What is wrong with this picture?

On the set of Gone Girl in Cape Girardeau
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Dear Friends:

Cape Girardeau basks in sunlit glory. The Mississippi River shimmers in the distance. It is a beautiful fall day in southeast Missouri, a day like many others, but with one difference: A Twentieth Century Fox film crew is getting ready to make some magic of its own.

Our cover photo (taken during the filming of Gone Girl) captures the moment perfectly. So why do we ask: “What is wrong with this picture?”

To quote Frédéric Bastiat in his famous economic essay,¹ the troubling element in this picture is not what is seen, but what is unseen, or hidden from view.

Nothing tells you that the making of Gone Girl cost Missouri taxpayers more than $2 million and left a trail of broken promises on job creation and tangible economic benefits. Nothing tells you that this film is part of a much larger problem. Every year, our elected officials throw away hundreds of millions of dollars of taxpayer money—through public assistance to a wide range of commercial projects. More than Hollywood movies, this includes everything from casinos and sports stadiums to big-box retail outlets and lavish corporate headquarters.

As cofounders of the Show-Me Institute—Missouri’s only free-market think tank—let us take you behind the scenes in Gone Girl and show how the unseen but real costs to our state from this film’s production have outweighed the seen, but skimpy, benefits.

Playing a Mug’s Game

We can begin by examining some of the shameless hype that is so often used to justify the expenditure of public money for private gain.

According to former U.S. Senator Christopher Dodd, chairman and CEO of the Motion Picture Association of America (MPAA), Gone Girl is a shining example of how “Movie and television productions provide a tremendous boost to the economy of hosting communities, first with the significant investments made during production and then often through increased tourism for years to come.” In a press release, the MPAA provided what it called “a detailed economic account” from Twentieth Century Fox, which said:

The production hired 116 Missourians, including over 30 off-duty law enforcement officials, and the cast and crew stayed over 7,000 hotel room nights. The movie also utilized over 1,400 extras.

Is that so?

After a careful examination of public filings by the film company, Jessica Stearns, an intern at the Show-Me Institute, discovered that not even one of the 116 reported job positions was “full time or high paying,” and not a single Missourian remained

on the payroll. She reported her findings in an article in the *Southeast Missourian* on Dec. 21, 2014.

Perhaps there was an uptick in employment in the hospitality industry as a result of the six weeks and the “over 7,000 hotel room nights” that cast and crew spent in Missouri. But who was really paying for their food and lodging?

Even if Ben Affleck and other members of the cast and crew were seen to drop a lot of $100 bills at restaurants and nightspots around Cape Girardeau, they had Missouri taxpayers to thank—as their unseen benefactors—in funding their extravagance.

The Missouri Department of Economic Development (DED) gave $2.36 million in film tax credits to Twentieth Century Fox, with food and lodging as one of the primary costs qualifying for the credits. For the recipients, state tax credits are almost as good as a direct cash grant. They can sell, exchange, and transfer film tax credits to any third party that has a tax liability in Missouri.

In short, we, as a state, were playing a mug’s game—emptying our own pockets to pick up the tab for visiting Hollywood stars, while getting little or nothing in the way of tangible economic benefits in return.

**Once Burnt, Twice Wise?**

Today Missouri Gov. Jay Nixon is backing a plan that would provide more than $400 million of public financing to build a new riverfront stadium in Saint Louis to replace the Edward Jones Dome and try to keep the St. Louis Rams football team from bolting to a new home in the Los Angeles area.

As usual, proponents of the plan are extolling the public benefits that would supposedly flow from this expenditure—claiming that would save Saint Louis from the ignominy of ceasing to have an NFL franchise and lead to the regeneration of the city’s downtown area.

But wait, we have heard those arguments before. They are the same arguments that elected officials from the city and state were making 25 years ago in calling for public financing of the Edward Jones Dome.

What happened to the growth that was supposed to come from the dome, which opened in 1995? Answer: It is nowhere to be seen, as large areas close to the dome remain mostly empty.

For more on the stadium issue, we urge you to read the article on page 8 of this annual report. Suffice it to say here, we hope (and expect) that the city and state will not repeat the same mistake they made more than two decades ago in cutting a sweetheart deal for the Rams (charging a negligible rent for occupying a hugely expensive stadium built at public expense).

It makes no more sense to subsidize the owners of NFL franchises (or the fans sitting in luxury boxes) than it does to give taxpayer money to high-paid movie stars and producers.

**The Show-Me Institute: A Bridge to Better Public Policy**

One of the real tests of an organization that calls itself a “think tank” is this: Can it change the thinking on important issues or questions?

The Show-Me Institute met this challenge in 2014. We brought about a dramatic change in people’s thinking on transportation funding.

At the outset of the year, the Missouri Department of Transportation (MoDOT) declared that it was running short of funds for highway and bridge maintenance. A consensus quickly developed among lawmakers in Jefferson City in favor of a constitutional amendment authorizing a statewide sales tax. More than just plugging the funding gap, the proposed 0.75 cent sales tax would have left MoDOT with a substantial surplus, which could have been used for other projects to help drum up local support for the amendment.

MoDOT invited cities and counties across the state to submit their own wish lists of things to do with the surplus funds. Not surprisingly, local officials responded with a wide variety of hastily conceived projects (such as greenways, bike paths, and trolleys).
The so-called “concrete lobby”—construction companies, design firms, and trade unions—jumped on board the tax-and-spend bandwagon. So did the Missouri Chamber of Commerce and Industry. Lobbyists spent more than $1 million on television and radio ads to promote the amendment.

Standing athwart those forces, the Show-Me Institute cited three main reasons why Missouri should reject the transportation funding proposal and move to an entirely different model.

First, the proposed tax was unfair. Why should cross-country truckers—responsible for a disproportionate amount of the wear and tear to our road and bridge system—get off paying very little, while individual residents who did not even drive would see another increase in already high state and local sales taxes?

Second, it would create the wrong incentives. If you tax shoppers to pay for roads, you turn the roads into a free resource for drivers—encouraging further congestion and road degradation.

Third, the whole plan had the makings of a giant boondoggle—going far beyond the original mission of keeping Missouri’s transportation infrastructure in good repair.

Show-Me Institute policy analysts and researchers drove these points home from a variety of platforms or forums—speaking at public meetings, giving testimony, appearing on radio and television shows across the state, and penning many newspaper commentaries, letters to editors, and blog posts.

They also pointed out a more equitable and sustainable solution: raising gas / diesel taxes and making expanded use of tolling (possibly coupled with privatization of sections of roadway to capture more of the disciplines and benefits of free-market thinking).

When Missouri voters went to the polls on Aug. 5, they rejected the proposed sales tax increase by the stunning margin of 59 to 41 percent.

In January, Missouri Gov. Jay Nixon specifically endorsed the idea that Missouri should make increased use of tolling and user fees to support major improvements on Highway 70 and other roadways and bridges.

A year ago, when we spoke of the advantage of the user-pays approach, hardly anyone in Jefferson City agreed with us. Now there is broad support for the idea.²

A Freedom-based Agenda

As part of a pro-market, pro-growth agenda, we believe that the Missouri Legislature should:

• eliminate costly and unproductive state tax credits that favor certain businesses at the expense of others;

• lower taxes for everyone; and

• concentrate on creating a favorable environment for all businesses and working people and stop trying to pick economic winners and losers.

We quoted the great Frédéric Bastiat at the beginning of this letter, and we will come back to him for further wisdom at the end.

In one of the early criticisms of central planning and socialism, Bastiat wrote: “The State is the great fiction by which everyone tries to live at the expense of everyone else.” He went on to enunciate the unbeatable advantage of a market economy over a planned economy: “If everyone enjoyed the unrestricted use of his faculties and the free disposition of the fruits of his labor, social progress would be ceaseless, uninterrupted, and unfailing.”

We wholeheartedly agree on both counts. At the Show-Me Institute, we are passionately committed to advancing the principles of limited government and individual liberty within our cities, counties, and state.

Sincerely,

Crosby Kemper

June 8, 2015

² In the 2015 session of the Missouri Legislature, lawmakers failed to pass a transportation funding fix. However, legislators will be focused on the problem in 2016, and there is a broad agreement that fuel taxes and tolling are the best solution.
Will Kansas City follow the recent example set by Seattle and San Francisco by raising its minimum wage to $15 an hour? If some religious and civil rights leaders get their way, it would. Yet a look at those cities reveals the damage that increasing the minimum wage to such a high level may cause.

In San Francisco, Borderland Books, a store that has been in operation for 18 years, said it may have to close because of the new $15 minimum wage. Now, the five workers, including the owner, are at risk of losing their jobs.

It was not hard to foresee what would happen to businesses like Borderland once the minimum wage went up. Nor is it difficult to predict what will happen in Kansas City if it chooses to raise the minimum wage. As the floor on wages goes up, the number of jobs available will decrease.

The concept behind this is simple. As you make something more expensive, the demand for it will decrease. This simple economic fact holds true for lemons, lightbulbs, and labor. By mandating businesses pay their employees more, these cities are making that labor less attractive from a cost perspective.

For example, imagine that you own a hamburger restaurant. You know there are machines available that can flip hamburgers, but a person can do the job for a lower price. However, as this person becomes more and more expensive to employ, the burger-flipping machine becomes more and more attractive from a business perspective until the owner eventually replaces the person because his labor costs so much more than the machine.

A review of the economic literature reveals many studies that show higher minimum wages resulted in lower employment. Even more significant, increased minimum wages seriously harmed employment for low-skilled workers, the very people the minimum wage is meant to help.

This makes sense if one goes back to the burger-flipping machine example. The simpler the task, the easier it is to replace the human who performs said task with a machine or some other tool. Building a machine to flip burgers is easier to do than to perform neurosurgery (at least for now). Thus, hamburger flippers earn $7.65 an hour, while neurosurgeons earn salaries in the six figures. The value of the former’s work pales in comparison to the value of the latter’s.

By reducing employment for low-skilled workers, the minimum wage not only hurts these people in the present, but also hurts their future earnings ability. Dr. Jeffrey Clemens and Michael Wither, both of the University of California-San Diego, estimated the impact of the minimum wage on employment and income growth for low-skilled employees. They found that increasing the minimum wage reduced the chances for these workers to earn salaries ($1,500 a month) that would put them in the lower-middle class.

“The true minimum wage is zero—the amount an unemployed person receives from his nonexistent employer.”

—Milton Friedman
The authors believe the reason for this phenomenon is that higher minimum wages reduce employment opportunities for low-skilled workers (something that Neumark and Wascher found as well). Many minimum wage workers are at a point in their working lives when small gains in experience lead to increases in wages. In fact, one study by Ralph Smith and Bruce Vavrichek found that employees making at or below the minimum wage, on average, saw their salaries increase by 20 percent after a year on the job. By increasing the minimum wage, governments are making it harder for these low-skilled workers to reach that first rung on the earnings ladder, thus harming their future earnings potential.

Many of those who are lucky enough to keep their jobs after a minimum wage increase will be workers who don’t actually need a “living wage” in the first place. The reason for this is that many low-income workers are not members of low-income families. In fact, according to one calculation by David Neumark, nearly half of workers on the minimum wage are in households that earn income greater than three times the poverty line. Only 13 percent of workers who make the minimum wage are at or below the poverty line. That is why supporters of the minimum wage describe it as a “blunt instrument” for helping poor families. Even President Obama’s former chief of economic advisors, Christina Romer, says the minimum wage isn’t especially well suited for alleviating poverty.

Raising the minimum wage is popular, as evidenced by its support in public opinion polling. However, the minimum wage is still a gross infringement on economic freedom. Free markets are all about voluntary exchange for mutual benefit, and a politically dictated minimum wage doesn’t allow this to occur. But more importantly, given its actual impact, increasing the minimum wage is counterproductive and immoral.
Karl Marx—the father of “scientific socialism” and the greatest producer of fallacies and false predictions in the history of economic thought—got one thing right. When he said, “History repeats itself, first as tragedy, then as farce,” he accurately and humorously predicted the attempt now underway to secure $400 million in public funding for a new riverfront stadium in Saint Louis.

Why would anyone consider putting more public money into a new football stadium for the St. Louis Rams after the shellacking that Missouri taxpayers have taken—and are still taking—on the team’s existing stadium, which is only 20 years old? That’s a good question.

By the end of this calendar year, Saint Louis City and County and the state of Missouri will have paid off $360 million out of the $480 million in bonds that financed the construction of the Edward Jones Dome (formerly the TWA Dome), which opened in 1995. That will leave another $120 million in annual bond payments falling due between 2016 and 2021 ($60 million from the state and $30 million each from the city and county).

The Edward Jones Dome was a 100 percent publicly financed project. The Rams paid no part of the construction costs and they have paid an annual rent of $250,000, or just 1 percent of the $24 million annual cost that taxpayers have been paying to service the debt on its construction. That is a 99-to-1 split—in favor of the profit-making tenant over the amazingly accommodating public landlord. In this case, the team has also received all luxury-box revenues and claimed 75 percent of advertising and naming rights.

In their desperate quest to land a new NFL team—to replace the old Cardinal football team which departed for Phoenix in 1988—the political and civic leaders of that time did something else that was very foolish. They gave the team the right to opt out of the original lease agreement 10 years early—in 2015—if the stadium did not rank in “the top 25 percent of NFL stadiums”— even if that meant having to build a whole new stadium, wholly or partly at public expense.
This escape hatch is now responsible for causing history to repeat itself. According to Forbes, the St. Louis Rams football team is now worth about $930 million. Experts say that the value of the franchise will jump to $2.5 billion to $3.5 billion if the team moves back to the Los Angeles area. Any such increase in value would more than offset the cost of building a new stadium, as Rams owner Stan Kroenke—a billionaire developer—is clearly prepared to do, having assembled a site in the Inglewood neighborhood.

All of which means that today’s leaders in the city and state now face the same question that predecessors did 25 years ago. They are asking themselves: “Do we want to spend hundreds of millions of dollars of taxpayer money to build a new stadium on spec”—in the hope that this act of fealty might cause the National Football League to do something to insure that Saint Louis would continue to have a team?

Surprisingly (or farcically) enough, there is some support for doing so. Missouri Gov. Jay Nixon is supporting a revised “funding plan” that calls for taxpayer support for $400 million out of the $1 billion cost of building the stadium.

As Show-Me Institute Policy Analyst Joseph Miller noted in a blog post on May 14, 2015:

The revised plan relies on a growing and increasingly preposterous list of contingencies. These include:

1. Getting a team owner and the NFL to cover $450 million in costs for a new stadium. No team owner, especially the Rams’ owner, has expressed any willingness to do this.

2. As things stand, a plan to fund a new stadium needs to go to a public vote in the city. Residents might vote no.

3. Getting a Major League Soccer (MLS) team in Saint Louis.

4. After getting a MLS team, getting (and funding) a soccer hall of fame.

5. Funding an entertainment center at the Union Electric Light and Power Company.

6. And finally, because Dave Peacock (the head of stadium task force set up by Gov. Nixon) thinks the Rams owner is committed to relocating to Los Angeles, getting Kroenke to sell the Rams to another owner who will keep the team in Saint Louis.

One thing is certain. When considering whether Missouri should pony up $150 million in development tax credits and support the issuance of another $175 million in public bonds, Missouri lawmakers should note that the clear consensus among professional economists is that sports stadiums do not generate significant economic growth or urban regeneration.

Speaking specifically of the proposed new riverfront stadium for the Rams, University of Chicago economist Allen Sanderson said: “Building a football stadium is probably one of the worst expenditures of taxpayer dollars there is. . . . To say it’s going to put on the map, it’s going to be a catalyst for economic development . . . that’s just nonsense.”
“Government is not the solution to our problems,” Ronald Reagan famously said. “Government is the problem.”

However, in today’s world, it is not just the Leviathan that we must contend with, but the growth of government that has found thousands of ways (big and small) and thousands of places to become embedded in our daily lives. Excessive government afflicts us at the city and state levels no less than the national level. That means we must fight at multiple levels to reclaim our liberties and to make Missouri’s economy truly competitive.

At the Show-Me Institute, our analysts and scholars demonstrate the power of the market and the effectiveness of society working without government involvement every day. Take, for example, the issue of wastewater privatization in Arnold. In Missouri, like elsewhere in the nation, we often are led to believe that there is a set of utilities that governments must build, own, and manage. But an expanding economic literature and practical experience from cities across the state show that private companies can provide the money and the know-how to offer better public utilities than local governments. In the case of Arnold, the city was looking to sell its wastewater facilities to Missouri American Water, a company with a proven track record in Missouri. The sale of facilities would have created more investment, a large initial payment to the city, and competitive utility pricing.

Institute analysts argued on the radio and in articles that Arnold should take the opportunity to get private investment and private management of this wastewater utility. They showed that when privatization is done in a careful manner that ensures proper oversight of the private company, people get better services for lower prices. Arnold residents found these arguments persuasive and voted to approve the sale of the city’s wastewater facilities last fall.

While the government directly provides only a limited number of public services, the regulatory power of the state often reaches much further into the local economy, stifling competition and fighting economic progress. Regulation advocates argue that individuals working together cannot make informed decisions about how much services should cost and what is a proper risk; bureaucrats need to decide for everyone else. Unfortunately, regulatory bodies set up to police our choices are more often than not captured by the various companies they are meant to regulate, which in turn use the power of government to keep out small competitors and protect their business models from disruptive innovation.

Got a car? Turn it into a money machine. The city is buzzing and Uber makes it easy for you. Plus, you’ve already got everything...
Missourians were given a very visible reminder of this tendency over the course of the last year when new ridesharing services, such as Uber and Lyft, attempted to enter the highly regulated taxicab markets in Saint Louis, Kansas City, and other cities. These new businesses were unwelcome interlopers in complacent taxi markets, where the regulators controlled the number of taxis, what kind of cars drivers could use, what they could charge, and even what drivers could wear. The offended reaction of city officials to the sudden entry of Lyft was a rude reminder that, too often, local officials see setting up a new business not as a right, but as a privilege that only politicians may grant.

In response to the attempts of regulators to kick ridesharing out of cities, Policy Analyst Joseph Miller pointed out how local taxi regulations have gone too far and, in many cases, were completely outdated. He was able to explain, both on the airwaves and in print, how local regulations were decidedly not limited to protecting consumers’ safety. In testimony to both the Missouri House and Senate, Miller argued that the economic opportunity provided by ridesharing companies was both overwhelming and evident in cities where the services already operated. Local communities can create hundreds of jobs and provide increased mobility, all without spending a single dime, if they are simply willing to release their regulatory grip on taxi markets.

Over the past year, Missouri has made much progress on ridesharing. While significant barriers still exist in Saint Louis, improved regulations that may allow the entry of ridesharing companies have been approved in Kansas City. The state government also has made serious moves toward limiting localities’ ability to block ridesharing companies, as well as reforming the St. Louis Metropolitan Taxicab Commission, which still has taxi company representatives as members. The Show-Me Institute’s analysts and scholars will continue to champion the benefits of market innovation and open competition until all Missourians are free to use (or participate in) ridesharing and regulations are truly limited to basic safety protections.

Government’s pervasive presence in the economy did not reach everywhere overnight, nor will it be possible to take it away all at once. Miller’s work on the Arnold sewer privatization and ridesharing regulations are just a small part of that effort. But as Missouri continues to demonstrate how services that are traditionally thought of as government mandates can be better left to private companies or individual choice, residents will know with increasing confidence that they do not need politicians to manage the economy or our daily lives.
After returning to the company that had ousted him a decade earlier, Apple’s founder was on a mission in 1998. In a dozen more years, as Walter Isaacson recounts in his highly readable biography, *Steve Jobs*, the visionary business leader “revolutionized six industries”: personal computers, animated movies, music, phones, tablet computing, and digital publishing. And he “reimagined a seventh”—in creating the stores that became shrines to his memory in the days and weeks following his death from pancreatic cancer on Oct. 5, 2011.

In doing all of these things, Jobs exhibited a genius for delivering innovative products that just about anybody could use. As he put it in an interview with *Businessweek*, “Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. … That’s been one of my mantras—focus and simplicity.”

Fortunately, the lessons of Jobs’ success are not exclusive to any one industry. Unfortunately, “focus and simplicity” remain far removed from American health care.

Rather than a reform that focused attention on patients and simplified the country’s health system, the passage of Obamacare in 2010 instead heralded a new wave of old thinking—thinking that puts government, not the patient, at the center of our country’s health care.

Over the past five years, health care spending in the United States has risen, access has declined, and the quality of care for millions of Americans has suffered. Emergency room visits didn’t fall when Medicaid expanded; they increased. We didn’t get to keep the insurance plans we had if we liked them; we could only keep them at the whim of the government and the insurers it closely regulated. Millions lost coverage. Premiums didn’t fall on average; they rose, especially on the young.

Demand for that replacement may be rising faster and coming sooner than some may think.

This summer the United States Supreme Court will rule on *King v. Burwell*, a case that may very well prevent the federal government from imposing its insurance mandate tax in states that don’t have their own state-based insurance exchanges. This includes Missouri. Without the threat of a government penalty, Missourians would be free to choose health care plans that focus on their individual health care needs, rather than be forced into bad insurance plans to meet the political needs of government bureaucrats.

Suddenly, the focus in American health care would turn back to the patient, not the government. What a novel idea!

Of course, a positive ruling in *King* doesn’t get us to “simplicity” in America’s health care system by itself. Over the last half-century the government has done its best to turn health care delivery into a Rube Goldberg machine of bad incentives and even worse results.

When we think about “health insurance” in the United States, for instance, the concept is basically indistinguishable from the idea of a “health maintenance plan.” That’s a problem.

Why? When we buy insurance for our homes, does it usually pay for lawn maintenance? When we buy car insurance, does it pay for our oil changes? Of course not. Insurance is supposed to protect us from the unforeseen and the catastrophic. Yet because of government decisions dating back to World War II, we as Americans see health care and health insurance as somehow the same thing—which helps to explain why our health care is so expensive.
Thinking Differently About Health Care

We don't really see prices for health care. In fact, we're incentivized through the structure of modern “insurance” (that is, maintenance) plans to overuse care to make the cost “worth it.” Obamacare doesn't bend the cost curve down; in fact, absent clear prices for consumers, it does everything to bend it up.

We need a simpler health system that empowers patients and causes providers to focus on meeting their needs—not the needs of the government.

What does that mean?

• Protecting and encouraging direct pay care arrangements, which have the advantage of removing middleman insurers from between patients and their primary care physicians.

• Reducing burdensome regulation and paperwork in the health care industry. This means not only drawing down the cartelization hospitals enjoy through Certificate of Need laws, but also responsibly relaxing scope-of-practice laws to ensure qualified health care providers can provide needed care to underserved populations.

• Expanding the tax advantages of buying health insurance that are available to businesses to the employees themselves. If they choose, employees should be empowered to find health insurance that runs with the patient—not just with the patient’s job.

• Promoting greater price transparency and leveraging market forces to drive down the cost of many medical procedures.

• Rooting out waste, fraud, and abuse in our Medicaid program and introducing reforms that incentivize Medicaid patients not only to access better and more affordable care, but also to ultimately leave the program.

• Allowing insurers to compete across state lines.

It’s time to “reimagine” health care. We can have a simpler, easier-to-use, and less prohibitively expensive system than the one we have today.

When a bill is 2,700 pages, there is no equality: Instead, there’s a hierarchy of privilege micro-managed by unelected, unaccountable, unconstrained, unknown and unnumbered bureaucracy.

Columnist / author
Mark Steyn,
writing about the
Affordable Care Act
No one understood the connection between free markets, free trade, and freedom itself any better than Frédéric Bastiat, the 19th-century French economist with the impeccable logic and acid pen who is quoted in other pages of this annual report.

Bastiat understood that no one “orders” growth in a market economy. It comes about naturally, spontaneously, as a result of countless individuals competing with one another to satisfy the needs of others. If a need arises, entrepreneurs will step forward to meet it—assuming they are not stopped from doing so by their own government. But the great overarching theme of Bastiat’s work is just that—the endless mischief and grief caused by government actions that preempt property rights, limit competition and freedom, and favor some groups and individuals over others.

Brenda Talent, CEO
Show-Me Institute

In his satiric parable “The Candlemakers’ Petition,” the manufacturers of candles, street lamps, and tallow lobby the French Chamber of Deputies for protection against a powerful foreign competitor—namely, the sun. They ask for a law ordering their countrymen to keep all windows and doors closed and covered during the day.

We are suffering from the intolerable competition of a foreign rival, placed, it would seem, in a condition so far superior to ours for the production of light that he absolutely inundates our national market with it at a price fabulously reduced.

Clearly, if a government were to order everyone to switch from sunlight to candlelight, it might create or preserve a number of jobs in candle-making and related industries, but it would also impoverish a far larger number of people—forcing them to replace a cheap and easy-to-use resource with an inferior yet more expensive product. At the same time, it would deprive people of the freedom to act as they want inside their own homes.

Could anything so ridiculous happen in today’s world?

It happens all the time. How about the use of government subsidies and mandates to support the production and consumption of “alternative” energy sources such as wind, solar, and biofuels? Or how about the misnamed Affordable Care Act, more commonly known as
Obamacare, which has been aptly described as “a carnival of perverse incentives”? In more than 20,000 pages of rules and regulation, Obamacare piles on benefits that everyone is required to have, whether they want them or not (e.g., people in their 50s and 60s must insure themselves against the nonexistent risk of unwanted pregnancies), while insisting that insurers suspend actuarial judgment and write many money-losing policies. The law also has encouraged a shift from full-time work to part-time work through the requirement that employers with 50 or more full-time workers provide comprehensive health insurance plans or pay stiff fines.

I would argue that the free market is mankind’s greatest creation—doing more than any other human artifact to promote peace, prosperity, and the spread of knowledge and creativity. But it would be folly to expect anyone of a progressive mindset—meaning anyone who thinks of well-meaning government as the primary agency of progress—to agree with this statement...despite the unbroken string of failures over the past century by governments practicing communism or socialism.

For the progressive, good intentions always trump bad outcomes. Bastiat understood this point very well, as he demonstrated in this passage from his book *The Law*:

Socialism,¹ like the ancient ideas from which it springs, confuses the distinction between government and society. As a result of this, every time we object to a thing being done by government, the socialists conclude that we object to its being done at all. We disapprove of state education. Then the socialists say we are opposed to any education. We object to a state religion. Then they say we want no religion at all. We object to state-enforced equality. Then they say that we are against equality. And so on, and so on. It is as if the socialists were to accuse us of not wanting people to eat because we do not want the state to raise grain.

Let me update Bastiat’s list with more current examples (e.g., *We disagree with a state-enforced “living” wage. Then they say we are against a living wage. We disagree with higher taxes and more spending. Then they say we are against the poor and middle class*). But the bigger point is this: Whenever we say that the market economy—freed from government restraints—offers the greatest good for people at all levels of income, the standard fallback position on the left is to change the subject and accuse us of bad intentions—of wanting to inflict greater misery on those at the bottom rungs of society.

To Bastiat, it was axiomatic that all people should be free to live their lives as they choose as long as they accord the same freedom to everyone else. He was a major figure in the anti-slavery as well as the free trade movements in the time period leading up to the American Civil War.

Today’s progressives strut about the stage acting as if they have a monopoly on the truth—impugning the integrity of anyone who dares to disagree with them on a host of issues. It is not just free trade or free markets that are under attack, but free speech and honest discourse.

I will leave the last word to Monsieur Bastiat. This is what he had to say to the know-it-alls who call for more and more government: “Ah, you miserable creatures! You who think you are so great! You who judge humanity to be so small! You who wish to reform everything! Why don’t you reform yourselves? That task would be sufficient enough.”

¹ Bastiat’s use of this term clearly extends to today’s progressivism.
Stockton. Detroit. Illinois. New Jersey. The fiscal problems facing the governments of these communities are national news. The prospect of cash-strapped governments defaulting on their debts not only threatens to destabilize the economy, but the stories of excess, such as the San Bernardino union contract that paid an average annual salary of $190,000 (plus pension and benefits) to each of its top 40 firefighters, are a cause of moral outrage.

When we look at state and local governments struggling to pay the bills, the story is usually the same: Public institutions are stuck with pension plans that the private-sector economy simply cannot support. Although there are many factors at play here, one huge part of this story is the role of government unions fighting for unsustainable pension systems and public spending that an informed public never would agree to.

Across the nation, government unions and public officials meet behind closed doors to set compensation and internal department policies. In fact, while most states have a Sunshine Law that requires policy-setting meetings of state or government agencies to be held in the open, only a couple of states’ sunshine laws apply to government collective bargaining sessions. Missouri is not one of the few states where the public’s right to transparency is honored; a loophole in our Sunshine Law allows government unions and public officials to collectively bargain in closed sessions.

When the public is kept from meetings between government officials and government unions, government acts in a way to benefit itself to the detriment of the taxpayer.

Government collective bargaining sessions should be public meetings. After all, it is in these meetings that unions and government officials set public policy through the discussion and adoption of labor agreements. Citizens need to be informed about what their government is doing, and transparency leads to accountability.

Show-Me Institute analysts have promoted transparent collective bargaining in a variety of ways, including a primer on government labor relations; a variety of research, articles, and commentaries; video blogs; and testimony before the Missouri Legislature.

Chesterfield’s Monarch Fire Protection District and Columbia Public Schools set a standard for open government in Missouri that our analysts have praised. Both of these districts recently opened the doors to their collective bargaining sessions and held these meetings in the open so that members of the public could attend. Unfortunately, these districts are exceptions rather than the norm, which raises the question: What are the government agencies that collectively bargain outside the public’s view trying to hide?
Simply put: Taxpayers have a right to know where their money is being spent and how their government operates. Sunlight, as they say, is the best disinfectant.

Financial Report *

**INCOME**

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**STATEMENT OF FINANCIAL POSITION**

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Note: The board of directors covers the overhead expenses of the Show-Me Institute. Since 2006, donations from supporters have funded education and research exclusively.

*Show-Me Opportunity, a supporting organization, is included in this consolidated financial report.
From blogs to op-eds to Angel’s Story, a four-minute video documentary that attracted over 2,300 YouTube views, the Show-Me Institute has been at the forefront of helping the public understand the effects of Missouri’s school transfer program.

Angel’s Story focuses on one student’s transition from her former school district, Riverview Gardens, to one of the top-performing districts in the state, Kirkwood. The school transfer law had allowed Angel, as well as 2,000 other students, to transfer from unaccredited school districts and attend higher-performing schools. Many students traveled on the bus as long as two hours daily.

Angel’s Story

Brittany Wagner
Show-Me Institute staff members James Shuls, Brittany Wagner, Rick Edlund, and videographer Darin Morley visited then-rising-senior Angel Matthews’ home in North Saint Louis County twice to record her story. They interviewed Angel and her mother, Shauna Matthews, about the differences between her former school district and her new high school.

To say nothing of increased academic expectations, the environment at Kirkwood was a culture shock. In Angel’s first semester, she bumped into a student between classes. Her immediate reaction was to brace herself for a fight, but the student apologized. Matthews knew, then, that Kirkwood High School was a different kind of school.

Nearly six months after the Institute’s profile on Matthews, the former Riverview Gardens student’s success at Kirkwood made the front page of the Sunday Post-Dispatch. Though she ranked in the upper half of her class, she had been at the top in her former district. Nevertheless, Angel was thrilled to participate in the transfer program. She’ll head to the University of Missouri–Columbia in the fall.

Another front-page article in the Post-Dispatch told the sorry story of an honors student who chose not to transfer and spent his senior year in the failing Normandy High School. Classroom disruptions made learning difficult. With no books to take home and a lack of homework assignments, Cameron Hensley said, “This school year I can honestly say that I haven’t learned much of anything.”

Aside from the school opting not to offer honors courses, Hensley reported some disturbing behavior on the part of his teachers. His physics teacher hadn’t planned a lesson since January. His AP English teacher would leave the classroom, only to return again to see whether students had questions about that day’s worksheet.

An endless succession of teacher resignations throughout the year discouraged students like Hensley, who had wanted to believe that with state oversight Normandy could improve. It did not.

Numerous studies indicate that students who utilize school choice programs have better educational outcomes. As the school transfer law issue progresses, the Show-Me Institute will continue to lead the policy discussion, advocating for the expansion of choice.

In May, the legislature passed House Bill 42, which would do just that. If signed by Gov. Nixon, students in the Normandy district could cross district boundaries and attend North Side Community School in Saint Louis City, which is only minutes from several Normandy elementary schools.

North Side Principal Stella Erondu told Brittany Wagner, “If the public schools aren’t working, get alternate educational systems . . . or let them come to schools like mine so that we can take care of them, because they actually are the future.”
Taxes and Border Wars

Do taxes matter?

Just ask Patti Bossert, a 57-year-old entrepreneur who owns two employment agencies in Topeka, Kansas.

Three years ago, Kansas enacted the biggest tax cut of any state in recent history, relative to the size of its economy. It reduced the top personal income tax rate from 6.4 percent to 4.9 percent. Furthermore, Kansas eliminated the state income tax for small business owners who file as individuals.

As a small business owner, Ms. Bossert was suddenly freed from having to pay any personal or business income tax to the state of Kansas. In anticipation of the $40,000 that she would save in 2014, she invested $375,000 in purchasing and remodeling an old building in Topeka—making it the new company headquarters on October 15. She is expanding further in 2015, saying, “Our business has been phenomenal. Wages are going up, and the big problem now is that there are more available job openings than there are qualified people to fill them.”

Show-Me Institute Fellow and Senior Writer Andrew B. Wilson told Ms. Bossert’s story in a weekend commentary in the Wall Street Journal (“Seeded With Tax Cuts, Kansas Harvests the Benefits,” A9, May 16-17, 2015), which also drew upon a 45-minute interview with Kansas Gov. Sam Brownback.

As Wilson wrote:

The governor declared that Kansas was “open for business”... He boasted: “Our new pro-growth tax policy will be like a shot of adrenaline into the heart of the Kansas economy.”

The comment was subsequently picked up by critics who wondered why the Kansas economy wasn’t suddenly leaping ahead at, say, 4%-5% growth annually. When Mr. Brownback ran for re-election, national reporters descended on the Sunflower State and quickly made Kansas the national symbol for the alleged depredations of “trickle-down economics.”

Yet voters re-elected the governor by a four-point margin. The news coverage missed the substantial improvement in the state’s economic performance post-tax reform.

- Unemployment in Kansas has dropped to 4.2 percent, tied for 14th lowest in the country.
- From 1998 through 2012, Kansas ranked 38th in private-sector job growth. In 2013, it climbed to 27th place, and in 2014 it moved to 21st, placing it in the top half of states.
- In the second half of 2014, hourly wages in Kansas grew 3.5 percent, according to Bureau of Labor Statistics, far faster than the national average of 1.9 percent.

Then there is the Kansas City metropolitan area, a living laboratory that straddles the border with Missouri. On Gov. Brownback’s side of the divide, the top personal rate is now more than a full percentage point lower than Missouri’s 6.0 percent, while small business owners like Ms. Bossert pay 0.0 percent.

“I just think Kansas City is a great study,” Gov. Brownback told Wilson. “This is an unusual place, where you’ve got a city virtually equally divided between two states.” The results? Over the past two calendar years, private-sector jobs increased by 5.6 percent on the Kansas side and only 2.2 percent on the Missouri side. In the same period hourly wages grew $1.22 on the Kansas side, compared with $0.61 on the Missouri side.

“If your objective is to grow the economy,” he said, “would you rather put more money into government, or leave it in the hands of small business.”
A good day for the Show-Me Institute’s Director of Communications Rick Edlund typically involves two or three major media “hits.” On a “great” day, the count may go as high as six or seven—including one or more newspaper op-eds or commentaries, multiple appearances by Show-Me Institute analysts and writers on television and radio shows around the state, and links to Show-Me Institute commentaries by popular online blog posts like “Tony’s Kansas City” and the Daily Caller.

Edlund explains, “From conscientious citizens to talk show hosts to lawmakers, Missourians are hungry for good information and real insight into public policy issues that affect their lives. So we try to provide free-market viewpoints through every media platform we can as often as we can.”

In 2014, longtime analyst David Stokes took on the role of director of development at the Institute, but he continues his weekly appearances on the “McGraw Milhaven Show” on the Big 550 KTRS (8:35 a.m. every Monday in Saint Louis) and “Morning Magazine” with Kevin Burns on News/Talk KRMS (9:15 a.m. every Thursday in Osage Beach).

The Institute’s analysts not only make weekly appearances on the “Gary Nolan Show” on the Eagle 93.9 in Columbia and KWOS in Jefferson City (10:05 a.m. every Thursday), but they also appear on various shows on Saint Louis’ KMOX Radio. On the Kansas City radio front, Patrick Tuohy is a frequent guest on the “Darla Jaye Show” on KMBZ.

Resident Fellow and Senior Writer Andrew Wilson has written major commentaries for leading papers throughout Missouri—and has also been a regular contributor to The American Spectator, The Weekly Standard, and the Wall Street Journal. Director of Government Accountability Patrick Ishmael writes on a regular basis for Forbes online.

Even with the onset of the Internet, 55 percent of Americans regard television as their primary news source, according to a recent Gallup poll. For that reason, we are thrilled that television news channels and talk shows have increasingly turned to Show-Me Institute analysts.

Kansas City and Saint Louis public television news shows have tapped Institute representatives as panelists with regularity. Brenda Talent has appeared on Saint Louis’ Donnybrook as a guest panelist on a consistent basis. Kansas City’s counterpart, Ruckus, likewise has welcomed Institute representatives Crosby Kemper and Patrick Tuohy regularly.

These general discussion programs discuss a wide range of regional news, and our regular participation proves that the Institute’s analysts have their fingers on the pulse of a broad range of Missouri policy issues.

Edlund explains, “In every important public policy matter in Missouri, we want to be a part of the discussion. So having a seat at so many excellent media outlets throughout the state allows us to get the word out about free-market principles.”
“The Show-Me Institute is a great resource for my radio show. They are friendly, knowledgeable, and always interesting. They have a point of view, which is great, but more important to me is the audience learns something every time they are on the air.”

—McGraw Milhaven
Host of the McGraw Milhaven Show on the Big 550 KTRS
Saint Louis

“The Show-Me Institute is a great resource with a deep bench of experts who advocate smart, well-researched free-market principles.”

—Mark Reardon
Afternoons, 2 to 6 p.m., KMOX
Saint Louis

“David Stokes and the Show-Me Institute add very valuable insight for our listeners on the issues that affect us here at the Lake of the Ozarks and throughout the state of Missouri.”

—Kevin Burns
Host of the “Morning Magazine” on News/Talk KRMS
Osage Beach
In the nine months that she spent as an intern at the Show-Me Institute, Jessica Stearns spearheaded research into Missouri’s film tax credit program. She wrote a series of op-eds and blog posts with a wealth of details showing how our taxpayers had picked up the check for more than $2 million in expenses racked up by Twentieth Century Fox in coming to Missouri to film *Gone Girl*. What did Missouri get in return? Mostly just a “fleeting moment in the presence of Hollywood stars.”

“Don’t be fooled by reports that these tax credits pay for themselves,” Jessica wrote in an article that appeared in the *Southeast Missourian* on Dec. 21, 2014. “The truth about film tax credits is that they bleed taxpayers to subsidize an industry that last year brought in $36 billion in revenue worldwide. . . . Let’s leave Hollywood in California so that Missourians don’t have to finance celebrities’ espressos or massages and focus on attracting businesses and investors to Missouri that won’t leave taxpayers to foot the bill.”

Jessica worked almost three full days a week at the Show-Me Institute while finishing her senior year at Saint Louis University. She graduated in May with a bachelor’s degree in political science and economics. The next stop in her academic career is London School of Economics and Political Science (LSE). She will begin work in September in pursuing a master’s degree in public policy and administration at LSE. She believes her internship solidified her acceptance into this prestigious school. “I’ve learned more, and gained more valuable skills, at the Show-Me Institute than in a year in the classroom,” she says.

Christien West, interning with the Show-Me Institute last summer, worked closely with Fellow James Shuls on the case study “Decentralization Through Centralization: The Story of the Recovery School District.” Christien explains that the project strengthened his beliefs in free-market solutions for education: “During the project, I learned about the merits of school choice and how market forces can improve the quality of our schools in Saint Louis and Missouri as a whole.”

Like his friend Jessica, Christien graduated from Saint Louis University in May, earning a bachelor’s degree in applied mathematics and economics. He too is planning a career in public policy and calls his internship at the Show-Me Institute “a fantastic learning experience.” “The entire Show-Me Institute team really pushed me to think critically and carefully about policy issues,” he says.

Christien did further research on Certificate of Need regulations for hospitals. “I wrote a series of blog posts, an op-ed, narrated a Show-Me Now! video, and gave a ‘lunch lecture’ on these regulations to expose their adverse impact on the health care market.” In his commentary, “Delays and Blockades: Certificate of Need in Saint Louis,” he examined the impact of regulations on the quality, cost, and accessibility of health care in hospitals.
Also interning last summer, Abigail Fallon, who graduated from Lindenwood University with a degree in economics and will attend the University of Oregon School of Law in the fall, says she was drawn to the Show-Me Institute’s libertarian ideals when the Institute hosted events on campus. “Coming from a family that owned a small business, working in an environment that promoted free-market policies made sense to me.”

Abby found great success in her first few weeks as an intern. Her commentary “Mid-Missouri Food Trucks Face Roadblocks” was published not only in the Kansas City Star but also in the Columbia Daily Tribune. Fallon says this was a big success for her. “It meant a lot to me to get my op-ed published. That was really exciting. Even though I was able to work on my own projects, I had a tremendous amount of help from everyone at the Show-Me Institute.”

Education Policy Research Assistant Brittany Wagner recalls, “Abby’s hard work and dedication on projects made her an important member of the team.”

During their time at the Show-Me Institute, Stearns, West, and Fallon challenged themselves with difficult and important projects. Their high caliber of work contributed greatly to the Institute’s goal of promoting free-market solutions for the state of Missouri.


January 30: “Reform, Not Spending, Should Top Agenda,” by Patrick Ishmael.


February 17: “Privatization Can Benefit Missouri Taxpayers,” by David Stokes.

February 20: “Pragmatic Privatization Works Best,” by David Stokes.


March 17: “Minimum Wage Hurts Workers,” by Patrick Ishmael.


March 24: “Bad Data, Bad Tech, and No Expansion Lead to Fall in Missouri Medicaid Enrollment,” by Patrick Ishmael.


April 14: “Racing to the Wrong End Zone – In Transportation Funding,” by Joseph Miller.

April 23: “Cape Girardeau Should Think Twice Before Establishing CID,” by David Stokes.


June 26: “Beware the Jabberwock (and Downtown Streetcars),” by Joseph Miller.

July 7: “Mid-Missouri Food Trucks Face Roadblocks,” by Abigail J. Fallon.


July 8: “Five Good Reasons to Reject KCI Terminal,” by Joseph Miller.


August 11: “Nix the NIDs,” by David Stokes.


November 6: “Let’s Continue to Protect Our Local Schools,” by James Shuls and Brittany Wagner.

November 10: “Gone Girl, Gone Jobs,” by Jessica Stearns.


December 11: “Give Tesla and Missourians a Fair Deal,” by Joe Miller.


December 31: “Riding to the Hounds of Corporate Welfare,” by Brenda Talent.

STUDIES PUBLISHED IN 2014

January


February


“Government Privatization in Missouri: Successes, Risks, and Opportunities,” by David Stokes.


“Missouri Transition Costs and Public Pension Reform,” by Andrew G. Biggs.

March


April

“Pennsylvania’s Education Improvement Tax Credit Program: A Winning Educational Partnership,” by Andrew LeFevre.

June


July


September

“Updated Estimates of the Effects of City Earnings Taxes on Growth,” by Howard Wall.


October


November


December

Crosby Kemper III - Chairman
Crosby Kemper III is executive director of the Kansas City Public Library and former CEO of UMB Financial Corporation. He cofounded and is chairman of the Show-Me Institute. He is the editor of, and contributor to, *Winston Churchill: Resolution, Defiance, Magnanimity, Good Will*. He has served on the boards of the Thomas Jefferson Foundation, the Kansas City Symphony, the Black Archives of Mid-America, Union Station Kansas City, and Laplham’s Quarterly. He helped Marilyn Strauss found the Heart of America Shakespeare Festival and was its first board chair. He also founded and chaired the St. Louis Shakespeare Festival. He received a bachelor’s degree in history from Yale University.

W. Bevis Schock - Secretary
Bevis Schock is a lawyer in solo practice in Saint Louis. He founded the Shrink Missouri Government PAC, which challenged the constitutionality of Missouri’s campaign contribution limits before the United States Supreme Court in 2000. He received a B.A. in history from Yale University and a J.D. from the University of Virginia.

James G. Forsyth III - Director
James Forsyth is president and CEO of Moto, Inc., which operates the MotoMart chain of gas stations and convenience stores. He is also president and CEO of two other family-owned businesses: Forsyth Carterville Coal Company and Missouri Real Estate. He serves on the boards of St. Luke’s Hospital, YMCA of Southwestern Illinois, and Commerce Bank of Saint Louis. He has served on the boards of Webster University and Forsyth School. He holds a bachelor’s degree in economics from the University of Virginia.

Kevin Short - Vice Chairman
Kevin Short is managing partner and CEO of Clayton Capital Partners. In addition to contributing to various national trade and business publications, he is the coauthor of *Cash Out Move On: Get Top Dollar And More Selling Your Business*. He is chairman of the Today & Tomorrow Educational Foundation, past president of the Board of Education and current chairman of the Finance Council for the Archdiocese of Saint Louis, board member of the Children’s Scholarship Fund, and past member of the Chess Club and Scholastic Center of Saint Louis.

Rex Sinquefield - President
Rex Sinquefield is cofounder and former co-chairman of Dimensional Fund Advisors, Inc. He also is cofounder of the Show-Me Institute. In the 1970s, he coauthored (with Roger Ibbotson) a series of papers and books titled *Stocks, Bonds, Bills & Inflation*. At American National Bank of Chicago, he pioneered many of the nation’s first index funds. He is a life trustee of DePaul University and a trustee of the St. Vincent Home for Children in Saint Louis, and serves on the boards of the Saint Louis Symphony Orchestra, the Saint Louis Art Museum, the Missouri Botanical Garden, Opera Theatre of Saint Louis, and Saint Louis University. He received a B.S. from Saint Louis University and his M.B.A. from the University of Chicago.

Stephen F. Brauer - Director
Stephen Brauer is chairman and CEO of Hunter Engineering Company. From 2001 to 2003, he served as U.S. Ambassador to Belgium. He has served on numerous charitable and civic boards, including the Saint Louis Area Council of Boy Scouts, the Saint Louis Art Museum, and the Missouri Botanical Garden. He is a trustee of Washington University in Saint Louis, a member of its executive committee, and a part owner of the St. Louis Cardinals.

Joe Forshaw - Treasurer
Joseph Forshaw is president and CEO of Saint Louis-based Forshaw, a family-owned business founded in 1871. He has served for several years as an advisory director for Commerce Bank, and is the managing partner of several family real estate partnerships. An alumnus of Saint Louis University High School, Forshaw received both his B.A. and J.D. degrees from Saint Louis University.

James G. Forsyth III - Director
James Forsyth is president and CEO of Moto, Inc., which operates the MotoMart chain of gas stations and convenience stores. He is also president and CEO of two other family-owned businesses: Forsyth Carterville Coal Company and Missouri Real Estate. He serves on the boards of St. Luke’s Hospital, YMCA of Southwestern Illinois, and Commerce Bank of Saint Louis. He has served on the boards of Webster University and Forsyth School. He holds a bachelor’s degree in economics from the University of Virginia.
Louis Griesemer - Director
Louis Griesemer is president and CEO of Springfield Underground, Inc. He previously served as chairman of the National Stone, Sand, and Gravel Association. He currently serves on the Advisory Board for UMB Bank in Springfield and on the board of Burgers’ Smokehouse in California, Mo. He holds a bachelor’s degree from Washington University in Saint Louis.

Hon. Robert M. Heller - Director
Robert Heller is a retired judge who served for 28 years on the Shannon County Circuit Court in Missouri, where he presided over a broad range of civil and criminal cases both locally and throughout the state. He has served as a member of several Missouri court-related committees and as a district chair for the Boy Scouts of America. He holds a J.D. from the University of Missouri-Columbia and a B.A. in philosophy from Northwestern University.

Michael Podgursky - Director
Michael Podgursky is a professor of economics at the University of Missouri-Columbia, where he served as department chair from 1995 to 2005, and is a fellow of the George W. Bush Institute. He has published numerous articles and reports on education policy and teacher quality. He serves on advisory boards for various education organizations, and editorial boards of two education research journals. He earned his bachelor’s degree in economics from the University of Missouri-Columbia and a PhD in economics from the University of Wisconsin-Madison.

Gerald A. Reynolds - Director
Gerald A. Reynolds is general counsel, chief compliance officer, and corporate secretary for LG&E and KU Energy. He also was a deputy associate attorney general in the U.S. Department of Justice. In 2004, President George W. Bush designated Reynolds to serve as chairman of the U.S. Commission on Civil Rights, and in 2002 appointed him assistant secretary of education for the Office of Civil Rights. He received his law degree from Boston University School of Law and his B.A. in history from City University of New York.