

A LETTER FROM THE PRESIDENT

As we approach mid-summer and the second half of the year, I am pleased to report on PRI's exciting news and impact. In July we published three studies that have garnered much media attention. First, PRI published a briefing paper by John R. Graham, *From Heart Transplants to Hairpieces: The Questionable Benefits of State Benefit Mandates for Health Insurance*, which recommends government restraint in imposing mandates. The *Chicago Tribune* cited John's study in an editorial criticizing Illinois Governor Blagojevich's health proposal. John also wrote a *Health Policy Prescription* column based on the paper.

Next, PRI released Vicki Murray's *The High Price of Failure in California: How Inadequate Education Costs Schools, Students, and Society*, which estimates the annual cost of inadequate education to students, schools, and the state for a single cohort of college freshmen requiring remedial instruction across all California public postsecondary systems. The study was cited in the *Chronicle of Higher Education*, *Best Education Today*, *Amador Ledger-Dispatch*, *Pasadena Star-News*, *Whittier Daily News*, *San Gabriel Valley Tribune*, and the *Inland Daily Bulletin*.

Finally, PRI completed a technical evaluation of California Assembly Bill 624 and released *Burdening Foundations: Economic Costs of Assembly Bill 624*. The study exposes the cost of the attempt by Assemblyman Joe Coto (D-San Jose) to impose racial and gender reporting requirements on foundations, the charities that receive grants from them, and the businesses that work with them. While the bill was withdrawn, the Greenlining Institute is trying to find a sponsor at the national level.

In the *Washington Times*, Technology Studies policy fellow Daniel Ballon explained how high-tech companies are abusing antitrust to slow down rivals and restrict competition. According to Daniel, "antitrust laws allow the government to punish dominant firms based on the complaints of competitors, which encourages rivals to lobby for special favors."

In *Environmental Studies*, the *Sacramento Bee*, the newspaper of record in California's capital, published Tom Tanton's op-ed, "AB 32 is a breath of foul air for taxpayers, businesses," which described how the continued implementation of AB 32 is going to hinder an already struggling California economy.

I'm also pleased to inform you that more media impact is on the way from the soon to be released *Index of Health Ownership*, second edition. With our many other projects, that adds up to a lot of influence. Please remember that none of this would be possible without your support and, once again, all of us here at PRI thank you for your generosity.



Sally C. Pipes,
President & CEO
Pacific Research Institute

BUSINESS AND ECONOMIC STUDIES

key issue >> The California Budget Mess

POLICY BRIEFING

California still is without a budget and its main sticking point is how to close a projected \$15.2-billion deficit. The governor wants to trim the budget significantly and enact budget reform. Democratic legislators want to close the gap with huge tax increases on individuals and corporations, including two new personal income tax brackets and a higher corporate income tax rate.

PRI PERSPECTIVE

On July 10, PRI's senior fellow in Business and Economic Studies Dr. Robert P. Murphy criticized the budget mess in a *Sacramento Union* op-ed, "Smaller Government Is Only Solution to Budget Crisis." The surest way to stop recurring crises, he wrote, is for Californians to stop asking government to run their daily lives.

On July 23, Bob's "Soaking the Rich Won't Solve Boom-and-Bust Cycles" was published in the *San Jose Mercury News*. Bob criticized the Democratic tax-hike proposal, explaining that it would make California the highest taxed state for wealthy, entrepreneurial individuals. Franchise Tax Board statistics show that Californians with adjusted gross incomes of \$300,000 or more represent fewer than two percent of returns filed, yet account for almost 55 percent of income-tax revenues. Two new tax brackets and a higher corporate rate would only make the state more dependent on volatile income tax revenues and exacerbate the revenue rollercoaster. It will also encourage business and individuals to leave the state.

Bob's July 30 "California's Spending Binge Breaks Budget," in the *Sacramento Union*, showed that General Fund and Special Fund revenues have grown almost six percent per year under Governor Schwarzenegger. Adjusted for inflation and population growth, the state's real per-capita tax revenues grew by about one percent per year.

PRI IMPACT:

- On July 2, Dr. Lawrence J. McQuillan, PRI's director of Business and Economic Studies, was interviewed by David Keyston about a flat income tax proposal for California on *Our American Heritage* in Monterey.
- On July 5, an op-ed by Bob on high oil prices, "Politicians Tell Big Oil How to Make Billions," was published in *Townhall.com* and *Corvette Forum*.
- On July 6, the *New York Times* published Lawrence's letter to the editor "The Tort War, Unresolved." The letter showed how defensive-medicine costs, prompted by malpractice lawsuits, add millions of Americans to the rolls of the uninsured by pricing them out of the health insurance market.
- On July 22, Lawrence spoke in New Brunswick, New Jersey, on what can be done to fix the tort problem in that state. The event was sponsored by the New Jersey Lawsuit Reform Alliance and covered by the *New Jersey Record* in "Speaker Criticizes N.J. Climate for Firms Facing Suits" (July 24).



EDUCATION STUDIES

key issue >> Dropouts and Remedial Education

POLICY BRIEFING

For years, state statistics have grossly underestimated the percentage of students who drop out of California high schools. Even among those students who manage to graduate, most are not ready for college-level work.

PRI PERSPECTIVE

In 1997, PRI pointed out that California's real dropout rate was double the state's own estimate. Now, using a better calculation methodology, the state admits that the dropout rate is indeed double what it had previously reported. In addition, large numbers of those graduating from high school need remedial instruction in math or English if they make it into college. Enter a new PRI study, *The High Price of Failure in California: How Inadequate Education Costs Schools, Students, and Society*, by Vicki Murray, senior fellow in Education Studies. *The High Price of Failure in California* estimates the annual direct and indirect costs of inadequate education to students, schools, and the state for a single cohort of college freshmen requiring remedial instruction across all California public postsecondary systems, both two- and four-year. It finds that the total estimated annual cost ranges from \$3.9 to \$13.9 billion annually, driven largely by lost individual earnings associated with lower educational attainment and the related social costs.

PRI IMPACT:

- On July 18, *Flashreport.org* published "The Dropout Disaster: We Told You So," by Lance Izumi, PRI's senior director of Education Studies.
- On July 22, Lance was interviewed by the national radio network American Family News Network on California's new dropout statistics.
- On July 22, PRI sent out a press release on *The High Price of Failure in California* and the study was cited in the *Chronicle of Higher Education*, *Best Education Today*, *Amador Ledger-Dispatch*, *Pasadena Star-News*, *Whittier Daily News*, *San Gabriel Valley Tribune*, and the *Inland Daily Bulletin*.
- During July, Vicki conducted 16 briefings for legislative staff on *The High Price of Failure in California*, plus she briefed the California Department of Finance and the state Legislative Analyst's Office.
- Also during July, PBS affiliates throughout California, including KCET-TV in Los Angeles and others, broadcasted the news special "California's Schools: America's Future," which featured Lance as one of the expert panelists.
- In July, Lance was a guest on the nationally syndicated *Lynn Woolley Show*, the *Lars Larson Show* (Westwood One/NBC national radio), KFTM-AM (CO), WHO-AM (IA), and KNST-AM (AZ). He discussed the PRI report *English Immersion or Law Evasion?*, which focuses on bilingual education.
- On July 30, the *Orange County Register* published Vicki's op-ed, "Poor kids can cut it in school."



ENVIRONMENTAL STUDIES

key issue >> AB 32: A reduction in greenhouse gas emissions or more hot air from the legislature?

POLICY BRIEFING

California is in the midst of economic turmoil and yet state legislators are attempting to exacerbate this downturn by rushing the implementation of a new environmental policy, which is set to add a massive economic burden on every taxpayer and business in the state.

PRI PERSPECTIVE

On July 7, the *Sacramento Bee* published Environmental Studies policy fellow Tom Tanton's op-ed, "AB 32 is a breath of foul air for taxpayers, businesses," which described how the continued implementation of this legislation is going to harm an already struggling economy. PRI believes that if California is to remain a competitive giant, AB 32's implementation should not punish consumers. To that end, the state needs a better understanding of the fundamentals of economic vitality. We must promote technological developments and entrepreneurial innovation to reduce emissions, while ensuring that California's economy continues to grow. Tom's op-ed was later posted on *Flashreport.org*.

PRI IMPACT:

- On July 15, PRI published Environmental Studies policy fellow Dr. Amy Kaleita's *Environmental Notes* column, "Be Careful What You Wish For: Hardship of high gasoline prices previews the impact of emission controls," which discusses some of the unintended consequences high gas prices are having on consumers.
- On July 23, Tom followed up on his 2007 study, *Lights On: An Energy Policy Survey for California*, by writing an op-ed for the *Sacramento Union*, "Let Energy Technologies Stand Alone," which called for an end to harmful energy subsidies.
- Amy was quoted in a Heartland Institute's *Environment & Climate News* column, "Environmentalists Oppose New CO₂ Scrubber Idea." Amy noted, "If CO₂ emission reduction is a goal, then investigating and investing in strategies for capitalizing on our existing infrastructure efficiently and effectively makes more sense than throwing away reasonable options simply because they don't align with a political philosophy about our energy economy." The piece also appeared on *livejournal.com* and a *teamxbox.com* thread.
- On July 28, senior policy fellow Steven Hayward's *2008 Index of Leading Environmental Indicators* was cited on a *TMCnet.com* article, "Prosperity, growth improving our environment." The *Index* was also cited on *Asiaing.com*.



HEALTH CARE STUDIES

key issue >> Since 1949, state governments have imposed mandatory benefits on health plans and beneficiaries, thereby removing the scope of coverage from negotiation between buyer and seller, and subjecting it to political coverage. The pace of growth of these mandates is quickening, and they are becoming more expensive.

POLICY BRIEFING

PRI published a briefing paper by John R. Graham, *From Heart Transplants to Hairpieces: The Questionable Benefits of State Benefit Mandates for Health Insurance*. In this new study, PRI's director of Health Care Studies cautions government restraint in imposing mandates.

PRI PERSPECTIVE

In 2007, there were 84 separate benefit mandates in force in at least three states. Among the benefit mandates introduced since 2000 are hearing aids, hormone replacement therapy, and reimbursement for clinical trial participation. In 2007, soon after it was introduced, 13 states mandated coverage for the human papillomavirus vaccine. Such mandates increase health insurance premiums and put the cost of health insurance out of the reach of many.

PRI IMPACT:

- The *Chicago Tribune* cited John's briefing paper on the costs of state benefit mandates in an editorial criticizing the health proposal of Illinois Governor Rod Blagojevich. John wrote a *Health Policy Prescriptions* column on the topic of state benefit mandates and a *Capital Ideas* column proposing a fix to the problem of "balance billing" in California emergency rooms, whereby doctors bill patients for amounts they cannot collect from health plans.

- PRI president Sally C. Pipes wrote op-eds comparing Senator McCain's and Senator Obama's proposals for health reform, which were published in a new monthly column for the *San Francisco Examiner* and *Washington Examiner*, and in the *Detroit News*. Her recommendations for patent protection and regulation of pharmaceutical and biotech innovation ran in a number of local newspapers, including the Minneapolis-St. Paul *Star-Tribune*. More than half a dozen local newspapers carried her op-ed about the consequences of government-monopoly health care in Britain.
- John's health care blog focused on high costs and low accountability in the San Francisco Healthy Access Plan. His comments were cited by the *San Francisco Chronicle* and the *California Catholic Daily*.
- John delivered a presentation to the American Legislative Exchange Council's (ALEC) Health & Human Services Task Force, of which he is a member. He presented the results of the *U.S. Index of Health Ownership*, second edition (August, 2008).
- Sally gave radio interviews on health reform to syndicated talk-show hosts Barbara Simpson in Northern California, and Frank Pastore in Los Angeles. She was interviewed for a major story on health care to be published in Dow Jones News Service's *SmartMoney* magazine.

TECHNOLOGY STUDIES

key issue >> Net Neutrality

POLICY BRIEFING

The Federal Communications Commission (FCC) has found Comcast guilty of blocking certain activities on its high-speed Internet networks. These activities involved the exchange of very large files, such as full-length movies, which can clog the network's arteries and slow down service for every customer. Because only five percent of Comcast's customers were using 90 percent of its network capacity, the company began using new technologies to manage congestion and keep the traffic flowing. The FCC ruled that this network management was not "reasonable," and that the federal government should evaluate all new practices and technologies on a case-by-case basis.

PRI PERSPECTIVE

Regulators have always embraced a commitment to keeping the Internet free from government manipulation. The Commission's website states clearly that "the FCC does not regulate the Internet or Internet Service Providers (ISPs)." Because companies could freely adapt with new technologies, the Internet has thrived as a revolutionary platform for innovation. By subjecting all future online innovations to the arbitrary and subjective whims of political appointees, the FCC will impair the development of promising new tools and services. As regulatory burdens grow, many entrepreneurs will be unable to shoulder the costs of building an Internet business. This will result in fewer choices, less competition, slower service, and higher prices for consumers.

PRI IMPACT:

- Daniel Ballon, PRI policy fellow in Technology Studies, discussed the FCC's Comcast decision on KKNW-Seattle's *Conscious Talk with Brenda Michaels and Rob Spears*.
- In the *Washington Times*, Daniel explained how high-tech companies are abusing antitrust to slow down rivals and restrict competition. According to Daniel, "antitrust laws allow the government to punish dominant firms based on the complaints of competitors, which encourages rivals to lobby for special favors."
- Daniel argued in the *Eureka Reporter* and the *Sacramento Union* why California regulators should redouble their commitment to telecom deregulation.
- After the European Union imposed another record fine on Microsoft, Daniel exposed the EU's real motives in the *Cherry Creek News* (CO) and *St. Mary's Today* (MD).
- Daniel was cited in *Info Tech & Telecom News* in stories about wireless net neutrality, municipal Wi-Fi, antitrust, and the digital TV transition.
- Daniel also continued his efforts to keep online payment systems free from burdensome government mandates, providing commentary on *The Hill Congress Blog*, the *Eureka Reporter*, *Payment Daily News Digest*, and *Internet Retailer*.
- In her *TechNewsWorld* columns, Sonia Arrison, senior policy fellow in Technology Studies, discussed the technical savvy of the presidential candidates, net neutrality, and the consequences of a longer human lifespan.