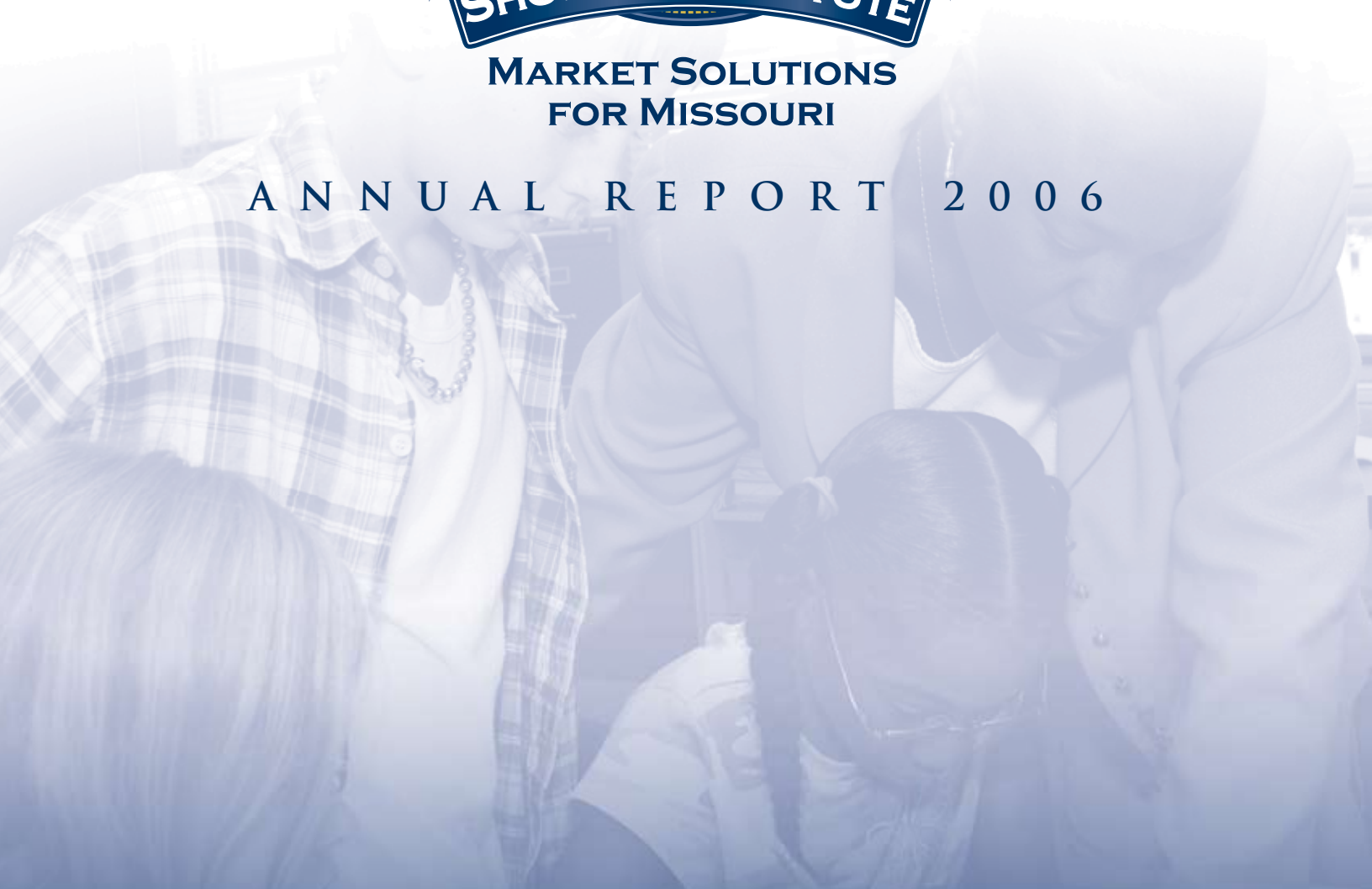




**MARKET SOLUTIONS
FOR MISSOURI**

A N N U A L R E P O R T 2 0 0 6



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

Dear Friends,



R. Crosby Kemper III



Rex Sinquefield

Surveying our accomplishments in 2006, our first full year of operations, we're excited at the tremendous progress we've already achieved, and the strong foundation we've laid for growth in the coming years.

We had two goals in founding the Show-Me Institute: to produce the best possible research on public policy in Missouri, and to make sure that the research we do will have an impact. We are pleased to report that we are succeeding on both fronts. In March, our first study on the earnings tax generated such a flurry of attention from the Saint Louis media that it prompted Mayor Slay to initiate a comprehensive assessment of the city's finances, looking for ways to reduce the tax. Our December study on eliminating the state income tax drew coverage from almost every major media outlet in the state, and received the endorsement of numerous elected officials, including Governor Blunt and Speaker Jetton.

Our work has received national attention as well. In October, we published a study by David Neumark that did such a good job of explaining the harmful effects of the minimum wage that it drew attention from scholars across the nation. The paper was cited by several high-traffic websites, including the website of Gregory Mankiw, Harvard professor and former chair of the White House's Council of Economic Advisors. It was downloaded a whopping 22,000 times in the month of October alone. At this writing in mid-2007, it's still being downloaded at a remarkably high rate. Also in 2006, our editor, Tim Lee, published two op-eds in the *New*

York Times, including an August piece arguing against government regulation of the Internet.

But there's still a lot more to do. Part of the problem is that Missourians are not well informed about the economic challenges facing the state. Saint Louis has been in the economic doldrums for years, and a recent report showed that Kansas City has begun to fall behind the national average in economic growth as well. We believe that two things are crucial to restoring the economic health of our state. First, we must adopt a set of tax and regulatory policies that reward, rather than punish, entrepreneurship and job creation. Between the city earnings tax, the state income tax, and a variety of wasteful subsidies and burdensome regulations, it's little wonder the state is falling behind economically.

Next, we must reform education, especially in urban areas. Educational improvement will bring about two major benefits. First, it will once again make the cities of Saint Louis and Kansas City attractive places to live by raising urban property values and attracting more middle-class families back into our cities. Second, it will provide us with a skilled workforce that will be able to create the high-tech jobs that drive economic growth.

Fixing our state's tax and education systems is a big job, and we know we can't do it alone. Fortunately, we are building strong relationships with many individuals and organizations across Missouri that are passionate about making our state a better place to live and work. In 2006, we co-sponsored events with a

wide variety of organizations, including the Saint Louis City NAACP, the Missouri Chamber of Commerce and Industry, the Missouri Legislative Black Caucus, and the Kauffman Foundation. We welcomed Jim Forsyth to our board of directors. As we write this, we are actively recruiting new board members. We're especially hoping to name additional board members from outside the Saint Louis area.

Financially, the Show-Me Institute is doing well, raising \$652,326 in 2006. We're proudest of two things: First, we have made a commitment that the board of directors will cover the basic operational expenses of the institute, ensuring that your donation will go entirely to support new programming. Second, we've been extremely successful at raising money from foundations, receiving a little more than one quarter of our budget from grants, in our first full operational year. An area of our financials that should see

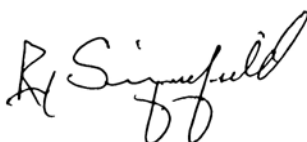
improvement next year is the fraction of our overall budget devoted to program expenses. The one-time startup expenses associated with getting off the ground as an organization resulted in a higher fraction of our budget going toward operational expenses than we anticipate being the case in future years.

Throughout 2006, we argued that the state needs to take bold action on tax and budget policies in order to break away from the pack of slow-growing midwestern states. It looks like the Legislature will merely tinker at the edges of the status quo. That is why we believe the work of the Show-Me Institute is so crucial to the state's future. A more prosperous Missouri won't come about because of any one legislative victory. It will only happen if Missouri voters become better educated about the principles of free markets and individual liberty. We're working hard to make that happen.

Sincerely,



R. Crosby Kemper III



Rex Sinquefeld



"How fortunate we Missourians are to finally have a state-based organization focused on Missouri public policy. In just over two short years, the Show-Me Institute has become a respected voice in the policy world. Policymakers, legislators, and the media are hearing the message from the institute's studies and op-eds how markets can solve policy issues."

*Ethelmae Humphreys
Chairman, Tamko Roofing
Products, Inc.,
Director, Show-Me Institute*



TAXATION AND BUDGETARY POLICY

GROWTH-FRIENDLY FISCAL POLICY ATTRACTS BUSINESSES AND RESIDENTS, while burdensome taxes drive them away to neighboring cities or states. Smart fiscal policy will allow Missouri to compete successfully with its neighbors for new economic development and tax revenue. Show-Me Institute scholars study the effects of state and local tax policy in order to develop reforms that will promote growth and prosperity.

“The Show-Me Institute has given an unbiased and accurate account of the support for parental choice in the African-American community. The work of the institute has a profound impact on legislators as the opposition delivers the message that there is no support for parental choice in Missouri urban areas. The findings in the institute’s poll credibly substantiate the claim that there is significant interest.”

*Rodney Hubbard
Missouri State
Representative,
District 58*



In March, the Show-Me Institute unveiled research on the Saint Louis and Kansas City earnings taxes by Joseph H. Haslag, Show-Me Institute scholar and associate professor of economics at the University of Missouri-Columbia. Haslag’s study presentations were well attended by business and community leaders, and they drew coverage from the *St. Louis Post-Dispatch*, the *Kansas City Star*, and other newspapers, four radio stations, and two television stations.

Haslag examined data from across the country to determine the connection between earnings taxes and lagging growth. In “How an Earnings Tax Harms Cities Like Saint Louis and Kansas City,” he shows how earnings taxes drive labor and capital out of downtowns. The theory is borne out by Missouri’s experience. Kansas City trails well behind its suburbs in economic growth; Saint Louis has actually contracted, losing employment and real income since the 1970s. In contrast, Springfield, which has no earnings tax, has kept most of its jobs in the city and tripled its real income.

In “Earnings Tax is Strangling the City,” published March 30 in the *St. Louis American*, Timothy B. Lee and Rex Sinquefield make the case for the elimination of Saint Louis’ earnings tax based on Haslag’s research. “The earnings tax is killing the city,” Lee and Sinquefield write. “If we continue as we have, driving residents and businesses into the suburbs,

the bad economic news will continue as well. ... On the other hand, if we replace the earnings tax with something more benign, the city will boom once again.”

In addition to imposing economically harmful taxes, Missouri cities have implemented other counterproductive policies, such as subsidies for sports stadiums. In April, Kansas City voters passed a sales tax to fund renovations for Kauffman and Arrowhead stadiums. In the week before the vote, the Show-Me Institute published “Stadium Proposal is Unfair to Taxpayers,” an op-ed by Timothy B. Lee. Lee explains that the apparent economic benefits of subsidies for stadium renovations are illusory. Lee writes, “When a new stadium is financed by tax dollars, every dollar taxed away to finance the stadium is a dollar that would otherwise have been spent by a private individual or business elsewhere in the economy.”

In December, the Show-Me Institute released “Repealing the State Income Tax by 2020,” a policy study by Richard Vedder and Stephen Moore. Moore came to Missouri to present his proposal in Saint Louis and Jefferson City. The study’s release drew coverage from KMOV-TV, and three radio stations: KCUR in Kansas City, and KWMU and KMOX in Saint Louis. David Nicklaus wrote a sympathetic column in the *St. Louis Post-Dispatch*. Other newspapers across the state reported on the study, including the *Springfield News-Leader*,

the *Carthage Press*, the *Columbia Daily Tribune*, the *Jefferson City News Tribune*, and the *Southeast Missourian*. Governor Matt Blunt spoke in favor of the proposal, and Speaker of the Missouri House Rod Jetton said in a statement that eliminating the state income tax “is a goal that I share, and I’d like to try to push for it.” In January 2007, Jetton said in a press conference that his plan to eliminate Missouri’s tax on Social Security benefits is intended as a first step to implementing the recommendations made in the Show-Me Institute’s income tax study.

In the study, Vedder, a professor of economics at Ohio University, and Moore, a senior economics writer for the *Wall Street Journal*, survey economic literature on the effects of income taxes on economic growth.

They argue that income taxes transfer wealth from the productive private sector to government, which uses it less efficiently. Because income taxes lower the returns on labor and investment, they discourage people from working and saving. People prefer to live, work, and start businesses in states that do not impose income taxes. States with high taxes relative to their neighbors are at a disadvantage in the competition for workers, businesses, and investment.

Next, Moore and Vedder examine Missouri’s tax climate and economic performance over the past 35 years. They find that Missouri’s economic performance has been moderately below average compared to other states’ economies. Missouri has fallen behind other states in per capita income, and Missouri’s tax burden is approaching the national


average. States without income taxes have enjoyed faster growth in personal income, as have all but two of Missouri’s neighbors. Moore and Vedder argue that phasing out the income tax could reverse the downward trend in Missouri’s relative growth.

The study outlines a road map to phase out the state income tax in 14 years. The plan would cap the rate of growth in state expenditures at the rate of population growth plus inflation. The top rate of the individual income tax would then decline by 0.43 percentage points per year. Missouri’s history suggests that this plan is feasible; from 1991 to 2004, state

spending rose by \$12.8 billion, far more than the \$3.6 billion needed to maintain state services per capita. The difference would have covered a phase-out of the

state income tax during those years, with about \$5.3 billion left over.

The study’s publication sparked attention from media outlets statewide. In a column in the *St. Louis Post-Dispatch* on December 13, David Nicklaus wrote that even if Vedder and Moore’s proposal is not adopted, “if it pushes Gov. Matt Blunt and the Legislature to take a hard look at the state’s tax system, and the disincentives it creates for business owners, Sinquefeld and the institute can claim at least a partial victory.”

Missouri’s economic performance will grow stronger in the future if sound fiscal and budgetary policy prevails. Show-Me Institute scholars will continue to examine Missouri’s fiscal policy in search of possible improvements, and to educate Missourians about the benefits of a well designed tax system. 



Stephen Moore presents his proposal to phase out the state income tax by 2020 at the Missouri Chamber of Commerce and Industry.

“In a very short time, the Show-Me-Institute has become one of the most important and helpful think tanks in the Midwest. They have provided factual studies that have assisted our elected officials in defending the free-market philosophy and crafting new public policy. In addition, their sound information provides us with information we feel we can finally trust, and confronts the biased claims made by other organizations. It is my hope that the Show-Me Institute will be an active part of public policy in the 21st century and beyond.”

*Rod Jetton
Speaker, Missouri House
of Representatives*



EDUCATION POLICY

EDUCATION SHOULD OFFER ALL CHILDREN THE OPPORTUNITY TO SUCCEED IN life. Sadly, some of Missouri's children have no options available to them besides failing public schools. Show-Me Institute scholars study how to empower all parents to choose their children's schools.

"The Show-Me Institute is a treasured resource in Missouri. By staying true to its mission, the institute provides the public with substantive information on how to empower parents by expanding educational options and growing school choice in Missouri. Having worked with school choice advocates around the country, I can emphatically state that the institute is one of the most effective groups of its kind in the nation."

*Kevin Chavous
Co-founder and Board
Chair, Democrats for
Education Reform*



In February, the Show-Me Institute published "One-Size-Fits-All Education Is the Wrong Direction," an op-ed by Timothy B. Lee. Lee argues that rather than increasing regulation of district spending, the state should make public schools accountable to parents by expanding the educational choices that are available to them. "Instead of further centralizing education with a

one-size-fits-all spending rule, we should be exploring ways to increase choice and diversity in our education system," Lee writes.

The Show-Me Institute cosponsored school choice events in Kansas City and Jefferson City. On February 10, the Show-Me Institute cosponsored a forum on education reform with the Milton & Rose D. Friedman Foundation. Lt. Governor Peter Kinder and Show-Me Institute Chairman Crosby Kemper III hosted the event, which took place at the University of Missouri-Kansas City. The event provided Kansas City civic leaders with information about how school choice and charter schools give low-income families greater educational opportunity.

The speaker was Kevin Chavous, former chairman of the Education Committee of the Washington, D.C., City Council. Under Chavous's leadership,

charter school enrollment grew from zero students in 1997 to 11,000 students in 2005. He also introduced legislation in D.C. to promote educational choice. Chavous returned to Missouri a month later to educate



elected officials about school choice in an event cosponsored by the Milton & Rose D. Friedman Foundation, and hosted by the Missouri Legislative Black Caucus.

The Show-Me Institute published "Better Teacher Pay Would Improve Math and Science Instruction," an op-ed by Timothy B. Lee and Sarah Brodsky, in May. Lee and Brodsky explain how Missouri's shortage of qualified math and science teachers is caused by a rigid salary schedule for public school teachers that doesn't take into account differences in grade level or instructional field. "In order to solve the math and science teacher shortage, school districts will have to break away from strict salary schedules and offer math and science teachers better pay," Lee and Brodsky conclude.

"Charter Schools Help Minority Students Catch Up," an op-ed by Timothy B. Lee and Sarah Brodsky, was published in September. It later appeared on *Edspresso*, a national education reform website. Lee and Brodsky discuss the disparities in graduation rates and student achievement between minority and white students. They compare statistics for Saint Louis and Kansas City, and show how Kansas City's system of charter schools gives minority students additional opportunities. Lee and Brodsky argue in favor of expanding Saint Louis' charter school system to allow more students to benefit. "Currently, more than a third of the black students in Saint Louis City don't graduate," Lee and Brodsky write. "We should give these students more choices so that dropping out isn't the only alternative to the public school down the block."

Later in the fall, the Show-Me Institute sponsored several events featuring leaders in education reform. The speakers discussed the crisis in urban public education and proposed policies that would improve education in Missouri.

On November 14, the Show-Me Institute cosponsored a conference on teacher quality with the Ewing Marion Kauffman Foundation, the Institute for Effective Governance, the Missouri Department of Higher Education, and Trustees for Better Teachers. The conference took place in Kansas City. Conference participants were trustees of institutions of higher education in Missouri. Show-Me Institute Chairman Crosby Kemper and Lt. Governor Peter Kinder were in attendance. Participants discussed the need to strengthen teacher training in Missouri's institutions of higher education in order to improve the quality of K-12 instruction.


On December 5 and 6, the Show-Me Institute co-hosted an event in Saint Louis in which Dr. Howard Fuller spoke



Lieutenant Governor Peter Kinder, Sandy Aguirre Mayer, and Dr. Howard Fuller discussed education reform during a Show-Me Institute event at the Kauffman Foundation in Kansas City.

about school choice to groups of business leaders, activists, and elected officials. Dr. Fuller serves as director of the Institute for the Transformation of Learning at Marquette University. Previously, he served as a senior fellow at the Annenberg Institute for School Reform at Brown University. He has spoken extensively in favor of parental choice in education, and he is an influential advocate for children trapped in inner-city schools.

Dr. Fuller spoke in Kansas City on December 7. Other speakers at the event included Lt. Governor Peter Kinder and Brian McGrath, director of programs and state relations at the Milton & Rose D. Friedman Foundation. Crosby Kemper presented examples of charter schools that have outperformed public schools despite having fewer resources. University of Missouri professor Joseph Haslag discussed the macroeconomic consequences of failing to reform education policy. Dr. Fuller spoke about the Milwaukee parental choice movement. He contrasted one-size-fits-all public education with the individualized instruction provided by private schools in response to different children's unique needs.

Parental choice could give all children the opportunity to receive an excellent education. Show-Me Institute scholars will continue to educate Missourians about the potential of market-based education reform. 

"The Show-Me Institute has been a great partner for the Friedman Foundation in our efforts to educate Missourians about the need for dramatic education reform. SMI provides an intellectual platform for the discussion of the most important issues facing Missouri today, from fiscal issues to school choice. We are proud to work alongside of them in showing the facts to Missourians."

*Robert C. Enlow
Executive Director and
COO, Milton & Rose D.
Friedman Foundation*



PROPERTY RIGHTS

"People can spend their own money more wisely than government can spend it on their behalf. I am relieved to finally have a source of unbiased and credible public policy research that I can rely on for quality data, such as the institute's recommendation to eliminate the Kansas City earnings tax — which has a direct adverse impact on my constituents. The Show-Me Institute provides a free-market philosophy that all Missourians can trust. I look forward to future findings by Show-Me scholars that will help keep government more accountable to Missouri taxpayers."

*Luann Ridgeway
Missouri State Senator,
District 17*



STRONG PROPERTY RIGHTS ARE THE FOUNDATION FOR PERSONAL liberty and economic prosperity. Show-Me Institute scholars work to publicize the dangers of eminent domain abuse and the importance of private ownership that is secure against the whims of politicians.



A "blighted" home in Sunset Hills.

In May the Show-Me Institute published "Legislation Fails to Protect Property Rights," an op-ed by Timothy B. Lee. The op-ed ran in the *Joplin Globe* and the *St. Louis American*. Lee evaluates legislation intended to protect Missouri residents from eminent domain abuse. He finds that the legislation allows cities to seize property for purposes of private development under

the guise of improving blighted areas. The legislation also allows land to be taken even without being declared blighted, so long as most of the other properties in the redevelopment area are blighted.

"Fundamentally, property rights are about equal rights before the law," Lee explains. "Private property places the smallest homeowner on an equal footing



Another "blighted" home in Sunset Hills.



Michael Fitzgerald outside his "blighted" home.

with the largest corporation." He concludes that stronger property rights legislation modeled after the meaningful reform passed in Florida would prevent cities from taking private property for purposes of increasing tax revenue.


In June, the Show-Me Institute commemorated the anniversary of the Kelo decision by releasing another commentary: "Property Rights Still in Danger a Year After Kelo," by Timothy B. Lee and Shaida Dezfuli. Lee and Dezfuli discuss how the "blight" loophole has allowed several Missouri cities to condemn small businesses and residential neighborhoods to make way for large companies. "As long as the law permits an open-ended definition of blight, none of our homes or businesses is safe," Lee and Dezfuli write. "Property owners in Missouri deserve better."

The Show-Me Institute released a series of articles on eminent domain victims to illustrate the cost to entrepreneurs and residents of eminent domain abuse. In April, Timothy B. Lee and Jonathon Burns profiled Sharon and Michael Fitzgerald. The

Fitzgeralds and many of their neighbors agreed to sell their homes to a private developer who threatened to use eminent domain to take away their properties. The developer was unable to follow through with his part of the bargain, and the neighborhood fell into disrepair.

The next installment in the series, again by Lee and Burns, featured Dr. Homer Tourkakis, a dentist in Arnold. His business is being displaced to make room for a Dierbergs Market and a Lowe's store.

Dan Sheehan, a business owner in Clayton, was profiled by Lee and Dezfuli in June. Sheehan's property has been declared blighted to make way for Centene Corporation's new headquarters.

Lee profiled John and Joe Seravalli in the next article in the series. The head of Integrity Real Estate wants to buy the land he leases from the Seravallis but has been unable to agree with them on the price. He then threatened to take the land away using eminent domain. In April, the city told the Seravallis that their land would be seized if they didn't agree to sell it. 

"The Show-Me Institute has quickly established a most respectable reputation. I'm proud that the University of Missouri uses a new textbook that contains excerpts of Show-Me's first study. It will continue to educate our youth for years to come. The institute is changing the terms of debate in Missouri on school choice, income taxes, government regulation, property rights — it's making the case for market-oriented policies that expand rather than contract individual liberty."

*Michael Podgursky
Professor of Economics,
University of
Missouri-Columbia,
Director, Show-Me Institute*



REGULATORY POLICY AND ECONOMIC FREEDOM

“Good ideas must be explained with strong empirical research.

Missourians can count on the Show-Me Institute to analyze policy and to make the case for lower taxes, less government, and more freedom. The institute’s research on parental choice in education, tax and regulatory relief, and the elimination of barriers to competition is top-notch. Political leadership requires well researched big ideas. The Show-Me Institute fills an urgent need.”

*Dick Armey
Former House
Majority Leader,
Chairman of the Board,
Freedom Works*



ECONOMIC OPPORTUNITY FLOURISHES IN AN EQUITABLE REGULATORY environment that doesn’t impair competitive market forces. Show-Me Institute scholars work to educate the public about counterproductive regulatory policies and more efficient alternatives.

In October the Show-Me Institute published two studies on Proposition B, the proposal on the November ballot to increase the state minimum wage from \$5.15 to \$6.50 per hour, with ongoing increases linked to inflation. They were discussed on KWMU radio, got a very favorable review by David Nicklaus of the *St. Louis Post-Dispatch*, and were mentioned by other media outlets across Missouri. The studies also attracted national attention: Gregory Mankiw, a former chair of the White House’s Council of Economic Advisors, discussed the first study on his weblog.

David Neumark, professor of economics at the University of California-Irvine, surveyed the research literature on minimum wages in “The Economic Effects of Minimum Wages: What Might Missouri Expect from Passage of Proposition B?” released on October 2. He writes that minimum wages can increase poverty for low-skilled workers because they cause firms to hire workers with more education or to invest in labor-saving machines.

Kenneth R. Troske and Aaron Yelowitz, professors of economics at the University of Kentucky, examined data from the Current Population Survey in “The Impact of Missouri’s Proposed \$6.50 Minimum Wage on the Labor Market.” They found that increasing the minimum wage would have little effect on poverty, but it would eliminate 18,500 jobs and cost

businesses \$339 million. Many low-wage workers live with their parents, a relative, or a spouse who works. These workers earn low wages for a short period of time before acquiring skills that allow them to earn more.

Both studies recommend implementing a state-level Earned Income Tax Credit (EITC) as an alternative to a higher minimum wage. The federal EITC is directly targeted to low-income workers, and it doesn’t impose labor costs on businesses or significantly reduce employment. Several states supplement the federal EITC with state-level EITCs. If every worker in a low-income household worked full-time and received a state-level EITC equal to 15 percent of the federal EITC, nearly all would escape poverty.

An op-ed in opposition to the minimum wage increase by Timothy B. Lee and Justin Hauke was published November 6 in the *St. Louis Post-Dispatch*.

“Raising the minimum wage has a lot of intuitive appeal,” they write. “But it’s important to make policy that’s smart as well as compassionate.” Lee and Hauke argue in favor of using the EITC to fight poverty, rather than minimum wage increases that damage the economy without significantly helping the poor.

In December, an op-ed by Sarah Brodsky titled “Law Benefits Real

continued on page 17

TECHNOLOGY POLICY

TECHNOLOGICAL PROGRESS DEPENDS ON ENTREPRENEURIAL INNOVATION and a competitive marketplace. Show-Me Institute scholars study the legal and regulatory environment in Missouri and across the nation, and propose reforms that will make Missouri a leader in technology. In addition, the work of Show-Me Institute editor Timothy B. Lee on technology policy appeared in several national publications in 2006.

In February, “A La Carte’ Cable: Bad Economics, Bad for Consumers,” by Timothy B. Lee, was published in the *Chicago Sun-Times*. Lee argues in opposition to proposed regulations that would require cable companies to sell channels individually instead of bundling them together in tiers. Just as consumers benefit when different sections of a newspaper are sold together, so do consumers benefit from the practice of bundling cable channels.


Lee also published two op-eds in the *New York Times*. “Hop on My Bandwidth” appeared March 16. On August 3, “Entangling the Web” was published. In that story, Lee compares the proposal for “network neutrality” regulations of the Internet to the railroad regulations of the nineteenth century. Instead of making the railroads more competitive, those regulations allowed established railroad companies to raise prices and keep potential competitors out of the market. Lee argues that regulating the Internet will not help consumers, and that new technologies are better at increasing competition.

The Show-Me Institute cosponsored an event in March with FreedomWorks, the Saint Louis City NAACP, and the Missouri Chamber of Commerce and Industry, featuring former House Majority Leader Dick Armey. Armey spoke on the topic “The Electronic Revolution in Missouri: What Lies Ahead for the State?”

Advances in technology have made some state policies obsolete, Armey said. In particular, he argued that cable franchise regulations needlessly create local cable monopolies. Armey suggested implementing cable franchise reform similar to that in Texas. Opening cable markets to competition, he explained, will be good for consumers and will bring Missouri’s policies in line with current technology.

In April, the Show-Me Institute published “Cable Consumers Deserve Choices,” an op-ed by Timothy B. Lee.

“Under current Missouri law, a new company wanting to compete with incumbent cable companies must negotiate hundreds of franchise agreements with individual municipalities,” Lee writes. “The process can take years and cost millions of dollars in attorneys’ fees. Not surprisingly, few companies have attempted it.” Lee describes the positive effects of cable deregulation in Texas and explains how similar legislation could help Missouri consumers. Allowing cable competition would also open up Missouri to investment in new infrastructure.

Technological development will be central to the expansion of Missouri’s economy in the years ahead. Show-Me Institute scholars will continue to research technology policy to develop free-market solutions that will foster innovation and economic growth. 

“The Show-Me Institute was instrumental in pulling together diverse organizations to educate legislators about video franchise reform. SMI’s work has advanced public discussions that helped pave the way for video franchise reform, which will now provide a competitive environment to better serve all Missourians. The Show-Me Institute is working toward the betterment of Missouri, and is achieving its goal.”

*Rev. Elston McCowan
Executive Committee
Member, Saint Louis City
NAACP Branch*



PUBLICATIONS

"The Show-Me Institute has emerged as one of the most valuable resources in the debate of public policy. Supporters of the free-market approach are bolstered by the expertise and common sense represented in its work. SMI has demonstrated the will and courage seldom witnessed to take on established, entrenched views that continue to thwart progress from the status quo. SMI is an agent of change with a strong rudder of principles and a most welcome addition to the fray of public discourse."

Dan Mehan
President, Missouri
Chamber of Commerce
and Industry



Commentaries Published in 2006

January 4	"A La Carte" Cable: Bad Economics, Bad for Consumers
February 2	One-Size-Fits-All Education Is the Wrong Direction
March 13	St. Louis Can't Afford an Earnings Tax
April 3	Stadium Proposal Is Unfair to Taxpayers
April 18	Cable Consumers Deserve Choices
May 8	Legislation Fails to Protect Property Rights
May 17	Better Teacher Pay Would Improve Math and Science Instruction
June 23	Property Rights Still in Danger a Year After Kelo
August 15	Charter Schools Help Minority Students Catch Up
August 24	Leave Immigration to the Feds
October 23	Minimum Wage Hike Is Poorly Targeted at the Poor
November 26	Real Estate Law Keeps Out Competitors

Studies Published in 2006

March 8	How an Earnings Tax Harms Cities Like Saint Louis and Kansas City
October 2	The Economic Effects of Minimum Wages: What Might Missouri Expect from Passage of Proposition B?
October 10	The Impact of Missouri's Proposed \$6.50 Minimum Wage on the Labor Market
December 11	Repealing the State Income Tax by 2020

MEDIA

IN THE SHOW-ME INSTITUTE'S FIRST FULL YEAR, ITS STUDIES AND commentaries received extensive media attention. Institute scholars spread the word about free-market solutions for Missouri public policy through op-eds, radio interviews, and television appearances.

Institute staff and scholars wrote commentaries that appeared in newspapers across Missouri and in national publications. Commentaries appeared in the *St. Louis Post-Dispatch*, the *Joplin Globe*, the *Springfield News-Leader*, the *St. Louis Business Journal*, the *St. Louis American*, the *Missourian*, and *Info Tech & Telecom News*. Two op-eds on technology policy by institute editor Tim Lee were published in the

New York Times. The first, "Hop on My Bandwidth," appeared on March 16. The second, "Entangling the Web," appeared on August 3.

The authors of Show-Me Institute studies have been interviewed and quoted on channels 4, 5, and 9 in Kansas City, and channels 2, 4, 5, and 11, and City 10, in Saint Louis. Radio coverage has included stations KCUR, KFKF, KWMU, WGNU, KZIM and KMOX, and AP Radio. 🇲🇴

"The Show-Me Institute does a terrific job of assembling collaborations between local and national organizations. Along with the Missouri Chamber of Commerce and Industry, and the Saint Louis City NAACP, Dick Armey was able to relay the importance of video franchise reform to Missouri legislators. The Show-Me Institute's research findings gave credibility to the debate, and I'm thrilled that cable franchise reform is going to occur in Missouri."

*Rob Jordan
Vice President for State
and Federal Campaigns,
Freedom Works*

YOUTH OUTREACH

IN 2006, THE SHOW-ME INSTITUTE LAUNCHED TWO NEW PROGRAMS TO help young people explore free-market ideas. The Show-Me Institute book club gives students and young professionals an opportunity to discuss great works of political philosophy. The club meets bi-weekly. Book club members include students from Washington University, Saint Louis University, and the University of Missouri at Saint Louis.

Works featured in the book club, 2006:

- John Stuart Mill, *On Liberty*
- Milton Friedman, *Capitalism and Freedom*
- David Friedman, *Law's Order*
- P. J. O'Rourke, *Parliament of Whores*
- Jane Jacobs, *The Death and Life of Great American Cities*
- Hernando de Soto, *The Mystery of Capital*
- Frederic Bastiat, "What is Seen and What is Not Seen"
- F. A. Hayek, *The Constitution of Liberty*
- David Schoenbrod, *Saving Our Environment From Washington*

The Show-Me Institute's internship program trains students and recent graduates in research techniques, and interns have the opportunity to write op-eds and longer papers about public policy. The summer 2006 intern was Shaida Dezfuli, a Master of Public Policy student at the University of Missouri at Saint Louis.

Dezfuli assisted with a forthcoming study on eminent domain abuse and wrote several op-eds about property rights. "The internship was a great experience," she said. "The research was challenging and interesting, and I learned about many opportunities to continue working in public policy. I'd do it again in a heartbeat." 🇲🇴



BOARD OF DIRECTORS



R. Crosby Kemper III
Chairman

R. Crosby Kemper III is Executive Director of the Kansas City Public Library. He served as the chairman and CEO of UMB Financial Corporation and UMB Bank, n.a., from 2001-2004. He is on the Board of Trustees for the Thomas Jefferson Foundation, the nonprofit corporation that has owned and operated Monticello since 1923. He edited the book *Winston Churchill: Resolution, Defiance, Magnanimity*. Kemper received a bachelor's degree in history from Yale University.

M.B.A. from the University of Chicago. He serves on the boards of numerous cultural organizations, including the Saint Louis Symphony Orchestra, the Saint Louis Art Museum, the Missouri Botanical Garden, and the Saint Louis Opera Theater.



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 finance 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.



Rex Sinquefield
President

Rex Sinquefield is the co-founder and past co-chairman of Dimensional Fund Advisors Inc. In the 1970s, he co-authored (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 received his B.S. from Saint Louis University and his



Menlo Smith
Treasurer

Menlo Smith is CEO of Sunmark Capital Corp., headquartered in Saint Louis. Previously, he served as chairman and CEO of the Sunmark Companies. Smith serves as chairman of the executive

"The Show-Me Institute is a vital voice for quality education in Missouri, and a welcome addition to the efforts in Saint Louis to create quality public schools for all students, regardless of income."

Francis Slay
Saint Louis Mayor



committee of Enterprise Mentors International, a non-profit group he co-founded to assist impoverished micro-entrepreneurs in the Third World through training, mentoring, and micro credit.



Stephen Brauer
Director

Stephen Brauer is the chairman and CEO of Hunter Engineering Company, which sells computer-based automotive service equipment and employs more than a thousand people. From 2001 to 2003, he served as U.S. Ambassador to Belgium. Brauer is a trustee of Washington University in Saint Louis and a part owner of the Saint Louis Cardinals.



James Forsyth
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 holds a bachelor's degree in economics from the University of Virginia.




Ethelmae Humphreys
Director

For more than half a century, Joplin resident Ethelmae Humphreys has helped build the family business, Tamko Roofing Products, where she currently serves as chair. She is president of two family foundations, the E. L. Craig Foundation and the J. P. Humphreys Foundation.



Michael Podgursky
Director

Michael Podgursky is a professor of economics and former chairman of the Department of Economics at the University of Missouri-Columbia. He has published numerous articles on education policy, and co-authored a book titled *Teacher Pay and Teacher Quality*. He earned his Ph.D. in economics from the University of Wisconsin-Madison. 

"As a legislator, I was delighted to discover the Show-Me Institute. I am eager to receive their suggested innovative solutions to public policy regarding education, health care, and taxation.

I anticipate working with Show-Me scholars to develop answers that steer away from the typical 'government fix.' The Show-Me Institute personifies the traditional American dream of self-determination."

Marilyn Ruestman
Missouri State Representative,
District 131



STAFF

"The Show-Me Institute's aggressive publishing schedule of high-quality free-market studies is quickly changing Missouri's public policy debate. The Show-Me Institute is providing a great service to Missouri policymakers by providing the kind of scholarly and balanced fiscal policy research that will help them bring economic growth and freedom to the state. We are thrilled to have them as a member of our market-oriented network."

Tracie J. Sharp
President,
State Policy Network



Sarah Brodsky
Policy Analyst

Sarah Brodsky received her bachelor's degree in economics from the University of Chicago. Her research focuses on education policy.



Rebecca Bruchhauser
Director of
Development

Prior to joining the Show-Me Institute, Rebecca Bruchhauser worked for 10 years in Saint Louis area hospitals, where she did strategic planning and business development. An Illinois native, she has worked in the office of Illinois Gov. Jim Edgar.



Jason Hannasch
Vice President

Jason Hannasch has become an influential advocate for political and economic reform

in Saint Louis. He served as the executive director of Citizens for Home Rule and Empower Saint Louis from 2000 to 2004. In 2002, he managed the statewide campaign for a constitutional amendment granting home rule to Saint Louis.




Marcia Jackson
Office Manager

Marcia Jackson has lived in the Saint Louis area with her husband and family since 1996.



Timothy B. Lee
Editor

Tim Lee was the Show-Me Institute's editor during 2006. He has been cited as an intellectual property and technology expert by the *Wall Street Journal*, and his writings have been featured in the *New York Times*, the *Houston Chronicle*, the *Chicago Sun-Times*, the *Seattle Post-Intelligencer*, and numerous other papers. In 2007, Lee accepted a position as an adjunct scholar with the Cato Institute. He holds a bachelor's degree from the University of Minnesota. 

STUDY AUTHORS



Joseph Haslag

Joe Haslag is a professor of economics at the University of Missouri-Columbia and the executive director of the Economic and Policy Analysis Research Center (EPARC). He holds a Ph.D. from Southern Methodist University.



Stephen Moore

Stephen Moore is senior economics writer for the *Wall Street Journal* and a member of its editorial board. He holds an M.A. in economics from George Mason University.



David Neumark

David Neumark is a professor of economics at the University of California, Irvine. He is also a research associate at the National Bureau of Economic Research. He holds a Ph.D. from Harvard University.



Kenneth R. Troske

Kenneth R. Troske is William B. Sturgill professor of economics at the University of Kentucky. He holds a Ph.D. in economics from the University of Chicago.




Richard Vedder

Richard Vedder is a distinguished professor of economics at Ohio University. He holds a Ph.D. in economics from the University of Illinois.



Aaron Yelowitz

Aaron Yelowitz is an associate professor of economics at the University of Kentucky. He holds a Ph.D. in economics from the Massachusetts Institute of Technology. 

"The Show-Me Institute's sound research has been tremendously useful in our efforts to improve the economic environment for restaurants and small businesses across the state."


*Pat Bergauer
Executive Vice President,
Missouri Restaurant
Association*

REGULATORY POLICY AND ECONOMIC FREEDOM

Continued from page 10

Estate Brokers, Hurts Homeowners," was published in the *St. Louis Business Journal*. Brodsky argues that a real-estate law requiring brokers to provide their services in bundles decreases competition and harms consumers. "The way to guarantee homeowners get the best real estate service is to let brokers compete with each other, offering whatever

combination of services their customers demand," Brodsky writes.

Competition works in favor of consumers, getting them higher quality products and services at the lowest price. Show-Me Institute scholars will continue to analyze Missouri's regulatory environment to develop policies that take advantage of the power of competitive markets. 



2006 FINANCIALS

"I was delighted to recently become acquainted with the Show-Me Institute. I am particularly impressed with the depth and thoroughness of their research, and their passionate and persistent voice on behalf of property owners, students trapped in city schools, and taxpayers throughout Missouri. In such a short time from inception, the Show-Me Institute has effectively presented their positions and research to the media and the state Legislature. The Show-Me Institute has already had a major impact on Missouri in the realm of ideas, and is most worthy of our financial support."

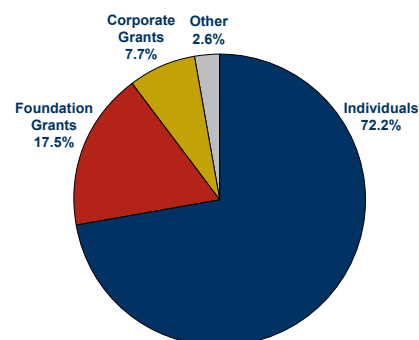
*Harry H. Langenberg
H.F.L. Foundation*



INCOME	
Donations	\$429,017.00
Grants	\$164,236.00
In-Kind Donations	\$42,138.00
Other Income	\$16,935.00
Total	\$652,326.00

Note: The board of directors has made a commitment to cover the basic operational expenses of the institute, ensuring that your donation will go entirely to support new programming.

SOURCES OF INCOME	
Individuals	72.2%
Foundation Grants	17.5%
Corporate Grants	7.7%
Other	2.6%
Total	100%



EXPENSES	
Startup & Overhead	\$326,282.00
Education	\$189,265.00
Research	\$99,890.00
Total	\$615,437.00
Program Total	\$289,155.00

Note: Because 2006 was the Show-Me Institute's first full year of operation, a disproportionately high percentage of our operating expenses went toward overhead associated with startup costs. Our goal for 2007 is at least 70 percent going toward program expenses, with only 30 percent for overhead.

STATEMENT OF FINANCIAL POSITION	
Cash	\$77,778.00
Fixed Assets	\$72,159.62
Other	\$13,471.50
Total	\$163,409.12
Liabilities	\$0.00

Note: The board of directors currently has a policy that the Show-Me Institute will incur no debt.

GOING FORWARD

The Show-Me Institute had a remarkable year in 2006, and 2007 has brought an even more significant set of accomplishments. Already this year, we've published more new policy studies than in 2005 and 2006 combined, including groundbreaking looks at how to end the earnings taxes in Saint Louis and Kansas City, an evaluation of the case for mayoral control of urban school systems, an analysis of the benefits of cable franchise reform, and the results of a poll that found widespread support for parental choice in education, across every demographic. We've released two smaller case studies, as well, one about free-market health insurance reform legislation passed this summer, and another about the beneficial effects of the privatization of pharmacy services for Saint Louis County health clinics.

This research has had a real, measurable impact on Missouri public policy. The cable study's forecast helped inspire the Legislature to pass franchise reform legislation. Already, the effects of this law are manifesting themselves, with new businesses gearing up to compete with existing providers — lowering consumer prices and increasing choice as a result. The health insurance reform case study was written by Beverly Gossage, a research fellow with the Show-Me Institute. Her seminar for the Missouri Legislature in March inspired HB 818, a health insurance reform bill that incorporated many of the ideas Gossage presented. That bill was signed by Governor Matt Blunt in June, and became law in August.

The Show-Me Institute has also ramped up smaller-scale publishing, with new commentaries and op-eds being released to Missouri media on an almost weekly basis. These have been printed in the *St. Louis Post-Dispatch*, the *Kansas City Daily Record*, the *Columbia Daily Tribune*, the *Springfield News-Leader*, the *St. Louis Business Journal*, the *Southeast Missourian*, and many more. Show-Me Institute scholars have been frequent radio guests, as well, interviewed by stations such as KMOX, KWMU, KTRS, and KCUR.

This year is also a time of expansion for the institute, with two new members of the board of directors, three new policy analysts, and a new editor, who bring with them a wide range of experience in business, law, government, public policy, and journalism.

Although we've had a significant impact on Missouri public policy so far, we're not content to rest on our laurels. We've planned an ambitious publishing schedule through the end of the year, and into 2008. We're also planning events to bring the best in market-based research directly to government officials, decisionmakers, and the public, as with our forthcoming conference on educational policy, which will present several studies on adequacy lawsuits.

We hope to continue making Missouri a better place to live, and we hope you'll continue to join us in our efforts. 

"As a contributor, I like that my support of the Show-Me Institute not only affects my state, but influences policies on a national scale. In this regard, I am particularly impressed with SMI's effect on advancing school choice."

*Grant Williams
Show-Me Institute
contributor*



