



# Executive Alert



VOL. 15, NO. 3

ALL THAT'S NEW IN THE WORLD OF IDEAS

MAY/JUNE 2001

## IN THIS ISSUE

- Voucher Threat Makes Schools Shape Up ..... 2
- Charter Schools Show Gains ....2
- Highest Average Tax Rate Ever...3
- Canada's Firearms Registration Fiasco ..... 4
- Electricity as a Commodity ..... 5
- Declining Exposure to Chemicals ..... 5
- An Ideal Health Care System .. 6
- Medicaid Drug Waivers: Wrong Solution ..... 7
- Privatizing Air Traffic Control.. 8
- Environmental Red Tape Tangles Runways ..... 8



*Valéry Giscard D'Estaing, former president of France, discusses Europe/America relations during an appearance as part of the Hatton W. Summers Distinguished Lecture Series.*

## SUVs Save Lives

The National Highway Traffic Safety Administration and the Insurance Institute for Highway Safety both reported in 1998 that sport utility vehicles (SUVs) and other light trucks endanger other drivers in multiple-vehicle collisions. A former NHTSA official declared that if light trucks were replaced with cars, up to 2,000 lives could be saved annually.

However, the past two decades have seen not only a doubling of the percentage of light trucks on the nation's roads, but also a one-third decrease in traffic accident fatalities per capita, fatalities per licensed driver and fatalities per registered vehicle. The United States has also experienced a nearly 50 percent decrease in fatalities per vehicle mile traveled. This suggests that the large, stiff-framed light trucks may be lowering traffic fatalities instead of increasing them.

Critics of SUVs may dismiss this idea by claiming that the improving fatality trends are the products of other safety-enhancing steps during the period. However, they ignore the fact that while a collision between two cars might kill everyone in both vehicles, passengers riding in an SUV involved in a car-SUV crash or a single-vehicle crash are more likely to survive — thus effecting a net saving of lives. Analysis of state-level data from 1994 through 1997, controlling for other factors that improve highway safety, confirms the positive effect of SUVs on safety. During the years covered by the study:

- Registrations per driver of light trucks and SUVs increased by 5 percent.
- This increase lowered single-vehicle fatalities per driver 7.5 percent and multiple-vehicle fatalities per driver by 2 percent.

- That translates into about 2,000 lives saved between 1994 and 1997 because of the increase in light truck use.

The NHTSA has claimed that the increased use of light trucks in rural areas is causing an increase in fatalities there.

- In 1997, the 10 most urban states had two motor vehicle fatalities per 10,000 licensed drivers, compared to three per 10,000 in the 10 most rural states.
- Light trucks comprised only 28 percent of registered vehicles in the urban states, compared to 52 percent in the rural states.
- However, the research shows that more people in rural areas buy light trucks *because* the fatality rate is higher there.

*Source: Douglas Coate and James VanderHoff, "The Truth about Light Trucks," Regulation, Spring 2001, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001, (202) 842-0200.*

## Academic Gains in Charter Schools

Charter schools — public schools that operate with a great deal of autonomy, free from many of the regulations of traditional public schools — have long been popular with parents, but critics have questioned their contributions to academic progress. Three new studies document strong gains in test scores for children enrolled in charter schools, with some of the biggest improvements among the lowest-performing students.

Advantage Schools, a private Boston-based firm, reported that in the 15 inner-city charters it manages in seven states and the District of Columbia:

- In the 1999-2000 school year, 9,000 students gained an average of 9.1 points on two national standardized tests.

- Students in kindergarten through second grade showed the biggest improvement — with reading scores climbing 19 percentile points, making their abilities equal to or better than 67 percent of the nation.

- The math percentile ranking rose 3.6 points to 33.2.

A study of Arizona students by the Goldwater Institute found:

- Students enrolled in charter schools

for two consecutive years had an advantage in both reading and math over students staying in traditional public schools over the same period.

- Students enrolled in charter schools for three consecutive years showed an additional gain in reading and maintained the advantage in math.

Four Pennsylvania charter schools for which time series data were available to researchers from Western Michigan University showed gains on state assessments (with a scale ranging from 1000 to 1600) of more than 100 points in just two years — 86 points better than their host school districts did over the same period.

All three studies found that, on average, students starting in charter schools initially had lower academic scores than traditional public school students.

Sources: "Annual Report on School Performance, 1999-2000 School Year," March 2001, Advantage Schools, 60 Canal Street, Boston, Mass. 02114, (617) 523-2220; Lewis Solmon, Kern Paark and David Garcia, "Does Charter School Attendance Improve Test Scores? The Arizona Results," March 2001, Center for Market-Based Education, Goldwater Institute, 500 E. Coronado Road, Phoenix, Ariz. 85004, (602) 462-5000; and Gary Miron and Christopher Nelson, "Autonomy in Exchange for Accountability: An Initial Study of Pennsylvania Charter Schools," October 2000, Evaluation Center, Western Michigan University, Kalamazoo, Mich. 49008, (616) 387-5895.

## Voucher Threat Makes Schools Shape Up

Florida's A-Plus choice and accountability system offers private school vouchers to students at failing public schools in an effort to motivate those schools to improve their academic performance. There is evidence that schools facing this prospect improved more than other schools in the proportion of students passing the Florida Comprehensive Assessment Test (FCAT).

- There was little year-to-year change in FCAT results for schools receiving A, B or C grades from the state in 1999.

- Schools that received a failing grade of F and whose students would have been offered tuition vouchers if they failed a second time achieved an 18-point gain on their FCAT reading scores, compared to a 4.5 point gain for schools earning a C.

- In math, schools with a grade of F improved their FCAT scores by about 26 points, compared with a 12-point gain at C schools.

- Schools that received D grades in 1999 and were close to a failing grade experienced increases in test scores that were more than twice as large as those experienced by schools with higher state-assigned grades.

While there may be other explanations for the findings, the most plausible interpretation of the evidence is that the Florida A-Plus system offers failing schools a powerful incentive to improve their performance. The results are particularly relevant because of the similarities between the Florida choice and accountability system and the education initiatives proposed by President Bush.

Source: Jay P. Greene, "An Evaluation of the Florida A-Plus Accountability and School Choice Program," February 2001, Center for Civic Innovation, Manhattan Institute for Policy Research, 52 Vanderbilt Avenue, Second Floor, New York, N.Y. 10017, (212) 599-7000.

## The Cost of Remedial Education

When students leave high school without basic reading, writing and arithmetic skills, employers and post-secondary schools must teach them. In addition to the pure cost of post-secondary remedial education — now called developmental education — are the societal costs imposed by lost productivity, crime and social welfare programs.

- The cost to public higher education for remedial education is significant, with community colleges spending about \$65 million per year and four-year colleges spending approximately \$24 million.

- A sample of businesses reported

spending \$13.78 per employee in one year to teach their employees basic skills.

- The annual cost for all remedial education is estimated at \$601 million per year for the state of Michigan alone.

- If the costs nationwide are comparable, then remedial education for basic skills costs about \$16.6 billion annually in the United States.

Source: Jay P. Greene, "The Cost of Remedial Education: How Much Michigan Pays When Students Fail to Learn Basic Skills," September 2000, Mackinac Center for Public Policy, 140 W. Main Street, P.O. Box 568, Midland, Mich., 48640, (517) 631-0900.

## Phase-Outs Boost Marginal Tax Rates

The marginal tax rate is the rate a person must pay on an additional dollar of income — which affects taxpayers' decisions on whether to work, save or invest.

Added income is normally taxed at the statutory tax rate; but it can push a taxpayer into a higher tax rate because various tax deductions, exemptions and credits phase out as taxpayers' incomes rise. These phase-outs increase marginal tax rates.

Some examples are: deductible individual retirement accounts, Roth IRAs, the earned income tax credit (EITC), the exclusion of Social Security benefits from taxable income, the child credit, education credits and deductions, a portion of itemized deductions, even the personal exemption.

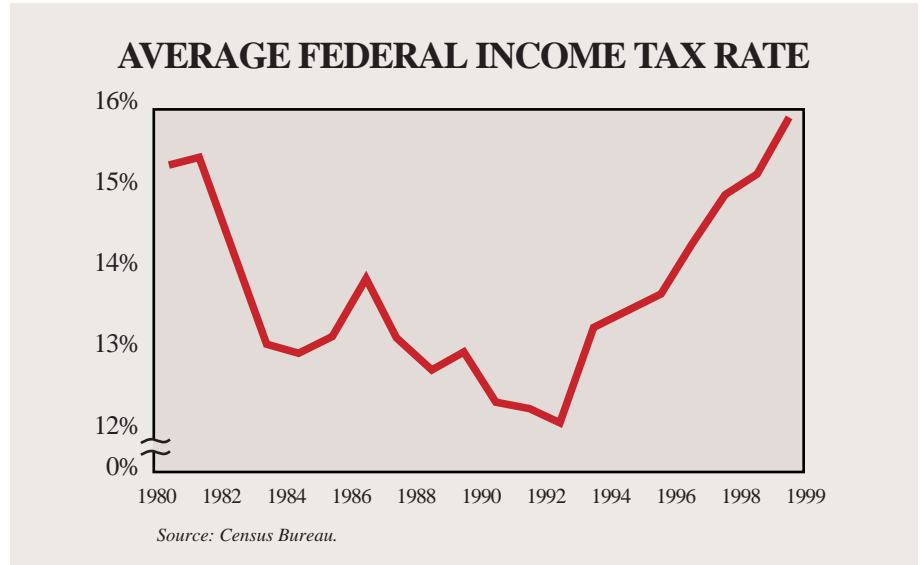
Here is how this might affect some married couples filing jointly in 2001:

- Parents with two or more children lose 21.06 cents of the EITC for every additional dollar of income between \$13,090 and \$32,120 — creating a marginal tax rate spike of 21.06 percentage points.
- If the parents are in the 15 percent rate bracket, the EITC phase-out boosts their effective marginal federal income tax rate to 36.06 percent.
- Their overall effective marginal tax rate can approach 50 percent with the inclusion of payroll taxes and state and local income taxes.

Adding yet more complexity, phase-out ranges are usually specified in terms of “modified” adjusted gross income, and the modifications differ across phase-outs.

Two of the fastest-growing phase-outs are the limitation on total itemized deductions, which snared 9.5 percent more taxpayers in 1998 than in the prior year, and the disallowance of personal exemptions.

Because of phase-outs, an upper-income couple with four dependent



## Average Tax Rate Growth

New studies from the Census Bureau and Congressional Budget Office support the view that federal income taxes are too high. According to the Census Bureau, the average federal income tax rate hit 15.9 percent of household income in 1999, well above the next highest rate ever recorded, 15.3 percent in 1980. Here is how this affects median-income families (those in the middle of the income distribution):

- In 1993, the median-income family had a before-tax income of \$31,241, after-tax income of \$26,112 and paid \$5,162 in taxes, yielding a tax rate of 16.4 percent.
- In 1999, this family had a before-tax income of \$40,816, after-tax income of \$33,676 and paid \$7,140 in total taxes, for an effective tax rate of 17.5 percent.

Because income tax rates rise with income, economic growth causes federal taxes to rise faster than income. According to the CBO, between 1995 and 1998 individual income taxes rose by \$141 billion more than they would have

children will probably find that the itemized deduction limitation and the phase-out of personal exemptions bump them into a bizarre succession of elevated brackets, with their top marginal rate at 40.79 percent instead

if taxes had grown only as fast as the economy. This real bracket creep also means those with upper incomes have borne most of the increase.

- According to the CBO, those in the top 20 percent (quintile) of the income distribution now pay 78 percent of all federal income taxes.
- On average, they pay 27.9 percent in combined federal income, corporate, payroll and excise taxes.
- This works out to almost \$46,000 on an average household income of \$164,000.

These heavy taxes have an important impact on the distribution of after-tax income. Census Bureau after-tax data show:

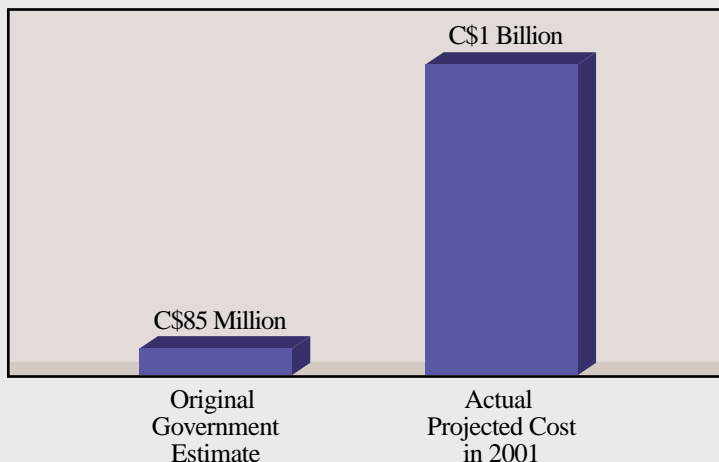
- In 1999, the top 5 percent of households got 21.5 percent of total income before-tax, but just 17.1 percent after-tax.
- Those in the top quintile saw their share of total income reduced from 49.4 percent to 44.1 percent.

Source: Bruce Bartlett, syndicated column, March 5, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

of the supposed rate of 39.6 percent.

Source: Michael Schuyler, “If You Like Complicated Hidden Taxes, You’ll Love Phase-outs,” Brief Analysis No. 350, March 12, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## COST OF REGISTERING FIREARMS IN CANADA



Source: Gary Mauser, "Misfire: Firearm Registration in Canada," March 2000, Fraser Institute.

## Firearm Registration in Canada

Canada's controversial firearms registry requires that all gun owners be licensed by January 2001, and all firearms be registered by January 2003.

However, the registry has experienced huge cost overruns and has negative consequences for all Canadians' individual freedoms.

- The federal government claimed it would cost no more than C\$85 million over five years to implement firearm registration — but the cost of setting up the registration bureaucracy has already passed C\$600 million and is expected to reach C\$1 billion in 2001.

- The number of employees working on firearm registration grew from fewer than 100 in 1995 to more than 1,700 in 2000.

- Meanwhile, the number of police officers in Canada has declined by more than 10 percent since 1975 on a per capita basis, leaving the ratio of police officers to population at its lowest point since 1972.

Although polls find that over 80 percent of Canadians support registering firearms, public opinion shifts when people realize it will cost them, as taxpayers, a significant amount of money, or that it will divert government resources from more desirable programs. Support drops to 50 percent when respondents are told it might cost C\$500 million to register firearms; it drops to around 40 percent when the trade-off is a reduction in the number of police officers.

Canada has adopted several increasingly restrictive firearms laws, either restricting access to firearms or prohibiting and confiscating some types of ordinary firearms chosen arbitrarily. But there is no evidence the laws have actually reduced violent crime.

Source: Gary Mauser, "Misfire: Firearm Registration in Canada," Public Policy Sources No. 48, March 2000, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC, V6J 3G7, (604) 688-0221.

## Restorative Justice Programs

"Restorative justice" programs offer something besides jails to control crime. They are based on the principles of victim restoration, offender accountability and offender reintegration into the community. In sharp contrast to the conventional justice system, the focus on victims is key.

Since 1997, the city of Indianapolis has been experimenting with a restorative justice program for youthful first-time offenders.

- Once a youth is arrested, a restorative justice coordinator arranges a conference involving the violator, the victims and their families, and supporters.

- A specially trained police officer facilitates at the conference, which gives the victim an opportunity to confront the perpetrator, explain how he or she was harmed and ask questions of the offender.

- The goal is to arrive at a reparation agreement under which the offender takes certain actions — including contrition, service to the victim and community service.

Ed McGarrell, a criminology professor at Indiana University in Bloomington, and the Hudson Institute have

been documenting the results of the program. The researchers randomly assign first-time offenders age 14 and younger, excluding those who have committed serious violent crimes, to either the traditional system or the restorative justice program. About 230 youths have participated in conferences and a like number in the control group.

- Over 90 percent of victims say they were satisfied with how their case was handled under restorative justice, compared to only 68 percent satisfied with other court-ordered remedies.

- Over 80 percent of the youths have fulfilled their restorative justice agreements, compared to a 58 percent completion rate in the control group.

- The rearrest rate within 12 months was 30.8 percent for offenders from restorative justice conferences and 41.2 percent for offenders from other juvenile court programs.

The program is modeled on ones developed in Australia and New Zealand.

Source: Morgan O. Reynolds, "Restorative Justice, American Style," Brief Analysis No. 353, March 15, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Electricity as a Commodity

Heating oil, natural gas and other forms of energy are all commodities, just like hog bellies and orange juice. And even though it cannot be stored, electricity is also a commodity. But commodity markets for wholesale energy producers and buyers have only recently been established. And the types of contracts, called hedges, typically used in other commodity markets to protect against price fluctuations are also new. If California energy officials had systematically used these contracts, called options or derivatives, it would likely have lessened the crisis there.

For reasons that are unclear, but may have to do with flaws in the regulatory structure or the inexperience of market participants, no one in California hedged risks with energy derivatives. Options are a type of insurance against unlikely but potentially harmful financial events. This new insurance lacks actuarial tables but is insurance nevertheless.

- In California, electricity commodity options would have given utilities the right to purchase excess capacity from power-generating companies in the future at an agreed-upon price.

- Buyers of commodities deal in futures contracts or option contracts, hoping to hedge against possible price fluctuation.

- They can effectively lock in the higher price with a derivatives contract, such as a put option.

Neither party knows what the price of electricity will be months or years ahead, but utilities might be willing to forgo the possibility of future price decreases in return for a guarantee the price won't rise. The power generating companies might forgo price increases for the assurance the price won't fall. They could have used options as a type of long-term insurance against the very events that transpired — provided, of course, they could have found sellers of those options.

Source: Philip Protter, "Modeling Financially Risky Assets with Mathematics: A Little History and Some Explanations," conference paper, American Association for the Advancement of Science Annual Meeting and Science Innovation Exhibition, February 19, 2001, San Francisco, Calif.

## Lower Chemical Levels

For the first time, a new technology known as biomonitoring has enabled the Centers for Disease Control and Prevention to measure the actual levels of chemicals in humans by direct examination of blood and urine samples. Previously, scientists could only estimate population exposures by measuring air, water or soil samples.

The first report based on the new technology measures the exposure of the U.S. population to 27 environmental chemicals. The data show that there is less exposure than some people had thought and that many exposure levels are declining. For example:

- Nonsmokers' exposure to cigarette smoke is one-fourth what it was in 1991, measured through levels of a product of nicotine called cotinine.

- Although mercury levels in women of childbearing age are higher than

thought, they are not above current limits — and mercury levels in children are lower than expected.

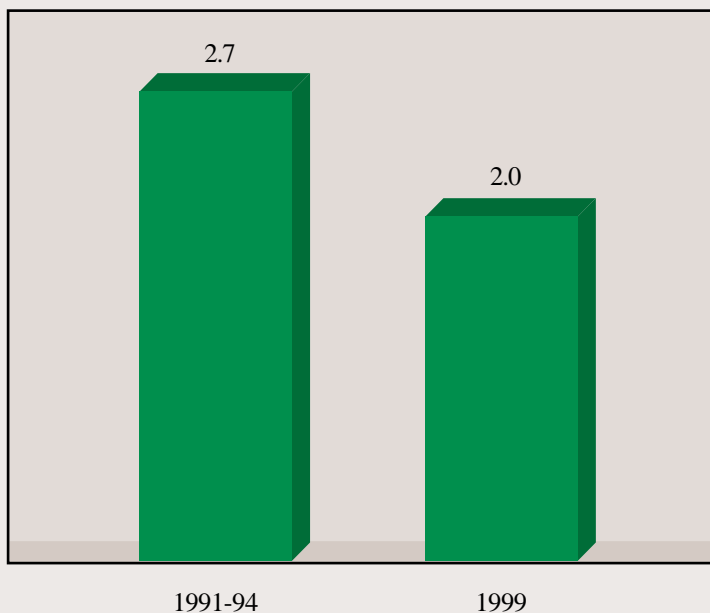
- Breakdown products left in the body by the most common phthalates — compounds used in such products as plastic tubing and blood bags — are much rarer than those of related phthalates used in many soaps, lotions and perfumes.

- Lead found in the blood of children ages 1-5 dropped from 2.7 micrograms per deciliter in the period 1991-94 to 2.0 in 1999.

The report points out that the presence of a chemical in blood or urine does not necessarily indicate that the chemical will cause disease.

Source: "National Report on Human Exposure to Environmental Chemicals," March 21, 2001, Centers for Disease Control and Prevention, National Center for Environmental Health, Division of Laboratory Sciences, 4770 Buford Highway, N.E., Atlanta, Ga. 30341, (866) 670-6052.

### LEAD LEVELS IN CHILDREN AGES 1-5 (Micrograms per Deciliter of Blood)



Source: Centers for Disease Control, National Center for Environmental Health.

## Characteristics of an Ideal Health Care System

Why should government be involved at all in our health care system? Aside from providing care for low-income families, the most persuasive argument is that in the absence of coercion people will have an incentive to be uninsured “free riders.” In our society, people who choose not to purchase insurance know that they are likely to get health care anyway — even if they can’t pay for it.

---

### *Far from solving the problem of uninsured ‘free riders,’ most government interventions make it worse.*

---

One piece of evidence that free riders are a problem is the number of uninsured: According to the Census Bureau, in 1999 there were 42.6 million uninsured at any one time, a larger percentage of the population than a decade ago. The largest increase has occurred among higher-income families:

- About one in seven uninsured persons lives in a family with an income between \$50,000 and \$75,000, and almost one in six earns more than \$75,000.
- Further, between 1993 and 1999 the bulk of the increase in the number of uninsured was in households earning more than \$50,000.
- By contrast, in households earning under \$50,000 the number of uninsured decreased by about 5 percent.

In choosing to be uninsured, many healthy individuals are undoubtedly responding to perverse incentives created by government policies.

- We make an enormous amount of free care available to the uninsured.
- Federal and state laws are making it increasingly easy for people to obtain insurance after they get sick — thus removing the incentive to buy insurance

when they are healthy.

- Although the federal government generously subsidizes employer-provided insurance, most of the uninsured are not eligible for an employer plan, and they get virtually no tax relief when they buy insurance on their own.

Far from solving the free rider problem, most government interventions worsen the problem. However, a solution with the following 10 characteristics could provide a reasonable form of universal coverage for everyone without adding to national health care spending and without intrusive and unenforceable government mandates.

**1. We should subsidize those who insure and penalize those who do not.** Since we have a social interest in encouraging people to have health insurance, we should subsidize its purchase — say, with tax credits. The penalty for not being insured would be the absence of the subsidy.

**2. The subsidy for private insurance should equal the value society places on insuring individuals, at the margin.** We should decide how much we care (in money terms) whether a person is insured, and that should determine the size of the subsidy/penalty.

**3. The revealed social value of insurance is the amount we spend on free care for the uninsured.** Since none of us is a mind reader, how do we know how much it’s worth collectively to insure a given individual? If we are willing to take the political system as dispositive, it’s the amount we expect to spend on free care if the person is uninsured.

**4. The penalties (extra taxes) paid by the uninsured should be used to compensate those who provide safety net care.** These funds should be made available to those who operate the health care safety net in the community where each uninsured person lives. In this way, the uninsured would help finance their own “free” care.

**5. The subsidy for each newly insured person should be funded by reducing the expected amount of spend-**

**ing on free care for that person.**

**6. Subsidies for being insured should be independent of how the insurance is purchased.** The subsidies for private insurance should be the same, whether purchased individually or through an employer. On a level playing field, the role of the employer would be determined in the marketplace — not by tax law.

**7. The optimal number of uninsured is not zero.** The social goal is to reach a point at which the additional cost (in terms of subsidy) of the last person we induce to insure is equal to the additional benefit (in terms of the reduction in cost of free care). At this point, some people almost certainly will remain uninsured.

**8. The principles of reform apply with equal force to all citizens, regardless of income.** People who earn \$100,000 a year can incur medical bills they cannot pay almost as easily as can those earning only \$30,000. For that reason, the social interest in encouraging insurance is largely independent of income.

**9. Health insurance subsidies need not add to budgetary outlays.** Getting all the incentives right may involve shifting around a lot of money by reducing subsidies that are currently too large and increasing subsidies that are too small. But there is no reason to believe our health care system spends too little money right now. Nor is it necessary to add new money in order to adhere to the 10 characteristics described herein.

**10. The federal government’s role should remain strictly financial.** Aside from an interest in encouraging catastrophic insurance, there is no social reason why government at any level should dictate the content of health insurance plans.

*Source: John C. Goodman, “Characteristics of an Ideal Health Care System,” NCPA Policy Report No. 242, March 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## Biopharmaceuticals and Health Care Costs

Drugs that make use of human molecules (genes, proteins and antibodies) are called biopharmaceuticals. Although new high-tech medicines can be expensive compared to older drugs, they can also reduce total medical costs by cutting down on surgery and hospital and nursing home stays, and improving people's ability to work. For example:

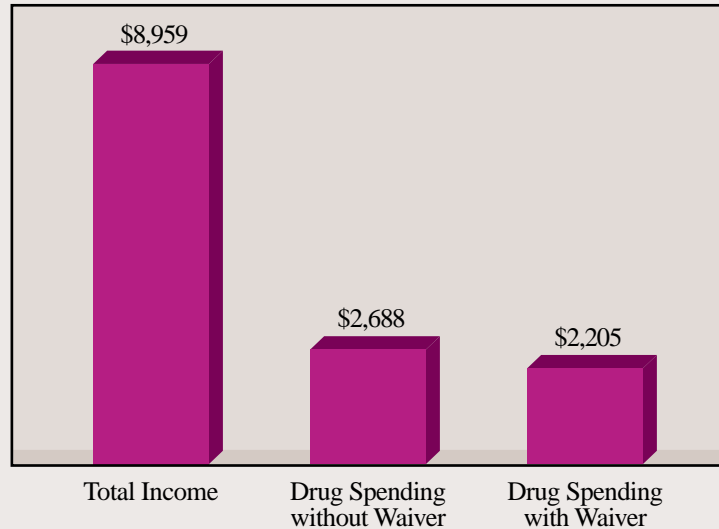
- One clot-dissolving drug for stroke saved an average of \$4,400 per patient by reducing the need for rehabilitation and home care.
- A study in the *Journal of Occupational and Environmental Medicine* showed that employers saved \$435 per employee per month with a new medicine for migraine that reduced absenteeism.
- A recent study prepared for the Biotechnology Industry Organization by Parexel International Medical Marketing Services, Inc., showed that each of 57 biotechnology drugs reduced the total health care cost of treating the elderly.

Companies that spend hundreds of millions of dollars to develop these medicines need the assurance of a patent that the drug will not quickly be copied. Historically, only one medicine in three has recouped its development costs.

There is a high likelihood of further radical improvements in medicines, provided price or profit controls don't squeeze the life out of the biopharmaceutical industry in the United States as they have in Europe and Japan.

Source: William A. Haseltine, "Genomics," *Brookings Review*, Winter 2001, Brookings Institution, 1775 Massachusetts Avenue, N.W., Washington, D.C. 20036, (202) 797-6000.

## EFFECT OF ALLOWING POOR, CHRONICALLY ILL SENIORS TO BUY PRESCRIPTION DRUGS AT MEDICAID PRICES



## Expanding Medicaid Drug Coverage

Maine and Vermont are setting up programs allowing many people ineligible for Medicaid to get Medicaid prescription drug coverage. The idea is to lower prescription drug prices for low-income consumers, especially seniors without drug coverage.

Individuals added under the programs — made possible by federal waivers of Medicaid eligibility requirements — would pay for the prescriptions themselves, but would get a pharmacy discount of about 18 percent on Medicaid-approved drugs. The drug companies would rebate that amount to Medicaid, which would in turn reimburse the pharmacy.

For regular Medicaid beneficiaries, state Medicaid programs pay for drugs, and the drug companies are required by federal law to rebate at least 18 percent of the price to Medicaid. Thus the benefit would be subsidized by drug companies rather than taxpayers. But the programs will do little to help those in most need. For instance, the Vermont program covers individuals with incomes at or below

300 percent of the federal poverty level (about \$26,800 for an individual).

- As a group, seniors at that income level without drug coverage spend 3 percent or less of their income on prescription drugs, and non-seniors spend only half that much.
- However, chronically ill seniors at that income level spend nearly 30 percent of their income on drugs.
- A senior at the federal poverty level of \$8,959 and spending 30 percent of his or her income or \$2,688 would receive only about \$483 in discounts.

While offering little help to those most in need, such programs will attract people who would otherwise purchase private coverage and thus crowd out private prescription drug coverage. Indeed, between 50 percent and 75 percent of the increase in Medicaid coverage between 1987 and 1992 was associated with a reduction in private insurance coverage, according to a study by the National Bureau of Economic Research.

Source: Robert Goldberg, "Medicaid Waivers: Wrong Cure for High Drug Prices," Brief Analysis No. 351, March 13, 2001, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Airline Delays

Environmental regulations contribute significantly to airline delays and cancellations in the United States by inhibiting the timely construction of runways.

- The number of passengers flying annually rose from 250 million in 1978 to 600 million in 1999, and is expected to top one billion by 2010.
- But only two new major metropolitan airports have been constructed since 1978.
- Airline departures increased 25 percent during the 1990s but only six new run-

ways were added at large hub airports.

- It only takes two years to construct a major runway, but cumbersome environmental permitting requirements often stretch design and construction over 10 years or more.

Efficiency and passenger comfort is seriously eroding due to so many jets competing for limited runway space and gates.

- Between 1995 and 2000, departure and arrival delays increased 33 percent and airline cancellations (which can have a variety of causes) jumped 104 percent.
- Last year, the number of customer

complaints, mainly about cancellations, delays and missed connections, increased 14 percent compared with 1999.

Before commencing construction, airport authorities must conduct studies and obtain permits under federal and state laws governing a host of environmental concerns. The process is often delayed by lawsuits from groups opposed to new construction.

For example, an environmental group fighting new runways at San Francisco International Airport claims new flight approach procedures, improved radar, new air traffic control software and other technological improvements "could slash delays sooner, more cheaply and with much lower impact" than new runways.

However, Steven Brown, head of air traffic services for the Federal Aviation Administration, says technological modernization would add only three to five takeoffs and landings per hour at a typical major airport. A new runway would allow 30 to 40 additional landings and takeoffs per hour.

*Source: John K. Carlisle, "Mad about the Quality of Air Travel These Days? Blame Environmentalists," National Policy Analysis No. 331, March 2001, National Center for Public Policy Research, 777 N. Capitol Street, N.E., Suite 803, Washington, D.C. 20002, (202) 371-1400.*

## Privatizing Air Traffic Control

A number of federal task forces and commissions have recommended that the nation's air traffic control system be separated from the Federal Aviation Administration and set up as some kind of corporate entity, funded directly by payments from users. Over the past 15 years, nearly two dozen countries have taken this route, creating either self-supporting government corporations as in Germany or private nonprofit corporations as in Canada.

The U.S. experience with government corporations has not been highly successful. The nonprofit corporation approach, successfully implemented in Canada in 1996, might be more acceptable. With it, Canada has speeded up modernization, dramatically increased efficiency and productivity and cut user fees by one-third. Based on the Canadian example, the U.S. air traffic control system could operate something like this:

- A 15-member board of directors representing airlines, airports, air traffic control workers and private pilots would direct control operations, while the government would still maintain oversight of safety and fund safety-related expenses.

- The current passenger ticket tax

would be replaced by user fees collected from airlines and other jet operators to fund air traffic services.

- The current airline shares of cost responsibility would not change significantly at the outset.
- Private planes would pay an annual fee for air traffic services instead of the current fuel tax.

Taking into account payments by the federal government for federal use of the system and payments by foreign carriers, the amount needed from U.S. airlines to pay for the air traffic control corporation would be just 72 percent of what airlines currently pay in aviation user taxes.

An air traffic corporation could borrow money and more quickly install modern technology, thus reducing delays and improving safety. Several nations, including Canada, Australia and New Zealand, have increased the capacity of their air travel systems by deploying satellite-based technologies far more advanced than the radar system currently used in the U.S.

*Source: Robert W. Poole Jr. and Viggo Butler, "How to Commercialize Air Traffic Control," Policy Study 278, February 2001, Reason Public Policy Institute, 3415 S. Sepulveda Boulevard, Suite 400, Los Angeles, Calif. 90034, (310) 391-2245.*

## Executive Alert®

Publisher .....John C. Goodman  
Editor .....Dorman E. Cordell  
Assistant Editor .....Joe Barnett  
Contributing Editors ..... Barry Asmus

David R. Henderson

EXECUTIVE ALERT is published bi-monthly by the National Center for Policy Analysis, a nonpartisan, nonprofit research institute.

The NCPA<sup>SM</sup> is a research and education organization operating under Section 501(c)(3) of the Internal Revenue Code. You can contribute to our effort by mailing your donation to our Dallas headquarters or logging on to our web site at [www.ncpa.org](http://www.ncpa.org) and clicking "Join Us."

Address all correspondence to the National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272. e-mail: [ncpa@ncpa.org](mailto:ncpa@ncpa.org).

Internet home page: <http://www.ncpa.org>