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 “I think the era of big government is over. The era of even bigger government has begun.”
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 “Both parties have fallen down on their responsibility to reduce our federal budget deficits.” **Page 12**



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Policy Report

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Private Schools in the Poorest Countries

BY JAMES TOOLEY

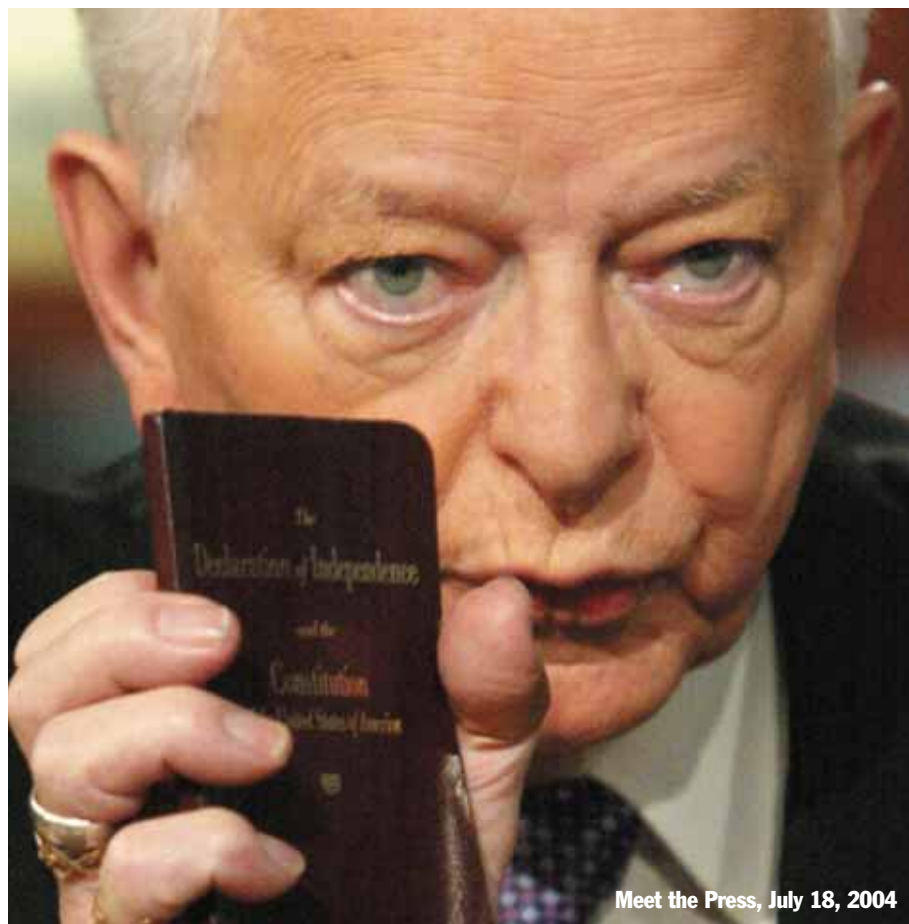
In April 2004, the Global Campaign for Education launched its self-styled “World’s Biggest Ever Lobby,” where “politicians and leaders in 105 countries came face to face with children.” Nearly one million people joined in “to speak out for the right to education.” Nelson Mandela added his voice to the “millions of parents, teachers and children around the world” “calling on their governments to provide free, good quality, basic education for all the world’s children.”

However well-intentioned, the Global Campaign for Education is overlooking something rather important that is happening in developing countries today: the phenomenal growth of private schools for the poor.

I first discovered for myself the phenomenon of private schools for the poor while consulting for the International Finance Corporation, the private finance arm of the World Bank, in Hyderabad, India, in 2000.

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JAMES TOOLEY is director of the E. G. West Centre for Market Solutions in Education at the University of Newcastle, U.K. He is the author of *Reclaiming Education and The Global Education Industry* and the coeditor of *What America Can Learn from School Choice in Other Countries*, in which a longer version of this article appears.



Meet the Press, July 18, 2004

The Cato Institute’s pocket Constitution has been showing up in more and more places. It’s been seen in ABC News’s tribute to Peter Jennings, in Sen. Trent Lott’s hand on *Face the Nation*, and brandished by Sen. Robert Byrd on the Senate floor and on *Meet the Press* (above). Cato has distributed more than three million copies, and it’s now also available in Spanish and Arabic versions. **MORE ON PAGE 4**

Welcome the New Competition from the Left



A half century ago the comfortable ideologues of the left concluded (quoting Charles Kesler from the *Claremont Review of Books*) that “American conservatism was inarticulate—‘bookless,’ John Kenneth Galbraith once remarked acidulously—because it had nothing to say either about or to America. With his usual acuity, Galbraith’s pronouncement came in the midst of the century’s greatest outpouring of conservative books.”

And after a decade or so of gestation, almost all of the major economic policy proposals made during the past 30 years originated on the libertarian right. Many of them were first proposed by one man, Milton Friedman, in one book, *Capitalism and Freedom*, published in 1962. The list is an impressive record of the power of ideas when guided by principle, preparedness, and patience:

- Military conscription ended in 1973.
- Economic deregulation started in the late 1970s.
- Spending and tax limit amendments were approved in more than one-half of the states, beginning in 1978.
- The supply-side perspective reoriented fiscal policy to focus on increasing long-term economic growth by reducing marginal tax rates, beginning with the reduction of the tax rate on capital gains in 1978 and the general reduction of tax rates in 1981.
- Monetary policy became the primary policy to stabilize the growth of aggregate demand and reduce inflation; it was first implemented by Paul Volcker in 1979 and reinforced by the Reagan administration in 1981.
- The first broad-based tax reform was approved in 1986.
- Marketable emission rights were first approved in the Clean Air Act of 1990.
- The North American Free Trade Agreement was approved in 1993.
- The combination of welfare reform and an increase in the earned income tax credit was approved in 1996, reorienting welfare from a payment for not working to a subsidy of the earnings of low-wage workers.
- Limited school choice programs have been approved in several states, and in 2002 the Supreme Court approved the right of voucher students to attend schools run by religious organizations.
- In several cases, the Supreme Court ruled in favor of restrictions on the legal taking of property until the disastrous 2005

ruling in the *Kelo* case.

- In several cases, the Supreme Court ruled in favor of restrictions on the reach of the commerce clause until the disastrous 2005 ruling in the *Raich* case.
- The Bush administration is reorienting foreign aid to poor countries in which the government is enforcing property rights, reducing corruption, and the like.
- Health savings accounts were approved in the Medicare legislation of 2003.
- All national class action suits were moved to federal courts by 2005 legislation.
- Social Security choice has been the major domestic policy initiative of the Bush administration in 2005.

Most of those measures required the support of a Democratic president or substantial Democratic support in Congress and, once approved, are unlikely to be reversed by a change in the majority party.

“So who’s bookless now? [again quoting Kesler] The publisher of the *New Republic*, no less, admitted recently: ‘It is liberalism that is now bookless and dying. Who is a truly influential liberal mind in our culture?’ Martin Peretz asked, ‘Whose ideas challenge and whose ideals inspire? . . . There’s no one, really. What’s left is the laundry list: the catalogue of programs . . . that Republicans aren’t funding, and the blogs, with their daily panic dose about how the Bush administration is ruining the country.’”

The Democrats, however, are sharply divided about whether ideas matter. Jonathan Chait, a senior editor of the *New Republic*, recently wrote that winning elections is impor-

tant but that new policy ideas are not necessary to win elections. The favorite guru of the Democratic leadership is Professor George Lakoff, a linguist from Berkeley who argues that it is only how ideas are “framed” that is important. On the other hand, the new Democracy Alliance has received financial commitments of at least \$80 million over the next five years “to promote consistently and coherently a set of ideas, policies, and messages” by funding left-leaning policy institutes and training centers.

As libertarians with no enduring commitment to either major party, we should welcome a new competition of ideas from the left. The Bush administration and too many other Republicans have embraced a form of big government conservatism that does not address the major problems of either foreign or domestic policy. New policy ideas from any source can be valuable. And substantial support from both major parties is usually necessary to approve and sustain most major policy reforms. We welcome the new policy institutes. When you are ready, we look forward to a discussion of your new policy proposals.


—William A. Niskanen

“Almost all of the major economic policy proposals made during the past 30 years originated on the libertarian right.”

George Shultz calls book "essential reading"

Curing American Health Care

More than 815,000 Canadians are currently on waiting lists for medical treatment. The British National Health Service cancels 100,000 surgeries every year because of resource shortages. In *Healthy Competition: What's Holding Back Health Care and How to Free It*, the Cato Institute's director of health policy studies Michael F. Cannon and director of health and welfare studies Michael D. Tanner argue that government-run medical services often fail their patients and explain how more competition could make higher-quality health care available to more Americans at lower prices.

In an effort to help more people gain access to health care, the U.S. government has drastically limited Americans' choices about their insurance coverage and their medical care. Tax incentives for employer-provided health insurance make individual coverage prohibitively expensive, locking people into whatever coverage their employers choose and keeping them tied to their jobs for fear of losing coverage. Senior citizens must accept Medicare as their primary health care provider in order to keep their Social Security benefits. Health savings accounts (HSAs) were introduced in 2003 to give patients a limited ability to save and budget for medical expenses. Tanner and Cannon suggest that the expansion of HSAs would give workers control over all of their health benefits and that they would make wiser, more careful medical decisions about spending their own money.

Cannon and Tanner's analysis of the hidden costs of Medicaid and Medicare also demonstrates how such programs waste more than they benefit recipients. Medicaid and Medicare routinely pay doctors less than the cost of providing service, and the doctors recoup the costs by overbilling privately insured consumers. High prices make private insurance more expensive and therefore harder for poor workers to afford. Higher premiums, Cannon and Tanner say, lead to higher costs for employers, which lowers wages, raises unemployment, and makes employers less likely to offer any health coverage to their

lowest-income workers. The total cost of health care regulation in the United States is estimated at more than \$300 billion, a cost that puts health insurance beyond the means of about 7.5 million Americans. Attempts to help the poor get health care may actually be making them poorer.

Government's attempts to protect people from bad medicine have also been a failure. The book estimates that between 1,200 and 12,000 Americans die each year because treatments that could have saved their lives were delayed or rejected by the Food and Drug Administration. If patients and their doctors could make private decisions about the risks and benefits of experimental treatment options, many seriously ill patients would choose to take a chance on a new treatment, and perhaps thereby prolong their lives and expand our knowledge of medicine.

Despite their criticisms, Tanner and Cannon remind readers that the health care problem in the United States is not as dire as some observers would have us believe. U.S. medicine still produces the best outcomes in the world for everyone from premature babies to elderly cancer patients. American companies are the chief source of new treatments and procedures used to save millions of lives, and medical training and research are the best in the world. As Tanner and Cannon point out, the best way to improve our medical system is to give more Americans the ability to choose the best treatments that modern medicine has to offer and to remove restrictions that keep providers from improving care. The competitive market makes more services available to patients at a lower cost than any other system, and we must harness its power to ensure that Americans remain healthy for generations to come.

Healthy Competition: What's Holding Back Health Care and How to Free It is available (\$9.95 paper) from Cato Institute Books at 1-800-767-1241 or on the Cato website at www.cato.org. ■



Libertarianism in Translation

Cato executive vice president David Boaz's 1997 book, *Libertarianism: A Primer*, continues to be translated and published in other languages. Above, from the top, are the Russian, Japanese, Bulgarian, English original, Serbian, Czech, and audio versions.



At the recent Mont Pèlerin Society meeting in Iceland, Boaz met with his Bulgarian and Czech translators. Left to right, Bulgarians Latchezar Bogdanov and Georgi Angelov, Boaz, and Czech economist David Lipka. Polish and Mongolian editions have just been published, an Arabic translation is under way, and publishers are being sought for Chinese and Spanish editions. The translations are part of the Cato Institute's commitment to spread the first principles of liberty and limited government throughout the United States and beyond.



On *World News Tonight* on August 8, ABC News reported that its late anchor, Peter Jennings, always carried a copy of the U.S. Constitution in his pocket and had ordered 100 copies to hand out. His copy, displayed on screen, was Cato's pocket edition of the Declaration of Independence and the Constitution, with a preface by senior fellow Roger Pilon.

That was no surprise to the Cato Institute. A few years earlier executive vice president David Boaz read in a newspaper article that Jennings had pulled out his pocket Constitution at a commencement address, so he sent Jennings a few copies of the Cato edition. Jennings called Boaz and told him that he always carried the Cato edition and was delighted to have extra copies.

Jennings isn't the only prominent American to rely on the Cato Constitution. Members of the U.S. Senate have often been seen on C-SPAN and other television shows reading from their pocket Constitutions—as unlikely as that may seem to observers of Congress's actions. For example, Sen. Robert F. Byrd (D-WV)

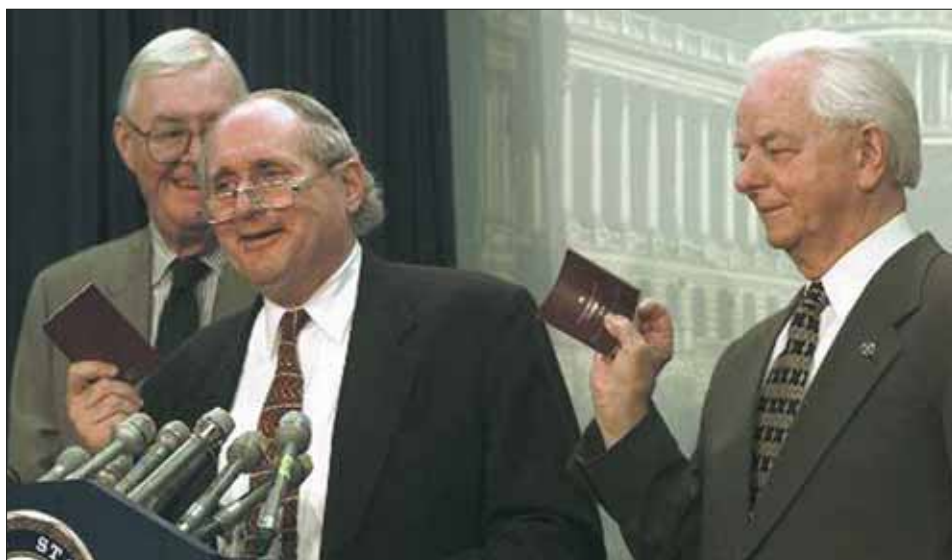


Peter Jennings reads from the Cato Constitution at his Amherst College commencement address.

was recently seen waving the Cato Constitution throughout an hour-long floor speech on C-SPAN and also in an interview on *Meet the Press*. As Boaz once told a *New York Times* reporter in an e-mail

“The Cato Institute publishes smart, slip-in-your-pocket size editions of the Declaration of Independence and the U.S. Constitution, just in case you need reminding of what the country is really built on.”

— VANITY FAIR



At a Capitol Hill press conference in 1998 after the Supreme Court rejected the line-item veto, Sens. Carl Levin (D-MI) and Robert Byrd (D-WV) cite their pocket Constitutions as Sen. Pat Moynihan (D-NY) looks on.

interview: “Unlike most senators, Sen. Byrd remembers that the Constitution delegates the power to make law and the power to make war to Congress, not the president. But if he really took the Constitution seriously, he’d realize that the limited powers it gives the federal government

wouldn’t include many of the New Deal and Great Society programs that have opened up whole new vistas for pork in West Virginia.”

It even shows up in fiction: the Showtime movie *DC 9/11* showed a White House aide waving a copy of the little burgundy book in the Oval Office.

Since its first publication in 1998, Cato has distributed more than four million

copies of the pocket Constitution. Copies have been distributed to all members of Congress, all state legislators, all federal judges, many student groups, and a group of 2,000 Russian political leaders visiting the United States through the auspices of the Library of Congress.

“Take a minute to consider a gift that hasn’t gone out of style in 200 years.”

— WALL STREET JOURNAL



In April, Sen. Trent Lott (R-MS) brought out his pocket Constitution to debate Sen. Charles Schumer (D-NY) on ABC’s *This Week*.



Now in Spanish and Arabic

Last fall Cato published a bilingual Spanish-English edition of the pocket Constitution. Launched as part of Hispanic Heritage Month, the bilingual pocket Constitution brings the founding documents of the United States to new citizens who don’t yet read English, or who want to use the English and Spanish texts on facing pages to improve their understanding of English.

The pocket Constitution can be purchased at major bookstores and online booksellers. It’s also available at some National Park Service stores and has been a big seller at Restoration Hardware. Many people have bought copies in bulk to give to friends, family, customers, schools, and others.

Earlier this year, a bilingual Arabic-English edition was prepared and distributed in Iraq.

Copies of both the original edition and the Spanish-English edition can be purchased at bookstores or from www.cato.org/constitution. Or call 800-767-1241 for prices on bulk orders.

John Stossel goes to Capitol Hill—three times

How a T-Shirt Illustrates Global Trade

◆ **June 1:** We can learn a lot about the global economy by following the journey of a humble T-shirt as it makes its way from raw materials to finished product and then into the second-hand clothing market. At a Cato Book Forum, *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*, author Pietra Rivoli of Georgetown University noted that dozens of diverse people all over the world cooperate to produce clothing for American consumers. However, she said, the T-shirt market is still subject to cotton subsidies, trading rules to advantage well-connected companies, and other political interventions. Adam Davidson of National Public Radio praised Rivoli's ability to tell engaging stories that illustrate larger lessons about international trade.

of Cato University, "*The History and Philosophy of Liberty and Power*," learned from leading historians about the long struggle for liberty and limited government. Stephen Davies of Manchester Metropolitan University in Great Britain emphasized just how lucky we are to live in an era of unprecedented wealth. Many promising civilizations were snuffed out by war, stagnation, or natural forces before Europe managed to beat the odds and become wealthy, he said. Jeffrey Rogers Hummel of San Jose State University described the struggle against slavery and argued that slavery could have been ended without the horrible bloodshed of the Civil War. Cato senior fellow Jim Powell dubbed Woodrow Wilson America's worst president because of his catastrophic decision to involve the United States in World War I. Cato executive vice president David Boaz told the story of George Washington, the

Aviator portrays entrepreneur Howard Hughes as a risk-taking visionary who was rewarded for being the first to see new opportunities.

◆ **June 16:** The Enron accounting scandal led to sweeping changes in the laws governing major U.S. securities. At a Book Forum, *After Enron: Lessons for Public Policy*, Cato chairman William Niskanen suggested that Enron collapsed because of bad financial decisions and that bad accounting merely hid the problem from the public. The Sarbanes-Oxley Act makes the government responsible for preventing future problems, but Niskanen recommended that the exchanges set their own standards according to the needs of their investors. Business columnist Steve Pearlstein of the *Washington Post* warned that Sarbanes-Oxley can only catch violators after the fact, and former SEC commissioner Laura Unger agreed that effective policing would require a change in corporate culture and ethics.

◆ **June 17:** At a Cato City Seminar in San Francisco on "Liberty, Technology, and Prosperity," radio personality Gene Burns asked why politicians of both parties seem to have forgotten the meaning of the Constitution. Cato president Ed Crane similarly lamented the hypocrisy of elected officials who claim to embrace the Constitution but vote in favor of campaign finance reform and other laws that violate Americans' constitutional rights. Jim Harper, Cato's director of information policy studies, urged the audience to be vigilant about new technology that governments can use to identify and track citizens. Finally, Joel Garreau, author of the new book *Radical Evolution: The Promise and Peril of Enhancing Our Minds, Our Bodies—and What It Means to Be Human*, discussed how genetics, robotics, and nanotechnologies will affect human evolution, for better or for worse.

◆ **June 28:** Did Ronald Reagan's presidency pave the way for the economic, social, and technological advances we enjoy today? At a Cato Book Forum on *The Eighties: America in the Age of Reagan*, author John Ehrman argued that drastic tax cuts and deregulation of major industries have led to major innovations such as the Internet and low-cost air travel. Cato chairman William Niskanen laid out the major successes and failures of Reagan's supply-side economic theories and argued that Reagan-era



Pietra Rivoli, author of *The Travels of a T-Shirt in the Global Economy*, discusses how people all over the world who may not agree about politics or religion cooperate to produce clothing. Dan Ikenson of Cato's Center for Trade Policy Studies chairs the Forum.

◆ **June 2:** Any intelligent discussion of health care reform requires a solid understanding of the economic concepts that underlie the health care debate. At a Capitol Hill Briefing, "The Market for Health Care and Health Insurance: Can the Government Improve It?" Peter Van Doren, editor of Cato's *Regulation* magazine, offered a crash course in health care economics, explaining adverse selection, moral hazard, and expected value. Insurance is designed to transfer risk from risk-averse consumers to risk-neutral corporations, not from young to old or from healthy to sick consumers. He suggested that insurers be more explicit about the costs and benefits of health care decisions, encouraging patients to forgo procedures with very high costs and only marginal benefits.

◆ **June 2–5:** Participants in the summer session

man who set the precedent for term limits in America by walking away from power after eight years.

◆ **June 14:** Hollywood loves to pit corrupt businessmen against heroic government officials acting in the public interest. But recently movies and television shows friendlier to markets and individualism have arisen in reaction to that tired formula. Paul Cantor, an English professor at the University of Virginia and author of *Gilligan Unbound: Pop Culture in the Age of Globalization*, offered three examples at an evening Cato Forum, "Libertarianism in Contemporary Pop Culture." Cantor speculated that *South Park* and *The Incredibles* may fly under the cultural radar, exploring themes and raising ideas that would be too controversial for live actors. He also noted that *The*

policies have spurred America's rapid economic growth in the last two decades.

◆**June 29:** Politicians of both parties have gotten into the habit of making promises they can't pay for. At a Capitol Hill briefing, "A Minority Viewpoint: The Need to Battle Bipartisan Support for Big Government," Stephen Slivinski, Cato's director of budget studies, bemoaned the lack of fiscal responsibility that will burden future generations of workers with the costs of programs to benefit current Americans. Rep. Jim Cooper (D-TN), policy chairman of the Blue Dog Coalition of moderate Democrats, outlined his group's plans to encourage responsibility by requiring cost estimates on all spending bills, roll call votes on major new expenditures, and a 2.1 percent cap on all new spending. Cato senior fellow Jagadeesh Gokhale noted that reforms must allow for changing future needs but that Congress should not be allowed to hide costly long-term spending by using short-term budgeting.

◆**June 29:** Is it possible to secure the world's nuclear weapons and materials to prevent nuclear terrorism? At a Cato Institute Policy Forum on "Locking Down Loose Nukes," Rose Gottemoeller, senior associate at the Carnegie Endowment for International Peace, proposed that the Russian government, which has experience securing nukes in the former USSR, should take



Cato president Edward H. Crane (right) talks with Benefactors Scott and Vanessa Barbee at the Cato University seminar, "The History and Philosophy of Liberty and Power," held in Washington June 2-5.

the lead in countries like North Korea. Rensselaer Lee of the Foreign Policy Research Institute recommended an intelligence-based security policy focusing on reducing opportunities and incentives for theft. Cato's director of defense policy studies, Charles Peña, warned that a successful combined threat-reduction strategy must encourage other countries to be responsible for setting their own safeguards.

◆**June 30:** The reelection rate for members of the House of Representatives in the 2004 election was 98.4 percent; the Supreme Soviet legislature had higher turnover. At a Capitol Hill Briefing, "Incumbents, Uncompetitive Elections, and American Democracy," Cato Institute senior fellow Patrick Basham suggested that such stagnancy in Congress is a result of incumbent advantages such as wide access to the media, free postal franking, and the ability to bring home pork. Attempts to control electoral corruption through limits on campaign donations actually exacerbate the problem because they

limit the ability of challengers and advocacy groups to get their message out to voters. Republican strategist David Carney lamented the steady decline of issue-based campaigning, stating that entrenched politicians no longer appeal to voters with a coherent platform of values and ideas. Nonpartisan redistricting would allow for a greater number of competitive races, he said, and limiting the ability of politicians to use the privileges of elected office to aid their campaigns would give American voters a more real choice in their political representation.

◆**July 8, 15, and 22:** Cato's Capitol Hill film series for interns this year featured three films by ABC News correspondent John Stossel. "Greed" explores whether self-interest is bad for society, pointing out that greed can be a powerful spur to hard work and entrepreneurship. In "Is America #1?" Stossel finds that America's success is the result of its freedom and that other nations' living standards rise as democracy grows. Finally, in "John Stossel Goes to Washington," Stossel exposes government waste and incompetence and shows how private solutions can often succeed where government programs have failed.

◆**July 20:** In local politics today, some of the most powerful lobbyists for increased government spending are people who make their living off government programs. As Steven

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Actress Dixie Carter, best known as Julia Sugarbaker on *Designing Women*, visited Cato for lunch while she was in Washington to appear in Oscar Wilde's play *Lady Windermere's Fan*. Carter and Wilde fan David Boaz hosted.

EVENTS *Continued from page 7*

Malanga, senior fellow at the Manhattan Institute, argued at a Cato Institute Book Forum for his book, *The New New Left: How American Politics Works Today*, activists working on behalf of government-funded social service workers are trying to defeat budget and welfare reform proposals. American University professor David Lublin commented that the Democratic Party has become “the party of the permanently poor rather than the party of the aspiring” by focusing on the indigent instead of middle-class voters.

◆**July 21:** In the United States, foreign products and foreign social sentiments are popular; however, some of the most successful international policy innovations have largely been ignored. At a Cato Institute Book Forum, *What America Can Learn from School Choice in Other Countries*, several of the book’s contributors offered comments on how American schoolchildren could benefit from the kinds of programs that have worked in Sweden, Denmark, Chile, Australia, and other foreign countries. Andrew Coulson examined several popular objections to school choice—among them, the lack of capacity in private schools, fear that students will become Balkanized, and

the need to instill shared values in all children—and demonstrated how foreign models avoided them. John Merrifield, an economics professor at the University of Texas–San Antonio, said that the biggest problems in foreign school choice systems are caused by heavy government oversight. Finally, Patrick Wolf of Georgetown University pointed out that school choice in countries that have it is considered a human right, not a political program: once families are given a choice in their children’s education, they will take it for granted that it should always be so.

◆**July 21:** Even in the panicked days after the 9/11 terrorist attacks, members of Congress had the foresight to build a sunset provision into the USA PATRIOT Act, the law designed to give government agencies additional tools to detect and prevent terrorism. This summer, Congress held a vote on renewing key provisions of that law. At a Capitol Hill Briefing, “The USA Patriot Act: Renew, Revise, or Repeal?” Tim Lynch, director of the Cato Institute’s Project on Criminal Justice, posited that the arguments in favor of renewing the law wholesale ignore the fact that it has produced no measurable results and comes at the expense of many of our most cherished civil liberties. Rep. Jeff Flake (R-AZ) detailed some of the most troubling provisions of the act, including warrantless searches, a lack of opportunity to challenge subpoenas and arrests, and gag provisions preventing the public from reviewing how it has been used. Former representative Bob Barr (R-GA) called for more stringent oversight and higher burdens of proof for federal agencies—many of which have nothing to do with protecting against terrorism—conducting secret investigations of U.S. citizens.

◆**July 21:** Twenty-two people die each minute because of lack of access to clean, safe drinking water. At a Cato Institute Book Forum, *Water for Sale: How Business and the Market Can Resolve the World’s Water Crisis*, author Fredrik Segerfeldt of the Confederation of Swedish Enterprise laid out the major problems of water distribution in developing nations: little investment in infrastructure, inadequate public financing, lack of property rights, and price distortions. Privatizing water networks,



Moeletsi Mbeki, a South African businessman and brother of President Thabo Mbeki, discusses his Cato paper on the need for property rights, entrepreneurship, and free trade in Africa at a June 28 luncheon for policymakers and scholars.

he argued can increase access to piped water for those who need it most. Wenonah Hauter of Public Citizen disputed the facts of Segerfeldt’s book, claiming that privatizing water distribution leads to higher prices and that proponents of privatization are attempting to dismantle traditional village life. However, Segerfeldt responded with evidence that private network water prices average one-twelfth of the price currently paid by the poorest citizens. His book includes numerous examples of countries where privatizing water has increased access and saved lives.

◆**July 27:** The federal fuel tax is meant to pay for necessary Interstate highway expansion. At a Cato Institute Capitol Hill Briefing, “An Exit Ramp for States: A Proposal to Let States Opt Out of the Federal Fuel Tax,” Rep. Scott Garrett (R-NJ) sponsor of the Surface Transportation and Taxation Equity (STATE) Act, pointed out that road capacity and repairs have not kept up with growing demand over the last 50 years. The STATE Act would allow states to keep their fuel tax income and make local infrastructure decisions at the local level. Transportation economist and author Gabriel Roth criticized the federal government’s use of highway funding to control states and redistribute wealth while ignoring the unique needs of each state. ■



Fredrik Segerfeldt, author of *Water for Sale*, tells a July 21 Policy Forum audience that water markets can bring clean, safe drinking water to many of the billion people who currently lack access to it.

“Public funding can be part of the problem, not part of the solution.”

PRIVATE SCHOOLS *Continued from page 1*

I'd just published an argument for privatization of education, *Reclaiming Education*, and was wrestling with the criticism from even sympathetic readers that what I'd argued might be good for the middle classes, or richer countries, but what about the poor, especially in poor countries? That criticism bothered me. I knew from my reading of E. G. West's book *Education and the State* that the poor in Victorian England were largely provided for by private education, before the state got involved. Why wouldn't the same be true of the poor today? Out of curiosity, I left my work—looking at private schools for the elite and middle classes—and took an autorickshaw into the slum areas behind the imposing 16th-century Charminar in the center of the Old City. And to my surprise, I found private schools on almost every street corner. Inspired by that, I grew to know many of the school owners, teachers, parents, and children; I learned of their motivations and difficulties and their successes and requirements.

Since then I have found private schools in battle-scarred buildings in Somaliland and Sierra Leone; in the shanty town of Makoko built on stilts above the Lagos lagoons in Nigeria; scattered among the tin and cardboard huts of Africa's largest slum, Kibera, Kenya; in the teeming townships perched on the shoreline of Accra, Ghana; in slums and villages across India; among the “floating population” in Beijing; and in remote Himalayan villages in China. Indeed, I have yet to find a developing country environment where private schools for the poor don't exist. My teams have combed poor areas—slums or shanty towns in and around the major cities and villages inhabited by peasant farmers and fishermen—going down every lane and alleyway, asking people in marketplaces and on the streets where the poor are sending their children to school. And while we've been conducting the censuses, we've been finding out as much as possible about the schools, what their facilities are like, whether teachers are teaching, building up a comprehensive picture of the private schools and comparing them with

the government alternative. Then, most important of all, we've been comparing the achievement of students in the private and public schools serving the poor areas; testing a stratified random sample of 4,000 children in each country, chosen equally from registered private, unregistered private, and government schools; and using advanced statistical techniques to control for as many background variables as we can, to find out whether the poor are better served by public or private education. Although the study is ongoing and additional findings are anticipated, there are seven themes that have emerged from the data that I can report on in general terms.

Seven Features of Private Education for the Poor

First, there are startling facts about the private-sector provision of schools for the poor. In each of the poor areas studied in detail, we've found that a large majority of the schools serving the poor are private, with either a large majority or a substantial minority of poor parents taking the private option.

Second, contrary to expectations, we find that the majority of private schools are run not as philanthropic endeavors but as businesses. Those private schools are created largely by local entrepreneurs responding to the needs in their communities. In general, after studying the reported income and expenditure of the private schools, we can see that they are profitable institutions—which of course helps explain why there are so many of them—with the vast majority of income coming from school fees rather than, as some might expect, philanthropic donations.

Third, there are large differences between the pay and commitment of the teachers in public and private schools serving the poor. Private school teachers are recruited locally from the communities served, unlike public school teachers who are bused in from outside. Teachers in private schools are paid considerably less than are teachers in the government schools. Yet the private schools do not in general suffer from teacher shortages, suggesting that the market rate for teachers is considerably lower than that set by teachers' unions in the

public schools. When our researchers have called unannounced in the classroom, in every case they have found significantly more absenteeism among the public school teachers than among those in the private schools. And when teachers are present, the researchers found much higher levels of teaching activity in the private than in the public schools.

Fourth, we have found considerable statistically significant differences in inputs between the public and private schools. The pupil/teacher ratio is lower in the private than in the public schools—with the unregistered private schools usually having the lowest of all—and school facilities such as libraries, toilets, and drinking water are usually better provided in the private than in the public schools.

Fifth, there are differences between countries in the relative costs of public and private schooling. In countries where public schooling is entirely free at the point of delivery—India for instance—clearly, the private schools cost more for parents. But in other countries—China and Ghana, for instance—where public schools charge low fees or “levies,” we find that sometimes the private schools are undercutting public schools, because the really poor can't afford the public option. What makes the private schools financially attractive is that they allow the parents to pay on a daily basis—perhaps 10 cents a day—rather than to pay for the full term up-front as they must for the public schools, even though this might work out more cheaply if they could afford to pay it. In Kenya, the government has recently introduced “free primary education,” but our interviews with parents point to many “hidden costs” of public schools, such as the requirement for full uniforms, which mean that, in practice, private slum schools often turn out to be less expensive.

Sixth, private school owners themselves are very much aware of the plight of the poorest of the poor: for those parents who are too poor to send their children to private school, or as an aid to those children who have been orphaned or who are from large families, the school entrepreneurs themselves—in nearly 20 percent of

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Cato on Capitol Hill

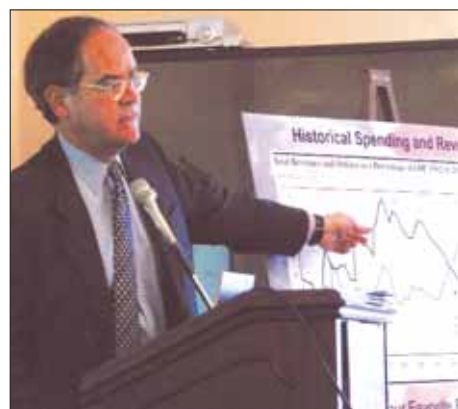


JUNE 16: Ian Vásquez tells the House Subcommittee on Social Security how well privatization has worked in Chile.

Cato Institute scholars were very busy on Capitol Hill this summer. During June and July, Cato held five Capitol Hill Briefings and three Capitol Hill programs for interns featuring John Stossel videos with commentary by Cato scholars. Cato analysts also testified at least eight times before House and Senate committees.



JUNE 21: William Shipman, cochair of Cato's Project on Social Security Choice, urges the House subcommittee on Social Security to move forward with private accounts.



JUNE 29: Rep. Jim Cooper joins Cato staff in a Capitol Hill Briefing on "The Need to Battle Bipartisan Support for Big Government."



JULY 13: Jerry Taylor tells a widely publicized House Armed Services Committee hearing that a Chinese company's purchase of Unocal is not a threat to American energy security.



JUNE 9: Cato's director of information studies Jim Harper testifies before a House Homeland Security subcommittee that the federal government is doing a poor job of airline security.



JULY 11: CPB head Patricia Harrison, PBS head Pat Mitchell, and Cato executive vice president David Boaz testify before a Senate Appropriations subcommittee on taxpayer funding for NPR and PBS.



JULY 21: Rep. Jeff Flake, former representative Bob Barr, and Cato's Tim Lynch brief congressional staff on renewal of the Patriot Act.



JULY 27: Rep. Scott Garrett discusses his proposal to let states opt out of the highway tax at a Capitol Hill Briefing.



JUNE 30: Cato senior fellow Patrick Basham speaks at a Capitol Hill Briefing on how our election laws have protected incumbents and reduced political competition.

Budget Reform at Every Level

The Cato Institute hosted several events this summer on the need to reduce government spending. At a June 29 Cato Institute Hill Briefing, “A Minority Viewpoint: The Need to Battle Bipartisan Support for Big Government,” Rep. Jim Cooper (D-TN), policy chairman of the Blue Dog Democrat Coalition, and Stephen Slivinski, Cato’s director of budget studies and author of “The Grand Old Spending Party: How Republicans Became Big Spenders” (Cato Institute Policy Analysis no. 543), participated in a discussion on reining in federal spending. On July 20, Manhattan Institute senior fellow Steven Malanga, author of *The New New Left: How American Politics Works Today*, spoke about how state and local politics is controlled by big spenders. Excerpts from their remarks follow.

Jim Cooper: Both parties have fallen down on their responsibility to reduce our federal budget deficits, ideally by controlling spending. Comptroller General David Walker deemed 2004 the worst year in our fiscal history because politicians promised \$13 trillion in spending over the next 75 years, and none of it is paid for.

The entire federal budget process this year—from the first look at the \$2.6 trillion package to the final vote—took about two hours. By the end of the Bush administration, we will be spending nearly as much money on servicing the national debt as on all nondefense discretionary spending combined.

The budget process reform package that the Blue Dog Democrats have put forward rests on a requirement to pay for current programs with current spending, or “PAYGO.” We need to reinstitute real two-sided PAYGO, which means that any spending increase or a tax must be offset by reductions in spending or increased revenue elsewhere. That really should not be an ideological battle. We had PAYGO from 1990 to 2002, and Alan Greenspan can even remember the day that Congress let PAYGO expire.

Perhaps the single most irresponsible piece of legislation ever passed by Congress was the \$8.1 trillion Medicare prescription drug bill. The American people must be alerted to the danger of trillions of dollars of promised, unfunded spending. Unfortunately, by the time Americans understand the danger, it will probably seem politically too late to fix it. It’s easy to believe that once

you pass an entitlement program it can never be repealed. But we’ve repealed irresponsible spending before, including the catastrophic health care entitlement program, and we can do so again.

In another example of reckless budgeting, the war in Iraq has been conducted almost entirely off-budget. It is not even mentioned in the president’s budgets. It is scandalous that our troops run out of money well before the end of the fiscal year and must beg for more money to tide them over. This administration claims to be pro-defense, but it is raiding every other account in the Pentagon year after year to come up with the funding needed to supply our troops.

We are looking for devices to force politicians to do the right thing. Those of you who are not



Jim Cooper: “If we’d had a constitutional balanced-budget amendment in place at the start of the Bush administration, we probably would not be in the predicament that we are in.”

historians may not know that it took America almost 204 years to accumulate \$1 trillion in debt, and now we add another trillion every year or two. Both parties are responding to this crisis with proposals for budget process reforms instead of substantive spending cuts. And even those measures have been delayed because the majority can’t agree on what package of reforms to pass. The Blue Dog reform package is a 12-step program to get our nation off its drunken spending binge. And like a typical AA program, the first step is to admit that we have a problem and talk openly about it. We need a bipartisan consensus that, as individuals and as a nation, we must live within our means.

We must have real, enforceable spending caps. A lot of politicians talk about caps on spending, but their definition of emergency spending is so broad and vast that the caps are easily circumvented. We need to set aside a rainy day fund that will, it is to be hoped, inhibit loose congressional definitions of emergency spending. A constitutional balanced-budget amendment is more controversial but harder to get around, and if we’d had one in place at the start of the Bush administration, we probably would not be in the predicament that we are in right now.

To hold politicians accountable for their spending, we need recorded votes on every appropriations bill and cost estimates before we vote. We should go back to holding a vote each time we want to raise the debt ceiling. Things like that are almost so commonsensical that it is embarrassing to have to mention them in the Congress of the United States of America in the year 2005.

We are going to look back on this era and ask, What on earth were we thinking? Why were we endangering the future of the greatest country on earth by engaging in such spendthrift, uncontrollable practices without any seeming regret, and in fact with considerable enthusiasm?

The ideal thing for both parties to do would be to embrace spending cuts—real, substantive cuts—now, before the election. They must face up to the reality that they often voice rhetorically but seldom risk much for. Programs like the Medicare prescription drug benefit must be repealed, or at least delayed until we can pay for them. We owe our seniors not an increased mountain of debt but real benefits that are really paid for. And we owe it to our grandchildren not to transfer to them the bills for our spending.

Steven Malanga: Here in Washington, D.C., we look at the 2004 election and we talk about the importance of voters expressing their values. We talk about the importance of the war in Iraq. But state, county, and city governments in America have priorities that are vastly different from those in Washington.

The shift in focus in local government is controlled by the rise of a political party that is neither conservative nor liberal in the traditional sense; it is, rather, a party of those who benefit from an ever-expanding government. For 50 years, they have increasingly shaped and influenced municipal and state budgets in fundamental

“It took America almost 204 years to accumulate \$1 trillion in debt, and now we add another trillion every year or two.”

ways that often impose steep costs on taxpayers, costs that are not so easily unraveled. Those public-sector advocates have successfully pursued an agenda of higher taxes, more spending, and social and regulatory legislation at the local level.

In New York, for instance, the health care workers' union and the teachers' union run radio ads every spring warning that if we dare to cut the state Medicaid budget or education funding, there will be a political cost and dire consequences for children and the poor. In California right now, public-sector unions have already spent an estimated \$20 million on advertising fighting Governor Schwarzenegger's reform agenda, and they have publicly proclaimed that they plan to spend an additional \$50 million on that campaign.

This new political reality began in the late 1950s and the mid-1960s when we began to see the formulation of the War on Poverty. The people who began our anti-poverty programs had the fundamental attitude that the American federal government needed not only to funnel billions of dollars to help the poor but also to empower communities by letting local governments decide how to spend it. Local governments, in turn, handed out the money to a wide array of emerging groups, from community development organizations, to nonprofit housing groups, to government-supported drug rehabilitation centers.

In a short time, the federal government's money created a panoply of publicly financed social advocacy groups that gradually learned that their survival lay in keeping the government funding faucet open. At the same time, public-sector workers were given the right to collectively bargain, creating unions and interest groups of government employees who lobby for more money to keep and expand their jobs.

In the process of developing social programs, the government also transformed many traditional charitable groups, which formerly had financed their programs through donations, into government contractors living increasingly off of public money. For instance, in the 1960s Catholic Charities, one of America's largest charities, received less than 10 percent of its money from government. Today about 60 percent of its revenues come from government.

Those interest groups quickly realized that they had to become politically active. They

began mobilizing their clients to demand more services and oppose cutbacks. They spawned activists who began running for office and were elected on a big-government agenda. And as their numbers grew, they became a powerful voting bloc. In New York City, for instance, social service jobs in the mid-1970s totaled about 50,000 positions. Today, there are nearly 200,000, mostly government-supported, social service jobs in New York City, more jobs than exist on Wall Street.

As the War on Poverty got under way, the Johnson administration changed the nature of health care in this country with two massive government programs, Medicaid and Medicare. The term “health care” didn't exist in the early 1960s; it was called “medicine.” Medi-



Steven Malanga: “The government transformed many charitable groups into government contractors living off of public money. Those interest groups began mobilizing their clients to demand more services.”

cine has now been transformed; it's the province not of doctors but of economists. Hospitals now oppose reforming state Medicaid and Medicare with claims that lowering public spending would destroy jobs, in effect arguing that health care is not a medical program but a jobs program.

Today, with the growth of Medicaid and Medicare as well as that of related programs such as Family Health Plus and Child Health Plus, government pays more than half of all health care bills in the United States, and in the places where Medicaid and Medicare programs are the largest, the percentage is far higher than 50 percent. In effect, we are actu-

ally slowly getting socialized medicine.

That has turned large portions of health care's huge workforce—which has grown from about 4 percent of the private-sector workforce in the United States in the 1960s to 10 percent today—into advocates for more spending on government-financed health care at taxpayers' expense.

While it may seem great that health care is growing so quickly, economists can see that the spending is all tax money and that it costs us more than we benefit from it. And the interest groups lobbying to increase spending have forced cities such as New York to keep expanding their budgets even in the midst of steep recessions. We have had to keep taking money out of the private sector to keep feeding the growth of this public-sector economy.

We have come a long way from the days of the old new left, which idealistically, if somewhat naively, believed that a paternalistic government could solve many of our social and economic problems if we just spent enough money on them. The present enormous publicly supported workforce, the livelihood of which depends on a bigger and ever-expanding government, has grown big enough and strong enough in most states to play an important role nationally. This “new new left” will lead the charge for the federal government to pay the bills when state budgets explode, and it's already succeeding. In the post-9/11 recession, the federal government spent \$20 billion rescuing state Medicaid programs from the costs of their 1990s spending sprees.

The bills for public-sector spending are coming due in states and cities, and we are starting to see the fiscal stress and the political storm that have been kicked up in California and New Jersey. The governor of New Jersey has admitted that even though it is one of the wealthiest states, with the highest state and local taxes in the nation, it has given away too much to public-sector employees and cannot pay its bills anymore. States have borrowed money to pay for expansive public spending, and future generations will be paying the price.

Those whose livelihoods are based on the expansion of government see their states' funding drying up, and so they are trying to make the leap to spending at the national level. It is part of a political calculation

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“Total government spending grew by 33 percent during George Bush’s first term.”

POLICY FORUM *Continued from page 9*

that we are only slowly coming to understand and deal with. We will need fiscal responsibility at all levels of government to protect our budgets from the interests of those who make their living doing good on the public dime.

Stephen Sivinski: You might recall a speech by Bill Clinton in which he said, “The era of big government is over.” There has been some disagreement about whether that statement is true. I think it is, but not for the obvious reasons. I think the era of big government is over. The era of even bigger government has begun.

I think I might prefer the era of big government to what we have currently, and one of the reasons I wrote “The Grand Old Spending Party” is because the numbers really do speak for themselves. George W. Bush is the biggest spending president since Lyndon B. Johnson, after adjusting for inflation and taking defense spending and entitlement programs out of the equation.

Total government spending grew by 33 percent during George Bush’s first term, and I wondered why that was the case. Republicans always talk about being fiscally responsible and fiscally conservative, trying to put forward ideas that restrain government. Part of the problem is that we now have a united government. Both ends of Pennsylvania Avenue are controlled by Republicans. When you think about what the Founders of the nation had in mind when they created a bicameral legislature and then divided power among the three branches, you start to notice that maybe there is something to be said for gridlock, having one party in the majority in Congress fighting the other party in the White House.

Gridlock actually makes people stick to their principles much more vigorously than they have lately. Gridlock resulted in a decline in spending as a percentage of GDP. It doesn’t necessarily imply net declines in spending, but it has led to a leveling off of spending to allow the economy to catch up with new expenditures. And so government shrank as a percentage of the overall economy.

What you are seeing now is unfortunately an environment in which there are no checks and balances. If Bush presented a budget that grew by only 3 percent and Congress pre-

sented a budget that grew by 7 percent, and the president then vetoed that budget and forced them to come back with another one that featured more vigorous fiscal control, I would not be telling this story. The problem is that Bush has sent Congress budgets proposing 7 to 8 percent spending growth per year. Members of Congress add pet projects for their own districts and states and send the budget back to the president. The president has not vetoed a single bill yet, no matter how big the expenditures.

In that respect, Congress and the executive are trying to outdo one another by giving their constituencies more and more spending. The price for that failure to con-



Stephen Sivinski: “The era of big government is over. The era of even bigger government has begun.”

trol the budget is about \$91 billion. That is the amount above and beyond what the president proposed in nondefense discretionary spending that Congress added to the president’s budget and that President Bush did not veto when he had the chance.

Spending is driving this problem. There has been some argument on both sides of the aisle about whether the tax cuts or spending increases caused the problem. Certainly they both contributed, but spending caused more of the problem.

Deficits really are bad in and of themselves because they saddle future generations with the cost of spending in the present. It is immoral to burden future workers with the costs of our programs. Some observers might even call this intergenerational tax-

ation without representation.

Even in the short term, deficits and debt hide the true cost of government from taxpayers. If the people’s tax burden does not equal the costs of current expenditures, politicians are essentially able to promise various and sundry goodies for free, because voters cannot see the full cost that might dissuade them from voting for people who would increase government spending even further.

Restraining spending on current programs is really just half the problem. We also have to reform the budget rules so that there are incentives not to create new government programs. Government programs do take on a life of their own. As Ronald Reagan once said, “A government program is the nearest thing to eternal life we’ll ever see on this earth.”

I think there could be a bipartisan solution to the government spending problem. And part of that solution comes from the reform-minded members of Congress on both sides of the aisle, such as the Blue Dog Democrat Coalition and the Republican Study Committee. The goal is to encourage spending control and to put into place rules that will affect the budget process and allow spending to be restrained.

There could be a bipartisan agreement to cap increases in discretionary spending for the next three fiscal years at 2.1 percent, as proposed by the Blue Dogs. The Congressional Budget Office should prepare a cost estimate for every bill that comes to the floor to make sure it fits under the cap. Congressional agencies should not get new budgets until they can at least pass an audit.

To hold members of Congress responsible for their spending, make them show how much spending they are supporting by forcing roll call votes on any bill above \$50 million, which would include most of the omnibus spending bills used to hide local pork projects. Make Congress justify the money it is spending. And give members of Congress time to read the final text of legislation before they have to vote.

Those kinds of incentives need to be put forward on the spending side. There has not been any attempt to do so until now, and I think a hearing or a series of hearings on budget growth and the problems with the budget right now would do a lot to get us started. ■

“I have found private schools in battle-scarred buildings in Somaliland; in the shanty town of Makoko; in slums and villages across India; and among the ‘floating population’ in Beijing.”

PRIVATE SCHOOLS *Continued from page 9*

all places in one Indian sample and nearly 10 percent in the Nigerian sample—offer free or subsidized scholarships.

Finally, our first results on the achievement of pupils show that the private schools substantially outperform the public schools in mathematics and English, after controlling for the school choice process and for a range of background factors. All this is for considerably lower per pupil costs. If our results withstand scrutiny, then it would seem that the poor are making sensible choices by sending their children to private, rather than public, schools.

Three Surprising Areas of Agreement with Development Experts

The odd thing is, it turned out that my “discovery” was not a discovery at all but a phenomenon that was actually quite widely known, at least by some key figures in development circles. But no one seemed to be drawing the obvious conclusion. Instead, those influential in development circles seemed to be engaged, if not in a conspiracy of silence, then at least in a refusal to explore the implications of where the evidence seemed to lead. In development circles, all were repeating the same refrain that “education for all” required government intervention, assisted by international agencies; the presence of private schools for the poor was irrelevant.

Many development experts seem to have no problem accepting three propositions that seem to me to lead in an altogether different direction from the one in which the experts see them heading:

First, it seems to be widely accepted that private schools for the poor are burgeoning. The *Oxfam Education Report*, for instance, the Bible of many development education experts, looking at evidence from a range of developing countries, challenges the “misplaced” notion that private schools service the needs of only “a small minority of wealthy parents” and points to the “lower cost private sector” that has emerged to “meet the demands of poor households.” One of its sources of evidence is the *Probe Report* on education in villages in five northern Indian states. That report says that “even among poor families and disadvantaged communi-

ties, one finds parents who make great sacrifices to send some or all of their children to private schools, so disillusioned are they with government schools.

Second, among the same experts, it seems to be common currency that the reason why poor parents are sending their children to private schools is, at least in part, the gross inadequacies of state education, especially teacher absenteeism. The *Oxfam Education Report* states clearly that it is the “inadequacies of public education systems” that have “driven many poor households into private systems.” Those inadequacies include “inadequate public investment,” causing staff and pupil demoralization and the provision of poor facilities. Most important, however, says the report, is the problem of teacher absenteeism and commitment. The Probe team reported that when their researchers called unannounced on their large random sample of government schools, in only 53 percent was there any “teaching activity” going on at all! In fully 33 percent the head teacher was absent. The report gives some touching examples of parents who are struggling against the odds to keep children in school but whose children are clearly learning next to nothing. The Probe team observed that in the government schools, “generally, teaching activity has been reduced to a minimum, in terms of both time and effort.” Significantly, “this pattern is not confined to a minority of irresponsible teachers—it has become a way of life in the profession.”

Those problems were not found in private schools serving the poor. When the Probe researchers called unannounced on their random sample of private unaided schools in the villages, “feverish classroom activity” was taking place. Indeed, private schools for the poor, the Oxfam report says, sometimes “offer cheaper and better-quality alternatives to State provision.”

So what is the secret of success in the private schools? A third proposition seems to gain widespread agreement among the development experts. The *Probe Report* put it succinctly:

In a private school, the teachers are accountable to the manager (who can fire them), and, through him or her, to the parents (who can withdraw their children). In a government school, the

chain of accountability is much weaker, as teachers have a permanent job with salaries and promotions unrelated to performance. This contrast is perceived with crystal clarity by the vast majority of parents.

Indeed, such was the view of the relative merits of public and private schools that “most parents stated that, if the costs of sending a child to a government and private school were the same, they would rather send their children to a private school.”

That poor parents in some of the poorest countries on this planet are flocking to private schools because state schools are inadequate and unaccountable seems to be hugely significant territory for these development experts to concede. The more I read of this evidence, the more it seems that these development experts are missing the obvious conclusion to be drawn from it. If we are concerned with reaching the “education for all” target of all children in quality primary education by 2015, surely we should be looking to the private sector to play a significant role here. Surely we should be trumpeting its successes and seeking ways of helping its improvement as a major response to the needs of education for all—that is, to go with the grain of current parental choice and think about the potential of private education to meet the educational needs of all.

Four Areas of Substantial Disagreement

Curiously to me, however, that is not a possibility currently being explored by development experts: Oxfam’s report is typical. Although, as noted, it is quite explicit that private schools for the poor are emerging and that those schools are superior to government schools for the poor, its fallback position is that “there is no alternative” but blanket public provision to reach education for all. The only message from the development experts appears to be that parents are misguided in making choices in favor of the private sector and that their progeny should be dragged back into government schools. Why is that the case?

The *Probe Report* gives four reasons, which seem to be shared by the mainstream development view. It concedes that, although it has painted a “relatively rosy” picture of

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“A large majority of the schools serving the poor are private, run not as philanthropic endeavors but as businesses.”

PRIVATE SCHOOLS *Continued from page 15*

the private sector, where there is a “high level of classroom activity, . . . better utilization of facilities, greater attention to young children, responsiveness of teachers to parental complaints,” this does not mean that private education is an answer to the problem of providing education for all, because

- private schools are out of reach of the vast majority of poor parents;
- private schools “often take advantage of the vulnerability of parents,” which they do by maintaining “appearances without imparting much education to the children”;
- private teachers’ “overwhelming objective is to cram the heads of the pupils, so that they may pass the relevant tests and examinations,” rather than engage in wider educational activities; and
- if poor parents support private education, this “carries a real danger of undermining the government schooling system.”

The first objection is about fees. Certainly the schools we’ve examined, while charging low fees, are out of the reach of some of the poorest parents. But why is that seen as an objection to a greater role for private education? Clearly, there is the possibility of creating targeted vouchers or scholarships for the poorest, which would overcome the objection. Indeed, as noted above, the private schools themselves are aware of the needs of the poorest and provide scholarships for them. So surely a way around the first objection is to follow the lead of the private schools by providing public or private targeted vouchers, or both, for the poorest.

The second and third criticisms are of the quality of private education. But on closer reading, they did not themselves seem to be based on the evidence in the *Probe Report* but at best were subjective judgments about the schools. Our research is suggesting that these are not valid criticisms. In our detailed study of private schools in Hyderabad, for instance, the schools were clearly not simply “teaching to the test” but were engaged in teaching the whole curriculum and a multiplicity of extracurricular activities. Parents reported to us

that they were active choosers, keen to move their children if the quality of the school was not what they wanted. The majority surveyed several schools before they chose the one to which to send their child.

In any case, even if the quality was poorer than considered desirable, that wouldn’t necessarily lead to a wholesale dismissal of the private schools—for there is, as noted, widespread acknowledgment that the government schools have poor-quality provision, and the development experts are looking to improve them. So even if the Probe team were right, that would at most imply looking at ways of improving the private schools, not of abandoning them as an option for education for all.

But the fourth point seems the oddest to make. What it seems to be saying is that poor parents will just have to wait until “things get better.” By removing your children from the totally inadequate state school, imply development experts, you are jeopardizing the state system. It doesn’t matter that you are poor yourself and that your children’s education may be the only viable vehicle out of poverty; you’d better stay in the state sector and hope that something happens to make things better. Meanwhile, your children can irrevocably suffer from teachers who don’t turn up, or who don’t teach if they do turn up, until governments learn the lessons from experiments elsewhere. But don’t, whatever you do, send your children to private school!

It seems to me that parents in the slums and villages may be less sanguine and more impatient. Parents may not feel they have any impact on distant or corrupt political processes. They may not believe in any case that politicians can or will effect solutions to their problems. Their only realistic alternative might be to exit the state system. Increasingly, it seems to me that progress toward accountable education might not necessarily involve complex political processes and the realignment of power relationships. Instead, the lessons coming loudly and clearly from parents using the private system might be that accountable education involves a very simple and easy transfer of power from the politician to the parent, and that can be done now.

Clearly, the evidence and discussion presented here have implications for U.S. development policy. But do they have any implications for the school choice debate for Americans themselves? I believe they do, that the growing body of evidence of school choice among some of the world’s poorest people could bring new inspiration and vitality to the school choice movement in the United States.

Two Lessons for School Choice in America

Certainly, the research evidence from developing countries can put the American experience into a wider context, further undermining the claims of those who seek to portray the school choice movement as the bastion of only the privileged. Innovative models from around the world of the way private education enhances choice and improves opportunities for the most disadvantaged, evidence concerning the effectiveness of those models in raising standards, and stories highlighting the creativity and entrepreneurship of concerned educationists can all play an important role in helping buttress calls for school choice in America.

However, perhaps the new evidence from developing countries can go even further than that. Many participants in the school choice debate in the United States currently seem to limit their ambitions to the possibility of vouchers in education—that is, where government taxes you, then allows some part of your own money to be transferred to a school of your choice within strict constraints set by government. Here it seems to be assumed that public funding of education at least is a nonnegotiable requirement.

But two far more radical lessons are suggested by the evidence emerging from developing countries, which might imply that such voices in the American school choice debate are not being bold enough.

The first radical lesson concerns the spirit of self-help. Here, if a public school is failing in the ghettos of New York or Los Angeles, we assume that the only way in which the disadvantaged can be helped is through some kind of public intervention—through vouchers, or charter schools, or some other “school choice” proposal. But the poor in Asia and Africa don’t sit idly

“The message from the development experts appears to be that parents are misguided in making choices and that their progeny should be dragged back into government schools.”

by, dispossessed and disenfranchised—adjectives used by the liberal elite to describe the disadvantaged in America—acquiescent in their government’s failure until outsiders propose some such reform. Instead, some of the most disadvantaged people on this planet engage in self-help, vote with their feet, exit the public schools, and move their children to private schools set up by educational entrepreneurs from their own communities to cater to their needs, without any outside help. Could the experiences of parents and educational entrepreneurs from those poor countries inspire a similar response among disadvantaged communities in America too, and among those who seek to help them?

Second, and perhaps most important, a lesson we can learn from the poor in Asia

and Africa is that not only can a majority of the poor that we’ve researched afford private education themselves, without state intervention, but it is precisely their payment of fees that appears to keep the schools accountable to them. And the schools’ accountability to parents through fees is the key difference, noted even by the critics of private education, that keeps standards higher than in the public alternative. If the private schools were to be brought into a universal voucher system, as might be the ambition of many American proponents of school choice, with state funds provided for them on a per capita basis, then this may drastically undermine or remove altogether the ability of parents to ensure essential accountability.

The most important lesson from what

is happening in developing countries today may be that public funding can be part of the problem, not part of the solution. One parent in our Kenya study put it succinctly. He had taken advantage of free public education when it was introduced, taking his child from a private school in the slums to a public school on the outskirts of town. However, quickly disillusioned by what was offered, he transferred her back to the private school. He told us: “If you go to a market and are offered free fruit and vegetables, they will be rotten. If you want fresh fruit and vegetables, you have to pay for them.” That parent knew that the school’s accountability to him depended on his paying fees. Perhaps that is a lesson for those who want to improve education for the poor in America. ■

Pulling Our Heads from the Sand

Thomas Jefferson declared in his first inaugural address in 1801 that the United States should strive to enjoy “peace, commerce and honest friendship with all nations; entangling alliances with none.” Unfortunately, says journalist and Cato Institute research fellow in foreign policy studies Leon Hadar in his new book, *Sandstorm: Policy Failure in the Middle East*, we have become hopelessly entangled in the politics of the Middle East, which inhibits our ability to maintain peace, commerce, and friendship with many nations in the region.

U.S. policy toward the Middle East, Hadar explains, has been centered around two distinct assumptions: that the region is crucial to American strategic energy interests and that the United States can and should “do something” about the Arab-Israeli conflict. Since the 9/11 terrorist attacks, a third consideration has been added: that military intervention in the Muslim world is the best way to stop terrorists. Hadar argues that those are the wrong goals for the United States to pursue and that our strategy in the Middle East has undermined our legitimacy on the global stage.

Washington’s assumption that U.S. military protection was imperative to maintain “cheap” Middle East oil was always faulty. In fact, the

cost of maintaining a U.S. military presence there is an annual multi-billion-dollar burden for Americans.

American intervention in the Arab-Israeli conflict, on the other hand, has largely been presented as a moral imperative rather than an economic one. The United States throughout its history has maintained a self-image as a protector of the weak and the innocent from global aggressors who wish to control them.

However, Hadar posits that, in the case of Israel, American meddling may actually be making the problem worse. If there is to be peace in the region, Hadar says, it must originate with the players in the conflict. Indeed, Hadar contends that U.S. policies indirectly discourage the Israelis from seeking a just and durable peace with the Palestinians

and improved relations with neighboring Arab states. The European Union has enjoyed some success in negotiating in the Middle East lately, including getting Israel and its neighbors to sit at the same table for trade negotiations for the first time. Hadar suggests letting the EU continue in this role, arguing that negotiations would have more success if the United States were out of the picture.

Hadar argued in his 1992 book, *Quagmire: America in the Middle East*, that U.S. policy toward the Middle East would lead to a violent response from fundamentalist Muslims, and sadly, his prediction has come true. Having failed to follow his advice then—that we redefine our international interests after the end of the Cold War—we must now find a way to abandon our outdated Middle East policy. Hadar’s book is an excellent blueprint for a new strategy that will strengthen our friendships with peaceful allies in the region, extricate us from potentially dangerous conflicts, and save American military and political resources for situations in which we need them to protect genuine American interests.

Sandstorm: Policy Failure in the Middle East is available (\$24.95 cloth) at major booksellers everywhere or from www.cato.store.org. ■



Three new papers on Social Security reform

DEA Treats Pain Doctors as Drug Dealers

The Drug Enforcement Administration, Congress, and the media have led many Americans to believe that the gross abuse of prescription painkillers is widespread and that doctors have been criminally negligent about preventing such abuse. However, as Ronald T. Libby of the University of North Florida explains in “Treating Doctors as Drug Dealers: The DEA’s War on Prescription Painkillers” (Policy Analysis no. 545), what the DEA calls drug trafficking is often just doctors prescribing necessary medications to patients with intractable pain. The government has used inflated statistics about the risks of narcotic painkillers to demonize pain medications and the doctors who prescribe them. The media have been complicit in propagating frightening stories of addiction and death without regard for the truth. Libby describes how the DEA has doctors running scared, leaving tens of millions of Americans without relief from their debilitating pain and wasting hundreds of millions of tax dollars to fight an imaginary epidemic of painkiller abuse.

◆ Reforming Tort Reform

The Class Action Fairness Act, which was intended to reform large class action lawsuits and protect the public from greedy trial lawyers, was signed into law this year. However, as Cato senior fellow Mark Moller argues in “Con-

trolling Unconstitutional Class Actions: A Blueprint for Future Lawsuit Reform” (Policy Analysis no. 546), the law still fails to secure the constitutional rights of class action defendants and does nothing to prevent outrageously large settlements. Congress and the courts have so lowered the burden of proof in many cases that plaintiffs’ responsibility for their own injuries becomes irrelevant and defendants must pay huge settlements or risk financial ruin. Instead of addressing those concerns, the Class Action Fairness Act moves cases from state to federal courts, removing the dual sovereignty that makes the court system dynamic and responsive to the changing needs of litigants. Moller proposes reforms that would restore defendants’ constitutional rights to dispute plaintiffs’ claims individually, give judges greater oversight over the creation of plaintiff classes, and force plaintiffs to prove the merits of their claims before they can exert undue pressure on defendants to settle.



Mark Moller

◆ Job Security for Politicians

Over the past 50 years, the congressional reelection rate has averaged more than 90 percent. In “Uncompetitive Elections and the Ameri-

can Political System” (Policy Analysis no. 547), Cato senior fellow Patrick Basham and Independence Institute senior fellow Dennis Polhill reveal that incumbent politicians enjoy benefits such as free mailing and travel, media access, and full-time staff that translate to an 11-point advantage at the polls. Restricting spending by challengers and outside interest groups makes defeating incumbent candidates even less likely.



Patrick Basham

Basham and Polhill suggest implementing several reforms in federal elections that have been shown to improve competitiveness at the state level, including relaxing campaign finance rules, implementing nonpartisan redistricting, and instituting term limits for sitting politicians.

◆ South of the Border

The U.S. government currently spends nearly \$10 billion annually attempting to control immigration, and yet an estimated 400,000 illegal immigrants still find ways to cross our borders each year. In “Backfire at the Border: Why Enforcement without Legalization Cannot Stop Illegal Immigration” (Trade Policy Analysis no. 29), Princeton University professor Douglas S. Massey contends that there is no way to prevent illegal

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immigration so long as there is demand for labor in the United States and a steady supply of willing migrants. Massey argues for increasing the number of available work visas and finding ways for the millions of otherwise law-abiding undocumented immigrants currently living here to legalize their status. A more nuanced, sensible immigration plan will help lower the costs of border control, boost both the U.S. and Mexican economies, and fortify the United States against real threats to national security.

◆Taxing Away the Social Security Crisis?

Two-thirds of American voters support the idea of raising or eliminating the cap on income subject to the 12.4 percent Social Security tax as a way to solve the program's financial woes. But as Michael Tanner, director of the Cato Institute Project on Social Security Choice, demonstrates in "Keep the Cap: Why a Tax Increase Will Not Save Social Security" (Cato Briefing Paper no. 93), eliminating the cap would be the largest tax increase in American history and postpone Social Security insolvency by only seven years. The 10-point marginal tax increase it would create could cost the United States nearly 1.1 million jobs over the next 10 years. And because surplus Social Security revenues are being spent on present operating expenses, not saved to pay future benefits, increasing current revenues creates future debt that will need to be funded with future general tax increases. Instead of that stopgap solution, Tanner proposes that workers be allowed to invest 6.2 percent of their incomes in personal accounts, which would guarantee their benefit payments, allow workers to build inheritable wealth, and provide real stability to a system that will otherwise soon face mammoth obligations it cannot afford to pay.



Mike Tanner

◆The Myth of Social Insurance

In opposing personal accounts, liberals like to stress that Social Security is a "social insurance" program designed to protect people from the misfortunes of poverty in old age. But as Cato policy analyst Will Wilkinson notes in "Noble Lies, Liberal Purposes, and Personal Retirement Accounts" (Social Security Choice Paper no. 34), by liberal standards, personal account plans

also qualify as social insurance. The Cato Social Security reform plan, for example, includes a minimum monthly benefit. And progressive indexing of Social Security benefits would direct a larger share of Social Security benefits to low-income workers, increasing the "insurance" aspect of the program. Yet liberals vehemently oppose those reforms, out of fear that they would transform Social Security into an unpopular welfare program. But their fears are greatly exaggerated, Wilkinson argues, and such a deceptive rationale for the program is inconsistent with the fundamental liberal principle of open democratic deliberation. He urges liberals to support personal accounts as a way of enhancing the social safety net expanding economic opportunities for the poor.

◆Exploiting the Fear Factor

Most Americans have come to accept intrusions into their daily lives as a necessary cost of fighting terrorism, but few have asked whether the sacrifices have made us safer. As *Washington Post* columnist Melanie Scarborough explains in "The Security Pretext: An Examination of the Growth of Federal Police Agencies" (Cato Briefing Paper no. 94), the need for rigorous defense against terrorism is used to justify expanding federal powers and budgets. Measures purported to protect the public—from restrictions on visitors to national parks, to abridgements of the free speech rights of political protesters, to invasive searches by the new Transportation Safety Administration—are rarely scrutinized to determine whether they meaningfully increase the odds of stopping or capturing terrorists. Scarborough says that Americans must accept the reality that terrorism can never be fully prevented and that new restrictions on liberty designed to protect national security must be scrutinized to determine whether their effectiveness outweighs their cost to liberty.

◆Underfunded Mandate

Opponents of Social Security reform have claimed that allowing workers to open personal accounts would be too expensive because current payroll taxes are needed to fund benefits for current retirees. However, as Cato senior fellow Jagadeesh Gokhale argues in "Social Security Status Quo versus Reform: What's the Trade-off?" (Social Security Choice Paper no. 35), any potential costs of reform must be compared with the cost of maintaining the current system.

As baby boomers retire and life expectancy continues to rise, Social Security will be faced with a \$12.8 trillion shortfall, so maintaining the current system will require higher taxes, benefit cuts, or both. Gokhale contends that personal accounts would ensure that money is saved to meet the needs of future retirees. Short-term transition costs to gradually introduce personal accounts would be offset by investment of funds in private markets, and personal accounts would be better able to safeguard the resources that will finance future generations' retirement.



Jagadeesh Gokhale

Cato Calendar

Cato University The Art of Persuasion: Skills for Everyone

Washington • Cato Institute
October 20–23, 2005

Speakers include Nick Gillespie, Tom G. Palmer, Dan Griswold, and Don Boudreaux.

Monetary Institutions and Economic Development

23rd Annual Monetary Conference
Cosponsored with The Economist
Washington • Cato Institute
November 3, 2005

Speakers include Treasury Secretary John Snow, Rodrigo Rato, Deepak Lal, Reuven Brenner, and Samuel Brittan.

Perspectives 2005

Houston • Four Seasons
November 8, 2005

Perspectives 2005

Dallas • Crescent Court
November 10, 2005

Perspectives 2005

New York • Waldorf-Astoria
December 9, 2005

18th Annual Benefactor Summit

Phoenix • Royal Palms
March 1–5, 2006

Get more details at www.cato.org/events.

◆ **Sign up today for taxpayers' money!**

Mark your calendar, call your parents and do some homework for the fall signup of a new Medicare prescription drug program, President Bush said yesterday in the first of a series of events aimed at revving up interest in the benefit that becomes effective Jan. 1. . . .

The administration hopes that publicizing the drug coverage now will boost enrollment later.

"We're on a massive education effort starting today," Bush said during a rally.

—*Washington Post*, June 17, 2005

◆ **We should try harder**

As democracy takes root around the world—often with America's encouragement—more women are joining the political process. So it's striking how low their participation rates are here at home. When nations were ranked for women's involvement in national legislatures and governments, the U.S. was 61st. Rwanda was first.

—*Parade*, July 3, 2005

◆ **Is this a joke?**

[New York] Assemblyman Adriano Espaillat . . . wants a minimum wage for comics. The bill he introduced in the State Assembly would raise the weekend rate to \$120 and applies to "professional" comics.

Joel Barkin, a spokesman for Espaillat, said that comics, like other workers, have felt the pinch from soaring real estate prices and stagnant wages.

—*Washington Post*, June 12, 2005

◆ **Big Brother is watching**

We should introduce "smart cards" to serve as virtual medical coordinators. By using the cards, recipients could go to any doctor, get any lab test and fill any prescription—with the appropriate co-pays—and the transactions would be electronically recorded (and could be monitored to identify patients who are headed for trouble). . . .

We need to know more about these [high-cost] patients. Only recently have government agencies begun to assemble the mountains of data the government collects into patient records. When my father visits a physician, it is treated as a single, separate transaction in the record. Any subsequent tests, treatments or visits are similarly reported, each with its separate record. Rarely has anyone examined what he was being treated for, what the results were of those treatments or the costs he incurred. And we know little about treatments not covered by Medicare, such as pharmaceuticals. As we collect data, we can begin to assess the state of knowledge on treatment of multiple conditions to determine the best forms of treatment, including pharmaceuticals, and the best settings for treatments.

—Dan Crippen in the
Washington Post, May 1, 2005

An idea circulating in the U.S. Department of Education and on Capitol Hill says that . . . maybe the government should follow students' progress through college by assigning them bar codes. . . .

As the government becomes an ever-bigger player in financing higher education, others see it as an idea whose time

is coming. Without better information on college students, "we're going to throw good money after bad," warns Travis Reindl, director of policy analysis of the American Association of State Colleges and Universities, a trade group of 430 smaller public schools.

The idea of tracking students first surfaced last year as Congress began a regular review of the Higher Education Act which, among other things, will provide about \$80 billion in grants and loans to college students this year. Lawmakers were frustrated that they didn't know such basic information as how many students graduate, how students receiving federal aid are faring or what they are studying.

—*Wall Street Journal*, April 27, 2005

Homeland Security Secretary Michael Chertoff this week floated an idea to start a nonprofit group that would collect information on private citizens, flag suspicious activity, and send names of suspicious people to his department.

The idea, which Chertoff tossed out at an April 27 meeting with security-industry officials, is reminiscent of the Defense Department's now-dead Total Information Awareness program that sought to sift through heaps of foreign intelligence information to root out potential terrorist activity.

According to one techie who attended the April 27 meeting, Chertoff told the group, "Maybe we can create a nonprofit and track people's activities, and an algorithm could red-flag individuals. Then, the nonprofit could give us the names."

—*GovExec.com*, April 29, 2005

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