Reason

Privatization Watch

Analyzing privatization developments since 1976

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Coming to America? A Cautionary View on Importing London-Style Congestion Pricing

Contents

France Sells Toll Roads … 2
Privatization Briefs … 3
Coming to America? … 4
Pricing to Please Bus Riders and Motorists … 5
Slovakia's Reforms … 6
Corporatizing Air Traffic Overseas … 7
Japan's Postal Privatization … 8
Is European Health Care Better? … 9
Global Aid Gone Bad … 10
Losing Patients … 12
Forget the Housing Bubble … 13
How Schools Cheat …14
Who, What, Where … 16

Privatization Watch

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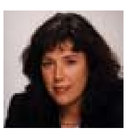

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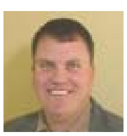

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France to Sell Toll Roads

By Robert W. Poole, Jr.

Few Americans realize that France pioneered the idea of long-term toll road franchises. Its autoroute system, of tolled intercity motorways (the equivalent of the U.S. Interstate highway system) began in the 1960s and was expanded throughout the remainder of the 20th century, encompassing some 5,000 route-miles today. From the outset, the model was that of the long-term franchise (or concession, in the terminology generally used in Europe): a private firm or consortium would bid for the right to design, finance, build, operate, and maintain the toll road for a long enough period of time (typically 30 to 40 years) to recover its investment. The initial concessionaires were all private-sector firms, but most were bailed out by the state after the oil crises of the 1970s. Generally, however, while the state invested large sums in the firms, it did not acquire them outright. In most cases, it simply became the largest shareholder.

In the spring of 2005, the French government announced that it would sell its remaining stakes in the three largest toll road companies. They are:

- Autoroutes du Sud de la France (ASF), which owns 1,781 miles of toll roads and collects $2.8 billion in toll revenues per year;
- SANEF (Company of Motorways in the North and East of France), with 1,027 miles and revenues of $1.25 billion; and,
- Autoroutes Paris-Rhin-Rhone (APRR), with 1,370 miles and $1.84 billion in toll revenues.

The Budget Ministry hopes to raise $14-16 billion from the sale, most of which it will use for debt reduction, with the balance earmarked for non-toll roads and other infrastructure. By late August, the Finance and Transport Ministries had received proposals from 18 interested buyers. Bidders include major French construction firms such as Bouyges and Eiffage, existing (all-private) French toll road owner/operator Cofiroute, and major global toll road companies such as Abertis (Spain), Autostrade (Italy), Cintra (Spain), and Macquarie (Australia).

Once the process is completed, by early 2006, France will have a totally investor-owned national toll motorway system. It would be as if the U.S. Interstate system had become a set of investor-owned utilities. ■

Privatization Briefs

Don't Cry for Hollywood

In Hollywood, offshore outsourcing goes by a different name: "runaway production." State and local officials give speeches against it and are bent on shaping policy to keep film productions from leaving the area. That might be quite a tough task because going offshore can save lots of money.

Producer Albert Berger estimates that filming "Cold Mountain" in Romania saved him more than $20 million in labor costs. Often for filmmakers the choice isn't between going offshore or staying home, it's between going offshore or not making a movie. Said Berger to the *Los Angeles Times*, "Without the savings that Romania offered, 'Cold Mountain' absolutely would not have gotten made."

Films shot overseas might use local crews, extras and stage builders, but they typically also use American actors, directors, producers, editors, special effects staff, composers, and so on. If the choice is to make the movie or not, ask those folks what they'd prefer.

And worrying over "runaway production" can obscure the big picture. Yes, more films are being made in more places, but Hollywood is still making more magic than ever before. According to the Entertainment Industry Development Corp., the nonprofit organization that coordinates shooting in Los Angeles, local film production reached an all-time high in 2004, up 19 percent over 2003.

Another Reformist Push for Latvia?

Latvia has made great progress in its transition from a Soviet satellite to market-oriented economy. Roughly 98 percent of former state-owned enterprises have been sold and the private sector now accounts for two-thirds of GDP.

But, as Julia Pobyarzina of the Baltic International Center for Economic Policy Studies points out, reformist momentum has slowed. Most of the remaining SEs are large infrastructure companies whose sale would be politically sensitive. Writing in the Stockholm Network's State of the Union, Pobyarzina notes, "Legal terms of privatization have been drafted for the oil transit firm Ventspils Nafta but as long as Russia continues to block the flow of oil from its territory through the pipeline to the Ventspils port, the government will have difficulties in attracting suitable investors."

Pobyarzina further notes that Latvia is eager to get the reform agenda over this latest hurdle, for the nation is looking forward to finally overtaking neighboring Lithuania in per capita GDP.

"Vouchers" Come to UK Health Care

With the introduction of a voucher system the United Kingdom's National Health Service signaled that it is warming to patient choice. Officially, the term "voucher" is not used, but what the system does is more important than what it's called. Consider how former Health Secretary Alan Milburn framed the issue when he first introduced the idea:

> *From December 2005 … choice will be extended from those patients waiting longest for hospital treatment to all patients. They will be offered a choice at the point the GP refers them to the hospital. Patients needing elective surgery will be able to select from at least four or five different hospitals, again including both NHS and private sector providers.*
>
> (See related story, "Is Euro-Care Better Care?" P. 9)

Free to Sell, Finally

Even though the properties were not yet built, Aldar Properties recently sold 290 villas in 45 minutes. Such a tale isn't particularly uncommon in the United States. What's notable about these properties is they were sold in Abu Dhabi.

The Wall Street Journal reports that the biggest of the seven monarchies that comprise the United Arab Emirates just lifted a ban on property sales by citizens and now even allows foreigners to purchase leaseholds—long-term leases—in certain areas. The monarchy is also cutting back a government bureaucracy that employs nearly 90 percent of the native-born workforce, by, for example, contracting out garbage collection to a French company and privatizing portions of its water and electricity sector. ■

The United Arab Emirates just lifted a ban on property sales by citizens and now even allows foreigners to purchase leaseholds.

Coming to America?
A Cautionary View on Importing London-Style Congestion Pricing

While conducting research for their book, *The Road More Traveled: Improving Mobility and Reducing Congestion in American Cities* (Rowman & Littlefield 2006), Samuel Staley and Ted Balaker embarked on an extensive tour of London's transportation system. The following draws on their experiences.

Almost as soon as he implemented congestion pricing, London Mayor Ken Livingstone began urging other mayors to follow his lead. The Partnership for New York City, a business association, investigated the idea, but New York Mayor Michael Bloomberg recently ended speculation by insisting he has no plans to bring congestion pricing to the Big Apple. Even so, others, such as San Francisco Mayor Gavin Newsom, have hinted that they might be interested.

The Why and How of Congestion Pricing

When the idea of pricing is discussed in the United States, some worry about how it might impact the poor, yet across the pond pricing is actually justified on social justice grounds. Officials there regard pricing as a way to make motorists pay for pollution and to take back the streets for pedestrians and transit users. And this pricing was championed by "Red" Ken Livingstone, archenemy of conservative former Prime Minister Margaret Thatcher.

Londoners must pay a toll when they enter the "Congestion Zone" an eight-square mile portion of central London. Weekdays between 7 am and 6:30 pm motorists must pay the toll—a whopping $14 dollars per day. Don't pay the toll and you face hundreds of dollars in fines. Tolls may be paid online, at certain stores, or by telephone (although several locals reported that paying by phone is rather time consuming). Those who live within the zone enjoy a 90 percent discount.

London's pricing scheme has reduced traffic congestion by about a third and quickened travel times. One Londoner notes that a cab ride that used to take 25 minutes now takes only 10. American politicians who fret about the political toll of pricing are often heartened to discover that Livingstone won re-election after implementing the congestion charge. Livingstone recently approved a plan to expand the zone westward, into Kensington, Chelsea, and Westminster. The boundaries will expand on February 19, 2007.

Should America Import Congestion Pricing?

But while the concept of pricing is promising, London-style pricing would not be a particularly good fit in America. Flat rate tolling is a rather blunt traffic management tool, for it ignores the fact that congestion is a peaking problem. In London motorists pay the same amount whether they enter the congestion zone during the morning rush or in the middle of the day. The scheme also ignores differences in how much motorists drive. Motorists pay the same amount whether they drive inside the zone for five minutes or five hours.

And there is the issue of cost. Hundreds of cameras take pictures of cars as they enter the zone, but each day staffers separate the list of those who paid from those who didn't by hand. This makes the system enormously expensive to operate. London is also rare among the world's developed urban areas in that its central business district is actually growing in influence. It's unclear what the effect of congestion pricing would be in American cities, where central business districts are already losing ground to the suburbs.

Still Americans can import certain aspects of London pricing. For example, Mayor Livingstone recognized that pricing can reduce surface street congestion. This allows for more and better bus service. American bus riders would marvel at the frequency of bus service in London. It's common for 90 buses to pass through the Islington area in a single hour. Transit officials in the United States often assume that humans are born with some genetic aversion to bus transit. They don't expect anyone but the transit dependent to buy bus passes. Yet Livingstone is proud of the fact that businesspeople in pinstripes hop on his bright red buses. The demographics of bus and rail patrons are essentially the same and 80 percent more trips are taken by bus than by Underground (subway). London shows that travelers care more about whether their trip is convenient, speedy, and reliable, than whether they travel by bus or rail. A recent Reason study outlines how transit agencies can use a different kind of pricing to give transit patrons top-notch bus service (See next column, *Pricing to Please Bus Riders and Motorists*).

American policymakers can also learn something about the importance of trust. Since the inception of pricing, London's leaders have agreed that it's absolutely essential to use toll revenue only for transportation purposes within the city. Anything less would erode the program's legitimacy. Thus far London's political class has made good on its promise. Compare that to the American experience, where transportation funds have a way of transforming into general-purpose slush funds. In 2002, frustrated Californians passed Prop 42 with 70 percent of the vote. They thought the new law would prevent politicians from dipping into transportation money to fund other programs. And yet Governors Davis and Schwarzenegger invoked a little-known provision that allowed them to suspend the law in times of "emergencies." And so the pilfering continued. The federal government has even bigger trust issues. Each new transportation reauthorization is filled with more pork than the last. According to Citizens Against Government Waste, the most recent one is packed with nearly 6,500 pork-barrel projects, amounting to $24 billion or nearly 9 percent of the bill. Indeed, however they plan to address mounting congestion, lawmakers in America often find trust deficits nearly as difficult to contend with as financial deficits. ■

Did you know?

All of London's rail lines and bus routes are operated by private contractors. Few Londoners even realize this. The only outward signs are the company logos on the sides of buses.

Pricing to Please Bus Riders and Motorists

By Robert W. Poole, Jr.

Nearly a decade of experience in San Diego and Orange County, California, has shown that you can keep traffic flowing smoothly, at the speed limit, even during the busiest rush hours. How? Charge a toll, varying by the density of traffic in the lane, for drivers to use the high-occupancy vehicle lanes (HOV). These high-occupancy toll (HOT) lanes—on I-15 in San Diego and SR 91 in Orange County—have been a big hit with drivers in all income groups.

The next step is to apply this to mass transit. The idea is to reserve a portion of an HOV lane for buses and vanpools, while selling the remainder of the lane's capacity to motorists at market prices. The result is a virtual exclusive busway—a VEB.

A single lane can handle 1,700 vehicles an hour without congestion. In every metro area but New York, however, it would be very difficult to fill enough buses to operate more often than one per minute (60 per hour). There's room for about 1,600 additional—paying—cars per hour without interfering with the high-speed flow of buses and vanpools. That's a lot of toll revenue—in some cases enough to pay the cost of building an additional lane.

A VEB would be a better use of costly new highway lanes than two-person carpools. Most carpoolers turn out to be family members who would travel together anyway, so they don't reduce the number of cars by very much. We can make lemonade out of these lemons by converting HOV lanes to super-HOT lanes, dedicating a portion of their capacity to express bus service.

This is not pie-in-the-sky. Houston is already adding four HOT lanes in the median of the Katy Freeway (I-10), with part of their capacity reserved permanently for buses, vanpools and three-person carpools. Toll rates will be charged and kept high enough to limit other car traffic to what is compatible with uncongested conditions.

The moral of the story: VEBs are a good deal for hard-pressed transit agencies—and an even better deal for taxpayers.

This piece originally appeared in *The Wall Street Journal*. ■

Virtual Exclusive Busways: Improving Urban Transit while Relieving Congestion

By Robert W. Poole, Jr. and Ted Balaker
reason.org/ps337.pdf

You Name It, Slovakia's Reformed It

A top government advisor on taxes, health care, social security, and more

By Martin Bruncko

Let me start by drawing you a picture of what a European country might look like in five or 10 years from now. Imagine a country where the tax system is very simple and transparent, and where all citizens and companies pay a 19 percent flat tax rate. Imagine a country without an overly regulated labor market and where the welfare system helps all those in need without removing the incentives for those who are able to work to find a job quickly. Imagine a country with universal health insurance coverage, but where healthcare and health providers are actually compelled to be efficient. Imagine a country where all citizens are ensured a decent, secure pension, because they are required to save a set amount from their salaries in their own private pension accounts, and so invest for retirement.

Perhaps this is how some countries in Europe could be five or 10 years from now—but this is already a reality here in Slovakia.

Slovakia has acquired a fairly good reputation for introducing reform. Indeed the World Bank called us "the world's leading reformer," a reputation we have acquired thanks to a series of radical and far-reaching measures conducted in recent years.

The reforms are now starting to bear fruit. We have a very high growth rate—above 5 percent. This trend is expected to continue in the next few years. There are almost daily announcements by large international firms that they will be investing in Slovakia, creating new jobs. It is encouraging that investment is no longer concentrated solely in Bratislava but has been dispersed throughout the country. The political decision to implement the reforms is no longer looking so suicidal.

So what does this mean for the rest of the European Union? Can Slovakia be used as an example for other member states?

There are several reasons for optimism. The first is simply the issue of competition. As an economist I have to believe that competition is a driving force leading to efficient solutions or outcomes that are a force for good. Competition is something that is visible and it is clear that competition is a factor here. If you have a 19 percent flat tax rate and a 19 percent corporate tax rate in one country, and across the border you have another EU country with a 35 percent corporate tax rate, with the same kind of laws and regulations, this will influence where firms choose to invest. The business environment of many new member states is making companies sit up and take notice. It is also making existing member states consider their own framework of regulation and taxation. The other member states are facing competition and are under pressure to reform as well. Look at Austria, for example. Partly in reaction to our flat tax rate, they have lowered their corporate tax rate to 25 percent. The only people who are complaining are the Bavarians, because a lot of companies are now starting to move to Austria.

Flat Tax Fever: Eastern European Nations with Flat Tax Rates

10-19%	20-29%	30-39%
Georgia	Estonia	Lithuania
Romania	Latvia	
Russia		
Serbia		
Slovakia		
Ukraine		

This leads me to a second factor: positive experience. Competition from central and eastern Europe is often portrayed in some of the Western countries as something negative—as part of a zero-sum game. I do not think this is the case. In fact, it is certainly not the case with new member states. We are definitely benefiting. We can see that there are new jobs coming in. There is growth and people are optimistic. If you look at the various indicators of public opinion they are improving quite dramatically—at least in Slovakia.

We have had these really positive experiences. We have imposed a flat tax system and it was not a disaster—in fact we probably have a much higher degree of tax compliance. We did not end up with a huge deficit. On the contrary, our revenues were higher than we expected, although our original expectations had to be fairly conservative for reasons of fiscal

See SLOVAKIA on Page 15

Corporatizing Air Traffic Overseas

By Robert W. Poole, Jr.

Years ago, as part of its year-long (unsuccessful) campaign to have Congress legislate that Air Traffic Control is "inherently governmental," the controllers union published a White Paper attacking what it called "air traffic control privatization." While most of its venom was directed at outsourcing (e.g., the highly successful contract tower program), it also took assorted potshots at three commercialized air navigation service providers (ANSPs) overseas: Airservices Australia, the UK's NATS, and Nav Canada. Naïve reporters and clueless members of Congress repeated some of those allegations—e.g., that safety had suffered or there were no cost savings—creating considerable confusion.

To attempt to set the record straight, Sens. Stevens, Burns, McCain, and Lott asked the GAO to do a detailed study of the experience of advanced countries with commercialized ANSPs. GAO has recently released the report, "Air Traffic Control: Characteristics and Performance of Selected International Air Navigation Service Providers and Lessons Learned from Their Commercialization."

The GAO team made site visits and collected extensive data from five leading ANSPs: Airservices Australia, Germany's DFS, Nav Canada, Airways Corporation of New Zealand , and the UK's NATS. Three of these are government corporations, Nav Canada is private not-for-profit, and NATS is a public-private partnership with 49 percent government ownership. GAO concluded that "financial and safety data from each country were sufficiently reliable" to be used for this study.

First, they found that all five ANSPs operate as businesses rather than as government agencies, "making and carrying out their own strategic, operational, and financial decisions. As businesses, all five are self-financing, assessing fees on users . . . and, as necessary, borrowing funds from the capital markets, instead of receiving annual appropriations from the government. Finally, all five are largely monopoly providers . . . and are constrained in the price-setting process by some form of economic review or procedural guidelines."

Next, GAO addresses several of the key questions about ATC commercialization. On safety, they found that "the safety of air navigation services has remained the same or improved." On cost control, they found that "each ANSP has taken steps to control costs" via reducing overhead and consolidating facilities. And on modernization, each has "lowered costs and improved efficiency through modernization—that is, through investments in new technologies and equipment." Thanks to the lowered costs and increased controller productivity, "some ANSPs have been able to lower the prices they charge the airlines for certain services." So the GAO report solidly refutes the unsupported allegations made in the union White Paper.

So what's not to like? The one unsettling finding is that "for general aviation operators, however, commercialization has sometimes meant an increase in fees." This was immediately seized upon by the Aircraft Owners & Pilots Association, whose press release headline said, "GAO report confirms higher general aviation fees likely with commercialized ATC." That such a system would be "a disaster for general aviation" is the "inescapable conclusion" to be drawn from the report, says AOPA.

Not so. What kinds or amounts of fees would be charged to general aviation is a policy choice, and the same Congress that enacts enabling legislation to commercialize our ATC will be able to insert whatever carve-outs (wise or unwise) for general aviation that its lobbying clout can deliver. Further, a customer-focused, high-tech ATC system is the best thing that could happen to GA—or at least it's far better than the status quo, because the status quo of funding shortfalls and bungled modernization leads straight to airspace rationing, previewed already at Chicago O'Hare. And GA will clearly lose out to airlines in a rationed system. ■

Japan's Massive Postal Privatization

By Geoffrey F. Segal

His support for postal privatization could have jeopardized his political career, but instead it was the issue that carried Japanese Prime Minister Junichiro Koizumi to a landslide victory in September. Japan's massive postal service will begin the privatization process in 2007, thus phasing out a century-old fixture and allowing Koizumi to accomplish a goal he has pursued for over 20 years.

Japan's postal privatization involves much more than privatization of mail delivery services. In addition to delivering the mail, the Japanese postal system offers financial services and life insurance. It also serves as a savings depository (people can set up savings accounts but cannot borrow money). Seven years of deflation have resulted in a virtually zero interest rate, which prevents banks from offering interest payments on deposits. Government postal savings, however, are allowed to accumulate a nominal interest fee, making postal savings a more attractive investment option than commercial banks. This incentive has turned the Japanese postal system into the largest financial institution in the world, with $3.6 trillion in savings and insurance assets. This is three times greater than the savings deposits in Mitsubishi Tokyo Financial Group Inc., the nation's largest private holder of deposits.

Koizumi's plan will break up the Japan Postal Services Public Corporation (Japan Post) into four independent companies to operate the mail delivery, postal savings, life insurance, and branch management/over-the-counter services. During the 10-year transition period, the government will sell off all shares of the postal savings and life insurance companies. In addition, it will gradually sell off shares of a holding company that will own all of the mail delivery and over-the-counter businesses. The government will still retain control of at least one-third of these shares and mandate that mail services are made available nationwide.

Koizumi expects privatization to improve efficiency. Although the move may involve cutting up to 30 percent of the existing workforce, the vast majority of labor reductions will likely be obtained through attrition or early retirement incentives. Since a Shukan Post investigation revealed a system "rife with corruption," customers and taxpayers will likely welcome anything that weeds out incompetence and criminality.

The near-elimination of political incentives and influences should spell even more relief for taxpayers. The postal system has long been criticized for funneling the assets of individuals into public projects. And most of the funds held by Japan Post have been invested in government bonds that support debt-ridden state coffers and keep inefficient government-backed corporations afloat.

In essence, government intervention has squeezed private firms out of profitable financial markets, wasted profits on inefficient programs, and suppressed the kind of economic growth that would have made Japan more competitive in the world market. Koizumi hopes privatization will deliver some much-needed reform. ■

Postal Privatization—a Worldwide Wave

During the past 20 years, many nations have embraced liberalization and privatization.

New Zealand. In 1986, New Zealand began the postal reform trend when it allowed full competition for letters that weighed at least 500 grams (1.1 pounds) or cost at least NZ$1.75 (about 4.5 times the stamp price at the time). New Zealand gradually relaxed these restrictions until the entire monopoly was eliminated in 1998. The government required New Zealand Post (which it continues to own) to maintain universal service, but not to charge uniform rates. A decade later, even though it had more mail to deliver, NZP doubled labor productivity and cut costs by 30 percent. The real price of sending a letter dropped approximately 30 percent between 1987 and 1995 and NZP has earned a profit every year since 1986.

The Netherlands. The Netherlands privatized most of its postal service when it sold off 52 percent of Royal PTT Nederland (KPN), including PTT Post, through two public offerings in 1994 and 1995. In August 1996, PTT Post purchased Australian transportation conglomerate TNT. The current postal

See GOING POSTAL on Page 15

Is Euro-Care Better Care?

By Francois Melese

The following has been excerpted from the Reason *Policy Brief, Privatizing Public Hospitals: A Win-Win for Taxpayers and the Poor.* The entire brief is available online: reason.org/pb41_privatizing_hospitals.pdf

Many Americans believe that patients in nations with government-provided health care get better and cheaper care. While it is true that the United States spends more on health care than other nations, we also get more.

Consider two interesting quality indicators. First, Canadian and British doctors see 50 percent more patients than American doctors do. Second, where Britain invented the CAT scanner, today it has only half the number (per capita) as we do in the United States.

Still the most popular measures of the success of health care are life expectancy and infant mortality. Although the United States spends more on health care, life expectancy is lower and infant mortality higher than in many other nations. This is often cited as evidence of the superiority of socialized medicine and the inferiority of a private heath care orientation like that found in the United States.

Even our own Government Accountability Offices admonishes, "the U.S. now spends over 15 percent of its GDP on health care—far more than other major industrialized nations. Yet relative to these nations, the U.S. performs below par in such measures as rates of infant mortality [and] life expectancy."

It turns out that these measures deserve a closer look. Both are impacted less by the quality of health care systems than by lifestyle, demographics, and other variables. In fact, the lifespan of the U.S. citizens of European descent is about the same as that of Europeans. Asians tend to live longer and blacks tend not to live as long. The reasons likely have more to do with social conditions (including the incidence of violent crime) and demographic characteristics, than the quality of medical care.

Similarly, if adjustments are made to account for the fact that U.S. hospitals actively try to save underweight (premature) babies and that we count them as live births, then infant mortality is the same in the United States as in Switzerland. Neither life expectancy nor infant mortality is a satisfactory measure. In the case of life expectancy, the quality of medical services may not make that much difference. The same is probably true of infant mortality in industrialized nations, and many of those nations are not even measuring the same thing.

Breast cancer fatality rates by nation

United States: 20%
France: 33%
Germany: 33%
United Kingdom 49%

Now consider two measures where the quality of medical services can have a dramatic impact: recovery rates from breast cancer for women and prostate cancer for men. Among women diagnosed with breast cancer, only 20 percent die of it in the United States, compared to 33 percent in France and Germany and nearly 50 percent in the United Kingdom. Among men diagnosed with prostate cancer, less than 20 percent die of it in the United States, compared to 25 percent in Canada, almost 50 percent in France, and over 50 percent in the United Kingdom. According to the comprehensive new book, *Lives at Risk*, "the difference in cancer mortality and survival rates [in the U.K.] … has been attributed to the general shortage of specialists, unavailability of the latest cancer drugs and relative lack of investment in radiotherapy equipment…" Moreover, "because one way to control drug expenditures is to delay their introduction, Taxol, widely prescribed in the U.S. to beat breast cancer is unavailable in some regions of the U.K."

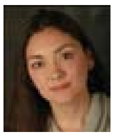
While many Americans would like our health care system to look more like those in Europe, *Lives at Risk*, notes that "over the course of the past decade almost every European country with a national health care system has introduced market-oriented reforms and turned to the private sector to reduce the cost of care and increase the availability and effectiveness of treatments."

Today privately provided health care is growing quickly in

See EURO-CARE on Page 15

Global Aid Gone Bad

By Kerry Howley



Many Americans criticized how their government responded to Hurricane Katrina, but disaster aid is a suspicious billion-dollar business even when American cities aren't the ones underwater.

International disaster relief is an ugly sideshow in the preparations for a World Trade Organization meeting—part II of the trade liberalization talks that accomplished precisely nothing in Cancun two years back. At preliminary meetings in Paris, EU Trade Commissioner Peter Mandelson said the United States, European Union and Brazil were still a "long way" from a deal on subsidy-slashing. "The United States is ready to eliminate all tariffs, subsidies and other barriers to free flow of goods and services," President Bush explained days before, "as other nations do the same." Translation: you first.

The United States is asking the European Union to drop its egregious $3 billion farm supports. But as Washington pours billions into reclaiming a city from a gulf, the European Union wants major changes in the way the federal government responds to humanitarian crises outside its borders. At a cost of more than $1 billion, the United States carts overseas 7.5 million metric tons of food every year. For their trouble, U.S. taxpayers have earned the excoriation of the World Trade Organization, the European Union, Oxfam, and aid organizations the world over—all of whom want the United States to stop sending free corn and wheat to Africa. U.S. Trade Representative Rob Portman has referred to this request, by turns, as "radical," "outrageous, and "harmful to our farmers and ranchers."

What's the World Trade Organization got against food aid? The organization has another word for sending developing countries free stuff: dumping. If that sounds a touch cynical, consider the circumstances under which the food aid program was developed in 1954. The United States was simultaneously experiencing a spike in agricultural production—notably wheat—and eager to solicit the goodwill of newly emerging states. Letting taxpayers buy and ship surplus carbohydrates evidently seemed like a good idea.

Fifty years later, according to Oxfam, food aid still rises with surplus production and falls when supply is tight. When a bumper crop threatens to destabilize prices, the feds sweep in to buy and give away. Having trouble hawking California raisins? Soybean oil? Corn? Wheat? Rice? There's an African village with your name on it.

What's the World Trade Organization got against food aid? The organization has another word for sending developing countries free stuff: **dumping.**

The importance of food aid as an export outlet is nowhere near what it once was, but the business of disaster aid has given other industries an interest in maintaining the status quo. According to a July report by the Minnesota-based Institute for Agricultural and Trade Policy (IATP), it's the shipping industry—not agribusiness—that has emerged as the lobbying behemoth behind food aid. The United States requires that 75 percent of procurement, processing, bagging and shipping be handled by U.S. firms. Fully a third of the money taxpayers spend sending free food (typically bought at 11 percent over market price) goes straight to shipping costs.

In general, drowning a country in a product for which it might otherwise have a competitive advantage is not a particularly helpful way to foster development. A March Oxfam report notes that in 2002 and 2003, donors shipped 600,000

tons of food to Malawi, causing the prices of maize and rice to crash. Ten percent of food aid isn't even directed at countries with a hunger problem; instead, the food is given for the purpose of being sold and used to fund development projects. The practice, referred to as the "monetization of aid," has the potential to put local traders out of business in the name of building a school for their kids.

Food aid recipients are a mix of non-governmental organizations (NGOs) who sell food for funds, countries with genuine food shortages, states with which the United States wants to build alliances, and the odd wild card for whom the motivation to give free wheat is altogether unclear. (IATP quotes the USDA's economic research service: "Allocations to individual countries do not always correspond to levels of need."). China, for instance, received U.S. food aid from 2000 to 2002. During the same period, China donated food aid in the form of wheat, rice, corn, and oils to North Korea and Africa.

Oxfam, the European Union, and IATP want the United States to send cash in place of carbs, so less aid can be used to buy more food from local traders. The millions lost to shipping costs would disappear; the food would be cheaper, packaging and processing costs would plummet. Cash handouts in kleptocracies are inherently problematic, but food aid is easily converted to cash and just as vulnerable to corruption.

It's a fair question whether federal rather than private donations (or, given the bleak recent history of humanitarian aid, any donations) are a good idea to begin with, but almost anything is preferable to the current poverty attack plan: subsidizing U.S. farmers to produce surpluses to send to developing countries, suppressing Third World producers, who are already discouraged from delving into production thanks in part to U.S. farm supports.

The WTO talks are tortured for a variety of reasons, among them the fact that there are no ready answers to the problems of global poverty. But while questions linger over what's fair, how to get there, and who should cut which subsidies first, some truths are too obvious for even multinational organizations to waste time fighting over. Corporate handouts under the guise of American generosity leave everyone, from Darfur to Washington to coastal Louisiana, considerably poorer.

Kerry Howley is an assistant editor of *Reason*. A version of this article appeared on reason.com. ■

Trade or Aid?
What's the best way to help the world's poor?

PW's interview with Kenyan economist James Shikwati
reason.org/pwvol29no1.pdf

Losing Patients
A Film Questions Canada's Nationalized Health Care

By John R. Graham

The Barbarian Invasions, available on DVD by Buena Vista Home Video, offers a disturbing vision of state-run medicine. The Canadian film won two awards at the 2003 Cannes Film Festival (best screenplay and best actress) and took home 2004's Oscar for best foreign-language film. It is the story of a man with a terminal disease who renews his relationships with his friends and family, especially his adult son. Much of the action takes place in a hospital in Montreal, Quebec, where director and screenwriter Denys Arcand dissects the Canadian health care system.

The film opens with a nun struggling down the corridor of a crowded ward to administer Holy Communion. Patients, health professionals, even electricians, are tripping over each other, packed into an environment of general confusion. And yet there is another floor of the hospital that is completely closed, thanks to a government directive.

The dying man's son is a successful investment banker in London. He's the kind of guy who can wriggle around anything. First he wrangles his way into the hospital's management offices without a pass and corners the manager, who is completely isolated from the chaos outside. He offers her a bribe to get his father moved out of the zoo and into a private space on the empty floor. She quietly takes the bribe but points out that she can do nothing without the hospital employees' union. The son pays off the union boss to prepare a private room on the empty floor. Painters, carpenters, and other workers quickly make it up.

Then, because there is virtually no access to PET (positron emission tomography) scans in Canada, the banker takes his father to Vermont to get one. One of the son's friends in Baltimore—one of many Canadian doctors who have emigrated to the United States—examines the scan and informs him his father will have a much better chance in Baltimore than in Montreal. Remarkably, the father will have none of it: "I voted for socialized health care," he proclaims, "and I'm prepared to suffer the consequences!"

With this line, the father speaks for too many Canadians, who often wrap their national identity in nationalized health care. This is why Canadian politicians have not had the courage to give Canadians more health freedom. But the pain and inhumanity caused by the Canadian system are starting to make even the most nationalistic of us reconsider the amount of control over health services that we've ceded to our government.

The Barbarian Invasions tells us a lot about the consequences of government monopoly health care. The hospitals are poorly managed, the doctors and nurses confused, the unions who really run the show thuggish, the patients all but ignored.

The film has sparked a debate in Canada about the role of the state in health care. Any American who thinks health care in the United States would be improved by implementing a single-payer system would learn much from it too.

John R. Graham is an adjunct scholar at Canada's Fraser Institute. A version of this article ran on TechCentralStation.com and in Reason *magazine.* ■

Forget the Bubble—Housing Shortage is the Crisis

By Leonard Gilroy

The rapid increase in national housing prices has spawned growing fears that a housing bubble is about to burst, which doomsayers claim will then drag the country into a recession and leave a glut of unwanted housing.

But concerns over a national housing bubble are overblown, as housing markets are an inherently regional phenomena. Most coastal states experienced double-digit growth in housing prices over the last year, with price increases in California, Florida and Maryland exceeding 20 percent. By contrast, price appreciation in many Southern and Midwestern states was far below the national average, with housing prices remaining near or below the national median of $208,500.

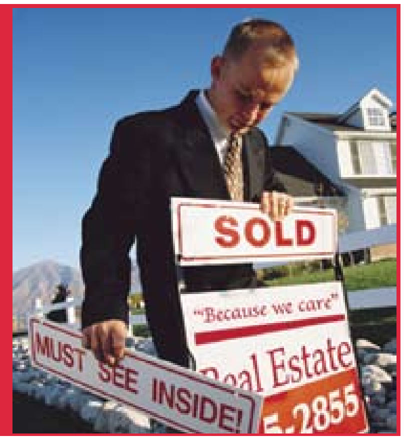
So a more accurate picture might be a series of regional 'bubbles,' and even that's a stretch. While prices in some areas experiencing huge price increases like San Jose or Boston may be due for a market correction, history shows that property values rarely freefall without an accompanying economic shock. Defense sector cutbacks in the early 1990s triggered a recession that rocked Southern California, leading to over 500,000 lost jobs and prompting Los Angeles housing prices to plummet 21 percent over 7 years. Other than potential fallout from the current military base closure decisions, most U.S. areas will not experience the kind of traumatic economic downturn that would blow up a regional housing bubble.

The Mortgage Banking Association tried to calm bubble fears in a recent report that highlighted numerous indicators of sustained strength in the housing market, including a strong national economy, solid job gains, rising household incomes, a healthy banking sector, and liquid financial markets.

None of this is news to homebuilders, who view the bubble hysteria as diverting attention from the real challenge we face: meeting the housing demand of a growing U.S. population. Industry representatives warn that the current level of two million annual housing starts [when construction on a dwelling is begun] is not enough to meet projected housing demand in coming decades, as high immigration levels, the coming-of-age of echo boomers, and second-home purchases by baby boomers keep demand for housing high.

Builders fear an undersupply—not an oversupply, or bubble—of housing. Viewed in this context, the high housing

The best way to avoid the housing shortage is to stop housing regulations and to start approving more housing construction.



prices we're seeing in many areas are the inevitable outcome of a mismatch between high demand and low supply.

Recent Harvard University research supports this view. Three Harvard researchers found that high housing prices in the most expensive regions—mainly along the two coasts—are due largely to the increasing difficulty of getting new homes built there. Put simply, new construction has declined sharply in these locations due to restrictive zoning and other land use regulations. The basic laws of supply and demand then drive up housing prices.

Look no further than California—home to 16 of the top 20 most "overvalued" metro housing markets, according to a recent National City Corp. study—for an example. While the state projects an average annual need of approximately 220,000 new housing units, housing production has lagged far behind, with an average of 170,000 new residential construction permits issued each year since 1999. And given California's stringent local land use and environmental controls and public support for growth curbs, no narrowing of the gap is in sight.

Long-time homeowners in high-cost areas like California have certainly benefited from supply-induced price appreciation. But the projected housing shortage in these areas paints an ominous picture for the "have nots" at the bottom of the housing ladder—prospective first-time homebuyers, middle- and low-income households, and recent immigrants that are rapidly being priced out of the market.

For many families still trying to buy their first homes, their only hope lies in politicians waking up to the reality that the best way to keep housing affordable and to avoid the looming housing shortage is to stop passing land use and housing regulations and start approving more housing construction.

Leonard Gilroy is a certified planner and policy analyst at Reason Foundation. ■

How Schools Cheat

From underreporting violence to inflating graduation rates to fudging test scores, educators are lying to the American public.

By Lisa Snell

The amount of information about schools presented to the general public is at an all-time high, but the information isn't always useful or accurate.

Thanks to the No Child Left Behind Act, now three years old, parents are seeing more and more data about school performance. Each school now has to give itself an annual report card, with assessment results broken down by poverty, race, ethnicity, disability, and English-language proficiency. Schools also are supposed to accurately and completely report dropout rates and teacher qualifications. The quest for more and better information about school performance has been used as a justification to increase education spending at the local, state, and national levels, with the federal Department of Education alone jacking up spending to nearly $60 billion for fiscal year 2005, up more than $7 billion since 2003.

But while federal and state legislators congratulate themselves for their newfound focus on school accountability, scant attention is being paid to the quality of the data they're using. Whether the topic is violence, test scores, or dropout rates, school officials have found myriad methods to paint a prettier picture of their performance. These distortions hide the extent of schools' failures, deceive taxpayers about what our ever-increasing education budgets are buying, and keep kids locked in failing institutions.

But the most common way school data deceive people is through omission. State and local education officials simply do not define their terms for the media or the general public. For example, "persistently dangerous" doesn't mean the same thing to officials that it means to you and me, allowing schools where violence appears to run rampant to avoid this damning designation.

Another example: My local newspaper lists area schools that have met No Child Left Behind goals and are compliant with federal law. The article will tell you that every subgroup, from low-income children and Hispanics to special education children, is proficient in reading and in math. It will not say that in California, in order for yearly progress for each subgroup to be considered adequate, only 13 percent of the children in each group must be proficient. Imagine the difference—and how much more helpful it would be to a concerned parent trying to decide what is best for her child—if the newspaper article said, "Here is a list of schools where at least 13 percent of children in each group are proficient."

The newspaper should also explain what it really means to be "proficient" in reading. To be considered proficient for the third grade in California, you must score at the 51st percentile in reading and the 63rd percentile in math on California's standardized STAR test. In other words, all it really means when my school is listed as meeting "adequate yearly progress" under No Child Left Behind is that at least 13 percent of third-graders in every subgroup scored at the 51st percentile on the reading test.

Most parents assume that "proficiency" means grade-level performance. But proficiency standards are so different from state to state that students with the same skills will have very different proficiency rates. In third-grade reading, for example, Texas sets its cut score—the correct number of responses or percentile ranking a student needs to be considered proficient—at the 13th percentile. Nevada sets its cut score at the 58th percentile.

All this only scratches the surface of the ways schools use statistics to mislead parents and the public. From reporting teachers' salaries without including benefits as part of their compensation to reporting per-pupil spending while excluding billions in spending on school buildings and infrastructure, the list of deceptions goes on and on.

The preceding was taken from a longer Reason *piece, which is available online: reason.com/0506/fe.ls.how.shtml* ■

Continued from Page 8

GOING POSTAL

service company was formed when KPN spun off TNT Post Group (TPG) in June 1998. Though mostly privately owned, TPG maintains a monopoly over the carriage of letters weighing 500 grams or less. TPG has pronounced its support for the repeal of its monopoly, provided other European carriers repeal their monopolies as well. Results in the Netherlands have been encouraging. According to an international survey, the Netherlands, along with Sweden, provides the most efficient postal service in Europe.

Germany. Like the Netherlands, Germany partially privatized its postal services through a public stock offering. In November 2000, the government sold approximately 31 percent of Deutsche Post in a public offering. Postal reforms in 1997 allowed Deutsche Post to retain a monopoly on the carriage of letters weighing 200 grams or less and costing no more than five times the basic stamp price until 2002, when the monopoly was scheduled to be phased out, but the deadline was extended to 2007. Deutsche Post also holds a majority stake in DHL, the largest courier company in the world.

Denmark. Denmark recently sold a 22 percent stake in Post Danmark to CVC Capital Partners, a British investment company, for 1.27 billion kroner ($171 million). An additional 2.5 percent stake was made available to the postal company's employees and another 0.5 percent of the shares were set aside in an incentive program for senior employees. Deutsche Post and TPG had also bid for the stake. The sale is part of a larger privatization effort. Denmark sold its postal service's banking system, Girobank, in 1993 and intends to sell stakes in its national broadcaster, TV2, as well.

France. In May, the postal monopoly enjoyed by national carrier La Poste was reduced from letters weighing less than 100 grams or costing three times the basic stamp price to letters weighing less than 50 grams or costing 2.5 times the basic stamp price.

European Union. The European Union has been working to reduce mail monopolies for all member nations. In 2003, EU rules reduced the size of a letter that national carriers are allowed to monopolize from 350 grams to 100 grams, thus opening up an additional 11 percent of the market to competition. The limits are scheduled to drop to 50 grams in 2006, opening up a further 7 percent of the market. It should be noted, however, that 75 percent of all letters carried weigh less than the 50-gram threshold. ■

Continued from Page 9

EURO-CARE

most of these nations. Take Sweden. Sweden has introduced sweeping reforms that now allow private providers to deliver more than 40 percent of all health care services, and in Stockholm, nearly 80 percent of primary care. Sweden's health care revolution began with a manifesto adopted by the Stockholm County Council in 1991. It encouraged competition among providers and called for improved accounting systems, and allowed patients greater choice in selecting providers.

Results were felt almost immediately. Hospital productivity rose by an average of 16 percent between 1991 and 1993. Meanwhile, competitive procurement cut costs, anywhere from 10 percent for ambulance service to 40 percent for medical laboratories and radiography. Health care entrepreneurs played a key role. Many health care workers launched start-ups and by 2003 there were a reported 290 health care enterprises, many owned and operated by nurses.

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Continued from Page 6

SLOVAKIA

management.

As for pension reforms, personal accounts are a reality in many new member states where the system is working. We have transformed the social system and dramatically deregulated the labor market. The number of people who rely on social welfare, even though their eligibility has not changed in principle, has dropped significantly. If you want to receive a reasonably good income from the social system you have to be active, so this measure is also working. These are just some of the positive examples.

Martin Bruncko is a chief economic advisor to the deputy prime minister and Minister of Finance of Slovakia, Ivan Mikloš. The preceding was excerpted from his contribution to Does the West Know Best? *(The Stockholm Network), a collection of speeches from experts on eastern and western Europe edited by Terence O'Dwyer. The entire collection is available online: stockholm-network.org/pubs/West_Knows_Best_Draft.pdf.* ■

Who, What, Where

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Events

Liberty Forum in Brazil, Instituto de Estudos Empresariais, Porto Alegre Rio Grande do Sul, Brazil, April 3: iee.com.br

5th International Conference on Health Economics, Management and Policy, University of Athens and ATINER, Athens, Greece, June 5: atiner.gr

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