NEOLIBERALISM AND SOCIAL IMBALANCE: HIGHER EDUCATION IN MISSOURI

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ABSTRACT

This manuscript examines neoliberalism as both an ideological system and economic policy shift that emerged as a response to the economic problems of the early 1970s. Galbraith's idea of social balance and his broader analysis of the changing structure of the economy brought on by the increasing market power of big corporations are contrasted with neoliberalism to illuminate how neoliberalism creates social imbalance between the production of private and public goods. An analysis of higher education policy in Missouri is presented to illuminate the specific dynamics of how neoliberalism creates social imbalance. The major finding is that neoliberalism is primarily a strategy for consolidating private economic power, and not a policy for economic prosperity in the public interest.

INTRODUCTION

In 2004, The Chronicle of Higher Education published the results of a national survey on colleges and universities. According to the survey,
93 percent of Americans agreed or strongly agreed that "colleges and universities are among the most valuable resources to the U.S." Moreover, 94 percent answered yes to the question: "Do you think every high-school student who wants a four year college degree should have the opportunity to earn one" (Selingo, 2004, p. A1). Clearly, Americans believe in higher education and the U.S. has a long tradition of treating higher education as a public good. Jefferson was instrumental in framing education as a public good, arguing that generally available education would have an equalizing role and promote democracy. In 1785, the founding of the University of Georgia marked the nation's first state supported institution of higher education. The Morrill Acts¹ of 1862 and 1890 continued the trend towards public higher education by establishing land grant institutions. The GI Bill in the 1940s, the establishment of community colleges in the 1950s, the passage of the Higher Education Act² in the 1960s, and the creation of Pell Grants³ in the 1970s, are further evidence of the development of public higher education in the U.S.

During the neoliberal era of the last quarter century, however, public financial support for higher education has declined. Nationally, public educational appropriations per full time equivalent (FTE) student are at their lowest level ($5,825) in the past 25 years (State Higher Education Executive Officers, 2006, pp. 5–6). As a result, colleges and universities have increased tuition and fees. Nationally, net tuition as a percentage of public higher education total revenues has increased from 21.5 percent in fiscal year (FY) 1981 to 36.7 percent in FY 2005 (State Higher Education Executive Officers, 2006, p. 6), and tuition and fees have increased 375 percent since 1982 (Measuring Up, 2006a, p. 19). In short, under neoliberal policies, higher education is being transformed from a public to a private good. As a result, students and their families are paying more, and government is paying less.

In this paper I examine higher education in Missouri to illustrate how neoliberalism generates social imbalance and an inadequate provision of public goods and services like education. I first analyze neoliberalism's market fundamentalism and the public policies associated with it. I then examine how one of neoliberalism's central policies - changes in tax codes and fiscal policy - impacted higher education in Missouri. I then employ Galbraith's theory of social balance to identify the four factors causing social imbalance that constitute the infrastructure of neoliberalism. Galbraith's overall analysis of the modern political economy is presented to provide a critical perspective that reveals neoliberalism and its market fundamentalism to be a disguise for increased private economic power.
NEOLIBERALISM

Neoliberalism is a term used to grasp the regime change in capitalism that began with the crisis of accumulation and profitability of the early 1970s. In the U.S. for example,

In 1965, overall corporate profitability, as measured by the net after-tax rate of return on assets, was a healthy 10 percent. By 1970, it had fallen to 6 percent and by 1974, to about 4.5 percent, less than half of its postwar peak. (Bluestone & Bluestone, 1992, p. 65)

Increasing oil costs, foreign competition, tax bracket creep, rising unemployment and inflation, the demise of Bretton Woods ⁴, all contributed to this crisis which was christened stagflation.

Faced with this crisis, economic elites orchestrated a social movement to overthrow the regime of the “Keynesian compromise,” and replace it with a new neoliberal regime.

From World War II to the late 1970s, the decades of the Keynesian compromise, full employment, social welfare protection, and universal access to education and health care had come to be accepted as important features of developed societies. The desire to tackle the challenges of the capitalist order and the fight against communism made development policies urgent necessities. These policies had led to institutional frameworks that were on the margin of the fundamental rules of straight-laced capitalism – more advantageous financing conditions for the nonfinancial economic sector, a high degree of state intervention in industrial policy, and an international monetary framework favorable to development, which placed certain limits on the freedom of decision for the owners of capital (Dumenil & Levy, 2004, p. 1)

This overthrow involved “moral entrepreneurship” of economic elites or the business community to frame or construct the crisis as a social problem that could be solved by returning to liberal policies that would generate economic prosperity. Following Becker’s analysis of moral entrepreneurs (1963, pp. 120–163), we can see a process involving the factors of “interest,” “enterprise,” and “publicity” at work in the establishment of neoliberalism. The “interest” of economic elites was to restore capital profitability and the revenues they accumulated from it. Their “enterprise” involved harnessing corporate resources to create conservative think tanks like the Heritage Foundation, the Cato Institute, and American Enterprise Institute to promote neoliberal ideas, and to place prominent corporate leaders into positions of political power at the Treasury Department, the Federal Reserve, the President’s Council of Economic Advisors, and the Business Roundtable. This enterprise also involved the mobilization of the National Bureau of Economic Research, and cultivating ties to economic departments
at universities such as the University of Chicago, to give neoliberal ideas scientific legitimacy. Their “publicity” worked through conservative journals such as The Public Interest, and Commentary, books published by the think tanks, and academic publications – mostly in economic journals (Hodgson, 1996; Yergin & Stanislaw, 2002; Harvey, 2005).

The moral entrepreneurship of the business community succeeded and neoliberalism has penetrated common sense so that its precepts and policies seem like a natural way to order society (Harvey, 2005, p. 41). In this sense neoliberalism is much more than an economic agenda; it is a hegemonic way of seeing and general philosophy, and it is necessary to identify its distinctive features and how they support the interests of the business community.

Let us examine what is liberal in neoliberalism, and then consider what is nco. First, we must be clear from the start that liberal refers to the philosophy of the late 19th century, and not to those who are on the left and advocate state intervention and social programs to augment market outcomes. This latter signification holds only in the U.S. and is the exact opposite of what classical liberals espouse (see Yergin & Stanislaw, 2002, p. xv, for an explanation of this curious inversion of meaning). Neoliberalism shares with classical liberalism the equation of free markets with individual freedom; laissez faire. In this sense neoliberalism embraces “market fundamentalism,” which is the belief that the process of the market mechanism is the best way to order the economy (Treanor, 2005, p. 3; Somers & Block, 2005, pp. 260–261) Grounded in the ideas of Adam Smith’s The Wealth of Nations, neoliberals are deeply suspicious of government planning and intervention, which are viewed as threats to individual freedom and “the road to serfdom” (Hayek, 1944). Indeed, market fundamentalism involves a “belief in the moral necessity of market forces in the economy” (Treanor, 2005, p. 4) and that these market forces emerge naturally without any conscious planning. It is important to note the moral element in this position, which functions as a Weberian “ethic of ultimate ends” (Weber, 1958, pp. 120–122); if you let market forces do their work, good ends will inevitably result.

Neoliberalism also shares with liberalism an emphasis on the individual entrepreneur as the prime mover of the economy. It is the entrepreneur who responds to free market forces and risks investing resources to bring innovative processes and products to the market. In Adam Smith’s formulation, the competition between entrepreneurs or undertakers increases the wealth of nations, and without them there could be no economic expansion and creation of additional wealth. Here again we see the connection between individual freedom, freedom of the market, and
economic prosperity that is so central to liberal and neoliberal thinking. In fact, liberalism envisions an individualism where entrepreneurs and the market respond to the demands and preferences of individuals creating consumer sovereignty.

In summary, the business community enlisted the ideas of classical liberalism to explain the economic crises. On the positive side, this meant appealing to the importance of individual freedom and free markets. On the negative side, it meant criticizing the government and state intervention in the economy. As the Reagan administration stated in *America’s New Beginning: A Program for Economic Recovery* (1981, p. 18), “The most important cause of our economic problems has been the government itself.” In constructing this new regime for capitalism, significant modifications of liberal ideas have taken place and justify the signification of neoliberalism. It is time to examine the neo in neoliberalism.

One of the key features of neoliberalism is an extreme faith in markets. We saw in classical liberalism this faith in markets and their moral necessity, but it applied to the regulation of private goods and services. For neoliberals, all of social life should be organized as markets. “The belief in the market, in market forces, has separated from the factual production of goods and services. It has become and end in itself, and this is one reason to speak of neoliberalism and not of liberalism” (Treanor, 2005, p. 6). In short, neoliberalism “holds that the social good will be maximized by maximizing the reach and frequency of market transactions, and it seeks to bring all human action into the domain of the market” (Harvey, 2005, p. 3). For neoliberals, then, it is a moral imperative to commodify everything and create markets for their sale. Thus, health, education, welfare, and pollution, for example, which were not originally produced to be exchanged, have all been transformed into “fictitious commodities” (Polanyi, 2001, pp. 75–76) and regulated by market forces and transactions.

In addition to the neoliberal canonization of the market is its deification of the individual entrepreneur. For classical liberals like Smith, entrepreneurs or undertakers were just one kind of person with a special role to play in the economy. For neoliberals, “every human being is an entrepreneur managing their own life, and should act as such” (Treanor, 2005, p. 10).

This leads to the neoliberal position that individuals, not society, church or state, are responsible for their lives and welfare. Since all of life is a market, individual investment choices determine one’s success and position in society, and for neoliberals this is the way it should be. Neoliberals embrace liberal individualism and are suspect of any institutions or programs that interfere with or replace market mechanisms and the
sovereignty of freely choosing individuals. As Margaret Thatcher once remarked to *Women's Own* magazine (October 31, 1987),

I think we've been through a period where too many people have been given to understand that if they have a problem, it's the government's job to cope with it. 'I have a problem, I'll get a grant.' 'I'm homeless, the government must house me.' They're casting their problem on society. And, you know, there is no such thing as society. There are individual men and women, and there are families. And no government can do anything except through people, and people must look to themselves first. It's our duty to look after ourselves and then, also to look after our neighbour. People have got the entitlements too much in mind, without the obligations. There's no such thing as entitlement, unless someone has first met an obligation.

To summarize, economic elites framed the economic crisis of the early 1970s as a result of the “Keynesian compromise” and the idea that government could manage the economy in the public interest. They successfully argued that the crisis was caused by the government and could only be solved by returning to “market fundamentalism” where all dimensions of social life are organized by market principles.

The logic of neoliberal thinking is now clear and its policy decisions are guided by the pivotal idea of limiting and restricting government and returning to market regulation of the economy. Thus deregulation frees businesses from costly rules and promotes economic efficiency, privatization sells off public assets to more efficient private entrepreneurs and commodifies public goods, tax cuts are implemented, especially on capital and for the rich, to free up money for investment and capital formation, and social programs are dismantled to cut inefficient government spending and make individuals more personally responsible. These are the main policy ingredients of the neoliberal recipe for economic prosperity.

**HIGHER EDUCATION IN MISSOURI**

Following Galbraith's insight that “investment in education, assessed qualitatively as well as quantitatively, becomes very close to being the basic index of social progress” (Galbraith, 1998, p. 252), we can examine higher education in Missouri and assess the impact of neoliberal policies. According to Grapevine (2006), published at Illinois State University's College of Education, Missouri's tax appropriations for higher education declined 10.8 percent or $103.3 million between FY2001 and FY2006, from $959.4 to $856.1 million. Nationally, states averaged an increase of 9.9 percent during this period. In FY2006, Missouri ranked 46th in tax dollars
appropriated for higher education. Looked at from the perspective of appropriations per FTE, the State Higher Education Executive Officers’ State Higher Education Finance report cites a 25.2 percent decline for Missouri between FY2001 and FY2005, while the national average was a 18.2 percent decline (State Higher Education Executive Officers, 2006, p. 30). During this neoliberal era, the percentage of Missouri’s budget that goes to higher education has decreased from 16.8 percent in 1980 to 12 percent in 2007 (Nietzel, 2006, p. 7; see also http://www.missouristate.edu/President/speeches/Report20060920/default.htm). Clearly, relative to most other states, Missouri is providing less public support for public higher education.

While state tax support for higher education declined, The Missouri Budget Project reports that tuition at Missouri’s four year institutions increased 58 percent between FY2001 and FY2006 (Kruckemeyer & Blouin, 2005, p. 2). The result is that in Missouri, net tuition as a percent of total education revenues has risen to 40 percent, while the national average is 36.7 percent (State Higher Education Executive Officers, 2006, p. 31). Overall, the percentage of Missouri college students’ expenses paid by the state fell during the neoliberal era from 81.6 percent in 1980 to 48 percent in 2006 (Zagier, 2006, p. 1B). We see here a clear neoliberal trend of passing the costs of public higher education on to families and students; public education is being privatized and transformed from a public to a private good.

At the same time that families and students are paying an increasing share for their public education, Missouri’s state-funded financial aid is below the national average. In FY2005, Missouri provided $123 for state-funded tuition aid per FTE, or 33 percent of the national average of $374. Need-based aid was $75 per FTE or 27.3 percent of the $275 U.S. average, while non-need-based aid was $48 per FTE or 48.7 percent of the $99 national average (State Higher Education Executive Officers, 2006, pp. 64-65).

To summarize, relative to most other states and national averages, Missouri provides less public support for higher education and financial aid, and requires its students and their families to pay more. As a result, access to public higher education has been compromised, which is reflected in Missouri’s FTE enrollment growth. Between FY2001 and FY2005, FTE enrollment grew a sluggish 7.2 percent, while the national average was 14.4 percent. In this period, Missouri ranked 45th among the states in FTE growth rates (State Higher Education Executive Officers, 2006, p. 29).

It is now necessary to examine how Missouri altered its tax code according to neoliberal principles and created a fiscal environment hostile to funding higher education and providing public goods.
STRUCTURING THE CRISIS IN PUBLIC HIGHER EDUCATION

The source of Missouri's financial crisis is an imbalance between revenues and spending/appropriations caused by a combination of federal tax policy, and Missouri's unique Constitution and fiscal policies.

Missouri, like most states, has coupled its tax code to the federal code for reasons of convenience and simplicity. Starting in 1973, Missouri adopted the federal definition of income, and then in 1980, coupled its estate tax to the federal tax (State & Regional Fiscal Studies Unit, 2003, pp. 11–14). What this means practically is that changes in federal tax policy are imported into state tax structures like Missouri's, and impact state revenues, especially those derived from personal and corporate income taxes, and the estate tax. Missouri's dismal higher education statistics reported above are thus part of a larger national trend. As Ehrenberg and Rizzo (2004, p. 29) note, during the neoliberal era, "the share of state general funds going to higher education has shrunk by more than one-third over the past twenty-five years." Part of this trend is explained by changes in federal tax policies that were imported into states and culminated in a "state fiscal crisis" between FY2002 and FY2005 (Lav & Brecher, 2004).

The neoliberal era and regime change started with the election of Ronald Reagan in 1980. Earlier, the Reagan administration's framing of the economic problem as a governmental problem was discussed. Not surprisingly, one of the first legislative acts for Reagan was the Economic Recovery Tax Act of 1981 (ERTA), which included major tax cuts. The name of this act captures the neoliberal spirit perfectly; the economy will recover when taxes are cut and government stops intruding into the workings of a free market. ERTA reduced marginal tax rates 23 percent over three years, reduced the maximum rate from 70 to 50 percent, and reduced the capital gains rate to 20 percent. It also provided corporations with an "accelerated cost recovery system" (ACRS), which provided generous depreciation allowances for capital expenditures. At the time, the Treasury Department estimated the costs of the individual rate reductions at $162 billion, or 3.7 percent of GDP, and the ACRS at $59 billion, or 1.3 percent of GDP (Steuerle, 2004, p. 82). In FY1990, ERTA's tax cut cost the government $323 billion or close to 6 percent of GDP (Steuerle, 2004, p. 83).

The history of federal tax policy during the neoliberal era is not a monolithic story of tax cutting. There were tax increases, for example the Omnibus Budget Reconciliation Act of 1990, which imposed numerous excise taxes, increased the top individual tax rate from 28 to 31 percent, and
increased the individual alternative minimum tax rate from 21 to 24 percent. Clinton and the New Democrats even managed to erase the deficits generated during the Reagan and Bush administrations, and created a federal surplus by raising taxes and cutting spending (see Steuerle, 2004, especially pp. 273–287 for a summary of changes in federal tax policy).

The tax cuts implemented by George W. Bush in 2001–2003 accelerated the neoliberal trend of reducing taxes and making the tax structure more regressive. These cuts reduced the marginal rates on individuals, provided corporations with bonus depreciation allowances for capital expenditures, gradually reduced the estate tax rate from 55 to 45 percent while raising the exemption, and reduced taxes on capital gains and dividends to 15 percent (Steuerle, 2004, pp. 284–286).

Examining changes in the federal tax from 1980 to the present, it is fair to say that taxes on individuals, corporations, and estates were greatly reduced under the neoliberal claim that taxes and government spending reduced economic growth and individual freedom. Like the name of Reagan’s 1981 tax cut (ERTA), George W. Bush’s 2001 tax cut – the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) – reveals quite clearly neoliberalism’s market fundamentalism and supply side thinking. As President Bush explained in November 4, 2006, “The main reason for our growing economy is that we cut taxes and left more money in the hands of families and workers and small business owners” (quoted in Center on Budget and Policy Priorities, 2007, p. 4).

This brief summary of changes in federal tax policy is presented so that it is possible to examine how federal tax policies are imported into states and impact their revenues. One key difference between federal and state tax and fiscal policies should be noted here. Unlike the federal government that can run deficits, all the states but one (Vermont) must balance their budgets, which means that the importation of federal tax cuts will be more immediately visible at the state level.

As mentioned previously, all states’ tax revenues are impacted by changes in the federal tax code, and by FY2002 all states were confronted with fiscal crises caused in part by imported federal tax cuts. “Federal policies have cost states and localities more than $175 billion over the four-year course of the state fiscal crisis, from state FY2002 through FY2005” (Lav & Brecher, 2004, p. 1). For example, the passage of the federal Job Creation and Worker Assistance Act (JCWAA) in 2002 created bonus depreciation as corporations were allowed to deduct 30 percent of the cost of new assets in the initial year they were placed in service. Then, in 2003, passage of the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) increased
the bonus depreciation to 50 percent for assets put into service before January 1, 2005. These corporate income tax breaks were imported into Missouri and reduced the General Revenue Fund by $209 million from FY2002 to FY2005 (Johnson, Lav, & Blouin, 2004, p. 5).

Similarly, passage of EGTRRA in 2001 phased out the estate tax and “effectively eliminates state estate taxes in most states” (Lav & Brecher, 2004, p. 6). In FY2001, the estate tax yielded Missouri’s General Revenue Fund $157 million. In FY2007 the yield is de minimus (Kruckemeyer, 2006a, p. 1). Finally, in 2004, another tax reduction for corporations was enacted – the “domestic production deduction” which allows companies to deduct 3 percent of “qualified production activities income” (QPAI). The deduction will double to 6 percent in 2007 and triple to 9 percent in 2010 (Johnson, 2007, p. 1). The projected revenue loss to Missouri by the time of full implementation is estimated to be between $23 and $36 million (Johnson, 2007, p. 4).

A number of states have recognized how federal policies are “passing down the deficit” (Lav & Brecher, 2004) to the states, and have decoupled their taxes from federal policies. Thirty-one states plus the District of Columbia decoupled from the federal bonus depreciation. Another 17 states plus the District of Columbia have decoupled from both the federal changes to the estate tax, and to the “domestic production deduction” (Johnson, 2007, p. 2). Missouri has not decoupled from any of these federal tax cuts and has suffered serious reductions in its General Revenue Fund. According to Lav and Brecher, Missouri has been more affected by these federal tax cuts than most states. Between 2002 and 2005, federal tax cuts cost Missouri $320 million and reduced its General Revenue Fund by 13.4 percent, making Missouri the 3rd most impacted state (Lav & Brecher, 2004).

While federal tax policies imported into Missouri’s tax code significantly reduced the General Revenue Fund that supports public higher education, to fully understand Missouri’s budget crisis requires an analysis of its unique Constitution and fiscal policies. One unique feature of Missouri’s Constitution involves the Hancock Amendment. The Hancock Amendment (Article X section 18 of the Missouri Constitution) is a perfect example of neoliberal policy. Established in 1980 at the beginning of the neoliberal regime change signaled by Reagan’s election, Hancock was designed to limit government by capping state revenues. It did this by limiting total state revenues (TSR) by linking them to personal income. The limit is set by multiplying total state personal income by 5.64 percent (Moody, 2003, p. 4). If state revenues surpass that limit, they must be refunded to personal and corporate income taxpayers. Hancock was first triggered in 1995, and from
1995 to 1999 over $980 million were refunded. In response to these increased state revenues, in the second half of the 1990s, legislators enacted 21 new tax credits and 14 new tax cuts. In the first year of their implementation, FY2000, the tax credits cost the state $170 million, while the tax cuts cost another $648.1 million. In short, changes to Missouri’s tax code resulted in a loss of $818.1 million dollars in FY2000, and have eroded its tax base by 11 percent annually. It is estimated that these tax credits and cuts will amount to more than $1 billion in lost revenues in 2007 (Missouri Budget Project, 2004a, p. 3).

In 1980, following the neoliberal fascination with tax cuts; Missouri enacted three sales tax exclusions that reduced sources for the General Revenue Fund. Prescription drugs and domestic utilities were excluded from sales taxes, while 50 percent of the motor vehicle tax was diverted to the State Motor Fuel Fund. In 1997, in the midst of the tax cuts and credits spawned by Hancock, the state excluded food from the general revenue fund sales tax. All totaled, in 2000, these exclusions or tax expenditures were costing the General Revenue Fund $479.4 million (State & Regional Fiscal Studies Unit, 2003, p. 10). This chipping away at the General Revenue Fund is a notable feature of Missouri’s fiscal policy. For example, in November 2004 Missouri voters passed Amendment 3 which diverted another large share of the motor vehicle sales tax from the General Revenue Fund to a new State Road Bond Fund. Amendment 3 is being phased in over a four year period, further depleting the General Revenue Fund by $73.2 million in FY2006 and escalating to $187 million in FY2009 (Missouri Budget Project, 2004b, p. 1).

The General Revenue Fund is the main source of discretionary spending in the state. Given the neoliberal distrust of government exhibited by passage of the Hancock Amendment, it is not surprising that the General Revenue Fund has been allowed to dwindle. Indeed, with the exception of two temporary tax increases necessitated by fiscal exigency in the late 1980s, legislators have not promoted any new general revenue taxes since 1971, and the great majority of tax increases have been for dedicated purposes and passed by ballot initiatives and constitutional amendments, not legislative action. The use of ballot initiatives and dedicated taxes is a neoliberal policy of limiting the discretion of legislators, and has been common in Missouri. For example, Proposition C (1982) created a 1 cent sales tax for K-12 education and overhauled property tax assessment, and the Parks and Soils Sales Tax (1984) created a one-tenth-of-one-percent sales tax.

A major event in Missouri’s fiscal history was passage of senate bill (SB) 380 in 1993. This legislation was a response to a court ruling that Missouri’s
funding of K-12 education was inadequate and inequitable, and thus in violation of the state Constitution. In response to Judge Kinder’s ruling, SB 380 created the Outstanding Schools Trust Fund and a foundation formula for distributing K-12 dollars. To support the new formula, SB 380 raised taxes by capping the deduction for federal taxes on individual incomes at $5,000 per person, and reduced the deduction for corporations from 100 to 50 percent of income. (Missouri is one of only eight states to have this regressive deduction.) It also raised the corporate income tax rate 25 percent, from 5 to 6.25 percent. This legislation generated an additional $500 million in revenue in FY1994, and was one factor triggering the Hancock refunds in 1995 because SB 380 was passed without voter approval (State & Regional Fiscal Studies Unit, 2003, p. 18).

SB 380 also precipitated a tax revolt and calls for Hancock II legislation that would tighten the definition of TSR so that certain revenues would not be exempted from inclusion in TSR. Given that SB 380’s tax increases were very progressive and affected primarily wealthy individuals and corporations, it is not surprising that these groups mobilized the neoliberal infrastructure. The neoliberal Cato Institute, whose web site banner promotes, “Individual Liberty, Limited Government, Free Markets and Peace,” produced publications explaining how, “legislators – aided by sympathetic court rulings – have discovered ways to avoid the voter-imposed restrictions by exempting certain revenues from the cap” (Stansel, 1994b, p. 1). The main problem, according to neoliberals like Stansel, was that the Missouri Supreme Court had ruled in 1983 that revenues from the voter-approved Proposition C sales tax for education should not be included in TSR. This “evasive” ruling “has allowed Missouri’s state politicians to collect $5 billion more in revenue over FYs 1982–93, than the Hancock amendment would have permitted” (Stansel, 1994b, p. 1). Hancock II would help Missourians “Tame Leviathan” (Stansel, 1994a).

In November 1994, Hancock II was soundly defeated at the polls. Apparently, Missouri voters did not buy the argument that tax increases they approved of by vote should be included in TSR calculations. Responding to the Motor Fuel Tax increase of 1992 and SB 380 tax increases in 1993, both which were passed without voter approval, Missouri voters did accept the neoliberal idea that politicians should not have the discretion to generate revenues, and passed the Carnahan/Farm Bureau Amendment in 1996. This amendment (Article X section 18e of the Missouri Constitution) puts a ceiling on new tax revenues by linking them to an annually adjusted percentage change in personal income. In FY2003 this limit was approximately $74.5 million (Moody, 2003, p. 5).
Any combination of tax or fee increases that exceeds this amount must be approved by voters, even if it falls below the Hancock limitation.

The combination of the Hancock and Carnahan/Farm Bureau Amendments put Missouri’s public sector in a precarious position. Missouri, like most states, must balance its budget each year and cannot run deficits. In good economic times like the 1990s when surplus revenues were generated, “Hancock” required refunds and prompted tax cuts and credits. These tax cuts and credits became permanent features of Missouri’s tax code. In bad economic times, like 2001’s recession, revenues fall and create an imbalance between spending commitments (many of which were increased in the good times of the 1990s) and falling revenues. But, because of the Carnahan/Farm Bureau Amendment, taxes and fees cannot be raised to meet the shortfall without a vote of the people. Given the economic difficulties visited on many families during economic downturns, the likelihood of adjusting the imbalance through revenue increasing measures is most unlikely. The result is that the state must cut spending to balance the budget. In a very neoliberal way, Missouri’s tax system is structured so that as the business cycle moves up and down, the public sector gradually shrinks due to decreasing revenues thereby creating social imbalance.

Public higher education in Missouri is funded primarily from the General Revenue Fund. K-12 education, corrections, and Medicaid also draw off this fund, and spending on these programs affects the amount of revenue available for higher education. There are formulae (K-12 foundation formula, Medicaid eligibility rules, and sentencing laws) that mandate appropriations and have increased the spending for K-12 education, Medicaid, and corrections. In 1981, Missouri replaced its FTE-based funding formula for higher education with a base-budget formula. Practically, this means there is no formula guiding funding for public higher education. It is a math problem of determining what is left over after the other programs have drawn from the fund.

The recession of 2001 precipitated a state fiscal crisis as mandated spending exceeded tax revenues. In order to balance its budget, Missouri cut appropriations for higher education, which explains the decline of $103.3 million reported in Grapevine (2006) between FY2001 and FY2006. In response to the cuts in public funding, colleges and universities raised tuition and fees, which explains the 58 percent increase in tuition reported by the Missouri Budget Project earlier.

Missouri has created a structural budget crisis. “The central policy issue confronting the State of Missouri is the resolution of the structural deficit between essential general revenue expenditures and available revenue
receipts” (Fajen, 2004, p. 3). A central element of this structure is the erosion of the tax base created by tax cuts and credits (both federal and state) and constitutional revenue limits. Examining net general revenues as a percentage of Missouri’s total income reveals the net general revenue tax burden (Table 1).

In FY1997 (Hancock is triggered) the tax burden peaked at 4.517 percent of personal income, and has steadily declined to an estimated 3.717 percent in FY2007. During this same period personal income grew from $126.2 billion in FY1997 to an estimated $197.9 billion in FY2007. Had the FY1997 tax burden of 4.517 percent been applied to the estimated $197.9 billion of personal income in FY2007, Missouri’s tax revenues would be more than $1.5 billion greater than the estimated $7.3 billion in FY2007.

**Table 1.** Net General Revenue Tax Burden.

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<th>Revenue as a % of MO Income</th>
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*Source:* Kruckemeyer (2006a)
(Kruckemeyer, 2006a), and Missouri's budget crisis would be much less severe.

A second facet of this structural crisis involves how the state calculates its essential general revenue expenditures. This involves primarily the K-12 foundation formula and Medicaid eligibility criteria, which have mandated increased appropriations for K-12 education and Medicaid (Moody, 2003). Consistent with neoliberalism, Missouri's legislature has framed the deficit as a spending problem of an overzealous government. As a result, by FY2005 the K-12 funding formula was under-funded by at least $610 million (Fajen, 2004, p. 8) and school districts were once again suing the state for not providing adequate and equitable funding, as mandated by the State Constitution. Similarly, in the 2005 legislative session, Medicaid eligibility criteria were drastically cut and provisions were provided to eliminate Medicaid altogether by 2008 (McBride, 2006).

In response to the revenue shortages and the problems facing public higher education, in 2006, Governor, Blunt, proposed selling part of the Missouri Higher Education Loan Authority (MOHELA) to provide funds for capital improvements. This privatization would provide a one-time influx of revenues for much-needed capital improvements, but at the long-term cost of further reducing the base for future state revenues.

**ANALYSIS**

This case study reveals how Missouri has structured its fiscal policies so that public higher education is being transformed from a public good provided by government, to a private commodity exchanged in markets. What is revealing to note here is the specific mechanism by which this privatization is taking place. Usually privatization is accomplished by the outright sale of public goods to private parties. Governor Blunt's current proposal to sell MOHELA is a perfect example of this privatization process.

The privatization of public higher education in Missouri, however, has occurred through a much less visible process that merits the label *stealth privatization*. This has involved a steady erosion of the tax base of the General Revenue Fund by numerous tax cuts, tax credits, and tax exemptions. These, combined with the Hancock and Carnahan/Farm Bureau Amendments, have created a ratcheting effect that shrinks the General Revenue Fund along with the ups and downs of the business cycle. In times of economic expansion, like the mid- to late 1990s, refunds and tax cuts are legislated to meet the requirements of Hancock. Then, when the
economy retracts, as in 2001, revenues fall and cannot be replaced without voter approval. Faced with a fiscal crisis, the state is forced to cut spending to balance the budget. One of the few areas where such discretionary legislation is possible is higher education, which was cut $99.6 million in FY2003. Despite a growing economy, by FY2007, state appropriations of $878.3 million were still $96.3 million below FY2002’s $974.6 million. Of all the states, Missouri registered the largest percentage change in appropriations between FY2002 and FY2007 at -1.9 percent. The national average was +2.9 percent in nominal, not real (inflation-adjusted), dollars (Grapevine, 2007, table 4).

Confronted with these shortfalls, Missouri’s public universities and colleges had few options but to raise tuition and fees, and pass the costs of education onto students and their families. In this way, public higher education was involved in *stealth privatization*. If politicians had announced in FY2002 that they were passing legislation to raise tuition and fees by 58 percent over five years, there would have been massive resistance. Instead they offered tax relief from oppressive and inefficient government in the form of tax cuts, credits, and exemptions. When there were insufficient funds for public higher education and tuitions increased, the blame was focused on Missouri’s inefficient and greedy public institutions of higher education.

Once again the neoliberal infrastructure mobilized to explain how we are “Going Broke By Degree” and “Why College Costs Too Much” (Vedder, 2004). Economist, Richard Vedder, a member of the Spelling Commission on Higher Education whose work is promoted and published by the neoliberal American Enterprise Institute, explains why college costs too much. “[T]here are four major reasons for rising costs: third-party providers, the lack of market discipline, ineffective price competition, and government regulation” (2004, p. 24). His solution: privatize higher education and let market forces make education more efficient and affordable.

As Vedder’s work clearly demonstrates, one central problem with neoliberal thinking is that it does not recognize market failure to provide public goods. Even Adam Smith, who neoliberals constantly refer to, recognized the need for government to produce public goods. In *The Wealth of Nations*, Smith spells out the role of the sovereign and its duty of erecting and maintaining certain public works and certain public institutions, which it never can be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do more than repay it to a great society. (quoted in Sackrey, Schneider, & Knoedler, 2005, p. 37)
Among the public institutions that Smith identified were "those for the instruction of the people" (quoted in Sackrey et al., 2005, p. 38). In short, Smith recognized that it was not profitable to produce the necessary levels of education, and that the state would have to augment the market mechanism. Moreover, for Smith, education was essential for creating the wealth of nations and promoting economic growth (Sackrey et al., 2005, pp. 39–41).

Current empirical research confirms that education is a main driver of economic growth. "In a review of literature on returns to education across 44 countries, World Bank economist George Psacharopoulos calculates internal rates of return to education of 14% and 12% for secondary and higher education, respectively, in developed countries" (Schweke, 2004, p. 7). According to Vedder, however, "the more state governments support higher education, the lower the rate of economic growth in the state" (2004, p. xviii, emphasis in the original). This case study of Missouri's higher education system in the neoliberal era reveals that the money freed-up by tax cuts and credits did not find its way into the market of higher education as neoliberal thinking would suggest. The privatization of higher education has not created greater prosperity in Missouri, and instead has propelled social imbalance and disinvestment in public higher education.

SOCIAL IMBALANCE

Between 1952 and 1978, John Kenneth Galbraith published four books that, taken together, attempted to explain the changing contours of the modern economy and the implications these changing contours had for the discipline of economics and public policy. These four books: American Capitalism: The Concept of Countervailing Power (1952); The Affluent Society (1958); The New Industrial State (1967, significantly revised in Galbraith, 1978); and, Economics and the Public Purpose (1973), span the period when the Keynesian compromise developed and began to be challenged by what we now call neoliberalism. Central to Galbraith's contribution was his recognition of how the emergence of big corporations and the interventionist state altered the workings of the modern economy and rendered "the conventional wisdom" (Galbraith, 1998) of classical and neoclassical economics obsolete. Perhaps the single most important contribution of Galbraith was his focus on "the problem of power" (Galbraith, 1993[1952], pp. 23–31) and how it was elided both in economics and the discourse of business. By the time Galbraith had published the revised third edition of The New Industrial State in 1978, the economic crisis that mobilized
neoliberalism – stagflation – was firmly entrenched and Galbraith explained it by how power was woven through the institutional structures of the modern corporation, the interventionist state, and labor unions.

Galbraith's analysis is historical and empirical and places power and interests at the center of his explanations. It also offers contrasting policy implications and provides a much-needed critical foundation for analyzing neoliberal policies. For purposes here I will use a major idea from his overall oeuvre, Galbraith's (1998) notion of "social balance," to illuminate how neoliberal ideas and policies result in the inadequate provision of public goods like higher education. In short, Galbraith's analysis and critique of social imbalance highlights the infrastructure of neoliberalism and its contradictions.

In 1958, John Kenneth Galbraith published The Affluent Society where he advanced "The Theory of Social Balance." Basically, for Galbraith, there must be "a satisfactory relationship between the supply of privately produced goods and services and those of the state;" "every increase in the consumption of private goods will normally mean some facilitating or protective step by the state" (Galbraith, 1998, p. 189). If you produce private automobiles, you need public highways. The problem, as Galbraith reiterated in his introduction to the 40th anniversary edition in 1998, was social imbalance,

Forty years ago I stressed the compelling difference between public and private living standards. We had expensive radio and television and poor schools, clean houses and filthy streets, weak public services combined with a deep concern for what the government spent. Public outlays were a bad and burdensome thing; affluent private expenditure was an economically constructive force. (1998:x)

In The Affluent Society (and later in The New Industrial State [1967], and Economics and the Public Purpose [1973]), Galbraith provided an explanation for why an affluent society has social imbalance.

According to Galbraith, we have imbalance because of a public policy that stresses the urgency of private production and economic growth while actively discriminating against investment in the public domain. There are four facets to the "conventional wisdom" driving the public policy of imbalance:

1. "Economic writing and teaching [that] instill attitudes and beliefs that resist accommodation to a changing world" (Galbraith, 1998, p. viii)
2. The "vested interests" of businessmen (Galbraith, 1998, p. 132ff).
3. The "persuasion" of advertising and the media system that promotes private commodities (Galbraith, 1998, p. 194) and the vested interests of business.
The "reciprocal relation between production and economic security" (Galbraith, 1998, p. 94).

Space constraints do not permit a full presentation of Galbraith's insightful analysis here. It is enough, however, to note briefly how analysts like Vedder and Stansel have harnessed economics to justify privatization of higher education for neoliberal institutes that promote the vested interests of business in low taxes and private production. It is also quite clear that the mass media and advertising invest heavily in "persuading" consumers about the benefits of private commodities, and say little to nothing about public goods. Finally, much of what is privately produced is functionally frivolous, but necessary to provide jobs and income for economic security, which has become quite problematic in the neoliberal era.

Galbraith's larger analysis of how the American economy had changed provides critical insight into neoliberalism and its market fundamentalism. For Galbraith, a "bi-modal" economy developed consisting of a competitive sector regulated by supply, demand, and price competition, and an oligopolistic "planning system" managed by a "technostructure" that manipulated supply, demand, and prices to generate earnings and corporate growth. Central to this transformation was "bureaucratic symbiosis" where the State collaborates with corporations to assure adequate earnings and growth. For Galbraith the "new industrial state" implemented policies that generated social imbalance and necessitated an "economics for the public purpose."

What Galbraith's analysis suggests is that neoliberalism and its market fundamentalism is less a plan for general prosperity, and more a strategy for consolidating the interests of big corporations and their wealthy investors. Examining the tax changes that are central to the stealth privatization of public higher education in Missouri supports Galbraith's analysis.

In Missouri, the Federal tax cuts of 2001–2003 dramatically benefited the wealthy. In 2004, the top 1 percent of Missouri residents received an average benefit of $47,976, while the average benefit for the poorest 60 percent of households was $458 (Johnson et al., 2004, p. 3). Similarly, corporate taxes in Missouri have decreased in the neoliberal era. In FY1985, corporate taxes as a percentage of net general revenue were 7.5 percent and fell to 5.5 percent in FY2006 (Kruckemeyer, 2006b). "According to US Census data released in December 2005, Missouri Corporate Income tax Per Capita was $38, well below the national average of $131. Missouri's rank was 46th out of 46 states that levy this tax" (Kruckemeyer, 2006b, p. 1). Galbraith was
correct when he claimed that modern economics served "as a cloak over corporate power" (Galbraith, 1973, p. 8).

CONCLUSION

This case study of public higher education in Missouri reveals how one facet of neoliberal policy — tax cuts — leads to *stealth privatization* and social imbalance. The neoliberal claim that returning to market fundamentalism will generate prosperity is clearly contradicted by Missouri's experience with higher education. The National Center for Public Policy and Higher Education succinctly summarizes the condition of Missouri's public higher education:

> Missouri's underperformance in educating its young population could limit the state's access to a competitive workforce and weaken its economy over time. Since the early 1990s, colleges and universities in Missouri have become less affordable for students and their families. If these trends are not addressed, they could undermine the state's ability to compete successfully in a global economy. (Measuring Up, 2006b, Missouri, p. 3)

Instead of greater economic prosperity, the effect of Missouri's neoliberal changes to its Constitution and fiscal policies has been to consolidate private economic wealth and further propel social imbalance.

This state-level case study is important because it reveals more clearly the impact of neoliberal policies and how they create social imbalance. Unlike the federal government, which can finance tax cuts through growing deficits and thus hide the real impact of social imbalance, states like Missouri must balance their budgets to take account of falling revenues and align them with appropriations. As Missouri’s experience illustrates, social imbalance is manifested by the inability of state government to provide essential public goods and services. The analysis here has focused on how higher education has been adversely impacted by neoliberal policy, but it should be emphasized that neoliberal imbalance has also led the state into a crisis of providing K-12 education, and health care for the needy. Certainly, eliminating Medicaid is a drastic manifestation of social imbalance. Indeed, one of the central conclusions of this analysis is that most of the public goods and services that citizens depend on today are provided by state and local governments, and it is at the state and local levels that the problem of social imbalance is most severe.

Another important finding of this case study involves how federal tax changes are imported into state tax codes, and in the neoliberal era, have contributed to social imbalance. Thus, while neoliberal politicians in
Washington can promote market fundamentalist ideology and legislate tax cuts, they do not have to confront the consequences of social imbalance; these are passed down to the state and local level. Moreover, as the federal government has delegated responsibility to the states for managing Medicaid, and Temporary Assistance to Needy Families (TANF), the problems of social imbalance are increasing.

Ultimately, what this case study reveals is how pivotal state fiscal policy— and especially its tax code—is for the provision of public goods and services. The dismal statistics about Missouri’s public higher education are largely the result of its unique constitution and tax code, which have been altered in the neoliberal era to reduce the ability of its elected officials to generate revenues for the provision of essential public goods and services. It is no surprise that Missouri ranks 46th in appropriations for higher education, ranks 45th in FTE enrollment growth, and ranks 46th in taxes per capita (Vock, 2006, p. 1). While the neoliberal discourse takes place at the national level, its policy impact is primarily at the state and local level.

The analysis here has described how neoliberalism generates social imbalance. It also generates a self-fulfilling prophecy. Starved for resources, the government becomes “hobbled” and does a poor job of providing public services. This reinforces the neoliberal vilification of the government, and prepares fertile ground for additional neoliberal policies, which generate further social imbalance. The only way to break this vicious cycle is to understand the mechanisms of social imbalance, and identify the interests they serve. This research is offered in the spirit of understanding social imbalance, and the development of an institutional structure that can express the public interest. Our future prosperity depends on the provision of essential public goods like higher education.

NOTES

1. The Morrill Acts involved the federal government granting federal land to states for the purpose of establishing colleges.
2. The Higher Education Act of 1965 increased federal money given to universities, created scholarships and low-interest loans for students, and established a National Teachers Corps.
3. The Pell Grant program is a type of post-secondary education federal aid, and is the largest need-based grant aid program in the country.
4. The Bretton Woods Agreement established an international monetary system and rules for commercial and financial relations among industrial nations after World War II.
REFERENCES


