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• Interprets changing national and international conditions to prepare states for the future; and
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FOCUS
An in-depth look at headlinemaking research, reported on by CSG staff

Power to lay and collect taxes................................................................. 1
Higher Education: At what cost?........................................................ 5

FROM THE SOURCE
Researchers' analysis of public-policy issues shaping state legislators' agendas

Closing the education gap: Benefits and costs
RAND ................................................................. 10

Taking advantage of the global economy
The Council of State Governments................................................. 13

RESEARCH ROUNDUP
A synopsis of new and noteworthy studies from think tanks, universities, state government agencies
and other research organizations

Communicating with people about government performance
The Urban Institute ............................................................. 18

How can we help? Lessons from federal dropout prevention programs
Mathematica Policy Research, Inc............................................. 19

Contemporary issues in mentoring
Public/Private Ventures ..................................................... 20

Resources, outcomes and funding public schools
The Federal Reserve Bank of Chicago ........................................ 20

Gender and justice: Women, drugs and sentencing policy
The Sentencing Project ....................................................... 21

PERSPECTIVES
Policy-makers share their experiences with difficult issues confronting states

The Internet tax dodge

Public private partnership and education in America
Jacqueline Rhoden-Trader, visiting fellow, Alexis de Tocqueville Institution .......... 25
REVIEWS
A reasoned critique of the latest books concerning public policy

“The Vermont political tradition: And those who helped make it” .................................................. 28
Reviewed by Elaine Stuart, senior managing editor, The Council of State Governments

AMERICAN SURVEY
What Americans think

Top 10 news stories of 1999, Top 10 news stories of the 1990s
Pew Research Center .......................................................................................................................... 9

Life or death?
ABCNEWS.com ........................................................................................................................... 17

God and country
ABCNEWS.com ........................................................................................................................... 27

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Spectrum seeks to develop common ground among entities and individuals who are interested in improving state government and to unite practitioners, academics, businesses, the media and others in a common understanding of the problems and solutions that are unique to the governance of the American states and territories.

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The Council of State Governments
Power to lay and collect taxes

In its recent publication, Electronic Commerce: Revenue Implications for States, The Council of State Governments offers advice on the role of states in the debate over taxing e-commerce. This article is based on that report.

by Keon S. Chi, senior fellow, The Council of State Governments

It is a new form of media, a faster way to communicate and a forum for ideas. Perhaps most significantly, it is a new way to reach more customers and make more sales than ever before. Across the country, more and more people are using the Internet, from average citizens to governments to businesses.

"The combined weight of the shift to services and the tax erosion due to electronic commerce threatens the future viability of the sales tax."


The euphoria over electronic commerce, or e-commerce, may be blinding some, however, who fail to see the damage to state and local governments that is arising from the sale of goods and services over the Internet. At stake is millions of dollars in annual revenue that state and local authorities traditionally have collected in the form of sales tax.

E-commerce is increasing at an astonishing rate: The volume of business-to-business e-commerce was $14.9 billion in 1998 and $31 billion in 1999, according to Forrester Research Inc. Forrester predicts such trade will increase to $50.7 billion in 2000, and to $177.7 billion by 2003. Further, there are some estimates that business-to-customer e-commerce will exceed $100 billion — 6 percent of all U.S. retail dollars — by 2003.

But under today’s laws, states and local governments cannot expect to collect any sales tax from this business activity. In October 1998, Congress passed the Internet Tax Freedom Act of 1998, which President Clinton later signed. Under this legislation, a three-year moratorium was placed on new state and local taxes targeted at Internet access and commerce to allow time for a national study to develop “rational tax policies” before more state and local governments act.

During the congressional debate, however, representatives from state and local government organizations (the Big Seven) argued against the act, stating that the legislation was an
unfair pre-emption of their authority.

Tom Cochran, executive director of Big Seven member The U.S. Conference of Mayors, said, "The action of the congressional leaders exemplify an arrogant disregard of a law that clearly calls for state and local representation equal to that of business interests."

To make matters worse, from the state and local government point of view, Congress now is considering a permanent ban on Internet taxes. Such legislation would leave state leaders facing the possibility of radical overhauls to state tax systems to make up for lost revenues, said Tennessee Rep. Matthew Kisher and Illinois Sen. Steven Raschenberger.

"The combined weight of the shift to services and the tax erosion due to electronic commerce threatens the future viability of the sales tax," Kisher and Raschenberger said.

Tax base, which refers to products and services that are subject to sales and use taxes, includes all tangible personal property and selected services in most states. The state sales tax base has been shrinking steadily over the last three to four decades as indicated by the sales tax's shrinking share of total state-tax receipts, according to data collected by the Bureau of the Census and the U.S. Department of Commerce. That data showed that in 1955, sales and gross receipts accounted for 59 percent of state taxes collected. In 1997, that number had dropped to 48 percent.

The advisory commission

The Internet Tax Freedom Act created a commission that includes federal, state and local government officials, as well as private sector leaders. Known as the Advisory Commission on Electronic Commerce, the commission is chaired by Virginia Gov. James S. Gilmore. The commission has been charged with studying federal, state and local, as well as international taxation and tariff treatment of transactions using the Internet and Internet access. The commission must submit its report to Congress by April 21, 2000.

Prior to the commission's second meeting last September, Congress sent a letter to Gilmore. The letter said, "Only Congress can authorize one state
to compel other states to collect Internet taxes. This idea is not a popular one in Congress (sic) or among the American people.” From all accounts, the job of the commission now seems to be to decide whether to tax Internet transactions, not how to tax them.

**For and against**

Both supporters and opponents of e-commerce taxation present plausible arguments. Supporters say all commercial transactions, including e-commerce, should be treated equally. They also say that sales tax exemption for e-commerce is likely to exacerbate a growing gap between those who have Internet access and those without Internet access. Imposition of sales and use taxes on e-commerce is necessary for a level playing field for all consumers, they say.

Supporters also say that despite potential challenges in dealing with the numerous taxing jurisdictions, software companies have developed programs for e-commerce that figures the sales tax on an Internet purchase based on destination of the goods purchased. The software charges the appropriate taxes to the buyer’s credit card.

On the other side, opponents of taxing e-commerce say the playing field is even. They say that in most cases, the shipping and handling charges imposed by Internet retailers exceed the amount of sales tax charged by local retailers. They say that e-commerce is not a threat to local businesses, because they can reach national and international markets via the Internet.

Opponents also say that collecting of local and state sales taxes simply would be too difficult of a task. They say that unlike local merchants, Internet retailers place no demand on state and local resources, such as fire and police protection, free education for children of employees and job training programs. And opponents say applying existing sales taxes to e-commerce would reduce the number of online buyers by 25 percent and spending by more than 30 percent.

However, a careful review of the arguments by both sides leads to one important conclusion: There would be a potential loss of sales and use tax revenues for state and local governments.

Revenue losses from not enforcing e-commerce taxation are a relatively small portion of total tax revenues for state and local government today. Ernst & Young estimated the amount of uncollected sales and use taxes from e-commerce to be $180 million in 1998. Losses likely will increase as does the use of e-commerce.

Industry officials and researchers estimate the total volume of e-commerce sales to be $184 billion in 2004. Under that assessment, the National Association of Counties estimates that states, counties and cities could lose $9 billion to $11 billion in sales tax revenues in 2004 from e-commerce.

**The role of state leaders**

While the commission continues to prepare its report, there remains a role for state leaders to play in addressing e-commerce taxation.

- No federal tax. States should be aware of what is taking place in Congress with regard to e-commerce issues. In particular, they should oppose any attempts to impose federal sales or consumption taxes on e-commerce. In 1998, U.S. Sen. Fritz Hollings, D-S.C., introduced legislation (S.1433) that calls for collection of a 5 percent sales tax federally that would be redistributed to the states, based on a set formula. A federal consumption tax would be a disaster for states and businesses.

[Graph: Volumes of e-commerce, business to customers]

Source Forrester Research, Inc.

![Graph](image-url)
A federal sales tax would mean the decline or demise of the state sales tax.

- Not tax-free e-commerce. States should resist a tax-free zone for e-commerce in the United States. Creating such a tax-free zone would be the beginning of the end of the state and local sales tax in most states. Entire retail sectors would argue for sales-tax exemptions. As the recent congressional resolution and pending bills would indicate, the federal government might put a permanent ban on taxing international e-commerce. The challenge for state and local leaders is how to persuade members of Congress to distinguish between international and U.S. e-commerce.

- Work with the Big Seven representatives. States should review the proceedings and final report of the Advisory Commission on Electronic Commerce at www.ecommercecommission.org.

More importantly, state policy-makers should work with representatives of state and local government organizations. They should familiarize themselves with the stated positions of the Big Seven, which include the following:

All sales transactions should be treated equally, whether that transaction is done in person, on the phone, by mail or on the Internet;

Congress should authorize state and local governments to require remote sellers without a physical presence in the state to collect use taxes on goods and services sold in the state and remit those taxes to the purchaser’s state;

The federal system should not be weakened by denying state and local governments the revenue they need to serve residents and carry out important national responsibilities; and

Electronic commerce means any transaction conducted over the Internet or through Internet access, comprising the sale, lease, license, offer or delivery of property, goods, services or information, whether or not for consideration, and includes the provision of Internet access.

Internet means collectively the myriad of computer and telecommunications facilities, including equipment and operating software, which comprise the interconnected worldwide network of networks that employ the Transmission Control Protocol/Internet Protocol, or any predecessor or successor protocols to this protocol, to communicate information of all kinds by wire or radio.

Source: Internet Tax Freedom Act of 1998

State and local governments should continue their cooperative efforts to reduce the complexity and compliance burdens posed by existing sales and use tax systems on remote sellers.

The members of the Big Seven are: The Council of State Governments, International City/County Management Association, National Association of Counties, National Conference of State Legislatures, National Governors’ Association, National League of Cities and The U.S. Conference of Mayors.

To order the report Electronic Commerce Revenue Implications for States, call CSG’s publication sales department at (800) 800-1910, or visit CSG’s online store at www.csg.org/store. Refer to order #C200-9900. Price: $20.
Higher education: At what cost?

Funding for higher education may face a troubled future, according to a report from the National Center for Public Policy and Higher Education. The report examines states’ financial outlooks and considers prospects for funding higher education for the next decade.

by John Mountjoy, Western regional coordinator, The Council of State Governments

As states continue to plod into the 21st century, many economists and fiscal forecasters predict that over the next several years, states will experience major fiscal shortfalls. Given the history of states in coping with these deficits, few expect taxes to be raised to meet the gap. What may happen is the return of scrutiny to higher education spending and reduced spending for public higher education. So goes a new report from the National Center for Public Policy and Higher Education. Entitled Statespending for higher education in the next decade, the report examines the past and predicts a troubled future for higher education spending and appropriations in the states. If states experience a slowdown in their economic growth, if taxes are reduced or if state spending in areas outside of higher education increase, then the outlook is indeed grim.

State financial outlook

Common sense dictates that over a given period of time, the expense of an item or program generally increases. However, based on national averages, state spending in the area of higher education will have to increase faster than state spending in other areas just to maintain current service levels. This forms a political paradox: campaigns of the 1990s focused on educa-
<table>
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<tr>
<th>Rank</th>
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<th>Eight-Year Spending All Programs</th>
<th>Growth Rate Higher Education</th>
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Column 1 indicates the level of higher education spending when compared with an average of all other programs. Column 2 indicates the Eight-Year growth projection in spending for all state programs, in order to maintain current service levels. Column 3 indicates the Eight-Year growth projection for higher education spending, in order to maintain current service levels.

Source: Calculated from The Outlook for State and Local Finances (NEA, 1998)
tion, addressing spending increases, program overhauls and increased accessibility. However, if the predictions of the report ring true, states will face funding deficits while seeking to ensure funding already committed to educational programs.

“The key is not what we spend for higher education, but rather how we spend it.”

— Ohio Rep. Kevin Coughlin

State elected officials often have viewed support for higher education as more discretionary than funding for other programs. As a result, when finances are tight, higher education budgets and programs are cut disproportionately. This means that the outlook for state higher education spending depends significantly on the outlook for state finances overall.

In a state-by-state study developed by State Policy Research Inc. in 1998, national projections indicated that states would have to adjust spending on higher education roughly at the same rate as the personal income of Americans grows. Specifically, through the year 2006, an increase of 39.5 percent in spending would maintain current levels of service whereas income is expected to grow over the same period of time by 36.5 percent.

The study further suggests that it is somewhat ideal to tie educational spending with the growth of incomes. As one’s income rises, so does one’s desire to see higher educational programs funded at higher levels, the report says.

The last five years have seen higher education spending at peak levels. For example, state budgeting per full-time student has increased at levels outpacing inflation. However, this trend will not continue, predicts the report. Even if the national economy and state finances maintain their current levels, higher education will find maintaining funding levels to be difficult. Without tax increases or shifting of funds from other programs, higher education is predicted to come up about 0.5 percent short each year until 2006 (the extent of the study).

The report suggests that in a normal growth environment, still below the levels experienced as of late, higher education still would be struggling for budget dollars against elementary and secondary education or other programs. If the long-term pattern features slower-than-normal growth or a recession, then the report predicts a re-creation of the fiscal environment of 1990-1993 and 1984-1986. Historically, higher education is seen as a “balance wheel in state finance.” When state finances are strong, appropriations to higher education have risen quicker than those in other areas. Likewise, when state funds are low, higher education is usually one of the first programs hit.

“It’s important for legislators to balance appropriations between many different programs and areas,” says Ohio Rep. Kevin Coughlin, chair of Ohio’s House Higher Education subcommittee. “Each is important to us and each serves its purpose for the public good.”

Prospects for funding higher education

States face individual problems. Taken as a whole, however, states will need to increase their spending at a rate 1 percent faster than total state and local spending to maintain current levels of service. In general, if states wish to meet these maintenance requirements, taxes would need to be increased by about 0.5 percent per year. Some states would not require a tax, while others would require a tax increase. These levels do not take into account tax cuts that have been passed in some states and will be phased in over the very years in which tax increases are needed to maintain an adequate level of service in higher education.

State elected officials must look hard at higher education spending in the early 2000s. Raising taxes likely will prove to be difficult and limited dollars will be fought over by advocates of various programs. Therefore, higher education will be under intense scrutiny, much more so than in years past.

Coughlin says it may be some time before states face massive drops in higher education spending.
He suggests that funding in higher education be focused in one of three critical areas: the student, by providing scholarships and loan assistance/incentives for their educational needs and choices; the institution, by providing funding to schools directly, as has been done historically; or by funding higher education in an excellence based model.

"I think the key is not what we spend for higher education, but rather how we spend it," Coughlin says.

The report suggests three choices that policymakers will face regarding higher education funding:

- increasing spending outside of higher education;
- cutting spending outside of higher education; and
- raising taxes.

If spending in other areas increases, it is likely that funding for higher education would decrease. Some view this as a viable choice since it forces higher education to compete equally with all other programs for funding. This often is tough for higher education since the programs it is competing with are those with broad political support, such as early childhood education, school choice, health care coverage and new public safety programs.

If spending for other programs is reduced in favor of higher education, it is programs such as elementary and secondary education, low-income health care, corrections programs and welfare that likely will bear the burden associated with cuts. One disadvantage to this choice in an environment of increased taxes is the backlash against higher education by the public should it be construed that the increase in higher education spending is somehow connected to the increase in taxes.

A final choice is to raise taxes in order to provide adequate funding to all existing programs and perhaps fund new programs should revenue levels allow. This likely would prove to be a difficult "sell" for state elected officials, says the report. From 1996 through 1998, state officials made substantive political commitments to lower — not raise — taxes. In each of these years, at least half of all states enacted significant tax cuts. Any shift toward a tax increase likely would be viewed as political suicide.

As the report suggests, choices will not be easy in the coming decade for the funding of any program, and higher education is no exception. Other areas such as health care, corrections and elementary and secondary education must be considered. The only choice left up to policymakers is how much of a role government will play in the evolution of each area and how, in turn, those choices will affect the quality of life and opportunity for citizens.

For more information on this and other higher education reports, contact The National Center for Public Policy and Higher Education at (408) 271-2699 or www.highereducation.org.

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CALL 1-800-800-1910 NOW!
What Americans think
Top 10 news stories of 1999

Surveys by the Pew Research Center

When two high-school students went on a murderous rampage in Littleton, Colo., a shocked and sickened America watched in horror. In its year-end report, the Pew Research Center says the shootings at Columbine High School last April by far attracted the most public interest of any news story of 1999.

As in many past years, 1999’s list of top stories is dominated by acts of domestic violence, overseas conflicts involving U.S. forces and weather calamities. This is the second consecutive year that a school shooting was the top story; last year’s list was led by violence at a middle school in Jonesboro, Ark. The impeachment trial of President Clinton was the most closely followed Washington, D.C., story. But less than one-third (31 percent) of the public paid close attention, placing it ninth.

Following are Pew’s top 10 news stories of 1999, based on a poll of 1,073 adults, who were surveyed Dec. 8-12.

<table>
<thead>
<tr>
<th>Story</th>
<th>People who followed very closely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shootings in Littleton, Colo.</td>
<td>68 percent</td>
</tr>
<tr>
<td>Death of JFK Jr. and two others</td>
<td>54 percent</td>
</tr>
<tr>
<td>U.S. soldiers captured near Kosovo</td>
<td>47 percent</td>
</tr>
<tr>
<td>Hurricane Floyd destruction</td>
<td>45 percent</td>
</tr>
<tr>
<td>NATO air strikes against Serbia (March)</td>
<td>43 percent</td>
</tr>
<tr>
<td>Tornadoes in Oklahoma and Kansas</td>
<td>38 percent</td>
</tr>
<tr>
<td>Cold winter weather</td>
<td>37 percent</td>
</tr>
<tr>
<td>U.S./Iraqi military clashes</td>
<td>37 percent</td>
</tr>
<tr>
<td>Senate impeachment trial</td>
<td>31 percent</td>
</tr>
<tr>
<td>Crash of Egypt Air flight</td>
<td>30 percent</td>
</tr>
</tbody>
</table>

Top 10 news stories of the 1990s

The 68 percent score made the Columbine tragedy the No. 3 story of the 1990s, Pew says. Following are the top 10 stories of the 1990s, according to annual Pew surveys.

<table>
<thead>
<tr>
<th>Story</th>
<th>People who followed very closely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rodney King verdict and riots (1992)</td>
<td>70 percent</td>
</tr>
<tr>
<td>Crash of TWA flight 800 (1996)</td>
<td>69 percent</td>
</tr>
<tr>
<td>Shootings in Littleton, Colo. (1999)</td>
<td>68 percent</td>
</tr>
<tr>
<td>End of Persian Gulf War (1991)</td>
<td>67 percent</td>
</tr>
<tr>
<td>Iraq’s invasion of Kuwait (1990)</td>
<td>66 percent</td>
</tr>
<tr>
<td>Hurricane Andrew (1992)</td>
<td>66 percent</td>
</tr>
<tr>
<td>Floods in the Midwest (1993)</td>
<td>65 percent</td>
</tr>
<tr>
<td>Iraq’s occupation of Kuwait (1990)</td>
<td>63 percent</td>
</tr>
<tr>
<td>Earthquake in Southern California (1994)</td>
<td>63 percent</td>
</tr>
<tr>
<td>Increase in price of gasoline (1990)</td>
<td>62 percent</td>
</tr>
</tbody>
</table>
ever increasing levels of immigration and the echo from the baby boomers are assuring that the size of the school- and college-age populations will grow over the next two decades in excess of 15 percent. But immigration is not only contributing to the size of this population, it is also changing its ethnic composition, with most of the growth expected to take place among minority students, especially Hispanics and Asians. Projections are that, from 1990 to 2015, the share of Hispanics in the school- and college-age populations will increase from 10 percent to 21 percent while that of Asians will increase from 3 percent to 6 percent.

Projections for California are that more than half of this population will be Hispanic and another 14 percent will be Asian. The share of blacks is projected to remain constant while that of non-Hispanic whites will decrease significantly.

These projected changes in the size and composition of the school population present a particular challenge to policy-makers for several reasons. First, the nation’s educational institutions must educate this increasingly larger and more diverse population at the same time as public support for education has softened. Second, Hispanics, the fastest growing minority, are significantly lagging behind other ethnic groups in educational attainment, most particularly in college-going and college completion. And third, long-term structural shifts in the U.S. economy are making education in general, and postsecondary education in particular, necessary for anyone who wants to compete in today’s labor market and command a living wage. ... 

This study is a first exploratory effort to develop and assess alternative long-term strategies designed to minimize the education gap. We address three major questions:

• What might the future educational attainment of the population be if the current immigration and school- and college-going patterns continue?

• What benefits and what costs are associated with closing, partially and fully, the educational gap between non-Hispanic whites, on one hand, and blacks and Hispanics, on the other?

• How sensitive to immigration policy is the distribution of educational attainment within the population?

In a subsequent effort, we hope to use the RAND Education Simulation Model and detailed information on existing programs and implemented strategies to assess their long-term cost-effectiveness for in-

### School-age population by ethnicity, 1990-2015

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>1990 (millions, actual)</th>
<th>2015 (millions, projected)</th>
<th>1990-2015 growth (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian</td>
<td>2.8</td>
<td>6.3</td>
<td>124.1</td>
</tr>
<tr>
<td>Black</td>
<td>12.9</td>
<td>15.6</td>
<td>20.8</td>
</tr>
<tr>
<td>Hispanic</td>
<td>10.6</td>
<td>21.3</td>
<td>100.9</td>
</tr>
<tr>
<td>Non-Hispanic white</td>
<td>62.3</td>
<td>59.2</td>
<td>-5.1</td>
</tr>
<tr>
<td>Total</td>
<td>88.6</td>
<td>102.4</td>
<td>15.5</td>
</tr>
</tbody>
</table>

Source: U.S. Census, RAND, 1999
creasing the educational attainment of minorities. From our current study, we conclude the following.

This study is a first exploratory effort to develop and assess alternative long-term strategies designed to minimize the education gap.

First, in spite of the rapid growth in the share of minorities in the nation’s population, the educational attainment of the adult population age 25 or over will be higher in 2015 than it was in 1990. This finding reflects the dual dynamic process of (1) older, less-educated generations of people dying and being replaced in the labor force by better-educated new entrants (including minorities) and (2) the children, grandchildren, and so on of immigrants achieving increasingly higher levels of education. ...

Nevertheless, unless further gains are made in the educational attainment of minorities, the share of college educated among future new entrants — age 25 to 29 — into the labor force will decrease. Also, the educational gap between blacks and Hispanics, on the one hand, and Asians and non-Hispanic whites, on the other hand, will increase.

Our projections are that this increase will be most particularly evident in California, where blacks and Hispanics will constitute an overwhelming majority (75 percent) of the state’s high school dropouts while Asians and non-Hispanic whites will constitute an overwhelming majority (89 percent) of the state’s college graduates.

Second, closing the educational gap for blacks and Hispanics would clearly pay for itself not only through the resulting long-term savings in income transfer and public social programs, but also through the resulting increased tax revenues and increased disposable income for the individuals involved. This is particularly the case in California, where nearly half of the student population today is Hispanic. Increasing educational attainment would, however, require sizable — up to one-third — increases in the capacity of (mainly) postsecondary educational institutions and, hence, significant dollar investments. One obstacle to getting this investment made is the fact that the spending of these dollars and the accrual of benefits from that spending do not overlap: the first is concentrated in the early years of a cohort, and the second takes place after education ends and is spread over an individual’s lifetime. Our finding that the costs of closing the gap may be recouped within a decade or so — well within the lifetime of most of those called upon to make the investment — provides a strong argument that indeed the investment is in their self-interest as well.

Another obstacle to be overcome is that the incentive states have to in-

<table>
<thead>
<tr>
<th>Increased revenue (in percent)</th>
<th>California</th>
<th>Rest of the nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICA</td>
<td>24.4%</td>
<td>21.1%</td>
</tr>
<tr>
<td>Federal income tax</td>
<td>26.8</td>
<td>20.9</td>
</tr>
<tr>
<td>State tax</td>
<td>11.7</td>
<td>9.6</td>
</tr>
</tbody>
</table>

Public expenditure savings

| Income transfers                | 15.5      | 14.5               |
| Criminal justice                | 10.8      | 20.7               |
| Health care                     | 7.1       | 7.1                |
| Social Security                 | 2.5       | 2.9                |
| Other social programs           | 2.2       | 2.0                |

Note: Income transfers include welfare, food stamps, SSI and unemployment insurance; health care includes Medicaid and Medicare; and other social programs include school lunch and energy programs.

Source: RAND Education Simulation Model, 1999
vest in education may be less than optimal, most particularly for postsecondary education. We found that states can significantly alter the distribution of the educational attainment of their labor force through both internal and international migration. Hence, a state that does not produce the number of college graduates it needs can import them from another state or from another nation and incur no immediate cost. The other side ... is that a state that invests in producing many college graduates may not capture the full benefit of its investment. The size of this phenomenon is not insignificant and is a strong argument for the federal government to play a leading role in promoting and funding efforts to close the educational attainment gap for blacks and Hispanics.

In addition to requiring an increase in the capacity of the nation’s education, increased educational attainment for blacks and Hispanics would require that programs designed to support and promote the educational persistence and achievement of these minorities be implemented on a much larger scale than is currently the case. ... Finally, we found that the pattern of immigration that has prevailed since the mid-1960s is a major contributor to the gap in educational attainment for certain ethnic groups. Changes in immigration policy that reduce the number of immigrants or limit the permanent entry of low-educated immigrants (those with less than 12 years of education) would do as much to reduce the gap in the share of the nation’s high school graduates between Hispanics and other ethnic groups as would an equalization of high school graduation rates between Hispanics and non-Hispanic whites. However, changes in immigration policy would do nothing to close the education gap between blacks and non-Hispanic whites.

Another thing that changes in immigration policy — even a major decrease in the number of immigrants allowed into the United States — would not affect is the future ethnic composition of the population. Regardless of whether immigration continues at recent levels, the immigration that has taken place over the last few decades and the higher fertility rates of Hispanics and some Asians compared to other population groups assure that the shift in the ethnic composition of the nation’s population will continue.

For more information on this report, contact RAND at (310) 393-0411.
Taking advantage of the global economy

In the following excerpt from CSG’s new report An Assessment of States’ International Capacity, the author describes future international activities that states likely will pursue.

by Cindy Lackey, senior policy analyst, The Council of State Governments’ Center for Leadership, Innovation and Policy

Recognizing that the world is becoming increasingly interdependent as we enter the 21st century, The Council of State Governments is committed to assisting states in meeting the opportunities and challenges of engaging the international community. The CSG assessment of states’ international capacity intends to share information among state officials so they can better realize the full benefits of internationalization.

This paper is based largely on a series of conference calls CSG hosted for state trade directors and others involved in state international activities, as well as a survey of these state leaders. An advisory group, made up of state and private industry leaders, assisted CSG with this project.

The expanding international role of the states

What are the forces motivating states to think globally? The trends of globalization and devolution of power from the federal to state governments are contributing to the internationalization of states. State governments tend to focus on economic goals in their international activities, but they also pursue a variety of other objectives, such as educational, cultural and environmental.

Technological advances in transportation and information services are increasing the mobility of people around the world and the volume of communication among individuals from different nationalities. Subnational governments, which are smaller, more flexible and closer to citizens’ needs, are becoming more influential in world affairs. This is particularly true in the U.S. federal system, in which states traditionally act as laboratories for democracy and policy innovation.

In the current environment of devolving governmental authority from the federal to state level, state involvement in the nation’s global agenda is growing. The federal government has less to spend on international programs in the current balanced budget environment, and states can step up to fill in the gaps in export assistance and in educational, cultural and technical exchanges. Many policies traditionally controlled by state governments have become critical to American competitiveness internationally.
Economic development

State officials are moving to take advantage of the economic benefits of globalization. As the level of government traditionally responsible for economic development, states benefit from the policy tools made available by the expanding global economy. Through trade promotion policies, for example, state officials can open profitable, unexplored markets. By recruiting foreign direct investment, they can tap new capital sources. Likewise, through technical cooperation with other countries, states can foster relations and goodwill that create a better climate for exploring economic opportunities for businesses.

Key statistics illustrate the critical importance of economic development through globalization. Overseas markets are an excellent source of growth for American companies. Between 1985 and 1994, U.S. exports rose 112 percent while gross national product rose only 25 percent. Doing business internationally gives companies access to new sources of raw material, opens new investment opportunities, and evens out the business cycle by tapping into markets with different seasons, events and cultures.

Foreign direct investment also benefits the American economy. U.S. affiliates of foreign companies held more than $800 billion in property, plant and equipment in 1997. Foreign-owned companies also invested $19.7 billion in research and development in 1997. Foreign-owned assets in the United States in 1998 totaled more than $6 trillion.

Exports and investment create both the quality and quantity of jobs that state officials want to bring to their states. The wages at trade-related jobs average 5 percent to 6 percent higher than those for other employment. Exports generated an estimated 5 million new jobs in 1997. The U.S. subsidiaries of foreign-owned companies employed more than 5 million Americans in 1997, representing 5 percent of the private-sector workforce and 12.3 percent of all U.S. manufacturing jobs.

Foreign tourists also can be a boon for state economies. More than 14 million foreign tourists visited the United States in 1996, spending an average $1,600 each, not including airfare, during their stay. The tourism surplus — what foreign tourists spend here minus what American tourists spend abroad — averaged $21 billion during the past decade.

Future state international activities

It is difficult to generalize about future state international activities. Each state has unique resources to contribute to its international capacity, and each state has specific goals for its international policy.

In their book The International State: Crafting a Statewide Trade Development System, Carol Conway and William E. Norddurft provide a framework for developing state international activities. The book outlines three objectives states must achieve if they want to internationalize: create a vigorous trade development system, develop a capacity to manage foreign affairs, and foster a supportive civic capacity for going global. The authors explain the direction they believe states should take their international activities on page 12 (The Aspen Institute, 1996):

“...the central message of this book is that state trade offices have the potential to be the nexus of a comprehensive statewide trade development system. But, given their limited resources, they cannot alone assure the international competitiveness of a state’s economy. They must be supported by a widely shared vision of the state’s international future and must integrate public, private and nonprofit trade service providers into a coherent system for developing international business and assuring that its benefits are widely shared.”

Assessment

Trends. State trade directors and other actors identified several interesting trends in international capacity. The Advisory Group predicted that state trade offices would have to find ways to
assist service-sector businesses since the U.S. economy is becoming more service oriented. Of the 23 trade offices that returned the questionnaire, 17 (73.9 percent) expected an increase in the amount of assistance they provide to service-sector businesses.

The Advisory Group and the conference call participants emphasized the need for greater cooperation within and among states. Cooperation allows more efficient use of existing resources, allows economies of scale in international programs, and creates synergy that could lead to creative programming. The trends data from the questionnaire indicate states are moving toward this goal. A majority of state directors and other actors (65.2 percent and 75.0 percent, respectively) who returned the questionnaire anticipate an increase in cooperation among entities within their states involved in international programs. A majority of both groups (65.2 percent and 55 percent, respectively) also expect cooperation among states to increase.

Future plans. During the conference calls for state trade directors, one of the major topics discussed was future plans. Their plans may indicate the future agendas for state trade offices in general. The plans they identified fell within the following categories:

• Opening new overseas offices and/or targeting market campaigns in such locations as Africa, India and the Asia-Pacific region (eight participants mentioned this future plan);
• Increasing programming for the service sector (three participants);
• Improving administration and programming through integration of new technology, such as video conferencing, telecommunications and the Internet (three participants);
• Continuing or increasing cooperation with in-state partners, both public and private (two participants);
• Creating or revising a strategic plan (two participants);
• Possible outsourcing of some or all international trade and investment programs (two participants); and
• Customizing services for clients rather than relying on broad-based programs (one participant).

CSG asked the Advisory Group and the CSG International Committee to recommend international goals state officials and their partners could pursue. These experts suggested that states enhance their international capacity by working toward the objectives outlined below. In some cases, the group and committee members suggested specific actions for achieving these goals.

State officials who want to build their international capacity may want to integrate these recommendations into their future plans.

Education. States should educate the public, work force, students, businesses and state policymakers to recognize the benefits of international activities and to have realistic expectations about the required commitment and achievable results. Starting foreign languages earlier and exposing students to the international community were common suggestions. The Advisory Group suggested that an international academy targeting state officials would be a useful education tool.

Cooperation. To take advantage of existing resources and to develop synergistic partnerships, state agencies and other organizations should coordinate their international activities. The Delaware Economic Development Office offers a model for cooperation among international actors.

### Comparing the regions

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>$120.4 billion</td>
<td>$153.6 billion</td>
<td>8.6 million</td>
</tr>
<tr>
<td>Midwest</td>
<td>$137.3 billion</td>
<td>$145.3 billion</td>
<td>2.6 million</td>
</tr>
<tr>
<td>South</td>
<td>$236.9 billion</td>
<td>$307.0 billion</td>
<td>10.0 million</td>
</tr>
<tr>
<td>West</td>
<td>$185.8 billion</td>
<td>$201.9 billion</td>
<td>14.4 million</td>
</tr>
</tbody>
</table>

Continuity. Continuity within the state’s international agenda and leadership would allow programs and relationships with in-state partners and foreign colleagues to develop. To achieve continuity, the Advisory Group suggested making at least one high-level trade official a civil servant.

Comprehensive international policy. States could maximize their international investment by developing a comprehensive international policy to achieve not only the economic gains of internationalization, but also the other benefits (e.g., cultural, educational, environmental). To do so, states need to recognize that international involvement may stem from environmental agencies, universities and other sources.

Customized services. The Advisory Group suggested that working one on one with companies may be a better utilization of a trade office’s time than large programs such as trade missions. Hiring a protocol person to handle trade missions would free the trade director’s time to focus on other programs. Some trade offices represented on the conference calls are moving toward customized services, but most also plan to increase their number of trade missions.

State unity. It would benefit states to speak as a unified voice to the federal government and internationally about the state role and perspective. The Advisory Group emphasized that states could achieve international goals — including attracting foreign investment — more effectively through cooperation than through competition.

An Assessment of States’ International Capacity can be viewed and downloaded from the CSG STARS database on the CSG Web site at www.csg.org. For more information, contact report author Cindy Lackey at (606) 244-8163, or cindyl@csg.org.
Most Americans support the death penalty, but that support drops sharply when life in prison without parole is offered as an alternative, according to a recent telephone poll conducted by ABCNEWS.com. The poll shows that nearly two-thirds of Americans say they support the death penalty for people convicted of murder. But when asked whether they prefer death or life without parole, support for the death penalty falls from 64 percent to 48 percent.

Support for the death penalty itself seems to have slipped somewhat, from a high of 77 percent in a 1996 poll to 64 percent now. And in a Gallup poll last winter, more preferred death to life in prison — 56 percent, compared to 48 percent in this poll.

Support for the death penalty is much higher in two political groups: Republicans and independents. Nearly three-quarters of Republicans and independents alike support the death penalty. When asked about life in prison as an alternative to the death penalty, 57 percent of Republicans and 53 percent of independents prefer the death penalty. Among Democrats, support for the death penalty is far lower.

There also are significant differences among other groups. Men tend to favor the death penalty more than women do, and whites are much more apt to favor it than are blacks.

### Death penalty

<table>
<thead>
<tr>
<th></th>
<th>Favor</th>
<th>Oppose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>64%</td>
<td>27%</td>
</tr>
<tr>
<td>Republicans</td>
<td>73%</td>
<td>19%</td>
</tr>
<tr>
<td>Independents</td>
<td>73%</td>
<td>21%</td>
</tr>
<tr>
<td>Democrats</td>
<td>52%</td>
<td>38%</td>
</tr>
<tr>
<td>Men</td>
<td>73%</td>
<td>22%</td>
</tr>
<tr>
<td>Women</td>
<td>56%</td>
<td>32%</td>
</tr>
<tr>
<td>Whites</td>
<td>69%</td>
<td>22%</td>
</tr>
<tr>
<td>Blacks</td>
<td>38%</td>
<td>54%</td>
</tr>
</tbody>
</table>

### Death or life in prison?

<table>
<thead>
<tr>
<th></th>
<th>Death penalty</th>
<th>Life in prison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>48%</td>
<td>43%</td>
</tr>
<tr>
<td>Republicans</td>
<td>57%</td>
<td>35%</td>
</tr>
<tr>
<td>Independents</td>
<td>53%</td>
<td>39%</td>
</tr>
<tr>
<td>Democrats</td>
<td>37%</td>
<td>53%</td>
</tr>
<tr>
<td>Men</td>
<td>57%</td>
<td>35%</td>
</tr>
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<td>Women</td>
<td>39%</td>
<td>50%</td>
</tr>
<tr>
<td>Whites</td>
<td>51%</td>
<td>39%</td>
</tr>
<tr>
<td>Blacks</td>
<td>26%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Note: Figures do not include other responses and do not add up to 100 percent.
Communicating with people about government performance

Governing for Results and Accountability, The Urban Institute

What can states do to help local governments involve residents in governing for results? In three cases described by Pat Dusenbury for the Urban Institute, states played a small but important supporting role in performance management. Minnesota, North Carolina and Florida have encouraged local governments to focus on programmatic results, especially in decision-making about education and human service programs. Minnesota and North Carolina provided, or provided access to, training and technical assistance in performance measurement for local officials and residents, where as Florida mandated land-use planning statewide. In each of these states, local government used performance measurement to communicate with residents and improve services.

In the late 1980s, Dakota County, Minn., began surveying residents approximately every three years to inform board members about constituent concerns. The questions focused on policy issues and government responsiveness. In 1997, the survey was modified to reflect concerns about communication with the public.

Residents' ratings of county services were 5 percent to 10 percent below the average ratings on similar surveys elsewhere in the metropolitan area. However, by 1999, survey results for most services were 10 percent to 15 percent above the metropolitan area averages. For Dakota County, the resident survey showed officials which services needed improvement and the county responded.

In 1994, Winston-Salem, N.C., spearheaded the establishment of a statewide Performance Measurement and Benchmarking Project, which began producing high-quality best practice and cost information. However, there was no incentive to share this information with residents, and few participating jurisdictions did.

This changed after the election of a new Board of Alderman in Winston-Salem and the establishment of a Citizens Efficiency Review Committee. The committee assesses city services, identifies the basis for each city function and makes recommendations. CERC information requests have pushed the city to improve its performance management and to survey its residents.

Improved communication with neighborhoods has revealed emerging issues and enabled the city to address problems at an early stage. In turn, city responsiveness has given power to residents and involved them in finding solutions.

Jacksonville, Fla., created a Citizens’ Planning Advisory Council in each of its six planning districts to meet the resident participation requirement for state-mandated comprehensive planning. The CPACs have become a system of umbrella organizations for neighborhood groups that fosters communication between residents and local government. For the past three years, a mayor’s neighborhood summit has offered neighborhood leaders a variety of workshops on city services and programs, plus opportunities to share ideas.

As a result, residents are more sophisticated in affecting city decisions. They are better organized, know the law, ask better questions in public meetings and make better arguments for their posi-
Developers and other who find themselves arguing against neighborhoods have had to become better prepared for meetings, which raises the level of political discourse.

Although the state role was not large in any of these examples, it was pivotal. State agency personnel provided technical assistance in performance management with the local jurisdictions. Also, state regulatory requirements for resident participation provided the impetus for the creation of resident review committees. Where states supported or mandated use of performance measurement by local governments, the success of that effort provided the foundation for broader performance measurement projects and for involving residents in governing for results.

How can we help? Lessons from federal dropout prevention programs

Policy brief, Mathematica Policy Research, Inc.

As a society, we do not want to students to drop out of school. We know that those who do probably are not prepared for what happens to them afterward. Most will not work as much as students who graduate and will not earn as much when they do work. Economic trends are likely to make this situation worse rather than better.

In this report, Mathematica Policy Research, Inc. evaluates the U.S. Department of Education's School Dropout Demonstration Assistance Program. The program operated from 1991 to 1996 and was the longest and largest of three dropout-prevention programs funded by the federal government. The U.S. Department of Education awarded grants to school districts, nonprofit community-based organizations and education partnerships.

Grants supported two kinds of programs. Targeted programs operated in schools or community organizations and provided services to help youth stay in school and improve their school outcomes. Restructuring programs promoted organizational and instructional reform in schools where dropping out was a widespread problem.

The program's grant announcement specified that funded programs had to adopt a comprehensive approach to serving at-risk students. This approach could include counseling and support services, attendance monitoring, difficult curricula, accelerated learning strategies, culturally sensitive parental outreach, enhanced links between middle schools and high schools and career-awareness activities.

The program evaluation identified several promising program models. Programs preparing students who had already dropped out to get the General Educational Development certificate improved GED completion rates. An alternative high school on a community college campus reduced dropout rates, as did several alternative middle schools. Also, school restructuring efforts that focused on changing what happened in the classroom improved test scores and led teachers to view school more positively.

According to the report, policy-makers and program designers who want to follow any of these paths will face trade-offs. For example, current research questions the value of the GED. Alternative middle schools by their nature separate at-risk students from other students. And changing what happens in the classroom is one of the most difficult tasks facing any school reform effort. Whether embarking in one of these directions is worthy depends on schools and the communities' values and perceptions of the dropout problem, as well as their willingness to explore new directions.

Mathematica recommends that educators ask themselves fundamental questions about the nature of the dropout problem in their area before adopting any program model. Why are students dropping out? Who should be served? Can a program be right for more than a few of those it serves? Are we addressing only symptoms, without knowing what the real problems are?
Contemporary issues in mentoring

Public/Private Ventures

Mentoring is becoming an increasingly accepted as a valuable activity for young people. Evidence suggests that well-run mentoring programs can reduce drug and alcohol use, improve academic behavior and change the life direction of youths. In fact, the President’s Summit on the Future of America, held in Philadelphia in 1997, and many local summits held across the nation since then have heightened awareness of youth needs and highlighted the potential of mentoring to meet those needs.

In this Public/Private Ventures report, the authors answer some operational questions regarding mentoring. What are the essential elements of an effective mentoring program? How do you know and document a quality, mentoring program when you see it? What does mentoring cost? Where do we find volunteers? Without answers to such questions, the report states, the potential of mentoring will never be fully realized.

The authors found that mentoring studies all agree on critical program practices. There are three areas that are essential to any mentoring program: screening, orientation and training. The screening process allows for the selection of adults most likely to be successful by looking for volunteers who are dependable. Orientation and training ensure that youth and mentors share a common understanding of the adult’s role and help mentors develop realistic expectations of what they can accomplish.

Mentoring programs require accountability measures and techniques as a means of demonstrating, to potential funders, that that their programs produce positive effects. The report offers three types of measures that mentoring programs can use to assess effectiveness: changes in participant outcomes, measures of effective relationships and descriptions of participant characteristics.

While mentoring programs appear to be relatively inexpensive for a social policy intervention, they are not free. In one chapter of the report, the authors examined the cost of 52 mentoring programs and found that the median annual cost of a one-on-one program is slightly more than $1,000 per youth. The median annual cost of a group program is a little more than $400 per youth. Costs per youth do not decrease with the size of the program.

The report also contains the results of a national survey of adults, commissioned by the Commonwealth Fund, to find out more about youths, mentors and their motivation for volunteering. According to the survey, about 6 percent of adults mentor youth ages 10 to 18, most of them informally (outside of programs).

Mentors tend to be more educated, have more income and are more likely to have been mentored than nonmentors. Youths who are mentored (both through programs and informally) come from all socioeconomic backgrounds, but many of them are experiencing trouble.

Finally, the report argues for more funding of mentoring programs, claiming that private sources alone are inadequate. In the past, the government has spent money to put 100,000 new police officers on the street and fund 100,000 new teachers. If the government spent an equivalent amount on mentoring programs, the report states, millions of youth could greatly benefit from adult attention.

Resources, outcomes and funding of public schools


In June 1999, the Federal Reserve Bank of Chicago held the second of three conferences on education reform. Conference participants, from various universities, discussed and evaluated the degree to which school spending and financial reform affect student outcomes, comparing school effects with the influences of home, peer-groups and the social environment.
One of the first topics tackled was the resources devoted to and outcomes emanating from public education. Two professors from the University of Wisconsin found that there exists a positive relationship between the earned income of male students 17 years after graduation and the length of the school year, the average education level of teachers, the level of teacher experience and teacher salaries when the males were in high school. An unexpected positive relationship was discovered between earnings and pupil/teacher ratios. This was attributed to the variables of teacher quality and school district size.

Additionally, two University of Colorado professors found that parental occupation and education have a small impact on earned income and sibling structure is relatively unimportant. The level of earned income is positively related to cognitive ability, family material resources, parental aspiration and even socialization through exposure to some parental occupations. This is because the incomes represent both the level of community emphasis on education and the socialization that occurs when youth are exposed to successful people.

A University of Kentucky professor addressed parental choice between public and private schools to estimate the value families place on school quality. A test of the notion that money matters to parents is a test of whether school spending in a community is negatively related to the fraction of families that elect private schools.

By 1998, 43 state Supreme courts had heard cases on the constitutionality of school finance systems. The courts overturned systems in 18 states and upheld them in 20. The University of Kentucky research showed that court ordered reforms resulted in an increase in public school spending. However, such reforms did not increase private school enrollments. An increase in per-pupil public school resources of $2,000 would decrease the share of private school enrollment by 1.5 percent.

Other researchers looked at funding and tax reforms in the Midwest. A Purdue University professor argued that school finance in Indiana was very stable until external changes to the funding environment forced the disbanding of old political coalitions in favor of new ones. He added that the existing school reform regime supported by the legislative majority would continue until a new shift in the funding environment occurs.

Professors from Lake Forest College and the University of Illinois discussed the impact of funding reform on schools in Illinois. They found that while the amount of poverty-based funding had increased since 1997, there were problems with distribution. The use of limits for eligibility meant there were similar districts receiving different amounts of aid. Secondly, the formula created an undercounting of low-income high school age pupils within districts.

**Gender and justice: Women, drugs and sentencing policy**

The Sentencing Project

Since 1980, the number of women in prison has increased at nearly double the rate for men. There are now nearly seven times as many women in state and federal prisons than 20 years ago. This is an increase from 12,300 in 1980 to 82,800 by 1997, for an increase of 573 percent. An additional 63,000 women incarcerated in local jails yields a total of 146,600 female inmates.

In this report by the Sentencing Project, the impact of drug offenses and sentencing policy on women are examined at a national level and in New York, California and Minnesota. The state analysis was conducted because national data often mask significant variation among states in how they respond to social and criminal problems. This may involve law enforcement priorities, sentencing policy and the use of discretion within the criminal justice system, as well as responses that lie outside the system.

In New York, almost the entire increase in women sentenced to prison from 1986 to 1995 was accounted for by drug offenses. In California, drug offenses represented 55 percent of the increase and in Minnesota the increase was 26 percent.

Nationally, drug offenses accounted for half the rise in the number of women incarcerated in state prisons during the nine-year period, compared
to 32 percent of the increase for men. In fact, the number of women incarcerated for drug offenses rose by 888 percent from 1986 to 1995, in contrast to a rise of 129 percent for all nondrug offenses.

The study attributed the dramatic changes in women’s incarceration to several factors: the impact of drug abuse on low-income women; declining economic opportunities for many women; limited treatment options; and sentencing policies adopted in conjunction with the war on drugs. Overall, women in prison are disproportionately low-income, with low education levels, high rates of substance abuse and mental illness. In addition, more than half have been physically or sexually abused.

The report also analyzed the impact of rising imprisonment on women and children. Two-thirds of women in prison are mothers to children under the age of 18, and many of the women were heading single-parent households prior to their incarceration. Half of the women inmates in a 1991 survey reported never having received a visit from their children while incarcerated. Also, in most states, women convicted of drug felonies are banned for life from receiving welfare or food stamp benefits, as well as financial aid for higher education.

The report calls on policy-makers to adopt several remedies for the growing impact of incarceration on women. These recommendations include repealing mandatory sentencing laws such as New York’s “Rockefeller Drug Laws,” which require a 15-year sentence for the sale of two ounces or the possession of four ounces of drugs. The report also recommends expanding the availability of drug treatment both within and outside the criminal justice system. To lessen the effect on families, the report calls for an end to the denial of welfare and education benefits for persons with drug convictions and for the availability of support for children of incarcerated mothers.
Got conflict?

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➤ Opportunities to network with "ADR Ambassadors" appointed by the governors of every state and territory, the nation’s leading conflict management practitioners, and scholars involved in leading-edge research.

➤ A program designed to address the critical issues and crucial needs facing the state and territorial government community.

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The Summit of the States on Conflict Management and Dispute Resolution
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See www.csg.org for details or contact Bert Harberson at 606/244-8228 or bharberson@csg.org.
The Internet tax dodge

by Henry Aaron, senior fellow, Economic Studies, The Brookings Institute

Suppose someone proposed the following retail sales tax: Customers who buy from a store with more than 10,000 square feet of floor space will pay a 5 percent tax, but customers who buy from a store with fewer than 10,000 square feet of floor space will pay no tax.

Yes, I know it’s a silly idea. But just to carry this absurdity a bit farther, assume that some state actually adopted the proposal. Then, sales in stores with fewer than 10,000 square feet grew more rapidly than did sales in larger stores. The organization representing small stores pointed to this fact and argued that they should remain tax-free because low taxes promote sales growth. No one would take them seriously, would he?

Well, it appears that Virginia Gov. James Gilmore and U.S. House Budget Committee Chairman John Kasich of Ohio would — at least if you replaced “stores with fewer than 10,000 square feet” with “Internet commerce” and “stores with more than 10,000 square feet” with “ordinary retailers.” They claim that taxing Internet sales to consumers the same as ordinary retail sales would stifle Internet growth.

State sales taxes fall on goods sold by retailers in stores that you can walk into — but not on Internet sales. Partly because of this tax advantage, Internet sales are growing at double-digit rates. Mail-order sales enjoy a similar advantage, and they too are experiencing explosive growth. But potential Internet sales vastly exceed mail-order sales.

Both Internet and mail order buyers are supposed to call their state tax authority, ask for a use-tax form and volunteer to pay tax on their purchases. Guess what — almost no one does. As a result, the sales tax base shrinks as Internet and mail order sales increase.

Ordinarily, retailers in one state are not required to collect tax on sales made in other states. Few states bother to try to collect from seller’s taxes that would have to be remitted to another jurisdiction. And state tax authorities lack information on goods purchased by residents through the mails or over the Internet. So each state, acting independently, looks the other way as these transactions cut into potential sales tax revenues.

One can understand why Internet and mail order retailers would want to preserve this sweet deal. If you were a retailer and could make sure that your competitors had to pay a tax that you were spared, you might be tempted to invoke every imaginable argument to support this blatantly unfair practice. You might even claim — if you could manage to keep a straight face — that not taxing Internet sales promotes economic growth.

But it surpasses understanding why a governor, such as Gilmore, or a senior member of Congress, such as Kasich, would endorse such claims. Govs. Michael Leavitt of Utah and Don Sundquist of Tennessee have both made clear that while they oppose taxes specifically levied on the Internet, they favor equitable taxation of retail sales from both ordinary stores and e-stores.

The same technology that makes Internet sales possible also enables taxation of those sales. Retail sales taxes are supposed to be levied in the jurisdiction where goods are used. Most Internet and mail order sales are either delivered to or billed to identifiable Zip codes. It would be straightforward to write software identifying the tax rate applicable to each type of good or service in each ZIP code. Internet and mail order companies could be required to use the services of newly created firms licensed by the states to administer such software and to distribute revenues among the states. Leavitt and Sundquist have proposed a similar idea on a trial basis.

If it turned out that removing its unfair tax advantage killed Internet commerce, then the conclusion would be inescapable that e-commerce grew only because of taxes and could not prevail in a fair fight.
clusion would be inescapable that e-commerce grew only because of taxes and could not prevail in a fair fight. But Internet commerce is flourishing not just because it enjoys tax advantages but also because it has other, more important, strengths: the convenience of permitting people to shop at home, the ease of comparison shopping and the real economies e-retailers can achieve through smaller inventories and smaller places of business.

Whatever its strengths, however, e-commerce has not eliminated the need for schools, fire departments, police forces, parks, libraries, health care and other government services, and for the revenue to pay for them. To maintain those revenues and to restore a genuinely level playing field for U.S. retailers, Congress and the states should cooperate to make sure that all retailers are treated fairly, whether they sell in shops or in cyberspace.

This opinion was published in The Washington Post, Dec. 3, 1999.

Public private partnership and education in America

by Jacqueline Rhoden-Trader, visiting fellow, the Alexis de Tocqueville Institution

(T his text appeared on the Web site EducationNews.org, Feb. 3, 2000)

Despite the recent debate and sometimes negative press over Microsoft’s “monopoly” on access to the technology age, Bill Gates’s brainchild continues to find favor among the nation’s most precious resources — teachers and students. Last week, in an unprecedented move, the 25-year-old company announced a $344 million software donation to support a worldwide initiative to train 400,000 teachers. (see www.microsoft.com/presspass)

Called “Intel Teach to the Future,” the initiative builds on Microsoft’s longtime commitment to teacher training and its philanthropic attitude toward underprivileged populations. For example, just last year it awarded the United Negro College Fund a $300,000 Equal Access Grant. These funds are being used to underwrite special projects that improve technology access at six historically black colleges and universities. Both donations come on the heels of the ever growing “digital divide” controversy that looms over decision-makers in both the public and private sectors.

Equipping and educating our teachers, those responsible for inspiring young minds, is an integral part of academic success. Far too many school teachers lag behind in technological access, knowledge, comfort level and application. Additionally, the effort to meet immediate teacher enrollment demands also has increased the gap between seasoned and novice teachers with extensive computer skills. Veteran teachers are more likely to view technology as not of their era. A majority of urban educators grew up in a time where the possession of a calculator placed them at the top of the technology ladder. Meanwhile, new teachers come into these systems appalled at the lack of technology in schools and champion the cause for technology.

Fostering public and private collaborations are our best hope to bridge the digital divide. Providing teachers with hands-on training will allow them to move from theory to practice and will enable them to become better stewards of our nation’s children. In a society where more students in urban and rural communities are performing at lower levels than their suburban counterparts, technology preparedness at the teacher level can only increase the learning potential of minority students. Given equal access, training and opportunity, urban teachers and their students can make positive contributions to the ever changing global economy.

We should shape public and social policy to enhance support and duplicate Microsoft’s technology education initiative. Given the responsi-
bility shift from federal to state government for various quality of life areas, including education, corporate partnerships with state and local education programs should be much more appealing and acceptable.

Managed properly, public/private partnerships at local levels can fix acute and chronic problems much faster than government bureaucracy. The time is now to give these partnerships a chance without politicization. If America loses its footing in an already competitive global race for technological advancement, both U.S. citizens and their corporate communities lose.

The Microsoft donation alone is not enough, but the effort should serve as an example for the nation’s public and private sectors to join the crusade for the betterment of our schools. We should increase our effort to work with tech firms that have taken an interest in creating training opportunities for teachers and students. National and state government should appropriate funds for local jurisdictions to develop and implement technology initiatives with public sector groups interested in closing the gap between the “haves” and “have nots.”

A national “call to action” on the part of educators, politicians, civil rights leaders, policymakers, parents, private corporations and foundations is the type of collaborative effort necessary to jump-start a technological revolution in urban America. For years, teachers have been criticized for their inability to reach and teach urban students. Likewise, they have been pleading for help in educating our children. Instead of finger pointing, the new model should be to accept help from everyone interested in promoting our nation’s youth, especially our corporate citizens.

By forming partnerships with schools and community organizations, corporations can build conduits for monetary donations and corporate involvement. The public sector should seize the opportunity to activate practical applications of these dollars, human resources and training. Grassroots type advocacy should even be considered to create local policy for these partnerships to work. This paradigm shift in educational theory and practice can only be successful with the earnest involvement of each sector.

The best way for communities and the public sector to guarantee the continued participation of companies such as Microsoft is to work as hard as possible to make these newly created programs successful. With dedication to the creating a successful environment for public/private cooperation, these partnerships will yield measurable results and begin to erase the digital divide in our education system.

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If you have questions, call Michael J. Scott at CSG (606) 244-8102 or e-mail Spectrum@csg.org.
What Americans think
God and country

A survey by ABCNEWS.com, Jan. 26, 2000

Americans are divided down the middle on whether presidential candidates should publicly discuss their religious beliefs, according to a January telephone poll conducted by ABCNEWS.com. The poll showed that majorities of Democrats and Republicans take opposite sides on the issue. In the ABCNEWS.com poll, 45 percent of Americans said candidates should bring their religious beliefs into the campaign discourse — but 47 percent said they should not. On the yea side were 58 percent of Republicans; on the nay, 57 percent of Democrats.

Age and economic status also seemed to affect these views, the poll showed, with higher-income and younger Americans preferring that candidates not discuss their religious convictions.

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Note: Figures do not include other responses and do not add up to 100 percent.
The Vermont political tradition: And those who helped make it

by William Doyle

Reviewed by Elaine Stuart, senior managing editor, State Government News, CSG

When Vermont residents by the thousands turned out this year for public meetings to discuss ways to meet a state court mandate for constitutional treatment of same-sex unions, it was in keeping with the state's tradition of town meetings.

The fact that the Legislature and the governor endorsed broad public involvement in settling the controversial issue also was in line with Vermont tradition. Those looking for an explanation of why Vermont remains a model for such civic engagement would do well to read this concise volume. The author, Vermont Sen. William Doyle, set out to capture the major developments in the state's political history and emphasize its most enduring political traditions. He has done so in a most engaging and readable manner, befitting a work that began as a series of newspaper articles and then was used in public schools to teach Vermont history.

The first part of the book is devoted to the importance of the Green Mountains as a dividing line in Vermont and the ensuing pattern of land settlement that led to early disputes over its borders with New Hampshire and New York. Ethan Allen, as one of the famed Green Mountain Boys, led efforts to fend off New York claims on lands settled by people who came from New Hampshire. After America declared its independence from Great Britain in July 1776, Vermont settlers, tired of New York land claims, declared their independence from both New York and Great Britain. In 1777, Congress, upset over the land disputes, rejected Vermont's request for admission to the Union.

Vermont that year adopted its own Constitution, becoming the first to prohibit slavery and to adopt universal male suffrage. The General Assembly first met in March 1778 and elected a governor, lieutenant governor and treasurer.

Vermont made another bid in 1782 to join the Union, but New York and Southern states still opposed its admission. New York at last relented to keep the balance between free and slave states in the Union. Vermont was admitted in 1791 and Kentucky in 1792.

American politics soon became divided between Federalists, who believed in strong national government, and Jeffersonians, who advocated guarantees of certain rights. Doyle's lively recitation of the ensuing seesaw in political power in Vermont and the nation makes for lively reading and a deeper understanding of the forces that shaped our nation. The state's longstanding opposition to slavery resulted in organizing a Republican Party on July 13, 1854, two years before the national party formed. Republicans dominated Vermont politics until 1964.

Doyle takes the reader through the next century-plus of Vermont politics. He tells why and how Vermont became a two-party state and eventually even elected an independent candidate to Congress in 1990. The volume, in its revised 1999 edition, concludes with the election of 1998. "During the past three decades, the Vermont political scene," Doyle wrote, "has resembled more closely the national scene — two active parties vying for power, with wins and losses on both sides."

Vermont today is deciding issues of national interest, including school finance and treatment of gay couples. Doyle, a history and government professor at Johnson College and a senator since 1968, recounts the historical twists and turns that have shaped Vermont as a state and its role on the national scene. While the book is of greatest interest to Vermonters, those interested in how the political past influences the present will find much to enjoy.

Inside this issue of Spectrum...

• The role of states in the debate over taxing e-commerce
• The future of higher-education funding
• RAND: Closing the education gap — benefits and costs
• A CSG report on taking advantage of the global economy
• Research Roundup: Featuring reports by the Urban Institute, Mathematica Policy Research Inc., Public/Private Ventures, The Federal Reserve Bank of Chicago and The Sentencing Project