



Executive Alert



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ALL THAT'S NEW IN THE WORLD OF IDEAS

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Kate O'Beirne, Washington editor of National Review and cohost of CNN's Capital Gang speaks at a recent Hatton W. Summers Distinguished Lecture Series lunch. See page E-1.

Moving On Up

Census figures and studies indicate a growing increase in income inequality between the lowest- and highest-paid worker groups nationally, with an even more rapid increase in California. But most research focuses on earnings at particular points in time, and does not tell us whether today's low-wage workers are the same individuals as yesterday's.

Now an analysis of actual payroll data for 187,000 California workers from 1988 to 2000 indicates they are not. The analysis shows that, when they are divided by income into five groups or quintiles, not only did workers in all quintiles move up the economic ladder, but the real wage gains were greatest for those who started out at the lowest wages.

- Workers who started out in the bottom

quintile more than doubled their earnings in constant 2000 dollars during the period — starting at an average of \$13,136 per year in 1988 and ending at \$27,194 by 2000.

- By contrast, workers starting in the middle quintile in 1988 and making \$36,874 saw their earnings rise by 15 percent 12 years later, to an average of \$42,410.

- Those in the top quintile, the highest earners, saw average increases of only 7 percent, from \$74,826 to \$80,209.

A high percentage of workers switched industries during the 12-year period. The pattern of job switching indicated that most of those who switched were seeking better career and earnings potential. For example, those who switched industries were more likely to take jobs in manufacturing and wholesale trade — which is surprising given that durable goods manufacturing

was the only industry in which employment shrank over this period.

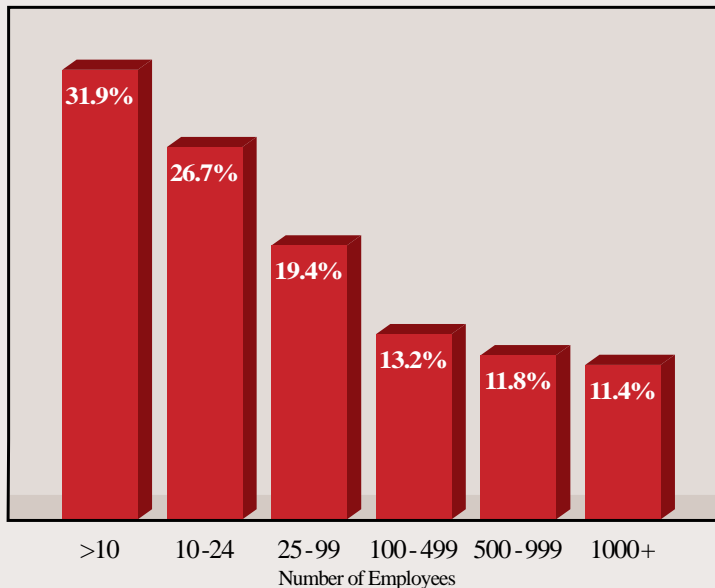
- In 1988, the workers in the bottom earnings quintile were highly concentrated in a few industries, with almost two-thirds in retail trade and service jobs.

- Over the 12-year period, the percentage of workers who switched industries at least once ranged from 15 percent of those in education to 69 percent of those in business services.

The income mobility in California appears even more dramatic when one recognizes that the state has experienced an influx of low-skilled immigrants, primarily from Mexico and Central America.

Source: Michael Dardia et al., "Moving Up? Earnings Mobility in California," California Policy Review, April 2002, Sphere Institute, 1415 Rollins Boulevard, Suite 204, Burlingame, Calif. 94010, (650) 558-3901.

PERCENT OF WORKERS UNINSURED BY FIRM SIZE IN 2000



Source: "Sources of Health Insurance and Characteristics of the Uninsured," EBRI, December 2001.

Association Health Plans

A cornerstone of President Bush's approach to health care reform is the creation of Association Health Plans (AHPs). AHPs would allow small employers and individuals in bona fide business and professional associations to take advantage of the economies of scale in group buying of health care coverage. They would also be permitted to self-insure — something only large companies are able to do today — and avoid many costly state regulations.

Advocates say AHPs would improve access to coverage and help control rising health care costs. Under the current system, many small businesses and individuals cannot afford health insurance premiums. The Employee Benefits Research Institute (EBRI) reports that the percentage of workers who are uninsured correlates directly with the size of the firm they work for.

■ In the small group and individual insurance market, one-fourth to one-third of every premium dollar is spent on administrative costs; large, self-

funded employers are exempt from many of these costs and can reduce them to as little as 10 percent or even 5 percent.

■ A recent Kaiser Family Foundation survey found that fully insured plan premiums rose by 61.3 percent over the last five years, compared to a 42.5 percent increase for self-funded plans.

■ By contrast, the medical inflation rate was about 4 percent per year over the same period.

■ PricewaterhouseCoopers has determined that state-mandated benefits, additional federal mandates, duplicative and confusing regulations, a growth in litigation, and fraud and abuse account for more than one-fourth of the recent run-up in premiums.

President Bush's proposal would allow AHPs either to fund their own benefits or to buy fully insured coverage and be regulated by the U.S. Department of Labor, much as larger employers are today.

Source: Greg Scandlen, "Association Health Plans — Part One: Lowering Small Group Costs," NCPA Brief Analysis No. 419, October 8, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Insuring the Uninsured with Tax Credits

An estimated 38.4 million Americans have no health insurance. A new study concludes that a tax credit aimed at the 20 million working uninsured could induce as many as half to buy private health insurance, depending on how the credit was structured.

A tax credit would not have to provide a full subsidy to be effective in helping low-income workers.

■ A modest tax credit paying 50 percent of the health insurance premium would reduce the number of low-income uninsured workers and family members by as much as 52 percent.

■ A tax credit covering 33 percent of the premium would reduce the number of uninsured workers and family members by 20 percent.

Most high-income workers would keep their group coverage even if offered a modest credit for individual health insurance.

■ Only 3.5 percent would drop their group insurance for a tax credit covering 33 percent of the premium.

■ A tax credit covering 50 percent of the premium would cause virtually all high-income workers to drop their existing group coverage, but limiting eligibility for the subsidy to those without employer-provided health insurance would prevent this outcome.

Tax credits for low-income workers would not significantly increase the percentage of gross domestic product devoted to health care. Many of those who would take advantage of a credit already receive either subsidized public health services or tax subsidies for employment-based coverage.

Source: Mark V. Pauly and Bradley Herring, *Cutting Taxes for Insuring: Options and Effects of Tax Credits for Health Insurance* (Washington, D.C.: AEI Press, 2002).

The High Cost Of Dying

Senior citizens near the time of their death can expect to generate more than \$50,000 in medical, funeral and burial costs. The good news for the deceased and their families is that the government picks up about 65 percent of those costs through such programs as Medicare and Medicaid. But that may be bad news for taxpayers who fund the programs. In just a few years, when baby boomers begin to retire, the total bill will soar.

- Medicare averages spending \$28,616 on medical bills for seniors in the last two years of life.
- Medical costs paid by Medicaid and private insurance average \$4,006 and \$3,720, respectively.
- The deceased and their families can expect out-of-pocket medical expenses of \$5,723.
- Funeral and burial expenses average another \$8,000.

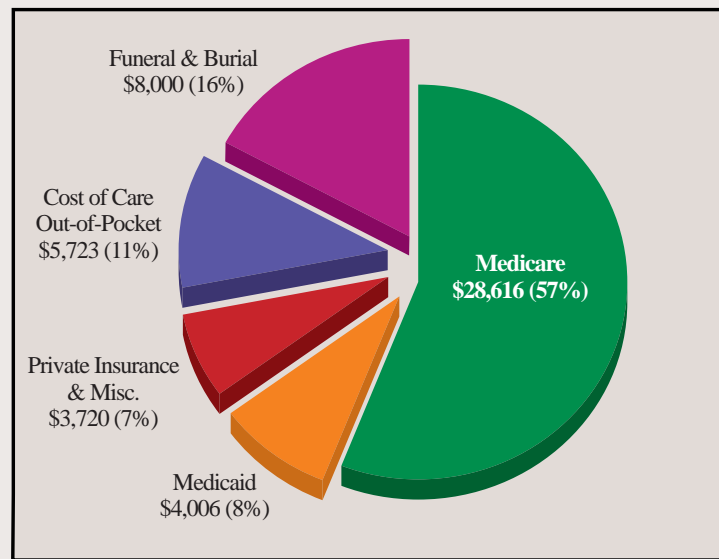
Medicare spending on beneficiaries in the last two years of life dwarfs spending on other beneficiaries:

- One-third of all Medicare dollars annually are spent on patients in the last two years of life.
- Real Medicare costs in the last two years of life have been rising over time, from \$8,800 in 1975 to more than \$28,000 today.
- However, the average amount that Medicare spends on those in the last two years of life has not risen faster than the average amount spent on the other 90 percent of beneficiaries.

Thus the cost of dying does not appear to have risen faster than total Medicare spending, nor does spending on the last years of life appear to be fueling Medicare's spending growth.

Source: NCPA News Release, "How Much Does It Cost to Die?" August 6, 2002, and Andrew J. Rettenmaier and Zijun Wang, "Explaining the Growth of Medicare: Part II," Brief Analysis No. 408, August 6, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

COST OF DYING FOR SENIOR CITIZENS



Source: "The Dartmouth Atlas of Health Care, 1999," Table 6; Marilyn J. Field and Christine K. Cassal, eds., Approaching Death (Washington, D.C.: National Academy Press, 1997); Funeral Price Information, National Funeral Directors Association and NCPA calculations.
Note: Based on an average cost of \$50,000.

Medicare Reform and Prescription Drugs

Medicare needs fundamental reform. Despite its popularity, Medicare violates almost all of the principles of sound insurance. It pays too many small bills the elderly could afford on their own, but exposes them to thousands of dollars of potential out-of-pocket expenses. Seniors have to buy a second health plan to fill the gaps in the first. The failure to cover prescription drugs creates incentives to substitute more costly therapies that are covered. However, simply adding a new drug benefit would be wasteful and inefficient and would create enormous future burdens on taxpayers. Here are some principles that should guide reform.

- The plan that administers drug benefits should be the same plan that administers other benefits, since neither of two plans would have an incentive to maximize the health benefits of a given money outlay.
- Paying one premium to one plan would be much more efficient than paying premiums to several plans.

■ If the amount Medicare spends on the average beneficiary and the amount seniors are already paying for the most popular medigap policy were combined, research shows that the sum would be enough to buy coverage, including prescription drug coverage, without any increase in taxpayer subsidies.

■ A reformed Medicare should have different levels of cost sharing for drugs that are more discretionary than others.

■ By using Medical Savings Accounts, seniors could control drug costs as well as or better than under managed care.

■ Seniors should have access to the same health plans as non-seniors — competing plans that offer a choice of coverage.

Following these principles would not solve every Medicare problem, but it would keep policy makers from creating solutions that are worse than the problems they are intended to solve.

Source: John C. Goodman, Robert Goldberg and Greg Scandlen, "Medicare Reform and Prescription Drugs: Ten Principles," NCPA Policy Report No. 256, October 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Three Mile Island Redux

America's worst nuclear accident released radioactive gases into the air at the Three Mile Island power plant in Pennsylvania in March 1979. This sparked fears that the incidence of cancer would rise in the area. However, scientists later calculated that people in the area were exposed to considerably less radiation than the annual background radiation experienced by Americans.

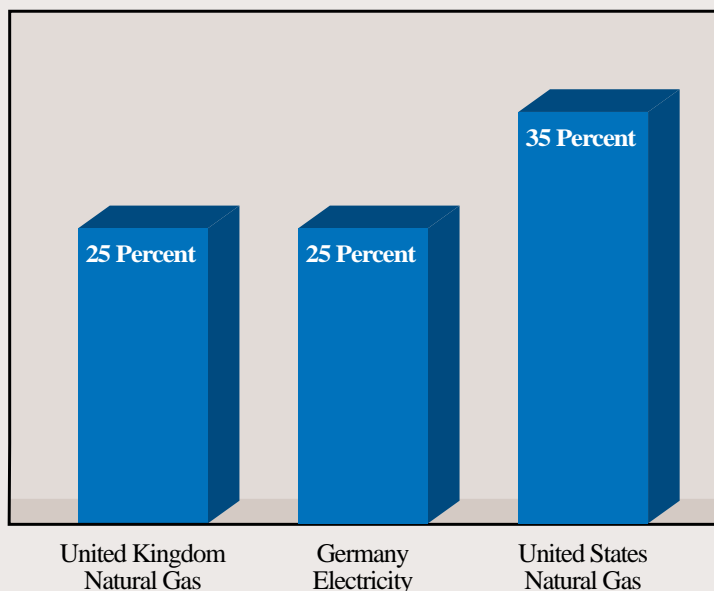
Now a 20-year follow-up study of the accident — in which no one died and no one was injured — finds no significant increase in deaths from cancer among people who lived near the site at the time.

The University of Pennsylvania's Graduate School of Public Health studied more than 23,000 people living within a five-mile radius of the Three Mile Island plant. The study looked at causes of death from heart disease and cancers, including types of cancer known to be sensitive to radiation effects such as bronchial, breast, blood and central nervous system cancers.

- The study found “no consistent evidence that radioactivity released during the nuclear accident has had a significant impact on the overall mortality of these residents.”
- The long-term effects of low-level radiation are still not fully understood, but researchers believe the 20-year study is important because cancers that take years to develop would have done so in that time.
- The much larger nuclear accident at Chernobyl in the Ukraine in 1986 produced a larger increase in cases of thyroid cancer in that area, but the Three Mile Island study found just one death from thyroid cancer.

Source: Gaia Vince, “Three Mile Island Cancer Rates ‘Normal,’” *NewScientist.com*, November 1, 2002, forthcoming article, *Environmental Health Perspectives*, March 2003.

CONSUMER SAVINGS FROM DEREGULATION (As a Percentage of Regulated Prices)



Source: American Enterprise Institute.

The Case for Deregulation

Despite the problems that California faced in restructuring its electricity market, the trend toward energy deregulation remains strong worldwide. The strict regulation of energy markets has been costly and has hurt consumers. While the actual cost of regulation has yet to be tallied, experts estimate that unwise regulation costs hundreds of millions a year.

Case studies in the United States and Europe indicate that energy deregulation spurs substantial economic growth. For example:

- Following extensive reforms in the United Kingdom in the 1990s, industrial natural gas prices fell by 45 percent and consumer gas prices by 25 percent.
- Electricity prices in Germany fell 25 percent between 1998 and 2000, and other European Union member countries continue to benefit from energy deregulation efforts of 1998.
- Deregulation of U.S. natural gas

markets in the 1980s drove down operating costs by 35 percent and saved American consumers \$200 million a year in transportation charges.

Natural gas deregulation has saved American consumers \$200 million a year in transportation charges.

Price restraints, market entry barriers and other restrictive practices continue to hamper the growth of energy trading. Energy industry deregulation continues to lag behind that in other industries such as airlines, telecommunications and banking. These restrictions make it difficult for energy providers to access and compete in foreign markets, and they effectively limit cross-border trading, driving up prices for consumers.

Source: Peter C. Evans, *Liberalizing Global Trade in Energy Services* (Washington, D.C.: AEI Press, 2002).

Natural Storm Cycles

Proponents of the theory that humans are causing global climate change predict that storms will become more frequent and intense. Scientists say that we must study long-term storm cycles so that we can distinguish between natural variation in intensity and changes caused by other factors.

An analysis of sediment cores from 13 ponds in Vermont and northern New York indicates a natural pattern of intense storms about every 3,000 years during the last 13,000 years. The last big group of extreme climate events, such as storms with exceptional rainfall, occurred almost 3,000 years ago, and a new storm cycle may have already started. According to the analysis:

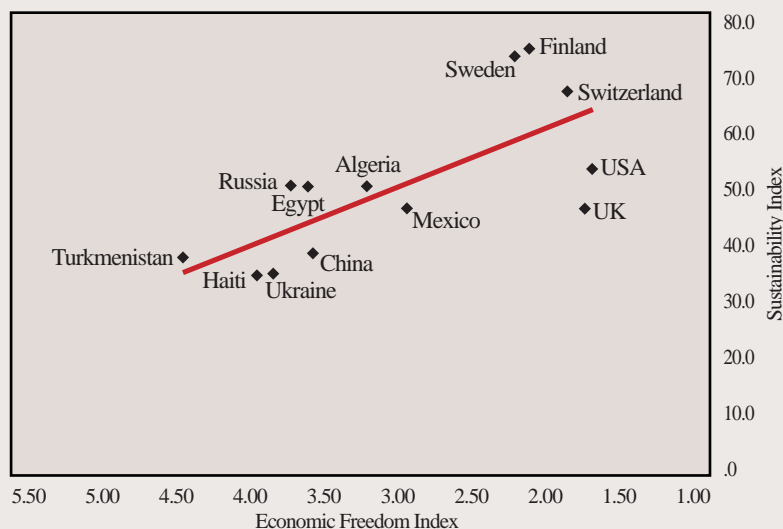
- The storm eras in the Northeast peaked 11,900, 9,100, 5,800 and 2,600 years ago — with each cycle lasting a millennium or more, separated by calmer periods lasting about 3,000 years.
- The storms were far more powerful than any in recent times, resulting in giant floods — although such events were sporadic.
- The region appears to have now entered a fifth era of such superstorms.

The earlier storms likely amounted to intense bursts of precipitation — with rainfall of several inches an hour lasting a day or two. Some of the sediment layers that indicate huge storms are 10 times as thick as the one left by the greatest flood ever recorded in Vermont: the storm of November 1927, which killed 84 people, drowned thousands of cows and demolished 1,200 bridges.

The clues from the lakes appear to mesh with evidence of other periods of stormy weather in the North Atlantic, propelled by a pole-girdling wind and pressure pattern called the Arctic Oscillation.

Source: Anders J. Noren et al., "Millennial-Scale Storminess Variability in the Northeastern United States during the Holocene Epoch," *Nature*, October 24, 2002.

ECONOMIC FREEDOM AND ENVIRONMENTAL SUSTAINABILITY



Note: 5 = Least Free; 1 = Most Free

Source: Heritage Foundation and Center for International Earth Science Information Network.

Sustainable Development and Freedom

The World Economic Forum has developed an environmental sustainability index (ESI) to measure how well 142 nations are meeting present needs without compromising future generations. A comparison of ESI scores with the Index of Economic Freedom developed by the Heritage Foundation and the *Wall Street Journal* confirms the relationship between a country's wealth and economic freedom and its environmental sustainability.

■ Developed countries such as Finland, Sweden and Switzerland with high ESI scores (73.9, 72.6 and 66.5, respectively) also rank among the countries with the highest annual per capita gross national incomes (\$25,130, \$27,140 and \$38,140) and are among the most economically free (with Heritage/WSJ index scores of 1.95, 2.05 and 1.90).

■ Countries in the middle range of ESI scores (around 50), such as

Algeria, Russia and Egypt, are poorer (incomes of \$1,580, \$1,690 and \$1,490) and have less economic freedom (3.10, 3.70 and 3.55).

■ The low end of the ESI scale includes impoverished countries such as Haiti, Ukraine and Turkmenistan that have little economic freedom.

These ESI scores confirm that developed countries not only have higher incomes but also have made substantial environmental progress despite much higher rates of nonrenewable resource consumption than undeveloped countries.

Obtaining comparable levels of environmental quality improvement in developing countries depends on economic growth, which leads to higher incomes.

Source: Steven F. Hayward, "Sustainable Development in the Balance," *Environmental Policy Outlook*, August 2002, American Enterprise Institute, 1150 Seventeenth Street, N.W., Washington, D.C. 20036, (202) 862-5800; and Steven F. Hayward, "Making Sense of Sustainable Development," NCPA Brief Analysis No. 422, October 25, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

State Economic Freedom

Freer economies are more prosperous than those that are highly taxed and tightly regulated. Milton Friedman and other economists showed more than a decade ago that countries with market economies are richer and grow faster than socialist ones.

The effect of economic freedom on prosperity and growth can be found by comparisons within countries, as well as internationally. Economic policy is largely set by national governments, but political subdivisions also tax, spend and regulate. Within the United States, state policies that are remarkably diverse encourage or retard growth.

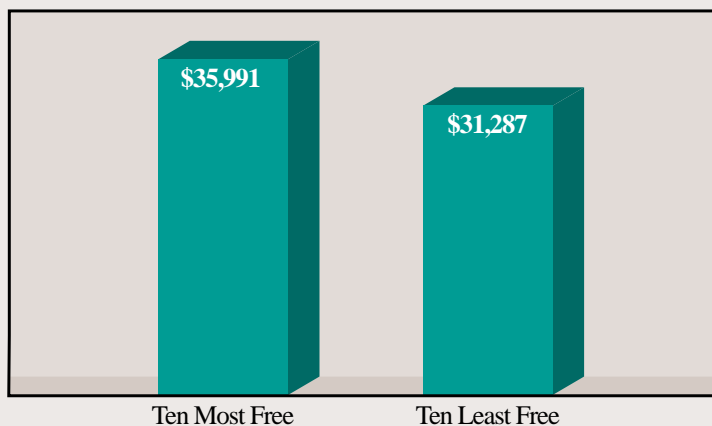
State-level economic freedom can be measured on a 10 point scale that indexes the level of government spending, tax burdens and labor market regulations. Grouping states by their economic freedom scores shows that the average per capita gross domestic product is higher in the economically freest states. In 2000, for example:

- Average output per person was \$35,991 in the 10 economically freest states — Delaware, Tennessee, Colorado, Indiana, South Dakota, New Hampshire, Arizona, Georgia, Massachusetts and Missouri.
- Per capita GDP was \$31,287 in the 10 states with the lowest economic freedom scores — Idaho, Oregon, New Mexico, Washington, Rhode Island, Maine, North Dakota, Montana, Alaska and West Virginia.

Scores for state economic freedom in 2000 ranged from a high of 8.4 for Delaware to a low of 5.8 for West Virginia. The overall scores reflect a wide variation in state policies. For instance:

- The tax burden among the states ranges from 9.9 percent of income in Delaware to 12.7 percent in Maine.
- Government spending on goods and services ranges from 8.6 percent of all spending in New Hampshire to 20.8 percent in Alaska.
- Alabama has the most flexible labor

OUTPUT PER PERSON IN TOP 10 AND BOTTOM 10 STATES BY ECONOMIC FREEDOM



Source: Fraser Institute and NCPA.

Canada's Fiscal Federalism

Canada and the United States rank high on international comparisons of economic freedom, which has a powerful effect on the prosperity and growth of both states and provinces.

However, the policies of Canadian provinces on taxation and government spending have less effect on their local economies than comparable state policies. This may be due to Canada's fiscal system, which transfers money from rich to poor provinces. Fiscal federalism in effect transfers money from relatively free provinces to relatively unfree provinces, muting the benefits of economic freedom in donor provinces. The subsidized provinces are shielded from the full negative effects of their policies.

- In the economically depressed Atlantic Provinces, net federal spending — the difference between federal revenues from the region and federal

market, due in part to lack of a state mandated minimum wage; Montana has the least flexible labor market with the highest minimum wage relative to average income.

A 1 point improvement in the state economic freedom score increases per capita GDP by \$3,328, and it increases

spending there — typically equals 20 percent to 40 percent of regional gross domestic product.

- In Alberta and Ontario — the highest ranking provinces on measures of economic freedom and the only provinces to outrank a few of the United States — levels of taxation are much higher than local spending requires because of these transfers.

- Provincial fiscal and economic policies have only about 55 percent of the effect on prosperity as comparable state policies.

Whereas a 1 point improvement in an area's economic freedom score increases per capita GDP by \$3,328 in the United States, the same 1 point improvement increases a province's per capita GDP by only US\$1,859.

Source: Amela Karabegovic, Fred McMahon and Dexter Samida, "Economic Freedom of North America," 2002, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, B.C. V6J 3G7, Canada, (604) 688-0221, and National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

the rate of economic growth by almost half a percentage point (0.48 percent).

Source: Amela Karabegovic, Fred McMahon and Dexter Samida, "Economic Freedom of North America," 2002, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, B.C. V6J 3G7, Canada, (604) 688-0221, and National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Taxes, Regulations and Underground Economies

In most nations, large portions of the economy are outside the law. Participants in these “underground” or “shadow” economies neither pay taxes nor obey regulations. Data from 21 countries in the Organization for Economic Cooperation and Development (OECD) and 22 countries now in transition to capitalism show that their shadow economies are quite substantial:

- The average OECD shadow economy is 16.7 percent of official gross domestic product (GDP).
- The average transition country shadow economy is 38.0 percent of official GDP.

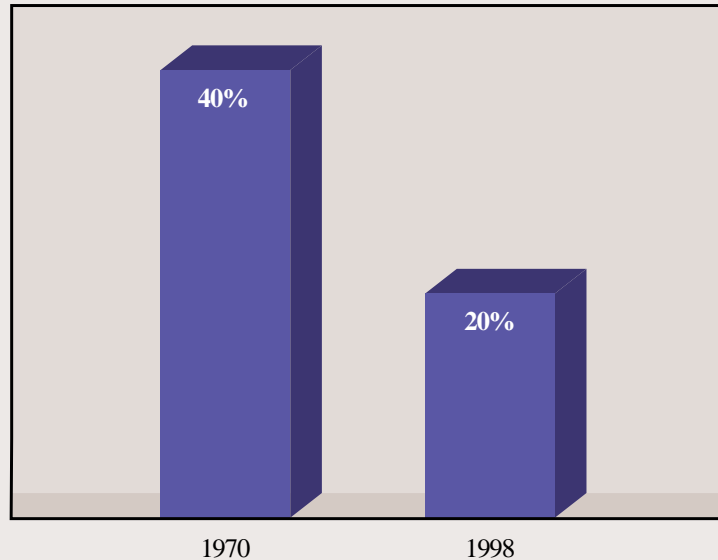
Other economic data show a relationship between taxes and regulations and underground economies.

- A 1 point increase in regulations (on a 5 point scale) fosters a 10 percent increase in the shadow economy.
- A 1 percent increase in the marginal federal personal income tax results in a 1.4 percent increase in the shadow economy.
- Higher corporate taxes have a similar effect.

Greece, Belgium, Italy and Sweden all have tax burdens larger than 70 percent of their official GDPs and shadow economies larger than 20 percent of their official GDPs. By contrast, the United States and Switzerland have low tax burdens and low shadow economies, 8.8 percent and 7.5 percent respectively.

Source: Fredrich Schneider, “The Size and Development of the Shadow Economies of 22 Transition and 21 OECD Countries,” IZA Discussion Paper No. 514, June 2002, Institute for the Study of Labor, P.O. Box 7240, D-53072, Bonn, Germany.

PERCENT OF THE WORLD POPULATION SUBSISTING ON LESS THAN \$2 PER DAY



Source: National Bureau of Economic Research.

Reducing World Poverty

Many academics, journalists and multilateral organizations have declared that economic globalization has caused global poverty and income inequality to rise. However, research shows that both declined significantly from 1970 to 1998.

- In 1970 roughly 40 percent of the global population subsisted on less than the poverty line of \$2 per day, and about one-sixth lived under the extreme poverty line of \$1 per day.
- The picture was much the same in 1980, but it changed dramatically in the 1990s when China, India and Indonesia began experiencing rapid growth.
- By 1998 less than 20 percent of the world’s population lived below the \$2 level and less than 7 percent below \$1.

Even in absolute terms, the number of people living on less than \$1 per day declined by 235 million between 1976 and 1998, and the number living on less than \$2 per day declined by 450 million.

As a result, the shape of the income distribution has changed

from a bimodal distribution with a peak of poor people and a peak of rich in 1970 to a smoother distribution in 1998, suggesting the emergence of a “world middle class.”

Despite these improvements, some 350 million people still lived on less than \$1 per day in 1998, and nearly one billion subsisted on less than \$2 per day.

Furthermore, poverty is increasingly concentrated in Africa, where poverty rates increased substantially over the last 30 years. The number of poor in Africa subsisting on \$1 or less a day grew by 175 million between 1970 and 1998. The number of Africans living on less than \$2 a day increased by 227 million. Thus, while Africa was home to 11 percent of the world’s poor in 1960, by 1998 66 percent of the world’s poorest lived in Africa.

Source: Carlos Lozada, “Economic Growth Is Reducing Global Poverty,” NBER Digest, October 2002, based on Xavier Sala-i-Martin, “The World Distribution of Income (Estimated from Individual Country Distributions),” NBER Working Paper No. 8933, May 2002, National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, Mass. 02138, (617) 868-3900.

Cigarette Smuggling

Organized crime and terrorist groups are increasingly involved in cigarette smuggling. Because of the wide variation in state cigarette taxes, it has become increasingly lucrative to smuggle cigarettes between states, and the penalties are much lower than for trafficking in illegal drugs.

■ New York and New Jersey have the highest state tax rates, \$1.50 per pack — and New York City imposes an additional tax of \$1.50, for a total tax of \$3.00 per pack.

■ At the other end of the spectrum, North Carolina's tax is just 5 cents per pack, Kentucky's is 3 cents and Virginia's is 2.5 cents.

■ Thus it is easy to buy a truckload of cigarettes in North Carolina and sell them in New York City for a profit of almost \$30 per carton.

Smuggling is a key reason why cigarette tax revenues are not keeping pace with tax increases. Between 1992 and 2000, the average state cigarette tax rate increased 64 percent while gross state tax revenues rose only 35 percent. The fall in smoking rates over this period was not nearly enough to account for the revenue shortfall.

For years, police have warned of moves by organized crime into cigarette smuggling. Now terrorists are also smuggling cigarettes to finance their operations.

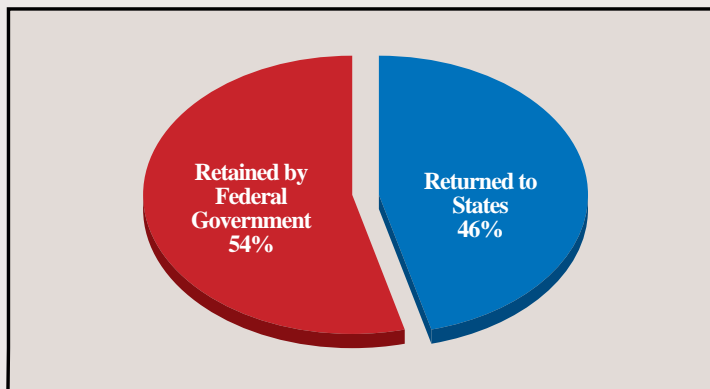
■ The Irish Republican Army has long been implicated in cigarette smuggling in Europe.

■ Recently, a member of Hezbollah was convicted of running a multimillion-dollar smuggling operation out of North Carolina.

■ On September 28, 2002, the *Los Angeles Times* reported that federal authorities had been probing western New York for evidence of cigarette smuggling as a source of al-Qaeda funding.

Source: Bruce Bartlett, "Cigarette Smuggling," NCPA Brief Analysis No. 423, October 30, 2002, National Center for Policy Analysis.

FEDERAL UNEMPLOYMENT TAX



Source: U.S. Department of Labor.

Federal Job Tax

State unemployment insurance taxes pay cash benefits to workers, but employers sent an extra \$7.2 billion in federal unemployment insurance taxes to Washington last year. That money is credited to a "trust fund" that is supposed to be returned to the states to pay administrative expenses.

■ The basic federal unemployment tax is 0.6 percent on up to \$7,000 of each employee's wages each year.

■ After the 1973-75 recession, Congress added a 0.2 percent surtax to replenish federal funds lent to state programs that run short during periods of high unemployment.

■ The replenishment has long since been repaid, but Congress maintains the surtax.

Less than half the federal tax funds are returned to the states. For example:

■ States collected more than \$20 billion in unemployment insurance taxes in 2000, the most recent year for which data are available, and federal unemployment tax collections totaled \$6.9 billion.

■ Only 46 percent of the dollars the federal government collected were expended for unemployment benefits or administration.

■ Over the years, the federal government has diverted \$30 billion of the federal unemployment tax funds to other spending.

If the federal tax were repealed, the states could cover their own administrative expenses with a tax averaging only 0.4 percent of wages. (The exact amount of the tax would vary from state to state.) And the states could fund extended unemployment benefits themselves.

Under current law, states cannot make trade-offs between administrative and benefit funds. Without the federal tax, states could more rationally allocate resources to help the unemployed — and could reduce the cost of unemployment insurance.

Source: William B. Conerly, "Repeal the Federal Job Tax," NCPA Brief Analysis No. 418, September 26, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

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