



# Executive Alert



VOL. 14, NO. 6

ALL THAT'S NEW IN THE WORLD OF IDEAS

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Former Independent Counsel Kenneth Starr makes a point during an NCPA appearance as part of the Hatton W. Summers Distinguished Lecture Series. See related story and photos on page E3.

## R-Rated Movies Have Less Success

More than half of the movies released between 1985 and 1996 were rated R. Yet all but one of the 20 highest-grossing movies ever made have been rated G, PG or PG-13. One reason may be that R-rated films — portrayed as attacks on conventional social and moral values — attract a disproportionately large share of Hollywood's on-screen and behind-the-camera stars. But in addition, Hollywood executives are using a faulty decision model for evaluating movies as economic prospects.

All movies have uncertain prospects for financial success, and before one is released, a Hollywood executive can only know the probability of outcomes. Since each movie is unique, even these probabilities may be difficult to ascer-

tain. They are what economists call random variables. To make informed decisions, the studio must get the statistical model of these random variables right. This calls for a statistical model that compares whole probability distributions rather than averages or expectations.

During the period studied, G, PG and PG-13 movies had a higher yearly success rate than R-rated movies when success is measured on the basis of box-office revenues and returns on production costs.

- Only an average 6 percent of R-rated movies earned cumulative box-office revenues in excess of \$50 million, compared to 13 percent of G- and PG-rated movies and 10 percent of PG-13 movies.

- An average 20 percent of G-rated films, 16 percent of PG-rated films and 12 percent of PG-13-rated films had

box-office revenues in excess of three times the production budget, compared to 11 percent of R-rated films.

The *number* of R-rated successes is high because more of these movies are made (and that may blind decision makers who do not pay attention to the odds), but the *success rate* of R-rated movies is much less than the success rates of G, PG and PG-13 movies. An executive seeking to trim the downside risk and increase the upside possibilities in a studio's film portfolio could do so by shifting production dollars out of R-rated movies into G, PG and PG-13 movies.

Source: Arthur De Vany and W. David Walls, "Does Hollywood Make Too Many R-rated Movies? Risk, Stochastic Dominance and the Illusion of Expectation," forthcoming, *Journal of Business*.

## Canada's Drug Prices

Prices for brand name prescription drugs are lower in Canada than in the United States. However, Canada's price controls on drugs actually result in generic drugs costing more there than in the U.S. A comparison of prices in the two countries shows that the weighted average retail price of generic drugs is 7 percent higher in Canada. Generic drugs comprise at least 40 percent of the share of prescriptions written in both countries.

A study by the Fraser Institute compared American and Canadian wholesale and retail prices for 45 of the 60 best-selling drugs in the United States. There were no comparable drugs in Canada for the other 15.

The guidelines of Canada's Patented Medicine Prices Review Board discourage patented drug manufacturers from reducing prices to compete with generic drugs, so generic companies are able to charge prices significantly higher than they could in a free market and are insulated from any effects of price competition among brand-name companies.

However, the lower prices of patented drugs in Canada appear to be related more closely to the country's lower stan-

dard of living relative to that of the United States than to price controls. Prices of everything seem to be lower in Canada.

- Per capita Gross Domestic Product in Canada, which was 20 percent lower than that of the U.S. in 1987, fell to 46 percent behind by 1997.

- The average price for all goods and services, which was only 6 percent less in Canada in 1987, was 25 percent less by 1998.

- The median Canadian price for patented drugs has declined relative to France, Switzerland, the United Kingdom, Sweden and Italy during this same period as Canadian GDP has declined relative to these countries.

Where prescription drug price differences are concerned, another major factor — accounting for as much as one-third to one-half of the difference — appears to be the higher cost of protection from legal liability in the U.S. In Canadian courts, compensation for personal injury is capped at C\$250,000 and judges rarely award large liability settlements.

*Source: John R. Graham and Beverley A. Robson, "Prescription Drug Prices in Canada and the United States — Part 1: A Comparative Survey; Part 2: Why the Difference?" Public Policy Sources, September 2000, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC, Canada, V6J 3G7, (604) 688-0221.*

## Universal Coverage Fails in Vermont

Vermont has a health insurance crisis caused by its failed attempts to reform its health insurance system. Mandates such as "community rating" — which requires insurers to charge the same premium to all consumers regardless of age, sex, health status or personal habits — drove all competition out of the market. Without competition, the premiums for private insurance began to rise annually by 15 percent to as much as 37 percent, and yearly increases now average 20 percent.

Although the state legislature defeated an attempt to adopt universal health coverage, in 1994 Gov. Howard Dean, a physician, began expanding Medicaid to create universal coverage. Eligibility limits were increased to 300 percent of the poverty level, allowing

families with incomes up to \$50,100 to qualify for the program. By January 2000 more than 53,000 Vermont children (36 percent) were covered by government programs, and 40 percent of those also had private coverage.

Hospitals that have lost money due to lower reimbursement rates from the state have shifted \$35.5 million in costs to private pay customers. This expansion has had serious effects on the health care market in Vermont:

- The young, healthy and poorer are subsidizing the sicker, older and richer.

- Individuals have moved from being privately insured to uninsured to government insured.

- Medical Savings Accounts (MSAs), one of the most promising health reforms, have been effectively eliminated.

*Source: John McClaughry, "Reviving Health Insurance in Vermont" April 2000, Ethan Allen Institute, 4836 Kirby Mountain Road, Concord, Vt. 05824, (802) 695-1448.*

## Delayed Access In Europe

The U.S. Food and Drug Administration has been criticized for delaying final approval of new drugs' safety and effectiveness after the completion of clinical trials. But in many European countries, even after new drugs have been approved, patients must wait while drugs clear another hurdle: pricing.

Pharmaceutical companies must obtain approvals from each national government of the retail price of each drug and the amount of reimbursement for government purchases of the drug. In some countries — Portugal, Greece and Belgium, for example — companies must make separate applications for pricing and for reimbursement, often to different ministries.

As a result, access to breakthrough drugs is delayed sometimes four years or more in many European Union countries, according to two new studies by the London-based research organization, Europe Economics. For example:

- Patients in Spain, Greece and Portugal waited nearly three years for access to a major new cardiovascular drug after it was available in other EU countries.

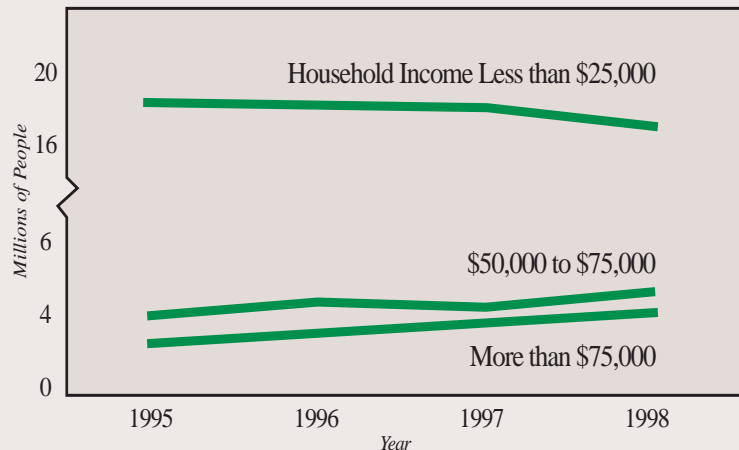
- Patients were forced to wait more than four years in Greece and Portugal and for three years in Belgium and France before they could use a major new anti-infective therapy already available in other EU countries.

- Patients who needed a major new nervous system medication were denied access for nearly six additional years in Portugal and three years in France.

In 1995, EU Members began a centralized marketing authorization process intended to ensure "rapid access" to new medications. But centralized approval has not reduced delays in the pricing and reimbursement processes.

*Sources: "In Europe, Access to New Medications Takes Time," September 28, 2000, Galen Institute, P.O. Box 19080, Alexandria, Va. 22320, (703) 299-8900; "Patient Access to Major Pharmaceutical Products in EU Member States," and "Patient Access to Pharmaceuticals Approved through Mutual Recognition," Europe Economics, Chancery House, 53-64 Chancery Lane, London, WC2A 1QU, United Kingdom, +44 (0)20 7831-4717.*

## THE UNINSURED BY HOUSEHOLD INCOME



## Equality and Longevity

Egalitarians often claim that the unequal distribution of income in a country leads to poorer health. They point to selected examples in which people in countries with a more equal income distribution have longer life expectancies than do those in countries with a wider income gap between rich and poor. However, a more careful look at life expectancy statistics reveals no obvious pattern:

- Sweden, the Netherlands and Belgium all have very high life expectancies and are also considered very egalitarian.
- By comparison, Japan is less egalitarian but has a higher life expectancy.
- The United States, United Kingdom and Canada have far more income inequality than the above countries, as well as lower life expectancies.
- However, life expectancies in the U.S., U.K. and Canada are about the same, even though the U.K. and Canada have national health insurance dedicated to equal care for all and the U.S. does not.

Studies consistently show that per capita gross domestic product (GDP), one measure of a country's standard of living, is related to life ex-

pectancy. But is there also a statistically meaningful relationship between income distribution and life expectancy? An examination of the relationship between average life expectancy and per capita GDP, as well as between life expectancy and income distribution, in 24 advanced countries finds:

- There is a positive relationship between life expectancy and a more equal income distribution that is statistically significant but not particularly strong, leading to a predicted 7.1-year difference in life expectancy between the most- and least-egalitarian countries based on inequality alone.
- However, there is also a positive, statistically significant relationship between life expectancy and per capita income, leading to a predicted 6.3-year difference between the highest and lowest per capita GDP countries.

When the two affects are considered simultaneously, differences among countries in life expectancy are fully explained by differences in standards of living. Thus it is a society's level of income, rather than how equally income is (re)distributed, that matters.

Source: Gerald Scully, "Does the Distribution of Income Affect Life Expectancy?" Brief Analysis No. 328, July 18, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Myths about the Uninsured

Why don't some people have health insurance? If it were simply a matter of being able to afford the premiums, an income-based subsidy would solve the problem. And if every family thought health insurance were essential, all the families who qualify for free public programs like Medicaid would enroll — but millions of them don't.

The matter is far more complex. Almost half of uninsured Americans have household incomes at least twice the federal poverty level, while the number of low-income people who lack insurance has remained relatively stable in recent years. A recent study of non-poor uninsured Californians found that for many respondents "health insurance cost about twice as much as they were willing to pay."

- 60 percent of those surveyed admitted that they worry about access to care or the financial risk of being uninsured, but 57 percent disagreed with the statement, "Health insurance ranks very high on my list of priorities for where to spend my money."
- 43 percent agreed that "health insurance is not a very good value for the money."

Being uninsured is not the same as being without health care. For example, according to a recent report by the Texas Comptroller, Texas spends an average of about \$1,000 per year on every uninsured individual in the state.

However, expanding public programs often encourages people to drop their higher-quality private insurance policies. According to the Center for Studying Health System Change, after the State Children's Health Insurance Program (CHIP) was implemented in 1997 the percentage of children from low-income families covered by private insurance policies fell sharply.

Source: Devon M. Herrick, "Five Myths about the Uninsured in America," Brief Analysis No. 339, September 20, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## High Marginal Tax Rates On Seniors

In 1983, Congress imposed taxes on up to half the benefits of Social Security recipients with “modified adjusted gross income” over \$25,000 for singles and \$32,000 for couples. In 1993, it added a second tax tier. Single retirees with income above \$34,000 and couples with income over \$44,000 have to add 85 cents in benefits to taxable income for every dollar of income above these thresholds until 85 percent of benefits are taxed. Despite its name, the Social Security benefits tax is a tax on other retirement income. No tax is paid until the other income reaches a certain level.

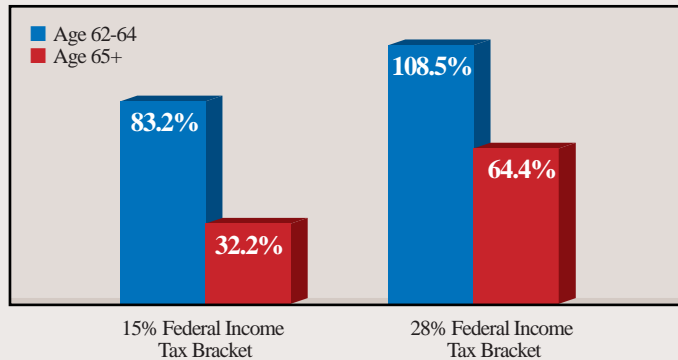
- Above the first tax threshold, earning an extra dollar of interest, dividends or wages boosts taxable income by \$1.50.
- If the retiree is in the 28 percent tax bracket, his or her income tax rises by 42 cents — in effect a 42 percent rate on the added dollar.

For retirees with income above the second threshold:

- Each added dollar of income from savings raises taxable income by \$1.85.
- If the retiree is in the 28 percent tax bracket, his or her income tax rises by 52 cents — in effect a marginal tax rate of 52 percent.
- If the added income is wage income, for a couple age 65 or over in the 28 percent income tax bracket, payroll taxes and the benefits tax can push their marginal tax rate to 64 percent.
- Due to the earnings penalty still in effect on early retirees, working beneficiaries in the 15 percent income tax bracket face a marginal tax rate of up to 83 percent, exclusive of state tax.
- For a working beneficiary in the 28 percent tax bracket, the added tax can be greater than the added wages — a tax rate exceeding 100 percent!

Source: Stephen J. Entin, “Reducing the Social Security Benefits Tax,” *Brief Analysis No. 332*, August 10, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## MARGINAL TAX RATES ON WAGES OF SENIORS



Assumes couples receiving Social Security benefits age 62-64 subject to earnings penalty. Includes 15.3 percent FICA tax (half paid by employer) adjusted for employer’s tax deduction. Does not include state income tax.

## Support for Personal Retirement Accounts

A nationwide poll of 600 registered voters conducted for the National Center for Policy Analysis in April by Public Opinion Strategies found that while Social Security is universally popular, Americans recognize that it faces long-term problems and needs reform. A popular alternative to the current pay-as-you-go system: a system with personal retirement accounts.

- Social Security is viewed favorably by 60 percent of voters, and unfavorably by only 18 percent — a far more positive view than Americans have of other government programs.
- Still, a majority — 51 percent — say that Social Security needs “radical” change (20 percent) or “major” change (31 percent) to ensure the program’s fiscal

health.

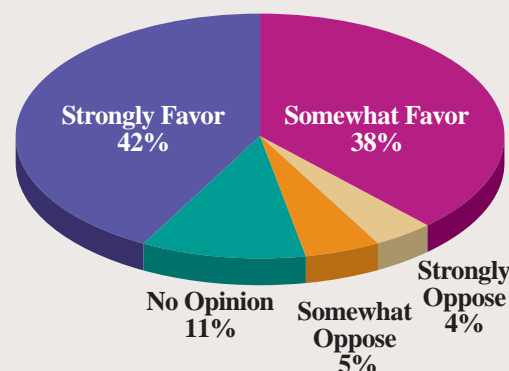
- Only 21 percent expect to receive their full Social Security benefit, while 76 percent expect to receive only part or nothing.
- Fifty-nine percent say workers under age 30 will never see what they paid into the system.

An overwhelming 80 percent of voters favor a reform plan that allows them to invest a portion of their payroll taxes in a personal retirement account they own and control. Only 9 percent oppose such a plan.

Even 56 percent of those who expect to receive all their benefits would switch to the new system.

Source: Bill McInturff and Matt Moore, “Americans Support Personal Retirement Accounts,” *Brief Analysis No. 333*, August 14, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## VOTERS SUPPORT PERSONAL RETIREMENT ACCOUNTS



Source: Public Opinion Strategies.

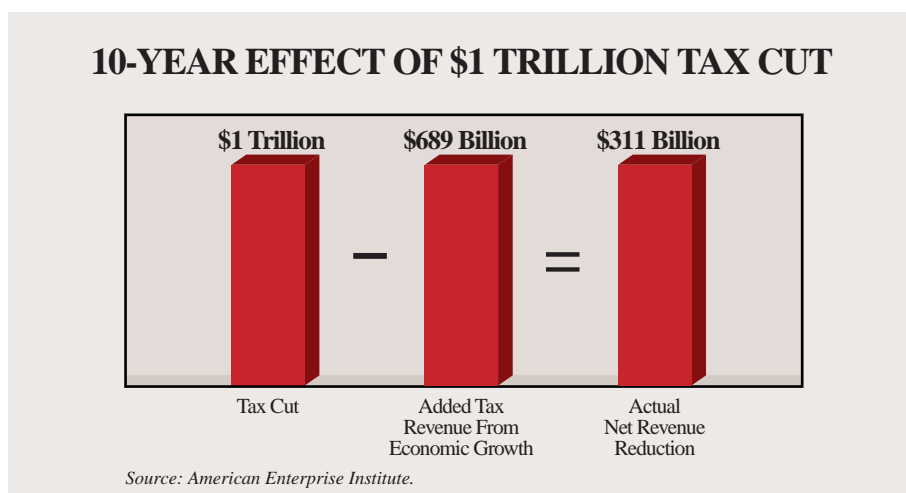
## Investing In Tax Cuts

Contrary to widespread claims, there is no evidence that lower budget deficits or budget surpluses that lead to government debt reduction benefit the economy. But there is evidence that lower tax rates stimulate economic growth by encouraging more investment and work effort.

■ For instance, in the 1982-1987 period of lower tax rates, and higher deficits and debt, the economy grew an average 4.5 percent annually — a full percentage point above the long-run average growth rate of 3.5 percent.

■ But from 1993 to 1998, after taxes were increased to reduce the budget deficit, economic growth averaged 3.8 percent.

There now is a prospect of \$4.5 trillion in budget surpluses over the next 10 years, with the tax burden at a record peacetime average of nearly 21 percent of gross domestic product (GDP). A conservative estimate is that using \$1 trillion for tax rate reduction would add 0.5 percentage points to the growth rate, in-



creasing the underlying average from 3.5 percent to 4 percent.

■ Raising economic growth one-half of a percentage point would add \$3.44 trillion to total GDP over the coming decade.

■ That is, a \$1 trillion reduction in federal tax revenues would add \$3.44 trillion to total GDP for a rate of return of 13.1 percent a year.

■ The \$3.44 trillion in extra GDP would generate \$689 billion in added federal tax

revenues.

Thus the net revenue reduction for the federal government would be \$311 billion, enough to leave surpluses intact. That represents a rate of return of 27 percent per year. And if the \$1 trillion tax rate cut boosted average annual growth by 0.7 percent, there would be no net loss of federal revenue.

Source: John H. Makin, "The Mythical Benefits of Debt Reduction," *AEI Economic Outlook*, September 2000, American Enterprise Institute, 1150 Seventeenth Street, N.W., Washington, D.C. 2003, (202) 862-5800.

## Europeans Cut Taxes

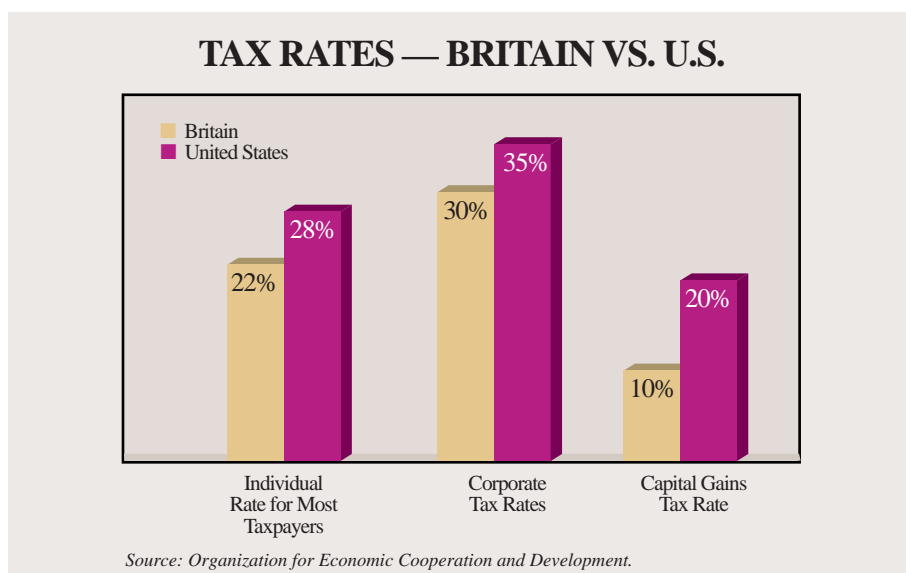
In the last eight years, taxes as a share of gross domestic product have risen more in the United States than in any other major country, according to the Organization for Economic Cooperation and Development. And while taxes are much higher in Europe, they are rising more rapidly in the U.S. Meanwhile, socialist European governments are cutting taxes on both business and individuals. In Britain, for example:

■ Last year, the bottom tax rate was cut to 10 percent, the basic tax rate paid by most Britons dropped to 22 percent and the corporate tax rate was cut to 30 percent.

■ By contrast, most taxpayers in America are in the 28 percent federal income tax bracket, and the corporate tax rate was raised to 35 percent in 1993.

■ Britain also slashed the maximum capital gains tax rate from 40 percent to just 10 percent — half the U.S. rate.

Germany will reduce the top income tax rate from 51 percent to 42 percent, and the bottom rate from 23 percent to 15 per-



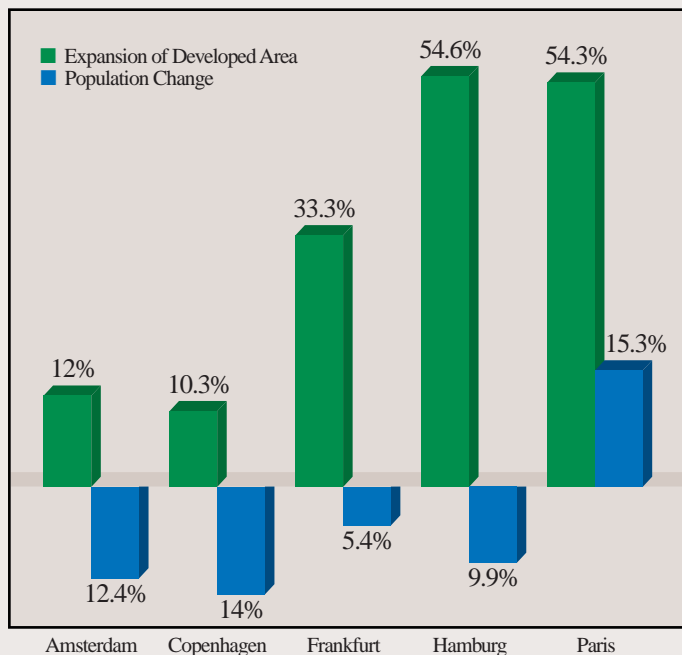
cent. The top corporate tax rate will fall from 52 percent to 39 percent, and capital gains taxes on shares owned by corporations in other companies will be abolished.

France, Belgium and Italy also plan tax cuts. The French cuts, while much smaller, are significant because Prime Minister Lionel Jospin came into office as

a hard-line socialist, not a "new democrat." Jospin's tax cuts are heavily tilted toward low income taxpayers, but he is also reducing the corporate tax rate and lowering the top income tax rate on individuals from 54 percent to 52 percent.

Source: Bruce Bartlett, Senior Fellow, National Center for Policy Analysis, *Syndicated Column*, September 11, 2000.

**POPULATION CHANGE AND INCREASE IN DEVELOPED AREAS OF EUROPEAN CITIES (1970-90)**



Source: Heritage Foundation.

**Euro-Sprawl**

Urban sprawl, the tendency of metropolitan regions to spread out in all directions as people moving up the economic ladder move out to the suburbs, is not unique to America. Populations in central cities worldwide have been shrinking. European cities, which the “smart growth” movement frequently praises for their public transit and “compact” development patterns, are sprawling faster than American cities. For example, from 1970 to 1990:

- The developed area of Amsterdam expanded 12 percent while the city’s population declined 12.4 percent.
- Copenhagen’s developed area expanded 10.3 percent while its population declined 14 percent.
- In Germany, the developed area of Frankfurt expanded 33.3 percent while population declined 5.4 percent, and Hamburg expanded 54.6

percent while population declined 7.9 percent.

- Although the population of Paris rose 15.3 percent, its developed area increased by more than half (54.3 percent).

As a result, population density in all of these cities declined 20 percent to 30 percent.

People often prefer to live in the suburbs, where population density, crime and taxes are lower. And as a result of increased affluence, they can afford to. In the U.S., the majority of the increases in automobile ownership and vehicle miles traveled over the past 20 years occurred among working women and minorities, according to transportation analyst Alan Pisarski.

Source: Steven Hayward, “Growing Pains: The NGA’s Flawed Report on Sprawl,” *Backgrounder* No. 1393, September 13, 2000, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

**Landfill Crisis Disappeared**

Many Americans will recall television news images in the 1980s of a lonely garbage barge plying the East Coast looking for a place to unload New York’s garbage. One doesn’t hear about the “landfill crisis” anymore because solid waste disposal has been largely privatized and there is more landfill space than ever before.

In 1976, federal regulations intended to minimize the environmental impact of landfill operations resulted in rising landfill costs and the closure of “unfit” sites — mostly small, government-owned landfills. The dramatic increase in capital and operating costs of solid waste disposal made larger, regional megafills more cost effective and spurred privatization.

- A recent survey documents that 17 of the nation’s 30 largest cities have privatized their landfills, and two others contract out landfill operations.

- The consulting firm R. W. Beck reports that 27 percent of municipalities with populations greater than 100,000 are considering privatizing their landfills.

But opponents of privatization are out to block that trend. A handful of governors are pushing Congress to enact so-called “flow controls” — which would place limitations on interstate trash-hauling.

Cities and counties around the country rely on importing and exporting trash — often using the private sector. In fact, 49 states export municipal solid waste and 45 states import it. Since 1990, interstate shipments of waste have increased 30 percent — and real disposal costs have fallen.

Source: Geoffrey Segal and Adrian Moore, “Privatizing Landfills: Market Solutions for Solid-Waste Disposal,” *Policy Study* No. 267, May 2000, Reason Public Policy Institute, 3415 S. Sepulveda Boulevard, Suite 400, Los Angeles, Calif., 90034, (310) 391-2245.

## Fanning Forest Flames

The Los Alamos, N.M., fires this past summer illustrate much of what is wrong with federal land management. Active forest management in the region, including the logging of dead trees, would have reduced the chances of an uncontrolled fire. Excessive forest litter creates a virtual tinder box. The hotter fires that result cause great ecological and economic damage.

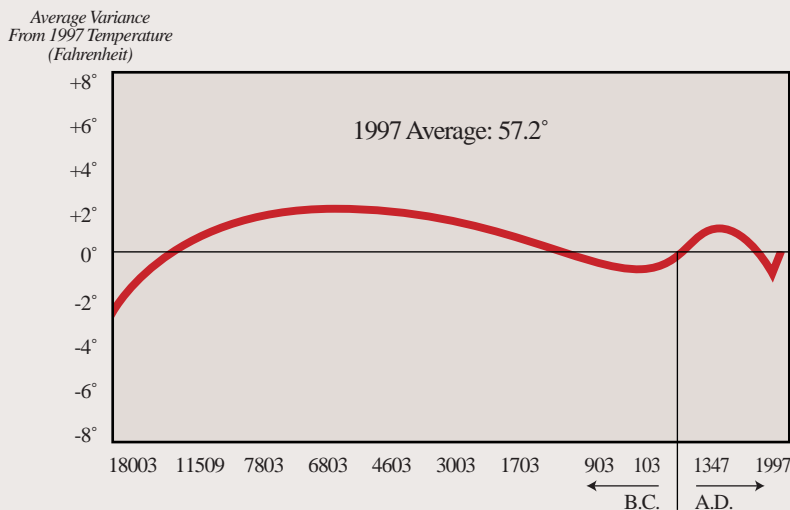
In April 1999 the General Accounting Office reported a large build-up of dead wood and undergrowth in many western forests, creating what it called a tinder box. The GAO suggested mechanical removal of this wood, which requires access to forest lands. Recently, however, President Clinton ordered the Forest Service to halt road construction on approximately 50 million acres of national forests. Forest roads act as fire breaks and provide access to dead and dying timber for mechanical removal. Thus it will be even more difficult to control future fires.

- In the last decade, the government has reduced logging and road-building in the 192 million-acre National Forest system by 75 percent.
- During this time, fire damage to homes and property increased sixfold to \$3.2 billion by 1997, excluding the cost from wildfires and mismanaged controlled burns since 1997.
- Wildfires destroying 1,000 acres or more increased from 25 in 1984 to 89 per year in 1996.
- So far in 2000, more than 55,000 wildfires have blackened more than 4 million acres.

Last spring alone, excluding Los Alamos, New Mexico lost 200,000 acres to flames — four times more than in 1999. President Clinton's roadless area policy exacerbates the threat to forest health by making these areas more vulnerable to fire, disease and insect infestation.

Source: Jeff Edgens, "Banning Roads, Burning Forests," *Brief Analysis No. 336*, August 30, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## AVERAGE GLOBAL TEMPERATURES FROM BOREHOLE DATA



Source: Huang, Pollack, Shen, *Geophysical Research Letters*, August 1997.

## Cooler Temperatures

The National Oceanic and Atmospheric Administration (NOAA) says 1998, 1999 and 1997 were the "warmest years on record." Critical minds might ask, "How long is the record, and how accurate is it?" Before 1900 there were no reliable temperature records for more than 50 percent of the globe. But measurements of temperatures in boreholes can be used to reconstruct climatic conditions at the surface for the past several thousand years.

Thus, a study by University of Michigan researchers, published in the August 1997 *Geophysical Research Letters*, estimated mean global temperatures for the last 10,000 years from temperature measurements in more than 6,000 boreholes around the world. Similarly, in a study published in *Science* in October 1998, research scientists measured temperatures in two deep boreholes drilled near the summit of the Greenland Ice Sheet. The two studies show:

- The temperature rise seen in the last 140 years is a recovery from a cold period in the 19th century.

- Even after the modest 1.0 degree F global warming of the last 140 years, present-day global temperatures remain cooler by about 1.0 degree F than they were when the Vikings settled Greenland in medieval times.

- For more than 7,500 of the last 10,000 years, temperatures have been higher than today.

- For at least 5,000 of the last 10,000 years, the mean planetary temperature was about 1.5 degrees F warmer than today.

Human beings have a tendency to take short-term trends and extrapolate them to ominous doomsday scenarios. For example, in 1975 *Newsweek* warned readers of "profound climatic change" leading to "catastrophic famines" and stated, "The central fact is that after three-quarters of a century of extraordinarily mild conditions, the Earth's climate seems to be cooling down."

Source: David Deming, "The Warmest Year on Whose Record?" *Brief Analysis No. 337*, August 31, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## English Immersion in California

In the spring of 1998, California implemented a new statewide assessment exam, the Stanford 9, and that summer voters approved Proposition 227, the “English for the Children” ballot initiative, reversing more than 20 years of state-mandated bilingual education for limited-English-proficient (LEP) children.

The initiative replaced failed bilingual programs with structured English immersion for all English learners. Because LEP students were required to take the Stanford test in English, California has three years of test scores and two years of experience with immersion programs. After two years of instruction, LEP students made significant gains in reading and writing in English and in math, relative to students nationwide taking the Stanford 9, most of whom are native English speakers.

- On the Stanford 9 given during the 1997-1998 school year — the last before bilingual education ended — second grade LEP students, on average, scored at the 19th percentile nationally in reading, the 27th percentile in math and the 19th percentile in language (writing skills).

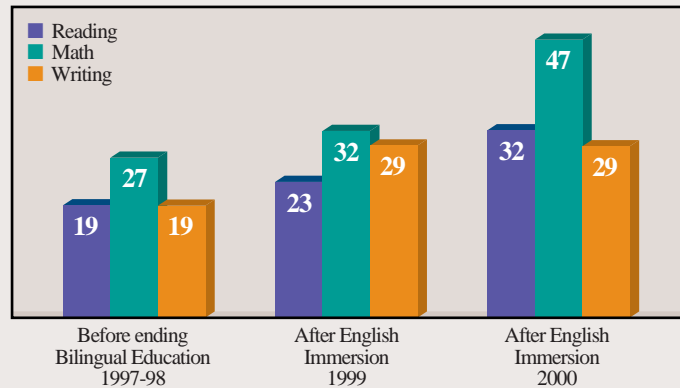
- The next year (1999), after a year of immersion, second grade LEP students ranked at the 23rd percentile in reading, the 32nd percentile in math and the 29th percentile in writing.

- After two years of English immersion instruction, second grade LEP students moved up to the 32nd percentile in reading and the 47th percentile in math, while maintaining average scores at the 29th percentile in writing.

The greatest gains were made in school districts that implemented the most intensive English-immersion programs. In addition, there is evidence that LEP students are being redesignated (reclassified) as Fully English Proficient at greater rates than previously. This usually occurs when the student scores at least the 36th percentile on the Stanford 9, although the standard varies from district to district.

*Source: Jorge Amselle and Amy C. Allison, “Two Years of Success: An Analysis of California Test Scores After Proposition 227,” August 2000, Institute for Research in English Acquisition and Development, 815 15th Street, N.W., Suite 928, Washington, D.C. 20005, (202) 639-0803.*

## TEST SCORES OF CALIFORNIA LIMITED-ENGLISH-PROFICIENT SECOND GRADE STUDENTS (Stanford 9 Test)



*Source: Institute for Research in English Acquisition and Development.*

## Peer Pressure

While most educators believe peer pressure has an impact on children’s achievement, few studies have been done to prove that belief. However, a recent Heritage Foundation study found that negative peer pressure is a factor in lower test scores as much as being a Hispanic or black minority group member — and more than living in a low-income family.

Researchers analyzed responses to background questions asked students taking the 1998 National Assessment of Educational Progress (NAEP) reading test, and correlated them with test scores.

- Among fourth graders, almost 36 percent of African-Americans and 29 percent of Hispanics say their “friends make fun of people who try to do well in school,” compared to just over 17 percent of whites.

- Among eighth graders the numbers are more even, but still high; almost 30 percent of Hispanics and 23 percent of blacks and of whites agree with the above statement.

The effect of peer pressure was calculated independent of other factors that may affect a child’s academic achievement: race, income, sex and parents’ education:

- For instance, compared to a fourth grade white girl from a nonpoor family, being an African-American was associated with an 8.6 percent lower test score,

and being a Hispanic was associated with an 8.2 percent lower score.

- Negative peer pressure was associated with an 8.5 percent lower test score.

- Being from a low-income family was associated with a test score 6.1 percent lower.

*Source: Kirk A. Johnson, “The Peer Effect on Academic Achievement Among Public Elementary Students,” CDA Report No. 00-06, May 26, 2000, Heritage Center for Data Analysis, Heritage Foundation, 214 Massachusetts Avenue N.E., Washington D.C., 20002, (202) 546-4400.*

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