



Executive Alert



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ALL THAT'S NEW IN THE WORLD OF IDEAS

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Former President Gerald R. Ford “In Conversation” with NCPA President John Goodman at a recent Summers Lecture Series luncheon. See related story on page E1.

Rationing Health Care in Britain

Britain’s National Health Service (NHS) delivers a standard of health care that is among the worst in the developed world. A look at two main killers, cancer and heart disease, finds that NHS care is far from comprehensive, not consistently of a high quality and, for some cancer sufferers, not always free at the time of use.

■ A government publication shows that the United Kingdom’s death rate from circulatory diseases for persons under age 65 ranks it 13th out of 15 countries studied.

■ A table of deaths from ischemic heart disease, compiled by the Organization for Economic Cooperation and Development (OECD), ranks only Finland, Ireland and Hungary below the U.K.

■ A comparison of 17 countries found that England had the worst one-year survival rate for lung cancer sufferers, the sixth worst five-year survival rate for both breast cancer sufferers and colon cancer sufferers and the seventh worst five-year survival rate for ovarian cancer sufferers.

Patients often do not receive treatment, or wait a long time for treatment because of a shortage of qualified medical staff, drugs and equipment.

■ The head of the World Health Organization’s cancer program has calculated that Britain may suffer as many as 25,000 unnecessary cancer deaths a year because of underprovision of care.

■ Twelve percent of specialists surveyed admitted refusing dialysis to patients suffering from kidney failure because of limits on cash.

■ Waiting lists have become so long and have been manipulated by the government so much that published figures are no longer considered reliable, and there is now a “waiting list for the waiting list.”

■ In many parts of the country, the anti-cancer drug Taxol has been withheld from women suffering from ovarian cancer for reasons of cost.

Health expenditures for the U.K. amount to 6.9 percent of gross domestic product. Out of 29 developed countries studied by the OECD, only six spend less.

Source: David G. Green and Laura Casper, “Delay, Denial and Dilution: The Impact of NHS Rationing on Heart Disease and Cancer,” November 1999, Health and Welfare Unit, Institute of Economic Affairs, 2 Lord North Street, London SW1P 3LB, (020) 7799 8900.

Low Marks On Upgrading Teachers

Despite public concern about teacher quality, a new state-by-state report card shows many states are still moving in the wrong direction. Taken as a group, the states earn a “D-Plus” average for their efforts to boost teacher quality, based on 29 indicators of policy and practice.

- Only Texas and Florida earned As.
- Seven states — California, Colorado, Kentucky, Massachusetts, Michigan, New York and North Carolina — earned Bs.
- Thirteen states flunked altogether, and Oregon and the District of Columbia did not participate.

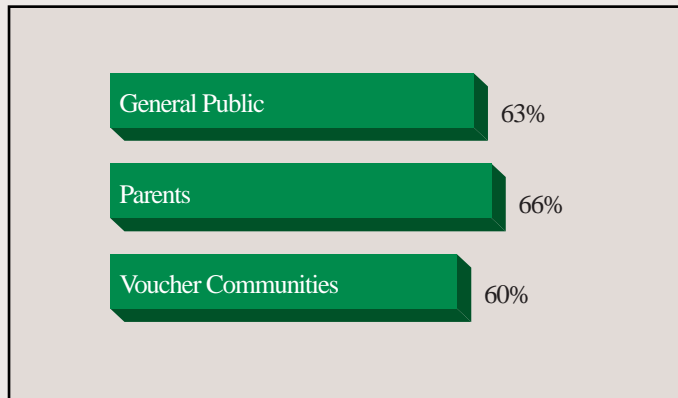
As a whole, states do relatively well in ensuring that all teachers know their subjects, but they do terribly on “staffing autonomy” — a measure of how much control the schools have over their personnel. For example:

- In 21 states, principals can be granted permanent tenure, which makes it nearly impossible to replace them even if their schools continually fail.
- Only Mississippi and New Mexico permit the easy replacement of ineffective teachers; all others grant lifetime tenure or its equivalent.
- Only 12 states have devolved personnel decisions to the school level.

In general, accountability for results is more talk than action. In only a few states are administrators or teachers truly held accountable for school performance. Very few have their jobs on the line. Further, states have adopted small pilot programs such as limited alternative certification and salary bonuses but have largely failed to reform their long-established teacher personnel systems.

Source: Chester E. Finn Jr., Marci Kanstoroom and Michael J. Petrilli, “The Quest for Better Teachers: Grading the States,” November 1999, Thomas B. Fordham Foundation, 1627 K Street, N.W., Suite 600, Washington 20006, (202) 223-5452.

PERCENT OF PEOPLE WHO SAY THEY KNOW LITTLE OR NOTHING ABOUT SCHOOL VOUCHERS



Source: Public Agenda.

Unaware on School Choice

Education reformers are in the midst of a fierce debate over school vouchers and the future of public education in the United States, yet a comprehensive examination of national attitudes finds that people are woefully uninformed about such concepts as tuition vouchers, charter schools and other educational choice issues.

People are not undecided as much as unaware. This lack of familiarity includes parents and nonparents, ordinary citizens and local civic leaders, and it cuts across all geographic and demographic lines. It even includes such places as Cleveland and Milwaukee, where voucher programs have been in place for some time, and Michigan and Arizona, which pioneered charter schools. In the national survey:

- Sixty-three percent of the general public said they knew very little or nothing about school vouchers, as did 66 percent of parents and 60 percent of the people in communities that have private or tax-funded voucher programs.
- Eighty-one percent of the general

public, 79 percent of parents and 52 percent of people in communities with charter schools said they knew very little or nothing about charter schools.

When the choice programs were described briefly to participants in focus groups:

- Seventy-two percent said all families, regardless of income, should be eligible for vouchers if their states began a voucher program, and 78 percent said children should be able to use the vouchers at religious schools.
- Fifty-four percent said children would benefit from charter schools because of less regulation, and 71 percent said they approved of charter schools having more control over employees than traditional public schools.

If money were not an issue, 42 percent of parents said they would prefer to send their children to a public school, 34 percent would pick a private religious school and 21 percent would choose a private nonreligious school.

Source: Steve Farkas et al., “On Thin Ice: How Advocates and Opponents Could Misread the Public’s Views on Vouchers and Charter Schools,” November 1999, Public Agenda, 6 E. 39th Street, New York, N.Y. 10016, (212) 686-6610.

Fewer Older Men Work

A larger share of 65-year-old men worked in 1940 than today — about 70 percent compared to roughly 30 percent. The fall in what the researchers term the labor force participation rate of men would be even more dramatic if the figures were adjusted to account for increases in life expectancy over the past 60 years.

- In 1997, men turning 65 could anticipate another 16 years of life.
- In 1940, men who could expect to live another 16 years were 60 years old — and 60-year-olds had an 80 percent participation rate.

Incentives created by public programs influenced early retirement by the elderly.

The sharpest drops in the participation rate of older male workers occurred soon after 1961, when early retirement Social Security benefits were made available to men at age 62, and after 1966, at about the time that Medicare became accessible. During the early 1980s, the labor force participation rate stabilized and has increased slightly since then; but adjusted for increasing life expectancy, it has continued to drop, albeit at a slower rate than in the 1960s and 1970s.

The trend that began in the 1960s is, from one perspective, counterintuitive. It coincides with changes over the last 40 or so years — improved health among the elderly and the decline of physically demanding jobs — that one might think would increase labor force participation.

The rapid decline appears to be substantial evidence that incentives created by public programs for the elderly and near-elderly have a powerful influence on retirement decisions.

Source: Eugene Steuerle and Christopher Spiro, "Adjusting for Life Expectancy in Measures of Labor Force Participation," Straight Talk Series No. 10, October 30, 1999, Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037, (202) 833-7200.

Social Security Projections

Social Security may face bigger problems in the future than officially projected because the system's assumptions about future reductions in mortality are so conservative. The Social Security Administration (SSA) projects that mortality in the 21st century will decline at only half of its long-term historical rate. It thus assumes, at a time of stunning medical advances, that U.S. life expectancy 50 years from now will be no higher than Japanese life expectancy is today.

- From 1900 to 1995, the U.S. age-sex adjusted mortality rate has declined by 1.13 percent per year.
- But the SSA projects that over the next century it will decline by only 0.56 percent per year.

Using historical trends as the primary guide results in a different picture. For example, if one assumes that future mortality rates decline for everyone under age 65 as projected, but that the rates continue to decline at their 1970-1995 average for every-

one age 65 and over, the results are dramatically different:

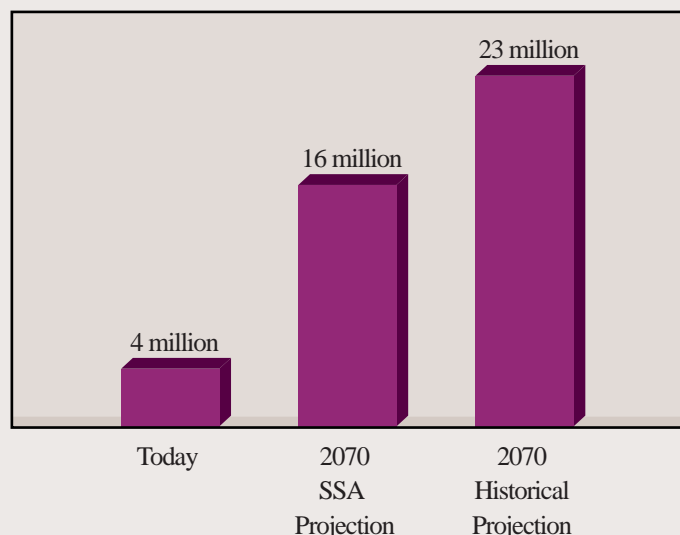
- By 2070, life expectancy at birth rises to 85, three years beyond the SSA's projection.
- The cost of Social Security grows to 21.3 percent of taxable payroll, compared with the SSA's projection of 19.6 percent.
- The SSA projects that there will be 16 million Americans age 85 and over by 2070, up from the four million today, but if elderly mortality continues to decline at its historical rate, the number will be 23 million.

Some demographers project that a still longer life expectancy is possible, even without major breakthroughs in biogenetics that slow the aging process itself.

Rising life expectancy will add not just to Social Security spending but to increases in Medicare and Medicaid spending as well.

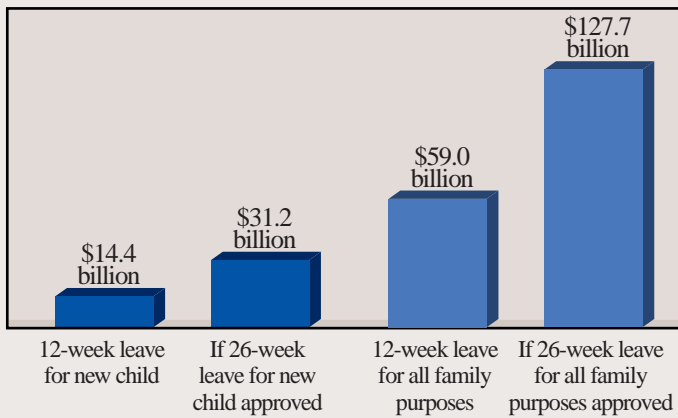
Source: Neil Howe and Richard Jackson, "Do the Social Security Projections Underestimate Future Longevity?" EBRI Notes, Vol. 20, No. 11, November 1999, Employee Benefit Research Institute, 2121 K Street, N.W., Suite 600, Washington, D.C. 20037, (202) 659-0670.

AMERICANS OVER AGE 85



Source: Neil Howe and Richard Jackson, Concord Coalition.

POTENTIAL ANNUAL COSTS OF PAID PARENTAL LEAVE TO UNEMPLOYMENT INSURANCE SYSTEM



Source: Employment Policy Foundation calculations.

Family Leave with Pay

Six years after the passage of the Family and Medical Leave Act (FMLA) established unpaid leave for parents of newborn or newly adopted children, the Clinton administration has proposed funding such leaves through the Unemployment Insurance (UI) system. UI-funded parental leave could cost up to \$128 billion annually.

The UI system is designed to alleviate financial hardship for unemployed people by providing partial wage replacement. It is funded through employers' federal and state payroll taxes and is meant to be self-financing; funds accumulated during expansions are spent during recessions. In the past, severe recessions have quickly depleted the fund.

- In the 1980-82 recession 33 states had to borrow more than \$20 billion from the federal government for their share of the account.
- The federal account went bankrupt in 1997, resulting in a 0.2 percent surcharge to the federal unemployment tax which is still in effect.
- The Department of Labor predicted in 1998 that a recession similar in magnitude to the 1980-82 recession would force 25 to 30 states to borrow \$20 billion to \$25 billion.

If all the states chose to fund parental

leaves through the UI system, administration officials estimate that some six million parents would be eligible.

- Based on past average weekly benefits under UI, with 12 weeks of leave, it is estimated that the program could cost the UI system an additional \$14.4 billion annually.
- If paid leave were extended to the 26 weeks for which unemployment payments are payable, the annual cost could rise to \$31.2 billion.

Although the Clinton administration has specifically proposed the paid leave only for care of a newborn or adopted child, it has ordered the Labor Department to evaluate the effectiveness of using the UI system for parental leaves "or related purposes," which could open the door to payments to all FMLA leave takers, regardless of reason.

- This could increase the eligible population to 24.6 million and cost up to \$59 billion annually for leaves of 12 weeks.
- Covering leaves of 26 weeks would increase the cost to \$127.7 billion per year.

Thus adding the new entitlement jeopardizes the UI system's ability to pay benefits to the unemployed in the event of another recession.

Source: "Paid Parental Leave: A \$14 Billion to \$128 Billion Entitlement," *Economic Bytes*, September 10, 1999, Employment Policy Foundation, 1015 15th Street, N.W., Suite 1200, Washington, D.C. 20005, (202) 789-8685.

U.S. Works Hard, Produces More

American workers put in longer hours and produce more per hour than workers in any other industrialized country. Accordingly, they also have a higher standard of living. While hours spent on the job have been increasing for American workers over the past two decades, they have been declining in other countries — even Japan, where long working hours have long been the practice.

- U.S. employees worked an average of 1,966 hours in 1997 — up 4 percent from 1980 — compared to an average of 1,889 hours for Japanese employees in 1995 (the latest year for which Japanese hours worked were available) — down more than 10 percent.
- U.S. productivity per employee was nearly \$50,000 — \$10,000 more than Japan's and nearly \$9 more per hour worked.

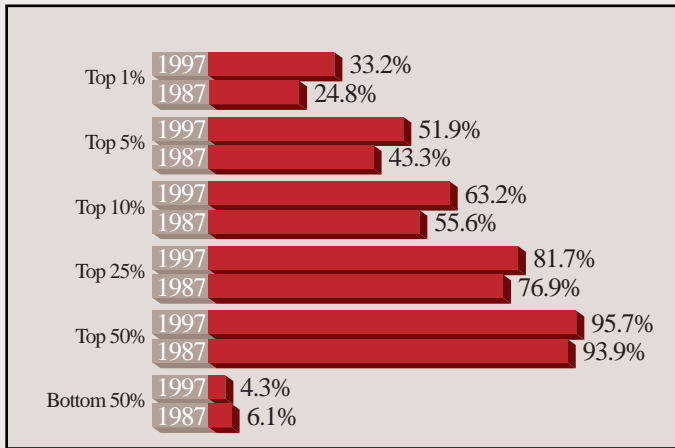
European workers, particularly in the Scandinavian countries, toiled far fewer hours on the average than either the Americans or Japanese. In 1997:

- Norwegian workers averaged 1,399 hours and Swedish workers 1,552 hours.
- In France, which recently introduced legislation limiting the work week to 35 hours, workers averaged 1,656 hours.

Although the U.S. unemployment rate stands at 4.1 percent, nearly one-half of all countries in the study posted unemployment rates above 7 percent in 1996 and 1997.

Source: *Key Indicators of the Labour Market 1999*, International Labour Office, Geneva, Switzerland.

WHO PAID INCOME TAXES, NOW AND THEN



Source: Tax Foundation.

Wealthy Earn, Pay More

Preliminary data from the Internal Revenue Service for 1997 (the latest year for which data are available) show that the top 1 percent of income earners (those with adjusted gross incomes over \$250,736) earned 17.4 percent of all reported income and paid 33.2 percent of all federal individual income taxes. The bottom 50 percent of earners (those with adjusted gross incomes below \$24,393) earned 13.8 percent of all income and paid 4.3 percent of all income taxes.

- The top 5 percent of earners (those with adjusted gross incomes over \$108,048) paid 51.9 percent of all income taxes.
- The top 10 percent (those with adjusted gross incomes over \$79,212) paid 63.2 percent of all income taxes.
- The top 25 percent (those with adjusted gross incomes over \$48,173) paid 81.7 percent of all income taxes.

The highest earners pay a significantly greater portion of federal individual income taxes than they did a decade ago. In 1987 the share paid by the top 1 percent was 24.8 percent and by the top 10 percent was 55.6 percent.

Source: Patrick Fleenor, "Distribution of the Federal Individual Income Tax," *Tax Foundation Special Report No. 92*, October 1999, Tax Foundation, 1250 H Street, N.W., Suite 750, Washington, D.C. 20005, (202) 783-2760.

High Property Taxes

Local government units including counties, cities and school districts collected an estimated \$221 billion in property taxes in 1999, and state governments collected another \$11 billion — an all-time high for both.

Adjusted for inflation, property tax collections have risen steadily since 1950 with one notable exception: during a series of tax revolts in the 1970s made famous by California's Proposition 13. The decline bottomed out in 1981, and property tax collections have grown 69 percent since then.

In fiscal 1996, the latest year for which complete data are available, property taxes accounted for 73 percent of all local tax collections, but only 2 percent of state revenue.

■ New Jersey localities collected the most property tax per capita (\$1,606), followed by New Hampshire (\$1,531) and Connecticut (\$1,425).

■ Washington state had by far the largest per capita property tax collections (\$329), with Montana a distant second (\$263) and Wyoming third (\$174).

Source: J. Scott Moody, "State and Local Property Taxes," *Tax Foundation Special Report No. 91*, October 1999, Tax Foundation, 1250 H Street, N.W., Suite 750, Washington, D.C. 20005, (202) 783-2760.

Self-Employment And Tax Rates

How does tax policy affect self-employment versus wage-and-salary employment? It depends on how tax changes affect after tax returns between the two types of employment.

A higher marginal tax rate, all else equal, tends to reduce self-employment because it cuts the aftertax reward to effort, more so than in paid employment where the link between effort and reward is much looser.

On the other hand, an increase in the average (overall) tax rate makes self-employment more attractive because the tax bite can be reduced through illegal evasion with better chances of success than in wage jobs where the employer withholds taxes. Marginal tax rate refers to the additional tax owed on another dollar of earnings while the average tax rate equals total taxes paid divided by income.

- An examination of economy-wide data from 15 OECD countries for 1978-1992 shows that both marginal and average tax rates have big, opposite effects on self-employment.
- A one-point increase in the marginal tax rate reduces self-employment about 0.8 points while the same increase in the average tax rate increases self-employment by 0.8 points.
- During the 1980s countries like Sweden, Italy and the United Kingdom made major cuts in marginal tax rates (reduced tax progressivity) with little reduction in the average tax burden, and they experienced a strong rise in self-employment.

If both marginal and average tax rates rise or fall together, they tend to offset each other in terms of the attraction of self-employment versus wage employment.

Source: Martin T. Robson and Colin Wren, "Marginal and Average Tax Rates and the Incentive for Self-Employment," *Southern Economic Journal*, April 1999.



Parents and newborn: Does the length of hospital stay matter?

Drive-Through Deliveries

A study of full-term births in Ohio covered by Medicaid has found that “drive-through deliveries” did not increase the likelihood that infants would have to be hospitalized again, as some doctors had feared. Both private insurers and government health agencies have sought to limit unnecessary hospital stays in order to control costs, but debate continues regarding whether cost-control measures affect the quality of care and health outcomes.

The new study covered 1991 to 1995, before passage of a federal law mandating that insurance companies cover at least 48 hours of hospitalization for newborns and their mothers. Researchers found that:

- For the more than 100,000 newborns studied, the average length of stay decreased from 2.2 days in 1991 to 1.6 days in 1995.
- The share sent home less than a day after a vaginal delivery or two days after a Caesarean birth increased from 21 percent to 59.8 percent during that time.
- But the rates of rehospitalization within two weeks of discharge also went

down, by 23 percent.

The researchers speculated that a campaign by some Ohio hospitals to better coordinate care for newborns after discharge may have been part of the reason for the improved outcome. Thus, although the babies’ rates of rehospitalization declined, their rate of outpatient treatment increased 117 percent, and they were also slightly more likely to have a home care visit or go to the emergency room.

If babies are discharged too early, doctors may fail to detect heart and lung problems, intestinal obstructions and other major complications that can be fatal. Other studies have supported that belief. For instance, a 1997 study of 310,000 births in Washington state found that healthy newborns who remained hospitalized for more than a day generally fared better than those who went home a few hours after birth.

In the Ohio study, the two most common causes of rehospitalizations were jaundice and respiratory problems.

Source: Uma R. Kotagal et al., “Safety of Early Discharge for Medicaid Newborns,” *Journal of the American Medical Association*, September 22-29, 1999.

Expanding MSA Availability

Expanding the availability of Medical Savings Accounts (MSAs) that are tax-deductible — just like other employer-provided insurance plans — could make them a major form of insurance for workers in small businesses. Nearly 60 percent of uninsured nonelderly workers are employed in small firms.

MSAs combine a high-deductible catastrophic insurance plan with a special savings account — the actual MSA — into which funds are deposited on a regular basis. MSA funds can then be used to pay for uncovered health care expenses. In 1996 Congress authorized a demonstration of tax-deductible MSAs, but placed so many restrictions on the demonstration that few insurance companies have offered the plans and fewer workers than expected have enrolled. However, if MSAs were universally available, a computer simulation concludes that:

- MSAs with tax advantages could attract 56 percent of all employees offered a plan by a small business.
- The fraction of small-business employees who would be offered insurance would increase from 41 percent to 43 percent with an MSA option.
- And many small-business employees now signed up for a fee-for-service plan would switch to MSAs.

Source: Danna P. Goldman et al., “Simulating the Impact of Medical Savings Accounts on Small Business,” forthcoming study, Rand Corporation, 1700 Main Street, P.O. Box 2138, Santa Monica, Calif. 90407, (310) 393-0411.

Insurance Coverage

The percentage of the nonelderly population with employment-based health benefits has been rising since 1993, even though the percentage with no health insurance coverage has grown at the same time.

- Almost 155 million Americans under age 65 — 64.9 percent of the nonelderly population — were covered by an employment-based health plan during 1998, up from 64.1 percent in 1997.
- Another 15.5 million — 6.5 percent of the nonelderly population — were covered by an individually purchased plan.
- Almost 44 million — 18.4 percent of the nonelderly population — had no health insurance in 1998, up from 43.1 million, or 18.3 percent, in 1997.
- The remainder of Americans under age 65 had government-provided insurance such as Medicaid.

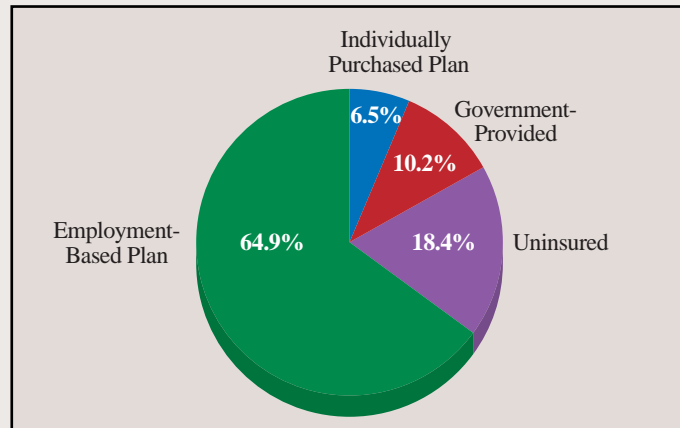
Of nonelderly Americans, 64.9 percent were covered by an employment-based health plan in 1998.

Almost half of the nonelderly uninsured were in families in which the family head was either self-employed or worked in a firm with fewer than 100 employees.

Many of the uninsured are young people ages 18 to 24 — one of the fastest growing age groups. Some 55 percent of that group went without health insurance for at least one month between 1993 and 1996, according to Census Bureau data. Many have access to campus health clinics. Others are making the move from homes to full-time jobs.

Source: Paul Fronstin, "Both Job-Based Health Coverage and Uninsured Continue to Rise, CPS Shows," EBRI Notes, Vol. 20, No. 11, November 1999, Employee Benefit Research Institute, 2121 K Street, N.W., Suite 600, Washington, D.C. 20037, (202) 659-0670.

INSURANCE COVERAGE OF THE NONELDERLY (1998)



Source: Employee Benefit Research Institute.

Myths & Realities Of Health Insurance

Americans are debating what to do about the 44 million people in the United States who do not have health insurance and are not enrolled in government health programs like Medicaid. The issue is complicated by a number of myths about health care and insurance. For example:

Myth: Health insurance is necessary to get health care.

Reality: Average health spending on the uninsured is about 60 percent of spending on the insured, according to economist Sherry Glied of Columbia University. Some of the uninsured pay themselves, and many receive free care subsidized by doctors and hospitals.

Myth: Stingy businesses have increased the ranks of the uninsured by refusing to cover workers.

Reality: Although employer-based coverage dropped from 62 percent of the population to 57

percent between 1987 and 1993, it has since rebounded to 64.9 percent.

Myth: Government health programs are shrinking.

Reality: Although welfare rolls have dropped 40 percent since 1996, many low-income working women with children remain eligible for Medicaid but apparently don't sign up, and perhaps a third to a half of the 11 million uninsured children qualify for Medicaid or the new Children's Health Insurance Program but aren't enrolled.

Myth: The health of the uninsured would improve if they were insured.

Reality: More insurance would improve the overall health of Americans only modestly, since two-fifths of the uninsured are ages 18 to 35 and another quarter are children — both relatively healthy groups — and genetics and behavior apparently count for more than medicine in determining health.

Source: Robert J. Samuelson, "Myths of the Uninsured," Newsweek, November 8, 1999.

