

In Focus

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FOCUS

Institute for Research on Poverty
Newsletter

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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

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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.

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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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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.

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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