

VOLUME 1 ISSUE 2, 2008

# Veritas

A PUBLICATION OF THE TEXAS PUBLIC POLICY FOUNDATION

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Texas Public Policy  
FOUNDATION

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# Veritas

Issue 2 ★ 2008

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## FROM THE PRESIDENT

*Dear friends,*

As this issue went to print, I received the sad news that longtime Foundation board member and Houston developer Michael Stevens passed away after a battle with cancer. Those who knew Michael will miss his incredible energy, keen intellect, and quick wit, along with his tireless devotion to both the city of Houston and to the state of Texas. There is no doubt that Michael left an indelible mark in numerous public policy debates on everything from tax reform to tort reform and transportation. A successful businessman and real estate developer, Michael's enthusiasm and leadership was apparent even as his health began to fail.



Brooke Rollins

Our board of directors and staff mourn the loss of this dear friend who joined us in our fight for greater freedom, with the aim of making Texas a better, more prosperous state. Both Houston and Texas are better for Michael's service and leadership. Indeed, we would all hope to leave such a legacy behind.

I was reminded, then, that at the time of William F. Buckley's passing earlier this year, a conservative writer on the national scene noted that conservatives are too often greeting one another at funerals. He pointed to some of the giants of the conservative movement nationally, beginning with President Ronald Reagan, followed by Milton Friedman, and then by William F. Buckley. For conservatives, and many others, these are household names that made it easier to be a conservative and walk in the shadow of these great men.

Whether reflecting on men like Michael Stevens, with whom I have had the great honor and privilege of working with for the last five years as president of the Texas Public Policy Foundation, or reflecting on leaders like Reagan, Friedman, or Buckley who have inspired so many of us in our work, there is no question that we work tirelessly to promote greater freedom so we might make our country a better place for future generations.

In March, my husband and I brought home our third child, Anna Leslie Rollins, who joins her two brothers in a now very chaotic Rollins household. Although I have often told people that I have the greatest job in the world, I am also aware of the awesome responsibility of this work to ensure that Texas remains a great example of freedom and liberty for the state, nation, and world, in which my children will grow up.

As conscious as I am about the importance of our work in celebrating the new life in my family, I recognize its importance again as I contemplate the loss of Michael Stevens, a friend whose personal commitment to making Texas a better place sets an important example for us still.

Importantly, our work to advance freedom stands on the shoulders of these great men who gave so freely to the country and to the state they each loved. Their passion for freedom has not been extinguished, nor has their work been lost, but their love of country and of freedom was handed down even to them, just as they have handed over this responsibility to the next generation.

We at the Foundation are truly grateful to Michael Stevens for his contribution to our state and for his friendship, and we are honored by our opportunity to have worked alongside him.

Sincerely,

A handwritten signature in black ink that reads "Brooke Rollins".

Brooke Rollins  
President



# NATURAL RESOURCE POLICY

## Free Markets & Liberty

by Kathleen Hartnett White

**F**ree market policy advocates have long been reticent about environmental policy, and for understandable reasons.

FOR ALMOST 40 YEARS, environmental policy has been dominated by a now well-entrenched Environmental Establishment with fundamentally different views about the role of government, markets, rule of law, and private property. Conservatives typically respond critically to the Establishment's policy but without offering alternatives—a defensive position.

Free market advocates need an offense: a positive natural resource policy based on fundamental free market principles. We need to use these principles to persuade policymakers and key constituencies that free market policy offers the most effective, enduring, and cost-efficient method of environmental protection.

With almost exclusive domain over national environmental policy and prevalent public opinion, the Establishment promotes centrally planned regulatory control of business and private lives. The insightful book, *Protecting the Environment: Old Rhetoric, New Imperatives*, traces the consistent command-and-control stance of the environmental

movement. Author Jo Kwong notes, “The environmental agenda focuses primarily on securing greater governmental control over natural and environmental resources: more taxpayer dollars, more regulations, more agencies and more government ownership.” The Establishment's mantra could be ‘no risk is too small and no cost is too high because we care so much.’

Almost 15 years ago, I worked with conservative colleagues from the Reagan administration to develop free market environmental policy principles. A brief statement was published and endorsements were received from elected officials across the country, including then-Governor George W. Bush and then-Agriculture Commissioner Rick Perry. Given the United States Senate's current debate on the most exorbitantly costly, economically disruptive, and environmentally unnecessary legislation on climate change, it is time to update and extend this effort, using state and national policy networks for strategic dissemination.

The power of the Environmental Establishment cannot be overstated. After almost four decades of political success and popular appeal, the Establishment is led by national environmental organizations with combined annual budgets in the billions, an army of attorneys, and sophisticated public relations machines. Remarkably successful in the enactment of law and in thousands of court rooms, the Establishment securely occupies the high moral and political ground.

Although conservatives justifiably criticize the Establishment's natural resource policies as too costly, ineffective, or unfounded, we are routinely vilified as uncaring and greedy polluters. Forced to respond to the ever-ascendant Establishment policy, GOP policymakers typically contrast economic needs with environmental needs, or for reasons of political necessity, yield to compromised versions of the Establishment's command-and-control position. And while we may intuit that our core principles of limited government, free markets, property rights, liberty, and individual responsibility offer the best environmental policy path, we rarely articulate this in positive policy that reflects that concern.

The Foundation's newly created Center for Natural Resources (CNR) is actively working with like-minded partners to develop this positive free market environmental policy. Core principles will

*continued >>*

be articulated to assist policymakers and citizens to assess policy proposals. When fully developed, a concise statement of the policy principles will be published, as well as a longer document explaining the ideological background and utility. Within the confines of these pages, I review a few likely core principles of this free market natural resource policy.

**Human beings are the most important natural resource. The well-being of individuals is the measure of sound environmental policy. Human effort is the only means by which the environment can be improved.**

Mainstream environmental policy has always taken the opposite view. Human beings are the environmental problem; human selfishness and ignorance cause natural resource depletion and degradation. Government, therefore, must intervene to control human beings and protect the environment. As a member of the Clinton administration put it, “The planet is about to break out with fever ... and we are the disease. We should be at war with ourselves and our lifestyles.” And as former Vice President Al Gore said in his book *Earth in the Balance*, humankind is headed for “the point beyond which ecological collapse is inevitable” because “we have tilted so far toward individual rights.”

Quite the contrary, the first principle for free market environmental policy must be that human beings are the most important natural resource—or the ‘ultimate resource,’ as economist Julian Simon put it. The health and well-being of real people are the measures of environmental quality. Human intellect, creativity, accumulated knowledge, and liberty are the only effective means for solving environmental problems. While we believe that individuals acting within

a free market will generate the technology and prosperity to enhance the environment, the Establishment believes that greedy profiteers will degrade the environment without the coercive hand of government to restrain them. The Establishment’s policy objectives seek some generalized public good. Ours must seek measurably positive impact on real people.

**Natural resources are powerful, resilient, dynamic, and responsive to human management.**

Another contrast involves the most basic view of the natural world. The Establishment emotionally views nature as fragile and easily subject to irreversible decline. We view nature as resilient, not fragile; as dynamic, not static; and as regenerative in response to intelligent management. Case in point: the federal Endangered Species Act (ESA) rests on the Establishment assumption that natural systems are so fragile that diminished numbers of an invertebrate species can trigger dissolution of a vast ecosystem. On the other hand, many scientists contend the natural world has gained and lost billions of species for millions of years before *homo sapiens* arrived on the scene. Man’s use of natural resources may temporarily alter a species population but the natural dynamism persists. The ESA, however, provides absolute protection for every species vaguely known to be at risk, and does not distinguish in importance between the American Bald Eagle and a cave spider.

**Protection of private property rights and free markets offer the best foundation for enhancing environmental quality.**

Garret Hardin’s “tragedy of the commons” anecdote illustrates the inevitable environmental decline under communal

ownership. Hardin’s example involves multiple people grazing their individually owned cattle on a communal property. Each herdsman has the incentive to graze as much and as fast as possible before the other herdsmen’s cattle consume all the grass.

If the same sized property were divided among the herdsmen into individually owned properties, categorically different incentives arise. With a property owner’s basic right to exclude others from using his property, prudent grazing in the present assures future grazing benefits. Private ownership rewards wise management over time, equally true for herdsmen or a large chemical plant. Extension of private property rights offers many creative environmental alternatives for free market advocates.

In spite of the dismal environmental records of centrally planned economies, the Establishment still champions policies for diminishing property interests and controlling production. The undeniable history of the last century, however, vividly reveals the relationship between free market economies and environmental quality. Prosperity provides the financial means and appropriate incentives for effective, cost-efficient protection of the environment. The billions spent annually for environmental quality in this country are still unimaginable luxuries for most of the world. Free markets generate problem-solving dynamics through entrepreneurial actions, information exchange, and technological advancement.

**Science is an essential guide for natural resource policy but is not a substitute for policy.**

Science is the stipulated driver in existing environmental laws. The Establishment typically peddles new policy as straightforward scientific discovery dictating



new controls. In reality, science can never provide this level of certainty. Manipulating, exaggerating, and masking science is a longtime strategy of the Establishment.

Although a critical tool for free market environmental policy, science must be recognized for what it is and is not. The empirical sciences provide essential means for understanding natural resources; the analytical and predictive sciences offer essential tools for measuring the relative costs, risks, and benefits of environmental policies. Major qualitative differences, however, exist among scientific analyses: more or less relative accuracy; distinctions between verified empirical data versus predictive models; differences between risk assessments, based on weak correlation versus demonstrated causation; strong science and weak science.

Enactment of laws and adoption of rule ultimately are policy decisions which science can never dictate. Now a critic of the Establishment, former Natural Resource Defense Council litigator David Schoenbrod reveals the extent to which EPA manipulates science to support a predetermined policy judgment: “I had stumbled upon an important truth about science—its finely calibrated techniques provide no right

answer to many questions of the greatest policy consequence. There is inevitably uncertainty in describing risks ... even if risks can be described precisely, deciding on the extent to which to reduce them requires policy judgments.” (*Saving Our Environment from Washington*, p. 69)

EPA’s recent decision to change the ozone standard from 85 parts per billion (ppb) to a far more stringent 75-ppb illustrates such misuse of science. EPA rested on the flimsiest science to ground this change. And the law provides no yardstick for measuring the sufficiency of the science. Science alone, without any consideration of cost, is to drive the decision. Yet, EPA’s own analysis of cost required by the Office of Management and Budget found that costs of implementation of the new standard will outweigh health benefits by \$20 billion in 2020.

The policy issues now swirling around climate change science have far higher stakes than any previous environmental issue. Simply stated, does the science warrant a rupture and rapid displacement of our fossil fuel energy system evolved over the last century? This debate urgently needs free market policy perspectives: robust cost-benefit analysis, substantive risk assessments, and analysis of the relative certainty of the predictive

scientific models. Promoted by the Establishment with more wild exaggeration and emotion than any environmental issue, policy debates about global warming sorely lack the basic empirical and analytical rigor that free market principles bring to the table. Widespread claims that climate change science is settled belie the nature of the predictive science involved—it is inherently uncertain.

Our side can make a positive contribution to the environmental debate, and I am honored to lead the Foundation’s efforts in this regard. Free market environmentalism is not an oxymoron, but rather a recognition that preserving our natural resources for the use of future generations will produce superior results rather than preserving those resources for the sake of mere preservation. ★

*Kathleen Hartnett White is the Director of the Center for Natural Resources. She can be reached at [khwhite@texaspolicy.com](mailto:khwhite@texaspolicy.com).*

*All of the Foundation’s commentaries and publications on natural resource policy can be found at [www.texaspolicy.com](http://www.texaspolicy.com).*

# Foundation Profiles

by Briana Becker



The Honorable Talmadge Heflin speaks at the Foundation's annual Policy Orientation.

**T**ALMADGE HEFLIN BEGAN STUDYING the budget early in his 22-year tenure in the Texas House. When the state found itself wrestling with a \$10 billion budget shortfall in 2003, there was no question that Talmadge Heflin was the man to lead the House's effort to deliver a state budget that would address the shortfall by reprioritizing spending—not raising taxes.

**Q: You bring a lifetime of experience in the public arena to the Foundation. From your work on the Board of trustees at Alief Independent School District in Houston, to leading the Texas Conservative Coalition, and your 11 elected terms in the Texas House of Representatives, you've devoted your professional career to serving the public. Why the importance of public service in your life?**

**TH:** There always seems to be more people complaining than willing to work on finding solutions. When hearing the comment, "Somebody needs to do something about this," I looked around and saw that *I* must be that "somebody." When asked to serve on a committee to write the school district philosophy for the Alief ISD in 1972, I noticed that, out of a committee of 21 members, only five or six actively participated in the process

by offering ideas, pressing for consensus, and making decisions. I decided that if that was the way it was in the community, I needed to be more involved in what went on in the district. So, when a seat came open on the board the next year and I was asked to run, my defenses were weak. I said "yes" and was elected.

**Q: During your time in the Texas House you were a champion of limited government and fiscal responsibility. Why are these principles so important to you personally, and to all Texans?**

**TH:** All of my adult life, I have believed in personal responsibility. You do not need government doing something for you that you can do for yourself. By the same token, if you work hard to earn income, it should not be taken away from you by the government to provide something you can do for yourself or

given to someone who is not willing to take responsibility for themselves. So, when your income goes down, you live with less until you get it back up. The same principle applies to government.

I believe every person is entitled to the fruit of their labor; therefore, government has no right to take more than is absolutely necessary. The more you get to keep of what you earn, the greater the incentive you have to be responsible for yourself, your family, and your future.


**Q: How has your experience fulfilling many different roles in the Texas House, especially your chairmanship of the House Committee on Appropriations, affected your approach to fiscal responsibility?**

**TH:** I was able to see the necessity of being very careful in spending the *people's* money. Serving many years on both Ways and Means (the committee that takes the people's money) and on Appropriations (the committee that spends the people's money) helped me realize the importance of getting the greatest value for dollars spent. It also helped me understand that tax policy should be used to get money to fund necessary government, not to modify people's behavior.

**Q: You've recently made the transition from two years as a visiting fellow with the Foundation to full time Director of the Center for Fiscal Policy. What drove you to accept this position?**

**TH:** I see this work as an extension of my service in the Legislature. The Foundation's principles of limited government, free markets, private property rights, individual liberty, and personal responsibility are consistent with my personal beliefs. Working with a team and an organization that embodies your own





The Honorable Arlene Wohlgenuth & The Honorable Talmadge Heflin on the steps of the Texas Capitol.

values gives greater satisfaction than just “hiring out” to influence legislation.

**Q: What are some current projects you are focusing on in the Center for Fiscal Policy and what goals do you wish to accomplish in the upcoming session?**

**TH:** We are working on a Transparency Project, a Budget Project, the *2009-2010 Legislators’ Guide to the Issues*, and a project that highlights excessive spending in Texas.

The goal of our Transparency Project is to give citizens a more open and clear view of government’s spending and operations. Our work will closely complement what Comptroller Combs is doing with “Where the Money Goes” and what Texas Education Agency Commissioner Scott and many school districts are doing to let people see how their tax dollars are being spent. The goal is to see transparency at every level of government within the State of Texas. The result of this work will be a website that provides legislators with a clearer understanding of the budget process—bringing greater transparency and accountability into the process so legislators feel ownership of the final product, making them more accountable to their constituents.

The *2009-2010 Legislators’ Guide to the Issues* is a policy manual that provides specific recommendations on fiscal policy issues for action in the 81st Legislature.

**Q: As the 81st Texas Legislative Session approaches, what area do you predict will be the greatest temptation for legislators to abandon fiscal responsibility?**

**TH:** There is always pressure for more spending in education and health and human services. Legislators have a hard time saying “no” to spending when it is promoted as being “for the children.” It is even more difficult for legislators to demand accountability in all areas of the budget for the level of spending that has been established over a period of years.

**Q: Is there any fiscal policy advice you’d like to impart to incoming legislators that you wish had been shared with you before you entered the chambers that first time?**

**TH:** Government has no money. Every dollar that government spends has to be taken from the fruit of someone else’s labor. Every bill that is passed does one—or all—of three things: takes away freedom, takes people’s money, or spends people’s money. So, it is very important as a legislator to always ask yourself, “Which of these actions will be the least harmful to my constituents?”

**Q: What do you see as the largest threat to fiscal responsibility in Texas’ long-term future?**

**TH:** The greatest threat is citizen apathy toward government, and the tendency of legislators to want to solve problems by spending money. If people are not paying attention, they cannot be part of the solution by keeping government in-check. I think the current efforts in creating greater government transparency and accountability will go a long way in ensuring that government is exactly what our Founding Fathers intended it to be: for the people, by the people. ★

*Brianna Becker is an intern with the Texas Public Policy Foundation. Becker is a Government major concentrating in Political Theory at the University of Texas at Austin, and is a native of Houston.*

## TPPF Experts in the News

Nixon explains why doctors are heading for Texas  
- *The Wall Street Journal*

Stout: CHIP expansion distorts market for health insurance  
- *Houston Chronicle*

New curriculum will emphasize grammar and writing skills, Terry says  
- *Fort Worth Star-Telegram*

Foundation helps Gov. Perry, regents craft higher education reforms  
- *Austin American-Statesman*

Texas phone taxes still too high, according to Peacock  
- *Dallas Morning News*

Wind should play peripheral role in Texas energy supply, Thornley writes  
- *National Review Online*

Benefits do not justify cost of new ozone standard, White writes  
- *Dallas Morning News*

Levin: Ex-offenders who have jobs less likely to commit new crimes  
- *Fort Worth Star-Telegram*

Editorial: TPPF report on electric choice reveals Brownsville residents missing a lot  
- *Brownsville Herald*

Solid higher education reforms will resolve tuition concerns, Guenther says  
- *News 8 Austin*

# Fighting to Preserve Reagan's Vision

## *Securing Freedom for the Next Generation*

by Angie Choueifati, Events Manager

**H**ow do we combat the forecast of big-government leadership and resulting big-government policies? In the U.S. House of Representatives, the Republican Study Committee (RSC) is considered by many to be our best defense against this threat, while the Texas Public Policy Foundation provides leadership in the Lone Star State.

On March 8, 2008, the Texas Public Policy Foundation hosted a reception, "Fighting to Preserve Reagan's Vision: Securing Freedom for the Next Generation" in Dallas, Texas. Foundation supporters gathered at the home of Mr. and Mrs. Jerry Fullinwider to hear from some of the most respected conservative leaders on how we must press on in the fight if we are to advance the legacy of the late President Ronald Reagan.

Speaking to the group were RSC Chairman and U.S. Congressman Jeb Hensarling (TX-5), an outspoken advocate for *limited* government and a former TPPF board member, along with his RSC predecessor, U.S. Congressman Mike Pence (IN-6). Congressmen Hensarling and Pence illustrated the importance and challenges of continuing to work for limited government in a world where big government seems to dominate the debate.

Other presenters included former U.S. Senator Phil Gramm, Ph.D., who played a decisive role in launching the Reagan agenda. Senator Gramm assured the attendees that Reagan's vision of freedom—in spite of great challenges—is fought for every day by the Texas Public Policy Foundation, as it leads the nation in public policy issues by using Texas as a model for reform. Wendy L. Gramm, Ph.D., Foundation Chair and former Chair of the U.S. Commodity Futures Trading Commission, reiterated the importance of the Foundation as a powerful voice for free markets and conservative principles. President Reagan referred to Wendy in 1986 as his "favorite economist."

This event provided a rare opportunity to meet and hear from some of the nation's greatest conservative minds and get an insider's perspective on how to best preserve Reagan's vision of freedom for future generations. ★



**TOP:** U.S. Congressman Jeb Hensarling, Foundation supporter Jerry Fullinwider, former U.S. Senator Phil Gramm, and U.S. Congressman Mike Pence. **MIDDLE:** Foundation Chair Wendy L. Gramm, Ph.D. and a Foundation supporter. **BOTTOM:** Senator Phil Gramm, Ph.D. speaks to the guests.



Dr. Arthur Laffer enjoys sharing his knowledge of supply-side economics with Foundation supporters.

# Thinking Economically with Dr. Arthur Laffer

On May 7, 2008, the Texas Public Policy Foundation hosted Dr. Arthur Laffer at a sold-out luncheon event in Dallas. Dr. Laffer is best known as the “Father of Supply-Side Economics,” having been recognized in *TIME Magazine’s* 1999 cover story on “The Century’s Greatest Minds.” The article referred to the “Laffer Curve” as one of “a few of the advances that powered this extraordinary century.” As an economic advisor to President Reagan, Dr. Laffer’s ideas became the core of so-called “Reaganomics,” which not only led to great prosperity in the U.S. but has since swept around the world.

This year, the Foundation is honored to release 10 essays written by Dr. Laffer for the Texas Public Policy Foundation’s *Thinking Economically* series. Designed to provide policymakers and the public with a refresher course on the fundamentals of economics, the series shows economic principles in practice and brings the “dismal science” to life by relating economics to human behavior.

At the Dallas event, Dr. Laffer told the audience what economics has to say about the folly of the stimulus package, followed by an entertaining re-telling of the story of Robin Hood. Dr. Laffer describes the story of Robin Hood as probably the first redistributionist story told to children, but he goes on to describe the economic realities of stealing from the rich to give to the poor.

We are led to believe that Robin Hood makes the poor better off by stealing from the rich and redistributing their bounty, but that only works if you suppose that the rich don’t figure things out to protect themselves from the shakedown. As he tells it, the rich people entering Sherwood Forest would realize the danger from Robin Hood and his band of thieves and hire armed guards to escort them through the forest for protection,

thereby raising the cost of doing business. Those higher costs are passed on to the people in higher priced goods and services, thus making the poor worse off than before.

Dr. Laffer’s story is met with laughter, but he points out that these policies are at work in the United States today. The point of the Robin Hood story is to demonstrate that there is a difference between the *incidence* and the *burden* of a tax, and Dr. Laffer notes that while his economic ideas have proven to bring great prosperity to countries around the world, the United States might well be heading in the opposite direction. ★



Representative Bill Zedler (far right) waits in line to have Dr. Laffer sign one of his famous “Laffer Curve” napkins after the event.

by Shari Hanrahan

## Meet Adil Jafry, Entrepreneur and Free Market Champion

**A**dil Jafry is chairman and CEO of Tara Energy, a Houston-based company that has grown into one of the largest independent retail electric providers in Texas. With more than 70 employees serving thousands of residential and commercial customers around the state, Jafry's success with Tara Energy embodies the entrepreneurial spirit and sets an example of how reduced regulation drives innovation, along with more choice and better service for consumers. As an individual donor to the Foundation, Jafry believes as the Foundation does; that free markets and limited government promote freedom and prosperity.

Listening to Jafry talk, one might mistake him for an economics professor extolling the virtues of the free market, but indeed, these lessons on market economics come from his personal story of someone who has seen the marketplace up close since he was young. Born into a family of merchant entrepreneurs who he says "depended on safe, stable free markets for their livelihood," Jafry is philosophical about the role of government and public policy, and the role of the principled entrepreneur.

Jafry launched Tara Energy in 2002 when he saw the opportunity presented through Texas electric deregulation. That move to a market-driven electric utility system has resulted in what the Foundation's research has determined to be the most competitive electricity market in the nation, if not the world. Jafry's success with Tara Energy certainly demonstrates just how powerful the mar-

ketplace can be when firms can compete for business, not to mention the benefits for consumers over the long run.

"Free markets for resources (capital, labor, information, and other inputs) are important to the economy because it is the availability of these resources in pursuing the highest value tasks at the lowest possible prices that keeps the economy productive and innovative," says Jafry. "Any unnecessary weight placed on these inputs (through socialized costs or unnecessary restrictions) automatically inhibits the ability of these factors of production to function to their fullest."

Having already identified a stable free market as one of the earliest lessons learned in a family of entrepreneurs, Jafry explains the conditions necessary for the free market to operate, noting that "free trade is not possible without a sound intellectual basis for personal property rights and the ability to enforce a rightful claim in a forum which has the competency to administer justice."

Jafry is equally philosophical about the role of the principled entrepreneur operating in the free market, noting that free markets "require a full appreciation for the role that personal reputation and one's personal 'word' play..." This philosophy is evident in Tara Energy's stated vision to be the "premier electricity provider in deregulated energy markets," along with the company's core values of integrity, honesty, and respect, which it says are important in helping the company achieve its mission.



Adil Jafry, Chairman and CEO  
Tara Energy

Of course, Jafry recognizes one of the more important features of the free market system is built on voluntary transactions, where each person leaves satisfied with their exchange. "Free and fair markets," he notes, "also allow people to compete freely for market share and profits—resulting in maximization of their personal gain. Most often, they also enhance the overall innovation and productivity in an economy."

It's a lesson in economics, along with current events, that he hopes to impart to his children, ages five and nine. Jafry describes the family's weekend ritual where everyone spends time reading and discussing the most significant stories affecting their lives. As a result, Jafry says that his children "understand that the value of different currencies changes every day, as does the price of oil..." No doubt Jafry's children will have the same appreciation for free markets that he learned growing up among entrepreneurs himself.

That is even more true considering that Jafry's free market enthusiasm is powerful and imbues almost every personal and professional experience he describes.

*continued>>*

“Free markets are critical to allowing individuals to work towards maximizing their personal desires and goals at the least price possible.”

Jafry believes that free markets and limited government go hand-in-hand. “Free markets are critical to allowing individuals to work toward maximizing their personal desires and goals at the least price possible,” he says. “Any imposition or unfair restriction placed on people, infor-

mation, or other factors of production will likely result in suboptimal outcome for the individual, and, by default, the economy as a whole. We need to nurture and cherish our freedom to accomplish our desires without unnecessary intrusions by anyone.” ★



Shari Hanrahan is the Vice President of Outreach at the Texas Public Policy Foundation.

**MICHAEL SNOW STEVENS**, a loving husband to his wife Kim of 34 years, passed away May 24, 2008, at the age of 58. Michael was valiantly battling cancer and was free from that disease when he succumbed to pneumonia.

His exceptionally full life centered around actively raising three grandchildren with wife Kim. No matter what his schedule demanded, Michael was present to coach a full slate of games with Anthony and Gracie, horseback ride with Cassidy, and as only he could do, simultaneously blend phone calls from CEOs and top elected officials while participating in kids' birthday parties and daily fun.

In the business arena Michael was exceptionally talented as Michael Stevens Interests and its affiliates acquired, developed, and operated more than 80 real estate projects including over 10,000 apartment units and 40 different commercial projects representing more than 10 million square feet of rentable building area. But his greatest contribution was not to his own business, but to the city, state, and nation that he loved. Michael led the financing and development of more than one billion dollars of public or non-profit projects.

Michael Stevens also actively served on the Board of Directors/Trustees and Executive Committee of Baylor College of Medicine, the Greater Houston Partnership and the Governors Business Council. He also served on the Board of Directors of the Memorial Hermann Foundation, Texans for Lawsuit Reform PAC, and the Texas Public Policy Foundation. Michael was recently appointed by Lt. Gov. David Dewhurst to the Sunset Advisory Commission on which he greatly anticipated making a lasting difference in our state's government structure and efficiency.

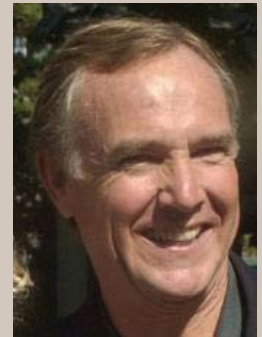
Michael Steven's involvement in state and local transportation issues was extensive. He chaired the Transportation Task Force of the Governor's Business Council, served as Vice Chair of the Greater Houston Partnership Transportation and Infrastructure Advisory Committee, and was on the Executive Committee of the Gulf Coast Regional Mobility Partners. He also served on the Executive Committee of the Texas Urban Transportation Alliance promoting urban transportation efforts statewide and was appointed to serve on the Study Commission on Transportation Financing by Lt. Gov. Dewhurst.

Michael Stevens was a native Houstonian attending Robert E. Lee High School and graduating from the University of Houston in 1973 with a Bachelors Degree in Business Administration. He was honorably discharged from the United States Marine Corps.

His zest for life was contagious to all who knew him especially the children and young people that were drawn to him. Michael was quick to witness that the light in his life came from a deep love of Jesus Christ as his Lord and Savior. His impact in the lives and the face of his community will be felt for generations to come and he will be greatly missed. But that tribute to Michael Stevens is incomplete. How do you measure a man's life? The measure of a man is not how tall he stands, how wealthy or intelligent he was. The measure of a man God knows and understands, for He looks inside to the bottom of his heart ... and what's in the heart defines the measure of a man.

*~This tribute was taken from the service in celebration of the life of Michael S. Stevens.*

## IN MEMORIAM



TPPF BOARD MEMBER

**MICHAEL S.  
STEVENS**

1949-2008

# Texas PolicyCast!

On June 12th, the Texas Public Policy Foundation will release the 100th episode of *Texas PolicyCast*, the Foundation's weekly audio magazine. In a little more than two years, *Texas PolicyCast* has become a potent tool to spread our free-market message. The episode downloads per month have grown from 4,000 to 21,000 since last fall, and the *Texas PolicyCast's* popularity continues to surge.



Recent programs have featured not just the Foundation's policy experts discussing our research finding, but also several of the speakers from our recent Capital Campus and Policy Orientation programs. Lt. Gov. David Dewhurst and Speaker Tom Craddick have also appeared on the *Texas PolicyCast* to discuss their interim priorities.

If you're not already a listener, you can find the *Texas PolicyCast* on our website ([www.TexasPolicy.com](http://www.TexasPolicy.com)) or in the iTunes Music Store ([www.iTunes.com](http://www.iTunes.com)). Both sites have the current edition and an archive of all previous episodes. You can also request a compilation CD of previous episodes by calling the Foundation at 512-472-2700.



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**TexasBudgetSource.com** brings together important information to help you know where and how your tax dollars are being spent.

**TexasBudgetSource.com** is a project of the Texas Public Policy Foundation.

# Calendar

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## **May 29**

Policy Primer: "Keys to State Competitiveness."  
—Foundation Offices, Austin, TX

## **June 9**

Kalese Hammonds, health care policy analyst, addresses the Lago Vista Republican Club.  
—Lago Vista, TX

## **June 16**

2008 Health Care Policy Summit & Roundtable exclusively for Texas legislators and their staff, featuring national health policy experts.  
—Stephen F. Austin Hotel, Austin, TX

## **June 25**

Policy Primer: "Mission Redefinition at the Texas Youth Commission."  
—Foundation Offices, Austin, TX

## **July 9-10**

The Texas Public Policy Foundation along with the Mercatus Center present the 2nd annual Capital Campus Texas event.  
—Westin Riverwalk, San Antonio, TX



## Looking Ahead to 2009!

### **January 22-23, 2009**

The Texas Public Policy Foundation hosts the "7th Annual Policy Orientation for the Texas Legislature."  
—Four Seasons Hotel, Austin, TX

### **January 23-24, 2009**

The first Visionaries Meeting will be held in conjunction with the Foundation's Policy Orientation event. It is an exclusive meeting with special events for our most dedicated benefactors.  
—Four Seasons Hotel, Austin, TX

# Foundation News

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## **J. Kenneth Blackwell Joins Foundation as Visiting Fellow**

Ken Blackwell has joined the staff of the Texas Public Policy Foundation as a Visiting Fellow. He also serves as the Senior Fellow for Family Empowerment at the Family Research Council, the Ronald Reagan Distinguished Fellow for Public Policy at the Buckeye Institute, and a visiting fellow at the American Civil Rights Union.

Blackwell's public service includes terms as mayor of Cincinnati, an undersecretary at the U.S. Department of Housing and Urban Development, and U.S. Ambassador to the United Nations Human Rights Commission. In 1994, he became the first African-American elected to a statewide executive office in Ohio when he was elected treasurer of state. He subsequently was elected to two terms as secretary of state. In 2006, he became the first African-American in Ohio history to be a major party nominee for governor.

Blackwell is a columnist for the *New York Sun*, a contributing editor and columnist for the conservative news and opinion site *Townhall.com*, and a public affairs commentator for the Salem Radio Network.

In 2004, the American Conservative Union and the Ashbrook Center for Public Affairs honored Blackwell with the John M. Ashbrook Award for his steadfast conservative leadership. Past recipients of the award include President Ronald Reagan, Ambassador Jeane Kirkpatrick and Charlton Heston.

Blackwell holds Bachelor of Science and Master of Education degrees from Xavier University (OH), where he later served as a vice president and member of its faculty. In 1992, he received Xavier's Distinguished Alumnus Award. ★



Ken Blackwell

# Applying Free Market Principles and Common Sense to Teacher Compensation

Education = future

by Brooke Dollens Terry

THE CURRENT SALARY SCHEDULE used by 93 percent of public school districts nationwide to pay teachers does not take into account free market principles or reward effective teachers. The salary schedule is a uniform way to pay teachers at each level of experience the same salary regardless of talent, expertise, work ethic, performance review, or individual characteristics. It is essentially a one-size-fits-all approach to compensate teachers.

In this day and age, the public education system has enough challenges—ranging from the dropout crisis in urban public schools to large numbers of students graduating from high school unable to read and write well—to not use the powerful incentive of money to drive changes in teacher behavior and performance that increase student learning, the main goal of the education system.

It is imperative that policymakers and school administrators study the issue and history of teacher compensation, as personnel costs consume the majority of Texas school district budgets. A 2006 Moak Casey and Associates report states that personnel costs such as teacher sala-

ries, administrator salaries, and benefits devour between 80 and 85 percent of school budgets in Texas.

Over the past 150 years, teachers have been paid in a variety of ways. In the mid to late 1800s, teachers living in small farm communities taught a range of ages and abilities in the proverbial one room school house. Many of these young and single teachers were compensated primarily with room and board.

As the 20th century approached, industrialization and the promise of jobs lured people to leave the farm for cities prompting the creation of a new school system that could accommodate large numbers of students. Schools began grouping students by age and teaching a grade-level curriculum. As a result, many teachers were compensated based on the grade-level they taught. High school teachers, having a more specialized expertise, were paid higher salaries than elementary school teachers. This is an example of the free market at work, determining compensation based on skill level and supply and demand for that expertise.

Frustration among teachers over the difference in pay and a desire for uniformity led to the adoption of the single salary schedule. First introduced in 1921 in Denver and Des Moines, the salary schedule swiftly gained in popularity. By 1951, 97 percent of American school districts were using the salary schedule to pay teachers. Currently, 93 percent of public school districts nationwide use some type of salary schedule to determine teacher compensation.

The single salary schedule pays teachers a uniform salary based on years of experience in the classroom and education level, removing the pay differential based on skill level between high school and elementary school teachers. Its design makes two basic assumptions. First, the single salary schedule assumes that teacher effectiveness improves with each additional year of experience in the classroom. Second, it assumes that possession of an advanced degree leads to higher teacher quality.

Since its adoption, many education scholars have investigated whether rewarding longevity and advanced degrees leads to more effective teachers and



smarter kids. Research clearly demonstrates that both assumptions are faulty. Well-respected education scholar Eric Hanushek of the Hoover Institution at Stanford University finds that teachers reach full effectiveness after four years. Thus, generally speaking, a teacher with 25 years of experience is no more effective than a teacher with 15 years of experience. Yet, the salary schedule rewards longevity, through as many as 40 steps, as if each additional year in the classroom leads to a more effective teacher.

Secondly, research by Hanushek and Steven Rivkin, of Amherst College, finds that possession of a master's or doctorate degree has no impact on teacher effectiveness and does not translate into increased learning in the classroom. Nonetheless, many salary schedules and school districts reward teachers for additional degrees with an extra \$1,000 or \$2,000 yearly stipend.

Another flaw of the salary schedule is that it pays all teachers the same salary at each step on the schedule without regard for their ability to teach. All teachers are not the same. Yet the single salary schedule treats both effective and ineffective teachers equally, giving them the same salary increase each year regardless of their performance review.

In contrast, the private sector commonly rewards performance and results with bonuses and raises tied to positive performance reviews. The same should hold true for education. Outstanding teachers have a significant impact on raising student achievement and deserve to make considerably more money.

In fact, the single salary schedule may actually exacerbate the problem it was intended to solve by blindly ignoring merit and paying mediocre and outstanding teachers the same. An outstanding teacher who works hard year after year to improve the minds of her students may look elsewhere for work after years of her contribution going unnoticed. This

lack of recognition and monetary reward chips away at the enthusiasm and zeal of our best teachers encouraging them to seek a more lucrative job as a school administrator or in the private sector where results are rewarded.

The state of Texas has a statewide minimum salary schedule with 20 steps that applies to full-time teachers, librarians, counselors, and nurses. This minimum salary schedule works as a type of minimum wage by requiring that all public schools pay at least a certain salary at each step on the salary schedule. For example, Texas public schools cannot pay teachers, librarians, counselors or nurses less than \$27,320 as a starting salary anywhere in the state. At step 10 on the salary schedule, teachers, librarians, counselors, and nurses cannot make less than \$37,040 a year. The top step on the state salary schedule, step 20, requires teachers, librarians, counselors, and nurses to make at least \$44,270 a year.

## **All teachers are not the same. Yet the single salary schedule treats both effective and ineffective teachers equally, giving them the same salary increase each year regardless of their performance review.**

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Since most Texas school districts pay higher starting salaries than the state minimum salary, many do not pay their employees off of the state minimum salary schedule. Instead, they use it as a guide for designing their own salary schedules. There is great variety in the number of steps on district salary schedules. For instance, Waco ISD's salary schedule has 26 steps; Fort Worth ISD's

salary schedule has 40. In addition, many district salary schedules have an additional column or stipend for advanced degrees.

Some innovative school districts are employing free-market tactics and paying additional money above the salary specified on the salary schedule to aid them in hiring teachers for specific purposes. To compete with other school districts jockeying for the best new teachers, some school districts pay large signing bonuses. To attract teachers in the shortage areas of math, science, bilingual education, and special education, some school districts pay teachers a yearly stipend ranging from \$500 to thousands of dollars. To encourage teachers to teach at challenging schools, some school districts pay teachers an additional stipend of several thousand dollars, sometimes referred to as combat pay. To recognize, reward, and keep their best teachers in the classroom, some school districts are designing objective criteria to determine the quality of a teacher and then paying out substantial bonuses to teachers that meet those criteria.

Throughout the history of our nation, the system of schooling and teacher compensation have varied and changed to fit the needs of the time. The current single salary schedule, introduced more than 85 years ago, was designed for another era. It is outdated and ineffective. While well-intentioned, the salary schedule is rigid and inflexible to market demands, unable to reward excellent teachers, and has no relation to a teacher's ability to improve student learning.

Despite enormous challenges facing schools and limited financial resources, the majority of Texas school districts do not link a teacher's annual performance review to their compensation. Instead, many school officials and publicly elected school board members choose to tie their hands by adopting their own salary schedules and paying teachers with this antiquated system. The salary

*continued >>*



The goal of every Texas school should be to raise student achievement in the classroom. Research clearly identifies the quality of a student's teacher as the single-most important school-related factor in raising student achievement.

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schedule consumes enormous resources by giving teachers a salary increase every year as they all increase one step and is not directly tied to improving teacher quality and improving the minds of their students. Schools interested in trying innovative free-market strategies to improve student achievement might have trouble finding the resources if they are locked into the automatic pay raises that accompany salary schedules.

The mammoth national teacher union, the National Education Association, with more than 3.2 million dues-paying members, defends the use of the salary schedule arguing that it is the fairest way to pay teachers, easy to administer, and requires less time to evaluate employees.

The goal of every Texas school should be to raise student achievement in the classroom. Research clearly identifies the quality of a student's teacher as the single-most important school-related factor in raising student achievement. After a child's parent, teachers have the most impact on their intellectual growth. Scholar Marie Gryphon finds that "raising the quality of teaching is one of the most important ways that

policymakers can improve educational outcomes for students." All students deserve the opportunity to have an outstanding teacher every year. Yet many education policies and pay structures are focused on fairness and uniformity at the expense of our children.

Beware of legislative recommendations to add steps to the salary schedule, raise the minimum salary at each step on the schedule, and increase the number of employees paid with a salary schedule. All of these only restrict the flexibility of local school officials by adding mandates on how they pay teachers and other school personnel.

State policymakers wanting to increase local control and flexibility should abolish the statewide minimum salary schedule and stop passing statewide across-the-board pay raises. Both of these policies restrict the flexibility of local schools to make their own decisions on how best to attract, pay, and retain teachers.

Local school officials grappling with how to make the most of their limited resources and trying to increase student

learning could free up a considerable amount of resources by not continuing to adopt and use a salary schedule. This policy change would need a well-designed transition plan such as freezing all teacher salaries at the current level, not paying any new teachers on the salary schedule, and tying all future raises to positive performance reviews. The cost savings could be effectively targeted towards filling math and science shortages by paying shortage stipends, rewarding excellent teachers with raises or bonuses, and encouraging strong teachers to work in challenging schools.

If Texas truly wants to have a first-class education system, it must revitalize its teacher compensation structure to attract, reward, and retain the highest quality teachers possible. ★

*Brooke Dollens Terry is an education policy analyst in the Center for Education Policy. She can be reached at [bterry@texaspolicy.com](mailto:bterry@texaspolicy.com).*

*All of the Foundation's commentaries and publications on education policy can be found at [www.texaspolicy.com](http://www.texaspolicy.com).*

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☞ Shari Hanrahan, Vice President of Outreach

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# SAVE THE DATE

## 7th Annual Policy Orientation for the Texas Legislature & *Visionaries Meeting*

January 22-23, 2009  
Policy Orientation



January 23-24, 2009  
Visionaries Meeting

Four Seasons Hotel  
Austin, Texas

The Texas Public Policy Foundation is excited to announce its first *Visionaries Meeting*. This meeting is in conjunction with the Foundation's 7th Annual Policy Orientation for the Texas Legislature—an annual event which brings together lawmakers, policy experts, and interested citizens from across the political spectrum to discuss the most critical issues facing the state.

The *Visionaries Meeting* will take place at the luxurious Four Seasons Hotel on January 23-24, 2009. It is an exclusive meeting with special events for our most dedicated benefactors. Together, we will celebrate our biggest wins and discuss the Foundation's 2009 strategy, while enjoying the fellowship of others dedicated to freedom in the dynamic city of Austin.

If you are interested in attending either or both of these events, please contact Angie Choueifati for more information at [achoueifati@texaspolicy.com](mailto:achoueifati@texaspolicy.com).

To share *Veritas* with a friend, send their name and address to [veritas@texaspolicy.com](mailto:veritas@texaspolicy.com).



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