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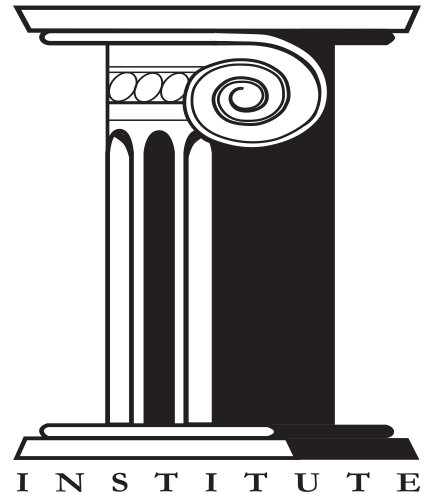

On Power and the Use of Coercion

School Choice: Providing Hope and Opportunity

by Lindsey M. Burke

"Outside of its legitimate functions, government does nothing as well or as economically as the private sector of the economy," Ronald Reagan once said. Given the fact that markets outperform monopolies in every aspect of our lives, why do we consign something as important as education to government-run institutions?

The results of our assignment-by-ZIP-code public-education system over the last half century show that we shouldn't. Graduation rates have remained stagnant since the 1970s, with roughly three-quarters of students graduating. In some of America's largest cities, fewer than half of all students complete high school.

Reading and math achievement on the National Assessment of Educational Progress — often referred to as the nation's "report card" — is lackluster. Across the country, just one-third of fourth-grade students are proficient in reading; a mere 40 percent are on grade level in math.

Even in what are traditionally thought of as the higher-performing suburban schools, academic achievement is woefully lacking. Researchers Jay Greene and Josh McGee found that "out of the nearly 14,000 public school districts in the U.S., only 6 percent have average student math achievement that would place them in the upper third of global performance." Six percent.

School choice provides hope. It provides hope in the form of Rocketship Academy, a hybrid online learning charter school network. It provides hope in the form of Empowerment Scholarship Accounts, the pioneering Arizona initiative that allows parents to customize their child's educational experience with control over education funding. It provides hope in the form of a voucher for a low-income child in Washington, D.C., now able to fulfill her potential at a private school of choice.

Whether through education savings accounts, tax credit scholarship programs, vouchers, online learning, charter schools, or homeschooling, school choice allows access to quality education options that best match individual children's learning needs.

School choice has led to improved academic outcomes,

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School Choice: Providing Hope and Opportunity by Lindsey M. Burke

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higher graduation rates, and increased student safety. It has improved parents' satisfaction with their child's academic and social development, and satisfaction with their child's school overall. And it allows parents to access educational options that meet their child's unique learning needs.

School choice also introduces competitive pressure on the public education system that lifts all boats, helping not only students who exercise school choice, but students who remain in public schools.

All the positive benefits of school choice were highlighted across the country recently as part of the third annual National School Choice Week. It's the world's largest-ever celebration of school choice, with events taking place in all 50 states. National School Choice Week is designed to show the success of choice, as well as the need to expand options for every child.

In all, 3,600 events took place across the country, including 2,500 events at schools, including public schools, private schools, and magnet schools.

Some people say choice is no panacea for improving the American education system. That may be true. But choice creates the conditions necessary to spur schools to implement reforms and strategies that work — or risk losing students and their money.

Reforms such as performance pay for teachers and the elimination of "social promotion" have positive impacts on student learning. The best schools will embrace initiatives that work in order to provide the best education possible to their students.

There are a host of other reform measures that schools can and should pursue. Without the competition presented by choice, they have little incentive to do so. Choice is the catalyst for the systemic reform that is so desperately needed.

Parents should be able to choose where their children attend school. And they should have the freedom to finance those options with their share of education funding, in a flexible manner that allows education to be customized.

State and local policymakers can begin by re-imagining what "public education" means. By thinking in terms of educating the public, not in terms of government-run schools. Next, they can reconfigure education funding formulas to provide children — not institutions — with education funds, following the children to the school or education option of their parents' choice.

Over the past century, Americans have been the beneficiaries of countless advances in technology,

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Setting the Record Straight on the Policy of Tax Reduction

by John Hendrickson

The American Legislative Exchange Council (ALEC), which is a leader in providing conservative limited-government and free-enterprise policy solutions, recently published *Tax Myths Debunked*. *Tax Myths Debunked* is an in-depth scholarly policy paper on the importance of limited-government policies.[1] ALEC in *Tax Myths Debunked*, *Rich States, Poor States: ALEC-Laffer State Economic Competitive Index* (now in its 5th edition), among other publications, has proved that economic growth stems from following principles rooted in limited government and economic liberty.[2]

Tax Myths Debunked was actually written in response to the Iowa Policy Project essay, *Selling Snake Oil to the States: The American Legislative Exchange Council's Flawed Prescriptions for Prosperity*, which criticized ALEC's arguments and findings in *Rich States, Poor States*.[3] *Tax Myths Debunked* is written by economists Eric Fruits and Randall Pozdena, who argue that states need to follow "policies that will support economic growth and break with the long tradition of high levels of taxation, government spending, and intervention at the state level."[4]

Many states, just as the federal government, are facing great fiscal and economic challenges, which will require sound public-policy measures in order to create economic growth. These policy measures should be based on ideas rooted in free-market principles rather than the traditional progressive and liberal policies "of higher taxes and greater government involvement."[5]

Tax Myths Debunked explores seven major arguments that are commonly utilized by progressives and liberals. These arguments are:

> 1. Increased government spending stimulates the economy during recessions.
> 2. Lower tax rates are bad for the economy in a recession.
> 3. Raising tax rates will not harm economic growth.
> 4. Austerity in the form of spending cuts will harm growth and employment.
> 5. Real household income has not grown in the past 20 years.
> 6. The distribution of income is increasingly inequitable.
> 7. Raising tax rates on the rich will not harm the economy.[6]

This debate over tax policy and government spending is at the heart of our current national question over economic policy. As Fruits and Pozdena wrote:

> More than five years after the recession began in 2007, the U.S. economy continues to be plagued by weak economic growth. Keynesian deficit spending remedies have not only failed to stimulate economic growth, but also have left the country with a huge overhang of debt. This debt, in total, now exceeds the entire annual gross domestic product (GDP) of the nation.[7]

The national economy, which is plagued by high debt, uncertainty, and continuous high unemployment, is not only problematic for the private-sector and individuals, but also for the states. Across the nation, state Governors and Legislators are trying to grapple with a variety of policy problems such as education, health care, transportation, and tax and spending policy, while being faced with an uncertain economy and a federal government which is broke.

The national debt and fiscal crisis "poses a particularly challenging problem for the 50 states."[8] As Fruits and Pozdena argue:

> They [States] cannot realistically expect to

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> receive any significant increase in aid from the federal government. Many state economies remain weak, while economic conditions and demographics put greater service responsibilities in their hands. Put simply, states must engineer their own economic and fiscal policies. Against this background, prominent economists are counseling the states to move away from high tax policies that discourage growth and instead consider policies that stimulate business, investment and job growth.[9]

These pro-growth policies consist of “free markets, low marginal tax rates, fiscal restraint, and small government.”[10]

The current fiscal crisis, marked by high debt due to government spending and growing entitlement costs must be addressed. “With U.S. federal, state, and local government debt at 84 percent of GDP and rising, policymakers should begin taking debt drag into account when considering new deficit spending,” wrote Salim Furth, a Senior Policy Analyst with The Heritage Foundation.[11] This debt crisis represents a serious policy challenge to policymakers and it is bringing the nation to the brink of economic ruin. Furth notes some of the impact the debt crisis is already having on the economy:

> 1. Debt added from 2009 to 2011 has already cost Americans $200 billion in forgone growth.
> 2. Higher debt will cost Americans $2.4 trillion over the next five years.
> 3. Higher debt will cost Americans $9 trillion over the next ten years.[12]

Tax Myths Debunked provides an academic analysis and response to the progressive and liberal charges that low tax rates and reducing government spending will lead to economic ruin. State policymakers as well as the citizenry would be well advised to read *Tax Myths Debunked* in order to understand the importance of policies based upon limited-government and free-market principles. The future of the nation as well as Iowa will depend on who wins this philosophical battle of ideas.

Endnotes:

[1]Eric Fruits and Randall Pozdena, *Tax Myths Debunked*, American Legislative Exchange Council, Washington, D.C., 2013, <http://www.alec.org/publications/tax-myths-debunked/> accessed on February 22, 2013.

[2]Arthur B. Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitive Index*, American Legislative Exchange Council, Washington, D.C., 2012, <http://www.alec.org/docs/RSPS_5th_Edition.pdf> accessed on February 22, 2013.

[3]Peter Fisher, Greg LeRoy, and Philip Mattera, *Selling Snake Oil to the States: The American Legislative Exchange Council’s Flawed Prescriptions for Prosperity*, A Joint Publication of Good Jobs First and The Iowa Policy Project, November 2012, <http://www.iowapolicyproject.org/2012docs/121128-snakeoiltothestates.pdf> accessed on February 22, 2013.

[4]Fruits and Pozdena, p. 4.

[5]Ibid.

[6]Ibid., p. 6.

[7]Ibid., p. 7.

[8]Ibid.

[9]Ibid.

[10]Ibid., p. 35.

[11]Salim Furth, "High Debt Is a Real Drag," *Issue Brief No. 3859*, February 22, 2013, The Heritage Foundation, Washington, D.C., < http://www.heritage.org/research/reports/2013/02/how-a-high-national-debt-impacts-the-economy> accessed on February 22, 2013.

[12]Ibid.

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In Praise of Income Inequality

by Richard Epstein

One month into the second term of the Obama administration, the economic prognosis looks mixed at best. On growth, the U.S. Department of Commerce reports the last quarter of 2012 produced a small decline in gross domestic product, without any prospects for a quick reversal. On income inequality, the most recent statistics (which only go through 2011) focus on the top 1 percent.

"Incomes Flat in Recovery, But Not for the 1%" reports Annie Lawrey of the *New York Times*. Relying on a recent report prepared by the well-known economist Professor Emmanuel Saez, who is the director for the Center of Equitable Growth at Berkeley, Lawrey reports that the income of the top 1 percent has increased by 11.2 percent, while the overall income of the rest of the population has decreased slightly by 0.4 percent.

Growth vs. Equality

What should we make of these numbers? One approach is to stress the increase in wealth inequality, deploring the gains of the top 1 percent while lamenting the decline in the income of the remainder of the population. But this approach is only half right. We should be uneasy about any and all income declines, period. But, by the same token, we should collectively be pleased by increases in income at the top, so long as they were not caused by taking, whether through taxation or regulation, from individuals at the bottom.

This conclusion rests on the notion of a Pareto improvement, which favors any changes in overall utility or wealth that make at least one person better off without making anyone else worse off. By that measure, there would be an unambiguous social improvement if the income of the wealthy went up by 100 percent so long as the income of those at the bottom end did not, as a consequence, go down. That same measure would, of course, applaud gains in the income of the 99 percent so long as the income of the top 1 percent did not fall either.

This line of thought is quite alien to thinkers like Saez, who view the excessive concentration of income as a harm even if it results from a Pareto improvement. Any center for "equitable growth" has to pay as much attention to the first constraint as it does to the second. Under Saez's view of equity, it is better to narrow the gap between the top and the bottom than to increase the overall wealth.

To see the limits of this reasoning, consider two hypothetical scenarios. In the first, 99 percent of the population has an average income of $10 and the top 1 percent has an income of $100. In the second, we increase the income gap. Now, the 99 percent earn $12 and the top 1 percent earns $130. Which scenario is better?

This hypothetical comparison captures several key points. First, everyone is better off with the second distribution of wealth than with the first — a clear Pareto improvement. Second, the gap between the rich and the poor in the second distribution is greater in both absolute and relative terms.

The stark challenge to ardent egalitarians is explaining why anyone should prefer the first distribution to the second. Many will argue for some intermediate solution. But how much wealth are they prepared to sacrifice for the sake of equality? Beyond that, they will have a hard time finding a political mechanism that could achieve a greater measure of equality and a program of equitable growth. The public-choice problems, which arise from self-interested intrigue in the political arena, are hard to crack.

These unresolved tensions are revealed by looking at a passage from Saez's report *Striking it Richer*. Saez is largely indifferent to these problems of implementation when he observes ominously that

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falls in income concentration due to economic downturns are temporary unless drastic regulation and tax policy changes are implemented and prevent income concentration from bouncing back. Such policy changes took place after the Great Depression during the New Deal and permanently reduced income concentration until the 1970s. In contrast, recent downturns, such as the 2001 recession, lead to only very temporary drops in income concentration.

The policy changes that are taking place coming out of the Great Recession (financial regulation and top tax rate increase in 2013) are not negligible, but they are modest relative to the policy changes that took place coming out of the Great Depression. Therefore, it seems unlikely that U.S. income concentration will fall much in the coming years.

Let's unpack this. It is surely true that the top 1 percent (or at least the top 1 percent of that 1 percent) is heavily invested in financial instruments, and thus will suffer a decline in income with the regulation of the financial markets. But by the same token, it would be absurd to praise any declines in overall capital wealth because of its supposed contribution to greater equality for all individuals. Nor would it make any sense to describe, as Saez does, the current situation as one of "booming stock-prices" when the Dow Jones Industrial Average still teeters below its 2007 high. Take into account inflation and one finds that the real capital stock of the United States has actually declined over the last six years, which reduces the wealth available to create private-sector jobs.

Nor, moreover, is there anything permanent about the 2012 gain in income at the top. As Saez himself notes, some portion of the recent income surge has resulted from a "re-timing of income," by which high-income taxpayers accelerate income to 2012 to avoid the higher 2013 tax rates. Accordingly, we can expect that real incomes at the top will be lower in 2013 than otherwise would have been the case. Indeed, it is possible that these "modestly" higher taxes could produce the worst of both worlds, by depressing government revenues and reducing the income of the rich.

Saez's own qualification is best read as a backhanded recognition of the perverse incentives that rapid changes in the tax structure create. It is a pity that he does not go one step further to accept the sound position that low, flat, and steady tax rates offer the only way — the only equitable way — to sustainable overall growth.

A Return to the New Deal?

Unfortunately, Saez would rather move our system precisely in the opposite direction. He praises the dramatic shifts that took place during the Great Depression, when marginal tax rates at the federal level reached 62 percent under Hoover's Revenue Act of 1932, and stayed high during Roosevelt's New Deal period. The anemic economic performance of the Roosevelt New Deal arose in large part from a combination of high taxation and destructive national policies that strangled free trade, increased union power, and reduced overall agricultural production. Today, Saez concentrates on the income growth of the top 1 percent. He does not address the feeble levels of economic growth over the last five years.

Saez may think that the latest round of tax increases and financial regulations are "modest" in the grand scheme of things. But their effects have been predictable. The declines in productivity have translated into lower levels of income and well-being for all affected groups.

The blunt truth remains that any government-mandated

leveling in society will be a leveling down. There is no sustainable way to make the poor richer by making the rich poorer. But increased regulation and taxation will make both groups poorer. Negative growth hardly becomes equitable if a larger fraction of the decline is concentrated at the top earners.

The Middle Class and the Minimum Wage

The effort to promote equitable growth at the expense of the top 1 percent has serious consequences for current policy. It is no accident that in his recent State of the Union Address, President Obama once again called for increases in taxes on "the wealthiest and the most powerful." If adopted, these changes would make the tax system more progressive and the economy more sluggish.

Indeed the President goes further. He pushes for the adoption of other wrong-headed policies that would also hurt the very people whom they are intended to help. Consider that the Lowrey story featured a picture of President Obama appearing before a crowd at the Linamar Corporation in Arden, N.C., seeking to make good on his promise to raise the minimum wage to $9.00 — to advance, of course, the interests of the middle class to whom the President pays undying allegiance.

The President thinks he can redistribute income without stifling economic growth. The simple rules of supply and demand dictate that any increase in the minimum wage that expands the gap between the market wage and the statutory wage will increase the level of unemployment. The jobs that potential employees desperately need will disappear from the marketplace. In a weak economy, a jump in the minimum wage is likely, as the *Wall Street Journal* has noted, to reduce total jobs, with unskilled minority workers bearing the brunt of the losses.

Unfortunately, the President displays his resolute economic ignorance by proclaiming, "Employers may get a more stable workforce due to reduced turnover and increased productivity." But they can get that stability benefit unilaterally, without new legislation that throttles other employers for whom the proposition is false. Only higher productivity secures long-term higher wages.

Indeed, the best thing the President could do is to just get out of the way. After over four years of his failed policies, Mortimer Zuckerman reports that unemployment rates still hover at 8 percent, and 6.4 million fewer people have jobs today than in 2007. That's an overall jobs decline of 4.9 percent in the face of a population growth of 12.5 million people from July 2007 to July of 2012. The same period has registered sharp increases in the number of people on disability insurance (to 11 million people) and food stamps (to some 48 million).

There is a deep irony in all of these dismal consequences. The President's State of the Union Address targeted the plight of the middle class. That appeal always makes political sense — but it also makes for horrific economic policy. All too often, the calls for equitable growth yield anything but the desired outcome.

Rather than focus on "equitable growth," the President should focus on flattening the income tax and deregulating labor markets. Today's constant emphasis on progressive taxation and government intervention in labor markets will continue to lead the country, especially the middle class, on a downward path.

Richard A. Epstein, the Peter and Kirsten Bedford Senior Fellow at the Hoover Institution, is the Laurence A. Tisch Professor of Law, New York University Law School, and a senior lecturer at the University of Chicago. His most recent books are Design for Liberty: Private Property*,* Public Administration, and the Rule of Law *(2011),* The Case Against the Employee Free Choice Act *(Hoover Press, 2009) and* Supreme Neglect: How to Revive the Constitutional Protection for Private Property *(Oxford Press, 2008).*

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industry, and their general quality of life. American education, however, has proven largely impervious to innovation, and the benefits thereof.

That can and must change. It all begins with school choice.

Lindsey M. Burke is the Will Skillman Fellow in Education Policy at The Heritage Foundation. This article was first published by the McClatchy News-Tribune *wire and it appeared on February 8, 2013, on* heritage.org*, the Website of The Heritage Foundation and is reprinted with permission.*

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