In Focus

FOCUS

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FOOD STAMPS: WHO GETS THEM AND WHAT DO THEY ACCOMPLISH?

One of the controversial components of the Carter Administration's new welfare reform proposal—the *Better Jobs and Income Program*—is the cashing out of the Food Stamp Program. Among other changes, this proposal would convert $5 billion now going to low-income persons in the form of food stamps into a cash minimum income for all.

It is noteworthy that the U.S. Congress has never enacted into law a universal cash benefit program. We have, however, had a guaranteed minimum income for all in this country since 1974. It is not in cash, but in food purchasing power.

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The purpose of FOCUS is to acquaint a wide audience with the work of the Institute for Research on Poverty, by means of short essays on selected pieces of research.

The material in any one issue is, of course, just a small sample of what is being done at the Institute. It is our hope that these summaries will whet the appetite of the reader to learn more about the research itself, and more about other research on poverty—an area of vital social concern—by Institute staff.

The views expressed are those of individual members of the Institute; they do not represent the position of the Institute for Research on Poverty, the University of Wisconsin, the Department of Health, Education, and Welfare, or other funding agencies.

FOOD, STAMPS, AND INCOME MAINTENANCE

by

Maurice MacDonald

Academic Press, $13.00 ($5.95 paper)

Why is the only universal guaranteed minimum income program in the U.S. provided in food stamps? Is it simply a result of historical circumstances, or is it because society places a special value on providing food purchasing power rather than general purchasing power? If the answer is the latter, what objectives did people have in mind and are these objectives being met?

Let us take stock, as Maurice MacDonald does in his book *Food, Stamps, and Income Maintenance.*

Early History

Food assistance to the needy in this country was initiated in legislation with the interesting title "The Potato Control Act of 1935." Nobody thought its primary aim was to help the poor. Rather, it was to dispose of surplus commodities in order to support farm prices—that is, to help the farmers. This initial objective is why the program was made the responsibility of the Department of Agriculture, and why its descendent is still administered by that department today—rather than the Department of Health, Education, and Welfare, as one might expect of a program that aids the poor.

In line with its main objective, the program took the form of direct distribution of those commodities that happened to be in surplus each month. This stimulated opposition from two sources: the recipients and their supporters, and the food retailers and their supporters. The former group complained that (1) the once-a-month distribution (even perishables were distributed monthly) created insuperable difficulties in terms of eating needs, and (2) what happened to be available determined what people ate, irrespective of nutritional need. The latter group had a predictable grievance: that normal trade channels (and therefore the food distributors' markup) were bypassed by direct commodity distribution.

The lobbying efforts of the food distributors were successful; and 1939 saw the authorization of a food stamp plan whose purpose was to increase domestic food consumption through regular business channels. The foods that could be purchased with the subsidy were, however, still restricted to the monthly list of surplus commodities designated by the Secretary of Agriculture. The first food stamp program served four million people a year at an annual average cost of $65 million. At its height in 1939, direct commodity distribution reached 12.7 million people at a cost of $66 million. By 1943, the farm surplus had disappeared and the unemployment rate had dropped. Food stamps were terminated and direct commodity distribution, though formally retained, became extremely limited.

The conflict between disposing of surpluses to help the farmer and providing subsidies for food consumption to help the needy arose again after the war with the reappearance of farm surpluses. The direct commodity distribution program again expanded, continuing to grow until the disappearance of farm surpluses at the end of the 1960s—its scale largely determined throughout by the availability of surplus foods, and not the extent of need. Liberals made continuing efforts throughout the 1950s to revive food stamps, and in 1958 authorization was passed for a two-year pilot food stamp program. President Eisenhower, however, declined to take advantage of this invitation, and it was left to John F. Kennedy and the famous West Virginia primary to elevate the nutritional needs of the poor to high political priority.

The 1960s

The year 1961 witnessed Kennedy's executive order to institute 8 (which later grew to 43) pilot food stamp programs, in which all domestic foods could be purchased at participating retail outlets. By March 1964 these programs were serving nearly 400,000 people at a federal cost of $29 million. New pilots continued to be added. Evaluations showed that the food consumption and nutrition of the poor increased; they also showed that, since the foods being bought were not predominantly what happened to be on the surplus commodity list, such programs could not eliminate the prevailing farm surplus.

A bill to authorize a nationwide program was introduced and ran into the familiar conflict, as MacDonald relates: "Southern Democrats and Republicans (especially farm bloc members) were reluctant to endorse a public assistance effort in the guise of an agricultural program. This obstacle was overcome by a willing arrangement between backers of wheat and cotton price supports and proponents of food stamps. The result was the Food Stamp Act of 1964."

With regard to helping the poor, the 1964 Act had loopholes (which undoubtedly helped its passage). Whether or not to establish a food stamp project was left to the discretion of the state agencies authorized to administer local public assistance. The act prohibited the operation of food stamps and commodity distribution in the same locality. The amount of subsidization varied by income level—the poorer the participant, the lower the purchase price of a given quantity of stamps—and was uniform throughout the country. But setting the cutoff income level (above which people were no longer entitled to any subsidy) was left to the states.

These provisions predictably led to wide geographic variations in the amount of help the poor could get from the program. Even after taking eligibility variations into account, however, it became apparent as the sixties progressed that there were other unidentified sources of variation. It also turned out that when counties shifted over from commodity distribution to food stamps, the number of participants declined, on average, by 40%.

Food stamp proponents began to ask what was going on. In 1967, members of the Senate Subcommittee on Employment, Manpower, and Poverty traveled to the Mississippi Delta to investigate. The 1968 report *Hunger U.S.A.,* which was released by the self-appointed Citizens Board of Inquiry into Hunger and Malnutrition in the United States, was given wide publicity in a CBS television special. The ensuing controversy led Ralph Abernathy and the Poor People's Campaign to confront the Department of Agriculture directly. And the Senate established a Select Committee on Nutrition and Human Need, chaired by George McGovern.

In the 1968 elections, hunger in America was a major campaign issue, and in May 1969 Nixon pledged "to put an end to hunger in America itself for all time." He recommended several reforms in the food stamp program which, along with additional improvements, were passed by the Congress in 1971.

The 1971 Amendments included free stamps for the most needy, a ceiling of 30% of income for the purchase price for food stamp allotments, and uniform national eligibility standards dependent only on income and family size. This combination of reforms effectively doubled the average food stamp benefit. The federal share of the administrative costs of the program incurred by the states was also increased to 50%. Further amendments in 1973 mandated that all counties switch over from food distribution to food stamps by July 1974. "Thus by conscious congressional design," states MacDonald, "the food stamp program finally became available to all eligible low-income persons." It had taken nearly 30 years since the first efforts to distribute surplus food to the needy during the depression.

The food surpluses had disappeared, and so had any serious talk about food programs as a way to help agriculture. In fact, universalization of the food stamp program probably passed in partial response to the generally recognized need for welfare reform and some kind of guaranteed minimum for the poor—evidence of this general recognition being the narrow margin by which Nixon's Family Assistance Plan (FAP) was defeated in 1972.[1]

The Present Food Stamp Program: Whom Does it Reach?

So we now have a guaranteed minimum income in food which is available to all low-income Americans. That it is

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MAJOR BENEFITS POSSIBLE FROM NEW ACCOUNTING PROCEDURES IN WELFARE

by

Larry L. Orr*

Implicit in any income-tested transfer program is some time period over which income, or need, is to be measured for the purpose of determining program benefits. Far from being a minor technical detail of the administration of assistance programs, the income accounting period—and associated administrative procedures for income reporting—can be a major determinant of the cost, distributional equity, target efficiency, and social acceptability of income transfers. Unfortunately, in most of our existing transfer programs income accounting and reporting procedures are ill-defined in statute and in practice. This situation is a root cause of much of the discontent—among recipients and taxpayers alike—with current welfare programs.

Monthly Retrospective Reporting

A spin-off of the income maintenance experiments conducted by the Institute for Research on Poverty has the potential of saving upwards of one billion dollars in the existing welfare programs, if the results of preliminary tests conducted by the Department of Health, Education, and Welfare prove accurate. This spin-off is a system of monthly retrospective income reporting and accounting first developed for the income maintenance experiments and subsequently implemented on a test basis in the regular AFDC and AFDC-UP programs in Colorado. Preliminary results of the Colorado tests indicate that the administrative system developed for the experiments could save as much as 10% of the $10 billion annual cost of cash transfers in these programs through reduction in overpayments and payments to ineligible recipients, while providing more accurate, responsive payments to eligible families. Encouraged by these results, the Carter Administration has incorporated the system into its Better Jobs and Income Program for welfare reform, and is planning further tests of the system with the goal of implementing it in a number of states even before national implementation of the new welfare system.

Under monthly retrospective reporting, welfare recipients are required to complete and file reports of income and family circumstances at the end of each month. Benefits are computed on the basis of these reports by a highly automated information processing system and, in the Colorado test, paid by the middle of the succeeding month.

Benefit computation procedures in the existing welfare programs stand in marked contrast to the monthly retrospective system. In AFDC and AFDC-UP, initial benefits for new applicants are based on a forecast of income and family composition for a one-month period. This monthly benefit remains unchanged until the recipient voluntarily reports a change in income or circumstances, or until eligibility is redetermined at six-month intervals (three-month intervals for AFDC-UP). In general, there is no systematic reconciliation of income forecasts with income actually received, and little attempt to recoup benefits paid in error.

Not surprisingly, the existing system gives rise to substantial payment errors, both because of errors in the initial forecasts of income and because of failure to report changes that occur between the six-monthly redeterminations of eligibility. Recent HEW quality control statistics indicate that over 25% of all AFDC payments are in error, and 80% of these errors are overpayments. Net overpayments and payments to ineligibles account for about 10% of total AFDC transfers.

The Colorado Monthly Reporting Experiment

To test whether more frequent, routinized reporting of income and family composition and computation of benefits on the basis of actual income rather than forecasts could reduce these errors, HEW implemented a two-part experiment in Colorado in 1976. A randomly selected 10% sample of the AFDC caseload (about 1200 families) in Denver was placed on a monthly retrospective reporting system, and a randomly selected 10% sample was selected as a control group for comparison. In Boulder County, the entire AFDC caseload of 1200 families was placed on a monthly retrospective reporting system to test the effects on administrative costs and functioning. The Colorado project was administered by Mathematica Policy Research, the private research firm that performed the field work for the Poverty Institute's income maintenance experiment in New Jersey. The results of the first year of operations in Colorado indicate that such a system:

- Responds more quickly and accurately to changes in need. Changes in benefits—both increases and decreases—were two and one-half times as frequent under monthly reporting.
- Saves 8 to 10% of AFDC transfer costs by eliminating overpayments and payments to ineligibles. If implemented nationally, this would correspond to a savings of $800 million to $1 billion annually. Money saved through error reduction could be used to raise AFDC benefits for recipients with the greatest needs.
- Saves comparable amounts in Medicaid and food stamp benefits through elimination of ineligible AFDC recipients, who currently are automatically eligible for these programs.
- Results in only a negligible increase in administrative cost.
- Reduces administrative lags and improves the overall administrative functioning of the program, by providing more accurate, up-to-date information to administrators.
- Can be administered by existing program personnel with only minimal retraining; and can be mastered by

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recipients, 90% of whom file the required information on time.

While further testing of the monthly retrospective system is clearly desirable, its potential for improving the administrative efficiency, equity, and responsiveness of the AFDC program appears to be great. Its advantages may be even greater in any extension of income-tested cash assistance to male-headed families, for whom short-term income fluctuations are likely to be even more prevalent.

Beyond the savings in dollars, reform of the reporting and accounting system in AFDC might go far toward restoring public confidence in the welfare system. Much of the public concern about welfare is based not on an antipathy toward income redistribution *per se,* but on a growing belief—and hard statistical evidence—that large amounts of money are being distributed in an almost quixotic fashion to recipients who are not really eligible for assistance. Public confidence in the welfare system will only be restored when the public is convinced that payments are based on clear, objective rules and procedures, and that the need for assistance is being carefully monitored by the system. The need for better administrative procedures will be all the more urgent if a welfare reform plan is adopted that extends cash assistance to the working poor, whose incomes are even more volatile than those of the AFDC population.

Over the next two years, HEW plans to conduct additional tests of the system in up to six other sites, and to extend the Colorado system state-wide. These tests will serve as models both for other states that wish to reduce error costs in the existing programs and for the administrative component of the Better Jobs and Income Program.

More detailed descriptions of the Colorado project and of the monthly retrospective reporting system are available in: *Colorado Monthly Reporting Experiment and Pretest: Preliminary Research Results,* by Alan Hershey, Jeffrey Morris, and Robert Williams, Mathematica Policy Research, Denver, Colorado; and *Income Reporting and Accounting for Income-Tested Transfers,* by Larry Orr, Office of Income Security Policy Research, DHEW, 200 Independence Avenue, S. W., Washington, D. C. 20201.

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RECENT INSTITUTE SPECIAL REPORTS

SR 14 *Demographic Trends Affecting the Future Labor Force,* by Karl E. Taeuber

A multitude of governmental policies affect labor force behavior, and these policies form only part of the complex mixture of social and economic forces that influence manpower. Few of these forces, however, can be projected with confidence into the future and no single manpower projection can engender careful assessment of the likely impact of the many alternative policies that might be adopted. Yet the need for several alternative projections conflicts with the need of the policy analyst, government, and the public for a single best forecast.

This report, prepared for the National Commission for Manpower Policy, provides discussion of the narrowness of the effort of the current national manpower projection, and describes the problems related to this effort. The author relates fertility, labor force participation rates, distribution of residences and of employment among cities, suburbs, and nonmetropolitan territory, and organization of the projection process to labor force projection.

SR 16A *The Administration of a Wage Rate Subsidy,* by John Bishop

The wage rate subsidy—a government supplement of a worker's hourly wage—is one proposed method for raising the income of working poor families without weakening incentives to work. This report outlines a procedure for administering a wage rate subsidy whereby vouchers and companion identity cards would be issued to beneficiaries, certifying their eligibility to employers. The employer would make the wage subsidy payment to the worker and, upon presenting the vouchers received from the worker, would be reimbursed by the government. A wage rate subsidy has several administrative advantages over food stamps, AFDC-UF, a negative income tax, and an earnings subsidy. For example, there is no need to enforce asset or work tests, or to obtain timely and accurate reporting of other sources of income and earnings; and because it is conditioned on hours worked, it is inherently less subject to multiple filing abuse.

This report was prepared as written testimony to the Welfare Reform Subcommittee of the Committees on Agriculture, Education and Labor, and Ways and Means of the U.S. House of Representatives.

MAKING SCHOOLS MORE EFFICIENT: AN ECONOMIC PERSPECTIVE

by
Roberta Kimmel

The costs of public education have spiraled in recent years, while the general quality of schooling has been subject to mounting criticism. The media are filled with stories on the appalling proficiency levels of pupils in the most fundamental areas—reading, writing, and arithmetic. At the same time, budget freezes and cutbacks have become the norm. To reduce costs, large cities such as Washington, New York, and Chicago have employed increases in class size, slashes in interscholastic sports and other extracurricular activities, decreases in staff through attrition and reductions in hiring and rehiring, and cuts in pupil transportation. At the extreme, some school systems have actually had to close down entirely. Although budgets are diminishing, however, demands for higher quality education and greater opportunity for the disadvantaged remain.

Do Schools Matter?

More than ever before, the effectiveness of school resources is being scrutinized and questioned. Most recent research—much of it highly controversial—has yielded results that range from counsels of discouragement to utter despair. James Coleman reported in his pioneering 1966 study[1] that (1) throughout the school years, family background is the greatest determining factor of pupil achievement, and (2) school-controlled variables barely affect achievement, and are far outweighed by the nature of the student body. A resurgent interest in the effects of racial differences on intelligence produced the most controversial contention, notably by educational psychologist Arthur Jensen,[2] —that IQ is, for the most part, genetically determined, and that schools cannot succeed in compensating for the alleged innate disparity. Christopher Jencks, also a sociologist, added to the litany of pessimism in his study of the relation of income and occupation to school and family background characteristics.[3] Jencks maintains that quality of schooling does not make a significant difference in one's future socioeconomic status.

A Recent Study

Economists Anita Summers and Barbara Wolfe[4] (the latter is a Poverty Institute staff member) examined the issue of school effectiveness using several years worth of data from the Philadelphia School District, and obtained encouraging results. They found not only that many school inputs do make a difference, but that disadvantaged pupils, especially, can be helped by particular types of inputs.

Economists are interested in how scarce resources are allocated among alternative uses. The analytic and measurement techniques of this profession are well suited to studying large social issues, such as educational quality. Contemporary educational issues have, in fact, revolved around two areas of foremost concern: efficiency (or productivity) and equity. Furthermore, gains in educational productivity reach well beyond the classroom: Increased student achievement during the school years, it may be argued, means a more productive work force in future years.

Educational achievement can be viewed as a production process, where inputs of labor, capital, and organization are applied to the relatively "unfinished" child, and an output—pupil achievement—results. The object is to generate the greatest growth in achievement using a given amount of school resources. When examining this process, economists try to isolate the impact of a specific input (e.g., smaller class size) on the output, with all other school and socioeconomic inputs held constant. Since they cannot shift about inputs at will, this requires looking at past educational histories where such inputs have shifted; and while statistical techniques cannot establish that the change in an input *caused* the change in an output, they do identify a relationship between them.

The authors constructed three-year longitudinal pupil histories, ending in 1970-71 or 1971-72, for 627 sixth grade elementary school pupils in 103 schools;[5] both schools and pupils were selected randomly. It is the use of pupil-specific data and the appropriate statistical methods, the authors maintain, that account for their results. (Most other researchers, in contrast, have used aggregated data for a school or school system, which masks the actual impact of specific school resources.) Not only were the pupil histories extremely detailed and the school sample large, but individual pupils were matched with their own teachers and with the characteristics of those teachers, with data on school-wide resources of that pupil's school, and with the pupil's estimated family income.

Equations were estimated where each pupil's change in achievement growth over the three-year period (the dependent variable) —as measured by composite achievement scores on the Iowa Test of Basic Skills—was explained by a set of independent variables. These independent variables were (1) genetic and socioeconomic characteristics, such as race, IQ, and family income, (2) pupil-specific school inputs, such as size of class and teacher's experience, and (3) peer group characteristics, such as proportion of high achievers and proportion of blacks in a class. We generally think of several factors as affecting pupil growth. The statistical procedure employed by Summers and Wolfe—multiple regression analysis—allowed them to test empirically these many relationships, and to sort out the separate effects of different factors entered into each equation. Multiple regression analysis also permitted them to estimate the magnitude of each relationship.

Summary of Findings

The major finding to emerge from this study is that certain school inputs do make a difference in achievement growth. While some school resources have a positive impact on all pupils, others are especially effective for particular types of pupils. First let us consider *socioeconomic inputs:*

Income and race. Much interaction between school input and type of pupil was discovered. For many school resources, the effect on some types of pupils is very different from the effect on other types of pupils. This explains why

Anita Summers and Barbara Wolfe, "Do Schools Make a Difference?" *American Economic Review* 67 (September 1977): 639-652. Also a forthcoming Institute for Research on Poverty Reprint.

Barbara Wolfe, "A Cost-Effectiveness Analysis of Reductions in School Expenditures: An Application of an Educational Production Function," *Journal of Education Finance* 2 (Spring 1977): 407-418. Also a forthcoming Institute for Research on Poverty Reprint.

other studies have concluded that school inputs have little or no effect on achievement. But targeting a resource at the pupil group it will benefit most can increase learning.

Sex. Males do more poorly than females in elementary school. Only low-ability males lag behind low-ability females in junior high school, but in senior high school males of average ability or lower do better than equivalent females.

Starting scores (on first grade test of verbal ability). A pupil's abilities strongly determine achievement growth at every level of schooling.

Motivation. As proxied by unexcused absences and lateness, motivation has a significant bearing on learning. Pupils with more unexcused absences and lateness grew less.

While socioeconomic factors are not within the immediate control of administrators and teachers, *school inputs* are:

Teacher's education and experience. Teachers with B.A.'s from higher-rated colleges have a positive effect on low-income and middle-income pupils. Years of teaching experience has a positive effect on average and above average pupils, no effect on pupils somewhat below grade level, and a negative effect on pupils well below grade level. This may be due to newer teachers' having greater enthusiasm for working with poor learners.

Class size. Low-achieving students do worse in classes of more than 28 pupils, high achievers do better. Class size seems to have no effect on those performing at grade level, up to a size of 33; above that, it has a negative effect.

School size. School size affects blacks and nonblacks differently. Small schools benefit all, but have an even greater positive effect on the achievement growth of blacks.

Peer group effects—racial balance. In the elementary schools, both black and nonblack students experienced the greatest growth in achievement when they were in schools with a 40-60% black student body, all other school characteristics held unchanged.

Peer group effects—achievement mixture. In the sample for this study there is a very low proportion of high-achieving pupils and, in about half of the elementary schools, more than half of the student body achieve at very low levels. Pupils performing at grade level or lower perform distinctly better when they are in a school with more high achievers; pupils performing above grade level are little affected by the achievement mix. In general, then, the more heterogeneous the student body in race and achievement, the better that population will fare in basic skills learning.

This study, then, concludes that school resources influence learning growth, that some of the race and family income effects can be at least mitigated by specific school inputs, and that low achievers, blacks, and low-income students, especially, respond to certain school inputs. This information can be used to make schools relatively more efficient while operating within budget constraints. That is, redirecting some educational resources is likely to produce productivity gains.

Three further pieces of work have developed from this initial research. Summers and Wolfe are working on a replication of the original study using data on about 2,000 School District of Philadelphia students who were in the sixth through eighth grades over the period studied. Their intent is to emphasize the importance of replication as the major tool of empirical verification in policy work, and to develop techniques for "correcting" data that are not perfectly comparable when experiments are repeated. Summers is also currently working with the School District of Philadelphia on a study evaluating the effects of fourth grade reading programs on reading achievement; many measurements reflecting the classroom situation and the school characteristics are included. And Wolfe has analyzed budget data for the School District, drawing on the original study. A closer look at the last project follows.

A Cost-Effectiveness Analysis

Wolfe carried analysis of the data further to do a detailed examination of the cost-effectiveness benefits to be derived from shifting around budgets in accord with the above findings. Her simulation results show greater efficiency and output from selective reallocation than from across-the-board cuts, cuts by attrition, and cuts in areas where they are most politically expedient. In addition to the appropriate pupil and financial data, such an analysis requires a clear definition of goals and a systematic analysis relating inputs to these goals.

The results from the initial "production function" study, which relates school inputs to student achievement, were combined with the Philadelphia School System cost data for 1975-1976.[6] This procedure allows one to determine not only in which areas cuts are least damaging and how the budget should be redistributed, but also whether the various reallocations need to be of a certain magnitude in order to be effective. Tradeoffs that are revealed among achievement groups from a study such as this one will require reconsideration of the school system's goals. In addition, non-achievement-related goals, which can also be important, may be tied to inputs which do not seem to yield a difference in achievement growth (e.g., whether teachers have education beyond the B.A., according to the results of this study).

By way of illustrating cost-effectiveness analysis, Wolfe analyzes and compares four alternative school expenditure scenarios: (1) the current budget is maintained, with the option of reallocating up to one-third of each resource among achievement subgroups, (2) the current budget is maintained, with the option of reallocating up to one-third of each resource among a combination of school inputs and achievement subgroups, applying the cost-effectiveness technique, (3) make an across-the-board budget reduction of $30 per pupil, and (4) make a cost-effectiveness budget reduction of $30 per pupil.

Several recommendations arise from the analysis, with the investigator's caveat that the results should be taken as illustrative rather than definitive:

1. Application of the cost-effectiveness technique can improve a school's efficiency.
2. Pupil achievement growth is not directly tied to expenditure per pupil; by altering expenditure patterns, current resources can be better exploited.
3. A systematic budget cut, which increases expenditures on certain inputs and decreases them on others, is more effective than an across-the-board cut.

It is well to bear in mind that teachers and administrators will vary in their willingness to accept the reallocations that a cost-effectiveness analysis may suggest, and costs may change as hiring and usage patterns differ.

Policy Implications

The findings of this research have several important policy implications. First, proper allocation of public school resources can be used to attain greater equity in educational opportunity. At a time when courts and legislatures are doing battle with the concept of equality of educational opportunity, this research suggests that educational equity might be measured best in terms of *output*—achievement growth—rather than inputs—such as expenditures per pupil—which has been the traditional approach.

A second implication concerns educational productivity. School efficiency, it would seem, can be increased without increasing expenditures by shifting resources away from unproductive inputs and toward those inputs that help increase achievement for school subgroups, especially the low achievers.

A third policy implication is tied to use of the cost-effectiveness technique in times of budget cuts and reductions in enrollment. Resources generally need to be reallocated in such instances. By combining the educational productivity results with cost figures, the effectiveness of educational dollars can be increased.

A fourth policy issue relevant to this discussion is the notion of accountability. If specific school resources can be linked to greater growth in achievement, then taxpayers, parents, and the courts could hold school administrators responsible for producing a specified output. But most important are the possibilities for improved learning and the fuller realization of children's academic potential.

[1]James S. Coleman et al., *Equality of Educational Opportunity* (Washington, D.C.: Government Printing Office, 1966).

[2]Arthur R. Jensen, "How Much Can We Boost I.Q. and Scholastic Achievement?" *Harvard Educational Review,* Winter 1969, pp. 1-123.

[3]Christopher Jencks et al., *Inequality: A Reassessment of the Effect of Family and Schooling in America* (New York: Basic Books, 1972).

[4]Anita Summers is a Research Officer and Economist at the Federal Reserve Bank of Philadelphia. Barbara Wolfe is a Research Affiliate at the Institute for Research on Poverty and Assistant Professor of Economics and Preventive Medicine at the University of Wisconsin-Madison.

[5]Data were similarly gathered for eighth and twelfth grade pupils. The eighth grade sample produced similar results to those for the sixth grade; the twelfth grade results were based on an inadequate sample.

[6]An assumption was made of homogeneity or stability in the input-output relationship.

AN OVERVIEW OF INSTITUTE RESEARCH PLANS FOR 1977-78

Institute research plans for the present academic year can be grouped almost entirely under seven major headings:

1. Economic Status and Inequality
2. Transfer Programs, Employment Strategies, and Labor Market Behavior
3. Status Attainment, Social Mobility, and Education
4. Household Decision-Making and Demographic Behavior
5. Discrimination and Segregation
6. Legal, Political, and Administrative Systems
7. The Aged and Disabled

The Institute's traditional areas of research strength are again apparent in the 1977-78 plans: the measurement of poverty and inequality; the design of income maintenance programs and their effects on labor supply; status attainment and mobility; demographic behavior; segregation and discrimination; and institutional systems affecting the poor. The major new emphases this year—to reflect the increasing policy interest in them—are job-oriented labor market strategies, and the aged and disabled. Demographic patterns is an area regularly studied at the Institute; but this year increased emphasis will be given to the demographics and labor market behavior of women, and to the probable effects of the decreasing trends in fertility.

Economic Status and Inequality

Until the early 1960s there was no official definition of poverty in the U.S. Since then, the government's official interest in the question of who is poor and how they can be helped has led both to such a definition and to the collection of many bodies of data enumerating those who are poor by that definition and how poverty has been changing over time.

The government definition is only one of many, however, and indeed a rather limited one. It measures who is poor by an absolute income standard (corrected for cost-of-living increases) that varies only by place of residence and size of family. The measured income is restricted to annual cash income, including government cash transfers but excluding taxes paid, in-kind benefits from government, and job-related and intrafamily transfers.

There are other conceptually important issues as yet not taken account of and still unresolved. To name but a few: What is the appropriate income receiving unit? Families and households constantly change membership; and yet the individual often has command over resources in addition to those he/she earns. Is current income the proper concept? University graduate students may well be poor by the current income measure. But their earnings capacities are unlikely to leave them poor on a long-term basis. Is income after transfers the only way to look at it? Also relevant is the question of whether persons can earn their own way over the poverty level or whether they must depend on outside assistance. Most people would agree that in a certain sense the former are better off than the latter, although their measured income may be the same. Is an absolute income standard enough? Such a standard ignores the concept of the degree of economic inequality.

Accurate statistics on poverty and inequality, with the refined measurement distinctions they imply, are essential for effective policy designs and informed policy choices. The Institute is continuing its efforts to elucidate the issues raised above. Descriptive statistics on the poverty population and how it is changing will be published (toward the end of 1978) in the second book of the paperback series *Progress Against Poverty.* In addition to updating the several different poverty series contained in the first report, information on trends in social and occupational status will be included, as well as discussion of how economic recession (with particular reference to the recent one) affects poverty. Longer-term trends and sources of change in American inequality are the subject of several pieces of research, as are intergenerational effects of various economic factors. Conceptual distinctions in measuring the distribution of income and the microeffects of policy changes on that distribution are being analyzed, along with ways of managing the income distribution to effect distributional change—which has proven historically to be very resistant to policy action.

Transfer Programs, Employment Strategies, and Labor Market Behavior

The distribution of income resulting from a particular set of historic circumstances, the particular socioeconomic characteristics of different members of the population, and the operation of the economy will lead to a particular distribution of income. That distribution will be modified, among other factors, by governmental transfers, both cash and in-kind. Because raising low incomes is one of the goals of nearly every transfer program, the effectiveness with which this is accomplished by alternative income maintenance programs must be assessed. Transfer programs must also be evaluated by the degree to which they treat "equals" equally (horizontal equity), the degree to which they allow people who earn more to retain more (vertical equity), the degree to which they distribute most of the *net* benefits to those who need them most (progressivity), and the degree to which they discourage beneficiaries from doing as much as they can to support themselves by working.

The Institute has traditionally been strong in the whole area of income maintenance (the study of existing programs plus the design and testing of alternatives for reform) and the issues of how different program designs affect behavior—in particular, labor market behavior. This research period is seeing continued work in the area.

Three volumes on the results of the rural income maintenance experiment—testing several negative income tax plans in two rural areas—will be completed for publication in the Institute's Monograph Series; a synthesis of income maintenance programs, costs, and objectives are being undertaken; and two studies of the incentives involved in income maintenance programs are being done.

Transfers are not, however, the only method of maintaining income. There is a new policy emphasis on labor market strategies applied directly to the problem of employment (and employment with adequate income) . This new emphasis catches the research community to some extent unprepared. Although there is widespread public support for guaranteeing a job (rather than simply a payment) to those who can work, until recently not enough research attention has been given to this issue. The reasons are probably several. First, the majority of economists have only recently come to acknowledge that there is more to the goal of getting everyone gainfully employed than a tight economy. Second, cash strategies have at least a surface simplicity and analytical elegance that have made them attractive to analysts.

The issues of job creation and low earnings supplementation can no longer be ignored, however, and the Institute is recognizing this imperative with many research projects. A continuing, large group project is the evaluation of a national special work program (Supported Work) designed to fit groups with persistent labor market problems for a job in the regular labor market. New projects include analytical work on the empirical implications of job search theories and the theories of job-worker matching, and a group project on employment-oriented strategies for reducing poverty. There are, in addition, two projects on specific types of manpower programs. Other studies cover various theoretical excursions into the institutional bases for the patterns that we see.

Status Attainment, Social Mobility, and Education

The whole area of the determinants of attainment is one on which there is little research or policy consensus. Even those who suggest that added expenditures on education do not provide higher attainment are unlikely to suggest that *if* better results were obtained there would not be any effects on poverty. Nor would they deny that lack of education increases the probability of being poor.

But there *is* general agreement that our ignorance is great concerning (1) the relationship between types and levels of education and the distribution (over the population) of the economic and noneconomic returns obtained, (2) identification and analysis of the processes that generate occupational and social success, (3) the role of education in the intergenerational transmission of status (however defined) , and (4) the effects of the schooling process itself. Education and attainment are generally agreed to be related. It is also true that where one starts in the social hierarchy has, in most societies, a bearing on one's own achievement. An additional hypothesis, which held general sway in the nineteenth century but still is adhered to by some, is that one's potential is largely inherited in a biological sense.

The Institute is continuing its detailed empirical analysis of social mobility patterns from the Census replication of the Blau-Duncan *Occupational Change in a Generation Survey.* Research is also being undertaken regarding the theoretical analysis that must underlie any interpretation of such findings. The heredity thesis is being addressed directly and indirectly. Post-high school education and the effect of financing methods on who gets the financing and how it is used are also being studied.

Household Decision-Making and Demographic Behavior

The family unit has long been the principal unit of analysis in economics for studying spending, saving, and labor supply decisions. The relationship between economic and demographic behavior is so intertwined, however, that demographic study of the family over the life cycle is also required. Fertility, marriage, education, and occupational achievement all affect one another, and all affect and are affected by economic behavior.

The trends that are particularly relevant to current social policy are the increasing prevalence of women, both married and unmarried, in the labor force; the increasing incidence of family breakup; and decreasing fertility.

The increasing labor force participation of women, which can be expected to continue, affects both individual and family income. It can be expected to reduce inequality among individuals, but its effect on the distribution of family incomes is not clear. If people with similar earnings capacities tend to marry one another, as statistics show, inequality may increase—depending on what the state of the economy does to low versus high wage rate occupations, and how the increasing employment of women relates to the employment of men.

The increasing incidence of family breakup has important implications for poverty. Female-headed families are more than proportionately represented in the poverty population, although decreasing fertility may reduce this effect. The characteristics of nonmarried women may also be expected to change as marital disruption becomes increasingly prevalent. Of particular interest is whether their education—and consequently their earnings capacity—will improve on average.

Decreasing fertility will have a direct effect on poverty since the official poverty definition, for a given level of income, depends on family size. It may also have indirect effects, however, that may work in the opposite direction. One hypothesis, for instance, that has some empirical support but on which there is no definitive evidence, holds that fertility and income are positively correlated. →

The Institute's research program this year reflects these emphases, embracing studies on the labor supply of women, the consequences of low fertility on young adult behavior and on income, and marital disruption and remarriage patterns and antecedents.

Discrimination and Segregation

Racial discrimination and segregation are important determinants of income for a sizable segment of the low income population, and they can come into play at each decision point in a person's life. At each point linkages among race, the specific decision, and the ultimate effect on income are many and complex.

Schooling, housing, and employment are all aspects of an individual's place in society, and each is affected by racial considerations. It is stated national policy to reduce the levels of segregation deriving from racial discrimination. Monitoring the trends is essential, however, if the many policies designed to reduce segregation are to be evaluated. Because segregation may arise from a variety of causes, only some of which entail illegal discrimination, it is also important to improve our understanding of the determinants of these trends.

In addition to the effects of discrimination on economic well-being, it engenders racial tensions that can and do explode into violence. And changes in the relative power of different racial and ethnic groups brought about by effective sanctions against discrimination as well as other factors also raise important research and policy questions. What are the determinants of racial violence, and how can they be effectively counteracted and reduced? If political power shifts from whites to blacks but the financing resources of the community remain largely in the hands of the politically displaced group, will the finances necessary to the community be forthcoming from that group, and if not where will they come from?

In all these areas the questions are relatively clear, but they pose difficult problems of measurement that are generally not satisfactorily solvable with currently available data or with traditional techniques of analysis. Better data and more refined analytical techniques are both necessary.

To these ends, a theoretical model of discrimination is being developed at the Institute. School desegregation is the area of greatest emphasis, including a major joint project that entails collection of original data as well as providing a new analysis (see FOCUS, Spring 1977). Racial violence and the problems of political transition are also being addressed. Residential location, economic opportunities, and the relation of population change to both of these is a final area of concentration.

Legal, Political, and Administrative Systems

There is often an uncomfortable contrast between laws and policies intended to better the lives of the poor and the actual operation and effects of those laws and policies. The reasons for this gap are largely unknown, but they certainly include the following: (1) political forces and pressure groups that work within the legislative and administrative process to reform or subvert the objectives of a proposal to other ends, (2) the behavior of and conflicts among agencies responsible for administering law and policy, (3) decisions of the civil and criminal court system that interpret and enforce them, (4) attitudes toward the poor of the "helping professions" that shape programs through their participation in them, their language, and the ideologies they generate, (5) the clients—in our case the poor—toward whom a law is directed and who also shape the outcome by their reactions to it, their relationships to professionals and staff, and sometimes by their own pressure groups, and (6) shared perceptions of the voting public to whom elected representatives and public servants ultimately owe their jobs.

The Institute's research program is currently addressing these issues through general analytical work on large organizations and how they affect individuals, and on the role of symbolic processes in the formulation of economic policies affecting the poor. Public policy, quality control, and administrative discretion are also being studied with respect to the welfare system, the nursing home industry, and the whole area of consumer protection. Long-term factors sustaining inequality in the health and education delivery systems are also receiving attention. The goals and effects of alternative approaches to the provision of daycare are being studied. The effect on the shape of tax policy of public attitudes regarding the "right" degree of progressivity is being examined. And a study on social reform groups and law reformers is being completed.

The Aged and Disabled

The aged and the disabled are accounting for steadily increasing amounts of policy attention and federal dollars. Social Security (including railroad retirement), Medicare, and SSI together account for annual federal expenditures approaching $100 billion. Estimates of total federal expenditures on the disabled exceed $55 billion.

Attention is becoming more focused on the aged since, with fertility declines, they account for a larger proportion of the total population and will continue to do so at least through the end of this century. This brings new salience to the issue of financing the Social Security program—the funds for which, at current tax rates and generosity levels, will be inadequate in a rather short time. It also makes more urgent the issue of the incentive structures built into not only public programs for the aged but also private pension plans. Encouraging early retirement by penalizing the earnings of the aged, for instance, no longer makes obvious sense.

Attention is being increasingly focused on the disabled for two major reasons. First, the proportion of Americans counted as disabled has been steadily rising (as it has in other developed countries) and currently amounts (not including the aged or institutionalized) to between 16 and

NEWLY PUBLISHED INSTITUTE BOOKS

FOOD, STAMPS, AND INCOME MAINTENANCE

Maurice MacDonald

See article on page 1.

THE NEW JERSEY INCOME MAINTENANCE EXPERIMENT, volume 3: *Expenditures, Health, and Social Behavior; and the Quality of the Evidence*

Harold W. Watts and Albert Rees, editors

The third and final volume of the New Jersey Experiment deals with the general effects of graduated work incentives on the lifestyle of the beneficiaries. Housing consumption and related purchases, health and utilization of medical care, social-psychological behavior, and family composition are each analyzed separately.

The second part of the book discusses limits on the generalizability of the experimental results (for the labor-supply results reported in volume 2 as well as for the behavioral responses discussed in this volume). Potential sources of bias—the existence of welfare, the possible lack of representativeness of the sites selected, the deliberate design decision to have unequal cell sizes, the possibility of a differential experimental-control learning effect on reporting, the limited duration of the experiment, and the very low labor market participation of the sample wives—are analyzed in detail. Differences among the three sources of income data collected are also examined.

Academic Press, $29.50

EARNINGS CAPACITY, POVERTY, AND INEQUALITY

Irwin Garfinkel and Robert Haveman, with the assistance of David Betson

Based on the judgment that the current income measure of economic status is likely to be misleading for policy purposes, the authors of this book have attempted to define a more comprehensive measure which they call "earnings capacity." This measure indicates the amount of income that a household could generate if its capabilities were fully used. On the basis of this definition, they have estimated the earnings capacity of a national sample of American households. These estimates are employed in identifying the composition of the poor population, in evaluating the target-effectiveness of alternative income support programs, in appraising how various groups utilize their earnings capacity, and in measuring the magnitude of the effect of labor market discrimination on black incomes.

This study thus has consequences for research and policy, and stimulates reexamination of both social policy goals and social science practices.

Academic Press, $12.00

20 million persons. These numbers are not widely recognized among social scientists. Recognition of their magnitude is growing among federal policymakers, however, as outlays on behalf of the disabled are one of the most rapidly growing categories in the budget. The second reason is that extremely little is known about these 16-20 million, and what constitutes disability. Census data show rather small income differentials between the disabled and the able-bodied, for instance, but studies of small samples show very large differentials between the able-bodied and those with certain types of disability—which makes intuitive sense. Before informed policy initiatives can be taken to deal with the rapidly growing expenditures on disability—not to mention policies which can effectively enhance the education and self-sufficiency of the handicapped—much more work must be done on collecting and assessing descriptive statistics on the disabled.

Work in these two areas will include evaluation of income support alternatives for the elderly generally, with particular emphasis on Social Security. Econometric estimation of models to estimate pensionable service will be undertaken. And two projects will be started that are designed to increase our understanding of the problems, behavior, and opportunities of the disabled, in particular with respect to their economic opportunity.

Other Projects

Several other subject areas related to poverty but unrelated to the previously discussed categories are also being examined. These include the impact of unions on wage structures with respect to the hospital industry; child health, development, and socioeconomic opportunity; and several methodological and evaluative projects.

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Food Stamps
(continued from page 2)

available, however, does not mean that everyone takes advantage of it. In fact, as of 1976, less than half the eligible population availed themselves of food stamps. Who are the people who can but don't use food stamps? Why don't they? And what can be done about it? MacDonald addresses all these questions with the help of state participation rate estimates and a multivariate study of the household characteristics that are associated with low probabilities of food stamp use, using national survey data from the Michigan Longitudinal Panel Study of Income Dynamics.

Individual states differ strikingly in their participation levels, ranging in 1974 from a low of 14.9% in Wyoming to a high of 55.7% in California. The ten with the lowest rates are all midwestern states with substantial farming activity. The ten highest are coastal and/or highly industrialized states. These differences lead one to suspect that geography, social attitudes toward public assistance, and the historical influence of the farm lobby (in favor of commodity distribution rather than food stamps) may account for the difference. And certainly these factors are important.

But participation differences appear at the local level as well. MacDonald points out, for instance, that "the counties along Wisconsin's northern border . . . have markedly different participation rates [from one another]. There is even substantial variation across Wisconsin [urban] areas, ranging from a low of around 25% in Madison to 40% in Milwaukee and over 45% in Superior." Similar variation has been found in other states. Such differences among localities with highly similar eligible populations suggest that administrative practices (including outreach activities) vary from jurisdiction to jurisdiction.

What about the argument that low participation rates really reflect relative need—that those who qualify but whose incomes are not much below the cutoff point (and who do not, in consequence, qualify for much of a bonus) do not apply because the bother is greater than the value of the bonus? MacDonald finds that this does not entirely explain the existing situation. Although half the nonrecipients are missing out on less than $200 a year by not participating, over 11% are missing out on more than $800 and 7% are missing out on more than $1,000 a year.

Why do people fail to take advantage of these relatively substantial sums? Until MacDonald's study, answers to this question have been based mainly on conjecture, supplemented by rudimentary survey information. The major reasons usually advanced are (a) the stigma associated with using the stamps, (b) the time and trouble it takes to get certified for, purchase, and use food stamps (user costs), and (c) ignorance of how to apply for and use the stamps.

MacDonald's study has found (using 1971 data) that all these factors probably play substantial roles. First, households receiving welfare had a high probability of purchasing food stamps. These households, of course, have already had to overcome the stigma and user costs associated with welfare. And because they are on welfare their access to information about the food stamp program is likely to be good.

Second, those over 65 were distinctly less likely to use food stamps than other age groups. Older people are generally more conservative, leading us to expect them to feel the stigma costs associated with food stamps more than younger people whose social values may be changing. They are also less likely to be receptive to information about new programs.

Third, those households whose heads were not in the labor force had much higher participation rates (47%) than those with a head either employed or looking for work (35%). This supports the view that the "working poor" are a low-participation group and is consistent with the view that stigma is an inhibiting factor—an important point when it is remembered that food stamps constitute the only income support program for which most of the working poor are eligible.

How Can Participation Be Improved?

To the extent that nonparticipation stems from ignorance of one's eligibility, increasing participation entails that the Department of Agriculture strictly enforce its own guidelines for outreach, namely, "inform all low-income households eligible to receive food stamps of the availability and benefits of the program." MacDonald also finds that access to sources of general information does not help explain participation, suggesting that outreach should provide very specific information about benefit entitlements and how to get stamps.

To the extent that it stems from the time and trouble involved, streamlining the efficiency of local agency operations should help somewhat, although having to go to the food stamp outlets to get the stamps constitutes an irreducible user cost. (The need for having the money on hand to buy the stamps has been eliminated by the very recent food stamp amendments.)

To the extent that it stems from stigma—and the evidence is consistent with the view that stigma is important—it is difficult to predict what policy reforms might increase participation. "Stigma is a question of attitudes and personal perceptions of how one is viewed by others." We know little about how attitudes become ingrained or about how they change.

The most straightforward way to remove all these barriers, of course, would be to abolish the *food stamp* component altogether and simply replace it with cash. A cash entitlement is easy to advertise, could be readily mailed to recipients, and would not identify recipients as they purchased food. But efforts in this direction have failed thus far.

Why this opposition? It seems to stem from three possible sources, which all come down to using food stamps to *restrict* the benefits to food purchases: (a) taxpayers wanting to prevent "welfare bums" from wasteful spending, (b) liberals wanting to ensure adequate food consumption by the poor, and (c) food distributors wanting the sale of food to be subsidized to their benefit.

Do food stamps influence food buying patterns? That is the question to which we now turn.

Do Food Stamps Get People to Eat More? Eat Better?

Research on food consumption and income levels is in general agreement that, at least up to relatively comfortable income levels, increases in income are accompanied by increases both in calorie intake and in the nutritional quality of the food consumed. The question becomes, therefore: Do food stamps stimulate food consumption and nutritional intake *more* than an equivalent cash benefit would?

MacDonald addresses this issue in some detail, reviewing evidence from other studies as well as examining data himself, and he concludes that neither the quantity nor quality of the food consumed by food stamp recipients is very different from those of people at the same income level who do not get food stamps.

First, MacDonald pursues the question of the amount of food purchased by dividing food stamp users into three groups—those whose food expenditures exceed their food stamp allotment, those whose food expenditures are equal to their stamp allotment, and those whose food expenditures are less than their stamp allotment. The first group is clearly unconstrained in their expenditures by the existence of food stamps. They buy the food they would anyway, using the full food stamp bonus and only adding extra cash as necessary—saving an amount equal to the bonus, which they can then spend on anything they like. The second group may or may not be constrained, depending on whether the food stamp bonus exactly equals what they would have spent without it or whether it has made them buy more food than they otherwise would. The third group is clearly constrained. They may not buy more food than they otherwise would, but they would certainly use the unused bonus on nonfood items if it were cash. Using the Michigan data, MacDonald finds that 71.3% are in the first category, 4.7% in the second, and 24% in the third. For more than two-thirds of recipients, therefore, food stamps are clearly synonymous with cash.

MacDonald also examines the extent to which the constrained households spent *more* on food than they would out of a cash transfer equivalent (as opposed to simply leaving some stamps unused, thereby forgoing the bonus). His lower-bound estimate is that only ten cents of every bonus stamp dollar spent by these households actually goes for food they would not buy if they got the benefit in cash. Accounting for the unconstrained households as well yields the estimate that only eight cents of every bonus food stamp dollar goes for food that would not be purchased otherwise—meaning that 92% of the total food stamp bonus is in fact equivalent to cash for the recipient households.

If total expenditures on food are not affected much, what about the kinds of food bought? The food stamp program has no provisions directing food purchases toward better nutrition. But does having more purchasing power directed toward food lead to better nutrition in any case? The evidence reviewed by MacDonald allows no such conclusion. A study of California shows some nutritional improvement among food stamp recipients as compared with nonrecipients. But this finding is suspect because there were many other ways in which the two groups differed from each other—including the fact that the total incomes (cash and in-kind) of the nonparticipants were on average $43 a month less than those of participants. A study of rural Pennsylvania—with better research controls—showed no effect, except in temporary periods of unusual cash shortages on the part of the families. In contrast, interestingly enough, evidence from the North Carolina sample of the rural negative income tax experiment (strictly a cash transfer program) showed that the group receiving the cash transfers did significantly improve the nutritional quality of their diets. This is probably because the North Carolina families were distinctly poorer than most other groups that have been studied and may, therefore, have had a greater margin for dietary improvement (which could as conceivably have come about with food stamp bonuses, instead of cash).

Conclusion

Food stamps constitute America's only universal minimum income program. There is distinct variation according to demographic group in the proportion of eligible households that avail themselves of these benefits. The aged and the working poor use them less than other groups, which is consistent with the view that the stigma associated with the program is holding people back.

To the extent that public support for a minimum income in the form of food stamps, rather than an equivalent one in general purchasing power, stems from a desire to constrain the purchases of the poor and/or to increase the quantity and quality of the food they consume, the program is largely unsuccessful. Less than ten cents per bonus dollar seems to go for food that would not otherwise be purchased.

Then why not give cash and eliminate the hassle and unpleasantness of the stamp negotiation process? The answer must lie in the politics of income support. Perhaps the time will soon come when we no longer have to ask it.

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[1]FAP would have cashed out food stamps and provided a guaranteed minimum income in cash to all families with children.

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