

In Focus

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FOCUS

Institute for Research on Poverty
Newsletter

Volume 1, Number 3: Spring 1977

PUBLIC EMPLOYMENT: A MAJOR UNSOLVED PROBLEM OF THE SEVENTIES

Americans want to earn the American standard of living by their own efforts and contributions.
Council of Economic Advisors, 1964.

The key to success [in breaking the back of poverty] is jobs. It is work for people who want to work.

President Johnson, 1969.

FOCUS is an occasional Newsletter put out by the

Institute for Research on Poverty
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University of Wisconsin
Madison, Wisconsin 53706

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.

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America is the country *par excellence* where the ideal is to work for a living. We are behind other developed countries in our social-insurance/social-welfare system, at least in part because we want to make sure that those who can work do work.

As the above quotations show, the war on poverty and Lyndon Johnson's Great Society did not fly in the face of this tradition. Throughout the sixties and since, much of the social policy debate has revolved around the value of work and the importance of making sure people do it.

There is wide public support for guaranteeing an income to those who cannot work, and guaranteeing a *job* to those who can. It is, thus, something of a paradox that there are no large-scale guaranteed job programs in this country. (President Carter has renewed life in the issue by promising a new program.) Even worse, economists say that job creation is still one of the "hard" economic problems—not only is it unsolved, but also we do not yet have the methodological tools or the data to tell us *how* to solve it.

We have had public employment programs in the past, but most analysts have concluded that they have not, in general, been successful. It is not clear that the public employment programs have really generated as many new jobs as was first assumed. At least a proportion of them turn out simply to replace other jobs—the wages coming out of a different fund but paying for essentially the same job, and sometimes even going to the same people.

Concentration on Income Support

Why this failure? At least two factors are partially responsible. First, when the war on poverty was initially declared most economists (except for the relatively few

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Institute publications are at the back.

who believed in structural unemployment) thought that job creation was a macroeconomic responsibility. That is, they held the view that overall national economic policy could, if manipulated appropriately, keep the unemployment rate low enough for there to be jobs for all who wanted them. Consequently, little analytic effort went into studying the problem of job creation from the *supply* side of the labor market.

The second factor, probably an offshoot of the first, is that for the last decade much thought has gone into the economics and design of strategies to guarantee decent minimum living standards for low-income groups. But academics and government planners alike—and this Institute has been no exception—have concentrated on

income strategies rather than job strategies. Most notable among these is the negative income tax concept. Job creation and public employment have, in the process, been neglected as food for systematic thought.

It is now clear that the issue of jobs can no longer be ignored. Given the public's adherence to the view that those who can work should work, most supporters of *income* maintenance strategies recognize the need for some work test in any welfare reform program. (No program of any consequence has, in fact, ever passed without it.) However, job creation strategies must be considered as well.

Job Creation: A Jointly Sponsored Conference

To begin the task of filling this gap, the Institute for Research on Poverty and the Brookings Institution cosponsored a conference on public employment. This conference brought together a group of experts to discuss eight commissioned papers on various aspects of the issue (see inset). These papers will later be published in a joint Institute-Brookings volume.

Two contributions to the conference were by Institute staff. One concerned a demonstration of a job creation strategy currently in progress—Supported Work. This is a special program for groups with persistent difficulties in the regular labor market. The other was a historical and benefit-cost study of a relatively long-lived and still thriving job creation program for the disabled in the Netherlands which is one of the acknowledged forerunners of the Supported Work concept.

Supported Work

Supported Work is a large field demonstration, currently underway in fifteen sites across the country, of a work program designed for certain groups of the population with persistent difficulties in finding and holding a regular job. The four groups eligible for the demonstration are ex-addicts, ex-offenders, mothers on AFDC, and teenage school dropouts. This project is being carried out with funding from the Ford Foundation and the Employment and Training Administration of the U.S. Department of Labor. The latter is the lead agency in a federal funding consortium that includes the following additional agencies:

Institute for Research on Poverty —
Brookings Institution
Jointly Sponsored Conference

DIRECT JOB CREATION: ANALYTIC ISSUES AND POLICY IMPLICATIONS

April 7-8, 1977

1. Overview of the Current State of Knowledge
John L. Palmer
2. Inflation, Unemployment and Direct Job Creation: Can Subsidies for Direct Job Creation Shift the Phillips' Curve?
Martin Baily and James Tobin
3. The Public Finance of Public Service Employment
George Johnson
4. Public Employment Displacement of Private Sector Employment
Jon Kesselman
5. Social Employment in Holland: Analysis and Lessons for the United States
Robert H. Haveman
6. Supported Work: The Efficiency of Targeted Job Creation: Conjectures based on the Early Supported Work Experience
Peter Kemper and Philip Moss
7. The Demand for Guaranteed Jobs
David Greenberg
8. Federal Subsidies for the Direct Creation of Private Sector Jobs
Dan Hamermesh

FIRST ANNUAL REPORT ON THE NATIONAL SUPPORTED WORK DEMONSTRATION

Copies available from

Manpower Demonstration Research Corporation
3 Park Avenue
New York, New York 10016

- Law Enforcement Assistance Administration
U.S. Department of Justice
- Office of Planning and Evaluation
U.S. Department of Health, Education, and Welfare
- National Institute on Drug Abuse
U.S. Department of Health, Education, and Welfare
- Office of Policy Development and Research
U.S. Department of Housing and Urban
Development
- Economic Development Administration
U.S. Department of Commerce.

The Manpower Demonstration Research Corporation (MDRC) is responsible for the demonstration. MDRC was established in 1974 "to provide operating resources and technical assistance to local demonstration agencies and to oversee, monitor, and assess the performance of the local projects from both an operational and research standpoint." To help in the research assessment of Supported Work, MDRC contracted with Mathematica Policy Research, which in turn entered into a subcontract with the Institute for Research on Poverty.

What is supported work? This exciting new public employment strategy is designed to provide work experience (not training) over a period of 12-18 months. The work experience is structured to prepare program participants to survive in the regular labor market. It is also designed to provide proof to any prospective employer that the worker has been capable of sustaining a regular job.

The work environment for each participant is initially a sheltered one, with flexible attendance and punctuality standards and lenient productivity targets. As the months progress, however, the stress within the work environment is steadily increased—with greater insistence on punctuality and satisfactory work performance, and commensurate bonuses (based on productivity, attendance, and overtime) for those who continue to meet the rising standards.

The inspiration for the demonstration came from a field project undertaken in New York City by the Vera Institute of Justice. The Supported Work concept was applied by Vera specifically to ex-addicts. Data from that experience suggested that Supported Work might be a cost-effective job strategy for this type of group. The results were, indeed, so encouraging that the Ford Foundation became interested in generalizing the program to a countrywide demonstration, testing whether such gains could be sustained on a wider scale while including other groups, other circumstances, and other geographic locations.

According to MDRC's *First Annual Report*:

... as of July 31, 1976 each of the thirteen projects² was fully operational and varied in size from 60 to 200 participants, with the total number of participants nationally reaching 1242, including 449 ex-offenders, 260 women receiving assistance under the federal program of Aid to Families with Dependent Children (AFDC), 224 ex-addicts, 207 youths, and 102 others. The operating cost of the demonstrations ranged between \$500,000 and \$1,300,000 for each of the sites. In addition to the funding provided centrally through MDRC, each of the local projects has been required to obtain a specified portion of its operating budget from local funding sources or revenue-producing work projects.

The evaluation. The Mathematica-Institute for Research on Poverty evaluation will be based on a sample of at least 5400 individuals in ten of the sites. These will be drawn from all target groups and divided equally among participants and nonparticipants (i.e., the control group). Individuals who apply for Supported Work slots are randomly assigned to one or the other group. At that time both groups are given the "baseline" interview, which collects (with strict procedures and safeguards to preserve confidentiality) a great deal of demographic data as well as detailed information on recent job, crime, and drug history. Follow-up interviews are planned at 9, 18, 24, and 30 months after random assignment.

The length of the follow-up on an individual (and therefore the number of interviews administered) depends on the date that person entered the sample. Thus, the earliest participants will be followed the longest. The whole sample will be given the 9- and 18-month interviews, 33 percent will have the 24-month interview, and 22 percent the 30-month interview. Official records on criminal history, Social Security, and welfare will be used to extend the follow-up on everyone for one year after the interviews have ended. Maximum follow-up after the baseline interview, therefore, is planned at 42 months on 22 percent of the sample (which, if all goes as planned, will amount to about 1100-1200 people). In addition to the interviews and the official records, information regarding program operations at all sites will be available from computerized fiscal, payroll, and program data.

The evaluation is divided into three major components. First, the long-term effects on behavior will be assessed (in comparison to the controls) :

- Do Supported Work participants have more stable, long-run post-Supported Work employment experiences and higher long-run earnings?
- Are they less dependent on such transfer payments as AFDC, Food Stamps, general assistance, and Medicaid?
- Will Supported Work reduce the likelihood of ex-addicts and ex-offenders reverting to drug use and criminal behavior?
- If offenses are committed will they be less serious?
- Will Supported Work reduce the criminal activities of delinquent youth and increase the likelihood of a return to school?
- What effects will Supported Work have on housing consumption and public housing tenancy?

The second part of the evaluation will concern performance during program participation at all sites. Process analysis will be used to explore the connections among program characteristics, individual characteristics, and success in the program.

The third part will be an overall cost-benefit analysis. The benefits to be measured include postprogram differences in behavior between participants and controls; the value of the goods and services produced; decreased expenditures on social welfare, crime prevention, and so on; and increased positive tax payments arising from gainful employment. Costs include the expenses of the program and the "opportunity cost of employing the supported workers, which is assumed equal to the earnings of the control group."³

Detailed information about Supported Work and its first year of operations is available in the MDRC *First Annual Report*. Since the data will remain preliminary for some time, the conference paper by Peter Kemper and Philip Moss of the Institute for Research on Poverty presents a conceptual framework for evaluating the efficiency of the work done by participants during the program.

Public Employment for the Disabled in Holland

One of the acknowledged forerunners of the Supported Work concept is the Dutch Social Employment Program for the disabled. This is perhaps the oldest and certainly

the largest (in relation to the size of the country) public employment program in the West. At the Brookings Conference, Robert Haveman, former Director of the Poverty Institute, presented a summary of his detailed study of the Dutch experience.

The Social Employment Program. The Social Employment Program in Holland dates back to the early part of this century, when local governments coordinated their separate public employment efforts encouraged by a limited amount of financial support from the national government. A major expansion occurred soon after World War II, partly in response to suggestions from Dutch scholars and leaders who were associated with the government-in-exile. They envisioned a postwar "new Holland" having a full and liberal social security system, with substantial attention to the handicapped and disabled.

The system that developed and grew after the war was frankly based on the moral judgment that everyone had a right to work. As one Minister of Health and Social Affairs put it, "I do not consider these rights [to work and to health] as strictly personally enforceable rights, but as an obligation of government to create the conditions for employment for everyone." As another member of Parliament stated, "Work—as an order of creation—belongs to the essence of being human From this point of view, a right to work—a claim on work, if you like—emanates automatically."⁴

(continued on page 16)

Robert H. Haveman, Principal Investigator, *A Benefit-Cost and Policy Analysis of the Netherlands' Social Employment Program: Final Report*. Institute for Research on Poverty Special Report no. 15.

Robert H. Haveman, "Public Employment of Less Productive Workers—Lessons for the U.S. from the Dutch Experience," Institute for Research on Poverty Discussion Paper no. 395-77.

Robert H. Haveman, [A Second Paper on the Dutch Experience], Institute for Research on Poverty Discussion Paper no. 396-77.

EVALUATING THE ANTIPOVERTY EFFORT SO FAR: A CONFERENCE AND A BOOK

The Institute for Research on Poverty was set up as the basic research arm of the Office of Economic Opportunity's mission to fight poverty. It thus seemed appropriate, as the first decade of the war on poverty ended, for the Institute to hold a conference to discuss what difference all the efforts of the previous ten years had made.

The Institute commissioned seven papers to be the basis for such a conference (jointly sponsored with the Johnson Foundation), which was held in 1975 at the Wingspread Conference Center in Racine, Wisconsin. These papers—systematic assessments of all the major program areas—were each critiqued by a pair of invited discussants, in addition to being the subject of general conference debate.

The conference papers, along with the discussants' remarks and an introductory essay by Robert Haveman, have now appeared in *A Decade of Federal Antipoverty Programs: Achievements, Failures, and Lessons*—a volume edited by Haveman, Director of the Institute at the time of the Wingspread conference. This is the second volume in the Institute's Poverty Policy Analysis Series of books written for readers concerned with antipoverty policy but not interested in the detailed analysis presented in the technical monographs.

Fashions in Evaluation of War on Poverty Programs

Fashions in evaluation of the war on poverty and Great Society programs have changed over the period since 1964. In the early days of the war, there was little doubt in people's minds that poverty could be reduced, and that, if done right, the Great Society programs could accelerate that reduction. In the aftermath of the Vietnam War, it became fashionable to say that the domestic war had failed because the financial needs of the foreign one had starved it of necessary funds. Poverty persisted, it was contended, not because of the inadequacy of the policy strategy but because it was never really given a chance.

As the seventies wore on it became fashionable to measure the effects of policy in cost-benefit terms. If programs showed poor results by this criterion, the failure was attributed to our ignorance. We had assumed that manpower, education, and health programs—human capital programs—would improve the performance, and therefore the earnings position, of the poor. But the cost-benefit analyses suggested that these expectations were wrong. If human capital programs could do this, we had clearly not yet discovered *how*.

Antipoverty expert Sar Levitan now suggests that such tests are too stringent. The appropriate method of assessment,

A DECADE OF FEDERAL ANTIPOVERTY PROGRAMS

Achievements, Failures, and Lessons

Robert H. Haveman, Editor

1. Introduction: Poverty and Social Policy in the 1960s and 1970s—An Overview and Some Speculations *Robert H. Haveman*
2. The Social and Political Context of the War on Poverty: An Overview *Lawrence Friedman*
3. A Decade of Policy Developments in the Income-Maintenance System *Laurence E. Lynn, Jr.*
4. A Decade of Policy Developments in Improving Education and Training for Low-Income Populations *Henry M. Levin*
5. A Decade of Policy Developments in Providing Health Care for Low-Income Families *Karen Davis*
6. Racial Change and Citizen Participation: The Mobilization of Low-Income Communities through Community Action *Paul E. Peterson and J. David Greenstone*
7. Ten Years of Legal Services for the Poor *Ellen Jane Hollingsworth*
8. A Decade of Policy Developments in Equal Opportunities in Employment and Housing *Phyllis A. Wallace*

Discussants

| | |
|-----------------|-----------------|
| Wilbur Cohen | Robert Lampman |
| Peter Eisinger | F. Ray Marshall |
| Irwin Garfinkel | Edward Sparer |
| Earl Johnson | Karl Taeuber |
| Milton Kotler | Lester Thurow |
| Nick Kotz | Harold Watts |
| Anthony Kovner | Burton Weisbrod |

Academic Press, \$17.00 (\$5.00 paperback)

in his view, is a different one: "In considering programs with altruistic goals, the compassionate approach is to assume success until failure is reasonably demonstrated. Critics have frequently stressed economy over compassion."¹

The Approach Taken in the Wingspread Volume

The authors and discussants writing in this book are all sympathetic to the ideals and objectives of the war on poverty. If biases are discerned, they are certainly in favor of policies designed to help the poor. The approach they follow, however, is that in the long run, objective analysis will best help achieve those goals.

The papers, therefore, are first of all careful and detailed descriptions of the various programs. The reader can learn what the actual programs were during the decade—their scope, their provisions, and whom they reached. Second, the papers assess the available evidence on program effects, both in terms of their stated objectives and in terms of other goals. Where appropriate, the merits and shortcomings of previous program evaluations are discussed.

In many cases the authors are not in complete agreement on every nuance of the arguments. And the discussants, whose tone is more informal, frequently disagree with the emphasis and sometimes the substance of the papers. The volume, therefore, provides not only a comprehensive factual treatment of the antipoverty programs over the last ten years, but also a lively exchange of views on the poverty war. Finally, it contains some of the most systematic treatments thus far of the important issue of program evaluation. New program initiatives are valuable parts of social policy, but to move ahead in an effective way we need thorough, dispassionate analysis of what has been done in the past.

1. An Overview and Some Speculations

“While poverty was reduced during the decade, it is difficult to directly attribute this result to the programs that were an explicit part of the war. Other changes—perhaps enabled and encouraged by antipoverty policies, but not a central part of them—must also receive credit.”

Robert H. Haveman

Haveman’s introductory essay sets the rest of the volume into perspective by reviewing the basis of and motivation for the war on poverty and appraising the overall progress of the 1965-75 decade, emphasizing that many important policy developments affecting the poor during the decade were not on the agenda of the planners. This is particularly true, perhaps, of the enormous growth in size and number of programs in the income maintenance system.

Haveman makes the point that since planned social change has given way to unexpected directions in the past, future developments may also prove to have been unplanned. Nonetheless, he argues, we have a responsibility to try to set the direction of future policy.

He makes several predictions. The substantial progress of the last decade toward assuring minimal living standards for all has made income poverty less salient as a major public issue. Serious income *inequality*, however, still remains and will come to the political forefront in the next decade. But any efforts to reduce income inequality must first cope with the disjointed and uncoordinated set of income transfer and social welfare programs already in place. Also, because of the failure of policies designed to increase the productivity and earnings of low-skill workers, direct efforts to restructure or supplement labor markets (see also the FOCUS article on *Public Employment*, page 1) are likely to be increasingly proposed as policy instruments.

2. The Social and Political Context of the War on Poverty

“The war on poverty made promises that were not and could not be kept. But dollars did trickle down and filter through; and lives and institutions were transformed. In the final analysis, it was a fight worth fighting, and a step in the direction of progress.”

Lawrence M. Friedman

Lawrence Friedman takes a philosophical look at the origins and context of the war on poverty. The initiative for it, according to Friedman, came from the executive branch. Added to the power of the presidency, which was great enough to begin the new thrust, was the intellectual faith that social problems could—and should—be solved. Although the political climate fed by the shock of the Kennedy assassination and by the growing civil rights movement was right, there were no major outside forces. There was no war, no depression, no revolution, and no lobby or interest group pressure to speak of.

Once the decision to fight the war was made, there were three possible paths to take: making payments to the poor, changing the poor, and changing society. The first was, by explicit decision, not the direction the planners intended. The last was there to a small extent, but basically below the surface. The second became the dominant theme. Education programs, food programs, health programs, job programs: these were to enable the poor to earn their way out of poverty.

But many problems were built into the war from the start, according to Friedman. There were excessive hopes and promises, legislation couched in such general terms that it was all things to all people, budgets that were grossly inadequate for the problems they were supposed to solve. Yet in spite of all these, and in spite of the subsequent disillusionment of the intellectuals and reformers who planned the war, the poverty gap has narrowed and the needs of the poor have earned an enduring place on the nation’s agenda.

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WHO WOULD BENEFIT FROM ELECTORAL COLLEGE REFORM?

Carter was elected president in a race close enough to deserve the appellation "cliff-hanger" and to revive the perennial fears that (1) the electoral college arrangement may one day deny the presidency to someone who has captured a plurality of the popular vote; or (2) the popular vote may be inconclusive, leaving the people's fate in the hands of 435 men and women unbound by that vote. These fears have not yet been realized in the twentieth century. But in the nineteenth century, two presidential candidates who received the greater popular vote were defeated in the electoral college; one, Samuel Tilden, failed to win the necessary electoral college majority, and was finally defeated in the House of Representatives.

Why Change?

These dangers make us apprehensive. Many of us feel intuitively that there should be reform to eliminate ambiguity, give us a system everyone can understand, and ensure that the most popular candidate does indeed make it to the White House. Direct popular election often seems to be considered somehow "fairer"—that is to say, those who are seen as politically underprivileged in the current system would gain more power through reform.

But, as Seymour Spilerman and David Dickens point out, extensive public discussion about electoral college reform has taken place without any systematic evidence on what difference reform would in fact make to the political power structure reflected in the status quo. Many have felt free to speculate and their speculations do not present a consistent picture.

Will "direct popular vote . . . give greater influence to the major urban cities" or will "the metropolis . . . lose its most important point of leverage in the total political system"?² Will "black people and other minorities . . . lose a distinct advantage"³ under direct election or will the blacks' "nationwide strength . . . be pooled instead of washed out in winner-take-all elections state by state"?⁴

Until the Spilerman-Dickens recent district-by-district sensitivity analysis, in which the results of four different electoral systems are simulated using the 1960 Nixon-Kennedy contest as the basic data source, we have not had

Seymour Spilerman and David Dickens, "Who Will Gain and Who Will Lose Influence under Different Electoral Rules." *American Journal of Sociology* 80: 443-477. Institute for Research on Poverty Reprint no. 160.

the information necessary to make an informed judgment. (Three empirical studies were done relatively recently, but those results do not allow for the differential influence of votes depending on whether they are cast in an area of close elections or not.)

The Study

The four presidential election reforms the Spilerman-Dickens study examines cover the basic gamut of possibilities: (a) retain the essential features of the electoral college, introducing minor modifications such as automatically validating the popular vote in a state; (b) retain the winner-take-all or unit-rule feature of the present system, but change the electoral unit from the state to the congressional district; (c) apportion a state's electoral vote among the candidates in proportion to their popular votes; or (d) elect the president and vice president by direct popular vote.

Voting studies consistently show that different groups in the population have characteristic propensities to prefer a particular party. These social groups, moreover, tend to be concentrated in particular cities and states, with the result that many geographic locales have become identified with a characteristic set of political interests and a traditional leaning toward one of the major parties. Since the alternative rules would be likely to dilute some groups' impact and enhance that of others, any empirical study must be able to use relevant socioeconomic data at a very local level.

Spilerman and Dickens do just that. The 1960 Census data, along with voting data from the 1960 Kennedy-Nixon presidential election, are used to construct *county-level* estimates of how different social groups voted. These estimates are used as the status quo. The "electoral influence" of each group, defined as the extent to which a shift in its party preference will alter the final electoral vote, is then measured. Finally, the resulting county voting patterns under each electoral arrangement are put together, and the question of who will gain and who will lose influence under each system is assessed.

Who Benefits from the Status Quo?

The heavy states. The relative influence of different voting groups derives from the way that a given change in party preference on the part of a voting group, as reflected in the direct popular vote, is magnified or reduced by the specific electoral reform alternatives. The electoral college provides a significant advantage to residents of large, populous states over all four reform alternatives. A 4 percent change in the popular vote in large states could alter the electoral college vote by 13.38 percent; the same sized shift in the popular vote in small states could alter the electoral college vote by only 6.95 percent. The ratios of the effects of a 4 percent change in voter preference in the large states to the effects of a 4 percent change in the small states are:

Electoral college (13.38/6.95) = 1.93
Direct popular vote (1.0/1.0) = 1.00
Proportional plan (0.83/1.51) = 0.54
Equal district plan (3.76/7.31) = 0.51
Mundt⁵ district plan (4.17/9.94) = 0.42.

Translated, these figures mean that in the electoral college, the voting preferences of residents of large states have almost twice the impact as that of residents of small states. Direct popular vote, of course, gives everyone equal weight. Under the proportional plan and the equal district plan the situation is reversed—the effect of large state preferences would be only half as great as that of small states. And under the Mundt district plan the influence of the large states would be still less. The proportional plan would also have the effect of making close contests even closer.

Urban areas. The influence of large metropolitan centers is enhanced under the electoral college as compared with all the other alternatives. Consistent with the state-size findings, the district and proportional plans would favor rural areas and small towns even more than the popular-vote rule.

Nonwhites and Catholics. The Spilerman-Dickens results show that both nonwhites and Catholics enjoy greater influence in presidential politics under the electoral college than they would under any of the other alternatives, with some evidence that nonwhites wield greater relative influence than Catholics. Under direct popular election both groups would lose substantially. Under either of the two district plans the situation would deteriorate further for both groups—slightly more so for Catholics than for nonwhites. The proportional plan would result in larger erosion of electoral impact for Catholics than would direct election. For nonwhites direct election would be worse.

The poor. Low-income persons are shown to enjoy a modest advantage over the rest of the population with the electoral college, relative to the direct popular vote. The proportional plan would also benefit the poor slightly in comparison to direct election. Neither of the district plans would make any consistent difference.

What is Equity?

As is clear from the Spilerman-Dickens findings, the large urban states, the nonwhites, the Catholics, and the poor

Institute for Research on Poverty-
Federal Council on Aging
Jointly Sponsored Conference

THE TREATMENT OF ASSETS AND INCOME FROM ASSETS IN INCOME-CONDITIONED PROGRAMS

May 13-14, 1977

This conference, held at the Poverty Institute, grows out of the 1976 report by Betty Duskin to the Federal Council on Aging that recommended study of asset-testing options. The six principal conference papers frame the inquiry more broadly. They comprise:

- review of policy and practice of means-testing in existing programs
- review of the treatment of assets and property income in designs for negative income taxation
- critical examination of options for treating assets and property income.

These papers, and an overview essay by Robert Lampman that focuses on alternatives for public policy, will later be published together with the FCA recommendations.

are the beneficiaries of the current electoral college system in comparison to their influence in the direct popular vote. Even if the members of each of these groups were to form their own "rational voting bloc"—that is, share a voting identity irrespective of location—their impact on presidential politics would be reduced under direct election.

This puts into sharp focus the issue of fairness. Spilerman and Dickens state it succinctly:

Ultimately, if one accepts the principle of equal representation, his position on direct election must derive from a judgment as to what constitutes the relevant system. What analysis can show is how advantage currently is allocated, and how this will change if the Electoral College is replaced. . . .

If we broaden the system specification to encompass the federal government, we find that the very groups advantaged in presidential politics are under-represented in the U.S. Senate. . . . We do believe that the distribution of influence in the legislative branch is a proper consideration, and as long as imbalances exist there, we find it difficult to justify eliminating compensatory imbalances in the executive branch.

This whole issue of equity gains new relevance from the fact that in late January, 1977, the Senate Judiciary Subcommittee opened hearings on the Bayh amendment, which would eliminate the electoral college and elect the presidential and vice-presidential candidates who jointly received the most votes in all states combined. If no ticket got 40 percent or more of the vote, a runoff between the top two would be held. This amendment is sponsored by 42 of the 100 members of the Senate. The Spilerman-Dickens research has told us what to expect from such a reform. Let us hope the consequences are understood by those who will vote on it.

¹Senator Peter Dominick in U.S. Congress, Senate, Committee on the Judiciary, *Electing the President*, 91st Congress, 1st sess., 1970.

²Wallace S. Sayre and Judith H. Parris, *Voting for President* (Washington, D.C.: Brookings Institution, 1970), p. 72.

³Reverend Channing Phillips quoted in "Archaic and Dangerous," *Newsweek*, 30 December 1968, p. 23.

"Archaic and Dangerous," p. 24.

⁴Under the Mundt district plan, each congressional district would cast one electoral vote, determined by the majority outcome in the district. In addition, two electoral votes would be cast for the state's popular vote winner. The equal district plan does not contain the latter feature.

Newly-Published Institute Monograph

THE ECONOMIC IMPACTS OF TAX-TRANSFER POLICY: REGIONAL AND DISTRIBUTIONAL EFFECTS

Frederick L. Golladay and Robert H. Haveman,
with the assistance of Kevin Hollenbeck

It is well known that proposals for changes in transfer and taxation policy vary in their effects on regions, occupations, industries, and income classes. Little attention has been given, however, to the magnitude of these effects or a means of estimating them. Moreover, it has not been determined whether the induced effects of welfare reforms would tend to favor the poor or to offset the primary benefits of such measures.

This volume presents a microeconomic simulation model—using microdata based on the Current Population Survey—designed to estimate these induced effects. The model, applied to variants of proposed negative income tax plans for the United States, entails analysis of:

- distribution of benefits over persons of various income levels and regions
- resultant changes in consumption patterns and the consequent labor demand effects
- the implications of these occupational demands on the distributions of earnings and income.

The most significant finding is that the simulated negative income tax will benefit high-skill, high-wage workers more than low-skill, low-wage workers. The authors conclude that the demand-induced effects of the policy tend to offset its first-round regional and income distributional effects.

Golladay and Haveman's provocative analysis will be of particular interest to economists in the areas of public finance, policy analysis, income distribution, regional analysis, input-output studies, and microdata simulations.

Academic Press, \$14.00

A STUDY ON THE DEMOGRAPHIC IMPACT OF SCHOOL DESEGREGATION

by
Karl Taeuber

Twenty-three years ago the Supreme Court decreed that "in the field of public education the doctrine of 'separate but equal' has no place" (*Brown I*, May 1954). In its implementation decision (*Brown II*, May 1955) the unanimous Court remanded the cases "to the district courts to take such proceedings and enter such orders and decrees . . . as are necessary and proper to admit to public schools on a racially nondiscriminatory basis with all deliberate speed the parties to these cases."

Desegregation in the Sixties and Seventies

The deliberateness of the ensuing implementation has been noted often, but in the late 1960s and early 1970s considerable desegregation did occur in hundreds of school districts. In reaction to a decade of massive resistance, federal courts declared the constitutional mandate to be the immediate elimination of racial discrimination root and branch. Legislation, especially the Civil Rights Act of 1964 and the Elementary and Secondary Education Act of 1965, provided the carrot of federal funds (for general programs and desegregation assistance) as well as the stick of fund-withholding. A willing administration found in the Department of Health, Education, and Welfare Office for Civil Rights and the Department of Justice sufficient clout to undertake a reconstruction of education in the nonmetropolitan South, and to begin action on the big cities of the North and the South.

Beginning in 1969, the new and unwilling Nixon administration slowed down the pace of desegregation, but did not reverse what had already been accomplished; nor could it stop the city-by-city flow of court cases launched by private plaintiffs. Successive district court decisions in the 1970s have kept big-city school desegregation in the forefront of national attention even though executive, legislative, and judicial views of what is required have become more divided than ever before.

Tactics for Resistance

In 1955 the Supreme Court declared that "the vitality of these constitutional principles cannot be allowed to yield simply because of disagreement with them." The Court no doubt meant by "disagreement" the types of outright resistance symbolized by the overt opposition of some

Southern political figures in the late 1950s, the Boston School Committee's intransigence in the early 1970s, and the outright violence in Little Rock, Pontiac, Boston, and other cities. Despite such hostility, court desegregation orders have generally been enforced.

According to some social scientists, a nonlegislative and nonviolent form of dissent has been succeeding in subverting big-city desegregation efforts where other strategies have failed. The objection of white parents to pupil reassignment desegregation programs is thought to have led to the withdrawal of white children from city public schools. The white "flight" to private and suburban schools is yielding a pattern of central city schools that serve minority pupils and are surrounded by suburban schools serving white Anglo pupils. As Thurgood Marshall has noted bitterly, the new pattern is a throwback to the old pattern of racially separate but unequal.

A Research Study at the Institute

While massive public turmoil has focused on busing, there has been little reliable information about the effects of desegregation actions taken by individual school districts on the racial composition of their schools and of schools in surrounding districts. A number of investigators have conducted simplistic analyses of insufficient data and rushed their findings and opinions directly into courts and public forums, without subjecting their research to scholarly peer review. In an effort to obtain a better set of basic data and a more careful analysis, the Assistant Secretary for Planning and Evaluation (ASPE) of DHEW designed a series of studies to be carried out under contract. The Institute for Research on Poverty has contracted to conduct "A Study to Determine the Impact of School Desegregation Policy on the Racial and Socioeconomic Characteristics of the Nation's Schools and Residential Communities."

This research program has three broad objectives:

- To determine trends over time in levels of racial isolation in the nation's elementary and secondary schools, and to determine the extent to which deliberate desegregation actions of various types undertaken at the insistence of each kind of agency are related to changes in these levels.
- To determine the extent to which deliberate desegregation actions of various forms implemented by various agencies affect relationships between the racial composition and distribution of students in public schools, students in private schools, and the

SELECTED PAPERS

Karl Taeuber, "Demographic Perspectives on Housing and School Segregation." *Wayne Law Review* 21 (March 1975): 833-50. Institute for Research on Poverty Reprint no. 162.

Barbara Zoloth, "Alternative Measures of School Segregation." *Land Economics* 52 (August 1976): 278-98. Institute for Research on Poverty Reprint no. 208.

population in the residential areas defined by school boundaries.

- To determine the extent to which patterns of socioeconomic isolation exist in the nation's public schools and the extent to which they are correlated with the patterns of racial isolation, and to determine the relation between trends in socioeconomic isolation and desegregation actions.

Each of the three objectives arises from a specific concern of ASPE with assessing the effects of an assorted set of governmental policies that were designed to alter the racial structure of American education. All the objectives require identification of the magnitude of the various self-defeating or deleterious side effects that can be summarized under the notion of "resegregation." A particular concern linked to the third objective is the potential conflict in methods and aims between (1) desegregation actions that seek to disperse pupils, (2) educational assistance programs aimed at schools with concentrations of disadvantaged children, and (3) programs designed to meet the special needs of non-English-speaking children and others of minority ethnic identification.

The scope of the school desegregation study has been enlarged by a separate research grant to the Institute from the National Institute of Mental Health Center for Studies of Metropolitan Problems. In addition to sharing a concern with the methodological and substantive topics investigated simultaneously under the DHEW contract, the NIMH research program is seeking to specify community characteristics that affect (1) whether the community has taken any action toward desegregating its schools; (2) what agent compelled or spurred action (court order, Office for Civil Rights, state agency, etc.); and (3) the

extent of the desegregation action and the amount and character of change in school racial composition.

Research Strategy and Data Sources

The Institute's study is distinguished from other research on these topics by the breadth of its conceptualization and by the richness of the data to be utilized. The research design begins with recognition of the vast demographic changes occurring in our nation. The metropolitan racial division between central city and suburbs, for example, has been developing for decades—its origins predate any concern with school desegregation, and the underlying trends continue in areas both with and without major desegregation plans. Study of these trends requires specification of white and black in- and out-migration to central cities, suburbs, and nonmetropolitan areas. Remarkably rapid and pervasive shifts have recently occurred in patterns of regional and metropolitan migration, and the recent sharp drop in fertility must also be noted for its effect on elementary school enrollments. The research task, then, is to specify the general processes and then ascertain any particular impact of school desegregation actions.

The data sources utilized by previous investigators have been confined in many instances to school enrollment data. Under separate contracts, ASPE has commissioned preparation of a standardized school enrollment data file that will permit identification of trends for individual schools as well as for total districts, and preparation of a file describing the specific desegregation actions that have been undertaken by each district. The Institute will also utilize special tabulations from various data files of the Bureau of the Census; the National Center for Educational Statistics; and data from selected state educational agencies, local districts, and special sources on annual enrollment trends and socioeconomic composition of public and private schools. Extant attitudinal and opinion surveys will be reanalyzed to provide insight into the behavioral dynamics underlying the migration and enrollment-shift models.

The school desegregation contract is under the joint direction of Professors Karl Taeuber and Franklin D. Wilson; Taeuber is principal investigator under the NIMH grant. Other participating Institute researchers are Katharine Bradbury, Bill Frey, Stanley Masters, Alma Taeuber, and Garth Taylor. Both research programs will continue through the summer of 1978.

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Evaluating the antipoverty effort so far (continued from page 6)

3. Policy Development in the Income-Maintenance System

"Though its goals were not framed in terms of expansions or improvements in the income-maintenance system, President Johnson's 1964 declaration of a war on poverty was bound to affect policy developments in those programs by which income is transferred to the poor."

Laurence E. Lynn, Jr.

Laurence Lynn, Jr., traces the historical development of the enormous and complicated system of income-maintenance programs currently in effect, including the social insurance and the in-kind programs. (The first federally assisted program, according to his chronology, dates back to the Revolutionary War in 1776.) He documents in detail developments since 1964, including extensive data on the size and coverage of the various programs. He also describes the many efforts during the last decade, all unsuccessful, to reform the system by making it more comprehensive in coverage and simpler and cheaper to administer.

Lynn analyzes the case for incremental reform as opposed to basic overhaul of the system. His view is that in the long run the administrative costs of the current patchwork of programs will become prohibitive enough to force some reform. Paradoxically, however, cost currently seems to be a serious obstacle to basic overhaul proposals. He ends his paper with an interesting prediction. "The momentum to overcome [the cost obstacle to significant reform] is likely to be more easily generated during a change of administration by a new President personally concerned about the issue. Though such a development cannot be predicted with high confidence, much stranger things have happened."

4. Improving Education and Training for Low-Income Populations

"A wide variety of programs were initiated or expanded during the poverty decade, and the evaluations and relevant research suggest that their effect on the reduction of poverty was minimal. Why were the failures so great and what alternatives might be considered?"

Henry M. Levin

Henry Levin describes the impressive number and variety of education and training programs included in the federal antipoverty effort. Levin also reviews the rationale behind the stress on education and training. He then summarizes the results of previous program evaluations in this area, and documents systematically the apparent lack of impact of the programs either on raising the performance of participants or on reducing poverty.

As Levin says, few would now deny the basic failure of existing approaches toward education and training for alleviating poverty. Back in the mid-sixties, however, there was at least as general a belief that they would succeed. The poor were poor because they lacked basic skills. Increasing their skills, therefore, was confidently expected to raise their productivity and their earnings.

That is as far as the consensus goes. People do not agree, as Levin documents, on why these programs failed or on where we should go from here. He presents five different perspectives on the failure, pointing out that much of the statistical data supports more than one perspective and that there is little unambiguous evidence that points in a particular direction.

The interpretation one selects depends heavily on factors other than social science evidence. When this evidence conflicts with a deeply rooted commitment to a view of social reality, in Levin's judgment, it is likely to be rejected. He predicts, therefore, that the best indicators of policy over the next decade are probably the trends over the latter part of the last one, rather than what social science research is suggesting. These trends are not, however, entirely gloomy. Levin believes that government has acquired a new respect for program evaluation and research, and a willingness to press for a more direct and immediate solution to the problem of economic inequality.

5. Providing Health Care for Low-Income Families

"Among all of the Great Society programs, those devoted to health care receive the largest and most rapidly growing share of budgetary resources. . . . Experimental health delivery programs, while conducted on a limited scale, have demonstrated that considerable success is possible in overcoming a multitude of obstacles to improving the health of the poor."

Karen Davis

The major federal initiatives in providing health care for low-income families since 1964 have been Medicaid, Medicare, the OEO Neighborhood Health Center program, and the Maternal and Child Health program. The intended strategy was thus twofold. The first two programs were meant to reduce *financial* barriers to medical care, while the last two were designed to provide comprehensive health care delivery. The financial programs were open-ended commitments to pay for a wide range of services; the delivery programs were specific grants to a set of health care centers and other selected institutions.

The high expectations of the health care planners were not altogether realized. The unexpectedly enormous costs of Medicare and Medicaid precluded the substantial growth planned for the health grant programs. The open-ended budget commitments of the financing programs thus

rapidly destroyed the balance of the twofold approach. There was, however, some measure of success; and the ten years of effort, according to Karen Davis, provide a "wealth of experiences that should be instructive in the design of future policies."

On the positive side, reducing financial barriers to medical care has had a marked impact on the use of medical care by the poor and elderly. Comprehensive health centers have, in addition, demonstrated an ability to provide high quality care resulting in a major impact on the *health* of the poor.

Counterbalancing these successes, however, is the fact that the programs of the last decade have not eliminated the financial hardship of medical bills of low-income families. Medicaid does not cover about one-third of the poor because of eligibility restrictions stemming from its tie to welfare. Even the equal coverage and treatment under Medicare have not resulted in equal access to medical care among the elderly. Neither do the poor, despite the improvements, yet participate in "mainstream" medicine, but instead receive most of their care from public facilities and nonspecialists, after longer traveling and waiting time.

As we face the future, Davis would have us note that those groups whose primary barriers to health care are not financial—rural residents and minorities—have been least helped by the financing approach and most helped by the programs (limited though they have been) that have established health centers within their reach. She also stresses that rapid inflation in medical costs may now be undoing much of the progress made by the poor in the last ten years.

6. The Mobilization of Low-Income Communities through Community Action

"The Community Action Program (CAP) presents observers in the mid-1970s with an evident paradox. It was to be part of the attack on economic poverty and its social consequences. Community action instead became an attack on political poverty, oriented toward increasing the political participation of previously excluded citizens, particularly black Americans."

Paul E. Peterson and J. David Greenstone

The original intent of the Community Action Program, according to Peterson and Greenstone, did not predominantly emphasize citizen participation. The major initial objectives were service delivery and service coordination. However, when these were quickly abandoned as politically unviable, citizen participation became the central focus.

Community Action, in terms of the participation objective, was successful in their view. Minority groups were incorporated politically during the decade, and have reached a level of political influence and activity at least

comparable to that of low-income whites. Community Action was much more successful in this area, in fact, than it was in improving the economic and social position of minorities.

Because of this success, Peterson and Greenstone predict that political poverty will no longer be an issue in the coming decade. Moreover, it will not be replaced by a renewed attack on economic poverty since any sharp demarcation between poor and nonpoor is necessarily arbitrary. Rather they expect, with Haveman, that inequality will be the major target of "future scholarly and political assaults on economic deprivation."

7. Ten Years of Legal Services for the Poor

"To some, Legal Services has been a steady, if small, engine powering social reform through class action, community organization, and legislative activity. To others, it is precisely the reverse, a sizable band-aid program to lessen somewhat the impact of poverty without raising fundamental questions about reorganization of the American system through income redistribution and like measures."

Ellen Jane Hollingsworth

The Legal Services program was an experiment in a new area in a way that, with the exception of Community Action, no other Great Society program was. Its objective was to help the poor get their just deserts from the legal system, under the assumption that people who can afford lawyers get the system to work in their favor. For people who cannot, the system works against them. Unlike income maintenance, education, manpower training, housing, or even medical services, until 1964 federal (and for that matter public) money for legal services has been, practically speaking, nonexistent. Nor had there been much precedent in other countries.

There was and still is, Ellen Jane Hollingsworth tells us, no agreement upon the conceptualization or methodology by which legal services should be evaluated. Even if a framework could be agreed upon, little data exist for such evaluation. The effects are also hard to measure. How does one set a value on a legal service, such as helping solve problems in family, welfare, housing, or consumer areas? And finally, monitoring professionals for any reason is perceived by them to involve challenges to the independence and accountability of the profession itself, making it hard to persuade lawyers to give out information. "The bar," says Hollingsworth, "like its sister professions, has been quick to mobilize when threats to lawyerly independence are raised." For all these reasons, the program is a difficult one to appraise. Even the Legal Services national office itself has often found lack of information a handicap in efforts to shape policy.

These difficulties are thoroughly discussed by Hollingsworth who, because of them, is unwilling to attempt an overall evaluation. She does, however, describe

for us the historical background of the program. She also details the main problems the program has had over the decade: political crossfire, relations with the bar, bureaucratic and administrative problems, the enormous demand for legal services in relation to the available supply, and problems connected with personnel in the Legal Services program itself.

The program was an inexpensive one, because the legal needs of the poor were thought less urgent than needs for income, health, and education. Hollingsworth's judgment is that, given its scale, it has been well accepted by scholars, lawyers, and clients. As evidence of this she cites the initiation of the new Legal Services Corporation in 1975—just at the end of the first decade of federally financed legal services for the indigent—and the corporation's success in keeping off the Board of Directors those nominees who were known to be hostile to the corporation. She emphasizes that the new corporation was launched with an appropriation that was a 23 percent increase over the previous ceiling on the program, while noting the many restrictions on legal services written into the new legislation. Hollingsworth ends with the optimistic prediction, cautiously expressed, that the Legal Services program will continue to grow; that competence rather than controversy will be the hallmark of the next decade; and that the graduates of Legal Services, as they enter other streams of activity, will carry the influence of the program in their own careers and continue to support it.

8. Equalizing Opportunities in Employment and Housing

"The precise measurement of the impact of equal employment opportunity actions on the income, employment, and unemployment of low-income groups remains a major challenge for social scientists."

"The failures of the federal housing programs have been colossal. Even if HUD had enforcement powers for its fair housing programs and pursued a vigorous enforcement strategy, a large number of other agents would have to alter their discriminatory practices."

Phyllis A. Wallace

Phyllis Wallace provides a valuable factual review of the legislation passed and commission recommendations issued on employment discrimination during the last decade. The recent history of attempts to implement those laws and recommendations through litigation is also reviewed. She then discusses the work that has been done

so far on evaluating their effectiveness, using Equal Employment Opportunities Commission data and other attempts. Her assessment is that the net impact of the equal employment opportunity efforts including and since Title VII of the Civil Rights Act of 1963 are still not precisely known, although there is scattered evidence that limited progress has been made.

Wallace then comes at the question from another point of view by discussing the available evidence on trends in income differentials over the last ten years. Here she concludes that there has been progress in black occupational status and black earnings. Large disparities still remain, however, and the recession of 1974-75 has probably eradicated some of the relative economic gains achieved in the 1960s.

Housing policy instruments receive the same careful, factual review, including federally assisted housing for low-income families, the Fair Housing programs, the experimental housing allowance program, and the Housing and Community Development Act of 1974.

Wallace's evaluation of equal housing opportunity policies over the last ten years is unequivocal. Discrimination against blacks is still pervasive. Federal intervention in the housing market has not opened nonsegregated housing to racial minorities. It has not reduced the amount blacks must still pay for poor quality housing and bad neighborhoods. It has not even benefited the majority of low-income people in need of adequate housing.

The housing allowance experiments, in her view, will provide evidence on the crucial question of whether financial ability to select housing on the open market will increase residential mobility, or whether an assault on residential segregation *per se* is the only way to improve minority chances of enjoying higher quality housing and better neighborhood amenities. In either case, she ends by affirming her belief that the future stability of American society is inextricably tied to a lessening of racial segregation in housing.

¹Sar A. Levitan and Robert Taggart, *The Promise of Greatness: The Social Programs of the Last Decade and Their Major Achievements* (Cambridge: Harvard University Press, 1976).



FORTHCOMING INSTITUTE BOOKS

June 1977

Marilyn Moon, *The Measurement of Economic Welfare: Its Application to the Aged Poor*

This is a timely addition to both the literature on poverty and the general literature on measurement of economic status. Given the large percentage of the aged who live with their children, perhaps Moon's most important and innovative contribution is her adjustment for transfers *within* the family. She also shows that the rankings of different groups of the aged (black, white, working, nonworking) varies according to which definition of economic status is used.

Morgan Reynolds and Eugene Smolensky, *Public Expenditures, Taxes, and the Distribution of Income: The U.S., 1950, 1961, 1970*

In this book, Reynolds and Smolensky examine whether the "post-fisc" distribution of income (incomes minus taxes plus government services) was distributed more equally in 1970 than in 1960 or in 1950. The authors conclude that although the pre-fisc income distribution was substantially less equal than the post-fisc distribution in each year, the post-fisc distribution itself changed very little over the period.

One of the strengths of the book is the authors' presentation of alternative assumptions and the data with which to test them, so the reader can see how sensitive their conclusions are to these alternative assumptions.

Marilyn Moon and Eugene Smolensky, editors, *Improving Measures of Economic Well Being*

This volume is a collection of some of the most important articles by Institute staff on the measurement of economic status. While they have all (with one exception) been published elsewhere, taken together they constitute a substantial corpus of Institute work and a significant contribution to the literature in this area.

July 1977

Harold W. Watts and Albert Rees, editors, THE NEW JERSEY INCOME-MAINTENANCE EXPERIMENT, volume 2: *Labor-Supply Responses*

The New Jersey experiment, the first large-scale social experiment, was designed to test the labor-supply responses of male-headed families and their

members to various negative income tax plans. This volume includes econometric analyses of the work response of husbands, wives, teenagers, and the family as a whole. It also includes analyses of patterns of job characteristics and job change, and examines certain factors that might influence the labor-supply response—health, social psychological characteristics, and knowledge of the stimulus.

Fall 1977

Harold W. Watts and Albert Rees, editors, THE NEW JERSEY INCOME-MAINTENANCE EXPERIMENT, volume 3: *Expenditures, Health, and Social Behavior; and the Quality of the Evidence*

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.

Murray Edelman, *Political Language: Words That Succeed and Policies That Fail*

This monograph presents the stimulating hypothesis that language and symbols create beliefs in elites and masses alike that facilitate the quiescent acceptance of inequality and tolerance of chronic social problems. The author focuses on the meaning of public policy through disciplined attention to conceptions of poverty and social welfare. Edelman's work is a significant contribution to answering the question of why poverty and substantial inequalities persist in our society.

These books will be available from the publisher, Academic Press, 111 Fifth Avenue, New York, New York 10003.

Public employment (continued from page 4)

Since 1969, all workers in the program (blue- and white-collar) have been brought within the social insurance system (their premiums are paid by the municipalities), and they have been paid a wage equivalent to their *private sector, able-bodied* counterparts.

The current program has two components—an “industrial” component and an “open-air and administrative” component. Together they cover nearly 70,000 workers.

The industrial component, which includes the more severely disabled, encompasses about 40,000 workers in 170 factories. Municipal governments sponsor these centers, as required by the national government, and have the option to (a) run them themselves, (b) contract them out, or (c) a combination of both. The municipalities are responsible for recruiting employees, organizing work, and selling the products. The largest factories now have over 1,000 workers and each factory produces a variety of products: TV components, mix-and-match bookshelves, office furniture, bicycle assembly, bird cages, and mole traps, among others.

The open-air component encompasses, by and large, the less disabled. Many of the jobs are service jobs. Most of the activities—for example, maintaining sport fields, checking cards at the local library, and working in the local museum—would have to be undertaken by the local government anyway. Some of the services, however, do compete with the private sector, such as working at “open-air” nurseries and for the equivalent of “Kelly-person” agencies.

The most noteworthy point for Americans, who sometimes appear to be dominated by cost-benefit issues, to bear in mind is that all these products and services are sold on the open market. These businesses bid for contracts in the private sector at what they calculate to be competitive rates. Each factory, in fact, has a salesperson who seeks sales outlets, offers bids, and arranges contracts.

It is also true that the managers, administrators and supervisors for these businesses—who are not disabled—are carefully recruited from the private sector for their business and factory management expertise and experience. They take, on average, a slight salary cut compared with the private sector, but have what is considered respectable and socially important work that is quite secure as well. They run their businesses just as the enabling legislation presumed: they regard their primary priority as providing jobs adapted for the disabled who want them.

How, then, do these enterprises survive? The answer lies in the benefit structure. If a product is sold on the open market, the national government pays 75 percent of the disabled worker's salary. If the job is in the “open-air” sector the salary subsidy is 90 percent. The salaries of the administrators, supervisors, and managers (the able-

bodied employees recruited from private sector business) are subsidized by the government at a 50 percent rate. If there is a deficit at the end of one operating year, the wage subsidy for the industrial workers is almost always automatically increased to 90 percent. If there is still a deficit, the Minister of the Interior has a “municipal fund” that covers 80 percent of the remainder. This combination of subsidies amounts to a 98-2 matching formula for the employment of the handicapped.

Who is defined as disabled? Success in rigorously defining disability has been as elusive in Holland as it has in this country. The Social Employment definition was flexible from the beginning. The program was designed to provide for the

conservation, restoration or stimulation of the working capacity, on behalf of persons who are capable of working but for whom, mainly due to factors connected to their person, employment under normal circumstances is not or not yet available.

In spite of the generality of the definition, every candidate for this program is given a detailed examination and tests by medical and psychological personnel. Admission is decided on by a Commission appointed by the municipality to ensure that the candidate and the program are suitably matched.

Another program, however, has now intervened—the disability cash benefit program. In Holland almost 400,000 people currently receive cash disability payments. This amounts to over 8 percent of the Dutch civilian adult labor force—a considerable number. It now seems clear that a strict definition of disability is no longer applied in admitting candidates to this program. Rather, automatic eligibility is granted to workers who have exhausted their unemployment or sickness benefits. Due to the resulting enormous caseload, periodic eligibility examinations have been dropped. With benefits at about 80 percent of previous earnings, there is little incentive to leave the program.

This trend has affected the Social Employment Program as well. Its eligibility standards, too, have apparently been relaxed, accounting in part for the program's growth; it now provides employment for 1 1/2 percent of the country's total labor force. Contrary to expectations of the program's designers, the flow of manpower from the protected sector to the private sector has never been great. In recent years it has shrunk from 8 percent to 2 percent.

What does the benefit-cost assessment show? Haveman's detailed benefit-cost analysis applies to the 60 percent of participants in the system's industrial component. Exhaustive business accounts are kept by each of the 170 factories in the program. (Haveman was unable to make any quantitative assessment of the “open-air” [service] component.)

The national government subsidy per enrolled worker is equal to 110 percent of the wage income of the modal

worker in Holland (that is, the worker who stands in the middle of the wage income spectrum). The modal worker's annual wage is about \$9,600.

We should bear in mind that the primary objective of the program—in the view of legislators and program administrators alike—is to provide work for all who want it. This means that there are significant social benefits, not measured by accounting values, that must be incorporated into the analysis. Likewise, certain costs of the program are not captured in the data. When all components of the benefits and costs are taken into account, the net social cost of providing this well-being benefit is between \$3,000 and \$4,000 per worker, i.e., one-third of the modal worker's income.

Conclusions. What conclusions can be drawn from the Dutch experience? One lesson we can derive is that the Social Employment Program is relatively costly because of the nature of the subsidy arrangement which supports it. More incentives to local officials and factory managers for cost control and increased sales would certainly result in reducing the taxpayers' burden.

More generally, it is a heroic major effort by a small country to provide jobs for all who want them. For that reason alone the Social Employment Program in the Netherlands deserves our careful attention. Clearly it is an expensive undertaking, but one for which the Dutch taxpayer is currently willing to pay the price.

¹Manpower Demonstration Research Corporation, *First Annual Report of the National Supported Work Demonstration* (New York, December 1976), p. 5.

²Atlanta, Chicago, Hartford, Jersey City, Massachusetts, Newark, Oakland (Alameda County), Philadelphia, St. Louis, San Francisco, Washington State, West Virginia (five counties), Wisconsin (2 counties). Two additional program sites, Detroit and New York City, became operational in the second year.

³Manpower Demonstration Research Corporation, *Supported Work 5* (Fall 1976/Winter 1977):16.

⁴Robert Haveman, *A Benefit-Cost and Policy Analysis of the Netherlands' Social Employment Program: Final Report* (Leiden: Economics Institute, University of Leiden, 1977), p. 29.



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