



ANNUAL REPORT 2008



Dear Friends,

After three full years of operations, we can say with confidence that the Show-Me Institute has emerged as an important force for free-market policy research and education in Missouri. Last year, we wrote that the institute had laid a solid foundation for growth, and that turned out to be true. We expanded in virtually every area, from research studies to our online tools designed to bring transparency to government. Indeed, 2008 can be summed up as one that included staggering growth, and a huge increase in our credibility throughout all corners of the state.

Admittedly, some political and business leaders, and the media, viewed us initially with some skepticism. Many were quick to label the Show-Me Institute and its mission in misleading terms. Those perspectives, however, are rapidly melting away. And how could they not?

During 2008, the Show-Me Institute continued to bring to Missouri prominent national experts to provide insight on issues ranging from education to economics. We featured studies from notable academicians around the country. And, we're proud to say, the authors reached conclusions based on rigorous, peer-reviewed research standards.

Our in-house team of policy analysts also offered provocative studies showing, among other things, how state licensing skews markets, making products and services more expensive. We provided a critical review of the claims that Missouri's E-10 ethanol mandate would save drivers money. Our research shows that it will cost drivers hundreds of millions of dollars in additional expense during the next decade. The Show-Me Institute is at the forefront of showing why it's necessary to promote solid protection of property rights, questioning the almost pathological desire by local governments in Missouri

to seize property for dubious private development purposes. We also continue to promote and publish groundbreaking research about the best ways to educate children, and how to pay for that education.

On that latter issue, despite trial court success on Missouri's "adequacy" lawsuit, we're sorry to report that the case still appears to be alive. Stubborn school districts, all too willing to divert precious funds from the classroom, are appealing a 2007 ruling that they already receive a fair amount of state funding and are not owed at least another \$1 billion a year. Anticipating such an appeal, the Show-Me Institute published a series of studies about school funding and its relation to educational outcomes. The bottom line: Levels of per-student funding have no correlation to student performance. We will continue to combat this flawed view of education policy with more studies focusing on choice, tuition tax credits, teacher merit pay, and other proven reform methods.

Our tax policy research hit its stride with policy studies and opinion pieces that appeared in newspapers and other media throughout the state. Our executive vice president, Joseph Haslag, wrote a commentary showing how sales tax revenues are less volatile than income

taxes. That's important in a state where the top state/local income tax rate — for those who live or work in Saint Louis or Kansas City — stands at 7 percent, one of the highest in the country. In another commentary, Haslag pointed out how Tennessee, a state that once lagged well behind Missouri economically, had pulled ahead and was growing much faster. One key difference between the two states: Tennessee has no income tax.



R. Crosby Kemper III



Rex Sinquefield

During 2008, we published several articles questioning various tax breaks designed to lure businesses to Missouri. We looked at the mega-incentives involved in attempting — ultimately unsuccessfully — to court Bombardier Aerospace to build a new plant in Missouri. We also questioned tax increment financing, a tool overused by local government that ends up pitting one Missouri city against another, and hurting all taxpayers in the process. Again, in staying true to our principles, we firmly believe that government has no business trying to pick winners and losers through tax policy. Indeed, government can't do that successfully, but it does a pretty good job of subverting free markets in the attempt.

We think 2008 also will be viewed as a watershed year for the Show-Me Institute, because we have begun utilizing new Internet-based tools in sophisticated ways. Our Show-Me living tools (ShowMeLiving.org) can help you figure out your tax burden; they can help you compare school districts through DESE score rankings; and they can tell you which professions are licensed by state and local governments. Also, be sure to check out Policy Pulse (ShowMePolicyPulse.org), which not only acts as a portal to all of our online tools and other websites, it features a unique legislation tracking tool that helps users stay informed about what their representatives in the General Assembly are doing while in session. Our Show-Me Daily blog (ShowMeDaily.org) became even more dynamic throughout 2008, seeing a sharp increase in unique visitors. Part of this may be attributable to our newly interactive comment section, which attracts a lively range of discussion and debate. Although large thought-provoking policy studies are our bread and butter, the blog provides short but principled daily insights from institute analysts about issues as they crop up. The blog also serves to highlight research and articles elsewhere that are complementary to Show-Me Institute projects.



Interest in Show-Me Institute research among Missouri's media and public officials continues to grow, and lawmakers have often sought out the expertise and analysis that institute scholars provide. Haslag testified against development tax credits before legislators, and barnstormed around the state lecturing on the problems that arise from relying on income and earnings taxes. Policy analyst David Stokes testified six times before various government agencies, and analyst Dave Roland spoke about education issues to political and student groups. Commentaries by Show-Me Institute staff appeared in newspapers around the state, and a similar range of Missouri news media cited institute research numerous times. In a story about payday lenders, the *Kansas City Star* cited an article by former policy analyst Justin Hauke that defended the relatively high interest rates. *St. Louis Post-Dispatch* business columnist David Nicklaus wrote a piece based on Stokes' study of professional licenses. The *Kansas City Business Journal* cited Show-Me Institute research in a story about eminent domain. The *Springfield News-Leader* highlighted the institute's skepticism about the E-10 ethanol mandate in a story it ran about corn prices. These examples are just the beginning of a variety of media coverage that also included several television and radio interviews.

The upshot is that the media and others are turning to the Show-Me Institute when they want insight into how free-market principles can be applied to public policy. This is critical, because we obviously can't do it alone. No matter how scholarly our research might be, or how helpful our website could be, it all could end up gathering proverbial dust if that work doesn't get noticed. That's why we need your help to share and spread our work to others.

We've also brought in national and regional experts to lecture on a variety of issues. As part of our ongoing speaker series with Saint Louis University, we featured economist Steven Levitt, who is the William

B. Ogden Distinguished Service Professor and director of the Becker Center on Chicago Price Theory at the University of Chicago, and coauthor of the bestseller *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*. He spoke in September to a capacity crowd of more than 500 people.

In June, we brought renowned economist Art Laffer, who spent two terms on President Ronald Reagan's Economic Policy Advisory Board and gave the famed "Laffer Curve" its name, to provide his engaging market insights a donor roundtable in Saint Louis. And, in July, we brought former D.C. city councilman and school choice leader Kevin Chavous, to provide the keynote address at a luncheon commemorating the life and ideas of Nobel laureate economist Milton Friedman — himself a pioneer and passionate advocate of freedom in educational choice.

Last year, we started a monthly lecture series originally called First Mondays. Held in Columbia, these events provided a forum for mid-Missouri community leaders to discuss local, state, and national issues. Each event featured a guest lecturer, followed by a lively question-and-answer period. The invitation-only events drew an enthusiastic mix of up to 80 attendees. In fact, the lectures proved so popular, we've changed the name to Show-Me Forum and have ambitious plans to expand the program, holding forum lectures throughout the state. We see these events as a great way to spread the word about the Show-Me Institute, and to provide education about the market-based ideals that serve as our foundation.

Our growth in 2008 was exemplified by the opening of our new office in Columbia, which allows us better access to the wide range of academic talent in the area. And, early in the year, Joe Haslag was elevated from research director to executive vice president. His position as an economics professor at the University of Missouri—Columbia has helped solidify the institute's economic credibility.

Make no mistake about it, there's a lot of work to do. Fighting for policy change doesn't happen quickly, and setbacks are more common than we would like. Fortunately, we have a terrific staff at the Show-Me Institute that is dedicated to the highest level of scholarship. We would encourage you to take a look

toward the end of this report at the biographies of all the hardworking people who helped make 2008 a banner year.

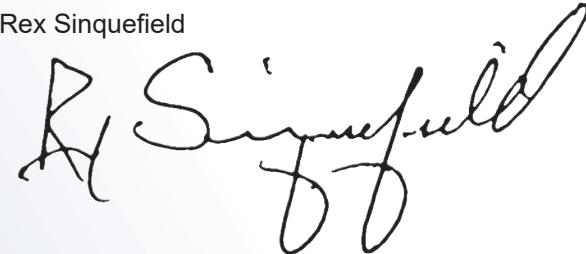
The Show-Me Institute had a great year financially, raising \$1,739,622 in 2008. We've maintained our commitment for the board of directors to cover the institute's basic operational expenses, which ensures that your donation can be devoted entirely to support our research and publishing program. Foundation grants accounted for more than 16 percent of the funding we raised.

Despite our strong growth in 2008, we understand that today's economic climate means we have to work harder than ever. We hope you understand that, too. Free-market principles are under assault, both nationally and throughout Missouri. The public, nervous about our poor economy, appears all too willing to turn to government bureaucrats for solutions — which, in the end, can only lead to decreased economic freedom, higher taxes for a longer period of time, and a prolonged economic slump. The Show-Me Institute will continue offering sophisticated, high-quality research and tools that will help Missourians consider other alternatives. Free markets may not be fashionable today, but they are the best solution for today's fiscal crisis. With your support, the Show-Me Institute will keep delivering that message.

R. Crosby Kemper III



Rex Sinquefield



TAXES

DURING 2008, THE SHOW-ME INSTITUTE CONTINUED TO LEAD THE WAY IN RESEARCH ON SENSIBLE TAX POLICY — AND, OF COURSE, OUTLINING THE NEGATIVE ASPECTS OF UNSOUND TAX POLICY. FOR EXAMPLE, FORMER POLICY

analyst Justin Hauke reminded everyone in a commentary that the 1-percent earnings taxes in Saint Louis and Kansas City may seem small, but they really add up over time. Hauke pointed out that a household with an annual income of \$35,000 would see its total wealth grow by \$80,000 over 40 years if the earnings tax were not in place. Released in April, this commentary coincided with the debut of a new online tool, "Show-Me: The Taxes." Located at ShowMeLiving.org, it is designed to provide users with an estimate of how much they pay in local and state taxes.

In July, policy analyst David Stokes appeared before the Saint Louis County Capital Investment Blue Ribbon Commission. He testified that while the infrastructure needs outlined by the county are real, proposed tax increases would effectively block private investment. "A use tax aimed at

businesses could be a particularly harmful proposal," he said. "Saint Louis County needs to make itself more inviting to all businesses. Increasing general business taxes, and then giving some back to chosen companies as subsidies, is not the way to accomplish this." Instead, Stokes recommended a tax cut as a better way to spur capital investment.

In November, the Show-Me Institute released a study that sounded a warning over Missouri's public pension programs. Written by Richard Dreyfuss, an actuarial expert and senior fellow with the Commonwealth Foundation in Harrisburg, Pa., an independent, nonprofit research and educational institute, his study pointed out that Missouri's



Art Laffer, Founder and CEO, Laffer Associates

"The Show-Me Institute brings to Missouri the essence of high-quality research on public policy issues that face Missouri. They engage Missourians in discussions on taxes, education, and transportation, as well as many others. Their passion and visibility, combined with desire for market based solutions, makes them an exciting part of the policy landscape. My experience is that resources like the Show-Me Institute are extremely valuable."



Jim Forsyth, a Show-Me Institute board member, Rex Sinquefield, the institute's president, renowned economist Art Laffer, and Joe Haslag, the institute's executive vice president, gather after Laffer's address on June 10, 2008, at a Show-Me Institute event in Saint Louis. Laffer, a major architect of the theory of supply-side economics, was an influential member of President Reagan's Economic Policy Advisory Board in the 1980s, and is the author of many books on economics.



**Joseph G. Lehman,
President,
Mackinac Center
for Public Policy**

"State-based think tanks like the Show-Me Institute provide essential, independent policy analysis you don't often get from tax-funded universities, government officials, political parties, and corporate media. The Show-Me Institute has impacted Missouri's public policy debate out of proportion to its young age. It has assembled an arsenal of scholarly publications, educational events, respected experts, and strong support that older institutes in other states can envy."

plans offer far more generous benefits than those offered by a sampling of 18 Missouri companies. And, unlike private-sector plans, the state's public-sector plans are not 100-percent funded. In all, Missouri's public pensions had unfunded liabilities of nearly \$7 billion, as of June 30, 2007. The study sounded a clarion call for the wisdom of shifting from defined-benefit plans to defined contribution plans, more like 401(k) programs, as much as possible. Otherwise, taxpayers will likely be hit with a big tax bill to make up the pension shortfall.

Show-Me Institute Executive Vice President Joseph Haslag looked at Missouri's tax system from two different angles, each time reaching a similar conclusion. In September, he wrote a commentary comparing Tennessee's economy with Missouri's. After World War II, Missouri's economy was far ahead of Tennessee's, based on per-capita gross domestic product. Since then, however, Tennessee has caught up and surpassed the Show-Me State. One key difference between the two is that Tennessee has no income tax, substituting instead a higher sales tax. "Economic theory indicates that the difference in income tax rates — that is, the property rights enforced on people's labor, and the payment for that factor of production — can help to account for the differences in growth rates," he wrote. Haslag concluded with a question: "What tax structure is in Missouri's best interest?"

He came closer to answering that question with a commentary published in December. Using 41 years of

state data, he concluded that the sales tax was less volatile than the income tax. "If the people of Missouri value more stability in the state's tax revenue streams, they should start by taking the income tax out of the equation," he wrote.

In October, intern Calvin Harris suggested in a commentary that charitable tax credits might be a better solution than Proposition 1, a statewide ballot initiative that called for a one-quarter-cent sales tax increase in order to raise \$40 million annually for at-risk children. Harris pointed out that when taxes rise, charitable giving decreases. By comparison, charitable tax credits encourage and reward such giving. Despite the well-reasoned piece, voters approved Proposition 1.

The Show-Me Institute also published four commentaries related to Proposition M, a one-half-cent sales tax increase designed to expand light rail in the Saint Louis area. On Oct. 23, intern Patrick Eckelkamp opined that transit users should be expected to shoulder more of the fiscal load for provision of public transportation. On Oct. 30, we presented dueling opinions on Proposition M. Wendell Cox, principal of Demographia, a Belleville-based demographics and public policy firm, said that Metro, the public transit agency, could not be trusted to wisely spend the additional funds that the measure would collect. However, Keith Womer, dean of the College of Business Administration at the University of Missouri–Saint Louis, wrote in support of the proposal, saying it was necessary to provide different transportation choices in the future. Haslag, after calling Womer's conclusions a "leap of faith" offered skepticism that the increased cost was a worthwhile expenditure to subsidize a relatively low number of riders. The measure was narrowly defeated by voters.

The Show-Me Institute will continue to look at all forms of taxation with an eye to seeking better alternatives — especially more market-based solutions. Coming years will bring a fresh crop of commentaries and studies that critically analyze tax policy and taxation throughout the state.

EDUCATION

THE SHOW-ME INSTITUTE KEPT UP ITS EDUCATION RESEARCH DURING 2008, STARTING WITH A STUDY RELEASED IN JANUARY, "THE FISCAL EFFECTS OF A TUITION TAX CREDIT PROGRAM IN MISSOURI," BY MICHAEL PODGURSKY,

who is a Show-Me Institute board member and University of Missouri–Columbia economics professor, and former Show-Me Institute policy analysts Sarah Brodsky and Justin Hauke. The study looked at four states that have instituted some form of tuition tax credits, and discovered that not only did the credits provide more choices for low-income families, but they can also save taxpayer money if carefully structured. The cost to the state of providing such tax credits can be more than offset by the reduction in per-student spending for children who switch from public to private schools.

A month later, policy analyst Dave Roland testified before the Missouri House Special Committee on Student Achievement and Senate Pensions, Veterans' Affairs & General Laws. He countered the argument that educational tax credits are unconstitutional because they violate religion-related restrictions. Roland pointed out that tax credits designed to help students attend private schools are legal because they do

not constitute a direct grant of public funds to religious institutions.

In October 2007, the Show-Me Institute cosponsored a school finance conference in conjunction with the University of Missouri–Columbia's Truman School of Public Policy. Scholars from around the country presented seven working papers about a variety of issues related to school funding and choice programs. The final drafts were published in the April 2008 issue of Vanderbilt University's *Peabody Journal of Education*, which can be viewed online: tinyurl.com/5wzunu

The papers ranged from a roadmap of how educational choice can work in practice to the demonstrated lack of a relationship between per-student education spending and student achievement. Taken together, the papers represent



**Kevin P. Chavous,
Co-Founder and
Board Chair,
Democrats for
Education Reform**

"Having worked with school choice advocates around the country, I can emphatically state that the Show-Me Institute is one of the most effective groups of its kind in the nation. 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. The Show-Me Institute is an invaluable resource to the state."



Show-Me Institute Chairman Crosby Kemper III, school choice advocate Kevin Chavous, and the institute's president, Rex Sinquefield, pose together at SMI's annual celebration of the legacy and ideas of Nobel laureate economist Milton Friedman, who pioneered the school choice movement. Held in partnership with the Friedman Foundation for Educational Choice and the Kansas City Public Library, the event featured a speech by Chavous, a national advocate for school choice and author of *Serving Our Children: Charter School And The Reform Of American Public Education*.



Eric Hanushek, Paul & Jean Hanna Senior Fellow at the Hoover Institution of Stanford University

"I have spent my life researching education, and have concluded that it is simply unjust to trap children in failing public schools. Fortunately, the Show-Me Institute is providing Missouri parents, elected officials, and community leaders with sound policy research. By suggesting alternative options, the institute is helping Missouri to begin providing all of its children with educations that prepare them to compete, on both a national and international level, with children elsewhere who are currently better educated. It is possible to spend tax dollars more wisely while providing Missouri's children the solid educational foundation that they too often are not receiving."

a strong case for dramatically altering the way public education is conducted and financed.

Podgursky wrote an overview of Missouri's adequacy trial, coauthored with James Smith of Management Analysis and Planning, and Matthew Springer, a research assistant professor of public policy and education at Vanderbilt University, Peabody College. This study, "A New Defendant at the Table: An Overview of Missouri School Finance and Recent Litigation," analyzed the first-of-its-kind lawsuit, in which three private individuals were allowed to intervene on behalf of taxpayers.

Two of those three, Rex Sinquefield and Bevis Schock, are also members of the Show-Me Institute's board of directors. The third, Menlo Smith, was a founding member of the board.

The study noted that the defense won on every point of law, ultimately saving taxpayers about \$1 billion per year. At the heart of the case was the state's school funding formula, and the desire by school districts to get more money from taxpayers by claiming that schools are underfunded and unable to provide students with an "adequate" education. However, the defendants noted that there is no correlation between spending and student achievement. In addition, the paper pointed out that even without counting funding judgments, such adequacy cases are costing taxpayers around the country millions of dollars every year. The Missouri school districts involved in the lawsuit spent more than \$3.2 million during 2007, with more to come during appeals. The Missouri Attorney General's office has spent at least \$1.4

million, while the three private intervening defendants shelled out another \$800,000.

Despite a slam dunk victory at trial by the defendants, many school districts are moving ahead with an appeal. You can be certain that the Show-Me Institute will continue not only to follow this case, but to provide critical research into meaningful education reform alternatives. Indeed, that mission is partly why the institute developed and released "Show-Me: The Grades," the first tool offered on our ShowMeLiving.org website.

"Show-Me: The Grades" is indicative of a core philosophy: Reform can come only when the public is fully informed. Developed by former policy analyst Justin Hauke, the tool allows users to compare the Missouri Assessment Program scores of school districts and even individual schools throughout the state. The school district comparison also includes data showing average per-pupil spending. Much of the information used in this tool, although publicly available, isn't easy to find. We not only provide it, we also place the numbers in meaningful context. "Missouri public school performance needs to be more transparent," Hauke explained. "When families are concerned about the education their children are receiving, or if they are considering moving to a new neighborhood, they should be able to easily access performance information."

Indeed, making this information easily available and digestible for parents inevitably will lead to reform. And early reforms are already happening. Charter school enrollment, for example, is soaring in the city of Saint Louis, where the public schools have failed by any reasonable measure — while still maintaining a high level of per-student spending.

Education reform based solely on cost isn't reform; that's a misuse of public funds, and an educational failure. True reform requires improvement based on meaningful quality initiatives. The Show-Me Institute will continue conducting and publishing research highlighting any measure that can provide children with a foundation of educational excellence.

CORPORATE WELFARE

CORPORATE WELFARE COMES IN MANY FORMS THESE DAYS, NOT THE LEAST OF WHICH ARE VARIOUS TAX INCENTIVES DESIGNED TO LURE BUSINESSES TO THE STATE — OR TO PARTICULAR PARTS OF THE STATE. AND PERHAPS NONE WAS

bigger or more controversial during 2008 than the huge incentive package that officials put together in order to convince Bombardier Aerospace to build a \$375 million assembly plant near Kansas City International Airport. According to estimates, the plant would have eventually employed 2,100 people. However, Missouri had to compete with Canada for the plant, so state and local officials trotted out an incentive package valued at \$377 million over a 22-year period.

Show-Me Institute Executive Vice President Joseph Haslag analyzed the data and economic assumptions proffered by the Missouri Department of Economic Development, and found problems, which he reported in multiple commentaries, one of them coauthored by the Show-Me Institute's president, Rex Sinquefield. Even if the DED's assumptions were correct, Haslag said, the plant would still cost taxpayers \$22 million. He also concluded that the DED's job creation estimates were based on a discredited economic model. The more likely cost to taxpayers, he wrote, was closer to \$110 million. Haslag said the basic problem is that government officials do not have a successful track record in trying to pick economic winners and losers. Haslag also testified against legislation that would have allowed the massive tax breaks to occur. Ultimately, Bombardier chose Canada for its plant, and although the legislation passed, the final version had been significantly watered down, providing much smaller tax incentives.

In a May commentary, Haslag pointed out that rather than try to pick winners through targeted tax credits, state officials should seek to promote economic growth and expansion by lowering taxes for all businesses. In the piece, Haslag returned to an economic theme he's

touched upon many times before: Optimal tax policy allows for many small gains rather than gambling on large-scale targeted credits. In the end, a strategy that allows all businesses to add new equipment, or hire an employee or two, makes more sense than trying to chase one or two huge projects.

The Show-Me Institute also continued to question tax increment financing (TIF), a tool overused by local governments to attract economic development to a particular site. It's more often used to reward a few businesses and, at best, encourage companies to shift from one city to another — at taxpayer expense. In a March commentary, policy analyst David Stokes highlighted Saint Charles County, and its practice of refusing to hand out TIFs. The county also opposes TIFs proposed by its municipalities. As a result, Saint Charles has a relatively small number of TIFs, and yet it has been the fastest growing county in the state for three decades. Here's what Stokes concluded:

"Like an arms race, local governments throughout Missouri fear unilateral TIF disarmament would put them at an economic disadvantage. Saint Charles County has shown that it is possible for a local government to avoid the use of tax giveaways and still be a growing, thriving community."



Steven Levitt,
William B. Ogden
Distinguished
Service Professor of
Economics at
the University of
Chicago, Coauthor
of *Freakonomics*

"The Show-Me Institute is at the cutting edge when it comes to thinking about creative, market-based solutions to Missouri's problems. Every state needs an institute like this."

In May, Stokes argued in another commentary that only counties should be allowed to award TIFs. Counties are large enough, he argued, to be able to put a tax incentive into perspective. Cities, on the other hand, are looking to compete with neighboring cities. That competition breeds wasteful TIFs.

In June, Stokes and former policy analyst Justin Hauke looked at the state's mandate for E-10 fuel, which is gasoline that contains at least 10 percent ethanol. The legislature imposed the mandate amid heavy lobbying from corn growers. Besides helping the industry, the growers argued that because ethanol is cheaper than gasoline, the blended E-10 would save drivers millions of dollars every year. Stokes and Hauke had a

different take. Among the variables that the corn lobby ignored:

- Ethanol is less fuel-efficient than gasoline. So, while it might be cheaper per gallon, cars can't travel as far with the E-10 blend and drivers would therefore have to buy more fuel to meet their travel needs.
- The cost to taxpayers of a 51-cent-per-gallon federal tax credit for ethanol production.
- The diversion of so much corn to ethanol production will cause food prices to rise, offsetting the lower fuel prices.
- Producing ethanol leads to increased CO₂ emissions, which may cause costly environmental problems.
- Lower gas mileage from the ethanol blend alone would cost drivers nearly \$1 billion over the next decade, Stokes and Hauke concluded.



Joe and Judy Roetheli, CEO and President, Key Companies & Assoc.

"As entrepreneurs, we believe that the public needs to realize that small businesses are the engine of our economy. Too few people learn what an entrepreneur goes through to earn a living or the satisfaction of achieving goals. Having worked for the federal government for almost two decades, universities for four years, and now having been an entrepreneur for over 12 years plus a few years leading a foundation, I have seen many sides of life. The Show-Me Institute effectively addresses issues of government, academia, and the private sector, as well as how charitable foundations interact to impact the economy, education, and people's lives. I highly recommend the Show-Me Institute to anyone interested in keeping up with issues impacting the state of Missouri."



CASE STUDY

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THE ECONOMIC IMPACT OF THE MISSOURI E-10 ETHANOL MANDATE

By Justin P. Hauke and David Stokes



Missouri is one of only three states that require a 10-percent minimum ethanol blend (E-10) for retail gasoline sold within the state.¹ The Missouri Corn Merchandising Council (MCMC) recently released a study purporting to demonstrate the positive economic benefits of the state's ethanol mandate for Missouri consumers.² The study claimed that Missourians will save more than \$260 million through ethanol-induced fuel cost reductions in 2008 and nearly \$2 billion in present value during the following decade.³ The MCMC study ignores important effects of the E-10 mandate, however, most notably the documented decrease in fuel efficiency of E-10 blended fuel and the taxpayer cost of ethanol subsidies.⁴ We find that accounting for these costs significantly reduces the MCMC savings projections and results in a net loss to Missouri consumers of almost \$1 billion during the next decade.⁵ We also were able to consider the additional impact of the E-10 mandate on higher food prices and CO₂ gas emissions; these costs would be even higher.⁶ In 2006, the Missouri General Assembly passed a law mandating that by January 1, 2008, all retail gasoline sold within the state must consist of a minimum 10-percent ethanol blend.⁷ Missouri was only the third state to enact such a mandate, following Minnesota and Iowa. After the E-10 mandate was passed, but prior to its adoption, about 70 percent of the state's gas stations voluntarily switched to blended ethanol in the fuel they sold to consumers. The mandate's impact on initial ethanol production and distribution processes was largely an illusion by the time the mandate took effect.⁸ However, Missouri's ethanol fuel standards do impact the price Missouri consumers pay at the pump. The E-10 mandate represents nearly 295 million gallons of ethanol-blended fuel, or approximately 5 percent of total U.S. production. The MCMC attempt to quantify the impact of the E-10 mandate on Missouri gasoline prices during the following decade, Table 1 presents the estimated savings to Missouri drivers projected by the MCMC.⁹

Finally, the Show-Me Institute continued to champion the cause of individual property rights against local governments that abuse eminent domain powers for economic development. Unfortunately, the Missouri Supreme Court ruled that the city of Arnold could take property owned by Dr. Homer Tourkakis, a dentist who had been practicing in the city for more than 20 years, and turn it over to a private developer for a shopping center. As former intern Nicholas A. Loyal wrote in an April commentary: "... any orthopedist in Joplin or homeowner in Chesterfield has lost a chance to protect the property that is rightfully theirs."

Some good news arrived later in the year, when the Missouri Supreme Court refused to allow the city of Clayton to use a specious "blight" designation to take land via eminent domain for a downtown project. The Tourkakis case still stands, however.

The Show-Me Institute is continuing its efforts to help protect individual property rights, and to warn the public about the dangers inherent when government officials misuse their powers for what they suppose to be the greater good. This is especially true when governments attempt to subvert private markets through misguided tax incentives. Such corporate welfare is an ongoing threat to individual liberty and prosperity.

HEALTH CARE

WHILE 2008 WAS A RELATIVELY QUIET YEAR IN TERMS OF HEALTH CARE POLICY RESEARCH, THE ISSUE REMAINED HIGH ON THE SHOW-ME INSTITUTE'S RADAR SCREEN, PRIMARILY THROUGH THE SHOW-ME DAILY BLOG. FORMER

policy analyst Justin Hauke got the discussion going in January with a straightforward commentary, "A Better Solution to Missouri's Long-Term Nursing Home Care." Hauke addressed abuse in nursing homes and suggested that government regulation may serve to make things worse, rather than better. Instead of requiring nursing home operators to bear the time and expense of more regulations, he proposed better family education about nursing home practices and performance.

The Show-Me Daily blog highlighted a number of studies and articles that focused on health savings accounts. These accounts put individuals in charge of their health care, providing them with incentives to prioritize their care and to seek cost-efficient care. In July, we noted that a Ball State University study named

Missouri the No. 1 state for manufacturing. Of the 20 categories that made up the ranking, Missouri had the lowest health care costs and health care premiums. That's due in large part to the passage of House Bill 818 in 2007. Intern Calvin Harris wrote in an August post:

"This bipartisan solution to the state's health policy dilemma helps put employees in charge, freeing them to choose their own insurance policies, and puts employers in positions where they can now contribute directly to employees' plans without the burden of mandated contribution amounts. Furthermore, health savings accounts and individual health plans are portable, so employees are protected even in case of employment changes."



William Niskanen,
Chairman Emeritus,
Cato Institute

"By itself, the Show-Me Institute is sufficient evidence that not all the intelligence, information, and creativity to solve public policy issues is in Washington."



Economists Jagadeesh Gokhale, a senior fellow at the Cato Institute, and William Niskanen, chairman emeritus of the Cato Institute, share a table with Show-Me Institute research fellow Beverly Gossage at the January 2008 Cato Health Care Summit in Baltimore, Md. Gossage was invited to participate along with representatives from 34 other free-market think tanks.



Carl Bearden, State Director, Americans for Prosperity—Missouri, Former Speaker Pro Tem, Missouri House of Representatives

"The Show-Me Institute has been instrumental in creating awareness and educating the public of policy issues that are in desperate need of reform. The quality work they publish has proved time and again to be a valuable asset not only to the work of American's For Prosperity, but also to elected officials. The education that SMI conducts provides us a road map founded in strong research as to how to improve the quality of life for Missourians."

The legislation passed in no small part thanks to the efforts of Show-Me Institute research fellow Beverly Gossage, who testified, wrote commentaries, and provided information to anyone who asked.

It's worth noting that the state Supreme Court ruled in June that the passage of a recent health insurance law had legalized midwifery, making Missouri the 38th state to approve the practice, despite objections from the traditional medical community. This is an issue that the Show-Me Institute has taken up many times over the years. As Hauke wrote in a June blog post, "Any expectant mother can still choose to use an 'approved' nurse/doctor and receive the same care as always. But they don't have to. And that is the point."

Hauke also sharply criticized a bloated piece of legislation called the Missouri Health Transformation Act, after it passed in the Senate in May. His biggest complaint was that the act appeared to have no discernible purpose, other than creating another layer of state oversight for health care. A new "cabinet" of bureaucrats would

get together to "coordinate health policy collaboration." One portion of the bill called for tax credits for homeowners who make their homes "accessible." Hauke pointed out that the legislation did not define what the term "accessible" means in this context. Fortunately, the bill died in the House.

Hauke's health care analysis also extended to the Wall Street Journal, which published a letter from him in January in response to a commentary supporting universal health care written by Robert Reich, former U.S. Secretary of Labor in the Clinton administration. Hauke took exception to Reich's observation that high-cost patients could be subsidized by additional revenue that the federal government would collect if the Bush tax cuts were allowed to expire in 2010. He argued that not only would such a move push the country into economic hardship, it's unlikely the additional funds would be enough to meet the needs of high-cost patients.

Initiatives that don't give patients an incentive to manage the cost of their care are sure to be prohibitively expensive. The Show-Me Institute will keep working toward health care solutions that add to consumer choice, but also make consumers responsible for the cost of their own health care. Health savings accounts are a great starting point.



Show-Me Institute research fellow Beverly Gossage speaks with audience members after her panel discussion about health care policy at the State Policy Network's 16th annual meeting, in Scottsdale, Ariz.

PRIVATIZATION

THE SHOW-ME INSTITUTE AIMED MUCH OF ITS PRIVATIZATION RESEARCH IN 2008 TOWARD TRANSPORTATION, AND FOR GOOD REASON. WITH HIGHWAYS AND BRIDGES CRUMBLING, BILLIONS OF DOLLARS ARE AT STAKE IN SIMPLY

rebuilding existing infrastructure. In addition, leaders of the public transportation systems in both the Saint Louis and Kansas City metro areas want to expand their systems.

Randal O'Toole, a senior fellow with the Cato Institute and author of *The Best-Laid Plans: How Government Planning Harms Your Quality of Life, Your Pocketbook, and Your Future*, took a hard look at Kansas City's efforts to create a light rail network. O'Toole minced no words in rejecting the idea, for a number of reasons. In part, he noted that light rail systems almost always cost far more than proponents suggest. Indeed, Kansas City voters approved a light-rail plan in 2006 that was so expensive the City Council repealed it in 2007.

O'Toole also pointed out that Kansas City has relatively few jobs in its central business district, making it a poor alternative for commuting. He also noted that light-rail systems cause more pollution per passenger mile than most passenger cars, and observed that most cities with light-rail systems have seen their overall transit passenger counts decline in the years following rail completion. Rather than concentrate on light rail, O'Toole suggested that Kansas City would better meet its transit needs by expanding its bus system, or competitively contracting its existing transit services to private operators.

Those arguments resonated with Kansas City voters, who also heard O'Toole and Show-Me Institute Chairman Crosby Kemper discussing this billion-dollar boondoggle on various Kansas City radio shows. Despite voting two years earlier for a light-rail system, in November they overwhelmingly rejected a three-eighths-cent sales tax increase that would have financed a 14-mile light-rail system.

In February, David Stokes, a policy analyst for Show-Me Institute, teamed up with Leonard Gilroy, the director of government reform at the Reason Foundation, and Samuel R. Staley, director of urban growth and land use policy at Reason, to write "Missouri's Changing Transportation Paradigm." This policy study noted that Missouri should look to the private sector for help in building highways. Specifically, the authors outlined the many benefits public-private partnerships (PPPs) provide in meeting transportation infrastructure needs. With Missouri already using PPPs to build bridges, Stokes, Gilroy, and Staley pointed out that allowing for the possibility of similar partnerships for highway construction wouldn't be a big leap. While noting that it's currently unconstitutional in Missouri to convert a road originally funded by gasoline taxes into a publicly operated toll road, the authors pointed out that it would be legal for a private operator to open a new toll highway. The state also could build truck-only toll lanes.

In a follow-up commentary released in March, Stokes said the state should consider tolling as a key method of paying for road construction. Missouri could follow models from other states, which contract with private companies to operate toll roads.



Peter D. Kinder,
Lieutenant Governor,
State of Missouri

"As we work to continue improving the quality of life for Missourians, I strongly appreciate the invaluable and irreplaceable research that the Show-Me Institute provides to policymakers here in Jefferson City. The testimony their policy analysts provide to our legislative committees has been reliable, thoughtful, and well received.

The institute is an invaluable resource to Missourians."



**Rep. J.C. Kuessner
(D-Mo., 152nd
District)**

"As a committee member of the House Special Infrastructure and Transportation funding committee, I find that the research provided by the Show-Me Institute addresses Missouri's current transportation needs, as well as our future needs, and presents significant insight to the value of public-private partnerships. Their analysts clearly understand and have researched what has worked in other states, and how we compare to those states. I appreciate their work, which educates elected officials with solutions to our problems that are not being performed elsewhere."

In November, the Show-Me Institute published a study by Kenneth A. Small, a professor of economics at the University of California at Irvine, looking at the economics of PPPs, including the lease of existing highways to private companies. The study essentially provided a catalog of such partnerships, discussing how they worked and why some were more successful than others. One crucial issue, Small noted, is the necessity of creating a strong franchise agreement that spells out precisely what is expected of the private operator, including environmental and safety issues, future toll increases, and control of the roadway. In effect, the more control government hands over to the private sector, the bigger return it may receive.

Transportation wasn't the only place where the Show-Me

Institute pushed for market-based solutions for government services. Show-Me Daily, our lively blog featuring a variety of interesting opinions from staffers, contained frequent musings on how government monopolies limit consumer choice. For instance, intern Calvin Harris addressed the local government monopoly on trash hauling in the city of Town and Country, siding with the minority view of Town and Country Alderman John Hoffmann, who was quoted by the *St. Louis Post-Dispatch* as saying, "Let the free enterprise system take its toll."

The Show-Me Institute will keep publishing groundbreaking research and intriguing blog items that show how market-based solutions can increase efficiency for public services — and at a reduced cost. That's the least government can do to help taxpayers keep more money in their pockets.



Kevin Keith, chief engineer for the Missouri Department of Transportation, poses with Show-Me Institute policy analyst David Stokes and Sen. Bill Stouffer, chair of the Missouri Senate Transportation Committee, on Oct. 23, 2008, at a transportation forum in Saint Charles. Stokes was there to discuss the Show-Me Institute study he had coauthored earlier in the year with two Reason Foundation scholars, "Missouri's Changing Transportation Paradigm."

RED TAPE

THE SHOW-ME INSTITUTE FOCUSED A SPOTLIGHT ON GOVERNMENT RED TAPE IN A VARIETY OF AREAS DURING 2008. ONE OF THE FIRST DIM-BULB IDEAS DISCUSSED IN AN INSTITUTE COMMENTARY WAS THE "TEXTBOOK

Transparency Act," signed into law in June. The act is supposed to help lower the cost of education for students of Missouri public colleges by requiring publishers to provide professors with more comprehensive information about the wholesale price of books. However, as former intern Dan Grana pointed out in a May commentary, this law would likely have the opposite of its intended effect. He pointed out that the simple act of requiring publishers to meet additional legal requirements would add marginally to the cost of a book.

The legislation goes even further than that, allowing students to use excess scholarship funds to buy books — but only at campus

bookstores. Of course, textbooks are often much more expensive at campus stores. This is an example of an unnecessary red tape provision coupled with the law of unintended consequences, in an attempt to solve a problem that essentially doesn't exist. Professors today have ample means of determining the wholesale price of a textbook, if they so desire.

Policy analyst David Stokes stayed busy throughout the year considering many forms of government licensing. In August, he wrote a commentary questioning a proposal by the Saint Joseph City Council to expand its licensing of the



Ellen Harshman,
Dean, John Cook
School of Business,
Saint Louis University

"The John Cook School of Business at Saint Louis University has joined forces with the Show-Me Institute to bring a first-class lecture series to the Saint Louis community. The series provides citizens the opportunity to hear nationally known experts speak about public policy issues such as education, taxes, and more. Our intention is to enlighten participants and provide a forum for informed discourse."

Commentary
October 17, 2008 • Vol. 4, No. 26

**Missouri Clean Energy Initiative*
Fraught With Hidden Costs**

By Jacob Yost

To date, 26 states have adopted renewable energy standard (RES) laws, which require energy utilities to derive a specified percentage of electricity from renewable energy. As of September 30, 2008, Missouri will join 17 other states in requiring 10 percent of Missouri's electricity to come from renewable energy. The Missouri Clean Energy and Energy Efficiency Act of 2007, which was signed into law by Governor Matt Blunt in April, mandates that 10 percent of electric power sold by electric utility companies in Missouri come from renewable energy sources by 2012. The Missouri Public Service Commission will be responsible for developing rules to implement the act.

The initiative has some merit, decreasing production of fossil fuels and the potential to create jobs and reduce energy costs. However, it also has the potential to create more costs because the state would

Commentary
December 15, 2008 • Vol. 4, No. 33

Regulations Targeting Payday Lenders Won't Solve Financial Problems

By Calvin Harris II

The nation's current economic crisis has made it difficult for even low-income people to get credit. Recognizing that some people facing the most financial challenges may find quick credit options to be helpful, the Saint Louis Board of Aldermen proposed a bill that would restrict the opening of new payday loan stores and check-cashing operations in both commercial and residential areas throughout the city. The bill would also prevent new stores from opening near existing ones until they have closed.

While it might be argued that the proposed limits would prevent low-income people from recovering their financial woes, this type of one-size-fits-all regulation fails to account for the diverse needs of people facing the most financial challenges.

Payday loans are advances intended to cover borrowers' short-term expenses until their next paycheck. While most of payday loan sites around Saint Louis have closed, both in the city and around the state, the industry remains ever-present in areas where the most financially vulnerable people live. Payday lenders focus on marketing their services to people who have little access to traditional banking. In the state of Missouri, the fees and total amount charged by payday lenders ranges from 422 percent to as high as 1,650 percent.

Payday loans generally represent a credit source of last resort for those who are most likely to be rejected for loans elsewhere, so the very fact that someone seeks a payday loan may already be an indication of risk. In order to remain in business at all, payday lenders

Commentary
May 23, 2008 • Vol. 4, No. 16

Misguided Textbook Transparency Act Would Increase Student Costs

By Dan Grana

On the final day of Missouri's legislative session, the Senate approved the Textbook Transparency Act, a bill intended to lower costs for students of public colleges statewide. Although the measure may seem like a legitimate concern, this act will not achieve its intended purpose. The bill contains three misguided provisions. First, textbook producers would be required, if asked, to provide a host of information about their books, eliminating the practice of "bundling," which allows textbook publishers to sell textbooks individually. Second, publishers would be required to make their books available for download. Third, the bill would permit any scholarship funds in existence of tuition and fees to be redeemable at school bookstores.

The rationale for the bill, which was originally written by two certainly well-intentioned people, is that students will be able to buy textbooks more inexpensively. As a student with at least two more years of textbook buying to anticipate, I am particularly dubious in this rationale.

CASE STUDY
VOL. 2 • NO. 2
DECEMBER 4, 2008

**OCCUPATIONAL LICENSING
OF MASSAGE THERAPISTS
IN MISSOURI AND KANSAS**

By David Stokes

For many occupations, people who want to practice professionally are required to receive levels of government to obtain varying degrees of licensing as a prerequisite. In order to practice medicine, for example, one needs a license from that state's Board of Healing Arts (or an equivalent, similarly named board). Almost every state requires that a person obtain a license to register their vehicles and obtain a license from city hall. In his 1982 book *Capitalism and Freedom*, Milton Friedman identifies three classes of occupational licensing: registration, certification, and licensure. Registration is the class of licensing in which the government compels nearly to register with some level of government before performing a service or trade. Often, this level adds significantly to the cost of an occupation, and serves a repressive purpose. Federal registration of firearms dealers and local registration of cab drivers are two



Tracie Sharp, President, State Policy Network

"Now, more than ever, citizens need a champion of fiscal responsibility and individual liberty. The Show-Me Institute does a tremendous job serving Missourians in that capacity, providing a steady flow of scholarly research that is frequently cited by policymakers, the media, and community leaders. SPN is grateful for the contributions of free-market principles that SMI advances in Missouri."

construction industry. Stokes noted that such licensing invariably leads to fewer professionals practicing in a particular occupation, which increases consumer prices. His suggestion: Scale back the existing licensing program instead, to increase industry competition and bring down prices.

Former intern Jacob Voss warned in October about a relatively low-key state ballot referendum called the "Missouri Clean Energy Initiative." The referendum called for the state's three largest power companies to gradually begin using more renewable sources of energy, with a target of at least 15 percent by 2021. It also called for capping rate increases at no more than 1 percent per year. Voss wisely pointed out that capping rate increases, even on regulated monopolies, is a dangerous game, given the volatility of fuel used to produce energy. And, by calling for a specific rate, government effectively has created a minimum standard that "will act as a percentage floor, giving utilities a comfortable public relations image to hide behind," Voss wrote. Unfortunately, few people other than Voss wrote anything about the initiative, positive or negative, and voters overwhelmingly approved it.

Even though Missouri has the fewest occupational licenses of any state, it's important to remember the damage that can be caused by those licensing regulations that do exist. In a December case study, Stokes looked at massage therapy in Missouri, comparing it to the same profession in

neighboring Kansas, which does not require licensing for massage therapists. He found the Missouri side of the Kansas City area contains fewer therapists than the Kansas side. He also found slightly higher average prices in Missouri. Conducting a similar comparison between Springfield and Wichita, he found an even wider difference: fewer therapists in Missouri and lower prices in Kansas.

In conjunction with that study, the Show-Me Institute released another online tool in the Show-Me Living package, called "Show-Me: The Licensing." This tool is an interactive map that lists not only the occupations that are licensed by the state, but also the occupations licensed by cities and counties throughout Missouri. The list is a formidable one, and owes its existence to government's predilection for wrapping red tape around so much of our business and personal lives.

Much of that red tape comes from what might seem good intentions. Take legislators who want to lower the interest rates charged by payday lenders. On one hand, rates that exceed 1,900 percent seem excessive. But, as intern Calvin Harris pointed out in a December commentary, these lenders are taking an enormous risk with people who have no credit history, or poor credit history. Harris reiterated a point made in an earlier commentary written by former policy analyst Justin Hauke: If payday loan rates were actually higher than true market value, as critics sometimes suggest, there would be plenty of competitors ready to steal significant market share by offering lower rates themselves.

Government red tape is a continual concern for advocates of free markets. It usually rolls out from initiatives that sound beneficial at first glance, but that have negative unintended consequences that are much more difficult to see and combat. Burdensome regulations can destabilize a free market and, ultimately, personal freedom. We will continue working to identify and cut through governmental red tape wherever it exists.

PUBLICATIONS

Commentaries Published in 2008

January 11	"Franklin County Would Benefit From Charter Reform"	July 17	"Bombardier: A Postmortem"
January 16	"Will the Missouri Supreme Court Leave Your Home At Risk?"	July 30	"Flood Relief Establishes Perverse Incentives"
January 24	"A Better Solution to Missouri's Long-Term Nursing Home Care"	August 5	"Saint Joseph's Licensing Laws Construct Barriers to the Free Market"
January 30	"Overturning Light Rail a Good Decision for Kansas City"	September 9	"Tennessee vs. Missouri: Taxes May Tip the Odds"
March 5	"Tolling a Valuable Option for Missouri's Transportation System"	September 23	"Light-Rail Systems Are a False Promise"
March 28	"Saint Charles County Grows Without TIFs"	September 23	"Metro Transit Funding Raises Difficult Questions"
April 2	"Court's Eminent Domain Ruling Endangers Property Rights"	October 7	"Greene County Could Benefit From Non-Partisan Judicial Selection"
April 9	"Be Careful Where You Live — It Might Cost You More Than You Think"	October 20	"Charitable Tax Credits Provide Constructive Alternative to Prop. 1"
April 9	"Lest We Think 1 Percent Is Small"	October 21	"'Missouri Clean Energy Initiative' Fraught With Hidden Costs"
April 11	"On Tax Credits and Economic Development, or: What SB 1234 Does Poorly"	October 30	"Metro's Broken Promises Likely to Continue After Proposition M"
April 18	"Taxes — With a Capital T, and That Rhymes With P, and That Stands for Pool"	October 30	"Questions of Transit Efficiency Need to Include Both Costs and Benefits"
April 18	"Tax Credits Aren't Always a Good Idea"	October 31	"Economic Growth Only One Factor in Choosing Judicial Selection System"
April 28	"Tuition Tax Credits Would Be Best Solution for Autistic Students"	December 4	"Private Funding an Important Option for Missouri Highways"
May 7	"Lower Tax Rates More Efficient Than Tax Credits"	December 9	"Fewer Licensing Laws Would Make Missouri Freer, More Prosperous"
May 12	"Counties, Not Cities, Should Determine TIFs"	December 17	"Regulations Targeting Payday Lenders Won't Solve Financial Problems"
May 29	"Misguided Textbook Transparency Act Would Increase Student Costs"	December 30	"Replacing Missouri's Income Tax Would Reduce Revenue Volatility"
June 17	"Is the 'Missouri Plan' Good for Missouri?"		
June 26	"Freedom Requires Secure Property Rights"		

Studies Published in 2008

January 14	"The Fiscal Effects of a Tuition Tax Credit Program in Missouri"	April 30	"A Framework for Choice Remedy Litigation"
January 23	"Review of Kansas City Transit Plans"	April 30	"Hope for Children Trapped in Failing Schools: The Promise of <i>Crawford v. Davy</i> "
February 27	"Missouri's Changing Transportation Paradigm"	May 21	"Is the 'Missouri Plan' Good for Missouri? The Economics of Judicial Selection"
April 30	"A New Defendant at the Table: An Overview of Missouri School Finance and Recent Litigation"	June 18	"The Economic Impact of the Missouri E-10 Ethanol Mandate"
April 30	"What Do Cost Functions Tell Us About the Cost of an Adequate Education?"	November 21	"Missouri's Challenge: Managing Long-Term Employee Benefit Costs"
April 30	"Can Judges Improve Academic Achievement?"	November 25	"Private Provision of Highways: Economic Issues"
April 30	"Spending Money When It Is Not Clear What Works"	December 4	"Occupational Licensing of Massage Therapists in Missouri and Kansas"
April 30	"Next Needed Steps in the Evolution of American Education Finance and Policy"		

2008 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.



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 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.



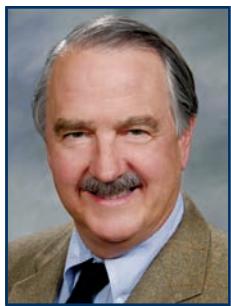
Bevis Schock, Secretary

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.



James Forsyth, Treasurer

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.

**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.

**Joe Forshaw, Director**

Joe Forshaw is president and CEO of the Saint Louis-based Forshaw, a 137-year-old family-owned business specializing in the retail sale of home furnishings, as well as the manufacture and national distribution of fireplace-related building products. He has served for several years on the board of directors for the Commerce Bank of Saint Louis, 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.

**Robert Heller, Director**

Robert Heller is a retired Democratic associate circuit judge who served 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 holds a J.D. from the University of Missouri–Columbia and a B.A. in philosophy from Northwestern. He has served as a member of several Missouri court-related committees and as a district chair for the Boy Scouts of America.

**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.

**Gerald A. Reynolds, Director**

Gerald A. Reynolds is assistant general counsel at Kansas City Power & Light Company, an integrated electric utility. Earlier he served as a deputy associate attorney general in the U.S. Department of Justice. In 2004, President George W. Bush designated Mr. 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 for Civil Rights. Mr. Reynolds received his law degree from Boston University School of Law, where he served on the editorial board of the *American Journal of Law and Medicine*. He received his B.A. in history from City University of New York, at York College.

2008 STAFF



Joseph Haslag, Executive Vice President

Joe Haslag is a professor and the Kenneth Lay Chair in economics at the University of Missouri–Columbia. An expert in monetary policy, Professor Halsag has done research at the Federal Reserve Banks of Saint Louis, Dallas, and Atlanta. He serves on the Federal Reserve Bank of Kansas City's Economic Roundtable and the Federal Reserve Bank of Saint Louis' Business Economic Regional Group.



F. Joe DeLong III, President and Counsel, DeLongs Inc.

"The Show-Me Institute's scholars provide free-market solutions for Missouri public policy issues in desperate need of reform — so we are not forced to rely on the government to develop an answer. I am proud to support the institute in their efforts to make a better Missouri for my children."



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.



Rebecca Bruchhauser, Director of Development

Rebecca worked for 10 years in health care consulting with hospitals and health care systems across the nation, the last five years in the Saint Louis area's fastest growing hospital, SSM DePaul Health Center. As a member of the administrative team, she performed duties in strategic planning, business development, and special event planning. An Illinois native, she has worked in the Illinois Legislature and the office of Gov. Jim Edgar. She holds a B.S. in speech communication from Southern Illinois University at Carbondale.



Eric D. Dixon, Editor

Eric holds a bachelor's degree in journalism from Brigham Young University, and has worked for U.S. Term Limits, Americans for Limited Government, the Cascade Policy Institute, *Liberty* magazine, the Cato Institute, the Oregon Newspaper Publishers Association, and the *Idaho Press-Tribune*.



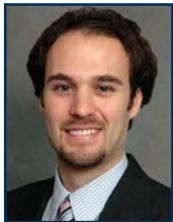
Breck Frerking, Public Relations Coordinator, June–December

Before joining the Show-Me Institute, Breck worked for several years in wealth management. She holds a bachelor's degree in business management from the University of Missouri–Columbia, and an MBA with an emphasis in agribusiness from William Woods University. Breck is actively involved in several community organizations and boards.



Sara Haslag, Public Relations Coordinator, April–December

Sara Haslag joined the Show-Me Institute in March 2008. She received her bachelor's degree in nursing from the University of Missouri, and her master's degree in nursing from the University of Texas. She has practiced as a certified pediatric nurse practitioner for the past 15 years. Sara grew up in Branson and now resides in Columbia.



Justin P. Hauke, Policy Analyst, January–June

While working for SMI, Justin was a graduate student at Washington University's Olin Business School. He previously worked as a senior research associate for the Federal Reserve bank of Saint Louis, and has an undergraduate degree in economics and math from the University of Texas at Austin.



Marcia Jackson, Office Manager

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



Dave Roland, Policy Analyst

Dave Roland spent three years as an attorney with the Institute for Justice, where he litigated school choice, economic liberty, and property rights cases. He earned undergraduate degrees in political science and Biblical studies at Abilene (TX) Christian University before studying law and religion at Vanderbilt University, where he received his M.T.S. and his law degree in 2004.



Jenifer Zeigler Roland, Director of Policy

Jenifer grew up in Mexico, Mo., and attended Truman State University before earning her M.P.A. and law degree from the University of Missouri–Columbia. While in school, Jenifer worked as a legislative aid in the Missouri Senate. She has worked as a legal and policy analyst for the Cato Institute, and as the legislative affairs attorney for the Castle Coalition, a project of the Institute for Justice dedicated to reforming eminent domain laws.



Josh Smith, Research Assistant, October–December

Josh is currently pursuing an undergraduate degree at the University of Missouri–Saint Louis, majoring in economics and math. A lifelong Saint Louis resident, Josh attained his associate's degree in mathematics from St. Louis Community College, and plans on pursuing a graduate degree in the same field.



David Stokes, Policy Analyst

David Stokes, a Saint Louis native, is a graduate of Saint Louis University High School and Fairfield (CT) University. He spent five years as assistant to Saint Louis County Councilman Kurt S. Odenwald, and is currently the president of the University City Library Board. He has served on boards and committees for several area organizations: the University City Centennial, the Saint Louis County Pachyderm Club, and the Downtown Saint Louis Residents Association.



**Gerald A. Reynolds,
Assistant General
Counsel at Kansas
City Power & Light
Company,
Show-Me Institute
Board of Directors**

"Free markets are fundamental building blocks that undergird a free society. The ability to organize all facets of one's life, including economic activities, free of unwarranted restrictions, ensures that we have a robust democracy. The Show-Me Institute understands the health of our way of life depends on ensuring men and women, especially the disadvantaged, are able to organize their lives in the way that suits them. That is why SMI fights to increase the number of educational choices available to the disadvantaged. A quality education must not remain a benefit restricted to the well-to-do."

YOUTH OUTREACH

THE INTERNSHIP EXPERIENCE IS AN IMPORTANT PART OF THE WORK OF THE SHOW-ME INSTITUTE. NOT ONLY DO STUDENTS GAIN A CHANCE TO LEARN FIRSTHAND ABOUT THE VALUE AND RIGOROUS NATURE OF PUBLIC

policy research in a practical, hands-on setting, but the institute gains a tremendous benefit from the enthusiasm and fresh perspective that interns bring with them.

During 2008, the Show-Me Institute published eight commentaries written by interns, which led to stories published in the *St. Louis Daily Record*, the *Kansas City Daily Record*, the *Springfield News-Leader*, the *Springfield Business Journal*, the *St. Joseph News-Press*, and on Missourinet.

One of the institute's summer 2008 interns, Dan Grana, who is pursuing degrees in economics and history at the University of Notre Dame, explained in a letter to the board of directors why Show-Me Institute internships are so valuable.

Dan Grana, 2008 Show-Me Institute Intern

"I have complete confidence that future interns will benefit as much from this valuable experience as I have. I commend the Show-Me Institute for assuming the role of a teacher to me and other past and future interns."



"Perhaps more than anything, I've benefitted from the Show-Me Institute's exceptional staff," he wrote. "In addition to being extremely friendly, the members of this organization have been great educators. By talking with them about a variety of topics, I've gained an understanding of different political philosophies that draw on the same respect for economic freedom. More often than not, I've ended the workday by gawking at the bookshelf while asking Eric about one ideological stance or another. The other interns and I



Two of the Show-Me Institute's summer 2008 interns, Patrick Eckelkamp and Dan Grana, peruse a copy of Mark Skousen's book *Vienna & Chicago, Friends or Foes? A Tale of Two Schools of Free-Market Economics*, which became a book club selection the following year.

celebrated each occasion that we could manage to unleash Dave Roland on some issue of constitutional law. I mention these examples not to exclude any of the other instances of genuine educational interaction with anyone else on the staff, but to offer examples of these discussions that especially stick out as I reflect on the past months. In short, my relationship with the staff has been constantly pleasant and so thoroughly educational that you could probably get away with charging tuition to future interns."

The Show-Me Institute also sponsors a biweekly book club primarily directed to Saint Louis-area college students who are interested in exploring a broad spectrum of the ideas of liberty. Although it started out small, the group grew during 2008 to regularly include 12 or 13 participants at a time.

Timothy Lee, the Show-Me Institute's first editor, explained to me why he was motivated to start the SMI-sponsored book club: "State-based think tanks spend the bulk of their time talking about the nuts and bolts of public policy as it relates to current legislative debates. That's important, but I also saw a need for a program that would help young people understand

the ideas of liberty from a more philosophical perspective."

He's right. Although the Show-Me Institute does all it can to apply the principles of freedom and sound economics to the public policy sphere, political power is always in flux, and today's policy success can be easily rescinded or undermined tomorrow. One of the ways to foster lasting change is to spread knowledge about the fundamental arguments for freedom — complex ideas that aren't easily captured in commentaries or studies.

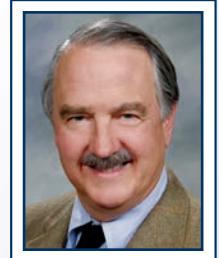
Participants are not only absorbing the ideas of freedom, they're also passing them on to friends who aren't club members — and these young activists will likely retain a lifelong passion for liberty. The club is also a pool of budding talent: We've hired two members as research assistants and another as an intern.

One reason for the club's success is that we provide a place for active, ongoing inquiry and discussion, targeting an age group that's hungry for new ideas. That, and the free burritos at each meeting. But our biggest source of growth

has been an open-invitation policy, as existing members bring their friends.

There's a vast, rich library of freedom-oriented works that most students don't even begin to experience: from renowned economists F.A. Hayek and Ludwig von Mises to Milton and David Friedman; from modern experts like Robert Higgs and Thomas Sowell to classic intellects like John Stuart Mill and Frederic Bastiat; from abstract theory by James Buchanan and Gordon Tullock to practical history by David Beito and Jane Jacobs. The list is long — by the end of 2008, the club had read 35 books, and there are many more to come.

The Show-Me Institute book club is a way to spread good ideas that aren't explicitly tied to any particular ongoing policy debate, but that help shape people's fundamental notions about whether and why freedom is valuable in the first place. Ultimately, those cultural assumptions determine whether practical policy success will last over time.



Stephen Brauer,
Chairman & CEO,
Hunter Engineering
Company, Show-
Me Institute Board of
Directors

"As a founding board member, I continue to be inspired by the institute's commitment to rigorous intellectual standards, the credibility of their scholars' work, and the impact their efforts have realized in such a short period of time. I am proud that the institute serves as an exceptional resource in driving public policy debate throughout our state."

Show-Me Institute Book Club, 2008

F.A. Hayek, *The Road to Serfdom*

Ludwig von Mises, *Bureaucracy*

Bertrand de Jouvenel, *The Ethics of Redistribution*

Randy Barnett, *Restoring the Lost Constitution*

Barry Goldwater, *The Conscience of a Conservative*

**James M. Buchanan and Gordon Tullock,
*The Calculus of Consent***

Carl Watner, ed., *I Must Speak Out*

Robert Higgs, *Crisis and Leviathan*

Tibor R. Machan, ed., *Individual Rights Reconsidered*

Albert Jay Nock, *Our Enemy, The State*

Thomas Sowell, *Economic Facts and Fallacies*

Rose Wilder Lane, *The Discovery of Freedom*

David Friedman, *The Machinery of Freedom*

Leonard E. Read, *Anything That's Peaceful*

Milton Friedman, *Money Mischief*

ACADEMIC INFLUENCE

IN APRIL, VANDERBILT UNIVERSITY'S PEABODY JOURNAL OF EDUCATION DEVOTED AN ENTIRE ISSUE TO STUDIES COMMISSIONED BY THE SHOW-ME INSTITUTE FOR ITS EDUCATION CONFERENCE IN COLUMBIA THE PREVIOUS



F.A. Hayek, Nobel laureate economist

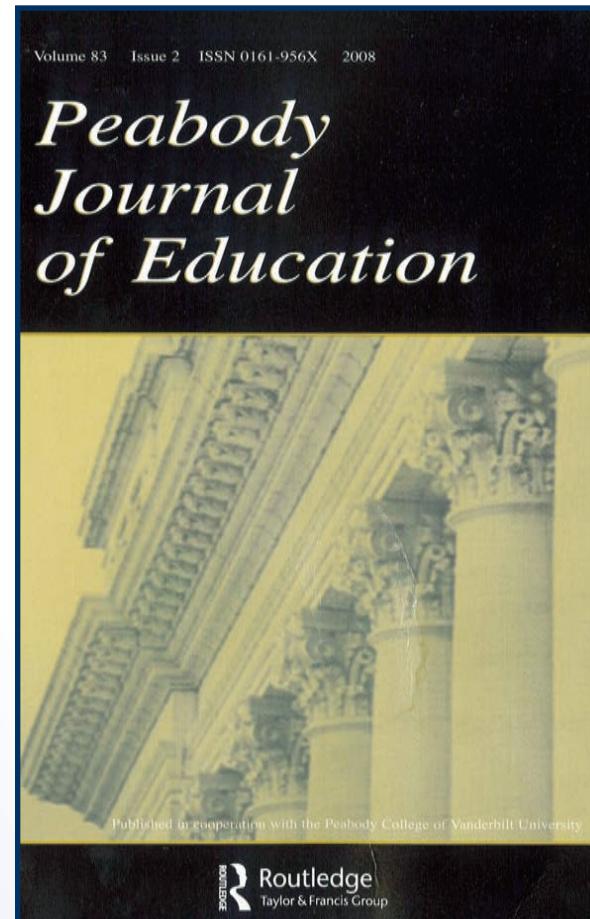
"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."

fall. The institute dramatically expanded the scope of its education research by cosponsoring this school finance conference in conjunction with the University of Missouri–Columbia's Truman School of Public Policy. Scholars from across the country presented seven working papers about a variety of issues related to school funding and choice programs, bringing a wide range of perspectives on school choice to conference attendees from throughout Missouri and the nation.

The *Peabody Journal* issue presented finalized versions of the seven working papers presented at that conference. These studies analyzed public school funding issues, "adequacy" lawsuits, and other school choice litigation, and include: "A New Defendant at the Table: An Overview of Missouri School Finance and Recent Litigation," by Michael Podgursky, James Smith, and Matthew G. Springer; "What Do Cost Functions Tell Us About the Cost of an Adequate Education?" by Robert Costrell, Eric Hanushek, and Susanna Loeb; "Can Judges Improve Academic Achievement?" by Jay P. Greene and Julie R. Trivitt; "Spending Money When It Is Not Clear What Works," by Paul T. Hill, "Next Needed Steps in the Evolution

of American Education Finance and Policy: Attenuating a Judicially Imposed Policy Distraction, Activating a Balanced Portfolio of K–12 School Reforms, Advancing Rationality as a Goal in Pursuing Productivity, Advocating Change in a Responsible and Effective Manner," by James W. Guthrie; "A Framework for Choice Remedy Litigation," by Clint Bolick; and "Hope for Children Trapped in Failing Schools: The Promise of *Crawford v. Davy*," by Julio C. Gomez.

The working versions of these seven papers can be downloaded at SMInfo.org, and the published versions can be found here: tinyurl.com/5wzunu



MEDIA

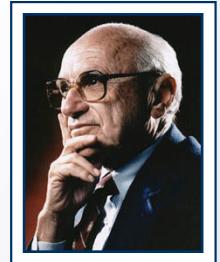
MISSOURI MEDIA, AND A COUPLE OF NATIONWIDE OUTLETS, PROVIDED A WIDE ARRAY OF COVERAGE THROUGHOUT 2008. THE YEAR GOT OFF TO A PARTICULARLY STRONG START IN JANUARY, WITH 19 MEDIA HITS COVERING

the policy studies that the institute released that month.

Outlets that published articles written by Show-Me Institute scholars and staff included the *Kansas City Star*, the *Springfield News-Leader*, the *St. Louis Business Journal*, the *Kansas City Business Journal*, the *Springfield Business Journal*, the *St. Louis Beacon*, the *St. Joseph News Press*, the *St. Louis Countian*, the *Kansas*

City Daily Record, the *St. Louis Daily Record*, and the *St. Charles Republican*.

In addition to those full article reprints, a dizzying array of print outlets interviewed, quoted, or otherwise covered the work and ideas of the Show-Me Institute and its scholars — multiple times, in most cases — including in *Slate*, the *St. Louis Post-Dispatch*, the *Kansas City Star*, the



Milton Friedman,
Nobel laureate
economist

"A major source of objection to a free economy is precisely that it ... gives people what they want instead of what a particular group thinks they ought to want. Underlying most arguments against the free market is a lack of belief in freedom itself."

St. Joseph News-Press

A5

Guest column

A barrier to the free market

By DAVID STOKES

A proposal before the St. Joseph City Council would license construction contractors within the city. Although it is trumpeted as a way to guarantee quality and improve safety, this measure would accomplish neither. Instead, it would decrease competition among contractors in St. Joseph — its true objective. This would increase consumer prices and profits for existing contractors, not through a voluntary free-market exchange, but through legislative coercion.

Decades of economic analysis have demonstrated that occupational licensing reduces competition and increases costs with little or no demonstrable improvement to service or safety. The Nobel laureate economist Milton Friedman dedicated an entire chapter in his book "Capitalism and Freedom" to the economic harm caused by using occupational licensing to restrict someone's right to work.

As for improved safety, a 1981 study by Sidney Carroll and Robert Gaston in the *Southern Economic Journal* found that electrocution rates were higher in places that had strict electrician licensing. The reason is simple: Stricter licensing leads to higher costs, higher costs provide an incentive for property owners to do more electrical work themselves, and increased do-it-yourself work leads to more accidents.

St. Joseph currently licenses the plumbing, electrical and mechanical trades, as well as a few other occupations. A June 3 intergovernmental memorandum clearly states that residents of the city pay more for plumbing services than do residents of other areas. The memo, authored by city employee Sam Barber, admits that in many instances the public is required to "pay for this Cadillac when a Ford Taurus will do."

This forthright memo makes many admissions about the harm of occupational licensing, demonstrating that officials understand how it increases costs, reduces competition and restricts innovation. With all those admissions, it astounds me that the point of the memo is to debate changes to the overall structure of the boards, and the addition of contractor licensing, instead of arguing for the reduction of licensing within St. Joseph as much as legally possible.

The current proposal, as always, grandfathered in current contractors. These contractors will benefit immediately from the decreased competition caused by higher costs of entry into the field for future competitors. In order to obtain the same benefits as the grandfathered contractors, future contractors will have to constantly seek to adjust and tighten the licensing restrictions so that they, too, can benefit from limited competition and increased entry costs.

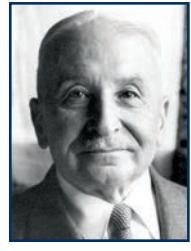
As economist Simon Rottenberg has written, "Each generation of entrants will seek to make entry more costly for succeeding generations." A quick review of the bills introduced in Jefferson City each year intended to tighten restrictions to existing state licensing laws, proves this point, should you doubt it.

That same paper by Rottenberg states that pleas for licensing are "invariably made by practitioners of those trades, not by consumers of their services," who are the supposed beneficiaries. So, why is licensing being considered for contractors in St. Joseph? The aforementioned city memo explains, "In November 2006, our building community expressed a desire to expand and improve our current licensing program." Existing businesses and professionals favor licensing because it limits their competition.

Instead of adding more occupations to the ranks of those licensed by the city, St. Joseph should consider reducing or lifting the requirements for the occupations it currently licenses. The fact that other large Missouri cities license numerous occupations is not a reason for St. Joseph to do so.

Competition between businesses, rather than a government license, provides the incentives for quality service and cost controls that benefit the people of St. Joseph.

David Stokes is a policy analyst at the Show-Me Institute, which is focused on public policy research and education.



Ludwig von Mises, economist, author of Human Action

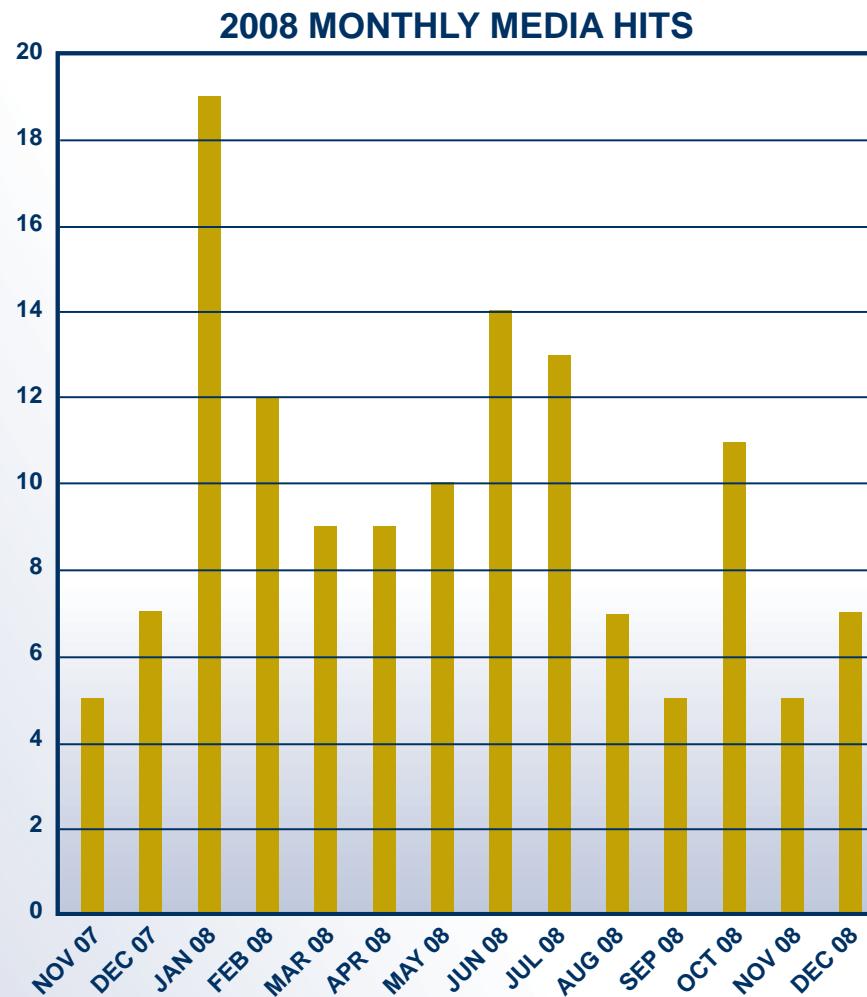
"The idea that political freedom can be preserved in the absence of economic freedom, and vice versa, is an illusion. Political freedom is the corollary of economic freedom."

Columbia Daily Tribune, the *Springfield News-Leader*, the *Kansas City Business Journal*, the *Springfield Business Journal*, the *St. Louis Daily Record*, the *Kansas City Daily Record*, *Missouri Lawyers Weekly*, the *Jefferson City News Tribune*, the *Washington Missourian*, the *St. Joseph News Press*, the *St. Louis American*, the *Pitch*, the *Suburban Journals*, the *Joplin Globe*, the *West End Word*, the *Sun Tribune*, *Rolla Daily News*, the *Mexico Ledger*, the *Hannibal Courier-Post*, the *Dunklin Democrat*, the *Richmond Daily News*, *Missourinet*, Springfield's *Community Free Press*, *School Reform News*, and the *American City Business Journals* websites.

Show-Me Institute scholars were featured in television interviews and news segments on Fox 4 in Kansas

City, Fox 2 in Saint Louis, KMBC 9, KCTV 5, and NBC Action News 41, KY3 NBC, KSPR ABC, KODE ABC Action 12 News, KOMU 8, KMIZ 17, KQTV 2, KHQA 7, and KYTV 3. And several radio shows also called on the institute's policy expertise, with interviews and quotes on "The Mark Reardon Show" on KMOX AM 1120, "The Gary Nolan Show" on FM 93.9 The Eagle, "The McGraw Millhaven Show" on The Big 550 AM, KCMO AM 710, KMBZ AM 980, KTRS AM 550, KMOX AM 1120, KZRG AM 1310, KWTO AM 560, KSGF AM 1260, KCUR FM 89.3, KOPN FM 89.5, KZRG AM 1310, Metro Networks, and *Missourinet*.

A few outlets also published letters to the editor written by institute analysts, including the *Wall Street Journal*, the *Springfield News-Leader*, the *St. Louis Business Journal*, and Springfield's *Community Free Press*.



2008 FINANCIALS

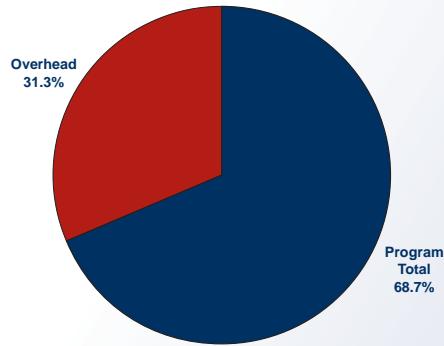
INCOME	
Donations	\$1,440,063
Grants	\$288,951
Other Income	\$10,608
Total	\$1,739,622

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.

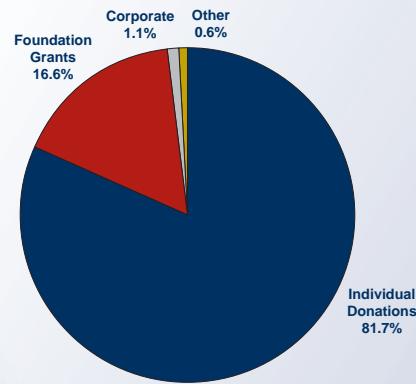
STATEMENT OF FINANCIAL POSITION	
Cash	\$22,060
Fixed Assets	\$89,210
Other	\$16,922
Total	\$128,192
Liabilities	\$0.00

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

EXPENSES	
Overhead	\$563,721
Program	
Education	\$990,673
Research	\$249,469
Total	\$1,240,142
Total Expenses	\$1,803,863



SOURCES OF INCOME	
Individual Donations	\$1,420,713
Foundation Grants	\$288,951
Corporate	\$19,350
Other	\$19,350
Total	\$1,739,622





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