

FORRESIGHT



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SCHOOL CHOICE AS EDUCATION REFORM: WHAT DO WE KNOW?

By Dan Goldhaber
The Urban Institute

School choice exists today in a variety of forms, from charter schools, magnet schools, and district and state open enrollment plans to publicly and privately financed voucher plans. Despite years of research and debate, the question of whether school choice improves student outcomes persists. Choice proponents suggest that injecting greater competition into the education system can revolutionize education, while opponents argue that choice would help only a select few students and hurt the many who are left behind. These starkly different views belie a much murkier research picture that suggests some forms of school choice may benefit some students under certain conditions. Much of the rhetoric surrounding the choice issue also ignores the crucial role that the specifics of school choice policies likely play in determining their effects. This digest explores the issues surrounding school choice and highlights some of the major research findings.

Photo by Rick McComb, Kentucky Department of Education



out of the system, then the connection between student shifts and educational resources may be essential so that there are financial consequences associated with losing students; here competition from the private sector may be beneficial.

Although the theory behind the potential benefits of choice is relatively straightforward, the educational marketplace is not directly parallel to the private sector. Students and parents may choose schools for a variety of reasons, and the vast majority of schools are not for profit. As a result, the ultimate

impact of choice depends on how parents and schools respond to more schooling options and greater competition.

Findings from the Research

School choice, in its various forms, has been the focus of numerous studies over the past two decades. Most studies find greater parental satisfaction associated with choice. But studies also clearly show that less educated parents with more modest means

are less likely to exercise choice, which raises concerns that choice systems could lead to less equity and greater racial, ethnic, and socioeconomic stratification.

No definitive conclusions have emerged about the academic effects of school choice on students, in part because much of the evidence on choice is derived from nonexperimental research designs where the participants in the study have self-selected a school, and therefore may differ from those not in the study. Even students in the study may differ from one another in ways that are unobservable to the researcher. For example, we cannot directly observe students' attitudes toward academics, though they clearly play a role in explaining their achievement.

How Choice Might Improve K-12 Education

There are two arguments about why greater school choice would result in better educational outcomes: (1) It could allow schools to better tailor their programs to attract students with particular interests or learning styles, thus providing a better match for students' unique educational needs; and (2) it would break the public school educational monopoly and force schools to compete for students in an educational marketplace in which "good" schools would prosper and "bad" schools would improve or be forced to shut down.

If the primary benefit of choice is the match between students and schools, greater choice would be beneficial regardless of whether a school's resources are directly connected to its student population. However, if the primary benefit of choice is the creation of incentives designed to squeeze inefficiencies

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Efficiency of Public and Private Schools

Numerous studies have examined differences in the outcomes of students who attend public and private schools, enabling speculation about the effects of a voucher policy on the K-12 education system. Private school students, in general, outperform their public school counterparts on standardized tests, and they are more likely to graduate from high school and attend college. Significantly, positive private school effects have tended to be found predominantly for minority students in urban settings. There is, however, mixed evidence about whether this is an effect of the schools they attend or a result of student factors, such as family background.

Even if private schools do not outperform public schools in terms of test scores, they might still be considered more efficient if their costs for educating students are sufficiently lower. It is true that private school tuition, particularly for Catholic schools, is generally significantly less than the amount spent on each pupil in the public sector. There are, however, significant difficulties in accurately determining the cost of educating private school students. The

tuition charged does not reflect subsidies from religious organizations or the in-kind contributions of parents who are often expected to contribute to the school's maintenance. The two sectors also serve very different student populations and provide different services. Thus, drawing strong conclusions about the value of choice based on comparisons between public and private schools is problematic.

The existing evidence suggests that choice is unlikely to be either the panacea that some advocates claim or the disaster that opponents contend.

Voucher Experiments

Educational experiments can mitigate some of the problems in other types of choice research. For example, voucher experiments have recently been conducted in several large cities whereby low-income students wishing to receive vouchers were randomly assigned to a treatment group that received modest vouchers (around \$1,500 per

year) or to a control group that did not. Evaluations showed that attending a private school had a statistically significant large beneficial impact overall. However, there were no statistically significant differences between public and private students in the test score performance of non-African American students, and gains were not found across all grades or subjects.

These evaluations did not include controls for the demographics or achievement of the other students in the public and private schools, so it is possible that what is perceived to be a private school effect is actually a student peer effect. The estimated impact on this group that desires to attend private schools is not necessarily the effect on the general student population, and those schools that elect to participate in the experiment may not reflect private schools in general. Small experiments also do not provide evidence on the supply-side effects of a larger voucher program, but the quality and type of participating private schools would, in part, determine the overall impacts of expanded choice. Finally, many of the students offered vouchers chose not to use them. This could affect research findings if the characteristics of these students differ substantially from those who use their vouchers.

Competition Between Schools

Another method used to assess the impact of choice and competition on K-12 education is a comparison of student outcomes in localities with differing amounts of competition, either between public schools and school districts, or from private schools. Little definitive evidence has emerged about the impact of charter and magnet schools on other public schools from which they draw students, but some evidence does show that intra- and interdistrict choice plans affect student achievement. New York City's District 4, for example, a high poverty district serving predominantly minority students, has demonstrated dramatic improvements in achievement at

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least in part resulting from a choice plan. Also, research on Minnesota and Massachusetts, states allowing inter-district choice, suggests that districts losing large numbers of students are likely to implement innovative programs designed to attract students back.

More generally, a number of studies show that public school districts that face greater competition from other districts in the same metropolitan area have better student outcomes and are more efficient. Similarly, research examining the performance of public schools with greater private school competition tends to show, to various degrees, greater competition positively impacts public school students. As with other nonexperimental research, these studies have to take account of a variety of statistical problems. Failure to control adequately for unobserved differences in community preferences, such as choice of locality, may lead to biased estimates of the effect of competition on public schools.

Parental Selection of Schools

Studies generally show a positive relationship between the choice of school and measures of school quality, implying that parents are making decisions that are likely to benefit their children academically. However, many of the cues that parents may use to identify good schools are strongly correlated with characteristics of the students attending those schools, such as their socioeconomic status, suggesting that greater choice could result in greater segregation along racial/ethnic and socioeconomic dimensions. But it is also true that the public school system is relatively segregated today and has become more so as middle-class families have fled inner cities.

Conclusions

It is clear that not much is clear when it comes to the issue of choice in education, but we can draw a few conclusions from examining the broad array of findings:

- For most students, any benefits of public-private choice tend to be small.
- There is some evidence that private schools benefit minority students in urban areas.
- Competition between public schools and districts appears to have small beneficial effects on the efficiency of the schools competing.
- Parents are sensitive to measured school quality, but they also tend to base schooling decisions, at least in part, on nonacademic attributes of a school.

Thus, there is an argument for increasing competition through enhanced choice options, although we do not yet know the consequences of more expansive choice policies. The existing evidence suggests that choice is unlikely to be either the panacea that some advocates claim or the disaster that opponents contend. Rather, its ultimate educational effects are likely to be influenced by the specific components of choice plans: the requirements placed on participating private schools, the size of the voucher, the eligible students, and the financing mechanism. ✍



Photo by Rick McComb, Kentucky Department of Education

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Is a School Voucher Program Feasible for Kentucky?

By Mark Schirmer

Even its harshest critics would agree that KERA proved Kentucky's willingness to make dramatic, systemic change in its schools. With school vouchers, used by parents to purchase education at schools of their choice, including private



ones, we enter a new arena of political and policy debate. Here, we examine the issues that would have to be addressed for such a system to be put in place—not *whether* Kentucky should adopt a voucher system. Indeed, what follows is more primer than comprehensive overview, touching on some of the major considerations behind the possibility, feasibility, and

popularity of a voucher system in Kentucky.

First and perhaps foremost, any move toward a voucher program will have to begin with interest, support, and some degree of consensus from the general public. Any movement demands a push. Such a push would almost certainly arise in response to the miserable performance of public school districts, such as what occurred in Cleveland. As dissatisfaction over schools builds, so too does the pressure on legislators to address problems. If such problems become widespread here, some lawmakers will undoubtedly view vouchers as a potential solution to the inadequacies of public schools. In Kentucky, however, the adoption of a voucher system faces a number of hurdles.

The Constitutional Hurdle

While the U.S. Supreme Court ruled that Cleveland's voucher program did not violate the U.S. Constitution, voucher systems also must pass muster at the level of *state* constitutions. Given that parochial schools dominate Cleveland's private school market, the majority of the public money financing vouchers there ultimately goes to religious organizations, what opponents view as a clear encroachment on the separation of church and state.¹ By a 5-4 majority, however, the U.S. Supreme Court refuted this claim, stating that since the government gives vouchers to *parents*, not directly to private schools, church and state remain separate, a point hotly disputed in the dissenting opinions.

A similar debate would almost certainly arise over the constitutionality of a voucher system in Kentucky. Among the Commonwealth's certified, nonpublic schools, roughly 90 percent have religious affiliations, and among the few private schools without a religious affiliation, 18 of the 22 are located in Louisville, Lexington, and Fort Knox, leaving just 4 to serve the rest of the state.² As in Cleveland, a voucher program in Kentucky would effectively subsidize tuition at religious

schools, and Section 189 of the Kentucky Constitution—in place since 1891—appears to close the door on the matter.

No portion of any fund or tax now existing, or that may hereafter be raised or levied for educational purposes, shall be appropriated to, or used by, or in aid of, any church, sectarian or denominational school.

Were such a program to allow any nonpublic school to participate, either the State Supreme Court would have to find that vouchers do not violate Section 189 of the Kentucky Constitution, or the state's constitution would have to be amended. Further, were a voucher system that excluded religiously affiliated schools established, most of the state's public school students would not benefit from its presumed benefits as they do not live anywhere near an eligible private school.

In an effort to prevent potential clashes between parochial schools and voucher-eligible parents (and the U.S. Constitution), the Cleveland program stipulates that participating parochial schools cannot teach prejudice nor hatred toward anyone and that all participating schools must accept students of all religions. Opponents of vouchers, including four of the nine U.S. Supreme Court Justices, argue that such provisions invite social unrest in two primary ways: parochial schools might potentially be forced to alter what they teach; and the government might be forced to get involved in the workings of these religious organizations to ensure compliance with the law. In his dissent, Justice Breyer asserted, "It is difficult to imagine a more divisive activity than the appointment of state officials as referees to determine whether a particular religious doctrine teaches hatred or advocates lawlessness."³ Those crafting a voucher plan in Kentucky would have to thoughtfully address the matters of which rules would be imposed upon parochial schools, who would monitor schools' compliance, and how infractions would be remedied.

Who Should Receive Vouchers?

Milton Friedman, who originally proposed public funding for private schooling back in 1955, insisted that vouchers should be "available to all students, and free of excessive regulations," not merely offered exclusively to poor children in poorly performing public schools.⁴ But poverty and poor school performance seemed to inform the decisions of the five Supreme Court justices who okayed Cleveland's program. The ruling explained that all parents are entitled to educational options for their children, but because poor parents don't have the options of wealthier parents, vouchers help level the playing field.

Would a program in Kentucky have to follow suit to remain constitutional? Elsewhere, parents in higher-income brackets have begun to contest their ineligibility for vouchers, claiming the exclusion to be biased in favor of low-income families and thus unconstitutional. One could reasonably expect a

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similar battle to ensue in our state were a school voucher program adopted. Ultimately, Kentucky would have to determine what criteria vouchers would have to meet in order to comply with its constitution.

Who Will Accept Voucher Students?

Clearly, the success of a voucher program would hinge largely on the number and capacity of participating schools. Thus far, voucher programs have allowed private schools to choose for themselves whether they will, in fact, accept voucher students. If so few private schools participated in the program—or if there are so few openings in participating schools—that only a small percentage of students actually got to use the vouchers available to them, the system would have been created in vain.

But even if private schools were to widely accept vouchers, those schools only have so many empty desks they can fill. About 10 percent of school-age children in Kentucky attend private schools, accommodating only a fraction of the state’s school children. In existing voucher programs, the potential for eligible students to be shut out of participating schools has already sparked battles over how schools pick which students to accept. These same questions would likely loom over a voucher program here as well. First come, first served? A lottery system? Poorest children first? And what say would schools have over which voucher students they would accept?

A Limited Supply

Providing vouchers to students in a given community won’t do much good if they live in places with very few private schools. In fact, 33 of Kentucky’s 120 counties have only one private school, and 22 counties don’t have *any*.⁵ Not surprisingly, the three counties with the highest populations—Jefferson, Fayette, and Kenton—also lead the state in the number of private schools they hold, accounting for 46 percent of all private schools in the state. The possibility remains that vouchers might be unusable in the counties that need them the most. And if a town’s participating private schools are not only predominantly parochial but also *exclusively* so, not all parents who qualify for vouchers would want to choose from the available private schooling for their children.

The short supply of private schools and private school openings in much of the state does not preclude the use of vouchers, however. As in the traditional market for goods and services, should demand outstrip supply, entrepreneurial types might tap into a growing demand for private schools and open new schools to take advantage of the financial opportunities vouchers would offer. This scenario has, in fact, already played out in Milwaukee, where a voucher program has been in place since the late 1980s. For the 1990-91 school year, 112 private schools operated within Milwaukee public school district boundaries. By the end of the decade, that number grew to 172 schools.⁶ While the number of private schools *increased* 50 percent during this 10-year period, Milwaukee’s population actually *dropped* by 2 percent.

Ultimately, however, the possibility and probability of a jump in Kentucky’s private school supply will be affected largely by the value of the vouchers, combined with the number and location of voucher-eligible students. A small pool of students and vouchers that failed to meet real costs would undermine the incentive and increase the risks of starting new schools.

Bringing It Home

The lack of private schools in some parts of the state could also be partially counterbalanced by allowing the use of voucher money to fund home schooling. Wisconsin law does not regard home schools as private schools, making parents who educate their children at home ineligible to participate in the Milwaukee Parental Choice Program. But according to the Kentucky Department of Education, “home schools are considered to be nonpublic schools. The laws relating to nonpublic schools also apply to home schools.”⁷ In that light, one could argue that home schoolers should be allowed to participate in a voucher program. The demand would certainly be there. Though 22 counties have no private schools, children receive home schooling in all 120 counties, and 47 counties actually have more home-schooled children than they do privately schooled ones.

The Bottom Line

As with any publicly funded program, and particularly in light of the state’s current budgetary shortfall, the financing of a voucher system would directly affect the state’s capacity to provide adequate assistance in offsetting the cost of private school tuition. Milwaukee awards vouchers worth

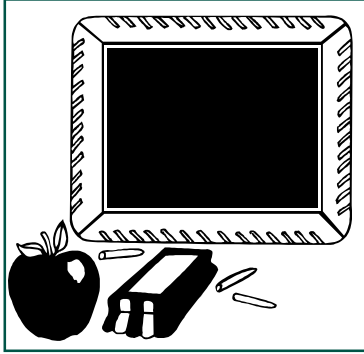


more than \$5,000 each. Cleveland’s are worth \$2,250, considered so modest that only poor, subsidized private schools have agreed to accept them.⁸ These “modest” vouchers, used by roughly 3,700 students, will add up to over \$8 million this year. How much would Kentucky be willing, let alone be able, to set aside for vouchers? The state currently spends, on average, about \$7,600 per student in its public schools.⁹ How much would it spend per voucher? Would the money come out of public school funding or from some other sources? Thousands of students spending thousands of dollars would add up to millions in no time.

Adding It Up

Though publicly funded private school vouchers could become a reality in Kentucky, they will spin a complex web of issues. Between the state’s constitutional snarl and budgetary headaches, a voucher program would face

significant judicial, legislative, and financial wrangling. At the same time, the practicality of a voucher system will depend in part upon the quantity and quality of private schools in the state. With so few private schools in so many counties, the emergence of new schools and the inclusion of home schools may be determining factors in whether a voucher system could equitably meet the needs of students and address the concerns of parents.



The greatest challenges will be in determining the criteria for eligibility, the monetary value of each voucher, the sources for funding, and the fail-safe provisions for sustaining public schools that lose funding to vouchers. Policymakers and private

citizens will have to consider the promises and pitfalls of redirecting public funding toward private schools and, for the time being, stretching already tight budgets even further in an environment of competing interests. Regardless of how individuals feel about vouchers, such programs won't easily come to fruition. For those who have yet to decide whether they would want school vouchers in Kentucky, the next few years will likely see more programs emerge around the country. The experiences of these programs should provide a clearer picture of how this education strategy affects student achievement, school performance, and public finance.

Notes

¹ In Cleveland, approximately 96 percent of voucher recipients attend religious schools. When factoring in community and magnet schools, and public school children who receive tutoring, these children represent only about 20 percent of the children in nontraditional schooling.

² KLTPRC analysis of data from the Kentucky Department of Education (KDE), KDE Web site, 17 Jan. 2003, 27 Jan. 2003 <[http://www.kde.state.ky.us/KDE/About + Schools + and + DistrictsCertified + Non-Public+Schools.htm](http://www.kde.state.ky.us/KDE/About+Schools+and+DistrictsCertified+Non-Public+Schools.htm)>.

³ "Excerpts From the Decision Sanctioning Vouchers for Private Schools," *New York Times on the Web* 28 June 2002, 28 June, 2002 <<http://www.nytimes.com/2002/06/28/national/28VTEX.html>>.

⁴ Friedman Foundation Web page, 29 July 2002 <<http://www.friedmanfoundation.org/>>.

⁵ KDE data.

⁶ Data supplied by the Wisconsin Department of Public Instruction via e-mail from Merry M. Larsen, a School Administration Consultant with DPI, 10 Oct. 2002.

⁷ KDE, "Kentucky Home School Requirements and Information," KDE Web site, 17 Jan. 2003, 27 Jan. 2003 <[www.kde.state.ky.us/KDE/About + Schools + and + Districts/Kentucky + Home + School + Requirements.htm](http://www.kde.state.ky.us/KDE/About+Schools+and+Districts/Kentucky+Home+School+Requirements.htm)>.

⁸ Jacques Steinberg, "The Supreme Court: The Reaction; Voucher Backers See Opening for a Wider Agenda," *New York Times* 28 June 2002, A24.

⁹ "Resources: Adequacy," *Education Week on the Web* 10 Jan. 2002, 27 Jan. 2003 <<http://www.edweek.org/sreports/qc02/reports/resources-t1.htm>>.

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Center's 9th Annual Conference

Homeland Security Conference Largest Ever

From the local to the global, the ninth annual conference of the Kentucky Long-Term Policy Research Center considered the changes wrought by the specter of terrorism. Sponsored jointly by the NewCities Foundation, the one-day conference, "Living in a Changed World," explored post-9/11 realities for state and local governments, touching on a range of issues that are expected to affect the lives of all Americans in the months and years to come.

In addition to its partnership with the NewCities Foundation, the Center's conference again featured a partnership with Kentucky Educational Television (KET), which filmed the full conference for programming. As in the two preceding years, *Kentucky Tonight's* Bill Goodman also moderated a panel discussion. Following a stirring performance of the national anthem by Board member Senator Alice Forgy Kerr, Dr. Betty Griffin, Chair of the Center's Board, welcomed those in attendance to what proved to be a provocative day of commentary and discussion.

The States After 9/11. The morning program featured a presentation by representatives of the National Conference of State Legislatures (NCSL) and the National Governors Association (NGA) moderated by Ron Carson.

NCSL's Molly Stauffer who works with the Task Force for Protecting Democracy was the first presenter. The Task Force is a 26-member national panel of state legislators and staff that includes Kentucky Representative Mike Weaver, who participated in the conference as a member of the KET panel. The task force, whose members represent 24 states, has adopted a mission of coordinating resources among the states; sharing information, expertise, and advice; and strengthening citizen participation. A full report on its work is available at NCSL's Web site: <www.ncsl.org/programs/press/freedom/letsroll_02report.pdf>.

Stauffer also detailed federal appropriations to Kentucky for homeland security initiatives and suggested a number of possible actions for state governments to consider, including:

- create a homeland security committee that is empowered to maintain confidential proceedings;
- permit state government employees to take time off to train in certain health disciplines;
- examine requirements for drivers' licenses;
- assess the vulnerability of 911 systems; and,
- develop an emergency transportation plan.

The NGA's Kevin Shanley reported to the conference audience on executive-level state activities that have come in response to 9/11. They include:

- coordinating efforts by all levels of government;
- receiving and disseminating timely intelligence information;
- developing interoperable communications between first responders;
- identifying and protecting critical infrastructure;

- enhancing bioterrorism preparedness;
- providing funding;
- protecting sensitive security information;
- securing borders, airports, and seaports;
- defining the role of the National Guard in homeland security; and,
- integrating Incident Command Systems.

Information about NGA activities on homeland security is available on the Web at: <www.nga.org>.



Mayor Anthony Williams

Thinking Locally. Following the presentations about state-level actions, the conference turned to featured speaker Anthony Williams, Mayor of Washington, D.C., who has roots in Paducah, Kentucky, his mother's birthplace, and has experienced the impact of terrorism firsthand. He now serves on a presidential advisory panel on homeland security.

Mayor Williams engaged in a dialogue with NewCities Foundation President Sylvia Lovely about what the nation's capital learned from the experience of 9/11 and how community life has been altered. While acknowledging that mistakes were made, Mayor Williams said key lessons enabled the city to better respond to subsequent threats, the anthrax attacks and the more recent sniper attacks, perhaps saving lives as a result.

Because Washington had created a command center for state, local, and regional agencies to handle large-scale protests in the capital prior to 9/11, it was better prepared to respond to the crash of an airliner into the Pentagon, said Mayor Williams. The situation was complicated, however, by massive traffic jams created when an estimated 200,000 people left the city.

Among the most important lessons learned from 9/11, Mayor Williams asserted, is that of making information available to the public as soon as possible. The hour between the terrorist attack on the Pentagon and communication with the citizens of the district was, in his estimate, too long. "You've got to get out there as quickly as possible with whatever information you have," Williams said. "That's what the public expects and deserves."

Photo by John Durham, with permission of the Messenger-Inquirer

Mayor Williams also stressed the importance of the average citizen, the real “first responder” to any emergency. The better informed and prepared they are, he suggested, the more likely that an emergency will be managed as effectively as possible. To that end, the city has created a citizen police corps to promote involvement. Participants assist police with traffic control, surveillance, and even issue minor tickets.

Washington, D.C., has also created an emergency action guide that has been widely disseminated. Williams showed the crowd a pocket-sized guide that he carries with him at all times. Lovely praised it as a model worthy of broad adoption.

The Global Picture. International terrorism expert Bruce Hoffman, a frequent commentator on NPR, the Lehrer NewsHour, and other national news programs, provided a global perspective on terrorism, observing that “al Qaida has clearly been weakened but its capacity to inflict pain remains intact.” Indeed, he suggested that the success of the war in Afghanistan and homeland security efforts to combat terrorism likely account for al Qaida’s shift to “softer,” more accessible targets where westerners can be attacked. At the same time, it appears that the core leadership of the group remains intact, successors are in place, and, at least theoretically, a vast army of trained recruits lies in wait. Further, al Qaida is, in Hoffman’s assessment, “a remarkably nimble, flexible, and adaptive entity.”

Hoffman attributed the success of the terrorist organization to its relatively flat hierarchy, which gives rise to both top-down strategies as well as bottom-up or entrepreneurial terrorism. Further, he suggested that these terrorists function at levels ranging from the professionalism of the 9/11 and U.S.S. Cole attacks to what he termed “local walk-ins” and others who simply share sympathies with the group. Also, Hoffman said that the “immense patience and careful planning” characteristic of al Qaida operations have contributed to its success.

Instead of asking what will happen next, Hoffman suggested that we should consider what has not happened, from radiological or biological attacks to mass, simultaneous attacks with conventional weapons. Ultimately, he asked, “Why haven’t terrorists yet realized their ‘killing potential?’”

Forced to change in response to U.S. actions, Hoffman said, terrorists must adapt and find ways to stay ahead of counterterrorism efforts, and deprived of physical sanctuaries and bases for training, they are likely to emphasize “virtual” equivalencies. The lessons from the anthrax attacks, Hoffman suggested, may be that, in addition to conventional

warfare, terrorists will embrace new tactics, such as discrete attacks, dirty nuclear attacks that create prolonged contamination, or, possibly, cyberterrorism, purely for the psychological damage they inflict. Increasingly difficult to categorize, terrorist organizations also may loosen and even spawn freelancers who sympathize with their ideology.

A key lesson from 9/11, Hoffman noted, is that these terrorists observe our society closely to effectively exploit our vulnerabilities.

The Kentucky Perspective. The conference concluded with what is

becoming an annual tradition, a KET panel discussion featuring a diverse group of Kentuckians, representing statewide as well as local interests and a wide range of expertise. Topics discussed by the panel included: the potential demographic shifts that could be triggered by reactions to terrorism; ways in which the state is addressing concerns about bioterrorism and its implications for public health and moving to protect the safety of farm crops; and the possible impact on economic development, Internet security, and state and local budgets, among other things.

Members of the panel were: Dr. Bill Brundage, Commissioner for the New Economy; Dr. Nancy Cox, Associate Dean, University of Kentucky College of Agriculture; Dr. Rice Leach, Commissioner, Department of Public Health; Ms. Sylvia Lovely, President, NewCities Foundation; Dr. Michael Price, State Demographer, University of Louisville; Dr. Jim Ramsey, then State Budget Director and now President of the University of Louisville; General Jim Shane, Executive Director, Kentucky Commission on Military Affairs; Senator Dan Seum, Co-Chair, Interim Joint Committee on Seniors, Veterans, Military Affairs, and Public Protection; Aldona Valicenti, Chief Information Officer, Governor’s Office for Technology; and Representative Mike Weaver, Co-Chair, Interim Joint Committee on Seniors, Veterans, Military Affairs, and Public Protection.

The focus of the Center’s recent conference on homeland security and its implications for the future was especially timely given the results of a recent public opinion poll conducted for the Kentucky Long-Term Policy Research Center which found that citizens of the Commonwealth rank *communities that are safe and caring places* as the most important goal for the state’s future in the wake of 9/11. While the goal has ranked in the top three in all three biennial surveys for the Center’s Visioning Kentucky’s Future project, the most recent poll results saw a decided shift away from larger goals, such as universal health care and the achievement of a system of educational excellence to a more immediate concern about security. ❧



Michael Childress greets Bruce Hoffman at the speaker’s podium.



Senator Dan Seum and Mayor Anthony Williams enjoy an exchange during the KET panel discussion.



Bill Goodman (back to camera) addresses panelists (from left to right) Aldona Valicenti, Dr. Nancy Cox, Dr. William Brundage, Dr. Rice Leach, Dr. Michal Price, Sen. Dan Seum, and Mayor Anthony Williams.



KET panel members (clockwise from lower left) Aldona Valicenti, Dr. James Ramsey, and Rep. Mike Weaver listen to remarks by Dr. William Brundage.



Kevin Shanley, National Governors Association, with Molly Stauffer, National Conference of State Legislatures

Virginia Fox, Executive Director of KET, Receives Sixth Annual Hellard Award

Virginia Fox, long-time Executive Director of Kentucky Educational Television (KET), was awarded the sixth annual Vic Hellard Jr. Award, given in memory and recognition of the former director of the Legislative Research Commission, at the Center's 2002 conference.

Fox began her distinguished career in public television with KET in 1968 three months before it went on the air. Only the second executive director in the history of KET, she was instrumental in making it one of the nation's most successful educational television channels. As part of KET's leadership team and later its leader, Fox has helped pave the way for programming that provides lifelong learning opportunities for Kentuckians of all ages, created a collection of public affairs programs that have become Kentucky fixtures, and launched KET's prize-winning coverage of the General Assembly.

In 1980, Fox left KET to become the first and only female president of the then Southern Educational Communications



Association. In that capacity, she transformed the organization, creating a national market for its instructional television programs. Fox soon became what Press terms "one of the most sought-after public television executives in the country."

Persuaded to return to KET in 1989 to build an endowment, Fox was quickly recognized as O. Leonard Press's logical successor when he retired in 1991. Under her guidance, KET expanded its original programming, particularly in the arts, increased public support, and ensured KET's readiness for the future, establishing the platform for digital television a year ahead of federal mandates. Al Smith, long-time host of "Comment on Kentucky," also applauds Fox for being a mentor to young women and minorities throughout her career.

Nominations for the annual Hellard Award are submitted by the public, and recipients are selected by the Center Board. Recipients of the award are commemorated on a plaque displayed in the State Capitol. ✍

Scanning Kentucky

Emerging trends and issues that may affect the Commonwealth's future

States Hit with Record Deficits

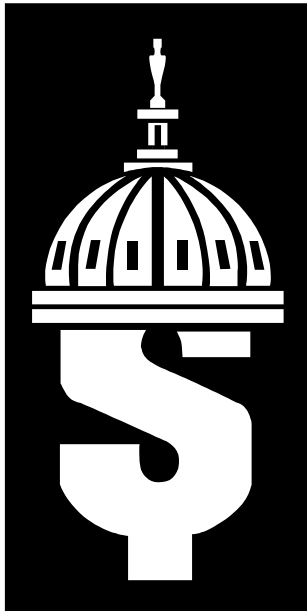
Plunging tax collections and soaring medical costs have created the worst fiscal problems for states since World War II, according to a *New York Times* article about a National Governors Association (NGA) report. The states' fiscal woes, according to NGA, are forcing governors, many newly elected, to propose politically sensitive tax increases or drastic cuts in services.

Raymond C. Scheppach, Executive Director of NGA, said states were responding to the fiscal crisis by increasing tuition at public colleges and universities, cutting Medicaid eligibility and benefits, increasing taxes on individuals and corporations, and laying off state employees.

Overall, according to NGA, Medicaid and other health costs like employee health benefits account for 30 percent of state spending and grew last year by 13 percent, the largest increase in a decade, the report said. At a time when revenues are declining, Mr. Scheppach said, such growth is unaffordable and unsustainable. Governors and state budget officers said the fiscal condition of the states was more dire than the condition of the national economy. The recession has reduced state revenues, especially personal income and capital gains taxes, Mr. Scheppach said, but the states' fiscal problems are also linked to long-term trends, like the increase in health care costs and the growing importance of services in the economy, which has sales tax revenue linked exclusively to goods.

Implications for Kentucky. Facing a predicted shortfall of an estimated half a billion dollars and bleak economic forecasts for the immediate future, Kentucky numbers among the states that must reckon with a significant budget shortfall. The

General Assembly faces the choice of cutting costs—including those of education, health care for the poor, and corrections—or raising taxes to generate sufficient revenue to close or partially close shortfalls or both. Already, a number of measures have been taken to reduce expenses, including a halt to planned construction projects, a hiring freeze, and utility cost-reduction measures. Others are likely to follow. Over the long term, however, both fiscal restraint and tax modernization are fast becoming imperatives for decisionmakers throughout the state and the nation.



Cigarette Tax Improves Smokers' Well-Being

Recent research suggests that rising cigarette taxes have a payoff. Most smokers say they want to quit but find it hard to do so. Since studies show that rising tobacco prices induce some folks to stop smoking, two economists at the Massachusetts Institute of Technology figured their ultimate reaction to tax hikes might actually be positive, *Business Week* reported.

To find out, they analyzed U.S. and Canadian survey data of people's rating of their own happiness to see if they were affected by growing state and provincial cigarette taxes. They found that "well-being in groups prone to smoke rose significantly in the wake of tobacco tax hikes," *Business Week* reported.

"The tax hikes," said study author Jonathan Gruber, "apparently made many smokers happier by helping them to stop or reduce their smoking."

Implications for Kentucky.

The findings of these MIT researchers suggest that a tobacco tax may have the unexpected benefit of helping smokers kick the habit. A 2000 survey conducted by the University of Kentucky (UK) Survey Research Center for the UK College of Nursing found that 78 percent of Kentucky smokers



had tried to quit. In cash-strapped Kentucky, where the cigarette tax is the next to the lowest in the nation, such a benefit is potentially good news for public health as well as state coffers. Moreover, its benefits would be likely to endure, as studies show that higher cigarette costs clearly discourage youth from smoking, and the Centers for Disease Control and Prevention estimate that 75 percent of adult smokers started smoking before age 18 and 90 percent before the age of 21. Thus, a higher cigarette tax that discourages youth from starting to smoke and encourages current smokers to quit offers potential long-term health benefits as well as a remedy for today's revenue ills.

Health Care Costs Again Soar

The cost of health care, which had stabilized in the mid-1990s with the advent of managed care, is climbing rapidly again, three recent *New York Times*, *USA Today*, and the *National Journal* articles report. In turn, these rising costs are placing new strains on employers, workers, and the government programs that cover 75 million Americans. Spending on health care in the United States rose faster in 2000 than at any time since 1993.

States are struggling with soaring costs in their Medicaid and Children's Health Insurance programs. In fiscal year 2001-2002, Kentucky's Department for Medicaid Services spent \$3.8 billion on the two programs, at an average cost of \$504 per eligible participant.

Health insurance premiums across the nation rose an average of 11 percent last year and are expected to rise another 13 percent this year. A survey of 3,262 companies by the Henry J. Kaiser Foundation, an independent organization that sponsors health policy research, indicated, on average, single workers paid 27 percent more toward their insurance premiums, and families paid 16 percent more. The survey also found that annual deductibles rose an average of 37 percent, and 78 percent of employers expect to increase their workers' share of costs again next year. Kentucky state government employees have been hit by higher costs; 2003 hikes in health insurance premiums are expected to exceed the national average.

An additional strain on the state budget is the cost of funding the Kentucky Employees Retirement System Insurance Fund. On July 1, 2001, the funding deficit for health insurance premiums was \$1.4 billion. KRS 61.702 states that, for employees who attain 20 years of service, the premium shall be paid in full. KRS 61.692 states that the medical insurance benefit is part of an inviolable contract, not subject to reduction for current employees. Thus, the rising cost of health care for state employees and for Kentucky's Medicaid and KCHIP population has serious long-term budget implications.

In 2000, the California Medical Association retained an attorney to sue almost a dozen major health maintenance organizations on the grounds that they engage in "fraudulent practices" made possible by "conspiratorial efforts" using the Racketeering Influenced and Corrupt Organizations Act (RICO). Medical associations in Florida, Georgia, Louisiana, and Texas have joined the lawsuit. The general allegation in these suits is that the insurance industry, unconstrained by regulators, routinely "downcodes" more-intensive visits to doctors as less intensive thus lowering reimbursement rates, and fails to provide doctors with a fair system for independent review of denied or partial payments.

Implications for Kentucky. Soaring health care costs are affecting all Americans, from families who have seen their premiums and copayments rise to policymakers who must make difficult choices between cutting health care services to some of our most vulnerable citizens and raising taxes. From private sector provisions for retiree health care that are cutting deeply into profit margins to undercapitalized public funds, the impact on our economy is broad-based. It is undermining fiscal health in the public sector and competitiveness in the private sector. What's more, future court decisions could potentially increase costs.

Over the long term, a sustained rise in health care costs will only deepen the red ink both federal and state govern-



ments are awash in. When the largest generation of retirees in the history of the nation becomes dependent upon the private and public health care provisions promised them, the burdens to employers and government could be staggering. While it was less than palatable to many consumers, managing health care costs appears to be in everybody's interest.

Water Infrastructure May Require \$1 Trillion

Across the country, water mains break 237,600 times a year, according to EPA estimates reported in *US News and World Report*. What's more, the EPA calculates that it will cost \$151 billion to fix and upgrade water delivery infrastructure nationwide. Industry insiders, however, think the cost will come closer to \$1 trillion, with costs per household running as high as \$7,000 in some small towns.

In addition to infrastructure problems, line breaks are a cause for real concern about water quality safety. Each break provides an opportunity for bacteria to enter water lines and create potential problems. While procedures



are in place to prevent such problems, none are failsafe. The thoroughness of filtration systems and the more scientific question of the safety of levels of chemicals used to treat water also come into question. For example, the EPA recently lowered the arsenic standard from 50 ppm to 10 ppm, a standard that was already higher than what some scientists urge. Regardless of how it is accomplished, the fixes will be costly and have a significant impact on future federal, state, and local budgets, and, possibly, on public health.

Implications for Kentucky. An aging and as yet incomplete water supply infrastructure has long been a concern for Kentucky, particularly in its rural areas where revenue is limited and problems widely dispersed. The importance of ensuring a safe, reliable supply of drinking water cannot be overstated. The deadly E coli contamination of the Waterton, Ontario, water supply, in 2000, which killed at least seven people, clearly illustrates the potential consequences of the failure to do so.

New Drugs Save Dollars Overall

Overall, newer prescription drugs have lowered health care costs, a recent study concludes. While they may be more costly than the drugs they replace, a reduction in the age of drugs—defined as the years since approval by the U.S. Food and Drug Administration—decreases other expenditures for the entire population by more than seven times as much as it increases health expenditures, according to a study by the *National Bureau of Economic Research*. As reported in "Benefits and Costs of Newer Drugs: An Update," NBER Research Associate Frank Lichtenberg finds that people who take the new drugs are sig-

nificantly less likely to die by the end of the period under study because the newer drugs are more effective. The drugs may obviate or reduce the need for costly hospitalization, institutionalization, or surgery.

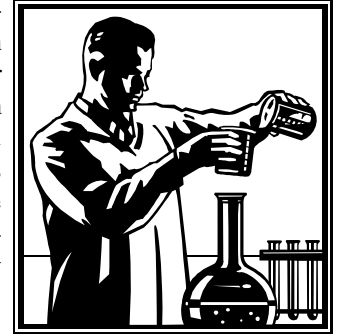
Using data on expenditures by those Americans receiving Medicare benefits, Lichtenberg calculates that a reduction in the age of drugs used reduces nondrug health care spending by all payers (that is, Medicare and various forms of Medicare supplemental insurance, Medicaid for dually eligible individuals, and Medicare beneficiaries' out-of-pocket payments) by more than eight times as much as it boosts drug expenditures. It reduces the Medicare nondrug costs alone by six times as much as it increases spending on drugs. Lichtenberg estimates that reducing the mean age of drugs used to treat a given condition from 15 years to 5.5 years will increase prescription drug spending per medical condition by \$18 for the entire population, but will lower other medical spending by \$129, yielding a \$111 net reduction in total health spending per medical condition. Most of the savings would be attributable to reductions in hospital expenditures (\$80 or 62 percent) and in physician office-visit expenditures (\$24). Other smaller savings occur in home health care (\$12), outpatient visits (\$10), and emergency room visits.

Implications for Kentucky. In response to a sharp upward spiral in prescription drug costs, private insurers and, in many states, public insurers have moved to block access to selected new-generation drugs when an effective generic

alternative exists. While these findings confirm that newer drugs have a positive effect on the Medicare population studied that resulted in overall savings in hospital and physician care, this older population is far more likely to suffer from chronic, life-threatening, and potentially disabling conditions than younger cohorts. As for the efficacy of newer- versus older-generation drugs, noteworthy exceptions exist.

In the aggregate, modern pharmacology has revolutionized health care, saved lives, and cut costs for some populations. But drug advertisements, which have been banned in some states, have whetted the consumer appetite for pharmacological answers to health problems that behavioral choices and far less expensive therapies can effectively remedy in many cases. What's more, advertising and pharmaceutical company promotions to health care providers have fueled a dramatic rise in the sheer volume of prescription drug use, even among children.

Balancing the interests of health and well-being with fiscal concerns will require further research and policies shaped by precise findings about the efficacy of specific drugs, for specific age groups. As efforts to contain health care costs advance, further research is needed to determine which drugs save lives and dollars and which do not. ✍



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