



ANNUAL REPORT

2013



Should this man be taxed more for his hard work and ambition?



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Brenda Talent, CEO Show-Me Institute

No one in his right mind would espouse a tax policy deliberately aimed at discouraging hard work and ambition. But that often is the unintended consequence of a misguided mix of fiscal and economic development policies.

Unfortunately, Missouri's poor economic performance is living proof of the adverse, if unintended, consequence of too much government meddling in our state's economy.

Taxes in Missouri are significantly higher than they would otherwise have to be in order to support lavish tax breaks and subsidies granted to politically favored developers and businesses.

In doing so, our tax system takes money from those who have earned it (like the man on the cover) and gives it to those who are most likely to waste it (crony capitalists freed of most or all of the obligation of putting their own money at risk).

That is one problem that overweening government creates. A still more serious problem – where politically powerful unions control the provision of public goods and services such as education – is blind allegiance to the belief that if what you are doing is not working, it can only be because you are not spending enough money. It is time for a change in our thinking – from what is best for the public sector establishment to what is best for the people as a whole.

A LETTER FROM THE CHAIRMAN AND THE PRESIDENT



R. Crosby Kemper III
Chairman



Rex Sinquefield
President

Dear Friends:

As co-founders of the Show-Me Institute – Missouri’s only free-market think tank – we begin this letter with a reminder of what some have called “the worst idea ever.”

Ninety-seven years ago, a small but ruthlessly determined band of revolutionaries set out to prove that it would be possible to achieve material happiness – and social justice – by replacing free markets with economic planning.

In his classic work *Socialism*, produced in 1922, just five years after the Bolshevik revolution of 1917, Ludwig von Mises predicted the failure of Soviet communism.

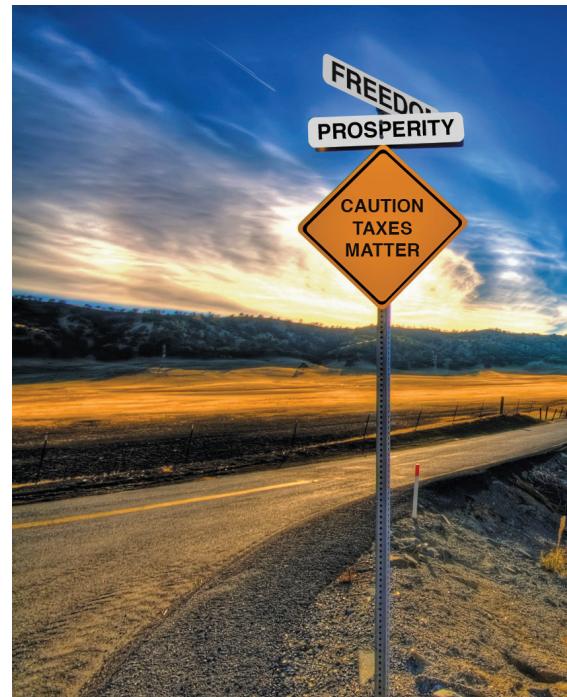
He pointed out that the planners would be flying blind – lacking the vital information that comes from free-market pricing. In his words, the marketplace acts as “a daily referendum of what is to be produced and who is to produce it.”

“The problem of economic calculation is the fundamental problem of Socialism,” Mises wrote. “Socialist writers may continue to publish books about the decay of Capitalism and the coming of the socialist millennium; they may paint the evils of Capitalism in lurid colors and contrast them with an enticing picture of the blessing of a socialist society; their writings may continue to impress the thoughtless – but this cannot alter the fate of the Socialist idea. . . (They) cannot make

Socialism **workable**.”

Of course, Mises was right. The Soviet experiment produced human misery on a prodigious scale – resulting in the starvation and murder of tens of millions of people.

And he was no less right in his other



prediction: saying that socialist writers would “continue to impress the thoughtless” with their belief in exalted government – despite all of the horrors and failures.

The whole debate about job creation in the state of Missouri over the course of 2013 illustrates our continued susceptibility to what Mises called “the fundamental problem of Socialism” – the false idea that politicians and planners can pick economic winners and losers.

Trolling For Jobs (With Taxpayer Money)

In the continuing evolution of this “unworkable” idea, we have passed from one form of statism to another: from communism to third-world economics (featuring



mammoth projects such as Egypt’s Aswan Dam), and from third-world economics to what we will call third-grade economics – where everyone wants a shiny new object, at taxpayer expense.

Three years ago, the shiny new object of our lawmakers’ affection in Jefferson City was the proposed creation of an “Aerotropolis,” or “China Hub,” at Lambert-St. Louis International Airport, backed by hundreds of millions of dollars of state tax credits.

In 2013, the shiny object that Missouri Gov. Jay Nixon and political leaders of both parties sought was a brand-new plant for building large commercial airplanes.

In September, Nixon vetoed a bill that would have given some tax relief to all Missourians – both individuals and businesses. He said that tax relief was not needed because Missouri already is “a low-tax state.”

Then in December, the governor turned around and urged Missouri legislators to approve a massive tax cut – an even bigger tax cut than the one he vetoed – for the exclusive use of one company.

How strange – and yet how typical!

The proponents of big government like to pooh-pooh the importance of taxes (thinking you can never tax and spend enough) . . . until there is something they want – like a new plant. Then suddenly taxes matter; they matter a whole lot.

What happened between September and December was the Great Boeing Job Auction. When the 31,000-member International Association of Machinists (IAM) in the state of Washington voted 2-to-1 to reject Boeing’s offer of an eight-year contract, the company decided to put production of a new airliner, the 777X, in play – inviting proposals from other states.

Boeing initiated a bidding war that attracted governors of 22 states and

about twice that number of local jurisdictions. It was nothing if not shamelessly frank in describing everything it wanted in the way of financial incentives and freebies. It wanted:

- Site at no cost, or very low cost.
- Facilities at no cost, or significantly reduced cost.
- Infrastructure improvements provided on location.
- Full support in worker training.
- Entire applicable tax structure including corporate income tax, franchise tax, sales/use tax, business license/gross receipts tax and excise taxes to be significantly reduced.

It is hard to think of a better wish list for corporate welfare, or crony capitalism.

At Nixon’s urging, the Missouri Legislature and the Saint Louis County Council quickly put together a joint package that offered Boeing \$3.5 billion in tax cuts and tax credits, mostly over a 10-year period. That comes to almost \$600 for every man, woman, and child in Missouri. A substantial portion of the state tax credits on offer were transferable – meaning that Boeing could sell them for cash to other companies wanting to shelter income in Missouri.

But it was not enough.

The Washington Legislature upped the ante – approving tax breaks and other benefits valued at close to \$9 billion over 16 years (the *Seattle Times* called it “the largest state-tax subsidy granted to a private company in American history”). In a second vote in early January of 2014, the Seattle chapter of the IAM approved Boeing’s offer of a long-term contract. With that, Boeing announced it would keep 777X production at its massive plant in Everett, Wash.

Taxes Matter – For Everyone

At the end of this saga, Nixon and other enthusiastic advocates of the Boeing aid package (including the Saint Louis Regional Chamber) did not complain that they had been used as a stalking horse in an elaborate game of rent-seeking (*i.e.*, looking for *public* assistance for *private* gain) and corporate politics. Instead, they heaped praise upon themselves. It was, they said, a worthy effort proving that our state can play in the big leagues of economic development – winning the attention and respect of one of America’s biggest and most respected corporations.

To which we ask – what about *every other employer* in the state of Missouri? Do they not enter into your thinking? Does it not occur to you that the great engine of job creation in this country over the past several decades has been small

business, not big business?

Show-Me Institute Policy Analyst Patrick Ishmael zeroed in on this point in an op-ed in the *St. Louis Business Journal* on Jan. 24, 2014. He wrote:

If, as we often are told, Missouri is a “low-tax state,” why was it necessary to make Boeing’s taxes even lower? And why should the state support corporate handouts to one company, but actively deny them to family businesses in our community?

Channeled in a different direction, the incentives that the state of Missouri offered to Boeing would make it possible to cut Missouri’s 6.25 percent tax on business income in half.

Think of what that would mean to thousands of Missouri businesses.

Who is to say that substantial tax relief for all businesses would not create many more jobs than the addition of a single Boeing plant?

Missouri has been among the most generous of states (or, to be more accurate, among the most *wasteful* of states) in doling out commercial tax credits to politically favored businesses. It has also trailed all but a handful of other states in economic growth and job creation.

Every year, our state hands out about \$400 million in targeted tax credits earmarked for economic

development. That is money that supposedly goes to promising business ventures and commercial developments. But the return on this investment of taxpayer money is not just bad, it is appalling. Again and again, the would-be great success stories (think Mamtek in Moberly and the Citadel in Kansas City) have turned into disappointments.

The same sorry record of economic planning – and mismanagement – has become increasingly prevalent in municipal government within our state. Why are cities and towns across Missouri giving tax breaks to companies for doing something (opening stores) they are going to be doing anyway? How is one to justify

You can expect the highest quality research and analysis from our policy analysts and scholars at the Show-Me Institute.

the frequent use of eminent domain to pave the way for taxpayer-assisted developments (which typically grant the developer and his clients what amounts to a tax holiday from a large portion of the property and sales taxes applied to other businesses)?

Believe it or not, almost a third of our state has been officially declared “blighted” as a result of the widespread use of TIF (Tax Increment Financing) districts, EEZs (Enhanced Enterprise Zones) and other tricks of the economic development trade that give tax breaks to Walmart (and other big-

name retailers), while enabling developers to force residents out of their homes and business owners out of their shops and offices.

Liberty At Risk

Liberty as well as prosperity is at risk in today's America. One tell-tale sign of the danger is the call for raising the minimum wage nationally by almost 40 percent to more than \$10 an hour. Why in the world would a fast-food restaurant (or any other business) want to hire someone for \$10 an hour who adds – say – only \$6 an hour in additional profit (before counting the cost of his wages)? To do so would be to accept a \$4 an hour loss. Raising the minimum wage, therefore, has the perverse effect of *causing* unemployment. It also makes the first rung on the job ladder higher than it ought to be for young and unskilled workers.

Still worse, as Doug Brandom noted in *The American Spectator*, it is “simply unfair and wrong for politicians to posture as philanthropists while arbitrarily forcing other people to pay higher salaries.” When the president of the United States declares that it is time “to give America a raise,” it is a sign of over-reaching political leadership – treating government as the master rather than the servant of the people.

A Freedom-Based Agenda

The Show-Me Institute continues to serve as the leading institution in Missouri in advancing liberty and free enterprise. In keeping

with our belief that the private sector is the source of all wealth and improvements in the standard of living, we reject the notion that it is possible to achieve either prosperity or greater “fairness” through central planning and its inevitable companion – coercive or authoritarian government.

We continue to press for tax reduction and tax reform at all levels of government. The fundamental purpose of taxes is to raise revenues for essential public services, not to micromanage the local, state, or national economy through targeted tax cuts and other subsidies.

We oppose the indiscriminate use of eminent domain and we oppose the insidious spread of Big Government thinking into the conduct of municipal governance that has come about through misuse of TIFs, EEZs, and other such vehicles.

At the state level, we argue for the complete elimination of income taxes on businesses and substantial reduction of state income taxes on individuals.

We applaud the Missouri Legislature for its action on May 6, 2014, in overriding Gov. Jay Nixon's veto and passing into law the first reduction in Missouri income tax rates in 93 years (even if a small reduction that will not begin to take effect until 2017). This is a step in the right direction.

Health care is another top priority. With the continued unravelling of parts of the woefully misnamed

Patient Protection and Affordable Care Act, the debate about the future direction of health care is far from over.

Education reform – and to us this means something more than pouring more money into failing schools and keeping students locked in those schools with no hope of getting out – is another top priority. We are dedicated to promoting greater competition and choice in Missouri schools as a critical part of our larger mission of advancing free-market solutions across a wide range of public policy issues.

You can expect the highest-quality research and analysis from our policy analysts and scholars at the Show-Me Institute. They are doing great work in fighting the battle of ideas. And what a critically important battle that is.

To paraphrase Thomas Paine, now more than ever is the time for freedom-loving people – and freedom-loving thinkers – to come to the aid of their state (and country).

Sincerely,

Crosby Kemper Jr.
A. Signable

Competitive Government And The Myth That 'Missouri Is A Low-Tax State'

How many times have you heard Missouri is “a low-tax state”?

It is a favorite liberal talking point – and it is not meant as any kind of a compliment, suggesting instead a certain meanness of spirit on the part of most if not all Missourians – in refusing to support higher levels of public expenditures.

Gov. Jay Nixon calls Missouri “a low-tax state.” So too, with great regularity, do the editorial pages of the *Kansas City Star* and the *St. Louis Post-Dispatch*. The Missouri Budget Project adds its voice to the chorus of liberal indignation, joined by public sector unions that lobby in Jefferson City for higher levels of spending – and for higher wages and benefits to feather their own nests.

But they are all wrong: Missouri is not a low-tax state. Kudos to Show-Me Institute Policy Analyst Patrick Ishmael for setting the record straight in a commentary in *Forbes* online (“Putting to Bed the ‘Missouri is a Low-Tax State’ Myth,” March 23, 2014).

Here is how Missouri stacks up against other states in the three main taxes (sales, income, and property) that support state and local services:

- Missouri is up among the leaders in sales tax levies – 14th highest in the nation in combined average sales taxes.
- Our state ranks in the middle of the pack – 25th out of 50 – in state and local income tax collections per capita.
- Missouri ranked in the bottom half of states in property taxes paid for owner-occupied housing in 2009, but it ranked 24th in property taxes paid as a percentage of home value.¹

In 2013, Texas Gov. Rick Perry set out with the clear mission of infuriating some of his fellow governors by going into their states to pitch CEOs on the idea of relocating their business to the fast-growing Lone Star State – one of only nine states (the others being Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Washington, and Wyoming) with no state income tax on personal income.

Perry made two visits to Missouri – in August and again in late September. In his earlier trip, he took Nixon to task for promising to veto the first income tax cut in Missouri in many years. “Vetoing a tax cut is the same thing as raising your taxes,” Perry said

in commercials aired in several Missouri cities. “But there is a state where businesses flourish and jobs are created – Texas.



Andrew B. Wilson

Some newspapers were aghast. They accused Perry of coming to Missouri to “steal jobs.”

However, if someone is guilty of “stealing” a job, someone else must own the job. But who?

In an article that appeared nationally in *The Weekly Standard* and locally in the *Springfield News-Leader*, Show-Me Institute Resident Fellow and Senior Writer Andrew B. Wilson wrote:

In a competitive marketplace, no one really owns a job – not the jobholder, not the company providing the job, and certainly not the governor of any state. Companies naturally gravitate to – and create employment within – the jurisdictions that provide the lowest costs of production, and taxes are an important part of the cost of production.

Given greater capital mobility, elected officials have to compete almost like business executives. They know that if they raise their “tax prices,” or fail to lower them in response to what other political jurisdictions are doing, businesses will seek out more hospitable venues, reducing the tax base that is their life-blood.

That is the challenge facing Missouri today as a result of aggressive tax-cutting and pro-growth reforms by other states in what some have called the “Midwestern Growth Corridor,” a constellation of like-minded states beginning with Texas and Louisiana on the southern edge, and going up through Arkansas, Oklahoma, Kansas, and Nebraska to the two Dakotas and Wisconsin.

Missouri has yet to join the group, but it came close in 2013 with the passage in the legislature of a broad-based package of income tax cuts for corporations and individuals. There were more than enough votes (almost three-quarters) to override Nixon’s veto in the Senate but the vote in the House fell short of gaining the required two-thirds.²

As he explains his own thinking, Nixon openly endorses the notion that political leaders should jerry-rig, or gerrymander, the tax system in order to pick economic winners and losers. Tax cuts should be pursued on a “specific project-by-project basis,” he has publicly stated. “We need to come at this in

an overall thoughtful way, not just throw darts.”

So – to his way of thinking – giving tax cuts to everyone is “throwing darts” while picking a few projects for special favors is... a “thoughtful” use of the power of government.

It would be hard to state the *wrong* way of thinking any better than that. But this way of thinking is surprisingly widespread – across both major political parties.

There is no such ambiguity in the thinking that informs the analysis of economic and public policy issues at the Show-Me Institute.

That is why we support the replacement of most or all of about \$400 million in tax credits earmarked for “economic development” with broad-based tax cuts for everyone.

Imagine the accelerated growth that could occur if our political leaders did not squander hundreds of millions of dollars on pet projects for the well-connected, but returned most of that money to its rightful owners – the people who earned it. Imagine the power and simplicity of letting them decide how best to put it to work in growing their businesses and taking care of their families.

That is the power of the marketplace. Nothing beats it in generating growth and opportunity for all.

Notes:

¹ Data for all three bullet points from the Tax Foundation in Washington, D.C.

² That was in 2013. In May 2014, the Missouri Legislature overrode another Nixon veto and passed a small tax reduction package that will go into effect beginning in 2017.



Toward Market-Oriented Reform Of Our Health Care System

Let us count the principal ways that the Affordable Care Act (ACA) – more commonly known as Obamacare – has failed to live up to its promises.

One: President Obama promised that the program would cut the cost of a typical family's health insurance premium by up to \$2,500 a year. Instead, with the program now in the early stages of implementation, it is directly responsible for dramatic increases in insurance rates affecting millions of Americans.

Our policy analysts and scholars at the Show-Me Institute were not surprised. They were right on the money in predicting Obamacare sticker shock.

Higher rates are the inevitable result of piling on benefits that everyone is required to have, whether they want them or not, and insisting that insurers suspend actuarial judgment and write many money-losing policies – losses that must be recouped by imposing higher prices on other policyholders (or – a real possibility – by government bail-outs to cover insurance company losses).

Obamacare - "a carnival of perverse incentives."

Two: Obamacare has not increased access to health care; it has reduced access. To keep premiums from skyrocketing even higher, insurers have shrunk their networks, often excluding the best doctors and the best hospitals.

Even those without health insurance do not believe the law will help them. According to a survey by the Kaiser Family Foundation, “A quarter (24 percent) of those who currently lack coverage now say they have a favorable view of the law, while nearly twice that many (47 percent) have an unfavorable view.”

Three: Obamacare has not boosted the economy; it is a job killer. In attempting to micro-manage one-sixth of the economy, the law has raised the cost of labor

to employers and lowered the reward for working to employees, particularly those at low-income levels. It has encouraged a shift from full-time work to part-time work, and from part-time work to no work. With good reason, one critic has called it “a carnival of perverse incentives.”

In February, the Congressional Budget Office issued a report saying that the economy will lose the equivalent of two million full-time workers by 2017 because of disincentives to work within the law. Even that is a low-ball estimate because it does not include the impact of Obamacare’s employer mandate, which requires employers with 50 or more full-time workers to provide a health insurance plan or pay a stiff fine.

Whither Obamacare in Missouri

As originally written, Obamacare would have forced every state to agree to participate in a major expansion of its Medicaid program or face the loss of all federal matching funds (with the federal government normally putting up \$3 for every \$2 coming from the states). The United States Supreme Court struck down that part of the law in its decision in June 2012. “‘The financial inducement’ Congress has chosen is much more than relatively mild encouragement,” Chief Justice John Roberts wrote. “It is a gun to the head.”

The same hand that was holding a gun to the head of each of the states is now offering “free money” – and lots of it – to any state that is willing to go along with expanding its Medicaid program to include individuals and families up to 133 percent of the federal poverty level. The federal government says it will pick up 100 percent of the cost of extending state Medicaid programs over the next three years, and it says – repeat, *says* – it will pay for 90 percent of the cost in perpetuity.

Why not take the money and run? That is essentially the position that Missouri Gov. Jay Nixon and various business organizations and associations (including the Missouri Hospital Association and the Missouri Chamber of Commerce) have taken.

We strongly disagree.

First, there is the principle of the thing: The federal government does not have any “surplus” money to give to the states; it is sinking deeper into debt with every passing day. Missouri taxpayers are also federal taxpayers, liable for the debts that the federal government incurs in their name. There is no level of government cost splitting that alters the fact that Missourians, their children, and their grandchildren will be responsible for the debt that comes from using borrowed money to launch a sprawling new entitlement program.



Patrick Ishmael

Third, it would be the grossest folly for Missouri policymakers to assume that the federal government would be willing or able to pick up 90 percent of the costs for the Medicaid expansion population after 2020. Virtually every bipartisan plan for dealing with the fiscal cliff and the national debt calls on the federal government to reduce federal dollars going to the states for Medicaid.

Fourth and last, it is time to reform and replace Medicaid, not expand it. Expanding Medicaid would entrap more people in what is clearly an inferior medical plan.

Medicaid costs have been the fastest-growing part of state budgets for more than a decade. In Missouri and other states, Medicaid spending approaches or exceeds spending on education. Despite the increased outlays, there is no good evidence that Medicaid patients fare any

better in terms of health outcomes than the uninsured. The access to care and quality of care available to Medicaid enrollees is deplorable.

At this writing, Missouri is one of 24 states that have refused the bait of billions of dollars in federal subsidies. We applaud the good sense of our fellow Missourians and Missouri lawmakers on this issue.

Silver Lining

Few things in life are perfect, but we believe that Obamacare comes close to being the perfect example of *how not* to fix everything that has needed to be fixed in the U.S. health care system.

With that in mind, we believe that Obamacare may yield one great and enduring benefit: encouraging the growth of free-market thinking in the search for new and better ways of improving health care.

Through their research and writing, the policy analysts and scholars at the Show-Me Institute are deeply involved in making that happen. To cite one example: Ishmael recommends that Missouri convert much of its Medicaid program into health savings accounts (HSAs), splitting current Medicaid spending levels among the beneficiaries. After purchasing catastrophic health care plans (to provide the safety net that Medicaid was meant to be), beneficiaries would be free to tailor their spending to their needs and to roll over any unspent money from one year to the next.

We have seen what doesn't work in health care – the government-knows-best approach. Now it is time to try what will work – a true patient-centered approach that protects people against catastrophic illness and otherwise gives them the freedom to spend their own money as they see best.

COMPETITION & CHOICE:

In a position paper released in the fall of 2013, Saint Louis area school superintendents urged the state of Missouri to move “beyond” the concept of striving to create greater freedom of choice for the parents of children trapped in under-performing schools. In spurning the idea that low-income parents should have any choice in the selection of a school for their children, the superintendents explicitly stated:

In the private sector, choice does create competition in the marketplace. It works there. But it does not work in public schools, at least not in Missouri.



James V. Shuls

Is this any way to run a railroad – or a school system?

No, it is not.

James V. Shuls, director of education policy at the Show-Me Institute, disputes the notion that choice and competition work everywhere – except in education. He cites an abundance of evidence showing that expanded choice has led to positive outcomes for students across the United States (and yes, there is evidence that choice is working in Missouri). As he noted in testimony to the Missouri Legislature on April 8, 2014:

Random assignment studies, the “gold standard” in social science research, consistently show that students benefit from

attending charter schools. There is even evidence that charter schools increase intrinsic motivation and that these positive gains are most pronounced for disadvantaged students. Studies are demonstrating that charter schools are leading to increased high school graduation and increased rates of attending college.

Some point to the failure of a few charter schools, such as the Imagine Schools in Saint Louis, as proof that school choice does not work. But the larger point is that the closure of such schools clears the way for the creation of better schools. As Karl Zinmeister observed in the *Wall Street Journal*:

The combination of weak charters closing and strong charters replicating is having powerful effects. The first major assessment of charter schools by Stanford’s Center for Research on Educational Outcomes found their results to be extremely variable, and overall no better than conventional schools as of 2009. Its follow-up study several years later found that steady closures and their replacement by proven models had pushed charters ahead of conventional schools.

The success of charter schools in some places has been nothing short of spectacular. In Harlem in New York City, fifth graders at a charter school with 97 percent minority students rank No. 1 in the state in math achievement. It and 21 other schools in the same charter network have passing rates in math and reading more than twice the citywide average.

Contrary to the opinion cited earlier of the Cooperating School Districts of Greater St. Louis, the Stanford study that Zinmeister cited found that Missouri charter schools produced significantly larger learning gains than nearby conventional public schools. In Kansas City and Saint Louis, charter schools are not only outperforming conventional public schools, they are also doing so at less cost. Nationwide, average

The Keys To Making Public Education Work – For Parents And Students

spending per pupil at urban charter schools is 28 percent lower than at conventional public schools.

None of these findings would have surprised the great economist Milton Friedman, who said, “Education spending will be most effective if it relies on parental choice and private initiative – the great building blocks of success throughout our society.” Nor would Friedman be surprised by the opposition of public school superintendents to school choice. Indeed, he recognized that the education establishment would be the biggest impediment to empowering parents through school choice. He wrote, “There is no doubt what the key obstacle is to the introduction of market competition into schooling: the perceived self-interest of the educational bureaucracy.”

Opposition to school choice on the part of members of the educational establishment (including the teachers’ unions) is not based on fact or an examination of the evidence. It is based upon narrow self-interest – in trying to protect their jobs and privileges even in the face of failure. In looking out for themselves, the providers of education often hide behind a veil of righteousness – saying how worried they are that some students will be left behind if others leave for better schools. But that is an argument that treats bad schools as a prison from which there can be – and should be – no escape.



Most of all, it is an argument that ignores the very real desire for choice – on the part of parents and children alike – in poorer urban neighborhoods.

When students in the failing Normandy and Riverview Gardens School Districts in Saint Louis were given the opportunity in 2013, a quarter of them transferred to higher-performing schools – even though for many of them it meant spending up to two hours per day on school buses. After missing his bus for his new school in Saint Charles County, one of those students – J’Von Coleman – mapped out the route on his smart phone and biked 30 miles to get there.

In Kansas City, nearly 40 percent of public school students have chosen to attend charter schools; in Saint Louis, it is 25 percent. These figures place both cities in the top 10 for the percentage of students attending charter schools.

Yes, choice and competition do work – even in education (and even in Missouri).

We Got Trouble With A Capital “T”-And It Stands For TIF

David Stokes is the Music Man’s worst enemy. He is the Show-Me Institute’s anti-snake oil salesman, its anti-flimflam man. As director of local government policy, Stokes is often called upon to provide expert testimony in cities and towns across Missouri on the use of special incentives and subsidies to stimulate economic development.

Typically, Stokes arrives at the scene *after* a succession of urban planners, developers, architects, lawyers, and consultants have done their work, which is to paint a glowing picture of the opportunity for rapid economic development. Like the Music Man with his amazing “think system” for teaching music (“You just think the melody and it will come”), ‘eco-devo’ proponents promise fast and easy success.

It is Stokes’ mission to disabuse the townspeople of that notion.

This is how he put it in testimony delivered on April 11, 2013, to the city council in Lee’s Summit, a suburb of Kansas City, which was then on the verge of establishing an Enhanced Enterprise Zone (EEZ):

The dirty little secret that nobody seems to want to recognize, or even attempt to uncover, is that EEZ, Tax Increment Financing (TIF), and other subsidies do not work. They do not succeed in growing the local economy. The panoply of subsidies that come into play when a large area is declared blighted can have a number of adverse side effects. They shrink the local tax base, encourage more government planning of the economy, and increase the chances of eminent domain abuse.

In January 2013, the Show-Me Institute released a 20-page research paper examining the efficacy – or inefficacy – of Enterprise Zones in Missouri. In this study, Stokes compared two groups: (1) eight Missouri counties that had employed Enterprise Zones with the carrot of state and local subsidies, and (2) 12 neighboring and economic similar counties that did not. He found that economic growth in the two groups was almost identical.

In other words, there was no evidence that Enterprise Zones had any positive effect on economic growth or employment – despite the public monies they consumed. They were a waste of time and money.

Missouri first adopted state enterprise zone legislation in 1982 – allowing businesses located within a designated zone to receive state and local tax credits. Firms that hired at least two new people or made at least \$100,000 in investments could receive up to a 50 percent state income tax exemption, a 50 percent local property tax abatement, and other rewards.

Within Missouri, the use of Enterprise Zones, or EZs, expanded until the Enhanced Enterprise Zone (EEZ) program replaced EZs in 2004. One of the primary differences between the two programs is that EEZ requires a formal declaration that the area within the zone is “blighted” – and therefore subject to eminent domain.

That became an issue in Lee’s Summit, one of the most prosperous cities in Missouri, with a median family income of more than \$70,000, or close to double that of the state as a whole. So why was the city council in a rush to adopt an economic development program blighting a large swath of the city?

One city council member argued that as long as the Missouri Department of Economic Development (DED) was giving money away, they might as well take it – even if Lee’s Summit did not need it.

In a way, that is the perfect argument for EEZs, TIFs, TDDs (Transportation Development Districts), and other similar programs – perfect in being so perfectly wrong-headed. The ill effects of these programs are all too real. They include:

- Raising false expectations
- Eroding the local tax base in giving a long-term tax holiday to politically favored businesses
- Unfairly denying the same benefits to other businesses – including family-owned local businesses
- Contributing to the insidious spread of Big Government thinking (and central planning) to lower levels of government.

Local activists in Lee's Summit called on the Show-Me Institute for support – hoping to change the minds of city council members who had already been won over by the easy (as in EZ) economic gains that the eco-devo sales people promised.

This is one instance in which good argument and common sense prevailed. On June 12, 2013, the city council voted overwhelmingly to end its consideration of an Enhanced Enterprise Zone – a stunning reversal of what two months earlier had seemed a *fait accompli*.

Using the Show-Me Institute as a resource, local activists in other cities and towns have scored similar victories. Outraged over the potential award of public subsidies to well-connected developers and their deep-pocketed retail clients, and fearful of the abuse of eminent domain, they have overturned an EEZ in Columbia . . . halted another EEZ in Callaway County . . . and, after a long fight, shot down a proposed TIF in Ellisville, a suburb of Saint Louis County.

Nevertheless, we cannot claim to have stopped the weed-like growth of these entities. It is a sad fact that nearly a third of Missouri has been officially declared

“blighted” as a result of the proliferation of special tax districts. And the damage they have done to the two biggest cities – Kansas City and Saint Louis – has been immense.

In his book *Mapping Decline*, published in 2008, Colin Gordon called the use of tax subsidies and urban tools in Saint Louis an absolute, total failure. He wrote: “The overarching irony, in St. Louis and elsewhere, is that efforts to save the city . . . almost always made things worse.”

The Music Man



**David Stokes,
the Anti-Music Man**

A Day In The Life Of The Show-Me Institute



“You are always asking for stories,” a colleague said to Communications Director Rick Edlund. “What story do you want to tell to show how the Show-Me Institute is making news and having a real impact on public policy in the state of Missouri?”



His response was to describe the events of a single day – a day that was still in progress, it being about 4 p.m. On this particular Thursday, the Show-Me Institute had eight major “news hits.” That is more “hits” in a single day in early 2014 than the Institute normally received over an entire week two or three years ago.

Rick Edlund

On this one day (April 17):

- On the air from 8:40 to 8:55 a.m. with host Faune Riggan on KZIM in Cape Girardeau, Director of Local Government Policy David Stokes urged the citizens of this southeastern Missouri city to “think twice” before committing to a proposed Community Improvement District (CID) aimed at beautifying the downtown area.

Too often, Stokes said, local business people sitting on the boards of this kind of special taxing district “treat collected taxes as a private fund rather than what they are, public tax dollars.”

- From 9:15 to 9:50 a.m., Stokes – speaking by phone from his office at the Show-Me Institute – made his regular weekly appearance on the popular “morning magazine” show on KRMS with host Kevin Burns in Osage Beach in central Missouri. Among other issues, Stokes addressed a matter of great local concern in the Lake of Ozarks – how to set up an effective inspection program to prevent fatalities caused by faulty electrical systems on docks. He endorsed annual inspections but called on dock owners and local authorities to entrust the task of doing inspections to private electricians as the best way to maximize compliance – making inspections easy to schedule and affordable.

- Director of Education Policy James V. Shuls was the author of a long article in the *Daily Caller* supporting freedom of choice for parents who wish to opt out of state standardized tests for their children.

- It was a big day for Policy Researcher Joe Miller – who was quoted in the *Kansas City Star* and the *Jefferson City News Tribune* voicing his opposition (from testimony a day earlier before the Missouri Senate) on a proposed 1 percent sales tax for the Missouri Department of Transportation.

- Miller elaborated on his reasons for opposing the sales tax on three different radio stations: KSGF in Springfield, the Eagle 93.9 FM in Columbia, and KWOS in Jefferson City.

In this one day, therefore, Show-Me Institute staffers were speaking out and being heard in cities and towns all around the state in promoting market-oriented solutions across a wide range of policy issues.

The Art of the Story

In the public policy arena – no less than in political or marketing campaigns – nothing beats the power of good storytelling. If a newspaper commentary tells a good story, it will often lead to follow-on stories in other newspapers, to radio or television interviews, and to other public appearances for the writer of the piece.

That is how it worked for Joe Miller. His five-hit day on April 17 was set up by a commentary that appeared a few days earlier in the *Columbia Daily Tribune*. This article began with a story about the perils of picking up a “loose football”:

In the 1929 Rose Bowl, the speedy Roy Riegel of the University of California football team achieved immortality in the annals of college sports when he picked up a fumble, bounced off a tackler and raced 69 yards – in the wrong direction.

In picking up another loose football – namely, what to do about a sudden decline in revenues for the transportation infrastructure, it now seems Missouri lawmakers might be about to duplicate “Wrong Way” Riegel’s feat.

As Miller went on to explain: In hoping to correct a severe budgetary problem at the Missouri Department of Transportation through a statewide 10-year, 1 percent sales tax, Missouri lawmakers were headed in the wrong direction – adopting a policy that would undermine the department’s long-term ability to maintain and improve the road system.

A 1 percent sales tax¹ is not an economically sound way to fund roads and bridges because it disconnects the cost of the roads from the use of the roads. Paying for highways based on how much people shop, and not how much they drive, creates a free-rider problem. It promotes congestion, road degradation, and sprawl.

Hence the better solution: “Raise the gas tax to adjust for inflation and implement tolls on major highways.”

In Print and on the Air

In 2013, our analysts and writers produced 43 commentaries featured in leading newspapers throughout the state of Missouri as well as in national publications, including *The American Spectator* (both online and in print), *Forbes Online*, the *Philadelphia Inquirer*, *USA Today*, and *The Weekly Standard* (both online and in print). Our writers also produced scores of mini-commentaries carried in the letters to the editor sections of newspapers throughout Missouri.

Show-Me staffers are featured every week on four popular radio shows around Missouri.

In addition to the “Show-Me at the Lake” segment with KRMS in Osage Beach, David Stokes guest-stars at 8:35 a.m. every Monday on the McGraw Milhaven show on 550 KTRS in Saint Louis. Under Edlund’s direction, one of our staffers appears every Thursday on the Gary Nolan Show on the Eagle 93.9 FM in Columbia, which is simulcast on KWOS radio in Jefferson City.

Chief Executive Officer Brenda Talent is a frequent guest on the popular television talk show *Donnybrook* on KETC Channel 9 in Saint Louis. She made 13 appearances on the show in 2013. Board Chairman Crosby Kemper appeared several times on the talk show *Ruckus* on KCPT in Kansas City.

The Web and Social Media

In 2013, the Show-Me Institute added one new website (showmedata.org), which puts a wealth of statistical information about Missouri and other states at the fingertips of students and teachers, and provides easy-to-use chart-making capabilities.

The Show-Me Institute now has 1,961 followers on Twitter and 6,433 Facebook fans.

Whether it is via a Facebook profile or a Twitter account, supporters and allies can join with us in advancing the cause of free enterprise and liberty in the Show-Me State.

¹This was amended to 0.75% in a bill passed by the Missouri Legislature in May 2014. Missourians will vote in November on whether to accept the proposed sales tax increase.

Interns Gain Real-World Experience

The sky is the limit for Show-Me Institute interns, who do more than answer phones, file papers, and run errands. They have the opportunity to research public policy topics, write newspaper commentaries, and help organize major public events. Our staff members (including three former interns) encourage and challenge them to improve their research, writing, and public speaking skills.

As the interns from the summer of 2013 ended their internships, they reflected on their experiences.

Haleigh Albers earned a bachelor's degree in business administration in economics and finance from McKendree University. She is working toward her master of science degree in economics and finance at Southern Illinois University-Edwardsville.

"As an undergrad, I had very limited experience with free-market thinking, but I knew the concept made perfect sense," Albers said. "I began seeking other opportunities to learn more about free-market economics and personal liberty."

Albers said the internship exceeded her expectations.

"It gave me more experience than I could have imagined," Albers said. "It reassures my thoughts of wanting to make economic research my career. I was a part of countless projects, and I feel like I actually played a part — no matter how small — in each. I had the opportunity to be a guest in a [Missouri senator's] meeting with the LRA Demolition Committee, help educate others about an entrepreneur's struggle to run her innovative business, and complete a video about how the zoo is funded. I was given the opportunity to not only learn from brilliant people but to work right beside them."

Allison Davis, who is pursuing an honors degree in mathematics and economics at Saint Louis University, plans to earn a Ph.D. in economics.

"I learned about public policy by collecting my own data and reading the letter of the law for myself,"



**From left:
Joseph Niebling, Will Reynolds, Joe Miller,
Haleigh Albers, and Allison Davis.**

Davis said. "I am grateful for the hours I spent with the other interns and staff. They taught me research skills, improved my writing, challenged me in economic discussions, and supported me throughout this internship."

Joseph Miller earned an undergraduate degree from Georgetown University's School of Foreign Service and a master's degree from the University of California-San Diego's School of International Relations and Pacific Studies.

"I hoped to use my new skills in economic and financial analysis to research regional infrastructure projects," Miller said. "I am a strong believer in free-market economics, making the Show-Me Institute an excellent environment for my learning and growth."

Miller, who has since joined the Show-Me Institute as full-time policy researcher, focused on airport research during his internship.

Show-Me Events 2013

"I learned a good deal . . . about the national issues . . . airports are confronting, such as private development, privatization of public airports, and the cost/benefits of terminal expansion to the local community," Miller said. "The staff was assiduous in helping me produce the best possible writing. I experienced professional development and a large increase in my knowledge concerning Missouri's infrastructure issues."

Joseph Niebling graduated from Saint Louis University in December with a degree in political science and a minor in communications. He will attend SLU's law school in the fall of 2014.

"The Show-Me Institute's proclamation of how free and open markets/enterprise should be used in any city/state/country in order to find success meshed well with my belief system, a belief that is even stronger after my experience," Niebling said.

Niebling said his experience was unique because, unlike the other interns who worked with the policy staff, he worked as the communications and development intern.

"I got to experience a great amount of one-on-one communication," Niebling said. "I gained valuable experience in how to research certain projects and how to conduct myself in a professional environment. I learned what it feels like to have a full-time job, which at times can be stressful, but is also very rewarding."

Because of the support of our generous donors, the Show-Me Institute can provide this educational opportunity to approximately eight interns each year.

The Show-Me Institute sponsored or co-sponsored an array of events in 2013, which included:

John Blundell, distinguished senior fellow at the Institute of Economic Affairs and visiting fellow at the Heritage Foundation, presented "Ladies For Liberty: Women Who Made A Difference In American History," at the Kansas City Public Library. Blundell is the author of *Margaret Thatcher: A Portrait of the Iron Lady*, *Waging the War of Ideas* and *Ladies For Liberty: Women Who Made a Difference in American History*.

The Show-Me Institute partnered with the American Conservative Union Foundation (ACUF) for the 2013 St. Louis regional Conservative Political Action Conference (CPAC) on Sept. 28 at the St. Charles Convention Center. Show-Me Institute CEO Brenda Talent received a standing ovation for her speech, which advocated a conservative, free-market vision in contrast to big-government policies. Talent also described the mission of the Show-Me Institute.

On the eve of CPAC-St. Louis, the Show-Me Institute hosted its first Freedom Celebration at the Log Cabin Club in St. Louis. U.S. Sen. Mike Lee (R-Utah) was the guest speaker. Lee has been a vocal critic of the Affordable Care Act (Obamacare), calling it an "unaffordable and unfair" program. Lee spoke at our exclusive hour-long roundtable discussion and later told a larger gathering of Show-Me Institute supporters that now is not the time to sit back and do nothing regarding Obamacare and the failed big-government spending habits of government at all levels.

The Show-Me Institute hosted two NextGen events for young professionals. The spring event featured a panel discussion about "Communicating Liberty In Today's World." The fall event hosted three entrepreneurs who discussed how government regulations have affected their businesses.

PUBLICATIONS

COMMENTARIES 2013

January 18: “Five New Year’s Resolutions For Enhancing Liberty – And Pulling Back From The ‘Fiscal Cliff’.”

January 24: “Callaway County Does Not Need An EEZ.”

February 1: “Mo’ Money Will Not Solve MO Problems.”

February 7: “Shame On Saint Louis County For Union Cronyism.”

February 7: “Moving For A Quality Education.”

February 7: “Jay Nixon Makes The Wrong Call On Medicaid.”

February 11: “Taxes Do Harm Growth.”

March 12: “Ray County Does Not Need Enhanced Enterprise Zones.”

March 12: “Charter Schools Are Giving Families Options.”

March 18: “North Kansas City Should Privatize Its Hospital.”

March 29: “Two Thumbs Down On The So-Called ‘Arch Tax’.”

April 29: “Ethanol Subsidies Should Be Eliminated.”

May 1: “Missouri Assessments Need Greater Consistency.”

May 6: “Missouri Urban Assessments Need Greater Consistency.”

May 17: “Lee’s Summit EEZ: A Solution In Search Of A Problem.”

June 5: “Reform City Manager Rules In Missouri.”

June 25: “Widen Pool Of Dock Electrical Inspectors.”

June 26: “Kansas City’s Eternal Emergency.”

June 26: “Adams Had A Lot Of Reasons To Accept Rockwood Interim Superintendent Position.”

June 27: “It Is Hip To Be Square.”

July 3: “Monopsony: Why Teachers Should Support School Choice.”

July 5: “Common Core: A Well-Intentioned Disaster.”

July 11: “Gas Taxes And Tolls Are A Better Way To Fund Missouri Transportation.”

July 17: “False Pride: Missouri’s Governor Shouldn’t Be Boasting About ‘Low’ Unemployment.”

August 14: “A Real Choice For Students In Unaccredited Districts.”

August 23: “Is St. Louis The Next Detroit? (Not In My View.)”

August 29: “Tear Down The Wall Between Public Dollars And Private Schools.”

September 2: “Free Enterprise, Taxpayer Subsidies — Bass Pro Gets Best Of Both.”

September 12: “Free Rides In The Zoo Museum District?”

September 23: “Time For Teacher Tenure Reform?”

September 25: “The Best Bargain I Ever Made.”

September 30: “Obamacare: Less Choice, Higher Taxes, Slower Economic Growth.”

October 14: “Kansas City Next Last Giveaway.”

November 4: “Public Schools Do Not Serve All Students.”

November 4: “On Transit, Kansas City Looks Backward.”

November 7: “Is Texas Gov. Rick Perry Guilty Of Stealing Missouri Jobs?”

November 18: “Robbing Peter To Pay For Paul’s Pension.”

November 21: “South County Connector Is Opportunity For Transportation Innovation.”

November 25: “Sales Taxes Are Not The Way To Fix Transportation Funding In Missouri.”

December 3: “Missouri Should Say No To Boeing Subsidy.”

December 6: “Show-Me Institute Supports Strong Pensions For All Teachers.”

December 17: “Terminal Shopping In Kansas City.”

December 23: “Nursing Better Health Care In Missouri.”

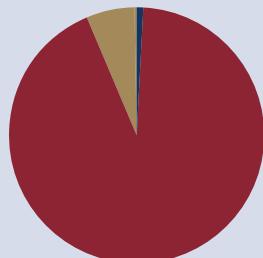
Financial Report*

INCOME

Individual Donations:	\$1,646,798.00	93.64%
Foundation Grants:	\$109,500.00	6.23%
Other Income:	\$2,277.00	0.13%

TOTAL \$1,758,575.00

- Individual Donations
- Foundation Grants
- Other Income



STUDIES PUBLISHED IN 2013

January: "The Effectiveness of Enterprise Zones in Missouri."

February: "Passing Through Missouri: Left Behind on Taxes?"

February: "Why We Need School Choice."

March: "Public Employee Pensions in Missouri: A Looming Crisis."

April: "Public Dollars, Private Schools: Examining The Options in Missouri."

July: "Kansas City and Saint Louis Expense Breakdown Compared to Six Other Cities."

July: "Redefining Public Education."

August: "The Power to Lead: Analysis of Superintendent Survey Responses Regarding Teacher Tenure."

October: "What Makes A Good Tax Structure."

November: "Increasing Missouri's Minimum Wage Does More Harm Than Good."

December: "Promoting Private Land Ownership In Saint Louis: A Data Update On The Land Reutilization Authority."

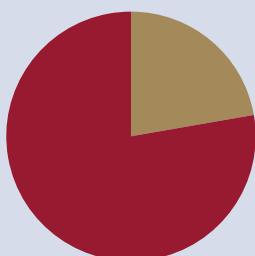
Policy Staff from Show-Me Institute also provided testimony 32 times to local and state legislative bodies in 2013.

EXPENSES

Overhead:	\$353,266.00	21.71%
Program:	\$1,273,943.00	78.29%

TOTAL \$1,627,209.00

- Program
- Overhead



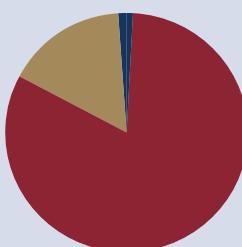
Note: The board of directors has made a commitment to cover the basic operational expenses of the Institute. The board has also completely covered overhead expenses. Since 2006, donations from supporters have funded education and research exclusively.

STATEMENT OF FINANCIAL POSITION

Current Assets:	\$573,405.00	82.77%
Fixed Assets:	\$113,005.00	16.31%
Other:	\$6,400.00	0.92%

TOTAL \$692,810.00

- Current Assets
- Fixed Assets
- Other



Board of Directors



Crosby Kemper III - *Chairman*

Crosby Kemper III is executive director of the Kansas City Public Library and former CEO of UMB Financial Corporation. He co-founded 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 Lapham'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.



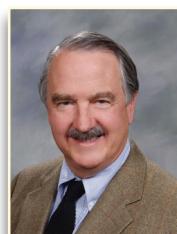
Joe Forshaw - *Treasurer*

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.



Rex Sinquefield - *President*

Rex Sinquefield is co-founder and former co-chairman of Dimensional Fund Advisors, Inc. He also is co-founder of the Show-Me Institute. 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 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.



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.

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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.



Steve Trulaske - Director

Steve Trulaske is owner of True Manufacturing Company, which his father, Bob, co-founded in 1945. He has served on the Board of Trustees for DePauw University and John Burroughs High School, and is a member of the Board of Directors for the Weber Grill Company. He has been an active member of the Young Presidents' Organization and now is a member of the CEO Organization. He graduated from DePauw University with a bachelor's degree in English; he also earned a master's degree in sports administration as well as an MBA degree from Ohio State University.



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