



# Executive Alert



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ALL THAT'S NEW IN THE WORLD OF IDEAS

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## IN THIS ISSUE

- Guns Benefit Cities ..... 2
- Where Are Added Cops? ..... 2
- Private Social Security Accounts ..... 3
- Fewer Older Workers ..... 3
- European Sprawl ..... 4
- Rail Fails ..... 4
- School Choice Pays for Teachers ..... 5
- No 'Bright Flight' ..... 5
- Regulation Makes People Uninsured ..... 6
- How to Reform the Health Care System ..... 7
- Welfare Reform is Working... 8



Václav Klaus, former prime minister of the Czech Republic and now chairman of its Parliament, speaks during an NCPA Hatton W. Summers Distinguished Lecture. See related story on page E3.

## Feds Flunk Accounting

The federal government reported a budget surplus of \$69.2 billion in fiscal year 1998. However, if the government used the accounting rules it requires of the private sector, it would have reported a loss of \$133.8 billion

Businesses generally are required to report revenues and transaction costs at the time the event occurs. By contrast, federal budgetary reporting is generally on a cash basis (recording when cash is received and paid). As a result, the government figures for 1998 did not include:

- Accrued veteran compensation benefits of \$109.4 billion;
- Increases in actuarial expenses for federal employees and military pensions and health benefits of \$39.8 billion;

- An increase in environmental liabilities of \$12.8 billion.

The General Accounting Office in 1998 was unable to determine the reliability of significant portions of the financial statements submitted and was unable to express an opinion on them — an auditing action known as a “disclaimer of opinion.” Among other problems:

- There were inadequate financial and/or logistical records for a majority of the \$466 billion of reported assets — and the government could not ensure that other billions of dollars in assets were unreported.
- The government lacked adequate historical data or other evidence to estimate the cost of most major federal credit programs, the related loans receivable and loan guarantee liabilities.
- Liabilities for environmental cleanup,

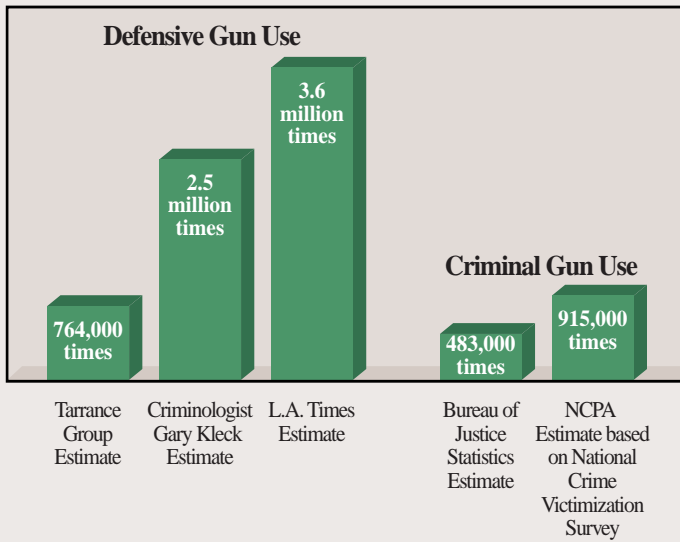
reported at \$225 billion, were understated by billions of dollars because no estimates were reported for many known liabilities, including those associated with certain major weapons systems.

- The government was unable to determine the full extent of improper payments made for reasons ranging from inadvertent errors to fraud and abuse.

These deficiencies significantly impair the federal government’s ability to adequately safeguard assets, properly record transactions and comply with legal and regulatory requirements related to financial reporting.

*Source: “1998 Financial Report of the United States Government,” March 1999, Report to Congress by the U.S. General Accounting Office, GAO/AIMD-99-130.*

ANNUAL DEFENSIVE AND CRIMINAL USE OF GUNS



Sources: Gary Kleck, *Targeting Guns: Firearms and Their Control* (Hawthorne, N.Y.: Aldine de Gruyter, 1997); and Kathleen Maguire and Ann L. Pastore, eds., *Sourcebook of Criminal Justice Statistics, 1997*, U.S. Bureau of Justice Statistics.

Benefits Of Guns

The mayors of some cities have filed lawsuits against the gun industry and others are considering suits, arguing that their cities should be reimbursed for the public health and safety costs associated with treating and preventing firearms injuries.

Gun control advocates have compared these suits to those against the tobacco industry, but unlike tobacco, guns produce tangible social benefits.

Fewer than half a million violent crimes reported to the police in 1996 involved firearms. (The National Crime Victimization Survey indicated that about 915,000 such crimes, both reported and not reported, occurred). More than 15 studies have shown that citizens use guns in self-defense between 764,000 and 3.6 million times annually — often merely showing the weapon.

- About 3,000 criminals are lawfully killed each year by armed civilians — about three times the number killed by police.
- Another 9,000 to 17,000 criminals are wounded by civilians each year.

Not only do guns protect potential victims of crime, they also save society money.

■ Even using the statistics most favorable to proponents of lawsuits against the gun industry, the benefits to society of defensive gun use exceed the costs of firearm crimes by at least \$90.7 million and perhaps as much as \$3.5 billion per year.

■ Using more reasonable estimates, the annual benefits of defensive gun use exceed the costs of firearm crimes by as much as \$38.9 billion — an amount equal to about \$400 per year for every household in America.

Serious crime in the U.S. is at a 20-year low, and one reason is that since 1987, 22 states have made it easier for private citizens to get permits to carry concealed weapons. For instance, economist John Lott found that:

- Concealed carry laws reduce murder by 8.5 percent, rape by 5 percent and severe assault by 7 percent.
- Had liberalized concealed carry laws prevailed throughout the country in any given year, there would have been 1,600 fewer murders, 4,200 fewer rapes and 60,000 fewer severe assaults.

Source: H. Sterling Burnett, "Suing Gun Manufacturers: Hazardous to Our Health," *Policy Report No. 223, March 1999, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

How Many New Cops?

Vice President Al Gore says Community Oriented Policing Services (COPS) has already added 92,000 of the 100,000 additional police officers promised when the program was initiated in 1994. But audits indicate the numbers don't add up. For example:

■ Nassau County, N.Y., got \$26 million to add 383 police officers — but the number of county-funded officers actually declined by 218 from May 1995 to May 1998.

■ Richmond, Calif., received \$944,000 in grants to add nine officers — but used the money to fund vacant positions instead, as did Atlanta.

■ Auditors looking into \$440,000 in grants to Alexandria, Va., found no documentation that equipment purchased with the money put more officers on the street as pledged.

■ Spokane, Wash., which wasn't audited, was credited with adding more than 90 police officers, but reported that it added only a couple of dozen because a \$2.5 million grant funded new civilian positions and equipment.

Law enforcement specialists point out that crime has fallen in many communities which did not get grants — calling into question just how effectively the money is being used. Nevertheless, the Clinton administration is pushing a new \$6.4 billion plan that is supposed to add up to 50,000 more police officers on the beat.

Source: *Executive Summaries, Reports on Audits of the Office of Community Oriented Policing Services, 1998, Office of the Inspector General, U.S. Department of Justice; and "100,000-Cops Program Proves to Be Mostly Hype," USA Today, April 13, 1999.*

## Private Social Security Accounts

As an alternative to the current pay-as-you-go Social Security system, many reform plans would allow individuals to invest a portion of their payroll tax dollars in private investment accounts, which the individuals would own and control. Critics claim the costs of administering such accounts would be as high as 20 percent. Is this criticism valid?

At last count, about 21 million Americans had 401(k) private pension accounts. A system of individual Social Security accounts likely would be about five times that size — as many as 140 million workers. Using a methodology developed by State Street Global Advisors, it is estimated that administrative costs of a plan this size would average less than 40 basis points (4/10ths of 1 percent) per year over the first five years if employees invested 3 percent of taxable wages in individual accounts — significantly less than the cost of a typical mutual fund or 401(k) account.

The major challenge in creating an individual account system linked to Social Security is that companies remit payroll taxes in lump sums throughout the year, but the amount withheld for each individual employee isn't provided to the government until the first quarter of the next calendar year. It takes the government up to nine more months to reconcile all W-2 forms with the previous year's tax payments.

Employers could bear the extra costs of administering and accounting for their employees' private accounts. Or they could "default," letting the government begin an approach involving three investment levels.

- At the first level, payroll taxes would be invested in a privately managed, generic money market fund as they are received by the U.S. Treasury, and would earn interest pending the reconciliation to individual accounts.
- After the individual ownership of the money is identified, it would be invested in one of several balanced funds selected by the worker and managed by professional asset managers chosen through a

bidding process.

- After the account achieves sufficient size, an account holder would have the option of transferring the balance to a qualified account with one of a number of competing financial services companies.

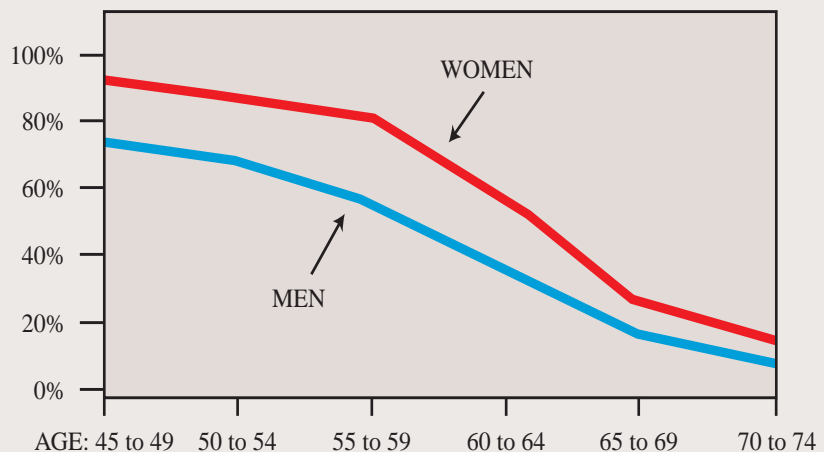
The balanced funds at the second level would allocate assets among stocks and bonds and cash. For younger workers a fund would be weighted more toward equities. One would be weighted more toward bonds for those closer to retirement.

Participants could shift from one balanced fund to another once annually during the early years of the private system.

Under the cost model developed by State Street Global Advisors, costs would range from 0.18 percent to 0.34 percent of assets over the first five years, depending on assumptions made.

*Source: John C. Goodman, "Administering Private Social Security Accounts," Brief Analysis No. 289, April 20, 1999. National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

### WORKFORCE PARTICIPATION RATE OF OLDER WORKERS, 1990



*Source: Bureau of Labor Statistics.*

## Fewer Older Workers

Since World War II there has been a major decline in the proportion of older men and women who keep working. The labor force participation rate — the percentage employed or looking for work, rather than retired or disabled — has declined dramatically for older workers.

- As late as 1950 nearly half of all men age 65 and older were still in the labor force.
- By 1997 five out of six men were in the labor force at age 55, but only half at age 62 and only one-third at age 65.

The story is more complicated for women. Their participation rates at all ages have increased. But as with men, participation begins declining rapidly af-

ter age 54. For example, in 1990:

- 92.3 percent of men and 74.8 percent of women ages 45 to 49 were in the labor force.
- But only 79.8 percent of men and 55.3 percent of women ages 55 to 59 were employed or looking for work.
- By ages 65 to 69 only 26.0 percent of men and 17.0 percent of women were still workers.

During the past decade more than two-thirds of the workers who began receiving Social Security retirement benefits chose to accept a reduced monthly check in order to begin collecting benefits before age 65 — the majority of them at age 62, the earliest eligibility age.

*Sources: Ralph Smith, "Raising the Earliest Eligibility Age for Social Security Benefits," January 1999, Congressional Budget Office, Washington, D.C.; and Bureau of Labor Statistics data.*

## European Sprawl

A relatively new school of urban planners blames the geographic expansion of America's urban areas for increased traffic congestion, higher air pollution, the decline of central cities and a reduction in farm land. Their literature often touts Europe's more compact and more densely populated urban areas as being superior to those in the United States. But European cities are suburbanizing, too, and like their American counterparts, many European central cities have lost population. For example:

- In Paris, with one of the world's most intensive rail transit systems, the central city population loss and suburban population explosion since the 1950s mirror those of Philadelphia.
- Copenhagen, Liverpool, Manchester and Glasgow all lost about 40 percent of their population to the suburbs in the past 40 years — compared to 45 percent in Detroit and Cleveland, 39 percent in Newark and 32 percent in Washington.
- Stockholm has lost 16 percent of its population to the suburbs since 1950.

The same pattern is occurring in other developed nations as well:

- Toronto's population fell by 8 percent and Montreal's by 20 percent from 1970 to 1990.

- Tokyo has lost more than two million population to the suburbs since 1960.

Europe's comparatively high public transit market share has led to the mistaken impression that transit is gaining there at the expense of the automobile. But European automobile use has grown at three times the U.S. rate since 1970, largely as a result of increasing affluence. Europe's trend toward higher automobile dependency and lower transit market shares is following U.S. trends by a decade or two, just as its rising affluence has followed U.S. trends.

Some planners want to impose urban growth boundaries on cities to force higher densities. But urban growth boundaries have a long history of failure. Queen Elizabeth I established one around London in 1580 and King Louis XIII around Paris in 1638. Both failed to contain growth, as did subsequent urban growth boundaries established by Louis XIV and Louis XV.

*Source: Wendell Cox, "The President's New Sprawl Initiative: a Program in Search of a Problem," Backgrounder No. 1263, March 18, 1999, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.*

## Rail Fails to Reduce Congestion

Traffic congestion has increased faster on highways in cities with new rail projects than those relying on highways to carry commuters and travelers. Based on data from the Federal Highway Administration and the Texas Transportation Institute's Roadway Congestion Index:

- Overall traffic congestion in urban areas with more than one million people increased by 23.8 percent from 1982 to 1994.
- Congestion increased 29.0 percent in cities with new rail projects, compared to 22.2 percent in other urban areas.
- Thus, congestion increased 30.6 percent faster in the cities with new rail projects.

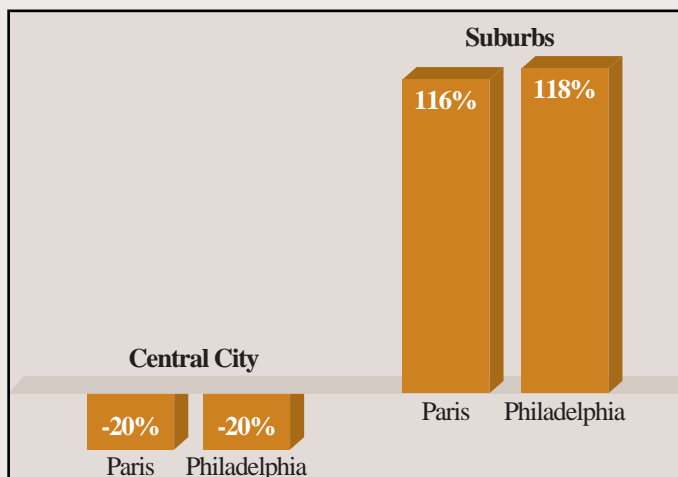
In San Diego, congestion increased by 55 percent — the fastest of any city using rail. The increase was 32.5 percent in Sacramento, 29.7 percent in Atlanta, 27.7 percent in Washington, D.C., and 27.6 percent in Portland, Ore.

Experts generally attribute rail transit's inability to reduce congestion to two factors.

- Rail transit's share of total trips is too small to have a significant impact on automobile use, since on the average only 2.2 percent of commuters in the U.S. use transit.
- Most rail transit riders are former bus passengers — as many as two-thirds in Portland, Ore., and more than 60 percent in Los Angeles, for example.

*Source: "Rail Transit Fails To Reduce Congestion," Policy Note, February 1999, Buckeye Institute for Public Policy Solutions, 131 N. Ludlow Street, Suite 317, Dayton, Ohio 45402, (937) 224-8352.*

### POPULATION CHANGE SINCE THE 1950s



*Source: Calculations based on U.S. and French census data.*

## No 'Bright Flight'

Contrary to public school officials' predictions, in the first district-wide school choice program in the United States private schools did not skim off the best students, leaving the others to the public schools. Of the 566 students who transferred out of San Antonio's Edgewood Independent School District under the Horizon Project:

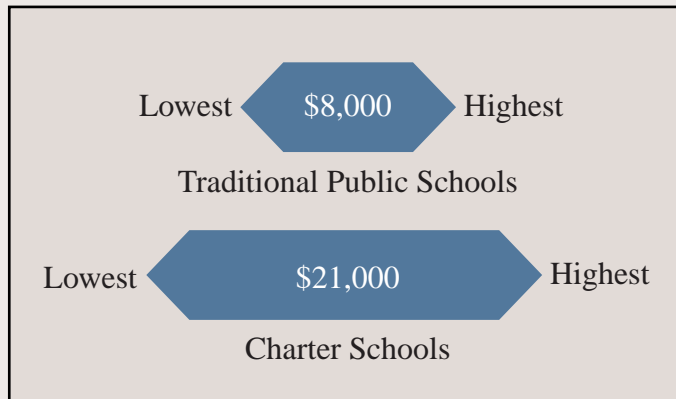
- Records from the public schools showed that many who had carried "B" averages had failed to pass the Texas Assessment of Academic Skills tests in the same subjects.
- On a nationally normed academic achievement test administered shortly after the Horizon Project began, the transferring students performed, on average, at a 4.8 level in reading and a 4.9 level in math on a 10-point scale where 5 is generally considered average.

The Horizon Project, sponsored by the Children's Educational Opportunity Foundation, is a privately funded voucher program for children from low-income families. Last year it offered a full tuition scholarship to any child in the Edgewood district eligible for the federal free or reduced-price lunch program who wanted to go to a private school or a public school elsewhere. Ninety-three percent of the district's 14,000 students were eligible.

The Horizon Project actually provided scholarships to 837 students living in the Edgewood district, but only the 566 had been attending Edgewood schools. Another 166 were already in private schools — and 105 more who got the vouchers lived in the Edgewood district but their families had been using false addresses so they could attend public school in another district.

*Source: "A Report on the First Semester of the Horizon Voucher Program," January 1999, Children's Educational Opportunity Foundation, 8122 Datapoint Drive, Suite 804, San Antonio, Texas 78229, (210) 614-0037.*

## SALARY RANGE VARIANCE FOR NEWLY HIRED TEACHERS IN ARIZONA



*Source: Goldwater Institute survey.*

## School Choice Raises Teacher Pay

One difference between charter schools and traditional public schools is that teachers in charter schools generally have less job security — they have no tenure, work under year-to-year contracts and risk dismissal if they fail to contribute to student achievement as judged by the school. In return, however, they usually have more teaching flexibility and less paperwork, and they participate more fully in decision making. If Arizona's charter school experience is typical, they often earn more than their public school counterparts as well.

Charter school teachers often have job options other than teaching because they have subject matter expertise, are willing to take risks and have nonteaching work experience. Some charter schools hire only certified teachers, but overall only about 60 percent of charter school teachers in Arizona hold teaching certificates. The state's beginning charter school teachers earn an average of 6 percent more than beginning teachers in traditional public schools, and there is more flexibility in pay.

- The salaries for newly hired teachers in Arizona public schools vary over a range of about \$8,000,

with differences depending exclusively on years of teaching experience and the number of college credits beyond a bachelor's degree.

- By contrast, the salaries for newly hired teachers in the state's charter schools vary over a range of about \$21,000, with differences depending on such criteria as subject matter expertise, experience, education and other opportunities.

Most established charter schools set their salary schedules 5 percent higher than traditional public schools, with merit pay and pay for special skills raising the overall average to 6 percent higher.

Teachers appear to be motivated by the accountability and performance-based incentives of charter schools. For instance, amid what has been described by some as a nationwide education crisis created by a lack of certified teachers, one Arizona charter school recently received applications from 200 qualified candidates for fewer than 10 teaching jobs.

*Source: Lewis Solomon and Mary Gifford, "Teacher Accountability in Charter Schools," Brief Analysis No. 285, March 1, 1999, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## Drug Price Controls

Pharmaceutical drugs are typically produced for a fraction of their sales price. The difference represents the costs of research and development and information dissemination, most of which the manufacturer has long since incurred. Drug prices are a tempting target for price regulators who want to force drug manufacturers to sell at a price that covers short-run costs but ignores most long-run research costs.

However, patients are benefiting from pharmaceutical advances that would not have occurred without massive investments that offered the prospect of financial reward.

- The pharmaceutical breakthrough that has lengthened the lives of thousands of AIDS sufferers cost upwards of a billion dollars.

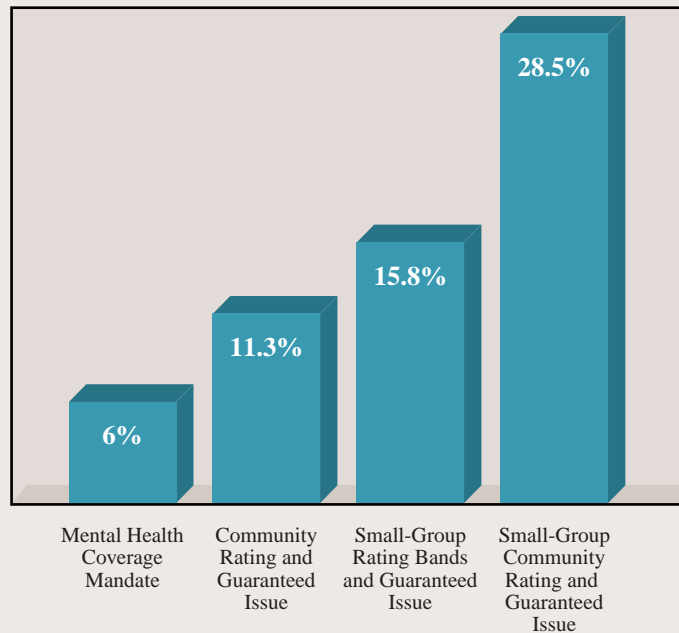
- The manufacturers of the “statin” class of cholesterol-reducing drugs spent millions of dollars on the research and millions more on motivating consumers to consult physicians about their blood cholesterol counts.

- One of the first biotechnology drugs, tPA, has revolutionized the treatment of heart attacks and strokes, but costs about \$2,000 a dose, largely because the manufacturer spent millions of dollars in clinical testing, much of it after the drug was originally approved for marketing.

Price controls almost never work exactly as intended, and it is uncertain that they would make drugs cheaper to buy. When Medicare tried to control physician and hospital payments by setting reimbursement levels for so-called “diagnostic related groups,” “DRG consultants” sprang up to help care providers divide standard medical procedures into numerous separately reimbursable components. Thus, whether this attempt to control health care costs actually did so is debatable.

*Source: John E. Calfee, “Why Pharmaceutical Price Controls Are Bad for Patients,” **On the Issues**, March 1999, American Enterprise Institute, 1150 Seventeenth Street, N.W., Washington, D.C. 20036, (202) 862-5800.*

## HOW MUCH REGULATIONS INCREASE THE PROBABILITY OF BEING UNINSURED



*Source: Center for Risk Management and Insurance Research, Georgia State University.*

## Making People Uninsured

Key state legislative and regulatory reforms intended to increase the number of Americans with health insurance coverage have instead increased costs and thus increased the number of people without insurance.

The two types of state regulation that have had the greatest effect on the structure of local health insurance markets are coverage mandates — requiring that certain services or types of providers be included in any health insurance policy sold within the state — and small group reforms — requiring that insurance be priced the same to everybody (community rating) or that every applicant be issued a policy regardless of health status (guaranteed issue).

An economic model using data from the March 1998 supplement to the Census Bureau’s Current Population Survey finds:

- Mandates that insurance plans cover mental health increased the probability an individual would be uninsured by almost 6 percent.

- Community rating and guaranteed issue requirements in the individual health insurance market increased the probability an individual would be uninsured by 11.3 percent.

- The use of small-group rating bands (limiting the difference between the lowest and highest premiums charged individuals in the group) coupled with guaranteed issue increased the probability an individual would lack health insurance by 15.8 percent.

- Small-group community rating, in conjunction with a guaranteed issue requirement, increased the probability an individual would lack health insurance by 28.5 percent.

*Source: William S. Custer, “Health Insurance Coverage and the Uninsured,” December 10, 1998, Health Insurance Association of America, 555 13th Street, N.W., Washington, D.C. 20004, (202) 824-1600.*

## Reforming the U.S. Health Care System

Unwise government policies are largely responsible for the fact that the number of Americans without health insurance is 43 million and rising. The following proposals would fundamentally alter the federal government policies that contribute to the problem.

**1. Universal coverage.** The federal government should commit a fixed sum of money for health insurance for every American (say, \$800 per adult and \$2,400 for a family of four). Everyone who purchases private health insurance will be rewarded with a reduction in income taxes through a refundable health insurance tax credit, dollar-for-dollar up to the fixed amount. In most cases, employees will get the same tax relief if they obtain insurance through an employer, but employer plans can only qualify for one type of tax subsidy — either the tax credit system or the current system of excluding employer payments from employee taxable income.

- The federal tax relief probably will fund only a core benefits package, and more complete benefits packages could be purchased, but with aftertax (unsubsidized) dollars.

- The tax subsidy will encourage the purchase of private insurance and, conversely, those who fail to buy private insurance will pay higher taxes.

- But unlike the current system, the “tax penalties” will be rebated by the federal government to state and local governments to fund health care for the uninsured.

**2. A health care safety net for the uninsured.** The rebated “tax penalties” will be used by state and local governments to create Health Care Safety Nets. Those who elect to remain uninsured will have to rely on a local Health Care Safety Net if they cannot pay their medical bills from their own resources. However, no uninsured person will have the right to demand a particular health care service from the Safety Net.

- Although the commitment of

federal dollars to private insurance or Safety Nets is the same, the amount of money per capita available to local Safety Nets is expected to be less than the resources available through private insurance.

- Thus, Safety Net programs may not be able to meet every health care need, there may be some waiting and Safety Net doctors may not always be the very best doctors.

- The Safety Net programs will be a more rational allocation of existing spending on health care for the uninsured, which now amounts to more than \$1,000 for every uninsured person.

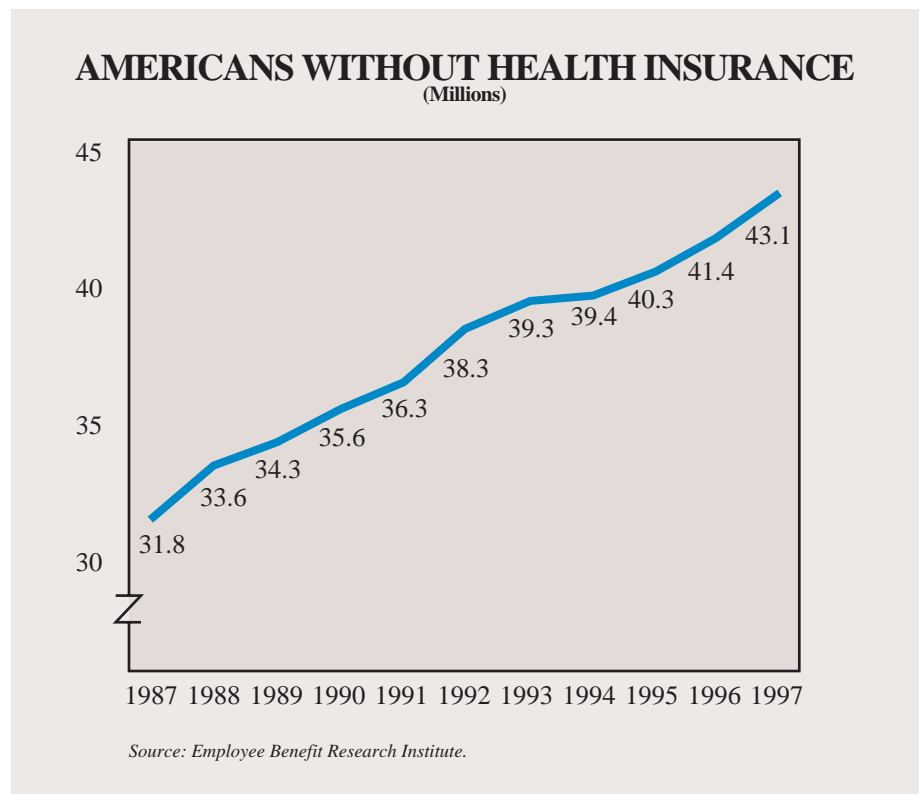
**3. Tax fairness.** This plan will provide, for the first time, just as much tax relief to individuals who buy their own health insurance as is provided to employer-sponsored plans, and as much tax relief to low- and moderate-income families as is provided to high-income families.

**4. Preserving employer options, but rewarding good choices.** Employers will have the option of keeping their employees in the current tax exclusion system. However, those who help their

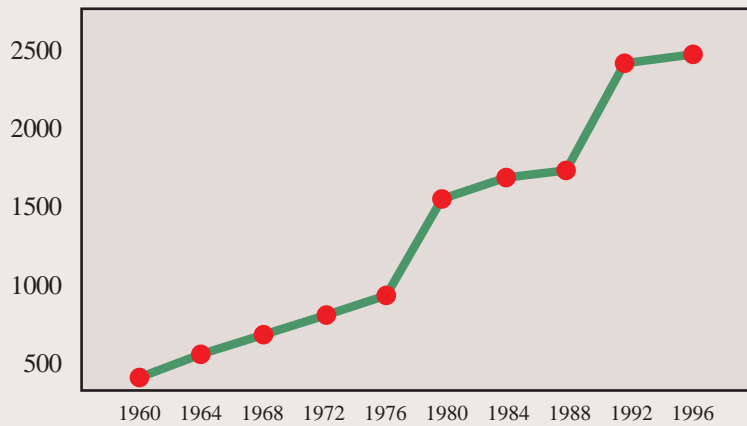
low-income employees by switching to a tax credit regime will be rewarded, even though their higher-income employees may pay higher taxes as a result. The new tax regime will lower the cost of the employer’s compensation package and make it easier to compete for employees in the labor market.

**5. Incentives to reduce waste and inefficiency.** Under the new tax credit system, no one will be able to reduce taxes by buying more expensive health insurance. Individuals will be able to deposit a certain amount of aftertax income in a Roth MSA, a “wraparound” account designed to fund medical expenses not covered by a health plan. Funds in a Roth MSA can be used only for medical care or must remain in the account to back up a health plan for at least one year. After that, the account holder will be able to withdraw the funds without penalty for any purpose, leave them in the account to grow tax free or roll them over into a Roth IRA

*Source: John C. Goodman and Merrill Matthews, “Reforming the U.S. Health Care System,” NCPA Backgrounder No. 149, April 26, 1999, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*



**THE GROWTH IN GOVERNMENT BUREAUCRATS**



Source: Brookings Institution.

**Bureaucrats Multiply**

The Clinton administration has created as many new top bureaucrats in its cabinet departments as the past seven administrations created in the preceding 33 years.

- Since 1993, the 14 cabinet departments have created 16 new titles at the top of their bureaucracies.
- The number of top presidential appointees and senior executives grew from 451 in 1960 to 2,408 in 1992.
- Since then, the number of top positions has grown by 2.2 percent.

**Some areas of government have 30 to 40 bureaucratic layers.**

In some parts of the government, 30 to 40 bureaucratic layers separate the front-line employee from the agency head. The number of employees at the middle level has grown despite the loss of 35,000 managers. Numerous agencies trimmed their mid-management rungs by simply assigning different titles.

Source: Paul C. Light, "The Changing Shape of Government," Policy Brief No. 45, February 1999, Brookings Institution, 1775 Massachusetts Avenue, N.W., Washington, D.C. 20036, (202) 797-6000; and Stephen Barr, "Title Creep Reported at Agencies," Washington Post, March 8, 1999.

**Welfare Reform Working**

Since their peak in March 1994, the nation's welfare rolls have shrunk by more than 40 percent, the employment rates of female-headed families have soared, their poverty rates have dropped and their income has increased.

- Fully two-thirds of all increases in U.S. workforce participation from 1994 to 1998 were attributable to welfare reform and increases in the federal tax credit for low-income workers.
- During the same period, the percentage of never-married mothers holding jobs jumped an unprecedented 32 percent after remaining virtually flat for the previous 15 years.

The dramatic decline in welfare rolls has not produced the increase in poverty that was widely predicted by opponents of welfare reform.

- The Census Bureau reports that children's poverty declined in 1997 for the fourth year in a row, and the poverty rate for black children declined by the largest single-year amount ever, to the lowest rate on record.
- The poverty rate for black female-headed families with children declined by 4.1 percentage points, also the greatest decline ever.

According to the Office of Management and Budget, single mothers living in the poorest 40 percent of U.S. households received a total of \$4 billion less in welfare income in 1997 than in 1993 (after taking inflation into account), but their earned income increased by \$4.3 billion, and they received another \$2.1 billion increase from the earned income tax credit.

As long as welfare was an entitlement, more and more people signed up and stayed for longer and longer periods.

- During the eight years of the Reagan economic expansion that began in 1982, as the economy added 17 million jobs, the welfare caseload actually increased by 13 percent.
- By the mid-1980s, the average duration on welfare for families on the rolls at a given moment was 13 years.

The essence of welfare reform was to end welfare as a vocation by requiring persons on welfare to work from the first day they seek benefits; placing firm time limits on benefits; giving states authority to impose sanctions on adults not willing to work; and changing welfare payments to fixed-sum block grants to states, with states keeping savings from reducing caseloads.

Source: Ron Haskins, "Welfare Reform Is Working for the Poor and Taxpayers Both," *The American Enterprise*, January/February 1999, American Enterprise Institute, 1150 17th Street, N.W., Washington, D.C. 20036, (202) 862-5800.

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