The Random Lottery of Educational Philanthropy

"The central problem confronting education systems around the world is not that we lack models of excellence," writes Andrew J. Coulson in **"The Other Lottery: Are Philanthropists Backing the Best Charter Schools?"** (Policy Analysis no. 677), "it is our inability to routinely replicate those models." Recently, philanthropists have attempted to target the best charter schools and fund their expansions. To what degree have they succeeded? Coulson, Cato's director of education policy, analyzes the academic outcomes of students in California and finds little connection to levels of philanthropic funding. "It is as if the same random lottery that determines admission to oversubscribed charter schools were being used to allocate grants," he writes. Ultimately, Coulson demonstrates that philanthropy "has not proven to be a reliable, systematic mechanism" for reproducing excellence. As in most sectors, our educational system will depend on the ability of top performers to lead the way by crowding out lower performers. But for now, "they flicker in isolation, failing to touch off a larger blaze."

Let's Abolish the Ex-Im Bank

The Obama administration recently proposed a significant increase in the operating budget of the U.S. Export-Import Bank. Established in 1934 to help finance trade with the Soviet Union, this agency is now the main federal subsidizer of American exports. But as Sallie James writes in **"Time to X Out the Ex-Im Bank"** (Trade Policy Analysis no. 47), the bank "at best recreates, and at worst misallocates, private financial behavior." By directing subsidies to favored companies, the Ex-Im Bank promotes its chosen clients and uses taxpayer dollars as collateral. James, a Cato trade policy analyst, examines the alleged justifications for the bank—finding that it fails to impact either the domestic job market or the U.S. trade balance. In the end, she recommends scaling it back dramatically as a first step toward terminating the bank in full. For now, the preservation of this Depression-era agency serves as "a valuable reminder of the folly of trusting government agencies to pick domestic winners in a complex, dynamic, globalized market."

Revisiting the Durand Line

In the face of growing disillusionment with the war in Afghanistan, two military experts have taken this opportunity to reexamine U.S. foreign policy in the region. In **"Dominoes on the Durand Line? Overcoming Strategic Myths in Afghanistan and Pakistan"** (Foreign Policy Briefing no. 92), Joshua Rovner and Austin Long explain that coalition strategy in these countries has revolved around two misguided assumptions. The first is "the seductive logic of state-building," which, they note, the U.S. has a "decidedly mixed record" with. The second assumption is that losing in Afghanistan will destabilize Pakistan, leaving its nuclear arsenal vulnerable to militant attacks. Yet the

CATO POLICY REPORT is a bimonthly review published by the Cato Institute and sent to all contributors. It is indexed in PAIS Bulletin. Single issues are $2.00 a copy. ISSN: 0743-605X. • Correspondence should be addressed to *Cato Policy Report*, 1000 Massachusetts Ave., N.W., Washington, D.C. 20001. • Website: www.cato.org, call 202-842-0200, or fax 202-842-3490.

authors find that the case for a "spillover effect" is ultimately unconvincing. They propose replacing the current strategy with "a streamlined military approach" by combining sustained pressure on al Qaeda and diplomatic composure with Pakistan. By scaling back troops 80–90 percent, they hope to avoid "using the American military to sow liberal ideals in South and Central Asia."

Hyperinflation in Higher Ed

Recent calls for oversight on the increasing amount of federal investment in for-profit universities have been warranted. But should the scrutiny be limited to just these schools? In **"Federal Higher Education Policy and the Profitable Nonprofits"** (Policy Analysis no. 678), Vance Fried, professor of entrepreneurship at Oklahoma State University, examines the real costs of so-called nonprofit colleges and finds that even they generate excess revenues. Beginning in the 1980s, federal and state governments began funneling increasingly large subsidies into these colleges, which already benefited from a patchwork of tax loopholes. "What have colleges done with their prices in response?" Fried asks. "They have aggressively raised them." In fact, profit margins are higher for nonprofit schools than their for-profit counterparts. Fried follows two distinct approaches to uncovering these little-known revenues, and navigates the maze of federal activities that has led to this massive transfer of wealth. "The net impact of federal policy," he concludes, "is that college is less affordable for everyone."

The Risks of High-Minded Homeownership

"From mid-2004 through mid-2007, over a million borrowers sat across the table from lending officers . . . accepting over a trillion dollars in loans that neither the borrower nor the lender expected to be repaid," financial experts Patric Hendershott and Kevin Villani write. How did this happen? In **"The Subprime Lending Debacle: Competitive Private Markets Are the Solution, Not the Problem"** (Policy Analysis no. 679), the authors argue that a series of "high-minded homeownership goals" set the stage for the ensuing real-estate bubble. "The result was a housing finance market heavily slanted toward making poor-quality, actuarially unsound loans—a situation that would inevitably end in a financial crisis," they write. In an ambitious survey, Hendershott and Villani trace the history of intervention in the U.S. mortgage market, focusing in particular on early social lending mandates and the distortions they caused. In the end, the authors question the conventional economic narrative that the housing finance industry will not function in the absence of regulation.

The Rise of Curbside Carriers

"The debate over President Obama's fantastically expensive high-speed rail program has obscured the resurgence of a directly competing [alternative]," Cato senior fellow Randal O'Toole observes in **"Intercity Buses: The Forgotten Mode"** (Policy Analysis no. 680). In recent years, intercity bus ridership has increased dramatically, making it America's fastest-growing transportation mode. O'Toole delves into the emerging world of curbside carriers and finds that they offer a number of distinct advantages. For starters, they are cost effective, in part because of their low overhead. As such, many companies have been able to distinguish themselves with nonstop service and onboard amenities. In addition, new-model buses are safe—"suffering almost 80 percent fewer fatalities per billion passenger miles than Amtrak"—and more environmentally friendly. O'Toole examines the recent growth of the industry, focusing on the circumstances that favored its success. "Rather than continue to subsidize a costly competitor, elected officials and regulators should get out of the way and let intercity buses flourish where they make economic sense," he writes.

India's Metamorphosis

After 1991, when India abandoned its socialist path in favor of market reforms, critics began expressing skepticism of the country's future. "Many analysts saw India as a lumbering elephant, in stark contrast to the Chinese tiger," Cato research fellow Swaminathan Aiyar writes. In **"The Elephant That Became a Tiger: 20 Years of Economic Reform in India"** (Development Policy Analysis no. 13), Aiyar reveals the shortsightedness of these expectations. Over the last decade, India has averaged 8.5 percent growth—a direct result of its economic liberalization. Aiyar explores the historical context of these reforms as well as their impact, emphasizing their benefits to the country's poor. "But the unfinished agenda," he writes, "remains large." He identifies a number of areas where significant improvement will be critical to maintaining India's growth—focusing in particular on its rampant political corruption. Despite these problems, the country is now widely considered a miracle economy. "Indeed, the real miracle," Aiyar writes, "is that India has grown so fast despite so much misgovernance."

A Regulatory Empire in Finance

A key lesson from the recent financial storm was the failure of regulators to apprehend institutional disaster. As the authors of **"Capital Inadequacies: The Dismal Failure of the Basel Regime of Bank Capital Regulation"** (Policy Analysis no. 681) write, "every ship in the fleet passed inspection—and then most of them were lost at sea." In an accessible analysis, financial experts Kevin Dowd, Martin Hutchinson, Simon Ashby, and Jimi Hinchliffe examine one of the main causes of the crisis: an expansive system of capital adequacy regulations known as the Basel regime. Designed to reinforce financial health, the system soon became a perpetual "work-in-progress as regulators attempted to keep up with developments in banking." In what amounts to "a serious reassessment from first principles," the authors explore the secular backdrop that led to the regime, casting doubt on the viability of financial regulations. Ultimately, they suggest a radical return to the free-banking model of a century ago. Until then, the empire of financial rules is "likely to expand much further yet." ■