



Summer 2006

VERITAS

Texas Public Policy Foundation

John Stossel pays visit to Houston, Foundation donors

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Foundation president, Brooke Rollins, introduces John Stossel, ABC News correspondent, 20/20 co-anchor, and author before he speaks to Foundation donors at a Houston fundraising event.

A complete interview with John Stossel, ABC News correspondent, 20/20 co-anchor, and best-selling author is available for download at: www.TexasPolicy.com/policycast/.

Texas PolicyCast is a weekly audio series of the Texas Public Policy Foundation that explores the most timely issues facing the Lone Star State.

From public education to bottled water, popular views affecting culture and policy are often shaped as much by myth as by truth, according to ABC News correspondent and best-selling author, John Stossel, guest speaker at a recent Foundation event in Houston.

Stossel offered an informative, enlightening, and highly entertaining look at the myths permeating our society, including a look at the true state of education in America. He emphasized the acute need for school choice and competition in the education arena. Stossel remarked on the fact that the countries that continue to beat us on international tests are those that allow

school choice. "In countries where the dollars are attached to each kid and they can take it to any school they choose, public or private, and there is competition, those are the countries that are cleaning our clocks and spending less doing it."

Stossel also emphasized his appreciation for independent think tanks like the Texas Public Policy Foundation. "We need independent people doing real research—done by clear thinkers that understand limited government and free markets."

Stossel will return to the Lone Star State and the Texas Public Policy Foundation as keynote speaker at the 5th Annual Policy Orientation, February 7 & 8, 2007.

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Texas Public Policy Foundation *Mission*

The Foundation's mission is to improve Texas by generating academically sound research and data on state issues, and by recommending the findings to opinion leaders, policymakers, the media, and general public.

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Veritas is a quarterly publication of the Texas Public Policy Foundation. *Veritas* focuses on the critical issues facing public policy in Texas. Subscribe to this publication by contacting the Texas Public Policy Foundation at (512) 472-2700 or at our website: www.TexasPolicy.com.

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Mission Statement

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of limited government, free markets, private property rights, individual liberty, and personal responsibility.

The Foundation's mission is to improve Texas government by generating academically sound research and data on state issues, and by recommending the findings to opinion leaders, policy makers, the media, and general public. The work of the Foundation is conducted by academics across Texas and the nation and is funded by hundreds of individuals, foundations, and corporations. The Foundation does not accept government funds or take contributions to influence the outcomes of its research.

Welcome Message

Impacting the Future of Texas and Future Generations

By Michael Quinn Sullivan, Vice President

Usually this space is reserved for words *from* our president, Brooke Rollins, but for this issue of *Veritas* we want to offer something *about* her.

This summer the Foundation's extended family grew as Brooke welcomed her second son, Jake Rollins, to the world. Both mother and son are healthy, while Brooke's husband, Mark, and older son, Luke, are helping keep the Rollins house humming. As you can imagine, Brooke's summer has been rightly focused more on young Master Rollins than on public policy issues.



Even still, Brooke's example has been an encouragement to all. She daily checks in on the office, makes phone calls and has even found time between diapers for a radio interview, several conference calls and a host of e-mails. Her commitment to the values and principles of the Foundation are reflected in her willingness to review reports at 2 a.m. while burping the baby, and checking on the progress of various initiatives when she could instead be resting.

But Jake's birth serves to remind us all why we are involved in the battle of ideas in the first place. Gazing into the fresh eyes of our children reminds us that the values and principles we strive to implement are not our masters, but rather the guideposts to our desires. We seek to build a Texas that affords boundless opportunities to the next generation. One that sees people not shackled by chains of dependency, but freed to express their talents and skills and explore the potential endowed upon them by their Creator.

Seeking to infuse the principles of liberty and economic freedom into public debate is fine for its own sake. But it is even more exhilarating when we consider the legacy such principles build for the sake of our posterity. We are truly making a difference!

And for that we are grateful to the many donors who sacrifice much so that we can do this work. The generous gifts we receive allow us to positively impact the future of Texas—and by extension—the nation.

For our children and for their generation, we have the privilege and obligation to strive for a better, brighter future.

“Seeking to infuse the principles of liberty and economic freedom into public debate is fine for its own sake. But it is even more exhilarating when we consider the legacy such principles build for the sake of our posterity.”

Flamboyant Giving

Uncharitable use of tax dollars demonstrates strength of private charity

By Mary Katherine Stout



Mary Katherine Stout is the director of the Center for Health Care Policy Studies at the Texas Public Policy Foundation.

“Lawmakers arrogantly compel each of us to generously support their philanthropic efforts, often spending the money with a glaring lack of accountability.”

Preeminent economist and social commentator Thomas Sowell once described the welfare state as “the oldest con game in the world. First you take people’s money away quietly and then you give some of it back to them flamboyantly.”

Sowell’s words were brought to life in recent weeks by the United States Government Accountability Office’s audit of the FEMA hurricane disaster relief boondoggle. Indeed, it seems that government’s flamboyant generosity was matched only by the flamboyance with which it was exploited by recipients.

According to the June 2006 audit, debit cards provided to those displaced by Hurricanes Katrina and Rita were used to purchase all manner of adult entertainment, jewelry, vacations, spirits, and the services of a divorce lawyer in Houston, among other things. The auditors add their seemingly deadpan conclusion that such expenses were “not necessary to satisfy legitimate disaster needs.”

In addition, the audit details millions of dollars of likely fraud, waste and abuse stemming from the government’s disaster relief efforts, citing everything from \$1.5 million in lost debit cards, to paying \$20,000 to a Louisiana prisoner reporting his post office box as damaged property. The audit also revealed that FEMA did not validate the identities of those registering for assistance, nor did they validate claims of damaged property. Reports from CNN and the Associated Press noted that there was so much information missing GAO auditors could not be certain how many people “double-dipped,” and at what cost to the taxpayer.

It is an interesting lesson for all who believe compassion is measured by government

spending. Lawmakers arrogantly compel each of us to generously support their philanthropic efforts, often spending the money with a glaring lack of accountability. Who should have been surprised that in its haste to show its big heart, the government lost millions of dollars in debit cards and fraudulent payments?

Interestingly, only days after the FEMA audit made headlines, the Giving USA Foundation reported that Americans donated more than \$260 billion in 2005, missing the inflation-adjusted all-time high set in 2000 by less than \$300 million. And for those who would assume that charitable giving was the result of natural disasters, the report noted that relief for natural disasters like the hurricanes, the tsunami in Asia and the earthquake in Pakistan generated significant giving, but accounted for only \$7.37 billion—less than 3 percent of total giving.

So what can these stories teach us? First, that Americans are charitable when they perceive a real need. Class warfare rhetoric to the contrary, the reality is that most people do not begrudge helping others, but chafe at the idea of government directing philanthropic efforts to determine who and what will receive our tax dollars.

Second, private charities compete with one another, and those that squander donors’ generosity will eventually find themselves unable to attract new donors. The government does not have this problem. The government’s “donors” are taxpayers compelled to give generously of the fruits of their labor. There is no regard for whether government “charity” comports with the taxpayers’ values, much less whether the spending is effective or efficient.

Therein lies the third lesson: people give from the heart while government gives to

“Flamboyant redistribution of wealth underlies every appropriations debate whether earmarking funds for social welfare programs or pork barrel spending for Alaska’s famed ‘bridge to nowhere.’”

get political credit. Flamboyant redistribution of wealth underlies every appropriations debate whether earmarking funds for social welfare programs or pork barrel spending for Alaska’s famed “bridge to nowhere.”

Had a charity’s name, instead of FEMA, been splashed across the news for such appallingly bad oversight and sheer waste there is little doubt their donations would dry up and lawsuits filed against the managers. Government, however, lives to tax and spend another day.



Mary Katherine Stout is the director of the Center for Health Care Policy Studies at the Texas Public Policy Foundation. Contact Mary Katherine Stout at: mkstout@texaspolicy.com.

SPECIAL SESSION *Summary*

Education reforms and changes to the state’s tax system were enacted by lawmakers during the recently concluded special session, with the Foundation playing a key role in both facets of the school finance debate.

During the four-week special session, the Foundation’s chief economist, Byron Schломach, and education analyst, Jamie Story, testified almost a dozen times before various House and Senate committees. Foundation experts were also featured in numerous newspapers and radio interviews, as they offered research-based analysis, insight and recommendations.

While numerous education reforms were put in place, the most significant is an improvement in the way teachers are compensated. Texas legislators approved the most comprehensive merit pay program for teachers in the United States. While the program is still under development at the Texas Education Agency, it represents a strong step in the right direction.

At the same time, several key tax issues promoted by the Foundation were included in the final package signed by the Governor:

1. \$2.4 billion of surplus funds were used for property tax relief;
2. Taxpayer protections, including requirements that all revenues from the new business tax be dedicated to property tax relief; and
3. The roll-back rate for local school districts was tightened, providing a stronger measure of relief for property owners suffering under quickly-rising property valuations.

Additionally, the final tax package does provide, in the first year, a net tax decrease for Texans. This is welcome news for the state’s economy. (See the chart for a brief description of the final legislation that made up the school finance/education reform package.)

The Foundation was also active on other fronts during the special session, as lawmakers met in interim committees.

Bill Peacock of the Center for Economic Freedom testified before House and Senate committees on several occasions and met with lawmakers, as did Marc Levin of the Center for Effective Justice and Mary Katherine Stout of the Center for Health Care Policy.

Legislation Passed During the Special Session

| Legislation | Features |
|--------------|--|
| House Bill 1 | Utilizes the \$2.4 billion of the surplus to buy-down property taxes. Also includes the creation of a merit pay system for teachers. |
| House Bill 2 | Allocates the business, cigarette, motor vehicle/liars affidavit taxes to property tax reduction. |
| House Bill 3 | Revamps the franchise tax, bringing in double the number of businesses. |
| House Bill 4 | Increases the motor vehicle/liars affidavit taxes. |
| House Bill 5 | Increases cigarette taxes. |

A Conversation With... Diane Rath, Chair of the Texas Workforce Commission

By Michael Quinn Sullivan



Diane Rath, Texas Workforce Commission Chair, speaks with Foundation vice-president, Michael Sullivan, as part of the Texas PolicyCast series.

Texas Workforce Commission Chair Diane Rath has charge over a state agency that oversees 28 different programs, with 3,400 employees, and an annual budget of \$1.1 billion.

Since her appointment in 1996 to the Commission, and subsequent rise to the chair in 1998, she has developed a reputation for cutting bureaucracy and implementing

strict measures of accountability and performance. Her strong leadership and commitment to fiscal accountability and market-based principles has earned her equal helpings of scorn and praise, but her principle commitment has been to ensuring taxpayers are well-served by the Commission.

This is only an edited portion of a complete discussion the Foundation's vice president, Michael Quinn Sullivan, had recently with Chair Rath, in which they discussed the principles of government in greater depth, while also exploring the work of the Texas Workforce Commission. The conversation is available online, featured as part of the weekly Texas PolicyCast program. Every Thursday, a new edition is presented, focusing on the issues facing the Lone Star State. You can find this interview and other editions at www.TexasPolicy.com/policycast/.

Michael Quinn Sullivan: Tell us about the core principles that drive your work in leading the agency.

Chair Rath: I think the personal philosophy of any individual who holds office or is in a senior leadership position in government

is very important, because that provides the compass by which that individual can make their decisions and can give consistency no matter what the subject matter. I think that it is very important that government should do a few things, but do them very well. It is a very limited role and the best government is that which is closest to the people. We always must remember that it is the individual and his family that is the cornerstone of society. Each individual is accountable for their decisions and choices, and therefore will suffer or be rewarded by those decisions.

Sullivan: Our ideological opponents tell us the best measure for government success is growing the size of government. Yet at the Workforce Commission, you have managed to reduce the size of the bureaucracy while actually increasing the delivery of services available to Texans. How have you been able to do that?

Rath: It takes day to day attention, and it is an ongoing battle. It is an ongoing battle because very few conservatives choose a career in public service or in government, so the bureaucracy of state agencies are made up of people who oppose limited government and are on a mission to expand government. That is important when you reflect that Texas government historically is run by policy boards who are part-time volunteers. So in essence they are held captive to the information their staff are providing to them. I have had the great luxury of being in office long enough to learn the details of our programs and be able to consider other ways of doing business—other ways that we can focus on providing services in the most efficient and cost effective manner possible.

“We really view welfare as being a temporary assistance during a time of crisis, not a permanent lifestyle choice.”

Sullivan: I would think that in those early years of your chairmanship that there was a great deal of institutional opposition. It seems like it would have been easier to say, “I don’t need this hassle.”

Rath: I used to say I was really a full-time detective because you had to read every document and closely oversee the implementation of the policy. Governing bodies can adopt all the policies they want to, but they are either ignored or implemented in a way that isn’t consistent with the conservative philosophy that drove those decisions. ... I always say that the highest compliment I was ever paid, when I was reappointed to my second term, was the number of long-time staff that transferred, retired, or resigned. I figured they could stand me for two or three years, but when it came time for six more years, they weren’t going to bite that bullet! That made a tremendous difference in how the agency was able to move forward and made it much easier to not have to fight that constant battle on how policies are being developed and implemented.

Sullivan: You have been the chair during interesting budget times. In 2003, the state had a \$10 billion shortfall. Just last month, the governor and LBB (Legislative Budget Board) asked agencies to prepare next biennium budgets with a 10 percent reduction in mind. How do you go about setting budget priorities in that context?

Rath: I come from the private sector, so we really took that same philosophy and same approach and tried to use it within state government. That meant that we start at zero and look at what services we needed to deliver to Texans and how to do that, maximizing the

funds ... not build a bureaucracy. Our priority was on maximizing that value. We realized that our two most important goals are to enable the individual to be self-sufficient and to allow Texas to be competitive. So those are our two priorities.

Sullivan: You have had great success in recent years implementing welfare reform and improving the unemployment insurance program.

Rath: Under then-Governor Bush, Texas embarked on welfare reform in 1995 so we had a head start on the federal government. We really view welfare as being a temporary assistance during a time of crisis, not a permanent lifestyle choice. We realize that when we are working with individuals who are at a crisis point, we want to be sure they have that safety net, but much more importantly that they have the skills and talent to be self-sufficient for themselves and, very importantly, for their children in the future. So everything we do is based on personal responsibility and self-sufficiency. Recognizing we have a very limited time, we are trying to empower that individual to make wise decisions in the future. We have a work-first approach. There is extreme dignity associated with work, and value associated with work. We have cut the welfare roles by over 70 percent, a tremendous accomplishment.

Unemployment insurance is one of the programs that doesn’t get discussed very much. When I was first appointed, employers had a very negative view of our system. They thought it was a very claimant biased system, and frequently they would not even participate in our hearings because they thought it was a total

“We have a work-first approach. There is extreme dignity associated with work, and value associated with work. We have cut the welfare roles by over 70 percent, a tremendous accomplishment.”

Continued on next page

A Conversation With... continued

“We need to look at where we get the biggest value for that investment of the very rare and special tax dollars, always remembering that those dollars come out of somebody’s pocket.”

waste of time. I’m committed to making sure we have a fair and balanced system, that each decision is made on the facts presented in that case and that it is a level playing field. It helps too if we reflect on the role of unemployment insurance to provide very temporary assistance for individuals and their communities who lose their jobs through no fault of their own. Again, we emphasize the importance of connecting rapidly to work and going back to being self-sufficient and regaining that dignity.

Sullivan: What issues are you hoping the legislature will address in the next session?

Rath: We need to continue to reexamine

the welfare system. We need to continue to demand that individuals be accountable. We must put the emphasis on preventing fraud and abuse on all our programs, across the board. We need to look at where we get the biggest value for that investment of the very rare and special tax dollars, always remembering that those dollars come out of somebody’s pocket. I always stop to think: Is what I’m doing worth taking money away from somebody else? Is it worth—on the unemployment insurance—that employer not having those dollars to invest, and instead paying taxes with it?

Listen to the complete interview at: www.texaspolicy.com/policycast/.

Foundation Profile: Byron Schlomach, Ph.D.

Byron Schlomach is the chief economist for the Texas Public Policy Foundation, and the director of the Center for Fiscal Policy Studies.

Raised in Texas, Byron received both his bachelor and doctorate degrees in economics from Texas A&M University.

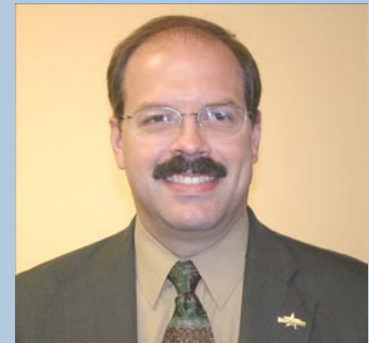
Byron came to the Foundation from the Texas Education Agency. He previously served as a long-time staff member in the Texas Legislature as the chief of staff to State Rep. Kent Grusendorf, chairman of the House Committee on Public Education.

Previously, Byron was a researcher in the Office of the Texas Comptroller. There he conducted research into a variety of issues including education finance and transportation, and was the principal author of a study examining public school start dates.

Byron has also served as an assistant lecturer in the Texas A&M Department of Economics, and continues to teach at Austin Community College.

Byron was named a “Senior Fellow” by the Foundation in 2002 before joining us full-time in December 2003.

Byron and his wife home-school their children. They live in Hays County.



Byron Schlomach, Ph.D.

Donor's Corner

J. Evetts Haley, Jr.

By Shari Hanrahan, Director of Development

Since 1951, J. Evetts Haley, Jr. has been a rancher—his family has been ranching for more than 60 years. Fast forward to 2006 and he is involved in extensive mineral development. It's no wonder Haley believes private property rights are the most essential component of living the life of a free man.

"I don't want government telling me how to run my business or manage my property, or setting foot on my ranch without my permission," explains Haley. Working with the land is in Haley's blood. And now, so is the Texas Public Policy Foundation, which fights daily for his rights and those of all Texans.

"I don't want government telling me how to run my business or manage my property, or setting foot on my ranch without my permission."

A member of the Foundation's elite "1876 Society," Haley gives to many causes and organizations that successfully impact policy debates. He deems many worthy of his support, "but I expect to continue to support the Texas Public Policy Foundation consistently and indefinitely."

Why? "I have come to trust the judgment calls of the Foundation on the issues before the Legislature,"

remarks Haley. He adds that if he disagrees, the Foundation leaders listen dutifully and respectfully to other reasoning. He also feels a personal connection with Foundation president Brooke Rollins. Finally, he believes the Foundation is "well-managed from a fiscal standpoint and gets the most production and action possible from a limited budget."

In addition to private property rights, one of Haley's chief concerns is the avoidance of any type of state income tax—something the Foundation has championed for more than 17 years.

Headquartered in Midland with his wife Frances since 1984, Haley feels at home in the city whose first elected mayor was his grandfather. His family was ranching in the Texas Panhandle before moving on to Oklahoma in 1954. Haley returned to Texas in the late '70s as the principal overseer of a ranch in Loving and Winkler Counties in West Texas, of which he was the third generation in his family to manage.

In 1982, his ranching interests returned to the Texas Panhandle when he purchased 14,000 acres in Gray County, before handing active management over to his sons, Jim and Jeff Haley. His daughter and son-in-law, Mary Ann and Tom Cosner, continue to operate the Oklahoma property.

Haley encourages others to support the Foundation. "Taxpaying Texans



J. Evetts Haley, Jr., supporter of the Texas Public Policy Foundation and the principles of limited government and private property rights.

benefit from having the Texas Public Policy Foundation do its careful research and make its findings available to members of the Legislature. Most do not have the time or resources to search deeply for the answers to Texas' most perplexing problems."

"Taxpaying Texans benefit from having the Texas Public Policy Foundation do its careful research and make its findings available to members of the Legislature."

Thank you, Mr. Haley. We appreciate your support!

Choice Is the Best Choice for Teachers

Competition for Teachers Will Improve Pay, Working Conditions

By Jamie Story



Jamie Story is a policy analyst in the Center for Education Policy Studies at the Texas Public Policy Foundation.

“School choice generates competition for excellent teachers, who can in turn command better salaries and working conditions.”

While the idea that teachers need to fear school choice pervades the press, nothing could be further from the truth.

Indeed, school choice will set teachers free.

The benefits of school choice to children—both to those who choose to attend an alternate school and those who are happy where they are—have been researched and well-documented. In public schools faced with competition, students demonstrate increases in test scores, graduation rates, and expected future earnings.

However, students are not the only ones who benefit from school choice. Research shows teachers benefit as well.

In fact, school choice will revolutionize—and professionalize—careers for educators.

Public education is a monopoly, for both those seeking an education (students) and those called to provide it (teachers). Compulsory attendance results in 90 percent of Texas children being educated by public schools, while teachers have no real choice for employment.

Someone passionate about teaching must either agree to a standard contract and salary schedule, or find another profession. The only way to get a raise is to move or attain another degree. A lack of competing employers within communities ensures teacher wages are artificially compressed.

Under school choice—whether through vouchers, charter schools, or public school transfers—no school would be guaranteed a captive group of students or teachers.

Real-world economic experience demonstrates that schools facing competition will place an emphasis on improving education quality in order to attract students. As such, the most successful schools will be those that hire and retain the best teachers. School choice generates competition for excellent teachers, who can in turn command better salaries and working conditions.

School choice will allow teachers to choose the teaching environment that best fits their skills and preferences, with fewer administrative burdens, greater flexibility in the classroom, and stronger control over student discipline.

Researchers at Ohio University have found that teacher salaries rise as competition increases. Other research shows class sizes are smaller in public schools facing competition, appealing to some parents and teachers alike. Alternatively, school choice could even allow excellent teachers to accept larger classes of willing students, and to be compensated accordingly.

Not only will a market-based system improve conditions for existing teachers, but it will attract bright, new teachers to the field.

As is typically the case in government, regulations limit the flexibility of public schools, especially with regard to teacher pay. The minimum salary schedule leaves districts with virtually no freedom to adjust pay for variables such as unique skills, private sector experience, or demonstrated excellence.

The current system pays all teachers the same, regardless of grade level, subject, or effectiveness. Consequently, schools find it increasingly difficult to attract top college

graduates, especially those with skills in shortage areas such as math and science.

Through school choice, teaching will offer a true employment choice for our best and brightest.

Competition creates better working conditions, more competitive salaries, and greater public esteem for teachers. School choice will free teachers for a better professional future.

Jamie Story is a policy analyst in the Center for Education Policy Studies at the Texas Public Policy Foundation. Contact Jamie Story at jstory@texaspolicy.com.



“Competition creates better working conditions, more competitive salaries, and greater public esteem for teachers. School choice will free teachers for a better professional future.”

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- Founder’s Circle: \$25,000 and above

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Mark Your Calendars

2006 Policy Primer Series

The *2006 Policy Primer Series* is underway with a wide variety of topics sure to be of interest and importance in the 80th Session of the Texas Legislature.

September: *Giving Victims a Voice* (Center for Effective Justice)

October: *Waging the War of Ideas* (Dallas-John Blundell, Institute for Economic Affairs)
Price & Quality Transparency in Health Care (Center for Health Care Policy)

November: *Property Rights in the 80th Legislature* (Center for Economic Freedom)

December: *Tax & Expenditure Limits* (Center for Fiscal Policy)



5th Annual Policy Orientation for the Texas Legislature

Each year, the Texas Public Policy Foundation brings together legislators, experts, and the public to discuss policy issues that directly impact economic health and prosperity in the Lone Star State. Join us for this two-day forum featuring John Stossel, *20/20* cohost and author, and many others.

February 7 & 8, 2007

Austin Marriott at the Capitol

Austin, Texas



Looking Ahead... a sample of 2006 Foundation research

Education

Post Secondary Math-Science
End-of-Course Tests
Bilingual Education
Education Reform Blueprint

Health Care

State Employee Benefits
Health Savings Accounts (HSAs)
Health Insurance Regulation
Price & Quality
Innovation & Competition

Economic Freedom

Universal Service Fund
Private Property Rights
Electricity
Telecommunications

Effective Justice

Private Facilities & Programs
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