



SHOW-ME NEWSLETTER

VOLUME 6 NUMBER 1

WINTER 2011

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

LIBERTY. IT'S YOUR MOVE.

Late fall was an exciting time for the Show-Me Institute, with visits from two prominent guest speakers. On Nov. 30, The Show-Me Institute, along with Saint Louis University's John Cook School of Business, cosponsored "Liberty: It's Your Move," an inspiring public address by chess grandmaster Garry Kasparov, who spoke to more than 300 audience members in SLU's Anheuser-Busch Auditorium about economic freedom in Russia. After an engaging question-and-answer session with those in attendance, Kasparov retired with a few exclusive guests for a private reception. After the event, Kasparov flew to Kansas City to address 900 guests the next day at the Plaza branch of the Kansas City Public Library, which cosponsored the event.

Kasparov grew up in Russia, where he learned to play chess and beat all challengers. He became the world chess champion in 1985, and is still considered by many to be the

greatest player of all time. Eventually, he retired from the game in 2005 in order to spend his time on writing and politics. Kasparov's 2007 book *How Life Imitates Chess* is a best-seller, and has been printed in many languages. In 1990, he helped create the Democratic Party of Russia and in 2005 helped found The Other Russia,

a coalition that primarily exists to oppose the regime of Russian Prime Minister Vladimir Putin and establish greater democracy in Russia. In 2008, Kasparov decided to run for president against Putin, and is now widely seen as representing opposition to Putin's power.

It was a busy week in Kansas City. Only a few days later, on Dec. 6, Kansas City Public Library patrons enjoyed the opportunity to learn from another speaker, Pacific Legal Foundation and Cato Institute scholar Timothy Sandefur. The Show-Me Institute extends its gratitude to



Garry Kasparov speaks to an audience of more than 300 in Saint Louis.



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A MESSAGE FROM CROSBY KEMPER, III



A new year brings with it a host of new opportunities to advance liberty. We have seen some tremendous assaults on freedom during the past few years, with growth in the size of government everywhere we look. Both federal and state budgets have been pushed to the breaking point, with government officials bailing out a seemingly endless stream of companies and attempting to tax and spend their way back to prosperity. A tsunami of entitlement and public pension spending still awaits us down the road.

Nevertheless, there are numerous reasons to be optimistic.

The 2010 midterm elections were a clear repudiation of the profligate policies that have been entrenched in Washington and Jefferson City for far too long. There is no guarantee that the newly elected legislators will cut back on the government's overindulgent habits once in office, so citizens must hold them accountable. At the Show-Me Institute, we work constantly to give citizens the information they need to understand what their government is doing and empower them to change it if they don't like what they see.

We saw another victory for limited government in December, when U.S.

District Judge Henry Hudson struck down the provision in the new health care law that requires each person to purchase health insurance. The law's defenders invoked the Constitution's Commerce Clause to defend the individual mandate, but Judge Hudson noted that never before had a law criminalized the choice **not** to partake in a form of interstate commerce.

Hudson's ruling was presaged by referendums in a number of states, including Proposition C here in Missouri. That measure passed overwhelmingly in August, signaling a clear message from Missourians that they do not support federal government's attempt to

force citizens to buy a certain product. Two other judges have upheld the insurance mandate, so the dispute is almost certain to end at the Supreme Court. The fight is far from over, but this is a welcome ruling, which recognizes that there are legal limits to the government's powers.

The new year provides an enormous opportunity to place liberty and free markets at the center of our civic lives once again. If we squander it now, we might not get another chance. Won't you please join me and everyone at the Show-Me Institute in limiting the government to its constitutional functions?



VOTERS SPEAK OUT ON EARNINGS TAXES

On election day in November, a Missouri ballot initiative asked voters whether they would limit the power of cities to levy earnings taxes. Realizing the damage caused by harmful taxes of this kind, Missourians passed Proposition A with a resounding 68 percent of the vote. With the passage of this initiative, no Missouri cities may institute a new earnings tax, and the two cities that already have earnings taxes must vote every five years on whether to retain them.

It has long been a tenet of economics that incentives matter, and tax policy is just one class of incentives that governments can use

to influence public behavior. Serious unintended consequences can result, however, when a tax is instituted without considering the deleterious effects it can have on a particular region or activity. Evidence suggests that the presence of an earnings tax encourages many businesses and individuals to locate outside cities in order to avoid the earnings tax.

Avoiding an earnings tax is not the only reason people might locate outside the city, and it's only one factor that people may use in deciding where to live and work. However, this finding is consistent with economic theory: Taxes affect people's behavior at the

margin. An increased tax level won't change everybody's behavior, but it will change the incentives faced by many.

The Show-Me Institute's foundational work on why the earnings tax is harmful, and how to replace the lost revenue if the tax is eliminated, is becoming more important by the minute. Harmful, distortionary taxes like the city earnings taxes in Saint Louis and Kansas City take a toll on the very locales they are purported to help. Fortunately, Missourians are learning from the sound research of the Show-Me Institute's scholars. As a state, we are moving toward a time when such taxes will be a thing of the past.

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Jennifer Bumb — Office Manager

Eric D. Dixon — Editor

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Christine Harbin — Policy Analyst

Joseph Haslag — Chief Economist

Jim Jarvis — Creative Coordinator

William A. Kay, Jr. — Public Relations

John Payne — Research Assistant

Josh Smith — Research Assistant

Audrey Spalding — Policy Analyst

David Stokes — Policy Analyst

Brenda Talent — Executive Director

Andrew Wilson — Senior Editor

Show-Me Newsletter is published by the Show-Me Institute. Address correspondence to *Show-Me Newsletter*, 4512 West Pine Blvd., Saint Louis, MO 63108
Website: www.showmeinstitute.org
Phone: (314) 454-0647, or Fax: (314) 454-0667

INSTITUTE OPENS ITS DOORS TO SUPPORTERS

An investment in the Show-Me Institute does much more than just support quality research about Missouri public policy; it opens doors to unparalleled networking opportunities with scholars of national renown. On Oct. 22, the Show-Me Institute welcomed an overflow crowd of donors for an exclusive evening of discussion and debate at our beautiful

new headquarters, a restored home in the Central West End of Saint Louis.

Dr. Arthur Laffer, who served as an economic advisor to President Ronald Reagan, presented the findings from his recent essay for the Show-Me Institute, "The Missouri Compromise," which considers the economic impact of replacing state personal and corporate income taxes with a sales

tax. New executive director Brenda Talent, the full staff, and many board members were on hand to discuss pending research and to express gratitude for the continued support of our investors. We're thrilled to meet so many of you, and to share the experience of learning from scholars who are at the vanguard of promoting liberty for all Missourians.



2011: A NEW YEAR WITH NEW RESOLUTIONS

If you're like me, you recently discussed and set New Year's resolutions. At my home, we again resolved to have a healthier diet. As you can imagine, this was just as



Rebecca Bruchhauser,
Director of Development

popular with our children as our resolution to eat less take-out food. A new 2011 resolution is to watch less TV and dust off our favorite board games to enjoy more fun family time. We're still on track with that resolution. Sadly, the kids still favor Taco Bell over broccoli, but we're resisting running to the border.

It's easier for me to remain committed with the support of family, friends, or coworkers. It's always

easier to reach common goals with team support that moves in the same direction. It creates momentum that is difficult to stop.

For five years, the Show-Me Institute's goals and mission have remained constant, but we're always looking for better strategies to achieve those goals. During an end-of-year office discussion, our policy staff developed terrific New Year's resolutions to benefit Missourians by helping to develop a stronger Missouri economy. In December, Policy Analyst Christine Harbin released an op-ed featuring some of those resolutions, incorporating principles of limited government, personal responsibility, and free enterprise.

These resolutions aren't for the institute's benefit. Rather, they were developed for the state's elected

officials, and media throughout Missouri ran with them on their radio shows and in print. Your elected officials work for you, so I encourage you to resolve this year to engage more with them. Ask if they set their own policy resolutions, or if they are following ours. The resolutions include: First, lose weight. This is a common resolution on Jan. 1 for many Americans. We think it should be one for Missouri legislators, as well. They should unite to kill pork barrel spending projects and make major spending cuts.

Second, stop meddling in other people's business. Needless licensing requirements often stifle the ability of small businesses and entrepreneurs to prosper, as well as limiting competition and options.

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INVEST FREELY TODAY FOR LIBERTY TOMORROW

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

We will continue to strictly abide by our policy to never sell or distribute your personal information to any other organization. By selecting the policy areas that interest you most, you will automatically receive information about new studies, opinion pieces and events.

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

- Promoting the principles of limited government and fiscal responsibility
- Support sending our policy experts to testify about free-market solutions in Jefferson City
- Highlighting burdensome regulations that stifle economic growth and innovation
- Educating policymakers and the public about the benefits of market-based health care coverage

Please complete the form on the envelope that has been enclosed, for your convenience. You may also visit our website — ShowMeInstitute.org, or call our director of development, Rebecca Bruchhauser, at: (314) 454-0647

SMI RESEARCH SHOWS VALUE OF MARKET SOLUTIONS

During the past few months, the Show-Me Institute has released several major publications that prescribed responsible fiscal policy solutions for Missouri. In an essay written for the Show-Me Institute titled “The Missouri Compromise,” Dr. Arthur Laffer argued that Missouri would experience faster economic growth if it eliminated the state income tax. In the essay, he compared Missouri with Tennessee, which does not tax state income and has experienced faster economic growth as a likely consequence. Laffer performed a cross-state time series comparison to demonstrate that the states without income taxes perform better than those that have high income tax rates. He shows how a consumption tax would be a more stable and reliable source of revenue. The institute released this essay in conjunction with Laffer’s appearance at the open house for our new headquarters in the Central West End of Saint Louis.

The Show-Me Institute has released several other publications about the negative effects of taxation. Written testimony by Policy Analyst Christine Harbin, which she delivered before the Tax Credit Review Commission in September, called for an end to Missouri’s targeted development tax credits.

Officials solicited Harbin to write a white paper for the Department of Economic Development’s Strategic Initiative for Economic Growth, which the institute later released online. In both publications, she argued that Missouri’s targeted tax credit programs have not fulfilled their stated purposes, and spending more on them is unlikely to result in better outcomes. Missouri’s tax dollars would be much better spent in the hands of individual Missourians than on entitlements for favored groups.

In December, the Show-Me Institute released a study by Dr. Shawn Ni, an economist at the University of Missouri–Columbia, examining the effect of income tax policy on economic growth. Ni performed a robust statistical analysis of cross-country aggregate data and concluded that distortionary taxes, whether on personal income or on corporations, have a strong negative effect on investment and therefore reduce the rate of economic growth.

In December 2010, the institute released an essay by Haslag and

Grant Casteel, a doctoral student in economics at Washington University, quantifying the welfare effects of two different distortionary taxes by analyzing the difference in growth rates between a model economy with an income tax and a model economy with a sales tax. Among other conclusions, the authors find that the state economy will realize faster economic growth if it replaces the income tax with a revenue-neutral sales tax.

December also saw the release of a new policy study by University of Missouri–Columbia finance professor John Howe, examining the implications of retirement plans, and identifies policies — both public and private — that would make such plans more effective, with the goal of advancing liberty and responsibility.

Finally, in January, the institute released a new case study by transit scholar Jerome Day, arguing that an innovative partnership with the private sector could develop a Saint Louis–Kansas City urban transportation corridor, leading to faster economic growth for the state.

The institute and its scholars will continue to engage in new and groundbreaking research in order to demonstrate what common sense has told us all along: Freedom leads to increased innovation and prosperity.



SPREADING THE MESSAGE OF LIBERTY

In recent months, the Show-Me Institute's scholars and staff have made significant strides in spreading the message of liberty and free markets directly to the public and to elected officials. In September, Policy Analyst Christine Harbin testified before a special committee established by Gov. Jay Nixon to review the use of tax credits in Missouri. Harbin's central message was that government planning of the economy does not work. Lower tax rates for everyone are crucial for economic growth, as opposed to tax credits for a select number of businesses, which leads to marginally higher taxes on those who do not receive the credits. This marked the fourth time in 2010 that an institute staff member testified before a legislative committee.

Our appearances in the media were particularly active in the second half of 2010. Talk radio is a wonderful medium in which to discuss our ideas. Christine Harbin appeared on KWTO

AM 560 in Springfield and "The Eagle" 93.9 FM in Columbia on the same day in December, discussing the negative economic consequences of tax credits. In late October, David Stokes appeared on "The Big 550" AM in Saint Louis with host McGraw Milhaven, to talk about hotel tax proposals. Audrey Spalding was a guest on KWTO in Springfield, answering questions about her policy study of public school superintendent contracts. John Payne also appeared on the "The Eagle" in Columbia to explain why high-speed Internet subsidies are unnecessary and counterproductive. These radio appearances follow the dozens of times this year that Missouri newspapers published the institute's commentaries.

The Show-Me Institute also had several television appearances during the second half of 2010. On election night, the institute's chief economist, Joseph Haslag, was a commentator on NBC Channel 5 in Saint Louis,

discussing the earnings tax vote. Fox News in Kansas City aired a story about the institute-sponsored lecture by chess champion and liberty advocate Garry Kasparov. Finally, CBS Channel 4 in Saint Louis interviewed Policy Analyst David Stokes as part of a story about public pensions.

The Show-Me Institute's scholars and staff continue to serve regularly as guest speakers for interested organizations. David Stokes spoke to the Saint Louis chapter of the Financial Executives Networking Group in December. In November, Audrey Spalding participated on a discussion panel at a screening of the excellent education documentary *Waiting for "Superman."* Research Assistant John Payne was a panelist for another discussion about education in December at Washington University. The institute will continue to use opportunities such as these to spread our message of economic freedom to the Missouri public.

LIBERTY. IT'S YOUR MOVE.

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the Cato Institute for helping secure Sandefur for a Missouri stop on his book tour to promote *The Right to Earn a Living: Economic Freedom and the Law*.

At the Central branch, before a crowd of 50 people, Sandefur discussed how the Constitution defends the right to earn a living, and detailed which constitutional amendments expanded this freedom to all American citizens. The next

morning, Sandefur met with a few lucky patrons for a special, intimate breakfast at the beautiful Kansas City Club, and was also kind enough to sign copies of his new book.

In his book, Sandefur describes the history of economic freedom in America, from the Founding Fathers' support for "the pursuit of happiness" to the current situation, in which a multitude of preposterous and harmful regulations make it hard for many Americans to practice their chosen professions or own businesses. Sandefur gained tremendous practical

insight before writing this book, through defending the legal rights of numerous hardworking citizens who only want to do their jobs — despite government statutes that pick winners and losers in the marketplace. The Show-Me Institute book club will soon read and discuss *The Right to Earn a Living*. Your generous contributions help make it possible for us to host events like these as part of our speakers series, cosponsored by Saint Louis University and the Kansas City Public Library, and to bring critically important ideas to a much wider audience.

2011: A NEW YEAR WITH NEW RESOLUTIONS

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Third, give families real school choice. We will remain committed to this issue as long as underprivileged children are stuck in failing schools. We feel that legislators should make the same commitment.

Fourth, put an end to giving specialized tax credits to preferred businesses at the taxpayers' expense. Like Harbin, although I remain a big fan of George Clooney, I'm not a fan of the tax credits that his movie *Up In the Air* collected. Like other film tax credits, it failed to meet the objectives to have a significant economic impact.

Lastly, this list would be grossly incomplete without mentioning the importance of repealing the state income tax and replacing it with a broader sales tax. Just as the Show-Me Institute has performed extensive

analysis in the area of education reform, we have also conducted a tremendous amount of research to educate elected officials about the effects of the state income tax. The findings exhibit how the states without an income tax prosper, and provide a glimpse of the potential economic growth that Missouri could experience.

If legislators follow these resolutions during the 2011 legislative session, we are confident that we will

YOU CAN MAKE A DIFFERENCE!

\$1,000 will support sending a policy analyst to provide legislators in Jefferson City with solid research and expert testimony about free-market solutions.

see a positive change in the lives of Missourians. We encourage public officials to refer to our publications for policy solutions to these issues, and use our policy staff and board of scholars as sources help them identify even more free-market solutions.

It is critical to provide policymakers with alternative solutions to bigger government, higher taxes, and a flailing economy. With the financial support of Missourians who agree with us, we stand prepared to serve as a strong resource for supporting prosperity for Missouri. The momentum we have created is building, and it will continue to grow along with the size of our team. If you believe in these resolutions, please resolve this year to become active in the work of the Show-Me Institute so that, together, we can expand its impact.

WWW.SHOWMEINSTITUTE.ORG
314.454.0647
SAINT LOUIS, MO 63108
4512 WEST PINE BOULEVARD

