



THE MISSION OF THE SHOW-ME INSTITUTE IS TO RESEARCH, DEVELOP, AND ADVANCE PUBLIC POLICIES THAT ENHANCE ECONOMIC GROWTH AND OPPORTUNITY FOR ALL RESIDENTS OF MISSOURI.



SHOW-ME QUARTERLY

VOLUME 1 NUMBER 1

SUMMER 2006

SHOW-ME INSTITUTE RELEASES GROUNDBREAKING STUDY ON EARNINGS TAX

In March the Show-Me Institute unveiled research on the St. Louis and Kansas City earnings taxes by Joseph H. Haslag, Show-Me Institute scholar and associate professor of economics at the University of Missouri-Columbia. The presentations were well-attended by business and community leaders, and they drew coverage from the *St. Louis Post-Dispatch*, the *Kansas City Star*, the *St. Louis American*, six radio stations, and two T.V. stations. When *Show-Me Quarterly* went to press, 3000 copies of the study had been downloaded on the Show-Me Institute website, www.showmeinstitute.org.

Support from the general public has been enthusiastic. When Haslag and Show-Me Institute president Rex

Sinquefield spoke jointly on radio station KWMU, callers from both St. Louis city and the suburbs offered personal stories of the earnings tax's harmful effects. One caller noted the tax's prohibitive expense for small-business owners. Another pointed out the inequity of a tax that falls hardest on those city residents who cannot afford to leave.



Crosby Kemper III and Rex Sinquefield present research on the earnings tax at the Kauffman Foundation.

Earnings taxes were clearly the first policy problem to address when the Show-Me Institute opened its doors

Story continued on page 4

A MESSAGE FROM REX SINQUEFIELD



Welcome to the first issue of *Show-Me Quarterly*. We've been hard at work building a new free market think tank for Missouri, and we're excited to share with you our accomplishments over the last few months.

When Crosby Kemper and I founded the Show-Me Institute last year, we had two major goals: We wanted to do only the best public policy research, and we wanted the results of that research to be widely available and accessible. With the release of our first study on March 8, I'm pleased to report that we're delivering on both goals.

Our first study was "How an Earnings Tax Harms Cities Like Saint Louis and Kansas City," by University of Missouri economist Joseph Haslag. Joe crunched the numbers from 101 metropolitan areas across the nation and found a consistent striking result: cities with earnings taxes are far more likely to lag their suburbs economically than cities without earnings taxes.

He did a great job, but a great study isn't worth much unless people read it. Our goal was to make the study accessible to multiple audiences around the state—business leaders, policymakers, the media, and the general public. We know most people don't have time to read a 40-page study, so we created a 4-page Policy Briefing that presents the major findings in a quick and easy summary.

The response to this study has been overwhelming. It was covered by numerous print, radio, television, and Internet media outlets in Saint Louis, Kansas City, and across the state.

More than 3000 people have downloaded the study. Its release has started a renewed debate on the merits of the earnings tax, especially in Saint Louis where both the Mayor and the President of the Board of Alderman have joined the debate.

After spending more than two decades in the Peoples' Republic of California working in the investment business, I couldn't be happier to be back home in Missouri. I've traveled all over the world, but I've found few places that can rival Missouri for natural beauty. And Saint Louis, the city where I grew up, is blessed with some of the nation's great cultural institutions, including the Botanical Garden, Symphony, and Art Museum.

In short, Missouri has tremendous unrealized potential. It's being held back by misguided economic policies that stifle economic growth and opportunity. With your help, we can change that.

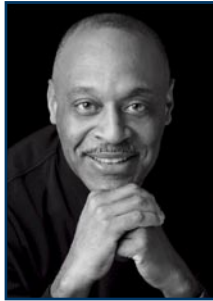
Sincerely,

A handwritten signature in black ink that reads "R. Sinquefield". The signature is fluid and cursive, with a large initial "R" and "S".

Rex Sinquefield
President, Show-Me Institute

LEADING SCHOOL CHOICE ADVOCATE SPEAKS AT EDUCATION EVENTS

The Show-Me Institute and the Milton & Rose D. Friedman Foundation cosponsored school choice events in Kansas City and Jefferson City. On February 10th the



Show-Me Institute cosponsored a forum on education reform with the Milton & Rose D. Friedman Foundation. Lt. Governor Peter Kinder and Show-Me Institute chairman Crosby Kemper III hosted the event, which took place at the University

of Missouri-Kansas City. The event provided Kansas City civic leaders with information about how school choice and charter schools give low-income families greater educational opportunity.

The speaker was Kevin Chavous, former chairman of the Education Committee of the Washington D.C. City Council. Under Chavous's leadership, charter school enrollment grew from zero students in 1997 to 11,000 students in 2005. He has also introduced legislation to promote educational choice.

Chavous said that public schools are failing too many low-income students. When more state resources are directed towards education, most of the money goes to a massive bureaucracy and never reaches the classroom. Chavous discussed school choice proposals that will give families educational options.

Chavous returned to Missouri a month later to educate elected officials about school choice in an event hosted by the Missouri Legislative Black Caucus. The Show-Me Institute is committed to further research and education on school choice.

SHOW-ME INSTITUTE STAFF

Jason Hannasch is the vice president for operations at the Show-Me Institute. He previously served as the executive director of Citizens for Home Rule and Empower St. Louis.

Tim Lee is the Show-Me Institute's editor. Previously he was the staff writer at the Cato Institute in Washington, DC.

Show-Me Quarterly is published by the Show-Me Institute. Correspondence should be addressed to Show-Me Quarterly, 7777 Bonhomme Ave., Ste. 2150, St. Louis, MO 63105. Website: www.showmeinstitute.org. Call (314) 726-5655, or fax (314) 726-5656.
Tim Lee – Editor
Sarah Brodsky – Assistant Editor
Jim Jarvis – Graphic Designer

SHOW-ME INSTITUTE BOARD OF DIRECTORS

President Rex Sinquefield, a native of St. Louis, is the co-founder and past co-chairman of Dimensional Fund Advisors Inc., an investment management firm in Santa Monica, CA.

Chairman R. Crosby Kemper III is the executive director and CEO of the Kansas City Public Library. Previously he served as the chairman and CEO of UMB Financial Corporation and UMB Bank.

Stephen Brauer is the chairman and CEO of Hunter Engineering Company. From 2001 to 2003, he served as U.S. Ambassador to Belgium.

Ethelmae Humphreys, a resident of Joplin, is the chairman of Tamko Roofing Products.

Michael Podgursky recently completed a term as the chairman of the Department of Economics at the University of Missouri-Columbia.

Bevis Schock is a lawyer in private practice in St. Louis. He serves on the board of directors of the Shakespeare Festival of St. Louis.

Menlo Smith is CEO of Sunmark Capital Corp, headquartered in St. Louis, and chairman of the executive committee of Enterprise Mentors International.

FORMER HOUSE MAJORITY LEADER DICK ARMEY SPEAKS AT SHOW-ME INSTITUTE EVENT

On March 14th the Show-Me Institute, the Missouri Chamber of Commerce and Industry, and the St. Louis City NAACP cosponsored a luncheon featuring former House majority leader Dick Arme. Lieutenant Governor Peter Kinder introduced Arme.

Arme spoke on the topic "The Electronic Revolution in Missouri: What Lies Ahead for the State?" Advances in technology have made some state policies obsolete, Arme said. In particular, he argued that cable franchise regulations needlessly create local cable monopolies. Arme suggested implementing cable

franchise reform similar to that in Texas. Opening cable markets to competition, he explained, will be good for consumers and will bring Missouri's policies in line with current technology.

The luncheon was held at the Capitol Plaza Hotel in Jefferson City. Many state legislators took advantage of the opportunity to become informed about regulatory issues. The event was part of the Show-Me Institute's ongoing effort to advance market-based solutions to Missouri's policy challenges.



GROUNDBREAKING STUDY ON EARNINGS TAX

Continued from Cover

in August with a mission to enhance economic opportunity in Missouri. Both St. Louis and Kansas City impose an earnings tax, and both have lost residents, businesses, and economic activity to their suburbs. The state of Missouri is harmed when suburbs in Illinois and Kansas draw workers out of Missouri's cities. Out-of-state corporations seeking to relocate notice the earnings taxes and pass up Missouri altogether.

Haslag examined data from across the country to determine the connection between earnings taxes and lagging growth. In "How an Earnings Tax

Harms Cities Like St. Louis and Kansas City," Haslag shows how earnings taxes drive labor and capital out of the downtown areas. Economic theory predicts that businesses and workers will choose locations that allow them to maximize after-tax profits. An earnings tax puts the city at a disadvantage, causing new investment to expand more rapidly in the suburbs. Not only does the city miss out on future growth, but it can actually shrink if its tax is too burdensome.

The theory is born out by Missouri's experience. Kansas City trails well behind its suburbs in economic growth; St. Louis has actually contracted, losing employment and real income since the 1970s. In contrast, Springfield, which has no earnings tax, has kept most of its jobs in the city and tripled its real income.

The national evidence is even more striking. Among 101 cities, a quarter of which impose earnings taxes, a one-percent increase in an earnings tax is associated with a five-percent decrease in city per-capita income relative to metro area per capita income. Using income data from 2000, that translates into a decline of about \$1000 per person.

A study in progress considers possible alternative taxes, such as sales taxes and land taxes, which could cause less economic distortion. The Show-Me Institute is committed to further educating policymakers and the public about the negative consequences of earnings taxes. "There are two ways to destroy a city: drop a nuclear bomb on it, or impose an earnings tax," Sinquefeld said. "The only difference is that the bomb works faster."

STAFF PROFILE:

JASON HANNASCH

Jason Hannasch has long been an advocate for economic and political reform in Missouri. While serving on the board of directors of Metropolitan-St. Louis, an organization dedicated to revitalizing the city, Hannasch saw the need for home rule, which would give St. Louis voters, rather than the state legislature, more direct control over their city government.

Hannasch served as executive director of Empower

St. Louis, which proposed a constitutional amendment for Missouri. Then, he directed the state-wide campaign for the proposal, which received nearly 70% of the statewide vote. St. Louis residents now have the right to change their form of government, thanks to Hannasch's work. With home rule accomplished, Hannasch involved representative St. Louis citizens in crafting a reformed city charter, considering policies based on their merits. Then, Hannasch fought to transform the citizens' recommendations into law. Under his leadership, Empower St. Louis collected 135,000 signatures in five weeks petitioning to put charter reform on the ballot in St. Louis.



In May 2005, Hannasch became vice president of operations at the Show-Me Institute. He has helped the Institute form relationships with community leaders and oversaw the release of its first study. Hannasch is excited about the Institute's opening. "We've started to fulfill our mission by looking at issues that matter to Missouri: tax structure, property rights, school choice, and the regulatory environment. We want to open

discussions and educate the public about these issues." Hannasch cited the publication of the Institute's earnings tax study as a major accomplishment. "The Show-Me Institute is making the best academic research accessible to all Missourians. We are presenting our findings about the earnings tax's harmful effects to civic leaders, policymakers, and the general public, so policymakers will be better prepared to improve the tax system."

Hannasch has a B.S. in business administration from the University of Missouri-St. Louis. Aside from public policy, his interests include history, outdoor activities across Missouri, St. Louis cultural attractions, and of course, the Cardinals and Rams.

IN THE NEWS

RECENT ARTICLES BY SHOW-ME INSTITUTE SCHOLARS

- **December 9:** "Telecom Policy Stuck in Past," in the *Kansas City Business Journal*.
- **December 19:** "Missouri Needs Taxpayer's Bill of Rights," in the *Springfield Business Journal*.
- **March 16:** "Hop on My Bandwidth," in the *New York Times*.
- **March 30:** "Earnings Tax is Strangling the City," in the *St. Louis American*.
- **April 30:** "Cable Competition Has Benefits," in the *Springfield News-Leader*.
- **May 14:** "Legislation Fails to Protect Our Property Rights," in the *Joplin Globe*.

These and other articles are available online at www.showmeinstitute.org.

EMINENT DOMAIN VICTIM OF THE MONTH APRIL: SHARON AND MICHAEL FITZGERALD

BY TIMOTHY B. LEE
AND JONATHON BURNS

The summer of 2005 was not a good one for Sharon Fitzgerald. On Memorial Day, she learned she had inoperable lung cancer. Three days later, she got a knock on her door. It was Jonathan Browne, head of real estate developer Novus Equities. He wanted to buy her house. And he made it clear that this was an offer she couldn't refuse.

"He told us that if we didn't sell, he'd just use eminent domain and take our home anyway," said Sharon, "What could we do? With my health and everything and the chance to lose our home anyway, we didn't really have a choice."

Sharon and her husband Michael reluctantly agreed to sell. They wanted to get the issue behind them so they could concentrate on dealing with her illness. But when the time came to close on the house, they were dealt

another blow: "It turned out that Browne didn't have enough money from the banks to close," said Sharon.

Residents say that Browne misled them and the city council about his capacity to complete the project. In reality, he didn't have the money he needed to buy out the properties, and he was having trouble recruiting



Michael Fitzgerald outside his "blighted" home. Sharon was too ill to come outside for this picture.

tenants for the shopping mall he wanted to build. When those facts came to light, the project collapsed.

That has put many Sunset Hills residents in a bind. Some of them had already entered into agreements with Browne to sell their homes to him, and

they had made plans to move on the assumption that the contracts would be honored.

Even worse, some property owners have

already moved, leaving their previous homes in a state of disrepair. There wasn't much blight in Sunset Hills at the start of the process, but there is plenty now. Some of the most neglected homes in the neighborhood

are owned by Browne, who has not kept them in good repair.

One Sunset Hills resident died without bequeathing his house to anyone, leaving the house abandoned. Sunset Hills doesn't have any legal provision for handling abandoned property, and neighbors say that the city council hasn't made any effort to address the problem, choosing instead to let the property deteriorate.

With the collapse of Browne's development plan, the uncertainty faced by Sharon and Michael has only increased. There is talk of finding another developer, but that will take time. In the meantime, property values have begun to decline as the looming threat of condemnation discourages anyone from purchasing property in the area.

"He told us that if we didn't sell, he'd just use eminent domain and take our home anyway."

Sharon and her husband weren't the only ones whose lives were put on hold by Browne's actions. Sharon's parents live just down the street from her in the house they've owned since 1954. When Browne came to the door with threats of eminent domain, Sharon's parents became quite frightened. "They were scared out of their minds," said Sharon. "They've lived in that house for decades and they can't afford house payments now, with their medical bills and other expenses. The entire experience has had a terrible effect on their health."

Not all of Sharon's neighbors were so easily intimidated. Resident Kathy Tripp decided to tell Mayor Hobbs about Browne's strong-arm tactics. She got nowhere. "He assured me everything would be fine, but then he didn't do anything at all," said Kathy. But Kathy isn't easily deterred. She

Residents say that eminent domain has pitted neighbor against neighbor.

recently filed suit against Novus and Browne for fraud. The suit details Browne's extensive harassment of residents.

Kathy says that Browne's harassment campaign was made possible by the city's decision to use the power of eminent domain. When Browne approached the city



A Sunset Hills home condemned for blight.

with his development proposal, the city enthusiastically agreed to help him get the land he wanted. They commissioned a blight study from Peckham, Guyton, Albers, and Viets (PGAV), a consulting firm which frequently finds blighted conditions in neighborhoods it studies. After inspecting only 42 of the 262 homes, PGAV concluded the neighborhood was blighted, citing such problems as a broken rainspout, an unsettled concrete porch, and a family of four living in a 2-bedroom house. With the blight study in hand, Browne had a credible threat to use against residents who didn't want to sell their homes.

Residents say that eminent domain has pitted neighbor against neighbor, as those who want to move blame those who want to stay, and vice versa. "I've been called every name in the book by some neighbors,"

said Kathy. "Some people don't like me standing up for my rights."

But both Sharon, who signed a contract with Browne, and Kathy, who refused to do so, agree on this much: it's not right to use eminent domain for private profit.

"It's not right what Browne has done, or what the city has done," Sharon said. "People's homes shouldn't be taken away just because the city can pocket some extra money. A hospital is one thing, but profit is different. And Brown has nearly destroyed our neighborhood, pitting one against the other. The hardest ones hit are the elderly."

Timothy B. Lee is an editor at the Show-Me Institute. Jonathon Burns is a student at Truman State University.

LARRY REED SPEAKS AT FIRST SHOW-ME INSTITUTE LUNCHEON

The Show-Me Institute's first public event took place on January 20 in Joplin. Larry Reed, president of the Mackinac Center for Public Policy, spoke about "Seven Principles of Sound Public Policy" to an audience of nearly two hundred business and community leaders. The lunch was covered by the *Joplin Globe* and local television stations.

As president of the Mackinac Center since 1987, Reed has promoted free-market policies for Michigan. The talk was an informative introduction to the Show-Me Institute's mission to promote market-based policies. Mr. Reed outlined the following principles of sound public policy:

1. Free people are not equal, and equal people are not free.
2. What belongs to you, you tend to take care of; what belongs to no one or everyone tends to fall into disrepair.
3. Sound policy requires that we consider long-run effects and all people, not simply short-run effects and a few people.
4. If you encourage something, you get more of it; if you discourage something, you get less of it.
5. Nobody spends somebody else's money as carefully as he spends his own.
6. Government has nothing to give anybody except what it first takes from somebody, and a government



- that's big enough to give you everything you want is big enough to take away everything you've got.
7. Liberty makes all the difference in the world.

WWW.SHOWMEINSTITUTE.ORG

314-726-5655
ST. LOUIS, MO 63105
7777 BONHOMME AVE., SUITE 2150

