



# Executive Alert



VOL. 14, NO. 5

ALL THAT'S NEW IN THE WORLD OF IDEAS

SEPTEMBER/OCTOBER 2000

## IN THIS ISSUE

- Inheritance, Wealth and the Death Tax . 2
- Reducing the Social Security Benefits Tax ..... 2
- Brady Act Had Little Effect on Murder Rate ..... 3
- Privatizing Probation, Parole ..... 3
- High Cost of Complying with Regulations ..... 4
- Government Spending and Social Progress ..... 4
- School Choice in San Antonio ..... 5
- Where Congressional Kids Go to School ..... 5
- Children Still Uninsured ..... 6
- Health Care and the Internet ..... 6
- Answering MSA Questions ..... 7
- State Mandates Increase ..... 7
- Warming Treaty Would Hurt Minorities ..... 8
- MTBE or Ethanol — or Neither? ..... 8



Gov. Pete du Pont, NCPA Policy Chairman, testifies on Social Security before the House Budget Committee, while former Representative Tim Penny looks on. See related story on page E2.

## Are Cellphones Risky?

More than 94 million Americans have cellular telephones, and more than 80 percent use them at least some of the time while driving, raising safety concerns. In many places policymakers are debating whether motorists should be forbidden to use cellphones while driving. However, people are far more likely to be hit and killed by a large truck than by a car driven by a motorist talking on a cellular telephone. A new study by the Harvard Center for Risk Analysis finds:

- There is a 6.4 in 1 million chance of a driver dying in an accident while talking on a cellphone, and a 1.5 in 1 million chance that another motorist will be struck and killed by a driver talking on a cellphone.

- By comparison, drivers face a 16.8 in 1 million chance of being killed in a crash with a commercial or heavy-duty truck, and a 17.6 in 1 million chance of being killed by someone who drank alcohol before driving.

There are fewer fatalities involving cellphones because most calls are made during rush hour when people are driving at fairly moderate speeds. On the other hand, most accidents involving alcohol take place at high speeds at night.

The National Highway Traffic Safety Administration has warned drivers not to use cellphones, and four small towns and several counties across the nation have banned the use of cellphones while driving. A Canadian study found the risk of having a minor accident was four times higher when a motorist is talking on a phone.

While cellphones do pose some risks, the research finds that those risks are far outweighed by the benefits — improved peace of mind, ability to contact an emergency service, ease in telling people at home or the office about traffic delays, speed in notifying authorities of drunken drivers and the like. The Center for Risk Analysis said there is not yet enough reliable information on which to base reasonable policy. Restrictions imposed now will be difficult to reverse, and will drastically limit the ability for research to quickly produce superior scientific information comparing risk and benefits.

Source: Karen S. Lissy et al., "Cellular Phone Use While Driving: Risks and Benefits," Phase 1 Report, July 2000, Harvard Center for Risk Analysis, Harvard School of Public Health, 718 Huntington Avenue, Boston, Mass. 02115, (617) 432-4497.

## Inheritance and Wealth

The United States has the second highest estate tax rate of any country in the world. The current tax is designed to redistribute wealth, but because U.S. wealth and income are highly mobile, most fortunes are earned rather than inherited, and rarely survive past the second generation.

- Some 80 percent of millionaires acquire their wealth in a single generation without the benefit of inheritance.
- Among the top 5 percent of households ranked by wealth, only 8 percent of their wealth came from inheritances.
- Over a 10-year period, 60 percent of families in the bottom 10 percent of wealth distribution had moved up to a higher tenth — and some all the way up to the top 10 percent.
- Conversely, almost half of those in the top 10 percent of wealth had dropped out of that tier after 10 years.

Through expensive estate planning, the very wealthy are able to minimize their estate taxes, so the heaviest burden falls on those who accumulate smaller estates. More than 50 percent of all estate tax revenue in 1997 came from estates of under \$5 million.

The greatest impact of the estate tax is on small, family-owned farms and businesses. The effects can be devastating. According to a recent survey:

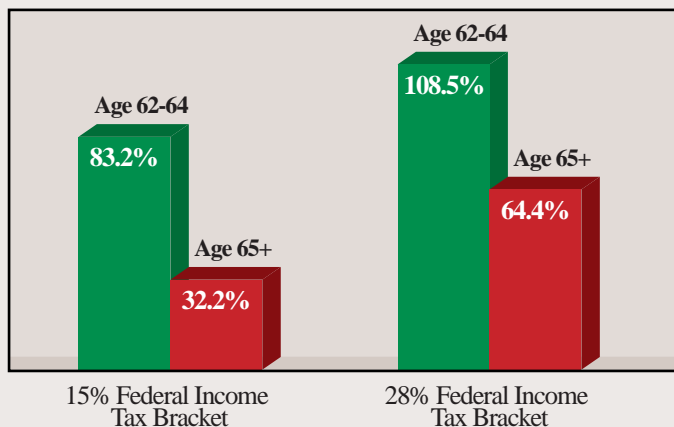
- Due to the estate tax, 51 percent of family businesses would have significant difficulty surviving in the event of a principal owner's death.
- Another 14 percent of businesses would find it impossible to survive.

As the nation's wealth rises, more and more middle-class individuals and families are affected by the estate tax or believe they might be. Thus, although just 2.03 percent of adult deaths in the United States are expected to result in taxable estates this year, the public supports elimination of the estate tax by a margin of almost three to one.

Source: Bruce Bartlett, "Wealth, Mobility, Inheritance and the Estate Tax," NCPA Policy Report No. 235, June 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Reducing the Social Security Benefits Tax

### MARGINAL TAX RATES ON WAGES



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

The Social Security benefits tax subjects some Social Security recipients to the highest marginal tax rates of any Americans. On July 27, the House of Representatives voted to reduce from 85 percent to 50 percent the portion of benefits subject to taxation. The Senate is still to consider the bill.

- The tax is imposed on up to half of benefits for single retirees with "modified adjusted gross income" over \$25,000 and for couples with income over \$32,000. (Modified adjusted gross income includes all ordinary adjusted gross income, plus half of Social Security benefits, plus income from tax-exempt bonds.)
- Earning an extra dollar boosts taxable income by \$1.50, which for a retiree in the 28 percent income tax bracket means 42 additional cents goes to income tax — a 42 percent marginal tax rate.
- Since 1993, up to 85 percent of benefits of single retirees with income above \$34,000 and couples with income over \$44,000 has been subject to tax.
- For retirees in this category, earning an extra dollar raises taxable in-

come by \$1.85, causing a 52 percent marginal tax rate.

Despite its name, the Social Security benefits tax is not a tax on the benefits, but rather a tax on *other* retirement income. No tax is paid until the other income reaches a certain level.

If a Social Security beneficiary's added income is wage income, it is also subject to a 15.3 percent payroll tax, half on the employee and half on the employer. The employer receives a tax deduction for its half, reducing the effective payroll tax rate to 12.6 percent. For a couple age 65 or over in the 28 percent income tax bracket, adding the payroll tax and the Social Security benefits tax can push their marginal tax rate to as high as 64 percent. In addition, a beneficiary age 62 to 64 who has wage income above \$10,080 loses \$1 in benefits for every \$2 in earnings over that amount — a 50 percent marginal tax rate which can push the total marginal rate above 100 percent.

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

## Brady Act and Gun Deaths

The Brady Handgun Violence Prevention Act, which established a nationwide background check and waiting period for the purchase of handguns, appears to have had no impact on the nation's murder and suicide rates. However, it appears to be associated with a slight reduction in the firearm suicide rates for persons age 55 and over.

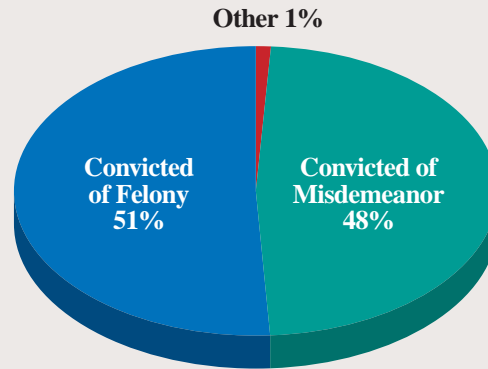
An examination of national statistics from 1985 through 1997 suggests that homicide and suicide rates for persons of all ages began to decline before the Brady Act was implemented in 1994. To analyze the impact of the law, total and firearm homicide and suicide rates per 100,000 adults over the 1985-97 period in the 32 states directly affected by the Brady Act were compared with the rates in the 18 states and the District of Columbia that already had equivalent legislation in place. The analysis found:

- Changes in overall rates of homicide and suicide for the two groups of states were not significantly different.
- However, gun suicide rates among persons age 55 and over did decrease about 6 percent more in the states affected by the Brady Act than in states with legislation already in place.
- An increase in nongun suicides among those age 55 and over occurred in the states affected by the Brady Act, although it was somewhat less than the decrease in gun suicides among this group.

The pattern of implementation of the Brady Act did not permit a reliable analysis of secondary-market handgun sales, which are mostly unregulated.

*Source: Jens Ludwig and Philip J. Cook, "Homicide and Suicide Rates Associated with Implementation of the Brady Handgun Violence Prevention Act," Journal of the American Medical Association, Vol. 284, No. 5, August 2, 2000.*

### PERSONS ON PROBATION, 1999



*Source: U.S. Bureau of Justice Statistics.*

## Privatizing Probation, Parole

One out of 45 adults free on the streets today is a convicted criminal released on probation or parole. That's 4.5 million people under government supervision — a majority of them convicted felons. Many of those released commit loathsome crimes.

- 36 percent of persons arrested for felony crimes are already on probation, parole or pretrial release.
- Probationers convicted in 1991 were responsible for at least 6,400 murders, 7,400 rapes, 10,400 assaults and 17,000 robberies.
- Violators of parole and conditional release made up 206,000 of the 565,000 admissions to state prisons in 1998.
- 42 percent of felons who complete their parole or conditional release supervision eventually return to prison or jail.

In the probation bureaucracy of 50,000, only an estimated 11,500 directly supervise adult probationers, producing an average caseload of 258 offenders versus an "ideal caseload" of 30. Another study calculates that only 4,420 of these officers supervise felons, an average caseload of 337. Clearly, probation officers have more cases than they can effectively handle.

The probation and parole systems could be made more effective and effi-

cient by adapting the principles of the commercial bail bonding system, used successfully for criminal defendants, to those found guilty but eligible for release on probation or parole. Here is one approach:

- Those released on probation or released early from prison could be required to post a financial bond guaranteeing behavior in accord with terms of the release.
- This would transfer the successful commercial principles of our bail system — which allows most people who are arrested and charged with a crime to be released on bail pending trial — to the probation and parole systems.
- Bail operates on the principle that the accused can go free once he guarantees his presence in court on a certain date by posting a significant sum of money.
- If he shows up, he gets his money back; if he doesn't, he suffers a major financial loss.

A private bonding system would reduce, though probably not eliminate, the need for probation and parole officers on the public payroll. With their own money at risk, relatives and bondsmen would have a serious financial incentive to supervise their charges.

*Source: Morgan O. Reynolds, "Privatizing Probation and Parole," Policy Report No. 233, June 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## Regulatory Compliance Costs

The federal government spent \$1.7 trillion in 1999, but the cost of government actually was far higher. Compliance with federal environmental, safety and health and economic regulations cost the private sector hundreds of billions of additional dollars. The “hidden tax” of regulation can affect consumers’ pocketbooks by increasing the cost of groceries, utilities, health services and housing.

- The Office of Management and Budget estimated that compliance costs were as high as \$234 billion, but a private, more broadly constructed estimate set the 1999 costs at \$758 billion — far outdistancing the \$189 billion in corporate taxes.

- In 1998 the median two-earner family’s aftertax income of \$41,846 contained about \$7,410 in hidden regulatory costs.

Still, more than 50 federal departments, agencies and commissions continue to issue rules, with just five — the Treasury Department, the Environmental Protection Agency, the Transportation Department, the Commerce Department and the Agriculture Department — accounting for 46 percent of all rules under consideration.

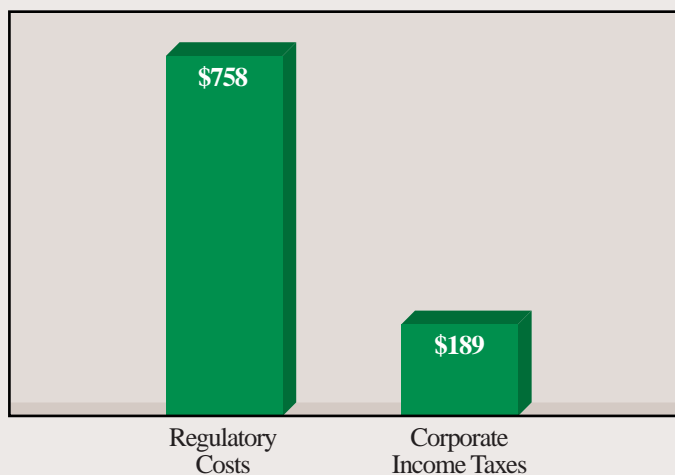
- The 1999 Federal Register contained 71,161 pages, a 4 percent increase over 1998 and the highest number since Jimmy Carter’s presidency.

- Agencies have issued more than 23,000 final rules since the Republican takeover of Congress.

- In 1999, 4,538 regulations were at various stages of implementation, with 137 classified as “economically significant,” meaning they will each have at least \$100 million in economic impact.

*Source: Clyde Wayne Crews Jr., “Ten Thousand Commandments,” April 2000, Competitive Enterprise Institute, 1001 Connecticut Avenue, N.W., Suite 1250, Washington, D.C. 20036, (202) 331-1010.*

**REGULATORY COSTS AND CORPORATE TAXES, 1998**  
(Billions)



*Source: Competitive Enterprise Institute.*

## Government Spending and Social Progress

Over the past century, government spending grew to an average of 45 percent of gross domestic product (GDP) among developed countries. But do these expenditures make countries more productive or achieve such social objectives as improving the health and literacy of the population?

While some government spending — on roads, education and criminal justice, for example — positively affects per capita GDP, beyond a certain point the tax burden necessary to finance this spending slows economic growth and thus retards the per capita GDP growth.

A study measuring social progress by an index based on literacy, infant mortality and life expectancy plus a broader index using 16 social indicators concludes that although government spending has a positive impact on social progress up to a certain level, spending by most developed countries has gone well beyond that point. As a result, there appears to be little difference in social outcomes among developed industrialized countries, regardless of the amount they spend. Social progress in developed countries that spend less than 40 percent of GDP — the United States, Switzerland, Japan, Australia and New

Zealand — is about the same as in those with public spending above 50 percent of GDP. Specifically:

- Advanced countries realize no benefit in terms of social progress from government consumption spending beyond \$3,650 per person or 18.6 percent of GDP.

- The optimal level of per capita government spending — the point at which a dollar increase in public spending buys a dollar’s worth of additional social progress — is \$1,105, or 5.6 percent of GDP.

- Thus optimal spending is about one-third of what these governments actually spend.

- With the exception of Singapore (and Hong Kong, if the data were available), the world’s most developed countries are receiving no gains in social progress at the margin from government spending.

Thus there is considerable scope for shrinking the fiscal state without doing harm to social progress.

*Source: Gerald W. Scully, “Public Spending and Social Progress,” Policy Report No. 232, June 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## Choice in San Antonio

In 1998 the Children's Educational Opportunity (CEO) Foundation and Children First CEO America began the Horizon Scholarship Program in the Edgewood Independent School District (EISD) in San Antonio, Texas. The project offered any student from a low-income family who wanted to attend another school, private or public, a privately funded full tuition scholarship. About 90 percent of the 13,500 students qualified.

During the first school year, 1998-99, the Horizon Program gave 837 scholarships to children from kindergarten through 12th grade. Of this group, 566 transferred from EISD schools, 116 were starting kindergarten, 105 lived in the Edgewood district but had been misrepresenting their address to attend public schools in other districts and 50 were already in public schools.

An evaluation of first-year results by researchers from Mathematica Policy Research and the Harvard University Program on Education Policy and Governance answers some of the major objections raised by opponents of school choice.

Opponents of voucher programs frequently argue that they will lead to "creaming," skimming the best students from public schools and leaving behind poorly performing students. But the first-year evaluation found few statistically significant differences between students in the Horizon Program and those who remained in the Edgewood public schools.

The evaluation also found the Horizon families are remarkably similar to Edgewood public school families. The difference in average annual income between the families was only \$51, mothers of voucher students completed an average of 12 years of education compared to 11 years for public school mothers, and 4 percent of Horizon mothers were receiving welfare compared with 5 percent of public school mothers.

Critics argue that low-income families are more concerned about location, sports programs or religious instruction

## Congressional School Choice

Many members of Congress who oppose school choice initiatives choose to send their own children to private schools. A recent Heritage Foundation survey found that among members of Congress with school-age children:

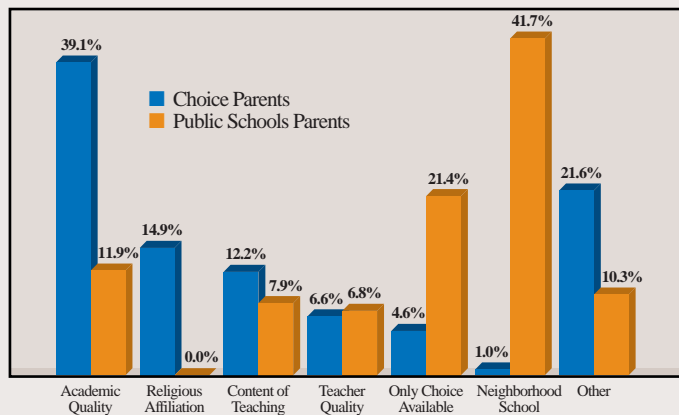
- Almost half (49 percent) of Senators and 40 percent of Representatives send or have sent at least one child to private school, with lawmakers who serve on committees with jurisdiction over education most likely to choose private schools.

- Among representatives from the 10 largest U. S. cities, 33 percent chose private schools over public schools.

- Twenty-nine percent of the Black Caucus and 14 percent of the Hispanic Caucus send or have sent a least one child to a private school, although both caucuses are avid opponents of school choice.

*Source: Nina Shokraii Rees and Jennifer Garrett, "How Members of Congress Practice School Choice," Background No. 1377, June 14, 2000, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.*

## SINGLE "MOST IMPORTANT" REASON FOR CHOOSING A SCHOOL



than about academic quality, but surveys of the Horizon parents do not bear this out.

- Some 80 percent said that academic quality, teacher quality, discipline and classroom instruction were all "very important" reasons they chose the program, and fewer than 15 percent said that sports programs were a factor.

- When asked for the single "most important" reason for choosing their child's school, almost 40 percent cited academic quality.

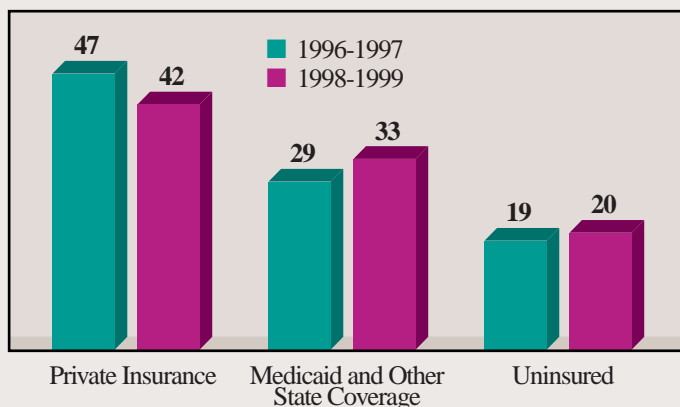
- By contrast, only 11.9 percent of parents whose children stayed in public

schools cited academic quality first.

Almost as important among Horizon parents was having a better and more secure learning environment for their children. Both parents and students reported the children received and did more homework than their public school counterparts. Horizon parents and students also reported less fighting and students said there were fewer class disruptions than did public school students.

*Source: Melanie Looney, "School Choice in San Antonio," Brief Analysis No. 326, June 16, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## HEALTH INSURANCE COVERAGE OF LOW-INCOME CHILDREN



Note: 5% in 1996-1997 and 6% in 1998-1999 had other public coverage such as Indian Health Service.

Source: Center for Studying Health System Change.

## Children Still Uninsured

Since the State Children's Health Insurance Program (CHIP) was implemented in 1997, the percentage of children from low-income families with public coverage has increased while the percentage covered by private insurance has decreased sharply, resulting in no net change. CHIP was designed primarily to reach children from families above the poverty level but previously ineligible for Medicaid. However:

- For those children in families earning less than 200 percent of the poverty level — a group targeted by CHIP — the rate of Medicaid and other state coverage increased from 29 percent to 33 percent from 1996-97 to 1998-99.

- Meanwhile, the rate of private coverage fell from 47 percent to 42 percent.

Perhaps more telling are changes in the uninsured status of children with access to employer-sponsored coverage through a parent.

- Among children from low-income families whose parents were offered and eligible for employer-sponsored coverage, 72 percent were enrolled in 1996-97 but only 66 percent in 1998-99.

- Conversely, the enrollment in Medicaid and other state coverage among this group increased from 10 percent to 14 percent.

- The proportion of children with access to employer-sponsored coverage remained the same during the period, 11 percent.

These shifts may represent the substitution of public for private coverage. If so, expansions of public coverage have benefited children who already had private insurance, providing their families with a lower-cost or free alternative, while doing little to help the uninsured.

Source: Peter J. Cunningham and Michael H. Park, "Recent Trends in Children's Health Coverage: No Gains for Low-Income Children," Issue Brief No. 29, April 2000, Center for Studying Health System Change, 600 Maryland Avenue, S.W., Suite 550, Washington D.C. 20024, (202) 484-5261.

## Health Care and the Internet

The Internet is changing the entire health care environment for physicians, insurers and patients. It offers consumers the possibility of one-stop shopping for health care and health insurers the opportunity to develop new products and reduce administrative costs. Data about Internet usage refute the contention that consumers lack the expertise or desire to manage their own health care spending.

- A recent Harris Poll estimated that up to 70 million people looked on the Internet for health information during a recent 12-month period.

- Forrester Research recently found that nearly one-third of online consumers already shop for health products on the Web.

- According to Cyber Dialogue, an Internet research firm, of the 90 percent of Internet users who have health insurance, 78 percent said they would be interested in managing their benefits through an insurance carrier's Web site.

Insurers are developing new products tailored to consumers who

want to manage their own health care, utilizing the Internet's cost-saving capabilities. For example:

- A new venture, eHealthInsurance.com, offers high-deductible, catastrophic insurance policies for 80 percent less than low-deductible policies in some cases.

- Another new health insurance company — HealtheCare.com — plans to offer a medical savings account (MSA) specifically designed for consumers who want to manage their health care via the Internet.

If Internet use only lowers health care spending, that will be an achievement. But patients using the Internet likely will benefit from improved therapy and lower insurance prices as well. The Internet can break barriers to real competition in the health care marketplace, giving patients more say in the quality and cost of their health care.

Source: Devon Herrick, "Managing Health Care with the Internet," Brief Analysis No. 330, July 27, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## MSA Answers

The Medical Savings Account (MSA) pilot program passed by Congress in 1996 expires at the end of this year unless Congress acts soon to extend it. The program allows small employers and the self-employed to set up a tax-favored savings account to pay for routine medical expenses, provided they also have an insurance plan that meets some very specific requirements.

The restrictions imposed by the act and the fact that the pilot program was limited to four years have discouraged many insurance providers from participating. To date, only about 100,000 "qualified" MSAs have been established, so conducting the kind of formal evaluation that Congress originally intended is difficult. However, information gathered and research developed over the past four years helps to dispel some critical claims about the MSA program.

### Do MSAs appeal only to the healthy and wealthy?

■ No evidence ever supported this charge, and recent research by the RAND Corporation shows that the opposite is true.

■ The RAND researchers found that those who chose an MSA were on average the highest-risk people and were considerably less wealthy than those who chose HMO coverage.

### Will MSAs deplete the risk pool and raise rates for those left behind?

■ In fact, the United States has no single risk pool, but instead has tens of thousands of risk pools, and not one of them subsidizes the others.

■ This fact was largely ignored until researchers from the (then called) Agency for Health Care Policy and Research pointed out in the *Journal of Health Economics* that the insurance choices in one pool need not affect the premium in another pool.

**MSAs might be good for 90 percent of the population, but how about the 10 percent that consumes most of the health care in a given year?**

## HEALTH CARE SPENDING AND FAMILY INCOME BY TYPE OF PLAN

<i>Plan Chosen</i>	<i>Average Health Spending</i>	<i>Average Family Income</i>
Fee for Service	\$5,853	\$34,010
MSA	6,710	36,361
HMO	6,163	47,007
Decline Coverage	1,399	32,610
Covered by Spouse	5,641	53,120

*Source: RAND Corporation.*

■ Researchers at the National Bureau of Economic Research have confirmed that it is not the same 10 percent every year.

■ The researchers modeled an MSA-type program and found that 80 percent of employees would have at least half of their total contribution left at retirement, and only 5 percent would have less than 20 percent left.

■ This means that most people will have a chance to build up their MSA balance before reaching a major spell of illness, and the rest will have plenty of time to replenish their MSA once the spell is over.

Researchers from the Urban Institute tried to measure the "winners and losers" if the country as a whole switched to MSAs. This study had problems, but the general conclusion was correct: most people would gain from a switch to MSAs, including the very healthy and the very sick. Those who would lose have mod-

erate expenses that fall within a range for which people will pay more out of pocket with an MSA than with a traditional fee-for-service indemnity plan. This range falls roughly between \$2,500 and \$5,000 in annual spending. But very few people fall into that narrow range of spending and fewer still stay there for any length of time.

Congress was far too prescriptive in program design. It should have authorized the concept in broad strokes to see how the market evolved. South Africa, for example, has allowed much greater flexibility in MSA program design, and as a result MSAs are now the choice of one-half of those with private insurance in that market.

*Source: Greg Scandlen, "Four Years of MSAs: The Lessons So Far," Brief Analysis No. 327, July 6, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## More State Mandates

The number of state health insurance mandates — telling insurers what services, providers and persons they must cover in a plan offered in that state — increased by 9.4 percent during 1999.

■ There were 1,391 such mandates in all 50 states at the end of 1999, compared to just five mandates in 1968.

■ Of the mandates currently on the books, 677 mandate certain benefits, 444 mandate the coverage of specific providers, 241 mandate specific persons that must be covered and 29 mandate coverage for specific procedures.

The hot issues for mandates in 1999 were mental health coverage (e.g., mental health parity) and coverage for insured people who chose to participate in certain clinical trials. Although a number of legislatures also addressed cost and impact requirements for future mandates, only four adopted any legislation on these issues.

Studies have shown that mandates drive up the cost of health insurance and often cause individuals and families to drop their insurance.

*Source: "1999 Survey of Health Plans, State Legislative Health Care and Insurance Issues," BlueCross BlueShield Association, 1310 G Street, N.W., Suite 900, Washington D.C., 20005, (202) 942-1000.*

## Warming Treaty Would Hurt Minorities

A report commissioned by six minority organizations concludes that Hispanic and black Americans will suffer disproportionately if the United States adopts and implements the proposed United Nations treaty on global climate change. Under terms of the treaty, between 2008 and 2012 the U.S. would have to reduce the amount of greenhouse gases released by human activities into the atmosphere to 7 percent below 1990 levels.

To meet the emission targets, the U.S. would have to cut its use of fossil fuels for energy. But the report says such energy reductions would fall particularly hard on minority communities. For instance, the report says:

- The earnings of 25 million black and Hispanic workers would fall by 10 percent or more.
- More than 864,000 black workers would lose their jobs.
- More than 511,000 Hispanic workers would lose their jobs.

The Labor Council for Latin American Advancement of the AFL-CIO, the Latin American Management Association, the National Black Chamber of Commerce, the National Institute for Latino Development, the U.S. Hispanic Chamber of Commerce and the A. Philip Randolph Institute commissioned the report.

Only 14 nations, all of them developing countries that are not required to cut greenhouse gas emissions, have ratified the treaty thus far. The groups argue that those developing countries will benefit economically from the treaty because companies may move jobs and factories overseas.

*Source: "Refusing to Repeat Past Mistakes," July 2000, Management Information Services International; and Associated Press dispatch, July 6, 2000.*

## Oxygen Additives

The reformulated gasoline program mandated by the federal Clean Air Act requires that gasoline have at least 2 percent oxygen content by weight to improve fuel combustion. The aim of the requirement was to reduce the level of exhaust emissions, thus improving air quality by reducing the amount of ozone produced. However, recent studies have found that adding oxygen derivatives to gasoline does not make it more environmentally friendly.

- The most widely used oxygenate, methyl tertiary butyl ether (MTBE), is a suspected carcinogen.
- California intends to phase out the use of MTBE by 2003 because of cases in which it was found to contaminate groundwater.
- A Blue Ribbon panel report to the En-

vironmental Protection Agency (EPA) said the use of MTBE should be substantially reduced due to its potential negative effects on water supplies.

Now the EPA has recommended that Congress amend the Clean Air Act to "significantly reduce or eliminate the use of MTBE" and instead increase the use of ethanol, the only other viable oxygenate. Yet ethanol, made from corn and politically popular in Midwestern farm states, is even less environmentally friendly, due to its potential to cause smog. Further, a study by the National Research Council concludes that adding either MTBE or ethanol to gasoline has only a small effect on improving ozone air quality.

*Source: Ben Lieberman, "Running on MTBE: Closing the Pumps on the Oxygen Requirement," On Point, No. 50, October 1999, Competitive Enterprise Institute, 1001 Connecticut Avenue, N.W., Suite 1250, Washington, D.C. 20036, (202) 331-1010.*

## Doing More with Less

American households generate more than 200 million tons of solid waste each year. When industry waste is included, the figure exceeds 11 billion tons. Although total U.S. consumption is on the rise, resource consumption per unit of output is declining:

- A basket of typical U.S. grocery items fell from over 2,750 pounds of packaging per gross production unit in 1989 to approximately 2,100 pounds in 1993-94.
- A skyscraper built today requires 35 percent less steel than the same building would have required a few decades ago.
- In the 1990s, the aluminum can required only 33 pounds of metal per 1,000 cans, compared to 54.8 pounds in 1963.

Using fewer raw materials and less energy per output is a means to reduce environmental impacts without harming the economy. A report to the Environmental Protection Agency in 1997 found that the rate of growth of municipal solid waste had begun to slow by the mid-1990s, apparently due to source reduc-

tion, increased recycling and yard waste composting.

*Source: Lynn Scarlett, "Doing More With Less: Dematerialization — Unsung Environmental Triumph?," in Ronald Bailey, ed., Earth Report 2000 (New York: McGraw-Hill, 1999).*

## 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@public-policy.org](mailto:ncpa@public-policy.org).

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