



Executive Alert



VOL. 16, NO. 5

ALL THAT'S NEW IN THE WORLD OF IDEAS

SEPTEMBER/OCTOBER 2002

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Former Reagan Administration Attorney General Edwin Meese speaks at a recent Capitol Hill briefing co-sponsored by the NCPA and the Enterprise Prison Institute. Rachel King of the ACLU looks on. See page E-2.

Does Fat Make You Fat?

Concerned by the increase since the 1970s of obesity in Americans, some consumer activists and health officials have gone so far as to propose taxing fast foods and using the proceeds to promote low-fat diets and more exercise, particularly among children.

But there is mounting evidence that low-fat diets may in fact *be responsible* for much of the rise in obesity. There is also increasing evidence that Dr. Robert Atkins, ridiculed for three decades as a quack, was right in his insistence that consumption of carbohydrates, not fat, is the major cause of obesity and heart disease.

■ Since 1980, the National Institutes of Health have spent hundreds of millions

of dollars trying to demonstrate a connection between eating fat and getting heart disease — and have found no link.

■ Conversely, five recent studies (not financed by the NIH) reported at conferences found that those on some version of the Atkins diet lost twice as much weight as those on low-fat, low-calorie diets.

Low-fat diets became prevalent after a Senate committee published “Dietary Goals for the United States” in 1977 advising Americans to curb their fat intake to fend off an alleged epidemic of “killer diseases.” In 1984 the NIH officially recommended that everyone over the age of 2 eat less fat. That, perhaps not coincidentally, is when the obesity epidemic began.

■ After staying relatively constant at 13 percent to 14 percent through the 1960s

and 1970s, the percentage of obese Americans shot up 8 percentage points in the 1980s.

■ Fast food consumption grew steadily through the 1970s and 1980s but did not make the same kind of sudden leap.

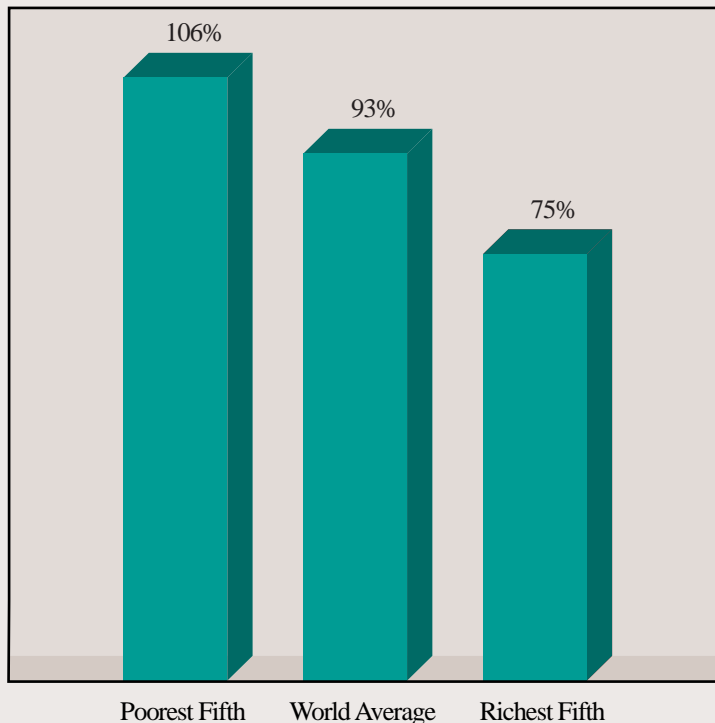
■ The Centers for Disease Control found that exercise and activity remained unchanged in the 1990s while obesity rates continued to climb.

What is often forgotten is that the low-fat dogma is only about 25 years old. The traditional wisdom was that fat and protein protected against overeating by making one feel sated and that carbohydrates made one fat.

Now, for the first time, the NIH is financing comparative studies of popular diets.

Source: Gary Taubes, “What If It’s All Been a Big Fat Lie?” *New York Times Sunday Magazine*, July 7, 2002.

WORLD POPULATION INCOME INCREASE (1965-1998)



Source: Johan Norberg, *In Defence of Global Capitalism* (Stockholm: Timbro, 2001).

The Poor Benefit

Anti-globalizers say the world has become increasingly unfair, but in recent decades extreme poverty has diminished, and where it was quantitatively greatest — in Asia — many hundreds of millions of people have begun to achieve a secure existence and even a modest degree of affluence.

- Between 1965 and 1998, the average world citizen's income almost doubled, from \$2,497 to \$4,839.
- For the poorest one-fifth of the world's population, the increase has been faster still, with average income more than doubling during the same period from \$551 to \$1,137.
- There was also a slower three-quarters rise in the income of the world's richest one-fifth, from \$8,315 to \$14,623.

More than three billion people were lifted from poverty during the last half century — more than in the preceding 500 years. The greatest numbers of the poor were in Asia, where the World Bank has called China's transformation toward a market economy "the biggest and fastest poverty reduction in history."

International exchange has increased the introduction of new ideas in poor countries, including individual liberty. Imports of medicines have improved living conditions, and modern technology has improved the food supply. Individuals have become freer to choose their own occupations and to sell their products, and discrimination has been reduced, since global capitalism doesn't care about the race or sex of the producer.

Source: Johan Norberg, "Globo-Flop," *Tech Central Station*, March 22, 2002; and Norberg, *In Defence of Global Capitalism* (Stockholm: Timbro, 2001).

Inequality Reduced in China

Because of Deng Xiao-Ping's 1978 decision to open the Chinese economy to the rest of the world, the country's overall trade as a percentage of gross domestic product (GDP) skyrocketed from 8.5 percent in 1977 to 36.5 percent 22 years later. Has globalization worsened or reduced income inequality in China?

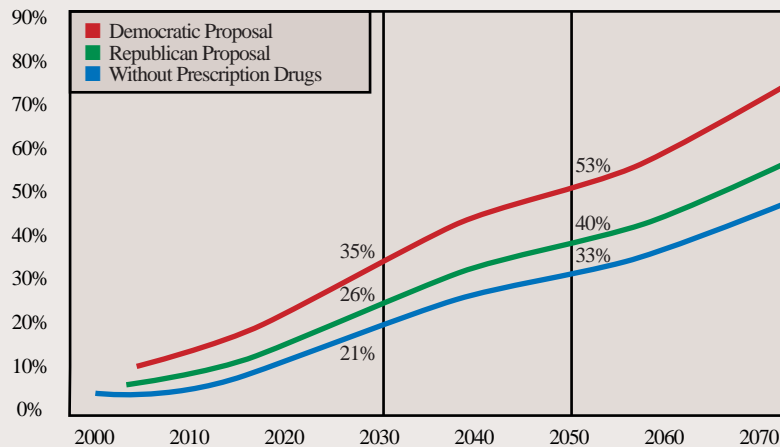
An examination of data from about 100 Chinese cities between 1988 and 1993 indicates that the country's trade openness has helped narrow income inequality between rural and urban residents.

- A major reason is that globalization has offered an opportunity for rural areas to industrialize.
- More specifically, the industrial firms in rural areas (often referred to as "township-and-village enterprises" or TVEs) have a better chance to emerge, expand and succeed in more open areas.
- As a consequence, the residents in these areas are catching up with their urban counterparts.

Researchers focused on income inequality between rural and urban areas — as opposed to inequality within urban areas and within rural areas — because other studies have shown that the inequality between rural and urban incomes explains 75 to 80 percent of the overall inequality in China in the last two decades.

Source: Carlos Lozada, "Globalization Reduces Inequality in China," *NBER Digest*, March 2002; based on Shang-Jin Wei and Yi Wu, "Globalization and Inequality: Evidence from Within China," *NBER Working Paper No. 8611*, November 2001, National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, Mass. 02138, (617) 868-3900.

PERCENT OF FEDERAL INCOME TAXES NEEDED TO PAY ANNUAL MEDICARE DEFICITS



Source: Calculations by Andrew J. Rettenmaier, Private Enterprise Research Center, Texas A&M University.

How Drug Profits Compare

Despite the frequent contention that drug companies make significantly higher profits than companies in other industries, their profit margins actually are in line with those of other major industries. For example:

- The average profit margin (as a percent of revenue) of the pharmaceutical companies in the Fortune 1000 list is 16 percent.
- By comparison, the profit margins for some other industries include 13 percent for banking, 11 percent for diversified financial services, 11 percent for tobacco and 10 percent for real estate.
- Drug industry returns have remained steady since 1981 at only 2 to 3 percent above the cost of capital.
- The pharmaceutical industry's risk-adjusted return is lower than that of other research and development-intensive industries, such as computer networking, hardware manufacture and software services.

The pharmaceutical industry's total tax liability as a percent of income subject to U.S. tax is 33.8 percent—higher than 97 percent of all industries.

The link between gross profitability and pharmaceutical R&D spending is direct. Over the last 40 years, gross profit margins and R&D outlays have mirrored each other. As pharmaceutical companies have made more money, they have spent more on research.

Source: Joe Moser, "Links Between Drug Company Profitability and Investments in Research: A Fact Sheet," Galen Institute, July 2, 2002, P.O. Box 19080, Alexandria, Va. 22320, (703) 299-8900.

Prescription for Budget Busting

Medicare now leaves the elderly exposed to thousands of dollars of out-of-pocket expenses, including prescription drug costs. About two-thirds of Medicare beneficiaries acquire supplemental policies, most of which cover prescription drugs incompletely or not at all. Ironically, the poorest seniors often have the best drug coverage because they qualify for Medicaid, the joint federal-state health program for the poor.

Seniors with supplemental coverage spend about 30 percent more on health care, on average, than seniors covered by Medicare alone. The only thing more wasteful than paying two premiums to two plans is to pay three premiums to three plans, but that is the idea that appears to garner the most support in proposals before Congress. The proposal to add another benefit to Medicare ignores the fact that the future of Medicare already looks bleak.

■ Thomas R. Saving, a Medicare trustee and director of the Private Enterprise Research Center at Texas A&M University, estimates that the current accrued liability under Medicare is almost \$17 trillion — more than five times the level of the official national debt.

■ Even with payroll tax increases, by 2030, about the mid-point of baby

boomer retirement years, one of every five dollars of income tax revenues will be required just to make up the annual deficit in Medicare.

■ By 2050, when today's teenagers reach retirement age, the deficit will claim one of every three income tax dollars collected.

Medicare currently pays only 5 percent of the cost of prescription drugs used by Medicare beneficiaries. Adding a prescription drug benefit to Medicare as it is now constituted would be devastating. Plans being proposed in Congress could require more than one-fourth to one-third of income taxes by 2030 and 40 percent to more than 50 percent by 2050.

In a study for the National Center for Policy Analysis, Milliman & Robertson, a leading health-care actuarial firm, estimated that if the average Medicare expenditure were combined with the average Medigap premium and paid to a single plan, there would be enough money to enroll seniors in the same type of health plans other Americans have — plans that include prescription drug coverage.

Source: John C. Goodman, "Prescription Drugs for Seniors," Brief Analysis No. 406, July 23, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Restoring a Culture of Marriage

Contrary to public opinion, the overwhelming majority of children born out of wedlock have parents who are living together or who are romantically involved or seeing each other on a regular basis. Moreover, a majority of unwed mothers and fathers say they are interested in marrying the other parent and believe they have a 50 percent chance of doing so.

The data from the Fragile Families and Child Wellbeing Study — a four-year project — show promising potential for federal-state efforts to reduce out-of-wedlock births, especially among the poor.

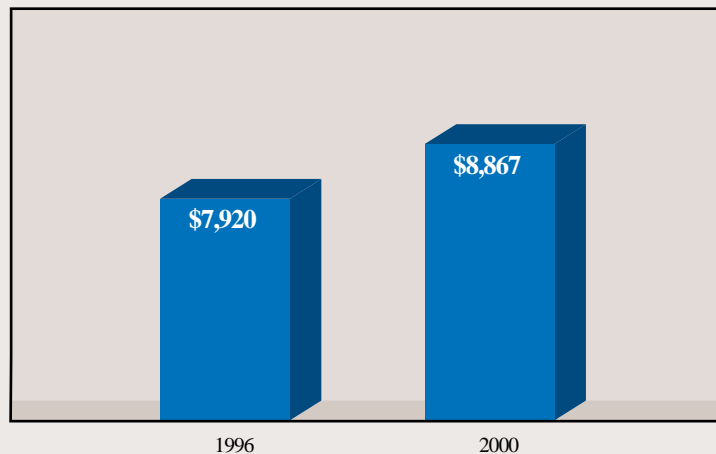
- Eighty-three percent of unwed mothers reported being romantically involved with the father at the time of the child's birth and are either cohabiting (50 percent) or seeing the other parent frequently each week (33 percent).
- Seventy-three percent of unmarried mothers and 88 percent of the fathers of their children believed they had a 50-50 chance of marrying each other.
- Eighty-four percent of the unmarried mothers and 93 percent of the fathers said they put the father's name on the child's birth certificate.

The study also found fewer incidents of domestic violence among these unmarried parents.

- The rate of abuse is more than four times as high among those who cohabit and do not intend to marry or think it is unlikely they will marry (9.3 percent) as among those who cohabit and intend to marry (2.2 percent).
- The rate of abuse is also more than four times as high among romantically involved couples who do not intend to marry and who do not live together (7.4 percent) as among those who are romantically involved and intend to marry (1.6 percent).

Source: Patrick F. Fagan, "Restoring a Culture of Marriage: Good News for Policymakers from the Fragile Families Survey," *Backgrounder* No. 1560, June 13, 2002, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

AVERAGE INCOME OF POOR WOMEN



Source: Thomas Corbett, "The New Face of Welfare: from Income Transfers to Social Assistance?" *Focus*, Vol. 22, No. 1, Special Issue, 2002, Institute for Research on Poverty, University of Wisconsin-Madison.

Poverty Down after Welfare Reform

Since the 1996 welfare reforms, the number of Americans living in poverty has fallen 21 percent and the annual incomes of the poorest women have increased nearly \$1,000. According to the most recent data from the Bureau of Labor Statistics:

- The number of American households in poverty declined from 39 million in 1993 to 31 million in 2000.
- The number of children in poverty declined from 16 million in 1993 to 11.5 million in 2000.

Unlike previous periods of high employment, when welfare caseloads barely budged, from 1996 to early 2001 the welfare caseload fell from 4.6 million families to 2.1 million. The decline was sharpest among younger mothers (ages 18-24) and mothers with younger children.

Studies of women leaving welfare indicate that about two-thirds are working at any point in time, and a total of 80 percent are either working or seeking work. This has contributed to an overall increase in the labor force participation of never-married mothers from slightly less

than 50 percent in 1994 to almost 65 percent in 1999. As a result:

- The poorest one-fifth of mothers saw their average incomes increase from \$7,920 in 1996 to \$8,867 in 2000 — an average increase of 2.75 percent per year.
- The proportion of their income from personal earnings jumped from 26 percent to 36 percent, while the proportion of their income from welfare fell from 53 percent to 37 percent.

Although many of those leaving welfare were initially employed at low-wage jobs, the Census Bureau found that the lower one's current annual income, the greater the likelihood of an increase the following year. Thus among those whose 1992 family income was below the poverty level, 51 percent saw their income rise the following year, while just 29 percent experienced a drop.

Source: Joe Barnett, "Welfare Reform: Reasons to Stay the Course," *Brief Analysis* No. 401, June 24, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Low-Level Chemical Exposure and the Endocrine System

The glands in the endocrine system and the hormones they release regulate our mood, growth, development, reproduction, metabolism and tissue function. Endocrine system disruption has been shown to occur in humans exposed to high-levels of certain chemicals — levels exponentially greater than typical daily exposure.

However, there is no substantiated correlation between low-level chemical exposure and damage to the endocrine system, rates of cancer, decreased sperm counts or other disorders. For example:

- A claim that chemical exposure has

caused a reported 40 percent decline in human sperm counts is based on a study of human sperm donors, whom studies have shown to be atypical of the general population.

- Data from farm animals equally exposed to chemicals show no long-term change in sperm counts over the last 70 years.

- Some scientists have postulated a link between breast cancer and a group of pesticides and industrial chemicals known as organochlorines (DDT is one) in the environment, but increased breast cancer risk is associated with greater lifetime exposure to estrogen and these chemicals are barely — if at all — estrogenic.

- Some researchers have claimed a link in children between exposure to low

levels of PCBs (used as a hardener in plastics) and retarded intellectual and neurological development; but similar studies have yielded inconsistent data.

A reanalysis of 49 studies of low-dose chemical exposure by the Environmental Protection Agency found that scientists had been unable to duplicate most of the data from experiments that found positive correlations between exposure and effects. When scientists were able to duplicate effects, they were similar to those attributable to natural variations in diet, stress and other factors.

Source: Joel Schwartz, "Hormonally Active Chemicals in the Environment," Plain English Guide No. 5, April 2002, Reason Public Policy Institute, 3415 S. Sepulveda Boulevard, Suite 400, Los Angeles, Calif. 90034, (310) 291-2245.

"Smart Growth" Crowding

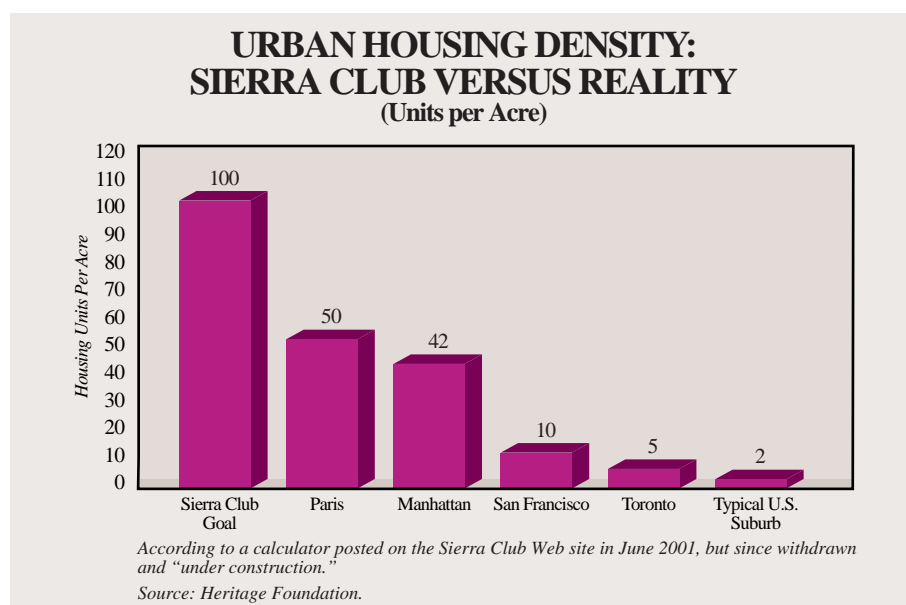
For the most part, environmentalists and urban planners have been unsuccessful in selling the idea of "smart growth" — plans to force people into denser living arrangements. In recent years, they have turned to Congress, seeking federal dollars to help implement local land-use planning that would tighten government regulation of land development and encourage more people to live in smaller areas.

A major premise of the smart growth movement is that the traditional pattern of suburban development in the United States consumes undeveloped land at a pace that jeopardizes the availability of open space, natural settings, wilderness and farmland. However, the facts fail to substantiate these fears.

- According to the most liberal estimates, only 5.2 percent of land in the continental United States is developed — including all highways, roads, railways and power lines that run through otherwise rural areas.

- The figure drops to 3.2 percent when Alaska is included.

Many of the smart growth advocates acknowledge that one of their



biggest concerns is what they consider the ugly appearance of many neighborhoods of detached single-family homes on large lots. They advocate land-use planning that forces higher-density housing. Growth-limiting mechanisms adopted by some communities include:

- Charging homebuyers of detached homes between \$20,000 and \$40,000 additional in building and impact fees, higher taxes or both.

- Adding more regulations and restrictive zoning ordinances on how

undeveloped land can be used.

- Implementing growth boundaries, downzoning and rezoning to nonhousing use.

The Sierra Club has defined "efficient urban density" as 100 housing units per acre — more than twice as dense as Manhattan and twice as dense as Paris.

Source: Ronald D. Utt, "Will Sprawl Gobble Up America's Land? Federal Data Reveal Development's Trivial Impact," Heritage Backgrounder No. 1556, May 30, 2002, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

THE COST OF REGULATION (Billions of Dollars)



Sources: W. Mark Crain and Thomas D. Hopkins, "The Impact of Regulatory Costs on Small Firms," report prepared for Small Business Administration; GDP figures from U.S. Census Bureau.

The Burden of Regulation

Federal government spending in fiscal year 2001 was \$1.864 trillion. But federal regulations claimed another \$864 billion — more than the gross domestic product of Mexico or Canada — in compliance costs from American businesses and individuals.

- During the year, Congress passed and the president signed into law just 108 bills.
- In the same period, regulatory agencies unaccountable to the public issued 4,132 environmental, safety and health, and economic regulations.
- Another 4,509 regulations were at various stages of implementation throughout the 50-plus federal departments, agencies and commissions.

The regulations often result from

federal legislation. Instead of paying for a program directly, Congress can simply require the private sector and/or lower-level governments to pay for its desired initiatives. However, the regulations cost taxpayers as if they were direct taxes.

- In 1998, the median two-earner family's after-tax income of \$41,846 contained \$7,410 in hidden regulatory costs, eating up about 18 percent of the after-tax family budget.
- For comparison with the costs of complying with regulations, individual income tax revenue in 2001 totaled \$1.073 trillion.

Source: Clyde Wayne Crews Jr. "Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State," 2002, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001, (202) 842-0200.

How Big Is the Government's Debt?

The federal government's debt stood at \$3.3 trillion at the end of 2001, using the most common definition — the sum total of all outstanding bonds held by the public. That amounts to \$11,657 for each American. However, this measure ignores the government's implicit debt — accumulated obligations to pay Medicare and Social Security benefits to the baby boom generation and other current program participants.

- As of 2001, the accumulated entitlement obligations owed to all people (including all current workers) who have earned Social Security and Medicare benefits is \$12.9 trillion for Social Security and \$16.9 trillion for Medicare.

- When these obligations are combined with the debt held by the public, the total burden equals \$33.1 trillion — more than three times the nation's total output in 2001, and equal to \$116,381 for every man, woman and child.

Medicare's accumulated obligations are larger than Social Security's, even though annual Social Security expenditures for the foreseeable future are larger than Medicare's. The reason is that individuals need only contribute to Medicare for 10 years to qualify for full benefits. By contrast, individuals who contribute to Social Security for 10 years qualify for only minimum Social Security benefits.

By 2017, payroll tax revenues collected from workers will not be enough to pay full benefits. Thus, the tax rate needed to support Social Security and Medicare will grow continuously into the future. By 2050, when today's 19-year-olds reach normal retirement age, the payroll tax rate will have to be 28 percent to pay Social Security and Medicare benefits.

Source: Andrew J. Rettenmaier, "How Big Is the Government's Debt?" NCPA Brief Analysis 402, June 21, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Unintended Consequences of “Living Wage” Laws

Some 40 cities and a number of other jurisdictions have adopted “living wage” laws since the first one was enacted in Baltimore in 1994. Most such laws require any contractor doing business with a local government to pay wages significantly above the federal minimum wage. For example, a law that recently went into effect in Suffolk County, N.Y., requires wages of at least \$9 an hour, or \$10.25 if the employer does not provide health benefits.

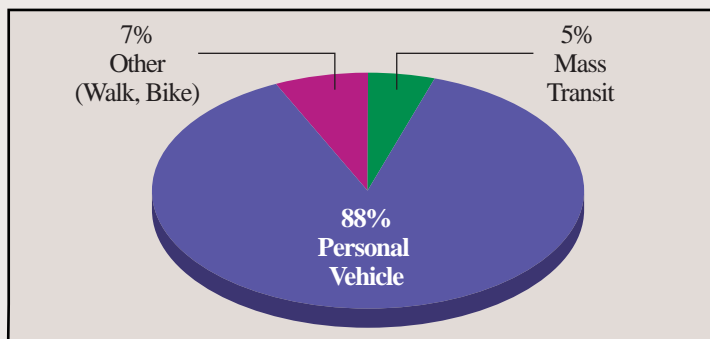
Such laws are intended to help the working poor. However, they may result in a loss of other benefits tied to income. For example:

- New York State offers such assistance programs for low-wage workers as an earned income tax credit, subsidized child care, child-related tax credits and taxpayer-funded health care.
- Many state and federal assistance programs phase down or end as income rises.
- As a result, the Suffolk County Department of Social Services has calculated that a single parent with two children ends up with less income at \$10.25 per hour than at \$7 per hour.

On the other hand, a single individual with no children gains significantly from a higher mandated wage.

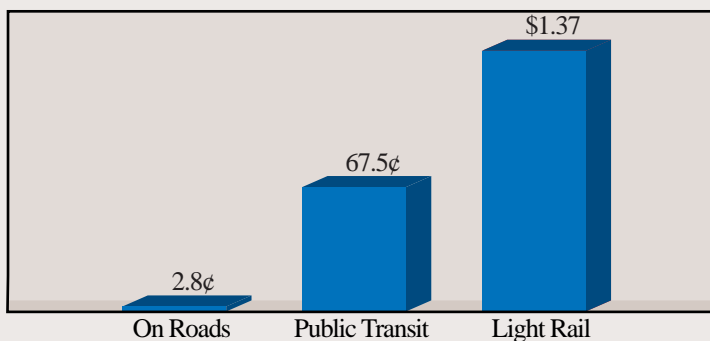
Source: “What’s the Best Way to Help Low-Wage Workers Move Up?” Special Report, April 2002, Public Policy Institute, Business Council of New York State, Inc., 152 Washington Avenue, Albany, N.Y. 12210, (518) 465-7511.

HOW AMERICANS GET TO WORK



Source: Census Bureau.

SPENDING PER PASSENGER MILE



Source: Thoreau Institute.

Mass Transit Still Hasn’t Caught On

About 6.1 million of America’s 128 million workers took public transit to work in 2000. That is about the same number of transit riders as in 1990, when there were 13 million fewer workers, and it is 1.7 million fewer transit riders than in 1960. This result has come despite tens of billions of dollars invested to increase transit ridership in recent years.

- Transit in just six urban areas — New York, Boston, Chicago, San Francisco, Washington and Philadelphia — accounts for two out of every three transit passenger miles in America.
- All six have rail systems, but more important, they have massive numbers of downtown jobs.
- Even in those six cities, all but San Francisco lost share in worker travel between 1990 and 2000.

Americans travel nearly one

hundred times as many miles by auto as by transit each year. Yet total highway subsidies are slightly less than total transit subsidies. In 2000, for example:

- Net highway subsidies totaled \$22.4 billion and transit subsidies \$23.5 billion.
- All spending on roads amounted to 2.8 cents per passenger mile, compared to 67.5 cents per passenger mile on transit and \$1.37 per passenger mile on light rail.

Automobiles account for 2.6 trillion passenger miles on urban roads and 1.7 trillion on rural roads per year. Urban transit carries less than 50 billion passenger miles a year.

Source: Randal O’Toole, “The Good News and the (Mostly) Bad News about Transit,” Vanishing Automobile Update #27, Transit Times, June 17, 2002, Thoreau Institute, P.O. Box 1590, Bandon, Ore. 97411, (541) 347-1517.

School Choice after Cleveland

The Supreme Court's affirmation of the constitutionality of publicly funded school vouchers is a victory for children participating in Cleveland's program. It also paves the way for states to design and implement similar programs for children trapped in low-performing public schools.

Although the Court ruled that a carefully constructed school voucher program is constitutional, the debate remains over the soundness of vouchers as education policy. Voucher proponents must make convincing arguments. Three especially important arguments are:

- Vouchers give parents more opportunity to find a school that meets their child's educational needs.
- Vouchers potentially level the playing field for children from lower-income families, who have been unable to flee to suburban or private schools as more affluent families have done.
- The competition afforded by school voucher programs will strengthen the public schools.

Harvard University economist Carolyn Hoxby has studied the effects of competition on school districts. She found that all schools perform better in locales with vigorous competition among public and private schools. Students in areas with many low-cost private school choices score higher on national tests than those in areas with less competition.

Source: Matt Moore and Lauren Mutti, "School Choice after Cleveland," NCPA Brief Analysis No. 405, July 17, 2002, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

ADDITIONAL TEST SCORE POINTS DUE TO PRIVATE-PUBLIC SCHOOL COMPETITION

8th Grade Math	2.7 percentile points
8th Grade Reading	2.5 percentile points
12th Grade Math	3.7 percentile points
12th Grade Reading	3.4 percentile points

Note: National percentile points on the National Assessment of Educational Progress.

Source: Carolyn Minter Hoxby, "Rising Tide," Education Next, Winter 2001.

Double Standard on Capitol Hill

Many members of Congress who consistently oppose legislation that would enable parents of poor children trapped in failing or unsafe public schools to exercise school choice send or have sent their own children to private schools.

- In the House, 69 of 273 members who voted last year against legislation allowing children in low-performing and dangerous schools to attend a school of choice had sent or were sending their children to private schools.
- In the Senate, 13 of 58 senators who voted against an amendment that would fund a low-income school choice demonstration program had sent or were sending their children to private schools.

A far higher percentage of members of Congress send their children to private schools than of the general populace.

- Whereas only 10 percent of the general population sent at least one child to private school in 2000, 40 percent of Representatives and 49 percent of Senators with school-age children chose private schools.
- In 2001 the percentage climbed slightly, as 47 percent of Representatives and 50 percent of Senators with school-age children chose private schools.

Among those serving on committees with jurisdiction over education spending:

- Forty-three percent of members of the House Ways and Means Committee and 32 percent of members of the House Education and Workforce Committee with school-age children sent them to private schools last year.

- Fully one-half of the members of the Senate Health, Education, Labor and Pensions Committee and 53 percent of those on the Senate Finance Committee who have children chose to send them to private schools.

Source: Jennifer Garrett, "Another Look at How Members of Congress Exercise School Choice," Backgrounder No. 1553, May 22, 2002, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

Executive Alert®

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