market solutions for Missouri public policy is by sending our experts to testify on bills being considered by the General Assembly. In the past couple of years, Show-Me Institute

analysts and scholars have offered their thoughts on such subjects as health care reform, professional licensing, school choice, tax reform, and the initiative and referendum process. When we offer testimony in Jefferson City, it allows us to confront directly the misinformation and fear-mongering that too frequently leads to the marginalization of free-market principles. Standing in front of a legislative committee, we have the chance to put our ideas in front of legislators who might otherwise never choose to read one of our studies or attend a Show-Me Forum, and we can answer questions that otherwise might never be asked.

As a result of our continuing efforts, more and more legislators are relying on us to be the voice of all Missourians who think that the government has no business picking winners and losers in our society. Already this

year, David Stokes has offered testimony regarding property taxation and Executive Vice President Joe Haslag spoke about the sales tax proposal that legislators are considering.

The quality of our work has become so well known that we are occasionally even asked to share our expertise with legislators in neighboring states. My presentation to legislative committees regarding the role that the U.S. and Missouri Constitutions might play in protecting citizens from interference with their right to make their own decisions regarding health insurance was so well-received that I was invited to offer similar testimony for legislative committees in Kansas and Alaska! This is just another example of how, with your generous support, the Show-Me Institute is laying a foundation for a return to common sense and free market policies in Missouri — and beyond!