



# Public Policy:

Current Thinking on Critical Issues

Fall 2006

Schelling on

## Nuclear Deterrence

Besharov on

## Early Childhood Education

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## From the Dean:

During my short tenure as dean of the Maryland School of Public Policy, I have been impressed and gratified by the diversity and quality of intellectual activity within the school. We have the good fortune to be located just a short Metro ride away from the White House, Congress and a multitude of federal agencies, international organizations, think-tanks and nongovernmental agencies. Many of our most distinguished scholar-practitioners have worked at high levels in one or several of these organizations; some continue to do so. This gives our faculty—and students—a strong advantage and considerable access to the people who are formulating and implementing public policy at every level.

This publication highlights some of the controversies most current in the power circles of Washington, D.C., and in the news headlines. The authors are experts in their fields, with long experience and substantial research portfolios behind them. Their thinking on the critical issues of the day is both powerful and personal. It is our hope that you will enjoy these “briefings” and gain a better understanding of the knowledge that guides our policies both here and around the world.

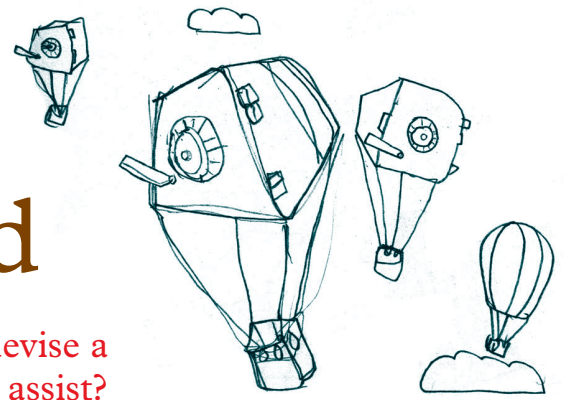
Steve Fetter

*Dean, Maryland School of Public Policy*

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# Social Security: Big Choices Ahead



Social Security reform is inevitable, but can we devise a strategy that will protect those it was designed to assist?

by Kenneth S. Apfel

It is hard to overstate the importance of Social Security. Without those monthly benefit payments, half of all older Americans would be living in poverty. Social Security provides the foundation of support for about one in six Americans—with benefit protections available over a lifetime. Our social insurance programs are critically important not only for older Americans, but also for the disabled, widows and families with children.

Social Security will also be important to future generations of retirees. It is true that more individuals are coming to rely on individual savings for retirement security, given the erosion of employer-based pensions. But the continued shift of retirement risks away from employers and toward individuals makes that monthly inflation-protected Social Security benefit—something that can be counted on over a lifetime—all the more important for future generations.

How serious is the Social Security financing problem? Are major changes required? Would moving to a system of private accounts improve future benefits? And what should we do to ensure that we have a solid foundation of support for future generations?

## Are Major Structural Changes Required?

Our aging population will create real pressures on Social Security financing. It is prudent to take action to stabilize the system over the long term. While changes are certainly needed, evidence shows that the Social Security financing shortfall is manageable without major structural changes.

According to Social Security actuaries as well as the Congressional Budget Office, the Social Security deficit over the next 75 years translates into about one half of a percent of GDP. Even if one uses a longer time frame, the shortfall is still only a little over one percent of GDP. Social Security revenues now amount to about five percent of GDP—that's the price that we as a society have been paying to provide basic economic security for millions of elderly and disabled Americans and their families. Is six percent of GDP too much to pay for basic economic security? Will an additional one percent of GDP devoted to Social Security greatly weaken the economy? I think not.

We may choose to significantly restructure the Social Security system, but it is only one choice we have among many. It's just not the case that the demographic challenge we

face compels us to significantly change the core structure of Social Security.

## Would Private Accounts Improve Social Security?

Benefit commitments would have to be sharply curtailed if we replace part of Social Security with private accounts. At present, Social Security on average replaces about 40 percent of preretirement earnings, with higher rates for low wage earners and lower rates for high earners. Financial planners, meanwhile, indicate that postretirement income should replace about 70 percent to 80 percent of preretirement income to be adequate. If we moved to a private accounts scheme, Social Security's "replacement rate" would be cut in half over the long term.

Replacing part of Social Security with private accounts shifts too much retirement risk to individuals. Retiring in a time of down market conditions could be disastrous. Private accounts add other risks as well: the risk that the cost of annuities will be very expensive if interest rates are low at the time of retirement, the risk that annuities will significantly decline in value if inflation is high after retirement and the risk that people may outlive their savings.

During my years as Commissioner of Social Security, I met the head of Chile's privatized system during an economic downturn. At the time, he was publicly urging older workers to delay retiring until economic conditions improved so workers would not receive inadequate retirement benefits. This senior government official was urging older people to keep working until the markets came back.

Do markets bounce back quickly? Sometimes they do. And sometimes it takes many, many years. The problem, of course, is that we can't predict future market conditions. No future Social Security commissioner ought to be caught in the bind of having to urge America's older workers to "just keep working until the markets come back." Social Security ought to represent a foundation of support that can be counted on over a lifetime in retirement no matter what happens to the markets.

## What Should We Do?

First, those closer to the left of the political spectrum need to give up the notion that future Social Security benefits should never be reduced—even modestly. Social Security benefit growth will have to be slowed, particu-

larly for middle- to higher-wage earners. In addition, we may need to see further increases in the retirement age, but only if we can develop ways to liberalize our disability system so that older workers with impairments are not penalized. People with higher earnings are living longer lives on average than lower income workers, so higher income workers are receiving an increasingly higher share of Social Security benefits over their lifetimes. In effect, the Social Security benefit structure is becoming less progressive over time. Future benefit changes need to make the system more progressive.

Second, the political right needs to give up the notion that future Social Security taxes should never be increased—even modestly. Over the next several decades, Social Security taxes are projected to decline as a share of our economy. With a doubling of the senior population, more revenue over the long term will be needed, not less. We can and should raise payroll tax rates by a few tenths of a percent and raise the income ceiling on payroll taxes. These tax increases would be comparable to restoring about a third of the tax cuts enacted in recent years. Finally, if we want to increase returns for

Social Security, some new Trust Fund revenues could be invested not only in government bonds but also in equities.

Third, while both sides of the political spectrum seem to realize that we need stronger retirement savings, we ought to do it the old fashioned way—by reducing consumption. Most proposals to expand retirement savings or to privatize Social Security do so through massive government borrowing. If added retirement savings for low and moderate income workers is desired—and it should be—it should not come at the expense of Social Security or the federal debt. Instead, we should make changes in our retirement savings system and then pay for the changes so that added government borrowing does not undo the benefits of expanded private savings.

The retirement challenge that we face is significant but manageable. Let's not create a much bigger challenge by privatizing the Social Security system. Social Security provides the foundation of support in retirement. Let's keep the word "secure" in Social Security for future generations. **P**



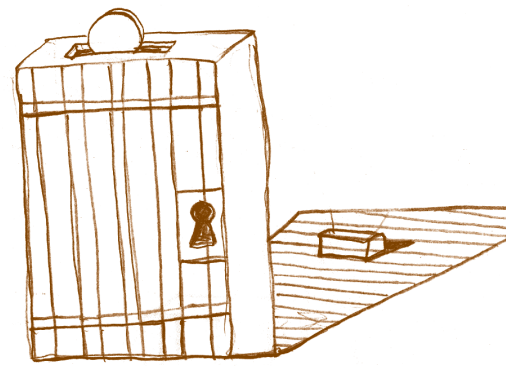
*Kenneth S. Apfel*, Professor of the Practice, Maryland School of Public Policy and former Commissioner of the Social Security Administration

Kenneth Apfel joined the School of Public Policy in 2006, bringing expertise in public management, leadership, aging, health care and retirement. He was the first Senate-confirmed commissioner of Social Security after SSA became an independent agency and the new Cabinet-level position was authorized by Congress. He served in that capacity from 1997 to 2001. Previously, he had served as associate director for Human Resources at the U.S. Office of Management and Budget, and as assistant secretary for Management and Budget at the U.S. Department of Health and Human Services. Before he joined the Clinton Administration, Apfel worked for two decades in the area of social policy,

as legislative director to Senator Bill Bradley and as the senator's chief staff person for social and budget policy. Just prior to his appointment at the University of Maryland, he served as the Sid Richardson Chair in Public Affairs at the University of Texas LBJ School of Public Affairs.

Apfel is an elected Fellow of the National Academy of Public Administration, the National Academy of Social Insurance and the Council for Excellence in Government. He holds a bachelor's degree from the University of Massachusetts, Amherst, and master's degrees from Northeastern University and the LBJ School of Public Affairs.

# Balancing the Drug Budget



We invest \$40 billion a year in fighting illicit drugs. Are we getting our money's worth?

by Peter Reuter

**D**ebate over U.S. drug policy has long focused on the appropriate balance between supply reduction programs (domestic enforcement, foreign eradication and interdiction efforts) and demand reduction programs (prevention and treatment). This conflict was conducted very much in the public eye throughout the late 1980s and early 1990s. Though the debate has quieted down in recent years, the nation nevertheless spends about \$40 billion annually on drug control and incarcerates about 500,000 individuals for drug offenses, including those in local jails. It is worth considering what we know about the effectiveness of the major programs that inform drug policy.

## Treatment

A large body of research shows that treatment can reduce an individual patient's drug use, that treatment is associated with improved health and employment outcomes, and that treatment can reduce the risk of serious harms, including overdose, crime and HIV infection. Documented gains appear most striking in the treatment of heroin addiction. Reductions of 70 percent in drug use over the course of treatment are

quite common. However, the drop-out and relapse rates are very high.

The benefits of treatment have dimensions that affect both the individual and the wider community. Crime reduction provides the most conspicuous, sometimes the dominant, benefit, in economic policy analyses of treatment interventions. Much of the estimated benefit of substance abuse treatment arises from a minority of patients who (before treatment) committed serious offenses. The social benefits of crime reduction are much smaller for the median client, and are smaller still for marijuana users.

Treatment may also bring significant supply-side effects. Drug users comprise a large share of all cocaine and heroin retailers. In one study, my colleagues and I found that 71 percent of a sample of drug sellers active in Washington, D.C., mostly selling cocaine and heroin, had consumed an illegal drug other than marijuana in the previous three months. If broad treatment provision appreciably shrinks the pool of users willing to work in the drug trade, it is possible that treatment can have substantial favorable supply-side effects without the large personal and social costs that come with incarcerating nonviolent drug offenders. Though there is some

encouraging evidence from Switzerland, a full study of this possibility remains to be done.

The argument for expanding the scope of treatment is strong. However, no nation has succeeded in treating its way out of a major cocaine or heroin problem. Treatment can substantially reduce the health burden of drug abuse, related crime and the quantity of drugs consumed, but it can make only modest reductions in the number of men and women who misuse drugs. Even with a well-funded treatment sector, a nation will still face chronic problems of disease, addiction, crime and disorder associated with illegal drugs.

## Prevention

For primary prevention, the research base is scientifically impressive but programmatically barren. Research has been dominated by school-based programs, which are more readily studied than those in less controlled settings. The gap between best practice and typical interventions is large; many school-based prevention interventions are poorly implemented. Schools that serve high-risk children face challenges that further diminish the quality of implementation. It has also been suggested that school prevention may be a less effective strategy than the

creation of an atmosphere of higher expectations.

The other frailty of the prevention literature is that many of the best studies measure short-term outcomes for programs implemented in grades 5–8 (typically ages 10–14) and are focused on marijuana, the illegal drug first used by youth. Little is known about the effects of prevention on use of cocaine, heroin or methamphetamines, the principal sources of our problems. There is only a presumption, eminently questionable, that the reductions in marijuana use will generate comparable reductions in use of more damaging drugs.

## Enforcement

Enforcement is a heterogeneous category, ranging from efforts to eradicate poppy growing in Afghanistan to street sweeps against buyers outside a Frankfurt, Germany, train station. Two general characteristics of these interventions are (1) a near-total absence of impact or outcome evaluation, and (2) a near-total absence of public and policymaker demands that such evaluations be performed. The case for enforcement aimed at higher levels of the drug trade is narrow. Interdiction and source country controls aim to raise prices, reduce availability, signal social disapproval and (perhaps) reduce the political influence of drug sup-

pliers in source countries. Yet the impact of these policies remains hard to credibly measure.

Current research does not imply that interdiction should be eliminated. Smuggling cocaine and heroin is expensive. It costs approximately \$15,000 to move one kilogram of cocaine from Bogota to Miami. Federal Express would charge less than \$100 to move a kilo of legitimate white powder between the same cities. What is odd is that more stringent interdiction seems to make so little difference in the extent of trafficking.

Low-level enforcement has a broader set of mechanisms to address drug problems. In particular, a police focus on street distribution can make dealers more discreet and thus hinder new users from finding suppliers. Drug courts are an interesting effort to combine criminal justice and treatment resources for drug-involved offenders. Drug court participants appear to have better legal and drug-use outcomes than apparently comparable non-participants. “Coerced abstinence,” whereby probation and parole officers frequently monitor their clients’ drug use and provide immediate and modest sanctions for failure, in effect makes the criminal justice system an explicit recruiter for treatment and other ways of reducing individual drug use.

## Find a Balance

We can’t treat, prevent, deter, or incarcerate ourselves out of “the drug problem,” though each measure is a valuable component of drug policy. Millions of men and women in the U.S. will continue to suffer the consequences of chronic use of intoxicating illegal substances. But the current level of spending for arresting, prosecuting and incarcerating drug dealers—about \$25 billion—as compared to the \$15 billion spent on prevention and treatment is not supported by the research base. A nation that incarcerates in prisons and jails about 500,000 persons for drug selling or possession—more than Western Europe manages to lock up for all criminal offenses—needs to re-examine its approach to the problem. A better balance and more humane policy might be found in incarcerating fewer drug offenders, expanding the scope of treatment and developing effective prevention programs. <sup>12</sup>

*A longer and fully referenced monograph on this subject is Boyum, D and Reuter, P, “An Analytic Assessment of U.S. Drug Policy” (AEI Press, 2005), which can be found at [www.aei.org/books](http://www.aei.org/books)*



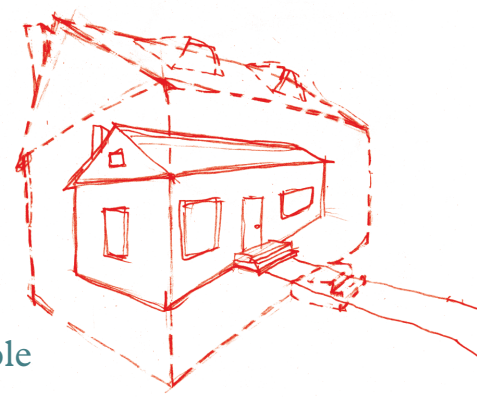
*Peter Reuter, Professor, Maryland School of Public Policy and Department of Criminology; Director, Program on the Economics of Crime and Justice Policy*

Peter Reuter founded and directed RAND’s Drug Policy Research Center from 1989 to 1993, and was editor of the *Journal of Policy Analysis and Management* from 1999 to 2004. His early research focused on the organization of illegal markets and resulted in the publication of *Disorganized Crime: The Economics of the Visible Hand* (MIT Press, 1983), which won the Leslie Wilkins award as most outstanding book of the year in criminology and

criminal justice. In 2001, he co-authored (with Robert MacCoun) *Drug War Heresies: Learning from Other Places, Times and Vices* (Cambridge University Press). Recently he co-authored with Edwin Truman *Chasing Dirty Money: The Fight Against Money Laundering*.

Reuter received his Ph.D. in Economics from Yale University.

# Happiness Is a Steady Income



How inalienable is the pursuit of happiness, and what role should it play in measuring our economic well-being?

by Carol Lee Graham

**T**he scientific measure of happiness is a novel approach to assessing societal and individual economic well-being. While psychologists have long used surveys to study happiness, economists only recently have ventured back into this arena. Early economists and philosophers, from Aristotle to Bentham and Smith, incorporated the pursuit of happiness in their work, but as the discipline of economics grew more rigorous and quantitative, more parsimonious definitions of welfare took hold.

The study of happiness is part of a more general move in economics that challenges these narrower assumptions. The introduction of bounded rationality and the establishment of behavioral economics first opened new lines of research. Along the same vein, happiness economics relies on more expansive notions of utility and welfare, including the interaction between the rational and nonrational. The approach does not purport to replace income-based measures of welfare but instead to complement them with broader measures. These measures are based on the results of large-scale surveys, across countries and over time, of hundreds of thousands of individuals. The surveys provide information

about a range of factors that affect well-being, including health, marital and employment status, and civic trust, as well as income.

The studies rely on expressed preferences (what individuals say they want) rather than on choices revealed by actual consumption decisions, a method well-suited to answering questions where revealed preferences provide limited information. These include the welfare effects of particular policies or institutional conditions that individuals feel powerless to change, such as inequality, environmental degradation and macroeconomic policies. The effects of addictive behaviors such as smoking and drug abuse on individuals are also better measured in this way.

Happiness surveys are based on questions in which the individual is asked, “Generally speaking, how happy (or satisfied) are you with your life,” with possible answers on a point scale. As with all economic measurements, the answer of any specific individual may be biased by unobserved personality traits and correlated measurement errors (which can be corrected via individual fixed effects if panel data are available).

Despite the potential pitfalls, there are remarkably consistent patterns in the determinants of happiness. While most happiness studies find that within countries

wealthier people are, on average, happier than poor ones, studies across countries and over time find very little, if any, relationship between increases in per capita income and average happiness levels. On average, wealthier countries (as a group) are happier than poor ones; happiness seems to rise with income up to a point but not beyond it. (There is no actual fixed point where income and happiness stop having a linear relationship. For developed countries it is roughly at \$10,000 per capita; for less developed countries it is much less, but past the point at which basic needs are met.) Especially among the less happy, poorer countries, there is no clear relationship between average income and average happiness levels, suggesting that other factors—including cultural traits—are at play.

Within countries, income matters to happiness. Deprivation and abject poverty are bad for happiness. Yet after basic needs are met, other factors such as rising aspirations, relative income differences, and the security of gains become increasingly important. Richard Easterlin was the first modern economist to revisit the concept of happiness, in the early 1970s. In his original study, he revealed a paradox that remains unresolved: Humans are on a “hedonic treadmill” where

aspirations increase along with or faster than income and cancel out the positive effects of income on happiness. Psychologists' "set point" theory of happiness, in which every individual is presumed to have a happiness level that he or she goes back to over time, even after major events such as winning the lottery or getting divorced, provides a similar interpretation.

Despite humans' documented capacity to adapt, numerous studies demonstrate that happiness levels change significantly in response to a variety of factors. Even under the rubric of set point theory, happiness levels can fall markedly in response to events like illness or unemployment. Even if levels eventually adapt upwards to a longer-term equilibrium, mitigating or preventing the unhappiness and disruption that individuals experience for months or years in the interim seems a worthwhile objective.

Happiness research has been applied to a range of questions, including the relationship between inequality and poverty, the effects of macro-policies on individual welfare, and addictive behaviors. (A recent study of the well-being effects of cigarette taxes suggests that the negative financial effects are outweighed by positive self-control effects.) Some studies have

attempted to separate the effects of income from those of other endogenous factors such as satisfaction in the workplace. Studies of unexpected lottery gains find that these isolated gains have positive effects on happiness, although it is not clear that they are of a lasting nature. My own research—with several co-authors—explores the reverse direction of causality and finds that people with higher happiness levels perform better in the labor market and earn more income.

Richard Layard (2005) believes that happiness research can guide policy change. He highlights the extent to which people's happiness is affected by status—resulting in a rat race which in the end reduces well-being. He notes the strong positive role of security in the workplace and home, and of the quality of social relationships and trust. He identifies direct implications for fiscal and labor market policy, taxation on excessive income gains and re-evaluating the merits of performance-based pay.

A note of caution is necessary in directly applying the findings of happiness research to policy, both because of the potential biases in survey data and because of the difficulties of analyzing this kind of data in the absence of controls for unobservable

personality traits. Happiness surveys provide novel insights into human psychology—such as adaptation and coping during economic crises—but do not always translate into viable policy recommendations. For example, unemployed respondents are generally happier with higher unemployment rates because it reduces the stigma of their situation, even when they may have a lower probability of future employment. Raising unemployment rates on the basis of this finding would obviously be a flawed policy, but the research does suggest a deeper investigation of the effects of stigma on the welfare of the unemployed.

Happiness economics also raises many questions for future research, including the implications for economic growth patterns, and the effects of happiness on behavior such as work effort, consumption and savings, among others. **P**

*This article is based on a longer chapter on the economics of happiness, which is forthcoming in the New Palgrave Dictionary of Economics, 2nd edition. The longer version includes the full references.*



*Carol Lee Graham*, Professor, Maryland School of Public Policy; Senior Fellow in Economic Studies, Brookings Institution

Carol Graham's expertise encompasses developing economies, inequality, market reforms, poverty and subjective well-being. She recently served as a vice president at the Brookings Institution, and currently co-directs its Center on Social and Economic Dynamics. With a specialization in Latin America, she has served as special advisor to the vice president of the Inter-American Development Bank, as a visiting fellow in the office of the chief economist of the World

Bank, and as consultant to the International Monetary Fund. She is the author of many books and articles on market reform, poverty, inequality and novel welfare metrics. Her most recent book, co-authored with Stefano Pettinato, is *Happiness and Hardship: Opportunity and Insecurity in New Market Economies*.

Graham holds a bachelor's degree from Princeton University, a master's from Johns Hopkins University and a D.Phil. from Oxford University.

# Is There a ‘Nuclear Future’?



While the major powers, with the possible exception of the United States, seem to understand the importance of nuclear restraint, new players in the field could shake the status quo.

by Thomas Schelling

**T**he most spectacular event of the past half century is one that did not occur.

We have enjoyed six decades without nuclear weapons exploded in anger. What a stunning achievement—or, if not achievement, what stunning good fortune. Can we make it through another half dozen decades?

The first time that nuclear weapons might have been used after World War II was in 1950. U. S. and South Korean forces had retreated to a perimeter at the southern town of Pusan, and it was not clear that they could either hold out or evacuate.

The question of nuclear defense arose, and the British Prime Minister flew to Washington with the announced purpose of persuading President Truman not to let nuclear weapons be used. The successful landing at Inchon removed the danger, and we cannot know what might have happened if Inchon had failed. Nuclear weapons again went unused upon the disastrous assault by Chinese troops in the north of Korea.

Succeeding Truman, President Eisenhower saw NATO facing a hugely superior military adversary and elevated nuclear weapons from last resort to first. Shortly after inauguration, Secretary of State John Foster

Dulles said, in the National Security Council, “Somehow or other we must manage to remove the taboo from the use of these weapons.” A few weeks later the president approved the statement, “In the event of hostilities, the United States will consider nuclear weapons to be as available for use as other munitions.” Six months later the U.S. position was that nuclear weapons “must now be treated as in fact having become conventional.”

The Johnson administration shows a striking contrast. In September 1964 Johnson said publicly, “Make no mistake, there is no such thing as a conventional nuclear weapon. For 19 peril-filled years no nation has loosed the atom against another. To do so now is a political decision of the highest order.” Johnson evidently believed that 19 years without nuclear war was an investment to be treasured.

Nixon did not use nuclear weapons in Vietnam. Golda Meir, Israeli prime minister in 1973, did not authorize nuclear weapons against Egyptian armies that had successfully crossed the Suez Canal and were perfect targets for nuclear attack, there being no civilians in the vicinity. Margaret Thatcher did not consider nuclear weapons against naval vessels in defending the Falkland Islands against Argentina.

And most astonishing, the Soviet Union fought a long, bloody and disastrous war in Afghanistan without recourse to nuclear weapons. Even the Russians were awed, apparently, by Johnson’s 19 “peril-filled years,” which by then had stretched to four decades.

Those 19 years have stretched to 60. The taboo that Ike appeared to denigrate but that awed President Johnson a decade later has become a powerful tradition of nearly universal recognition.

An immediate question is whether we can expect Indian and Pakistani leaders to be adequately in awe of the weapons they now both possess. There are two helpful possibilities. One is that they share the inhibition. The other is that they recognize, as the United States and the Soviet Union did, that the prospect of nuclear retaliation makes any initiation of nuclear war nearly unthinkable. The risk is that one or the other may confront the kind of military emergency that invites some limited experiment with the weapons, and there is no history to tell us, or to tell them, what happens next.

The next possessors of nuclear weapons may be Iran and North Korea. Is there any hope that they will have absorbed the nearly universal inhibition

against the use of nuclear weapons, or will at least be inhibited by the recognition that the taboo enjoys widespread acclaim?

Part of the answer will depend on whether the United States recognizes that inhibition, and especially on whether the United States recognizes it as an asset to be cherished, enhanced, and protected, or, like John Foster Dulles in Eisenhower's cabinet, believes "somehow or other we must manage to remove the taboo from the use of these weapons."

There is much discussion these days of whether or not "deterrence" has had its day and no longer has much of a role in America's security. There is no Soviet Union to deter; the Russians are more worried about Chechnya than about the United States; the Chinese seem no more interested in military risks over Taiwan than Khrushchev really was over Berlin; and terrorists can't be deterred anyway—we don't know what they value that we might threaten, or who or where it is.

I expect that we may come to have a new respect for "deterrence." If Iran should, despite every diplomatic effort to prevent it, acquire a few nuclear weapons, it is crucial that Iran learn to think, if it hasn't already learned to think, in terms of deterrence.

What else can Iran accomplish, except possibly the de-

struction of its own system, with a few nuclear warheads? Nuclear warheads should be too precious to give away or to sell, too precious to "waste" killing people when, if held in reserve, they could make the United States, or Russia, or any other nation, hesitant to consider military action. For 60 years nuclear weapons have been used not on the battlefield nor on populations; they have been used for influence.

A difference between Iran's nuclear thinking and that of India and Pakistan is that for decades Indians and Pakistanis have been participating in an international nuclear dialogue at conferences around the world. I never saw an Iranian, let alone a North Korean. A way must be found to make some Iranian participation in nuclear discourse legitimate.

The United States was slow to learn, but eventually understood (1961) that nuclear warheads demand exceptional custody—against accident, mischief, theft, sabotage or a "Strangelove-like" unauthorized attack. There is always this dilemma: Do we reward violators of the Nonproliferation Treaty by offering the technology to keep the warheads secure? At least we can try to educate the new members of the nuclear club to what we didn't appreciate for our first 15 years.

I know of no more powerful argument in favor of the Comprehensive Test Ban Treaty,

which the U. S. Senate rejected in 1999, than the potential of that treaty to enhance the nearly universal revulsion against nuclear weapons. The symbolic effect of some 170 nations ratifying the Treaty, which is nominally only about testing, should add to the convention that nuclear weapons are not to be used and that any nation that does use nuclear weapons will be judged the violator of a hard-earned tradition of non-use. When the Treaty is again before the Senate, as I hope it will be, this major benefit should not go unrecognized.

The most critical question about nuclear weapons for the United States government under George W. Bush or under anyone else is whether the widespread taboo against nuclear weapons is in our favor or against us. If it is in our interest, as I believe obvious, advertising our continued dependence on nuclear weapons and our need for new nuclear capabilities and probably new nuclear tests—let alone ever using them against an enemy—has to be weighed against the corrosive effect on a nearly universal attitude that has been cultivated through universal abstinence over 60 years. **P**



*Thomas Schelling*, Distinguished University Professor, Maryland School of Public Policy and Department of Economics; 2005 Nobel Prize Laureate in Economics

Thomas Schelling came to the Maryland School of Public Policy after 20 years at the John F. Kennedy School of Government, where he was the Lucius N. Littauer Professor of Political Economy. He is a member of the National Academy of Sciences, the Institute of Medicine, and the American Academy of Arts and Sciences. Schelling has held positions in

the White House and Executive Office of the President, at Yale University, the RAND Corporation and Harvard University. Throughout a distinguished career, he has published on military strategy and arms control, energy and environmental policy, climate change, nuclear proliferation, terrorism, organized crime, foreign aid and international trade, and ethical issues in public policy and in business.

# Restarting Head Start

A closer look at a 1960s concept reveals the need for change.

by Douglas J. Besharov

From its earliest days, Head Start has been an extremely popular program because it is based on a simple idea that makes great intuitive sense: A child's early learning experiences are the basis of later development and, given the connections between poverty and low academic achievement, a compensatory preschool program should help disadvantaged children catch up with more fortunate children.

The public's impression of Head Start's success stems largely from the widely trumpeted results of two small and richly funded experimental programs from 30 and 40 years ago: the Perry Preschool program and the Abecedarian program. Some advocates describe these programs as "Head Start-like," but that is an exaggeration: They cost as much as \$15,000 per child per year in today's dollars (50 percent more than Head Start), have often involved multiple years of services, had well-trained teachers, and included instruction to parents on effective child rearing. These programs are more accurately seen as hothouse programs that, in total, served fewer than 200 children.

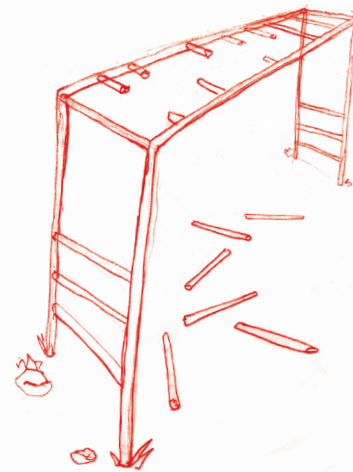
Most careful evaluations of actual Head Start programs are much less rosy. They have

repeatedly shown either small effects or effects that fade out within a few years. No scientifically rigorous study has ever found that Head Start itself has a meaningful and lasting impact on disadvantaged young people.

After reviewing the full body of this research, a 1997 U.S. Government Accountability Office (GAO) report concluded that there was "insufficient" research to determine Head Start's impact. The GAO added: "Until sound impact studies are conducted on the current Head Start program, fundamental questions about program quality will remain."

## The Head Start Impact Study

Responding to the GAO report, in 1998, Congress required the U.S. Department of Health and Human Services to conduct another national evaluation of Head Start. To its credit, the Clinton Administration took this mandate seriously and initiated a 383-site, randomized experiment (the gold-standard of evaluation) involving about 4,600 children. (In fact, throughout his presidency, Clinton and his appointees were strongly supportive of efforts to improve Head Start, even to the point of defunding especially mismanaged local programs.)



Sadly, the first-year findings from the Head Start Impact Study, released by the U.S. Department of Health and Human Services in June 2005, showed little meaningful impact on disadvantaged children. For four-year-olds (half the program), statistically significant gains were detected in only six of 30 measures of social and cognitive development and family functioning. Results were somewhat better for three-year-olds, but most of the differences are not statistically significant.

For both age groups, the actual gains were in limited areas and disappointingly small, and are unlikely to lead to later increases in school achievement. For example, even after spending about six months in Head Start, four-year-olds could identify only two more letters than those who did not, and three-year-olds could identify one and one-half more letters. No gains were detected in much more important measures such as early math learning, oral comprehension (more indicative of later reading comprehension), motivation to learn, or social competencies, including the ability to interact with peers and teachers.

These weak impacts come as a tremendous disappointment.

No single evaluation, of course, should decide the fate of an important program like

Head Start, but this new study reinforces a developing professional consensus about Head Start's limitations. Many liberal foundations have already shifted their support away from Head Start and toward the expansion of preschool or prekindergarten ("preK") services—which siphon off hundreds of thousands of children from Head Start programs. Many states have likewise begun funding expanded prekindergarten programs, again at Head Start's expense.

Perhaps the best indication of Head Start's slumping reputation comes from low-income parents themselves, who often choose not to place their children in Head Start. One can see this in the declining proportional enrollment of four-year-olds, Head Start's prime age group. Between 1997 and 2004, even as Head Start's funded enrollment increased by 22 percent, the number of four-year-olds in the program increased by only two percent.

A major reason for this shift away from Head Start is the increase in the employment, especially full-time employment, of low-income mothers. When Head Start was first conceptualized in the 1960s, few low-income mothers (for that matter, few mothers in general) were

in the paid labor force. So Head Start's part-time, part-year program was not an obstacle to participation. Since then, and especially after welfare reform, many more low-income mothers are working.

The issue runs deeper, however. The evidence suggests that some parents simply do not want to use Head Start. Even many mothers who do not work, or who only work part-time and thus could use Head Start as a form of child care while they work, use relative care. In fact, we are told by a number of directors of local agencies that, when offered free Head Start in the summer, many parents who used Head Start during the school year prefer to leave their children home with older siblings.

New prekindergarten programs for low-income children established in many communities also seem to be siphoning off large numbers of children. Between 1990 and 2001, for example, the enrollment in public prekindergarten, which primarily serves low-income children, nearly tripled, increasing from about 300,000 to 800,000 children.

Why the apparent preference for prekindergarten programs? Perhaps parents find them more attractive than Head Start be-

cause of their seeming universality. Perhaps it is because parents deem preK programs to be superior, especially since they are usually in school buildings and staffed by more highly educated teachers.

Some of the parents not using Head Start are undoubtedly making such choices involuntarily—because the Head Start program in their community has no vacancies or there are other barriers to enrollment. The weight of the evidence, however, indicates that this is not the predominant explanation. The lack of vacancies or other barriers would not explain the aggregate decline in the enrollment of four-year-olds unless these problems were worsening over time. Even that, however, would not be consistent with the growing enrollment of three-year-olds.

## A Fresh Start

Head Start stands at a crossroads. The easiest course would be for the program to continue without modification and without responding to the major social and programmatic changes engulfing it. That would mean a continuing loss of four-year-olds and an increase in the number of younger children in the program—with no substantial

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*Douglas J. Besharov*, Professor, Maryland School of Public Policy; Senior Scholar, American Enterprise Institute

Douglas Besharov was the first director of the U.S. National Center on Child Abuse and Neglect from 1975 to 1979. With staff in Washington and each of the 10 federal regions, the National Center supported research, demonstrations, training, technical assistance and service projects in all parts of the country. From 1991 to 1992, he served as the administrator of the AEI/White House Working Seminar on Integrated Services for Children and Families, a project designed to improve the delivery of services to disadvantaged children and their families. Besharov's most recent book is *Recognizing Child Abuse: A Guide for the Concerned*, which is designed to help professionals and laypersons identify and

report suspected child abuse. He has written or edited 14 other books. He has also written over 150 articles and contributes regularly to the *Washington Post*, the *Wall Street Journal* and *American Enterprise Magazine*.

Caeli A. Higney was a research assistant at the American Enterprise Institute (AEI) from 2004 to 2006. Now attending Stanford Law School, she is the co-author of *Federal and State Child Care Expenditures (1997-2004): Rapid Growth Followed by Steady Spending* (with Douglas J. Besharov), and *Summaries of Twenty Early Childhood Evaluations* (with Douglas J. Besharov and Peter Germanis).

# From the Bottom Looking Up—Again

Federal budget deficits reflect political expediencies.

by Allen Schick



It was George W. Bush's good fortune to enter office in 2001 when the budget had a large surplus that was expected to total \$5.6 trillion over the next 10 years. It will be his successor's misfortune to inherit a large budget deficit that will be projected to grow as baby boomers reach retirement. Bush's surplus emboldened him to push tax cuts through Congress; his successor's deficit will impel him to demand tax increases.

The size and shape of future tax increases will be influenced by economic trends and political developments. Robust economic performance in the years ahead may enable Bush to achieve his target to cut the deficit in half (as a proportion of GDP) by the time he leaves office, but the federal government will not be able to grow out of its budget predicament, no matter how well the economy performs. Escalating Social Security and Medicare costs will keep the budget in deficit as long as the current tax structure is in place.

Political conditions will affect future tax policy because this is a matter over which most Republicans and Democrats strongly disagree. If Republicans retain control over one or both houses of Congress, they may allow some tax cuts (such as lower rates) to expire;

if Democrats gain control, they may enact new tax increases. The next president's party affiliation may make a difference, but one should not be surprised if a Republican president joins or even leads the campaign for additional revenues.

## Bush's Budget Policies

When George W. Bush's term ends in 2009, the federal government will owe at least \$15,000 more for every man, woman and child in the United States than it did when he became president eight years earlier. This buildup of debt did not just happen; it has resulted from tax and spending policies of the Bush Administration that have been driven as much by economic doctrine as by political expediency. Several weeks after his first inauguration, Bush unveiled a "Blueprint for New Beginnings" which set forth the budget policies he intended to pursue. This publication included a chart labeled "Budget Surpluses Lead to Bigger Government." The chart graphed the surge in discretionary spending that occurred when surpluses emerged in the late 1990s. This reasoning leads to the notion that since surpluses spur politicians to spend more, the prudent thing to do is to dampen spending demands by getting rid of the surpluses. In

this view, it is better to have a smaller government with a big deficit than a bigger government with a surplus.

The evidence is, however, that this "starve the beast" policy has not worked. Between 2001 and 2005 (the last fiscal year for which actual data are available) discretionary spending rose from 6.5 percent of GDP to 7.9 percent. In dollar terms, discretionary spending is almost \$200 billion higher today than it would have been if its share of the economy were the same as when Bush became president. Adjusted for inflation, discretionary spending was one third higher in 2005 than four years earlier. This increase has not been confined to defense spending; appropriations for nondefense programs rose about 20 percent in real terms between 2001 and 2005.

The spending spree was not limited to programs financed by annual appropriations. Medicare, which is likely to overtake Social Security as the largest entitlement program, was expanded by adding prescription drugs to its coverage. As has been well-documented, the prospective cost of drug benefits was under-estimated when Congress considered the Medicare legislation. This new program will add hundreds of billions of dollars to federal deficits over the next decade.

The boost in spending has been accompanied by reductions in federal revenues. Tax cuts enacted in Bush's first year subtracted more than one trillion dollars in federal revenue over a 10-year period. Subsequent tax cuts pared another trillion from revenue. The potential revenue losses have been partly masked by having some provisions (such as lower tax rates) expire during the 10-year period used by Congress for measuring the budgetary impact of new legislation. The Congressional Budget Office has estimated that extending these provisions would add more than \$2 trillion to projected budget deficits during the 2007–2016 period.

About two-thirds through his presidency, Bush shifted to a harder line on spending, resisting congressional pressure to boost domestic appropriations by more than the rate of inflation, and thwarting efforts to insert additional funds for social programs into a supplemental appropriations bill for military operations in Iraq and Afghanistan. But the president has not reversed course on taxes, nor is he likely to do so during the remainder of his term. For him, the big unresolved issue is whether he will get Congress to extend expiring tax cuts before the clock runs out on

his presidency. If he does, future deficits will grow; if he doesn't, future taxes may rise because of congressional inaction.

## Do Deficits Matter?

For decades, Republicans prided themselves as the party of fiscal probity, arguing for balanced budgets and low debt burdens. Democrats, by contrast, often were regarded as a party that gave priority to social needs and expansionary government, even when additional spending unbalanced the budget. Now, party roles appear to be reversed, with Democrats calling for fiscal responsibility and key Republicans making the case that deficits do not matter. Clearly there is a residual unease in Republican ranks about the party's abandonment of its traditional antideficit stance, as evidenced by Bush's promise to cut the deficit in half.

The inter-party budget squabble is largely about long-run impacts. Both parties acknowledge that deficits can provide beneficial stimulus when the economy is weak, though few politicians openly endorse "fine tuning" fiscal policy in response to cyclical swings in economic conditions. The parties clash, however, on how budget outcomes influence future economic prospects.

The Democratic position is grounded on the argument that a robust economy requires a pool of savings to finance investment and productivity gains. Because Americans have inadequate savings, the federal government should save for them by running budget surpluses. If, however, the government were to incur chronic deficits, its dissavings would further diminish the already inadequate supply of financial resources needed to promote economic growth.

This view has been endorsed by the Congressional Budget Office which concluded in a 2005 publication that "deficits reduce future living standards by slowing the accumulation of national wealth as they lower national savings." The Republican counter-argument is that deficits are merely the arithmetic sum of the many millions of voluntary transactions that make up the economy. Budget aggregates do not strongly influence decisions by households and firms to save, invest, work, take risks, start businesses, and take other actions that grow the economy. High marginal tax rates discourage these actions and impede economic growth. Hence, reducing tax rates will stimulate economic growth even if the short-term effect is to enlarge the budget deficit.

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*Allen Schick, Distinguished University Professor, Maryland School of Public Policy*

Allen Schick came to the Maryland School of Public Policy from the Congressional Research Service, Library of Congress, where he served as senior specialist. He has held research positions at the Urban Institute and the Brookings Institution and teaching positions at Tufts University and Syracuse University.

Schick's extensive list of publications includes *Congress and Money: Spending, Taxing and Budgeting* (American Society for Public Administration, 1987); *Making Economic Policy in Congress* (American Enterprise Institute, 1984), *The Capacity to Budget* (1990), *The Budget Puzzle* (1993)

and *The Federal Budget: Politics, Policy, Process* (1995). He is founding editor of the professional journal *Public Budgeting and Finance*.

Schick consults for many organizations at federal, state, and local levels. He directed a multinational study of budget practices in various industrialized countries and presently directs a study of the far-reaching reforms in the public sector in six countries: Australia, Britain, France, New Zealand, Sweden, and the United States. Among his awards are the Guggenheim Fellowship and the American Society for Public Administration Waldo Prize.

This is a clash of economic concepts, neither of which can be truly tested without the passage of years or decades. If the Democrats prove to be right, the economic potential built by higher savings can cumulate to trillions of dollars over the next half-century, more than enough to finance Social Security, Medicare and other commitments. If, however, the Republicans are right that aggregate savings do not make much of a difference

but that eliminating disincentives embedded in high taxes can, their approach would prepare the country for a prosperous future. Unfortunately, policy decisions cannot wait until the evidence is in. Because taking the wrong turn may seriously damage America's economic health, prudence dictates that politicians not pave the way to tomorrow with trillions of dollars in additional debt.

Inevitably, the conflict between

Democrats and Republicans is also a fight over the appropriate size of government and the money available to it. One side wants to provide government with sufficient resources to finance ongoing programs plus some enhancements; the other wants it to have insufficient resources, so that it will be compelled to retrench some commitments. The two parties are battling over today's government and tomorrow's is at stake. **P**

*"Fresh Start" from page 11*

impact on their cognitive and emotional development.

One of Head Start's key weaknesses is its one-size-fits-all approach. Head Start does too much for some children and too little for others. Despite the convenient rhetoric surrounding Head Start, not all poor children face the cognitive and developmental problems that animated Head Start's creation. Many poor children do not need the array of support services provided by Head Start and, based on the evidence, do just fine in regular child care when their mothers work. Children from the most troubled families (usually headed by young, single mothers), however, surely need much more than the program currently provides.

The current Head Start model is just not sufficient, in terms of both its services and curriculum. It generally consists of only four hours a day of classroom instruction (some grantees provide more), for less than nine months. And, despite Head Start's claims about "parent

involvement," there seem to be no systematic efforts to include parents in the program or to give parents better child-rearing skills.

The best thing would be for Head Start to go back to its roots, to search for ways to make a meaningful improvement in the lives of the poorest, most disadvantaged children. It might, for example, provide services to unwed teenagers that start during their first pregnancy. Head Start should not try to serve all families that happen to fall under the poverty line.

Focusing on the most in need, the new Head Start would be truly two-generational, that is, with real services for parents (not just the current lip service to parent involvement), and it would bring to bear all the programmatic services that have developed since Head Start was first conceived—WIC, Medicaid, the Maternal and Child Health Block Grant Program, the Community and Migrant Health Center Program, and the Title X program, which seeks to reduce unintended pregnancy

by providing contraceptive and related reproductive health care services to low-income women.

Hence, the strategy for real reform seems clear: Build a better early childhood intervention program somewhere—and prove that it really works. Based on past failures, this will be no mean feat. It will require a sustained, no-holds-barred inquiry into what is needed to improve the cognitive and social development of the neediest children.

Perhaps it is naive to think that Head Start can be operated on the basis of careful research rather than politics, but each year almost a million children pass through the program without getting the head start on learning they were promised. **P**

*Information for this article was derived from reports by the U.S. General Accounting Office, U.S. Department of Health and Human Services, Head Start Bureau, and The State of Preschool: 2003 State Preschool Yearbook, W. Steven Barnett, Jason T. Hustedt, Kenneth B. Robin, and Karen L. Schulman.*

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Editor, *Public Policy*

University of Maryland

2101 Van Munching Hall

College Park, MD 20742

Send information by fax

to 301.403.4675 or by

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2101 Van Munching Hall  
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