

## *President's Message:* making a difference

DEAR FRIENDS OF LIBERTY,



We woke up on Wednesday, November 8, 2006, in a changed America. Many of the leaders we trusted to limit government, lower our taxes, and advance liberty were replaced by a band of collectivists, central planners, and social engineers.

How did we come to this?

At some point along the way, the leaders we trusted got caught up in the ways of Washington, D.C., compromised their principles, and ultimately lost course. They paid the price at the electorate's hands — and rightfully so. But their loss is not our country's gain. If the old Congress coupled lower taxes with massive spending, the new Congress will couple higher

taxes with massive spending. Instead of the half-full glass of the optimist, the glass will be wholly empty — sucked dry by the insatiable appetite of a government that cannot say no to itself.

The new Congress believes that the answer to all our problems is massive spending. But we know that's an illusion. The massive growth of spending did not end poverty. It did not protect liberty. That's why the Pacific Research Institute's message of freedom, individual choice, limited government, and personal responsibility has never been more urgently needed.

At PRI, we are guided by principle and pragmatism — but always principle first. We are not part of the Washington, D.C., establishment — indeed, based in California, we could hardly be further from it. At one of America's great centers of entrepreneurialism and innovation, a home of independent minds and pioneering spirits, we uphold our proud heritage, and demand that our leaders fiercely protect our liberty.

I am pleased to report to you that we've been doing our part in 2006. Just a few of the many things we accomplished include:

- We spread the word about common-sense tort reform with our groundbreaking *U.S. Tort Liability Index*.
- We told America the truth about environmental doomsaying with our *2006 Index of Leading Environmental Indicators*.
- We gave the states a blueprint for free-market health care reform with our book, *What States Can Do to Reform Health Care: A Free Market Primer*.
- Our 2005 book, *Free to Learn*, has emerged as a model for establishing New Orleans charter schools.
- PRI also scored another victory after the release of its study *Cutting the Cord: Streamlining the Video Franchising Process*. Governor Arnold Schwarzenegger signed a bill that will make it easier for new competitors to enter the market.

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- We fought the good fight, and helped educate Californians on the flaws of Proposition 82, Rob Reiner's universal preschool initiative.
- We stood firm in our opposition to Proposition 86 (the tobacco tax), Proposition 87 (the oil-production tax), Proposition 88 (the parcel tax), and Proposition 89 (the welfare-for-politicians act). We educated Californians on the need for property protections with our study on Proposition 90.

Is PRI making a difference? You bet it is. With every study we release, every speech we make, and every media appearance, we advance the message of history: free markets and free people work.

Because we believe in this message, we won't seize your money. We'll ask for it — and earn it. Is PRI worth your hard-earned dollar? Don't take our word for it. Take theirs:

***"This Institute has done so much to further the idea of a law-governed liberty."***

**— Margaret Thatcher**

***"PRI is one of the most innovative and effective think tanks in the world."***

**— Milton Friedman**

***"Institutes like PRI have taken hold of the conversation of the country, shaken it by the lapels and become the leaders of it."***

**— George Will**

PRI neither seeks nor accepts any money from government at any level. That's why we need you as we confront the inevitable plans for government expansion around the country. Victory in the battle of ideas requires diligence, determination, and constant reinforcement from our generous supporters. You know the dangers of intrusive big government, and your support keeps us on the front lines against it.

As president and CEO of PRI for 15 years, I ask you to stand with us in this critical hour as we promote consumer-driven health care, education reform, free-market environmentalism, legal reform, economic freedom, and less government in the technology sector.

Rest assured that however many fights are left to fight, we will battle till we win. The people of California and the United States deserve no less, because in the end, the ideals of freedom, liberty, and opportunity are their birthright. No Congress can change that — though it may try.

Sincerely,



Sally C. Pipes  
President and CEO

## 2006 PRI Annual Gala a Rousing Success

The Pacific Research Institute celebrated its annual gala at the Ritz-Carlton Hotel in San Francisco on November 16th, 2006. The theme of this year's gala was "Celebrating Liberty," in honor of PRI's 27 years analyzing, assessing, and espousing policies with an eye toward true liberty in the public square. Past PRI galas have featured august speakers including Baroness Margaret Thatcher, George Will, and P.J. O'Rourke; this year's gala was headlined by the noted author and satirist Christopher Buckley. Buckley, fresh off the success of his sleeper hit film, "Thank You for Smoking," delivered a witty set of remarks on topics ranging from first

principles, to current politics, to his own experience staging an auction of Lenin's corpse. With almost 400 people in attendance, the 2006 PRI gala was a rousing success, gathering friends of liberty new and old in the cause of supporting PRI and its good work.

This year's gala was marked by the passing, the same day, of the titan of freedom, Milton Friedman. Dr. Friedman attended many PRI galas over the preceding years, and his presence and good humor were always welcome. Sally Pipes, CEO and President of PRI, led the attendees in a moment of silence in grateful remembrance of Dr. Friedman.

# Celebrating LIBERTY



Steven Hayward, Christopher Buckley, and Sally Pipes.



Christopher Buckley and Sally Pipes.



Katherine Boyd, Lance Izumi, and April Izumi.



Abe Ostrovsky, Christine Hughes, and Christopher Buckley.



Sonia Arrison, Michael Kim, and Latisha Kim.



Robert Bradford, Catherine Larson, Matt Niehaus, Tim Monahan and Natasha Monahan.

## Thank You

for your support of PRI's  
2006 Annual Gala Dinner  
November 16, 2006

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## U.S. Tort Liability Index Captures National Spotlight

How burdensome is your state's civil-liability system, and how reform-minded is your state? Pacific Research Institute's *U.S. Tort Liability Index: 2006 Report* answers these questions with the first comprehensive assessment of each state's tort system using objective empirical data. (It is available for download at <http://www.pacificresearch.org>.)



Co-authored by Dr. Lawrence J. McQuillan, PRI's director of Business and Economic Studies, and PRI Policy Fellow Hovannes Abramyan, the *Index* assesses 39 factors covering monetary tort losses, litigation risks, monetary caps, substantive-law rules and reforms, and procedural/structural rules and reforms. The results of the analysis were released at a press conference at the National Press Club in Washington, D.C., on May 11, 2006, attended by PRI President Sally C. Pipes and former Michigan Governor John Engler, who is currently president of the National Association of Manufacturers and who wrote the study's foreword.

Dr. McQuillan, after crunching the numbers, reported that Texas was ranked first for its tort system, followed by Colorado, North Dakota, Ohio, and Michigan. At the bottom of the barrel were Maryland, Pennsylvania, New York, Rhode Island, and finally Vermont.

Texas owes its number one ranking to a decade-long commitment to legal reform starting with Governor George W. Bush in 1995 and extending through the 2003 and 2005 reforms under Governor Rick Perry. Texas shows that a state can make great strides quickly with the right leadership, focus, and political will, bringing with it an improved business climate for job growth, income growth, and innovation. States that are lagging can turn to the *Index* to pinpoint the areas where improvement is needed to become more competitive.

Op-eds or articles on the *Index* appeared in *Investor's Business Daily*, *Wall Street Journal's Political Diary*, *Legal Times*, MSNBC, and major regional papers including the *New York Post*, *Denver Post*, *Atlanta Journal-Constitution*, and *St. Petersburg Times*. Dr. McQuillan was interviewed for Court TV and the American Justice Partnership. Dr. McQuillan and Mr. Abramyan have been guests on a number of radio talk shows in Louisiana, North Carolina, West Virginia, and Wisconsin, many of them syndicated nationwide, as well as the National Association of Manufacturers' radio broadcast.

### The Texas Tour

On May 15, Dr. McQuillan began a three-day media tour of first-place Texas, starting with a press conference with Governor Perry at the Capitol in Austin. Flanked by leaders of the Texas State Legislature that led the fight for legal reform — Dick Trabulsi, president of Texans for Lawsuit Reform, and Brooke Rollins, president of the Texas Public Policy Foundation (TPPF) — Governor Perry praised the report and gave Dr. McQuillan an opportunity to present an overview of the *Index* to the television and print media in attendance. Dr. McQuillan also recorded an interview on the *Index* for TPPF that was "podcast" across the Lone Star State.

Later that day, Dr. McQuillan and Mr. Trabulsi traveled to San Antonio to meet with the editorial board of the *San Antonio Express-News* to discuss the study's structure, findings, and its implications for future legal reform in Texas. On May 16, Dr. McQuillan, Mr. Trabulsi, and Ms. Rollins met with the editorial board at the *Houston Chronicle*. And on May 17, they met with the *Dallas Business Journal* and the *Fort Worth Star-Telegram*.

### American Justice Partnership Meeting

On May 16 and 17, Mr. Abramyan participated in the Partners Meeting of the American Justice Partnership (AJP) at Georgetown University in Washington, D.C. AJP is a coalition of national and state organizations promoting civil-justice reform across the country.

More than 50 people attended the two-day conference. Participants discussed recent legislative battles, successes, and future reform efforts in their respective states, and networked with others to increase their effectiveness.

Mr. Abramyan presented the findings of the *U.S. Tort Liability Index: 2006 Report*. Attendees asked questions about the study and wanted to know how the results could help reform efforts in their state. Several attendees expressed interest in hosting *Index* events.



Lawrence McQuillan speaking at an Austin press conference with Texas Governor Rick Perry.

## Free to Learn: A Blueprint for New Orleans Charter Schools

In fall 2005, the Pacific Research Institute released *Free to Learn* by PRI director of Education Studies Lance Izumi and PRI education policy fellow Xiaochin Claire Yan. The book is a study of charter schools in California, and lays forth solid principles of educational success which are applicable across America. Schools that value student performance, eschew self-serving union rules, and adapt to local conditions are vastly more likely to succeed than ordinary, union-run public schools.

The City of New Orleans might seem an unlikely place for the lessons of *Free to Learn* to be put to use. The city was devastated by



Hurricane Katrina in fall 2005 — roughly the same time that *Free to Learn* was released. But the destruction had a silver lining: because of the city's desperate straits, city administrators were willing to try new things. PRI recently learned that the Algiers Charter School Association (ACSA), which serves much of greater New Orleans, decided to organize itself and its schools along the lines recommended by *Free to Learn*.

Michelle Lewis, director of ACSA, in a fax sent to PRI on October 27th, 2006, stated that “essential aspects of ACSA...came from your book.” These include:

- Open enrollment [in ACSA schools] to any New Orleans student
- Retaining a small central office and pushing the dollars out to the principals

- Recruiting and retention bonuses [for teachers]
- Rigorous hiring and testing of staff
- Performance-based evaluations for teachers and staff
- Freedom from cumbersome [Orleans Parish School Board] policies
- Empower principals at each school under an innovative and energetic director for charter schools

“But,” wrote Ms. Lewis, “more than the specific structure and systems, we took away the concept that we could be different, and we could be successful — with the students, and parents, and the larger community. A year later [after Katrina], they are doing great.”

The utilization of *Free to Learn* in the reconstruction of New Orleans is a profound testament to the scholarship and efficacy of Mr. Izumi, Ms. Yan, and PRI. PRI prides itself on being “California prominent, nationally relevant” — and surely this is strong evidence that PRI meets, and surpasses, that standard.



Lance Izumi speaking on education forum.

## PRI Remembers Milton Friedman

Nobel laureate and intellectual giant Dr. Milton Friedman was a longtime friend of the Pacific Research Institute. His passing on November 16th, 2006, was a profound blow to the movement for liberty around the world. PRI remembers him with tremendous gratitude for a life well-lived — and a life of uncompromising defense of freedom. The following is PRI President and CEO Sally Pipes's tribute to her friend, Milton Friedman, as delivered at the 2006 PRI Annual Gala.

Tonight it is with much sadness that I bring you the news of the passing of Milton Friedman at age 94. Milton and Rose were fast friends to me, and to PRI. We honored them at our annual gala dinner in 2004 and they have been steadfast counselors and supporters ever since I took PRI's helm. In fact it was Milton who encouraged me to take the job at PRI saying, “It is much easier to take over an organization that is struggling than to take over one at the peak of its success.” It was also Milton who sent me directions on how to walk to work to avoid “thunder thighs and mountain goat calves.”



Milton would have celebrated the 30th anniversary of his Nobel Prize in Economics this month (November). The cause of freedom and prosperity had no abler exponent in the 20th century than this giant. Milton and Rose titled their memoirs *Two Lucky People*. But in a larger sense, of course, it is really we who were lucky to know and learn from them.

On behalf of all of us at the Pacific Research Institute, I extend my heartfelt condolences to Rose — Milton's co-author, soulmate, and wife of 68 years — and to his children, David and Janet.

The fight against what the Friedmans called “the tyranny of the status quo” goes on, of course. And tonight, in their unquenchable spirit, I welcome you to the fight.

Please join me in a moment of silence as we pay tribute to Milton Friedman, the greatest economist of the 20th century.

Thank you.

## PRI on the Myths of Universal Preschool Education

The Pacific Research Institute was a key participant in the battle over Hollywood director and liberal activist Rob Reiner's government-run universal preschool initiative, which appeared on the June ballot as Proposition 82. PRI's immense credibility was brought to bear on this critical issue that could have afflicted California families for years to come. Indeed, in a recent floor debate in the state legislature, California State Senator Tom McClintock hailed Lance Izumi, PRI's director of Education Studies, as "the greatest education reformer in California and of our era."

PRI's efforts paid off. After Prop. 82's massive defeat in June, Rick Claussen, campaign manager for the No on Prop. 82 effort, wrote to Mr. Izumi saying: "Not only did you publish research works debunking proponents' claims about the supposed benefits Prop. 82 would bring, but you spoke before many groups and organizations and conducted countless interviews with reporters covering the campaign. Your expertise, stature in the education community, and affiliation with the renowned Pacific Research Institute were vital to our success ... [Y]our work and PRI made a huge difference in our 61 percent 'no' vote [on Prop. 82]."

Mr. Reiner's proposed plan for government-run preschool was to be financed by a large tax hike on high-income earners. PRI opposed the concept of adding another layer of government education bureaucracy to run an expensive program based on little or no research evidence.

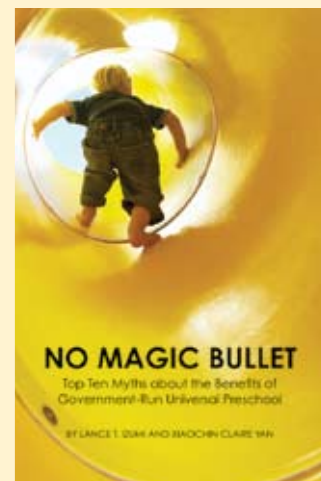
To inform the public about these concerns, in May 2006, PRI released *No Magic Bullet: The Top Ten Myths about the Benefits of Government-Run Universal Preschool*, co-authored by director of Education Studies Mr. Izumi and education policy fellow Xiaochin Claire Yan. Citing a wide range of empirical data, the paper countered several commonly-accepted but false notions:

- That government-run preschool would improve the achievement of all students
- That for every tax dollar invested in government-run preschool, society would receive many more dollars in benefits
- That the cost of government-run preschool would be affordable

The paper concluded by recommending that California examine successful K-12 school models, "replicate these models throughout the existing system, and offer increased options for parental choice such as more charter schools."

The briefing, which was produced in booklet form, was distributed to a wide variety of media outlets, business organizations, state and local elected officials, grassroots groups, and political entities.

In addition to releasing the briefing paper, PRI staff members, and especially director of Education Studies Mr. Izumi, were extremely active in discussing the universal preschool issue in the media and before a variety of audiences. PRI op-eds on the initiative were published in the *Orange County Register*,



the *Riverside Press-Enterprise*, the *San Francisco Examiner*, the *California Political Review*, and numerous other publications. Mr. Izumi made appearances on television and radio programs, including KNBC (Los Angeles) KRON-TV (San Francisco), KSTE-AM (Sacramento), KPBS-FM (San Diego), and many others.

Mr. Izumi also debated representatives of the Reiner campaign in front of the San Diego Chamber of Commerce, the San Rafael Chamber of Commerce, the Hope Street Group (Los Angeles), and others. He gave speeches discussing the empirical deficiencies of the initiative to groups ranging from the California Republican Party state convention, the Silicon Valley Conservative Forum, and a variety of political and civic organizations.

## Health Care Studies Leads the Way with the Free Market Message

The Pacific Research Institute continues to expand its impact on the health care debate both in California and across the nation. The *Health Policy Prescriptions* series, re-launched last fall, has addressed a variety of topics including obesity, health savings accounts (HSAs), the Medicare Prescription Drug Benefit, price transparency, and health information technology.

### Health Savings Accounts

Sally C. Pipes, John R. Graham, and Diana Ernst have actively supported HSAs, which were part of the Medicare Modernization Act of 2003. HSAs are gaining recognition this year from employers who want to save money on health care costs, and individuals who are taking active responsibility for their own health care.

PRI supports the principles that an expansion of HSAs, according to the President's agenda, will advance the following notions:

- An American's health insurance should be his, not his employer's
- Low-income Americans should be better able to buy health insurance
- Chronically-ill Americans should have resources to take control of their conditions

HSA purchasers pay close attention to the variety of health plans available, and choose only what they truly need; most important, HSAs help the poor and the uninsured. Around 29 percent of HSA purchasers earn less than \$50,000 a year. Around 40 percent of HSA purchasers were previously uninsured.

### The Healthy California Series

PRI introduced the *Healthy California* series last fall, which has produced two briefing papers. Professor Philip Romero, a PRI senior fellow, criticized legislative proposals to force drug makers to sell their medicines at artificially low prices set by foreign governments. In his paper, "The High Cost of Low-Priced Drugs to California," Mr. Romero demonstrates that states without a significant biotech or pharmaceutical sector can get away with punishing biotech investment through price controls, but this would have a large and negative impact on California's welfare. California has a huge biotech industry, and price controls would cause capital to flee the industry, costing California's economy as much as \$3 billion and 105,600 jobs.



John R. Graham at the Commonwealth Club, San Francisco.

In *California's Uninsured: Crisis, Conundrum, or Chronic Condition?*, Mr. Graham shows that the number of Californians who are truly uninsured is likely about half of the commonly cited figure. Furthermore, Californians do not need health "coverage" that pays for all or most of their health expenditures. Indeed, laws and regulations that force health insurers to offer such "padded" plans add about 30 percent to the cost of health insurance in California, causing many Californians not to buy it. A solution to the uninsured problem in California is to deregulate the health insurance market and allow tax deductibility of HSAs; California is one of the few states to tax this valuable asset.

### Pipes on Romneycare

Ms. Pipes has levied serious criticism at the Massachusetts health care plan developed by former Massachusetts Governor Mitt Romney. Her recently released study, *Questionable Cure for a Questionable Crisis: The Massachusetts Plan Takes Shape*, closely examines the new state health plan and casts doubt on the premises underlying the program and its promise of universal health insurance coverage at affordable cost.

Ms. Pipes and PRI health care studies policy fellow Diana Ernst oppose the new Massachusetts health care plan, in part on the grounds that it won't lead to universal care through private insurance. The new Massachusetts law protects all existing government mandates and regulations, while creating individual mandates and a bureaucracy to distribute new taxpayer-subsidized insurance products that have no deductibles. PRI does not support this plan, or implementing such a plan in California, where the uninsured population is large. PRI supports a more innovative approach: deregulating the individual market and allowing insurance companies to design policies that are attractive to the non-needy uninsured.

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- Health Care Studies Leads the Way, from page 7

Ms. Pipes' articles appeared in *U.S. Today*, *Washington Times*, *National Review Online*, and other important newspapers.

## Deadly Solution

Californians would pay too great a price in return for the small monetary benefits of a state government-run health care system according to *Deadly Solution: SB-840 and the Government Takeover of California Health Care*, released in June 2006. *Deadly Solution* examined the consequences of the California Health Insurance Reliability Act (SB-840), a bill that would, if passed and signed into law, impose a Canadian-style government health care monopoly in California.

According to Mr. Graham, the four percent savings in current health spending that would result from a government-run health care system is a trifling sum when one considers the consequences of such a program:

- The number of physicians would drop by 23,000, from about 94,000 to 71,000.
- Californians would suffer lengthy waiting times for medical treatment — time worth about \$1 billion annually.
- About \$9 billion dollars of “free” health care would be wasted by people who do not need it.
- Access to medical technology would be significantly diminished.
- Hospital stays for senior citizens would lengthen from an average of four or five days (depending on the procedure) to about 14 days — about three times what they are now.
- The number of women receiving mammograms at least once every two or three years will drop by about 330,000 in 2010, and more in subsequent years.
- Life spans will shorten by about two months if the government imposes restrictions on the prescription medicines available, as the Department of Veterans Affairs has.
- The number of heart attack victims prescribed Beta-blockers, a standard treatment to avoid a second heart attack, will drop by just under 20,000 in 2010, and more in subsequent years.
- The number of cardiovascular patients receiving angioplasty or coronary artery bypass grafts will decrease by about 60,000 in 2010, and more in subsequent years.

These calculations were based on Canadian and British experience under single-payer systems. *Deadly Solution* was influential in persuading Governor Arnold Schwarzenegger to veto SB-840 following its passage by the California legislature.

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## PRI and The Power of Choice

On March 22, 2006, the Pacific Research Institute and Free To Choose Media co-hosted the release of the world premier of the television documentary *The Power of Choice: The Life and Ideas of Milton Friedman*. This documentary chronicles the life and accomplishments of the distinguished Nobel laureate and friend of PRI, and will be aired on PBS stations across America in January 2007.

Over 300 guests from across the nation gathered for dinner at the Ritz-Carlton in San Francisco to catch a sneak preview of the PBS documentary, and to hear special tributes to Dr. Friedman's



Rose and Milton Friedman at the *Power of Choice* premier.

lifetime of achievements from Nobel laureate Gary Becker; founder and CEO of PayPal, Peter Thiel; and Chairman of Basic American, Inc., Jerry Hume.

The dinner's master of ceremonies was Hoover Institute's Senior Fellow, Peter Robinson, a former Reagan speechwriter and noted author of *How Ronald Reagan Changed My Life*. Mr. Robinson eloquently characterized Dr. Friedman's contributions to humanity by saying, "Milton's economic work is not only thoroughly grounded in theory — but in a profound understanding of human dignity."

PRI exists to continue to carry the torch for the free-market principles that Dr. Friedman had spent a lifetime espousing.

## PRI Releases *What States Can Do to Reform Health Care*

Health care is one of the most costly expenditures for the states. Medicaid spending alone is predicted to reach \$320 billion throughout the 2006 fiscal year. These dramatically rising health care costs should force state policy makers to lay the groundwork for meaningful and lasting reform, according to John R. Graham, director of Health Care Studies at the Pacific Research Institute and editor of *What States Can Do to Reform Health Care: A Free Market Primer*, released by PRI this past July. The book debuted at the annual meeting of the American Legislative Exchange Council, held in San Francisco, California.

“The purpose of this primer is to educate state policymakers, legislators, and consumers about where we’ve gone wrong with health care and how we can fix it,” said Mr. Graham. “The solutions involve policies that permit more individual choice, increase competition, and result in greater fiscal stability.”

Seven leading scholars contributed chapters to the primer, which focuses on Medicaid (Nina Owcharenko), health insurance (J.P. Wieske), hospital certificate-of-need laws (Roy Cordato), malpractice liability (James R. Copland), physician quality assurance (Shirley V. Svorny), prescription piracy (Brett J. Skinner), and pharmaceutical costs (Mr. Graham). Governor Mark Sanford of South Carolina wrote the foreword. The book examines important areas of health care where states have the responsibility to finance, legislate, and regulate.

Mr. Graham urged state legislators to use this book to develop free market health care reforms that will benefit



John R. Graham at the American Legislative Exchange Council's annual meeting in San Francisco where *What States Can Do to Reform Health Care* was released.



residents. “States have significant authority to make positive changes independent of what the federal government does,” he said. “Although every state faces a different situation, the policies outlined in this book can serve as a blueprint for reform.”

## PRI's Environmental Index Has Tremendous Impact

Though 2005 offered a full plate of environmental episodes that riveted the world's attention, including environmental calamities in China, Hurricane Katrina, and the U.N. conference on climate change, the march of environmental progress continues, according to the 2006 *Index of Leading Environmental Indicators*, released, as always, around Earth Day (April 22nd, 2006). The *Index*, authored by PRI senior fellow in environmental studies Dr. Steven Hayward, was a collaboration between PRI and the American Enterprise Institute.

This 11th edition of the *Index* highlighted the positive trends occurring

in key areas including climate change, air quality, water quality, toxic chemicals, and biodiversity in the U.S. It also broke new ground with a special section on environmental issues and progress in China.

This year's edition also explored the so-called death of the modern environmental movement, and identified ways to renew and restore its credibility. “A number of environmentalists have recognized and lamented that much of the movement has become too politicized, partisan, and unpromising. These signs of introspection and second thoughts may go a

long way in renewing and restoring the environmental movement's credibility,” said Dr. Hayward.

With the release of the 11th edition of the *Index of Leading Environmental Indicators*, PRI again demonstrated its commitment to free market environmental scholarship, and confirmed its place among the leading institutions in this field.



## Technology Studies Takes on Outdated Cable Franchise Laws

Consumers are paying too much for cable services, a problem that can be fixed by Congress, according to *Cutting the Cord: Streamlining the Video Franchising Process*, co-authored by Sonia Arrison, director of Technology Studies, and Vince Vasquez, technology public policy fellow. The study explains the video franchising process, why it is broken, and how to fix it.

"The regulations that currently govern the cable industry were created at a time when cable was the only realistic video provider in town," said Ms. Arrison. "Now that the environment has changed and the Internet allows for more players, it's time for Congress to open up the marketplace so consumers can benefit from increased competition."

The Pacific Research Institute's study is relevant to debates occurring throughout 2006 in Congress on communications reform, including a

bill introduced by Representatives Joe Barton (R-TX) and Bobby Rush (D-IL).

"As members of Congress examine this issue, they should keep in mind that delays in reform mean delays in economic growth and savings for Americans," said Ms. Arrison. "For instance, in our study we note that a one-year government-created delay for competitive service providers like AT&T and Verizon to enter the national video market could cost cable subscribers from \$6 to \$8 billion in unrecoverable consumer welfare losses."

Though some states like Texas and Indiana have already enacted statewide reforms, PRI's study urges reform at the national level. "We have seen huge discounts for consumers when the marketplace is opened to competition on the state level, but consumers will benefit most when a national structure is in place," advised Ms. Arrison. "That's because new video services travel over



Sonia Arrison, director of PRI Technology Studies, and then California Secretary of State Bruce McPherson.

the Internet, an international medium that is best managed by national, not state, entities."

*Cutting the Cord* offers policy recommendations that will help modernize the communications landscape.

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## PRI Study Shows Why California Needs a Pension Intervention

The Pacific Research Institute released *Pension Intervention: Reforming California's Public Employee Retirement Systems*, co-authored by business and economic studies fellow Anthony P. Archie. The study shows how California can follow the lead of the private sector and other states by implementing a public employee pension plan appropriate for a 21st-century workforce and devoid of the structural problems inherent in the state's current system.

The study reveals how California's current pension systems not only pose a financial risk to the state, but are genuinely unfair to taxpayers and public employees alike. By moving toward a system with individual investment accounts, public employees will gain full ownership of their retirement dollars, investment flexibility, protection from political manipulation, and potentially higher rates of return.



Taxpayers also win under this type of plan by obtaining a more cost-stable and fiscally prudent pension system.

In conjunction with this study, Mr. Archie was interviewed by a number of media outlets, including *Forbes*, *Los Angeles Times*, *Sacramento Bee*, *Silicon Valley Business Times*, KNX radio (Los Angeles), and *Westwood One's America in the Morning*, a national radio program. He has also advocated pension reform in opinion editorials and meetings with state lawmakers and legislative staff.

Mr. Archie also took part in a forum on pension reform at Leadership Contra Costa in Walnut Creek, where he debated a union official from the California Teachers Association.

To view a copy of *Pension Intervention: Reforming California's Public Employee Retirement Systems*, log onto PRI's website at <http://www.pacificresearch.org>.

## PRI Analyzes California's Propositions

Voting is, to borrow a cliché, a serious business. And so, when going to the polling place, it is important to be informed — not only about candidates, but also about the initiatives on which Californians will be called upon to pass judgment. California pioneered the so-called “progressive” reforms of the early 20th century, and we are, therefore, presented with a unique opportunity to directly determine our own legislation. We should seize the privilege with an eye toward being knowledgeable about the choices before us.

That's exactly what the Pacific Research Institute helped Californians do in the November election. PRI published a series of pamphlets on Propositions 86 through 90 — and backed up its scholarship with speaking engagements and media appearances.

This election season was as important as any in recent memory. Our state was called upon to decide on momentous measures ranging from an attempt to extract high taxes from smokers; to an effort to fund alternative fuel projects at the expense of oil companies and Californians; to the first statewide property tax since 1910; to a regime of public funding of candidates; to enhanced protections from eminent domain abuse. Each of these propositions — specifically, Propositions 86, 87, 88, 89, and 90 — was more than a minor adjustment in the machinery of governance: they represented, in their own way, fundamental expressions of a particular philosophy of the state and society.



The propositions on this past November's ballot did their best to address many questions of legitimate public interest. How do we fund hospitals? How do we promote alternative energies? How do we fix our schools? How do we ensure the integrity of our democratic processes? How do we help the homeowner in the face of government seizures? These are all just questions, and all problems that need solutions. It does not follow from this that any solution is a good one. We, the voters, have a right and a duty to ask when considering a proposition in the voting booth: will it work, and will it make us freer?

PRI's series of *Decision 2006* pamphlets is available at [www.pacificresearch.org](http://www.pacificresearch.org).

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## PRI Welcomes New Fellow in Environmental Studies



In May 2006, the Pacific Research Institute welcomed new environmental studies fellow Amy Kaleita, PhD. She is working directly with PRI director of Environmental Studies Steven Hayward, PhD, on PRI issues, from the well-regarded *Index of Leading Environmental Indicators* to a new series of *Environmental Notes* columns.

Dr. Kaleita's first study is an explanation of the carbon sequestration cycle, entitled

*Sense and Sequestration*, issued by PRI in November 2006. In early October 2006, Dr. Kaleita collaborated with noted energy-sector scholar Tom Tanton to produce a PRI pamphlet on Proposition 87, California's then-proposed oil-production tax. Her new *Environmental Notes* series has covered a wide range of topics, from hybrid cars to genetically-modified organisms. Throughout, Dr. Kaleita has taken a common-sense stand for allowing market forces to work in environmental policy.

Dr. Kaleita is a professor of agricultural and biosystems engineering at Iowa State University.

## The IRA Charitable Rollover is Here! Use Your IRA to Help PRI

On August 17, 2006, President Bush signed into law new tax incentives for charitable gifts from donors who are 70 1/2 or older. The Pension Protection Act of 2006 encourages financial support of charitable organizations across the United States.

Under the law, you can make a lifetime gift using funds from your individual retirement account (IRA) without undesirable tax effects. Previously you would have had to report any amount taken from your IRA as taxable income, and then take a charitable deduction for the gift, but only up to 50 percent of your adjusted gross income. In effect, this caused some donors to pay more in income taxes than if they hadn't made a gift at all.

Fortunately, now these IRA gifts can be accomplished simply and without tax complications. Plus, you can make the gift now — while you are living and able to witness the impact of your generosity to PRI and its policy work to advance liberty.

You may contribute funds this way if:

- You are age 70 1/2 or older
- The gift is \$100,000 or less each year
- You make the gift on or before December 31, 2007
- You transfer funds directly from an IRA or Rollover IRA
- You transfer the gift outright to one or more public charities, but not supporting organizations or donor-advised funds

### How the New Law Works

Pat, aged 72, has \$450,000 in an IRA and has pledged to give \$75,000 this year. If Pat transfers \$75,000 from the IRA, she will avoid paying federal income tax on that amount. She cannot, however, claim a charitable deduction — it is a pure “wash.” Pat has found an easy way to benefit charity without tax complications.

The legislation allows a maximum \$100,000 gift in both the 2006 and 2007 tax years. If Pat's spouse has an IRA and is 70 1/2 or older, he can also give up to \$100,000 each year.

### How to Make a Gift

Prior to making a gift, contact PRI for special instructions for your IRA custodian.

### For More Information

It is wise to consult a tax professional for more detailed advice if you are contemplating a gift under the new law. If a donor lives in a state where there is state income tax, he or she will want to determine how their state deals with the deductibility of these types of charitable gifts. Also, please feel free to call Bradley Bodager, vice president for Advancement, at (415) 955-6139 for further assistance.



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