



# Focus

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## The coming debate on postsecondary student aid policy

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The legislation authorizing the Stafford Loans and Pell Grants, the major federal programs subsidizing postsecondary schooling by lower- and middle-income students, expires at the end of 1991.<sup>1</sup> It is already apparent that reauthorization of these programs will not be routine. A sharp debate on the form and magnitude of federal student aid policy is taking shape.

Numerous proposals for replacing or complementing the present programs are being floated for consideration by the 101st Congress. Among them are the following:

- **Graduation-Contingent Aid:** Writing in the magazine *Change*, Frederick Fischer of the Office of Management and Budget proposed replacement of the existing programs by a “graduation-contingent” aid program. This would give “unsubsidized loans while the student is in school, with subsidies provided in the form of partial loan cancellation only after degree attainment.”<sup>2</sup>
- **National-Service-Contingent Aid:** Representative David McCurdy (Oklahoma) and Senator Sam Nunn (Georgia) have announced that they will cosponsor

legislation that would replace existing programs by one awarding grants to youth who complete specified military or other national service. According to Nunn, the new program would “take the step of converting the student loan programs from an entitlement to an earned benefit by tying federal assistance to the performance of national service.”<sup>3</sup>

- **STARS:** During the recent presidential campaign, Governor Michael Dukakis proposed that the existing programs be complemented by a new “Student Tuition and Repayment System.” Under the STARS proposal, each dollar of aid that a student receives would obligate him to return a fixed fraction of his future income rather than a fixed dollar amount, as is now the case for Stafford Loans.<sup>4</sup>
- **Personal Capital Accounts:** In his recent book *Starting Even*, Robert Haveman of the University of Wisconsin–Madison proposed that, upon reaching age eighteen, every American youth receive a “personal capital account.” This would replace the existing aid programs at least in part. According to Haveman, “The account would be interest earning and could be drawn upon for approved purchases of education and training as well as for health care services.”<sup>5</sup>
- **Elimination of Postsecondary Aid:** A recent article in the *Chronicle of Higher Education* reported a proposal by Robert Zemsky, director of the Institute for Research on Higher Education at the University of Pennsylvania, to eliminate all federal postsecondary aid and direct the funds saved to elementary and secondary education. According to the *Chronicle*, Zemsky asserts that “despite nearly two decades of massive investment in student aid programs . . . college participation rates have not substantially changed.”<sup>6</sup>

These proposals clearly embody a wide range of views. It is the task of the research community to inform the policy-making process through objective analysis of the effects of alternative aid programs.

Unfortunately, we are not well prepared to evaluate the new proposals. Research to date has focused on a narrow question: What effect do straightforward subsidies to students such as the Pell Grants have on the postsecondary enrollment rates of high school graduates?<sup>7</sup> The approaches used to answer this question were not designed to—and therefore cannot—compare the diverse forms postsecondary aid might take after 1991. Moreover, these approaches address only some of the effects of the subsidies being evaluated.

This article calls attention to some of the features of the schooling process which must be better understood if the research community is to play a constructive role in the coming debate on postsecondary aid policy. Where possible,

I discuss how these features interact with specific proposals. I do not attempt, however, to thoroughly assess any proposal.

## Understanding postsecondary school dropout

I begin with the widely misunderstood phenomenon of dropout from college or technical school. Such dropout is widely considered a social problem, and reducing it is often cited as an objective of student financial aid. For example, introducing a recent special issue of the *Economics of Education Review* dealing with student aid, Estelle James wrote: “And, does this aid accomplish one of its major purposes, reducing the above-average attrition rates of low socio-economic status students, so that more of them complete college?”<sup>8</sup> Frederick Fischer motivated his proposal for graduation-contingent aid by writing: “All knowledgeable observers bemoan current dropout levels and believe society would be better off if these levels were lower.”<sup>9</sup>

In fact, reducing postsecondary dropout would not necessarily make society better off. Student aid policy should not be evaluated by its effect on dropout but rather by its joint effects on enrollment and completion rates. These are the conclusions of my recent analysis of the process of postsecondary enrollment and completion.<sup>10</sup>

The key observation is that students contemplating enrollment do not know whether completion will be feasible or desirable. Hence enrollment is a decision to initiate an experiment, one of whose possible outcomes is dropout. Experiments should be evaluated by their ex ante expected return, not by their ex post success rate. It follows that, told only the completion rate of enrolled students, one cannot judge whether the right enrollment decisions have been made.

I have made the point in earlier work that postsecondary schooling is an experiment. In *College Choice in America*, David Wise and I noted:

Like trial and error in the job market, postsecondary education may for many young people be part of the search process that leads to discovery of what they like and don't like and of which occupations are compatible with their interests and abilities. To this extent, students may derive informational value from attendance, even if they drop out.<sup>11</sup>

In his article in *Change*, Fischer wrote: “There are so many college dropouts for the same reason there are so many small business failures—start-up costs are not exorbitant and the risk is rationally worth taking.”<sup>12</sup>

Despite occasional remarks such as these, the implications of thinking of schooling as experimentation have not been appreciated.<sup>13</sup> In an attempt to shed light on the interaction between dropout probabilities, enrollments, and realized dropouts, I developed a model of postsecondary enrollment

and completion. Working through the implications of this model makes it clear that dropout reductions should not be the objective of student aid.

Perhaps the most striking finding is this: if one wants to reduce postsecondary dropout, then one should eliminate aid entirely. The reason is that eliminating aid would make enrollment less attractive relative to working. Lowering the attractiveness of enrollment would reduce the number of students who choose to enroll. The students who choose to work rather than enroll would be those with the lowest school completion probabilities. Hence, eliminating aid would shift the composition of enrollment toward those students with the highest completion probabilities.

## Postsecondary aid and high school dropout

The foregoing discussion concerns postsecondary dropout only. High school dropout is a fundamentally different phenomenon. Whereas postsecondary enrollment is voluntary, high school enrollment is compulsory. A student entering college recognizes that dropout may be the outcome and willingly accepts this risk. A student entering high school does not thereby signal his acceptance of the risk of dropout. Some high school students are people who, in the absence of compulsory attendance laws, would have chosen not to enroll.

Postsecondary student aid programs should increase the rate of high school completion by low-income students. This is because aid affects the "option value" of high school completion.

To illustrate the point, suppose that the prevailing wage for a person with postsecondary training is substantially higher than that for a person with a high school diploma. Suppose that someone with a high school diploma earns only marginally more than does a person with ten years of schooling. In this setting, a tenth grader who expects to be able to finance postsecondary enrollment has an incentive to complete high school. Otherwise, completing high school makes no sense. Hence the availability of postsecondary aid should encourage students to persist in high school.

The option value of schooling has long been recognized in the theoretical literature on investment in human capital. Perhaps the earliest discussion is in Burton Weisbrod's article "Education and Investment in Human Capital."<sup>14</sup> Y. Comay, A. Melnik, and M. A. Pollatschek gave a clear statement of the idea in their article "The Option Value of Education and the Optimal Path for Investment in Human Capital."<sup>15</sup> These authors considered an individual who has completed a number of years of schooling and who must decide between enrolling for another year and entering the labor force. They noted that, contrary to the assumption of many studies on the returns to schooling, the investment value of the anticipated year of schooling *does not* equal the income stream obtainable with the additional year minus that obtainable without it. The return to the additional year

of schooling properly includes the value of the option of pursuing further schooling. In the extreme, an additional year of schooling "may be undertaken solely because it offers the option of continuation to a desired rung in the educational ladder" (p. 425).

The above notwithstanding, empirical research evaluating postsecondary aid policy has ignored the potential relationship between the availability of aid and the rate of high school completion. The practice has been to examine the impact of aid on the postsecondary enrollment rate of high school graduates, as if the latter group is not determined to some extent by the availability of aid. Thus we do not at present have estimates of the magnitude of the effect of postsecondary aid on high school completion.<sup>16</sup>

## Student aid and career choice

Schooling behavior is intimately bound up with the process of career choice. The present policy of postsecondary aid makes no overt attempt to influence career choices. The Pell Grant and Stafford Loan programs define postsecondary education very broadly. Students can use these awards to

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attend universities or vocational schools. Within these institutions, they may study subjects of their choosing.

Federal aid policy has not always sought to be career-neutral and may not be so in the future. The National Defense Education Act of 1958, which provided loans for general college enrollment, contained a loan cancellation provision for students who subsequently entered teaching. The McCurdy-Nunn proposal making aid contingent on national service seeks to induce youth to perform such service.

It is important to understand that aid programs imposing no explicit career restrictions may nevertheless influence career choices. Two illustrations will suffice to make the point.

First compare the Pell Grant program with Fischer's graduation-contingent aid. These two policies differ with respect to who pays for schooling should a student drop out. The Pell Grant is not contingent on the student's subsequent success or failure; graduation-contingent aid is awarded only should the student graduate. The probability that a student does graduate varies with the nature of the postsecondary program he chooses. It should therefore be expected that moving from Pell Grants to graduation-contingent aid would influence career choices by inducing more students to choose "safe" programs with high completion rates.

Next compare the Stafford Loan program with the STARS proposal. The former program imposes on the student a fixed repayment obligation; the latter makes repayment an increasing function of the student's income. It should therefore be expected that moving from Stafford Loans to STARS would reduce the incentive students now have to choose high-wage occupations.

## General equilibrium effects

As complex as it is to forecast the effects federal postsecondary aid may have on student decision-making, this forecasting problem is not the only one that policy analysts face. The magnitude and form of federal aid presumably affect the behavior of other actors who play roles in the determination of schooling outcomes: the colleges and technical schools that supply postsecondary education, the states and other sources that administer their own aid programs, the firms that hire educated labor, etc.

Policy evaluation should examine the "general equilibrium" effect of aid policy, that is, the effect when all the impacts on all the relevant actors are jointly accounted for. The literature evaluating aid policy has, however, concerned itself only with the direct effect of aid on student decision-making. As Michael McPherson pointed out in a recent article: "The implicit assumption is that other aspects of state and institutional behavior, such as pricing, levels of state budgetary support, offers of institution-based aid, and so on, are unaffected by federal policy change."<sup>17</sup>

In the absence of research, one can only speculate as to the general equilibrium effect of aid policy. Three examples indicate the types of questions in need of study.

First, what are the displacement effects of aid programs? That is, to what extent are increases in federal aid followed by decreases in aid from other sources or by increases in tuition levels?

Second, how does the form of federal aid affect the nature of the programs offered by postsecondary institutions? Suppose, for example, that Pell Grants were replaced by graduation-contingent aid. Universities might respond by relaxing their graduation requirements. Vocational schools might divide their programs into shorter subprograms, each yielding a certificate of some kind.

Third, how do the returns to schooling depend on the supply of educated labor? Research evaluating aid policy has assumed that the returns to schooling do not depend on the distribution of schooling levels in the population.<sup>18</sup> Unfortunately we do not know how well this assumption approximates reality. If the demand for educated labor is actually fixed, then any attempt to use aid to increase the number of workers with postsecondary training will fail. An increase in postsecondary aid will generate a compensating fall in the wage paid to labor with postsecondary training. The result will be that the provision of aid will not induce more students to enroll.<sup>19</sup>

## Postsecondary aid and antipoverty policy

Federal programs of postsecondary aid are among a complex of instruments that society uses in its attempt to reduce poverty. In recent years, the poverty research community has been only marginally concerned with postsecondary aid policy. Greater concern is warranted, for three reasons.

First, it is misplaced to think that students from poverty backgrounds who graduate from high school are "success stories," requiring no further attention. It may once have been the case that a high school diploma adequately qualified a person for entry into the mainstream of the labor market. As the composition of jobs in the American economy changes, however, it becomes increasingly questionable whether a high school education suffices to ensure an escape from poverty.

Second, programs of financial aid for enrollment in postsecondary education should increase the rate of high school completion by low-income students. As pointed out earlier, the availability of aid affects the option value of persisting in high school.

Third, the recently enacted Family Support Act of 1988 creates a potentially strong interaction between postsecondary aid and Aid to Families with Dependent Children (AFDC). Among other purposes, the new act is intended to

“assist needy children and parents . . . to obtain the education, training, and employment needed to avoid long-term welfare dependence.”<sup>20</sup> For those AFDC recipients possessing a high school diploma, this means postsecondary aid.

It may be thought that few AFDC recipients do possess a high school diploma. That is not the case. Data from the March 1988 Current Population Survey indicate that of all the female heads of households with no husband present and with incomes below the poverty line, 51.8 percent are high school graduates.<sup>21</sup> That statistic well illustrates the need to be concerned about our policies for providing aid to students beyond the high school level. ■

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<sup>1</sup>Stafford Loans, formerly Guaranteed Student Loans, were initiated by the Higher Education Act of 1965. The Pell Grants, formerly known as Basic Educational Opportunity Grants, were begun in 1972. Both programs have subsequently been reauthorized several times, with fluctuating eligibility criteria and funding levels. The most recent authorization, by the Higher Education Amendments of 1986 (Public Law 99-498, October 17, 1986), expires at the end of 1991. In academic year 1986-87, the Pell Grant program disbursed \$3.5 billion to 2.6 million students. The Stafford Loan program guaranteed \$8.3 billion in new loans to 3.5 million students. (Estimates made by the College Board, reported in the *Chronicle of Higher Education*, December 2, 1987, p. A36.)

<sup>2</sup>Fischer, “Graduation-Contingent Student Aid,” *Change*, November/December 1987, pp. 40-47.

<sup>3</sup>“Bill Links Education Aid, Service,” *Washington Post*, January 6, 1989, p. A8.

<sup>4</sup>“Dukakis Asks College Loans to Be Repaid on Job,” *New York Times*, September 8, 1988, p. 1. A similar proposal for “income-contingent loans” was earlier made by the Reagan administration; see “Reagan Seeks Big Increase for Program That Links Loan Repayments to Income,” *Chronicle of Higher Education*, January 7, 1987, p. 17. In fact, funds for a small demonstration were authorized by the Higher Education Amendments of 1986.

<sup>5</sup>Haveeman, *Starting Even* (New York: Simon and Schuster, 1988), p. 155.

<sup>6</sup>“Revamping of Financial Aid Called Vital for Low-Income and Minority Students,” *Chronicle of Higher Education*, November 9, 1988, p. A1.

<sup>7</sup>My work on this subject is described in Manski and David Wise, *College Choice in America* (Cambridge: Harvard University Press, 1983), Chap. 7. A good review of the literature is provided in Richard Freeman, “Demand for Education,” in Orley Ashenfelter and Richard Layard, eds., *Handbook of Labor Economics* (Amsterdam: Elsevier, 1986). A number of new studies and critiques of the literature are collected in a recent issue of *Economics of Education Review*, 7, no. 1 (1988). See also “Financial Aid for College Students: Have the Barriers to Opportunity Been Lowered?” *Focus*, 10, no. 3 (Fall 1987), 6-9.

<sup>8</sup>James, “Student Aid and College Attendance: Where Are We Now and Where Do We Go from Here?” *Economics of Education Review*, 7, no. 1 (1988), 1-13. (Quote from p. 3.)

<sup>9</sup>Fischer, “Graduation-Contingent Student Aid,” p. 42.

<sup>10</sup>“Schooling as Experimentation: A Reappraisal of the Postsecondary Dropout Phenomenon,” IRP Discussion Paper no. 865-88, University of Wisconsin-Madison, 1988.

<sup>11</sup>Manski and Wise, *College Choice in America*, p. 10.

<sup>12</sup>Fischer, “Graduation-Contingent Student Aid,” p. 44.

<sup>13</sup>Much of the literature on the economics of education ignores dropout entirely by treating schooling as an investment which, when undertaken, will definitely be completed. Recent survey articles by Mark Blaug and Richard Freeman make no mention of the dropout phenomenon: Blaug, “Where Are We Now in the Economics of Education?” *Economics of Education Review*, 4, no. 1 (1985), 17-28; and Freeman, “Demand for Education.”

<sup>14</sup>*Journal of Political Economy*, 70, no. 5, part 2 (1962), S106-S123.

<sup>15</sup>*International Economic Review*, 14 (1973), 421-435.

<sup>16</sup>Empirical research to date has not recognized the fact that students make sequences of related schooling decisions. The failure of the literature to examine the dynamics of schooling behavior can be traced largely to the absence of tractable approaches for the empirical analysis of dynamic choice. This situation is now changing. Recent work has demonstrated the feasibility of empirical analysis of some dynamic choice problems. Among the new approaches is one I developed in “Path Utility Analysis of Dynamic Choice,” Social Systems Research Institute Paper no. 8805, University of Wisconsin-Madison, February 1988. This approach is being applied to the analysis of schooling behavior in an ongoing IRP project.

<sup>17</sup>McPherson, “On Assessing the Impact of Federal Student Aid,” *Economics of Education Review*, 7, no. 1 (1988), 77-84. (Quote from p. 78.)

<sup>18</sup>This assumption is not peculiar to studies evaluating aid policy. It is maintained in almost all the empirical literature on education and labor.

<sup>19</sup>Aid may still have distributional effects, shifting the composition of enrollments toward students from low-income backgrounds.

<sup>20</sup>Public Law 100-485, October 13, 1988, 102 STAT. 2343. An article in this issue of *Focus* describes the provisions of the act.

<sup>21</sup>See U.S. Bureau of the Census, Current Population Reports, Series P-60, no. 161, *Money Income and Poverty Status in the United States* (Washington, D.C.: U.S. GPO, 1988) Table 19, p. 37.

# The effect of taxation on labor supply in industrialized countries: A conference

by Robert Moffitt

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On October 12–14, 1988, a conference on the effects of taxation on labor supply in industrialized countries was held in Racine, Wisconsin. The conference was cosponsored by the U.S. National Science Foundation, the *Journal of Human Resources*, the Institute for Research on Poverty, and the Johnson Foundation. Held at the Johnson Foundation's Wingspread Conference Center, the conference brought together European and U.S. labor economists and econometricians to discuss the effects of income taxes on labor supply and the econometric methods used to estimate those effects.

## Background

The motivation for the conference arose from two separate but related developments. First, tax reform in Western Europe has accelerated in the 1980s and has proceeded in directions similar to those taken in the United States. While most reform activity in Europe has concerned lowering of marginal rates, as in the 1981 U.S. tax legislation, there has also been some activity and considerable discussion of structural reform along the lines of the 1986 U.S. tax legislation. The country with developments most similar to those in the United States is the United Kingdom, where the top marginal rate was lowered in the early 1980s and a drastic reduction of the number of tax brackets (down to three) was enacted in 1988. Reductions in marginal rates have been under way in Germany as well, where an initial reduction in 1985 was followed by a second cut in 1988. Sweden plans to reduce its top marginal rate in the income tax to 75 percent, still high by most standards, but nevertheless reflecting a concern in Sweden for work incentives. The French conservative government cut tax rates, and discussions of structural reform in the Netherlands were introduced into public debate not long ago by the report of a specially appointed tax commission.

The second development in Western Europe in the last several years has been an increased interest in micro econometrics and in the use of advanced empirical methods for the

analysis of policy issues, particularly those related to labor supply. Most of the work has been conducted by relatively young labor economists who have followed U.S. developments in this area, particularly the work of Jerry Hausman on taxes and labor supply, and have been estimating similar models on data from their own countries. The European economists have also been interested in the development of new methods for estimating tax effects on labor supply beyond those used in the United States, as well as in the introduction of more realistic labor market assumptions into the model utilized by Hausman and others.

## The participants

The intention of the conference organizers, Eugene Smolensky (Dean of the Graduate School of Public Policy, University of California) and myself, was to take advantage of these twin developments by bringing together labor economists from several European countries to present papers on their latest research results and experts in the subject from the United States to discuss the European work as well as present new work of their own.

Participants and discussants included the following persons:

- François Bourguignon and Thierry Magnac from France
- Ugo Colombino and Daniela del Boca from Italy
- Arie Kapteyn, Arthur van Soest, and Isolde Woittiez from the Netherlands
- John Dagsvik and Steinar Strøm from Norway
- Jaime García and José M. González-Paramo from Spain
- Sören Blomquist and Nils Urban Hansson-Brusewitz from Sweden
- Richard Blundell and Costas Meghir from the United Kingdom
- Gary Burtless, Jerry Hausman, James J. Heckman, Thomas MaCurdy, Charles F. Manski, Robert Moffitt, John Rust, Peter Schochet, Robert Triest, James Walker, and Kenneth Wolpin from the United States.

Revised versions of the papers will be published in the *Journal of Human Resources*.

## The papers

Most of the papers at the conference, as well as most of the discussion of the participants, concerned the econometric difficulties in estimating the effects of income taxes on labor supply and the econometric issues connected with what has come to be the standard model for the solution of the difficulties. The estimation problem arises whenever an income tax system has tax rates that vary with income, as in the American system with rates of 15 percent and 28 percent. Applying simple regression analysis to explain hours of work, for example, is problematical because it is not obvious “which” tax rate in the schedule should appear on the right-hand side of the regression equation. In general, the whole tax schedule should be entered, but entering all rates would result in an extremely cumbersome regression equation.

The “standard” model that solves the problem was first developed by Gary Burtless and Jerry Hausman<sup>1</sup> and was later applied to the income tax case by Hausman.<sup>2</sup> Burtless and Hausman essentially set up a two-equation model, one equation to represent the individual’s choice of the tax schedule segment upon which to locate, and one equation to represent the individual’s choice of hours of work within the chosen segment. The first equation contains, either implicitly or explicitly, all the marginal tax rates in the schedule; but the second equation contains only the marginal tax rate in the chosen segment. The first equation also allows the choice of a “kink,” that is, a point at which the marginal tax rate changes. It should also be noted that Burtless and Hausman did not suppose that individuals necessarily make their decisions in two stages, for the econometric specification of the model in the form of two equations was entirely for convenience. The virtue of the model is that it ties the economic theory of labor supply choice into the estimation problem in an elegant and intuitively plausible way.

Burtless and Hausman outlined an estimation method for the model and demonstrated its use in an application to the case of a negative income tax. In his 1981 application to the income tax, Hausman estimated a similar model using U.S. data from the mid-1970s. Hausman found significant work disincentives of progressive taxation for women, which was expected on the basis of prior analyses, but also significant (though smaller) work disincentives for men. The latter was unexpected, for the conventional wisdom in the labor supply literature is that the labor supply of men is very insensitive to tax policy.

The papers and discussion at the conference generated a number of issues and questions about the Burtless-Hausman model and its successors. One of the most frequently discussed issues concerned how findings obtained using the standard model change as the statistical and mathematical assumptions imposed in that model are altered. A second source of concern discussed at the conference was the implication of the lack of clustering of observations around the kink points of the tax schedule. Economic theory implies

that such clustering should take place—that a significant number of individuals should work up through a tax bracket just to the point where the marginal tax rate is about to increase. However, data plots show essentially no such clustering around income tax kink points, at least not to the naked eye and not with the sample sizes available. Several reasons for this lack of clustering were put forward at the conference, including the possibility that individuals simply do not have the flexibility in their work decisions to fine-tune their hours of work so closely; that errors in survey responses are present; or that the marginal tax rates do not change by a sufficiently great amount from one bracket to another to make it worthwhile for individuals to attempt such fine-tuning of their work hours.

Another possible explanation for the lack of visual clustering is that we (the analysts) have mismeasured the locations of the kink points in the tax schedule for lack of adequate data. In most survey data sets, including that used by Hausman, no information is available on the family’s filing status, itemization status, number of exemptions, types and amounts of deductions, and so on. Instead, a standard tax rate schedule must be imputed to each family using simple socio-demographic characteristics such as family size and marital status. There is unquestionably significant error in this procedure, as it is well known that the tax situations of demographically identical families can be very different.

A related issue of more direct policy importance is whether the lack of information on deductions constrains not only the accurate modeling of individual tax schedules but also our ability to determine the effects of structural tax reforms such as that enacted in the United States in 1986. The 1986 law simultaneously simplified the tax schedule and broadened the tax base, chiefly by eliminating deductions and by reducing deductibility rates. Without information on deductions in the data and in an estimated model, it is difficult to see how the effects of the 1986 law could be satisfactorily determined. To date, only Robert Triest has addressed this question in his work.

A final general issue discussed at the conference and in the papers was the means by which institutional constraints on hours of work could be introduced into the model. It is well known that weekly hours of work cluster around 35–40 and that few individuals work part time, though the number has been increasing somewhat over time in the United States. If this signals an inability to adjust hours of work, individual responsiveness to the income tax may be likewise constrained. Several suggestions were put forth at the conference for more accurately modeling the distribution of hours of work in the standard model.

The individual papers at the conference developed one or more of these issues in more detail. In their paper on the Netherlands, Van Soest, Woittiez, and Kapteyn considered the problem of institutional constraints. In their paper on Norway, Dagsvik and Strøm took a different approach to the same problem.

Blomquist and Hansson-Brusewitz estimated the standard model on their Swedish data for two specifications of the labor supply function, thereby addressing the question of whether the functional form of the labor supply equation has an effect on the results. In their paper on the United Kingdom, Blundell and Meghir also addressed the question of the flexibility of the functional form of preferences, stressing the importance to the results of allowing maximum flexibility.

Bourguignon and Magnac, the French authors, estimated a family labor supply model taking into account joint household decision-making by husbands and wives, finding that the usual economic model of joint utility maximization does not fit the data well. They also found evidence of demand-side rationing and institutional constraints on hours of work. García, González, and their coauthor Antonio Zabalza, for Spain, and Colombino and del Boca, for Italy, estimated the standard model in a form closely related to that estimated by Hausman and found, interestingly, very similar elasticities in those countries to those found in the United States.

The two U.S. papers addressed a different set of issues. Triest tested the sensitivity of findings to the estimation method used. MaCurdy addressed issues in the specification of preferences.

Although the conference was long on methodological points and short on policy conclusions, considerable progress was made in identifying and clarifying the methodological issues that must be addressed in any study of the effects of income taxes on labor supply. Moreover, the interaction between the participants from the European countries and the United States was extremely fruitful, as many researchers discovered that they had been working on similar issues but with different approaches. As a consequence, the participants took away from the conference a stimulating set of ideas for new methods to use in their future research on what is a critical policy issue here and abroad. ■

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<sup>1</sup>Burtless and Hausman, "The Effect of Taxation on Labor Supply: Evaluating the Gary Income Maintenance Experiment," *Journal of Political Economy*, 86 (December 1978), 1103-1130.

<sup>2</sup>Hausman, "Labor Supply," in *How Taxes Affect Economic Behavior*, ed. Henry Aaron and Joseph Pechman (Washington, D.C.: Brookings Institution, 1981). For a review of the literature, see Hausman, "The Econometrics of Nonlinear Budget Sets," *Econometrica*, 53 (1985), 1255-1282; and Robert Moffitt, "The Econometrics of Piecewise-Linear Budget Constraints," *Journal of Business and Economic Statistics*, 4 (July 1986), 317-328.

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## PC-SIPPTEST

The Survey of Income and Program Participation (SIPP) is a series of panel surveys conducted by the U.S. Bureau of the Census in the 1980s to monitor short-term changes in the economic situations of persons, households, and families in the United States. The surveys gathered data on family formation and dissolution, job changes, income earned from labor and capital, receipt of government transfers, family characteristics, and many other topics.

The 1984 public use files of SIPP have been available since 1987 in a relational database management system (Ingres) at the University of Wisconsin-Madison for use on a VAX/VMS system via remote access. These files consist of data on more than 64,000 people, who were interviewed up to nine times over a three-year period.

Now available is PC-SIPPTEST, a microcomputer version of the VAX database, created by extracting a 2 percent representative sample of survey units. The sample contains all the essential variables for households, families, persons, and their associated employment and income information, as well as supplementary surveys on special topics. Tools for retrieval include

- longitudinal files with information about the duration in the panel, change in marital status, spells of receipt of income, income and asset amounts, demographic characteristics, residential mobility;
- files of target populations, such as those receiving welfare, medical assistance, food stamps, and health insurance;
- new units of analysis—assets jointly held by couples, social security benefits, parent-child and husband-wife pairs.

The database is stored on high-density disks. The package comes with an instructional manual (*Analyzing Complex Data: A DBMS for the 1984 Panel of the Survey of Income and Program Participation*, volume 1, *Exploring PC-SIPPTEST*), two diskettes of data dictionaries for the nine interviews in the files, and the questionnaires.

PC-SIPPTEST provides an unparalleled opportunity to understand the SIPP, determine sample sizes, test hypotheses, and debug command files before undertaking research on the complete panel.

The package costs \$575. To order it or to obtain further information, write to SIPP ACCESS, Institute for Research on Poverty, 3412 Social Science Building, 1180 Observatory Drive, University of Wisconsin-Madison, Madison, WI 53706. BITNET address: SIPPASSIST@WISCPSL. Phone: (608) 262-6358.

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# IRP agenda for 1989–1991

With funds from the Office of the Assistant Secretary for Planning and Evaluation (ASPE) of the U.S. Department of Health and Human Services, the Institute will carry out fifteen studies over the two-year period 1989–91. Twelve will concentrate on children and youth; three will provide a historical framework for today's social problems.

## **The dynamics of poverty and well-being among children and young adults**

These studies will examine how the experiences of children and youth, in particular those associated with poverty, influence their attainment and stability as adults. Child care, family dependence on welfare, family disruption, socioeconomic status, schooling decisions, depressed neighborhoods, youth employment, and foster care are among the topics that will be explored for their effects on the present and future well-being of this generation's children.

### *1. The Impact of Early Childhood Resources on Economic Attainment in Young Adulthood*

Robert Haveman, Department of Economics and Director, La Follette Institute of Public Affairs, University of Wisconsin–Madison; and Barbara Wolfe, Departments of Economics and Preventive Medicine, University of Wisconsin–Madison

This ongoing project seeks to determine how the circumstances of children in their formative years affect their productivity and attainment as young adults. Haveman and Wolfe will relate the investments by parents and society in children's well-being to the outcomes of these investments as measured by completion of high school, earnings or type of first full-time job, early parenthood, and receipt of welfare. They will seek to learn whether causal links connect such variables as mother's work (or receipt of welfare) and her child's future experiences.

The researchers are using data combined from three sources: the Panel Study of Income Dynamics, a longitudinal survey which gives information on the experiences of children as they mature; the Michigan Time Diary Study, which provides data on the adults in the families of these children; and 1980 Census data on area (neighborhood) characteristics of the families.

### *2. The Intergenerational Consequences of Marital Disruption*

Sara McLanahan, Department of Sociology, University of Wisconsin–Madison; and Gary Sandefur, Departments of Social Work and Sociology, University of Wisconsin–Madison

McLanahan and Sandefur are currently engaged in a large research project analyzing the consequences for children of parents' marital breakup. The basic question they address is whether growing up in a single-mother family or a stepfamily results in lower educational achievement, less remunerative employment, and more marital instability than is experienced by children whose parents remain married. If, as some evidence has indicated, these negative outcomes are associated with family disruption, are they related to economic resources, parent-child relationships, and/or community characteristics? Is the age of the child at the time of family disruption significant? Does the sex of the custodial parent matter? Does remarriage attenuate the effects of divorce, or does it represent an additional disruption? Are effects consistent across different racial and ethnic groups? Are they similar among women and men? Given the long-term trends in marital disruption and women's economic independence, it is unlikely that children's exposure to mother-only families will decline in the near future. It is therefore imperative that we understand the risks to children's development from this living arrangement. The ASPE funds will permit the investigators to report their findings in a monograph intended to assist policymakers to develop remedial policies and services to compensate for the loss of parental income and any other deficiencies that may be related to living with a single parent.

The research makes use of four data sets: the National Longitudinal Survey of Youth, the Panel Study of Income Dynamics, the High School and Beyond survey, and the National Survey of Families and Households.

### *3. Child Support, Child Care, and Antipoverty Policy*

Irwin Garfinkel, Department of Social Work, University of Wisconsin–Madison; and Philip Robins, Department of Economics, University of Miami

This study will examine two issues of crucial significance for children: child support and child care. It will evaluate the provisions of the 1984 welfare reform legislation that were intended to strengthen child support enforcement. Among these provisions were those to require withholding of child support from wages when a noncustodial parent's payments are one month in arrears; to expedite procedures to obtain support orders and establish paternity; to confiscate federal and state tax rebates to pay arrears in child support; to require states to develop guidelines for the establishment of child support awards; and to require child support orders to cover medical support. Garfinkel and Robins will measure the effectiveness of these provisions and their impact on poverty and welfare dependence. For this purpose, they will

analyze data from the Current Population Surveys of 1979, 1982, 1984, 1986, and 1988.

In their study of child care policy, the researchers will examine the factors related to the demand for child care and those related to labor supply and will use their results to simulate the behavioral effects and costs of alternative child care policies. They intend as well to investigate the interaction of child care policies with other welfare reform policies. The behavioral models will be estimated with data from the Survey of Income and Program Participation. A comparison of the effects of the Wisconsin Child Support Assurance System with and without an expansion of child care assistance should provide some measure of the effects of interaction between child care and other welfare policies.

4. *An Empirical Investigation of the Effects of Child Care Costs and Subsidies on Female Labor Force Participation and Child Care Utilization: A Structural Approach*

V. Joseph Hotz, Graduate School of Public Policy Studies, University of Chicago

It has been argued that the lack of subsidization of child care is a major barrier to the labor force participation of low-income women who head households. Yet few empirical studies have examined the impact of existing child care subsidies, child care-related programs, or child care costs on the labor force participation of women. Hotz's research project and the Garfinkel and Robins project described above will begin to fill this gap in our knowledge. Hotz will use data from the National Longitudinal Survey of Youth to measure the influence of child care costs and attributes (such as the quality, reliability, and convenience of the services provided) on the work effort of mothers. The study will simulate the effects of different child care programs and will seek to predict the resulting work behavior of young women, especially blacks and Hispanics. This work, which will be coordinated with the work of Garfinkel and Robins, should make it possible to forecast the likely impacts of alternative child care programs and subsidy schemes.

5. *Public Policy and the Supply of Child Care Services*

James R. Walker, Department of Economics, University of Wisconsin-Madison

Making use of a recent survey of child care providers, Walker will first characterize the different types of child care that are offered—by relatives, in family homes, and in centers—with special attention to any differences in quality that may exist between licensed and unlicensed providers. Until now, most studies have looked at licensed providers, yet among those who provide care in their own homes, only between 5 and 10 percent are licensed. It has been tacitly assumed that licensed providers supply a higher quality of service than do unlicensed providers, so many proposals have been made to establish and enforce child care standards. But in fact no empirical evidence exists to support the assumption.

With data on both providers and users of child care, Walker will investigate how well the "child care market" works in terms of consumer satisfaction, waiting lists, and the matching of providers and consumers. The analysis will identify possible sources of "market failure" that may be addressed by government policies. A second phase of the project will draw on the theory of production economics to develop a framework for analyzing the provision of day care in family homes. Using this framework Walker intends to compare licensed and unlicensed family home providers.

6. *The Schooling Decisions of Students from Poverty Backgrounds: A Dynamic Choice Analysis*

Charles F. Manski, Department of Economics and Director, Institute for Research on Poverty, University of Wisconsin-Madison

Because education is a primary vehicle for escaping from a background of poverty, the low rates of high school completion and of enrollment in postsecondary education among students from poverty and near-poverty backgrounds have long been a cause for public concern. This study will analyze the schooling decisions of such students, giving attention to the successive choices they make: whether to complete high school, whether then to enroll in college or technical school. Employing data from the High School and Beyond survey, Manski will make use of recent advances in the econometric analysis of dynamic choice under uncertainty. He will use the resulting model of schooling behavior to forecast the effects on educational attainment of existing and proposed federal programs of financial aid to students in secondary and postsecondary education. (See Manski's article in this issue of *Focus*.)

7. *Middle-Class Flight and the Underestimation of Education's Future Benefit by the Underclass*

Peter A. Streufert, Department of Economics, University of Wisconsin-Madison

The civil rights movement and the ensuing reforms have enabled middle-class blacks to find housing outside of the urban ghettos. As a result, poverty has become more geographically concentrated in large-city centers.

The residents of these areas—which contain high rates of poverty, crime, drug use, teenage pregnancy, and single mothers—are often designated as an "underclass." Streufert will conduct a theoretical analysis of one aspect of the underclass phenomenon: whether its members, lacking appropriate middle-class role models, underestimate education's future benefit and therefore remain poor, forgoing the opportunities that more education might open to them—whether, in other words, poverty breeds poverty via a systematic undervaluation of education. If his hypothesis proves to be correct, several avenues of remedial public policy present themselves. Among them is a policy to counteract the undervaluation of education by offering financial incentives for students to improve their school achievement.

## 8. *Black-White Differences in Youth Employment*

Glen Cain, Department of Economics, University of Wisconsin-Madison

Black youth lag behind white youth in employment, labor force participation rates, wage rates, and earnings. This lag applies to both young black men and young black women, and the disparity between blacks and whites has been increasing over time. These lower employment levels and lower wages of black youth as compared with white youth pose an economic problem with serious future consequences for poverty among black families.

This study will seek to determine the extent to which the observed racial differences are due to demand factors (lack of employment opportunities) or supply factors (lower skills and abilities of the workers) as a first step toward drawing policy implications. The censuses of 1970 and 1980, which contain detail on a sufficiently large number of individuals to permit the study of local labor markets, will provide the data for analysis. Preliminary work on the employment variation across local labor markets among young black men indicates that demand factors play a major role. The research dealing with the comparative labor market performance of young black women and white women is complicated by childbearing and housework, two important alternatives to market work among young women. Cain intends to use a number of strategies to deal with these complexities.

## 9. *Marriage and Marital Dissolution in a Changing Labor Market*

Robert D. Mare, Department of Sociology, University of Wisconsin-Madison; and Christopher Winship, Departments of Sociology, Statistics, and Economics, Northwestern University

In the wake of the decline in marriage and increases in marital dissolution, a number of hypotheses have been suggested that posit a connection between marriage patterns and labor market conditions. It is suggested, for example, that the declines in marriage for blacks result from worsening labor market opportunities for young black men, or, alternatively, that declines in marriage result from increasing economic independence of women and their improved labor market opportunities relative to those of men. A related argument is that the availability of income transfers such as Aid to Families with Dependent Children has an independence effect in that it enables single women not to marry and married couples to separate and divorce.

Mare and Winship will investigate the effects of labor market conditions on marriage patterns of young persons from the 1960s to the present, paying specific attention to trends and differences among blacks and whites. They will test alternative explanations for declines in marriage and increases in marital disruption, taking into account the effects of rising rates of cohabitation of unmarried couples and of school enrollment. Data will come from the National

Longitudinal Surveys of Youth for 1979-88, the National Longitudinal Surveys of Young Men for 1966-81 and of Young Women for 1967-88, and the March Current Population Surveys of 1964-88.

If socioeconomic and labor market conditions greatly affect the decisions of young men to marry and remain married, this research should give some indication of the effects of policies to create jobs on the marital behavior of young persons. If women's opportunities for economic independence strongly affect their decisions to marry and remain married, this research will show whether actual and potential income transfers are a major cause of the decline in marriage.

## 10. *A Simulation Model of the Effect of Workfare on Welfare Caseloads and the Poverty Rate*

Robert Moffitt, Department of Economics, Brown University

Work-welfare programs, which link employment and training to income maintenance, have increasingly been seen as a way to reduce the caseload for Aid to Families with Dependent Children (AFDC) and assist AFDC recipients to become self-sufficient. State-initiated work-welfare programs are incorporated in the Family Support Act of 1988 under the title JOBS (Job Opportunities and Basic Skills Training Program). The federal law gives states a great deal of leeway in designing programs to suit their specific needs. Although the various work-welfare programs now in operation are being evaluated, no tool exists to generalize program features to predict the effects of types that have not yet been tried.

Moffitt will construct a simulation model of the work-related component of AFDC to estimate its effects on (1) AFDC caseloads; (2) government expenditures on AFDC; (3) recipients' earnings, employment levels, and program participation rates; and (4) U.S. poverty rates. The simulation will model the choice of whether to go on the AFDC rolls, taking into consideration personal preferences and work and schooling opportunities; whether then to stay on the rolls or leave after the introduction of work and training requirements; and the change in earnings that results from these choices. The data sets for the study are the Survey of Income and Program Participation and the Panel Study of Income Dynamics.

## 11. *Minorities and the Underclass Debate: Welfare Behavior in Poor Chicago Neighborhoods*

Marta Tienda, Department of Sociology, University of Chicago

The Urban Family Life Survey collected detailed data on the residents of poverty-stricken areas of Chicago in 1986. Tienda will use this information to analyze and compare the welfare experiences of minority and nonminority parents. She will document racial and ethnic differences in the frequency of welfare receipt and the length of time spent on

welfare. Then she will examine intergenerational links in welfare reciprocity and the variations in such links among blacks, Mexican Americans, Puerto Ricans, and whites. Finally, she will attempt to learn whether residence in neighborhoods of concentrated poverty prolongs welfare dependence by reinforcing attitudes toward work and dependence and, if so, whether these effects vary by race and ethnic origin.

Of particular interest to Tienda is the Puerto Rican population. There is growing evidence that Puerto Ricans have withdrawn from the labor market more than have members of other groups and their reliance on welfare has increased. Furthermore the family structure of Puerto Ricans has diverged from that of other Hispanic groups, notably Mexicans and Cubans, and has become more similar to that of blacks. Comparing Puerto Ricans with other minorities will inform policy debates about the need for specific antipoverty measures for racial and ethnic groups. It will also shed light on means by which national origin and race (as opposed to class) circumscribe the economic life course of minority groups.

12. *Assessing the Impact of Foster Care: A Research Synthesis*

Irving Piliavin, Departments of Social Work and Sociology, University of Wisconsin-Madison; and Thomas McDonald, School of Social Welfare, University of Kansas

The number of children in foster care increased during the 1960s and 1970s and appears to have peaked in the late 1970s, when an estimated 350,000 children were in foster family care and over 500,000 were in all types of out-of-home placement. This growth raised concerns about the prevalence and desirability of foster care in a society that both feels a responsibility to protect and nurture children and places a high value on family life. Current federal regulations require child welfare agencies to make reasonable efforts to prevent the need for out-of-home placement and, when placement is necessary, to return children to their families as soon as possible. But evidence suggests that some children may not be better off with their biological parents.

Piliavin and McDonald expect to improve our understanding of foster care by means of a comprehensive and critical review of research to date, concentrating upon the effects of foster care on the children served. (This proposal grows out of Piliavin's previous study of homelessness, which revealed that a surprisingly large proportion of the homeless had been in foster care as children.) The purpose of the review is to identify what we do and do not know concerning the consequences of foster care, to develop recommendations for future data collection and research, to assess trends in the programs and policies that have evolved over recent decades, and to offer proposals for program and policy development.

## Historical perspectives on poverty

13. *How Have Families Been Faring? A Study of Trends in Poverty and Inequality*

Sheldon Danziger, School of Social Work and Institute of Public Policy Studies, University of Michigan; and Peter Gottschalk, Department of Economics, Boston College

Danziger and Gottschalk will extend their work on trends in economic status by examining the underlying relationships among inequality in family incomes, poverty, economic growth, and transfers during the post-World War II period.

Until the 1970s, reductions in poverty and inequality were attributed to strong economic growth, declining unemployment rates, and increases in government transfers. From 1973 to 1983, increases in poverty and inequality seemed to result from offsetting factors: a slowdown in economic growth and rising unemployment on one hand were counteracted to some extent by transfer increases over the 1970s. Since 1983 relatively constant transfers, declining unemployment, and economic growth have prevailed and will be a focus of the project.

The researchers will seek to disentangle the effects of changes in demographics, economics, and public policies by decomposing these changes within the type of accounting framework they have used in previous work. Employing data from the decennial censuses of 1940-80 and the Current Population Surveys of 1968-89, they will address these kinds of questions: Which demographic groups have benefited most during the recent recovery? If male-headed families have benefited disproportionately, does that signal a return to a "feminization of poverty?" How have demographic and policy changes affected minority and majority families? What accounts for the differences between white and black poverty rates?

**The next issue of *Focus* will consist  
of essays on the urban underclass.**

**This forthcoming special issue  
is made possible by a grant  
from the Rockefeller Foundation.**

14. *Spatial Distribution of Race and Poverty: Trends in Urban Residential Structure*

Karl Taeuber, Department of Sociology, University of Wisconsin-Madison

One explanation of the worsening plight of urban blacks is that sharp increases in class segregation have occurred within inner cities as middle-class blacks have taken advantage of new residential opportunities and moved away from the inner cores. The result is extreme isolation of poor blacks from middle-class persons.

Many aspects of this posited causal scheme have not been subjected to empirical evaluation. Taeuber will analyze data from the decennial censuses of 1940-80 and other available indicators of social change since 1980 to determine the degree to which class mixing existed at earlier census dates; to examine the timing, character, and extent of social changes in cities with large black concentrations; and to seek patterns and trends based on region, city size, percentage black, and economic base.

15. *Historical Perspectives on AFDC: The Paths Not Taken*

Linda Gordon, Department of History, University of Wisconsin-Madison

Gordon's study, part of a larger work on the history of the welfare state, will take a new look at the conflicts and resolutions surrounding the evolution of Aid to Families with Dependent Children (AFDC).

The federal AFDC program, originally enacted in 1935 as Aid to Dependent Children (ADC), was the successor to a variety of mothers' and widows' pension programs established by the states earlier in the century. Several alternative proposals were put forward at that time that touched on such important issues as whether the Children's Bureau rather than the Social Security Administration should administer it (which would have given it a quite different character); whether there should be federal standards for minimum payments; whether eligibility should encompass more than single motherhood and, if so, whether the criteria should be federally determined; and whether there should be federally enforced antidiscrimination requirements. According to Gordon we have almost entirely lost sight of these alternate proposals and tend to regard the form in which ADC was enacted as inevitable; the assumption is that the reform that succeeded was the best available and the others were impracticable.

Knowledge of how the program took shape and the influences brought to bear in shaping it (including the role of women in the process) can offer perspective on today's welfare reform efforts. ■

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**Institute for Research on Poverty  
National Advisory Committee  
1989**

The Institute wishes to extend thanks to three retiring members of the National Advisory Committee who have served for many years: William Morrill, appointed in 1978; Joseph Pechman, appointed in 1975; and Harold Watts, the Institute's first director, appointed to the committee in 1977. Members now serving on the NAC are listed below.

Alfred Blumstein  
School of Urban and Public Affairs  
Carnegie Mellon University

Christopher Jencks  
Department of Sociology  
Northwestern University

Alfred J. Kahn  
School of Social Work  
Columbia University

Marvin Kosters  
Center for the Study of Government Regulation  
American Enterprise Institute for Public Policy Research

Walter Oi  
Department of Economics  
University of Rochester

June O'Neill  
Center for the Study of Business and Government  
Baruch College

Lee Rainwater  
Department of Sociology  
Harvard University

Isabel V. Sawhill  
Urban Institute

James Smith  
Rand Corporation

Eugene Smolensky  
Graduate School of Public Policy  
University of California, Berkeley

Robert Willis  
Department of Education  
University of Chicago

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# Discussion Papers

These Discussion Papers may be individually purchased for \$3.50 from the Institute for Research on Poverty, 1180 Observatory Drive, 3412 Social Science Building, University of Wisconsin, Madison, WI 53706. Or they may be purchased for the entire fiscal year for \$30.00. See subscription form at back.

- Garfinkel, I. "Welfare policy in America." 46 pp. DP 847-87.
- Cain, G.G., and Finnie, R. "The black-white difference in youth employment: Evidence for demand-side factors." 49 pp. DP 848-87.
- Sandefur, G.D., and Tuma, N.B. "Social and economic trends among the aged in the United States, 1940-1985." 55 pp. DP 849-87.
- Cain, G., and Wissoker, D. "Income maintenance plans and marital stability." Forthcoming. DP 850-87.
- Moffitt, R. "Has state redistribution policy grown more conservative? AFDC, Food Stamps, and Medicaid, 1960-1984." 63 pp. DP 851-87.
- Schaeffer, N.C. "Principles of justice in judgments about child support." 51 pp. DP 852-87.
- Piliavin, I., Sosin, M., and Westerfelt, H. "Conditions contributing to long-term homelessness: An exploratory study." 41 pp. DP 853-87.
- Garfinkel, I., and Wong, P. "Child support and public policy." 55 pp. DP 854-87.
- McLanahan, S., and Booth, K. "Mother-only families: Problems, reproduction, and politics." 54 pp. DP 855-87.
- Danziger, S.K. "Father involvement in welfare families headed by adolescent mothers." 26 pp. DP 856-87.
- Cain, G.G., and Wissoker, D.A. "A reanalysis of marital stability in the Seattle-Denver Income Maintenance Experiment." 56 pp. DP 857-88.
- Holden, K.C., Burkhauser, R.V., and Feaster, D.J. "The timing of falls into poverty after retirement and widowhood." 20 pp. DP 858-88.
- Corbett, T., and Wiseman, M. "Managing workfare: What are the issues?" 34 pp. DP 859-88.
- Schram, S., and Wiseman, M. "Should families be protected from AFDC-UP?" 37 pp. DP 860-88.
- Sandefur, G. "Poverty among minority groups since the Kerner Report of 1968." 37 pp. DP 861-88.
- Danziger, S. "Economic growth, poverty, and inequality in an advanced economy." 32 pp. DP 862-88.
- Sandefur, G., and Pahari, A. "Racial and ethnic inequality in earnings and educational attainment." 39 pp. DP 863-88.
- Beach, C.M. "The 'vanishing' middle class? Evidence and explanations." 41 pp. DP 864-88.
- Manski, C.F. "Schooling as experimentation: A reappraisal of the college dropout phenomenon." 22 pp. DP 865-88.
- Lewis, G.H., and Morrison, R.J. "Interactions among social welfare programs." 27 pp. DP 866-88.
- Seltzer, J.A., and Garfinkel, I. "Property settlements and child support awards: Inequality in divorce settlements." 43 pp. DP 867-88.
- McLanahan, S., and Garfinkel, I. "Single mothers, the underclass, and social policy." 27 pp. DP 868-88.
- Plotnick, R.D. "Poverty and income transfer policy at the state level." 29 pp. DP 869-88.
- Cain, G., and Wissoker, D. "Marital breakups in the Seattle-Denver Income Maintenance Experiment: A different conclusion." 53 pp. DP 870-88.
- Olneck, M., and Kim, K-S. "The relationship between education and income among American men: Some revisions and extensions." 53 pp. DP 871-88.
- Seltzer, J.A. "Legal and physical custody arrangements in recent divorces." 24 pp. DP 872-88.
- Manski, C.F. "Anatomy of the selection problem." 38 pp. DP 873-88.
- Tienda, M. "Immigration and Hispanic educational attainment: Challenges for the 1990s." 37 pp. DP 874-88.

# The Family Support Act of 1988

In the spring of 1988, a special issue of *Focus* was devoted to welfare reform. In it questions were raised and evidence was examined that were expected to have a direct bearing on any reform that Congress passed and the President approved. What would the new legislation do for children? How would the work and training provisions be implemented? What would be the effects of more stringent child support enforcement? Who would, and who would not, be helped by the reform?

The long-anticipated welfare reform act became law in October 1988. The stated purpose of the act is

to revise the AFDC program to emphasize work, child support, and family benefits, to amend title IV of the Social Security Act to encourage and assist needy children and parents under the new program to obtain the education, training, and employment needed to avoid long-term welfare dependence, and to make other necessary improvements to assure that the new program will be more effective in achieving its objectives. (Public Law 100-485, October 13, 1988, 102 STAT. 2343)

The law puts federal muscle (both funds and sanctions) behind trends that have been taking shape for a number of years. It is now generally agreed that both parents should be responsible for the well-being of their children and that family well-being may be enhanced if needy mothers work rather than stay at home with their children, provided that adequate child care is available. It is also accepted that the purpose of Aid to Families with Dependent Children (AFDC) is not to furnish long-term income support but rather to provide short-term assistance to enable recipients to manage on their own. It is hoped that the new program will aid parents now dependent on AFDC in obtaining the education, training, and employment necessary for self-sufficiency.

The various provisions of the law will be introduced gradually, so its full impact will not be discernible for a period of years. Over fiscal years 1989-93, the net new cost to the federal government of the Family Support Act is estimated to be \$3.3 billion.

The five principal sections of the law deal with child support and the establishing of paternity; job opportunities and training for families on AFDC; supportive services for families as they make the transition from AFDC to independence; related AFDC amendments; and demonstration projects. Some of the significant features of the reform are briefly described below.

## **Title I: Child support and establishment of paternity**

The provisions of the law having to do with child support and paternity constitute an extension of preexisting amendments to the Social Security Act to enhance child support collection. In 1975 Congress added Part D to Title IV of the act, establishing the Child Support Enforcement program. This legislation created a federal Office of Child Support Enforcement and required each state to establish a corresponding agency to help enforce child support for all children dependent upon AFDC. Since 1980 the services of IV-D have been available in non-AFDC cases when requested by the custodial parent. Legislation in 1984 extended the period during which paternity action could be taken to a child's eighteenth birthday. The reason the establishment of paternity is such a significant part of the program is that a child support award cannot be obtained unless the paternity of the child is legally established. Also in 1984, all states were required to draw up guidelines for judges and other officials to use in setting the amounts of child support awards. Finally, the 1984 amendments required states to adopt income withholding for child support after a one-month lapse in payment.

### **Immediate withholding**

Beginning in November 1990, states will be required to provide for immediate wage withholding of child support orders for all cases handled by the Office of Child Support Enforcement. In 1994, states will be required to provide for immediate wage withholding for all support orders (regardless of whether IV-D services are used or payments are in arrears). Exceptions are to be made only if there is good cause or both parties agree (in writing) to an alternative arrangement.

### **The sizes of the awards**

The guidelines that were required in the 1984 bill for determining the size of child support awards will now become binding on judges and other officials who set award amounts, unless they are rebutted by a written finding that they would be unjust or inappropriate in a particular case.

The new act requires that the guidelines be reviewed at least once every four years to ensure that they are still appropriate. And, perhaps of even greater significance, it mandates that the awards in individual IV-D cases be reviewed. Starting two years after the enactment of the bill, review must take place if either parent or the state child support enforce-

ment agency requests it. Periodic reviews and adjustments of all IV-D orders must begin five years after enactment.

The 1988 act also specifies that a study be carried out to determine the impact on awards and courts if periodic review of all child support orders is required. Four state demonstration projects will be approved to test model procedures for reviewing the amounts of individual child support awards. And women who have assigned their child support rights to the states (as stipulated for welfare recipients under the 1975 law) will be notified on a monthly or quarterly basis of the amount of child support collected.<sup>1</sup>

### **Paternity**

Several features of the Family Support Act of 1988 are designed to increase the number of cases in which paternity is established. Starting with fiscal year 1992, states will be penalized if they fail to establish paternity in a given proportion of cases of children born out of wedlock and receiving AFDC or IV-D services. States will be provided federal incentives to set up procedures to require that the child and all other parties in a contested paternity case submit to genetic testing upon the request of any party.

The federal government will pay 90 percent of state expenditures for laboratory costs incurred in establishing paternity. The states will also be required to obtain the social security numbers of both parents when birth certificates are issued, so that the numbers are available to the state IV-D agency, should they be needed.

### **Locating missing parents**

Previous bills have made the records of the IRS available to parent locator services and mandated that federal and state tax refunds be used to offset overdue child support. This bill adds to these resources the state and federal records relating to unemployment compensation.

A commission will be set up to deal with the troublesome problem of how to collect child support when the child's noncustodial parent resides in a different state. The commission is charged with the task of submitting to the Congress a report containing recommendations for improving the interstate establishment and enforcement of child support awards.

## **Title II: Job opportunities and basic skills training program (JOBS)**

Just as the new bill intensifies efforts to collect child support, it builds on past attempts to help AFDC recipients become self-sufficient. The first AFDC work program, the Work Incentive (WIN) program, was established in 1967 to provide skill assessments, job training, and employment placement for AFDC recipients. With some exceptions, AFDC recipients age 16 or over with children over age 6 were required to register for the WIN program. Funding

limitations, however, restricted the ability of the states to provide the requisite services and training. With the passage of the Omnibus Budget Reconciliation Act (OBRA) of 1981, the states had options to set up other work programs. The community work experience program (CWEP) requires adult AFDC recipients to perform some sort of community work in exchange for their AFDC benefits and may require AFDC recipients with children between the ages of 3 and 6 to participate. OBRA also permitted states to operate work supplementation programs, in which AFDC payments could be used to subsidize a job for an AFDC recipient. In 1984, under the Deficit Reduction Act, recipients could be placed in jobs offered by private as well as nonprofit employers, and states were permitted to develop their own methods for diverting AFDC grants to wages. Required job search programs were also initiated in a number of states.

Under the 1988 legislation, all states must establish and operate a JOBS program, the purpose of which is to assure that needy families with children obtain the education, training, and employment necessary to avoid long-term welfare dependence. States have a great deal of leeway in designing their programs, but all must be approved by the Secretary of Health and Human Services at least once every two years.

States must have a JOBS program in place by October 1, 1990, and it must be operating statewide by October 1, 1992. It calls for customized services for every welfare family. The state agency in charge of AFDC must assess the educational, child care, and supportive services needs, as well as the work experience and skills of each participant, and review his or her family circumstances. In consultation with the individual, the state agency must develop an employability plan describing the activities in which the individual will participate and the services to be provided under the program.

The state agency "must ensure that all applicants for and recipients of Aid to Families with Dependent Children are encouraged, assisted, and required to fulfill their responsibilities to support their children by preparing for, accepting, and retaining such employment as they are capable of performing" (102 STAT. 2362). Information must be provided on available child care and, upon request, the state agency must provide assistance in obtaining child care services for individuals required to participate in the JOBS program.

The program must include education, job skills training, job development and placement, and job readiness activities. Included must be at least two of the four following options: job search, CWEP or other work experience programs, work supplementation, and on-the-job training. Postsecondary education may also be offered, and other education, training, and employment activities, if approved by the Secretary of Health and Human Services.

Up to five states will be permitted to provide services under the JOBS program to unemployed noncustodial parents who are unable to meet their child support obligations. The effects of this demonstration project will be evaluated to



determine if including these parents will help their families to avoid long-term dependence on welfare.

### **Participation**

To the extent that the JOBS program can be made available, all AFDC recipients will be required to participate if they have child care, and applicants and exempt recipients will be allowed to volunteer.

Exempt individuals are those who are ill, incapacitated, of advanced age, needed at home to care for another, already working 30 hours or more weekly, under age 16 or a full-time student, in at least the second trimester of a pregnancy, living in an area where the JOBS program is not available, or the caretaker of a child under age 3 (or, at state option, a child younger than age 3 but not younger than 1).

Parents under age 20 without a high school diploma are required to participate in educational activities leading to a high school diploma, unless education is deemed inappropriate for the individual. Parents already attending school may be considered as satisfying the requirement of participation in JOBS.

Those who are required to participate but fail to do so or refuse to accept legitimate offers of employment, without good cause, will have sanctions levied against them: Their AFDC payments will be reduced by the amount that is considered to cover the adult's needs in the family benefit, and, if possible, the payment will be made to a third party. For a first failure to comply, the sanctions will continue until the individual participates in the program; for a second failure, the sanction will last until the individual cooperates or three months, whichever is longer. For a third failure the sanction will last six months. When the person who fails to participate lives in a family containing two adults, both adults will lose their portion of the AFDC benefit.

### **Funding**

The federal government will pay 90 percent of JOBS expenditures up to the amount of each state's WIN allotment for fiscal year 1987 (which came to \$126 million for all the states). In addition, it will pay the Medicaid matching rate<sup>2</sup> (but never less than 60 percent) for nonadministrative costs and costs of personnel working full time on the JOBS program, and 50 percent of administrative costs. The estimated net new cost to the federal government for the JOBS program for fiscal years 1989-93: \$1.076 billion.

In an effort to encourage states to focus their efforts on the populations most likely to become long-term welfare recipients, the law stipulates that federal matching will be reduced to 50 percent unless at least 55 percent of the funds is spent on the following target groups: (1) families in which the custodial parent is under age 24 and has not completed high school; (2) families who have received assistance for more than 36 months during the preceding five years; or (3) fami-

lies in which the youngest child is within two years of being ineligible for assistance because of age.

Federal funding to a state will also be reduced if fewer than some minimum number participate in JOBS.

### **Title III: Supportive services for families**

States are expected to guarantee child care if that is necessary for an individual's employment or education or training. Furthermore, child care must be provided during a transitional period of up to a year, if it is necessary, when employment enables an individual to leave the welfare rolls. The cost of the child care to the family would depend upon ability to pay.

Families losing eligibility for AFDC because of employment will also remain eligible for Medicaid for up to a year.

### **Title IV: Related AFDC amendments**

All states will be required to have an AFDC-UP (unemployed parent) program by October 1, 1990. Because it was assumed that AFDC broke up families when it was available only to single parents, the Social Security Act was amended in 1961 to permit jobless fathers to live at home without disqualifying their families for welfare. Various amendments have clarified the coverage by AFDC-UP: The unemployed parent must work fewer than 100 hours a month and must be the principal breadwinner in the family. But the program until now has been optional, and only about half of the states participate (27 at present).

A state that does not now operate the AFDC-UP program may limit the number of months a family can receive cash benefits. In no case, however, may a state limit an eligible family's benefits to less than 6 months in any 12-month period. All AFDC-UP families must remain eligible for Medicaid on an ongoing basis, regardless of whether or not a state limits cash benefits.

Earned income disregards (the amount of monthly earned income an AFDC recipient may keep before the size of the AFDC benefit is reduced) will be raised from \$75 to \$90 starting October 1, 1989. The disregard for child care (the amount of earnings that can be set aside for child care before the size of the grant is reduced) will be raised from \$160 a month to \$175 (or \$200 if the child is under age 2).

States will be allowed to require single parents who are minors to reside with their own parents (or other adult relatives or a guardian) in order to obtain AFDC.

Studies will be carried out to determine the appropriate size of AFDC payments.

## Title V: Demonstration projects

A number of demonstration projects have been authorized to study various possibilities for enhancing the futures of poor children and their parents. For projects to encourage innovative education and training for children, \$6 million a year has been authorized for the three years 1990–92. For projects to employ parents receiving AFDC as paid child care providers, \$1 million has been authorized for each of three years, 1990–92. To increase compliance with provisions of court orders allowing noncustodial parents to have access to their children, \$4 million has been authorized for each of two years, 1990–91.

A project to expand the number of job opportunities available to the poor is open to between five and ten nonprofit organizations. Their task will be to provide technical and financial assistance to private employers to create employment and business opportunities to AFDC recipients and those with incomes below the poverty line.

Authorization has been provided as well for projects to furnish counseling and services to high-risk teenagers, to examine alternative definitions of unemployment to use in the AFDC-UP program, and to extend a demonstration project on prepaid Medicaid in Minnesota.

### Likelihood of success

Welfare and welfare reform have become almost synonymous. There always seems to be a better way than the one currently in vogue to assist the needy. No reform seems to work as well as its proponents hope. This reform, because it is limited in its scope and builds on policy already in place, may accomplish its objectives: to improve the circumstances of children and provide poor single mothers with opportunities to better their lives. The success of the Family Support Act of 1988 will depend in great measure on the strength of the economy, continued support from the federal government, and the commitment and ingenuity of the individual states. Of particular interest will be the extent that the new program reaches long-term welfare recipients. ■

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<sup>1</sup>Starting in 1975 the amount received in child support was paid to the state and treated as earnings for a family on welfare, in that AFDC payments were reduced as child support payments grew. Thus, a woman on welfare received no economic benefits from the absent parent's contribution to the support of his children. In 1984 the law was changed to enable a welfare family to receive \$50 a month in child support payments before facing a reduction in AFDC benefits.

<sup>2</sup>The Medicaid matching rate—the percentage of Medicaid paid by the federal government—varies by state and is inversely related to per capita income. It ranges from 50 percent to 80 percent (in Mississippi).

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## Luxembourg Income Study Summer Workshop

The Luxembourg Income Study has made comparable several large microdata sets which contain comprehensive measures of income and economic well-being for a set of modern industrialized welfare states. The LIS databank currently covers eleven countries: Australia, Canada, France, Germany, Israel, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. Others (Italy, Finland, Poland) are to be added shortly.

The LIS Summer Workshop is a two-week, pre- and post-doctoral workshop designed to introduce young scholars in the social sciences (economics, sociology, other) to comparative research in income distribution and social policy using the LIS database. The 1988 workshop attracted 26 attendees from 14 countries. The second workshop will be held July 16–28, 1989, in Luxembourg. The cost will be 36,000 Belgian francs (about \$950), which will include tuition, local travel, and full board. International transportation is not included. Students are expected to be subsidized by home countries, national and international research foundations, universities, and other sources, including at least two special scholarships from the Ford Foundation LIS Development Initiatives Fund. The workshop is also sponsored by the LIS country sponsors and by the European Economic Community (DGXII, Directorate for Scientific Research). The language of instruction will be English. The course of study will include a mix of lectures and assistance and direction, using the LIS database, to explore a research issue chosen by the participant. Faculty are expected to include Anthony Atkinson (UK), Aldi J. M. Hagenars (Netherlands), Richard Hauser (Germany), Kryzstof Starzec (France), Frank Cowell (UK), Shelly Phipps (Canada), Michael O'Higgins (the Organisation for Economic Co-operation and Development), Peter Saunders (Australia), and the entire LIS staff.

Additional information, including application forms, are available from Timothy Smeeding, LIS Project Director (VIPPS, 1208 18th Avenue South, Nashville, TN 37212, USA); Lee Rainwater, LIS Research Director (Sociology, Harvard University, Cambridge, MA 02138, USA); or John Coder (LIS at CEPS/INSTEAD, B.P. #65, L-7201 Walferdange, Luxembourg). Applications are due by May 1, 1989.

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## Seminar series

Weekly Institute seminars have been instituted to enable IRP staff and visitors to share their research results and exchange ideas. These seminars also provide the opportunity for students to learn about ongoing IRP projects. As *Focus* goes to press, the following seminars have been given as part of the 1988-89 academic year series.

Irwin Garfinkel and Marieka Klawitter, University of Wisconsin-Madison

“The Effects of Immediate Withholding on Child Support Payments”

Linda Gordon, University of Wisconsin-Madison

“Family Violence: Historical Perspectives”

Jan Hoem, University of Stockholm

“The Impact of Women’s Labor Force Participation on Their Childbearing in Contemporary Sweden”

V. Joseph Hotz, University of Chicago

“Do We Need Experiments to Evaluate Social Programs?”

Lars Ljungqvist, University of Wisconsin-Madison

“Insufficient Human Capital Accumulation Resulting in a Dual Economy Caught in a Poverty Trap”

Charles Manski, University of Wisconsin-Madison

“Anatomy of the Selection Problem”

Robert Mare, University of Wisconsin-Madison

“Marriage and Marital Dissolution in a Changing Labor Market: A Research Proposal”

Robert Meyer, National Assessment of Vocational Education

“Beyond Academic Reform: Integrating High School Academic and Nonacademic Education”

Joel Rogers, University of Wisconsin-Madison

“Explaining the Postwar Decline in U.S. Union Density: Structural Variables in a Political Context”

Peter Streufert, University of Wisconsin-Madison

“On the Perpetuation of Unemployment, Undernourishment, and Inequitable Land Ownership”

Barbara Wolfe and Robert Haveman, University of Wisconsin-Madison

“The Interaction between Men’s Health, Work Time, and Wages”

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## New Affiliates and Visitors

Five faculty members of the University of Wisconsin-Madison have become affiliates of the Institute for Research on Poverty:

Joanne Csete, Nutritional Sciences

Lauren Edelman, Sociology and Law School

Joel Rogers, Sociology

John Karl Scholz, Economics

C. Matthew Snipp, Rural Sociology

Three scholars from abroad will visit the Institute in spring 1989:

Aldi J. M. Hagenaars, Erasmus University, the Netherlands

Mamphela Ramphela, Cape Town, South Africa, who is Visiting Scholar at the Mary Bunting Institute, Harvard University

Robert Walker, University of York, United Kingdom

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## Recent books by IRP researchers

### *Divided Opportunities: Minorities, Poverty, and Social Policy*

Edited by Gary D. Sandefur and Marta Tienda

Plenum Press, 1988 (\$34.50; text adoption price for 6 or more copies, \$24.50)

To order, write to Plenum Press, 233 Spring Street, New York, NY 10013; or call 1-800-221-9369.

*Divided Opportunities* assesses the relative economic status of blacks, whites, American Indians, and specific Hispanic groups in the United States over the past quarter century. Building on an Institute-sponsored conference on minorities and poverty which was held in November 1986, the chapters in this volume cover changes that have taken place in economic status, family makeup, and level of education of minority groups. The problems of the homeless, the jobless, and families in poverty are examined, and the effectiveness of antipoverty programs is measured. Contributors debate the cause of the low labor force participation and high unemployment rates in central cities and document the circumstances of minority children, who often face inadequate housing, clothing, health care, and educational opportunities.

Although the last twenty-five years have seen opportunities open up for some members of minority groups, according to the editors of the volume, others, such as Puerto Ricans and some Native Americans, have fallen behind. Conditions in central cities, where a disproportionate number of minorities live, have deteriorated. Yet Sandefur and Tienda caution that the minority poor in other areas must not be neglected—Indians on reservations, blacks in the rural South, Hispanics in the Southwest.

*Divided Opportunities* is divided into three sections: The Economic Status of Minority Groups; Family and Intergenerational Processes; and Social Policy. The contributors are Larry Bumpass, Charles Hirschman, Leif Jensen, Robert D. Mare, Sara S. McLanahan, Lawrence M. Mead, Peter H. Rossi, Gary D. Sandefur, James P. Smith, Marta Tienda, William Julius Wilson, and Christopher Winship.

### *State Policy Choices: The Wisconsin Experience*

Edited by Sheldon Danziger and John F. Witte

University of Wisconsin Press, 1988 (cloth, \$45.00; paper, \$19.95)

To order, write to the University of Wisconsin Press, 114 North Murray Street, Madison, WI 53715; or call 608-262-8782.

Produced under the auspices of the Robert M. La Follette Institute of Public Affairs of the University of Wisconsin, *State Policy Choices* examines Wisconsin's policy problems and decisions in a number of important areas and compares Wisconsin's approaches to those taken by other states.

The book is divided into three parts. Part I links the processes by which money is raised and spent in Wisconsin with the population to be served and economic prospects. It takes a close look at the budget process, the shifts that have taken place in state and local expenditures and revenue, loss of population, policies to encourage economic development, and the state's 1985 income tax reform.

Part II explores the adequacy of social provision. One chapter measures poverty and income transfers in Wisconsin. Another examines the status of youth. A third looks at the circumstances of Wisconsin's Indians. A chapter on hospital rate setting deals with a problem for which an effective solution has not yet been found, and one on child support describes a major policy innovation, started in Wisconsin, which has become a model for the nation.

The last part offers insights on what must be done to improve the position of Wisconsin agriculture as economies of scale and population shifts lessen the ability of family farms to survive, and the reduction in their number, in turn, creates severe adjustment problems in some rural communities. The policy problems entailed in protecting the environment without stifling economic growth are also examined.

Because Wisconsin's problems are similar to those faced by other states, this analysis contains policy lessons for other states and for the nation.

## ***Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty***

by Robert Haveman

Simon and Schuster, 1988 (\$19.95)

To order, write to Simon and Schuster Order Department, Simon and Schuster, Inc., 200 Old Tappan Road, Old Tappan, NJ 07675; or call 1-800-223-2336.

Despite a massive increase in public spending to reduce poverty, the incidence of poverty today is only slightly lower than when the War on Poverty was announced in 1964 and inequality is, if anything, greater. Robert Haveman examines this disappointing record and finds part of the explanation in the altered face of poverty in the United States.

The income redistribution policies of the past can be said to have been successful, he points out, since they greatly improved the circumstances of three vulnerable high-poverty groups: the elderly, blacks, and women. As these groups have moved up from the bottom rung of the income ladder, however, their place has been taken by youths (primarily minority youths) who lack jobs and face bleak futures, poor single mothers and their children, and single elderly members of minority groups. The current redistribution system may ease their poverty and meet their short-term needs, but it is not appropriate for most of these new have-nots, who require above all the opportunity to improve their lot through individual initiative. Rather, the current system often provides incentives for inefficient decisions that retard economic growth.

To replace this system, Haveman calls for a five-part approach:

- A universal demogrant integrated with the personal income tax to provide a minimum income to all families at about one-half to two-thirds of the poverty line;
- A universal child support system whereby absent parents are taxed to provide income support for children living with the other parent;
- An employment subsidy for disadvantaged workers to reduce the cost to employers of low-skilled labor;
- A universal personal capital account for youths to enable them to purchase education and training;
- And a retirement program consisting of a uniform poverty-line benefit in conjunction with tax-related incentives for working persons to supplement this base with private insurance or annuities.

How this new approach will work and what is estimated to cost are covered in detail in the book.

Haveman's proposals serve to "level the field, that is, give all a chance for an equal position at the economic starting gate" (p. 28). He believes that greater equality of opportunity can be gained without a major increase in the expenditures for social welfare.

## ***The Nonprofit Economy***

by Burton A. Weisbrod

Harvard University Press, 1988 (\$22.95)

To order, write to Harvard University Press, 79 Garden Street, Cambridge, MA 02138; or call 617-495-2480.

Crucial though the nonprofit sector appears to be in providing aid to the poor, the aged, the disabled, the sick, and others in society with special needs, little is known about its workings and how it fits in with the two other parts of the economy: government and the private sector. A new book by Institute affiliate Burton A. Weisbrod, *The Nonprofit Economy*, makes it possible to assess how this part of the economy works, what it accomplishes, and what its appropriate role should be.

Contrary to their name, nonprofit organizations can be and often are highly profitable. They are restricted not in how much income they can generate, but rather in how it is distributed. Profit cannot be paid out to owners or anyone else associated with the organization: it must be devoted to the tax-exempt purpose of the organization. It is the use of profit, therefore, not the profit itself, that is restricted. And in "exchange" for this restriction, the organization is exempted from the corporate income tax and receives a number of subsidies and advantages.

Weisbrod's principal purpose in describing what is known about the nonprofit sector is to show the complexity and interdependencies of all sectors of the economy. Decisions seemingly unrelated to nonprofits have unintended and therefore unanticipated effects on them, and further repercussions on the entire economy. Having examined what nonprofits should do and the extent to which these goals are accomplished, Weisbrod offers proposals to insulate them from pressures to deviate from the social role they are expected to play and to help move the economy to a better balance of responsibilities among private enterprise, government, and the nonprofit sector.

## ***Poverty Policy and Poverty Research: The Great Society and the Social Sciences***

by Robert H. Haveman

University of Wisconsin Press, 1987 (\$37.50)

To order, write to the University of Wisconsin Press, 114 North Murray Street, Madison, WI 53715; or call 608-262-8782.

Poverty research was launched in 1965, a year after Lyndon Johnson declared "unconditional war on poverty." It mushroomed throughout the country over subsequent years until 1980, when it underwent first retrenchment and then, following resurgence in the numbers of the poor, a renaissance. In this book Robert H. Haveman measures the growth from 1965 to 1980 in federal expenditures on poverty research studies, evaluates the contribution of this research to basic knowledge and to research methods, and describes its influence on the social sciences.

That influence included development of the field of policy analysis and evaluation research, which drew government, academe, and members of the interested public into closer communication, opening new career possibilities for those concerned with application of research findings. Meanwhile social experimentation, econometric advances involving selectivity bias, and microsimulation modeling moved the disciplines upon new paths.

The Epilogue reviews the years since 1980 and asks what lies ahead for poverty-related social science.

## ***Fighting Poverty: What Works and What Doesn't***

Edited by Sheldon H. Danziger and Daniel H. Weinberg

Harvard University Press, 1986 (\$27.50)

To order, write to Harvard University Press, 79 Garden Street, Cambridge, MA 02138; or call 617-495-2480.

In this book a distinguished group of economists, sociologists, political scientists, and social policy analysts provide an assessment of the effects of the War on Poverty, initiated by President Johnson over two decades ago. The numbers tell us that spending on social programs has greatly increased, yet poverty has declined only slightly. Do the numbers alone give an accurate picture? Have the government's efforts, as some critics claim, done more harm than good?

The evidence shows that simple comparisons of spending levels and poverty trends do not tell the whole story: many complex issues are involved in an evaluation of antipoverty policy. This volume provides a balanced and multifaceted analysis of antipoverty policies since the 1960s, including both successes and failures. An agenda for the future shows that much can be done.

## ***Single Mothers and Their Children: A New American Dilemma***

by Irwin Garfinkel and Sara S. McLanahan

Urban Institute Press, 1986 (cloth, \$24.95; paper, \$12.95)

To order, write to the University Press of America, 4720 Boston Way, Lanham, MD 20706.

The new American dilemma with which this book deals is how best to alleviate the economic hardship faced by poor mothers who are heads of families. Should the aim of government policy be simply to increase the economic well-being of these women and their children by providing benefits such as Aid to Families with Dependent Children? Or does this make matters worse in the long run by increasing the prevalence of single-mother households and their dependence on government?

After examining the problem and the effects of public policy on mother-only families, Garfinkel and McLanahan conclude that the most important factor underlying the growth of these families has been the change in marriage behavior: among whites, disrupted marriages; among blacks, a decline in marriage.

The authors suggest that it is reasonable to expect work from welfare mothers to promote independence. But because work relief programs are successful only if jobs are available, they advocate the provision of jobs paying the minimum wage to all welfare recipients capable of working. They further suggest services, such as education and training programs, to facilitate economic advancement for these women. And because even full-time work will not always lift these families out of poverty, Garfinkel and McLanahan suggest a number of other ways to supplement the incomes of single mothers with little or no cost to the taxpayer.

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