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Employment programs for the poor: Government in the labor market

by Elizabeth Evanson

The question of whether the federal government should directly intervene in the labor market to expand employment opportunities has long been controversial, regardless of whether the efforts have been directed toward the poor or the nonpoor. In the 1930s, denigrators of the Works Progress Administration dubbed it "We Play Along." Almost fifty years later, George Gilder wrote: "Like welfare, CETA [then the major public employment program] often has the effect of shielding people from the realities of their lives and thus prevents them from growing up and finding or creating useful tasks."[1] The argument continues today, exemplified by the 1984–85 national debate topic for public school students: "Resolved: That the U.S. government should provide employment for all employable U.S. citizens living in poverty."

Expenditures for the training and job creation programs of the 1960s and 1970s grew rapidly, and critics alleged that the returns to the dollars spent were too low to justify continuing that support. Under the Reagan administration, labor market programs have been sharply curtailed, though not eliminated. A recent Institute discussion paper by Peter Gottschalk reviews the U.S. experience with employment programs over the last twenty years; and a related paper, by Gary Burtless and Robert Haveman, discusses the policy lessons that may be drawn from three particular labor market experiments (see box, p. 6).

The experience of the last two decades

In the early 1960s, concern that structural changes in the economy were forcing more and more workers out of their jobs gave impetus to government intervention. At first, programs were motivated by the belief that unemployment could be lessened by retraining workers. Later, the popular view was that direct job creation was needed. Gottschalk's statistics show that federal expenditures on the programs grew rapidly (although they never reached levels comparable to those in many Western European countries). Table 1 displays the trends in government spending on employment programs and the unemployment rate over the years 1964 to 1983. Expenditures rose fairly steadily until 1978, fell off for the next three years, then dropped dramatically

in 1982, reflecting the Reagan administration's policies. Unemployment in the 1960s decreased with each year, leading to a feeling of optimism that government spending on manpower programs was to good effect. That trend reversed, however, in the 1970s, and in 1982 unemployment reached its postwar high of 9.7 percent of the labor force. The obstinate upward course of the unemployment rate raised doubts concerning the ability of government to expand job opportunities.

Objectives and consequences

Gottschalk identifies two causes of the disillusionment that set in during the 1970s: program designers failed to state objectives clearly, which permitted critics to measure progress against other objectives that went unmet; and certain undesirable, but unfortunately inevitable, side effects of the policies were not anticipated at the time of program implementation. Both are important points to be made in debating the worth of employment programs.

As Gottschalk points out, throughout the history of U.S. labor market policies, the objectives of *increasing* aggregate employment and *redistributing* existing employment have been interrelated. The first goal is directed toward the whole population, the second toward the disadvantaged—often the able-bodied poor, a group not always high in public favor. The difficulty in attempting to achieve the first goal is that policies to expand employment may spark inflation. Policies to achieve the second goal have the disadvantage of taking jobs from one group to benefit another.

Even when the advantages are judged to exceed the possible disadvantages, efforts to reach these objectives have side effects, four of which Gottschalk labels displacement. First, programs must be financed either by taxation or the sale of bonds. The former may reduce aggregate demand and the latter may crowd out private investment; both may reduce the growth of jobs in the private sector. Second, when the federal government gives funds to local and state governments to create public service jobs, the money is often used for work that would otherwise have been financed by the states and localities. The gain from federally financed jobs is thus offset by a loss of state and local employment. Third, subsidizing jobs for certain types of workers in the private sector may result in fewer jobs for other types of workers. Fourth, when subsidized workers produce useful goods, those market products compete with other goods, and unless aggregate demand is raised, increased production in the subsidized sector is offset by decreased production in the unsubsidized sector.

Employment and training programs in recent years

Training programs have always been more popular than direct job creation. The Manpower Development and Training Act of 1962 (MDTA), enacted to retrain displaced workers, preceded the declaration of the War on Poverty by two years. When the antipoverty effort began, the focus of MDTA shifted to low-income people. Then, as unemployment began to grow larger each year, the policy of direct job creation gained the upper hand in the early 1970s. Both government funding and decentralization increased, leading to administrative complexity. In 1973 the Comprehensive Employment and Training Act (CETA) was passed to establish a coordinating mechanism for the various programs that had mushroomed in the states and local communities.

At first the emphasis in CETA was on countercyclical job creation. In 1974 alone, 300,000 public service jobs were created. Because public employers were enrolling more highly skilled workers, amendments to CETA in 1976 directed its efforts toward less skilled workers, with emphasis on training them. By 1980, even before the Reagan administration took office and abolished CETA, the number of public service jobs had declined considerably—from

Table 1

Unemployment Rate and Government Expenditures on Employment and Training Programs in the United States

	Federal Outlays on Employment and Training Programs		
	% of GNP	% of Outlays	Unemployment Rate (%)
	(1)	(2)	(3)
1964	.01%	.3%	5.2%
1965	.08	.5	4.5
1966	.14	.8	3.8
1967	.22	1.2	3.8
1968	.23	1.1	3.6
1969	.21	1.1	3.5
1970	.17	.9	4.9
1971	.24	1.2	5.9
1972	.27	1.4	5.6
1973	.27	1.4	4.9
1974	.21	1.1	5.6
1975	.27	1.3	8.5
1976	.38	1.8	7.7
1977	.37	1.8	7.1
1978	.52	2.5	6.1
1979	.50	2.5	5.8
1980	.41	1.9	7.1
1981	.33	1.5	7.6
1982	.20	.8	9.7
1983	.18	.7	9.6

Source: Peter Gottschalk, "U.S. Labor Market Policies since the 1960s," IRP Discussion Paper no. 730-83. Columns (1) and (2): *Budget of the United States Government, Fiscal Year 1984,* and earlier volumes for outlays on employment training programs; *Economic Report of the President 1984.* Column (3): *Economic Report of the President 1984.*

a peak of 750,000 in March 1978 to 328,000 by the end of fiscal year 1980—because of the shift to training.

Studies which have tried to measure the effectiveness of CETA give it a mixed score. The programs did increase employment in the short run, when the economy was sagging, but as federally funded jobs began to displace locally financed ones, aggregate employment rose by very little.[2] In terms of its redistributive effect, on the other hand, CETA was successful in reallocating employment toward disadvantaged groups.

An evaluation of the public jobs component of CETA in the mid-1970s found it to be quite expensive in terms of government costs per enrollee versus the postprogram wage gains of participants.[3] In contrast, the benefits of the training programs for those who were physically handicapped and/or economically disadvantaged were substantial. Training brought a sizable boost in the earnings of women enrolled in those programs, a smaller increase in the earnings of men. In both cases, however, higher earnings resulted from more hours of work rather than from higher wage rates.[4]

We have insufficient evidence to answer the question of whether CETA training programs increased aggregate postprogram employment or simply displaced existing workers. Without an accompanying increase in aggregate demand, it is likely that the newly trained workers could have found employment largely by displacing other workers.

Tax credit programs

In the late 1970s, frustration over the government's inability to expand total employment resulted in the adoption of tax credit programs, modeled on those of some European countries. The New Jobs Tax Credit of 1977 provided tax incentives for employers who created new jobs. It was replaced in 1978 by the Targeted Jobs Tax Credit (TJTC), available only when employers hired certain disadvantaged groups, including low-income youth, Vietnam veterans, some disabled workers, some welfare recipients.

The TJTC is still in existence, but has had limited effectiveness because it has been little used, perhaps because employers are reluctant to get involved with government bureaucracy or to ask job applicants for information that would reveal their eligibility, and/or because applicants are reluctant to volunteer such information.[5]

Balance sheet

Gottschalk concludes that the redistributive objective has met with greater success than has the goal of reducing the unemployment rate. Specific policies to employ members of certain groups raised employment within those groups, such as the women on welfare in Supported Work (more on that below). The history of recent years shows, however, that the creation of public jobs has had little long-lasting effect in moving us toward full employment.

Experimentation and its lessons

Burtless and Haveman draw policy conclusions from three experiments or demonstrations that tested government intervention to improve the work effort and earnings of low-income people: the Seattle-Denver Income Maintenance Experiment (SIME/DIME, 1971–78), the National Supported Work Demonstration (1975–80), and the Employment Opportunity Pilot Project (1979–81).

The Seattle-Denver experiment

The dual purpose of this program was to assess the effects of varying levels of income guarantees (a form of negative income tax, NIT) and benefit reduction rates on the work effort of poor families, and to determine the effectiveness of subsidizing education and training for the breadwinners in those families. Its predecessor was the New Jersey Income Maintenance Experiment, devised, executed, and evaluated by researchers at the Institute for Research on Poverty.[6] The details of the Seattle-Denver experiment and its diverse outcomes are available elsewhere;[7] in their paper, Burtless and Haveman interpret several of its central findings.

Regardless of the level of their support, the income maintenance plans all reduced work effort. That outcome was not unexpected, but the amount of decline in labor supply was grist for the mill of those already ideologically opposed to negative income taxation, and it swayed those who had no previous opinion on the merits of an NIT. The authors offer correctives to the out-of-hand conclusion that income

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Edited by E. Uhr.

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maintenance should be rejected because it reduces incentives to work. First, the guarantees tested in this experiment were high—much higher than the benefits currently available under Food Stamps and Aid to Families with Dependent Children (AFDC). Second, just as Gottschalk found that labor market policies were sometimes judged by criteria derived from varying objectives, Burtless and Haveman question the premise that the chief objective of income maintenance is to encourage work effort:

> In fact, the primary objective of an NIT is to protect the living standards of people who would otherwise be destitute, and to do so in an equitable and efficient way. The contribution of the NIT program to this objective, it should be noted, has received only slight attention in the hundreds of research reports filed on the NIT experiments—this in spite of the fact that the tested NIT plans were potentially quite effective in attaining that goal.[8]

The education and training component in the SIME/DIME experiment consisted of vouchers that low-income participants could use for courses at any educational institution, whether vocational or not, as well as a structured course of manpower counseling to help participants decide on an appropriate strategy of employment, education, and training. In some cases only counseling was offered; in others all of the costs of education and training were underwritten; in others half of the costs were subsidized.

The results were not encouraging. Participants' earnings and employment declined not only in the short run, which could be attributed to their being in school, but also in the long run: over the six years for which information is available, there were no consistent earnings gains from education and training. Why? The authors point to three factors: the type of schooling chosen often had little relevance to the participant's labor market situation; the amount of schooling on average was very small; and the economy was entering a recession just when the participants were trying to find jobs.

Because preceding employment and training programs for the poor had been criticized as too rigid and paternalistic, the education and training decisions in Seattle and Denver were basically left up to the participants. Burtless and Haveman conclude that the low-income workers in the experiment were no more successful at selecting a winning employment strategy than were the administrators and specialists in charge of training and employment programs.

Supported Work

As described in the final report volumes and in an earlier issue of *Focus*,[9] the success of Supported Work rested primarily with the improved condition of long-term AFDC recipients, whose employment rates, hours worked, and earnings rose appreciably during and after the program. Ex-addicts were helped to some extent, ex-convicts less so, problem youth scarcely at all. Burtless and Haveman emphasize that the success of the AFDC women is consistent with results from other employment programs: disadvantaged women derived the greatest program benefit from CETA, and single women with children were the only group that registered a positive effect from the counseling offered at Seattle and Denver. Similarly, unmarried women seemed to benefit most from another program, the ill-fated Employment Opportunity Pilot Project (EOPP).

Pilot demonstrations

"It is said that we learn from our mistakes. If this were true, EOPP should have been one of the most richly informative demonstrations ever undertaken."[10] Started by the Carter administration, the demonstrations were initially intended to gauge the effects of the jobs program that was contained in Carter's welfare reform package. Alarmed over the Seattle-Denver results concerning work effort, the administration proposed in its reform program to require certain welfare recipients to accept public service employment if they could not find jobs in the private sector. The objectives of the project then changed, even before it began in 1979. To the guaranteed jobs concept was added job-search assistance for the hard-core unemployed. The goals changed once again when President Reagan took office in 1981 and stopped enrollments for the public service positions. A few months later the project was terminated altogether. This somewhat confused history of the demonstrations makes it difficult to attempt an overall assessment, although Burtless and Haveman outline a few conclusions that could be drawn. First they describe how the demonstrations operated.

The program offered forms of job-search assistance for a few weeks and then, if participants did not find work, a subsidized employment or training position for up to a year, after which the job-search effort began again. Participation was restricted to low-income heads of households containing children.

Despite considerable program variation across program sites, a consistent result was the surprisingly low take-up rate for the employment positions offered. Only one in three of the AFDC recipients who were required to enroll for the Work Incentive program, and therefore obligated to seek work, enrolled in EOPP, although the program was heavily advertised within that group. Of those who were not AFDC recipients but were eligible for jobs, only 8 percent enrolled for job placement. Burtless and Haveman conclude that the offer of a public service position paying from one to two times the minimum wage is apparently not as attractive as has sometimes been assumed. They note, however, that bureaucratic hurdles were undoubtedly a discouraging factor.

The search assistance did seem effective in helping participants find jobs. About 30 percent of those who received help succeeded in landing jobs, and single mothers especially benefited from assistance.

Another finding concerns the effectiveness of job vouchers, a program variant tested at one of the sites. Employers hiring workers with the vouchers could receive a subsidy for part of the wages paid, which would seem to have provided inducement to hire. Yet vouchered job seekers turned out to be significantly less likely than unvouchered participants to obtain employment during the search period. Stigma? Apparently so, and the authors feel that this explanation may also apply to our little-used wage subsidy program, the Targeted Jobs Tax Credit.

Policy implications

From these three experiences Burtless and Haveman derive several lessons concerning social experiments or demonstrations that are designed to assist the poor in the labor market:

> As an empirical fact, policies about which there is strong disagreement are the ones most likely to be subject to rigorous experimentation. . . . Programs aiding the able-bodied poor are among those with the weakest popular mandate, and hence their reform will nearly always inspire deep controversy. It is unclear whether experimentation per se can shed much light on the main points at issue—the demands of equity, the nature of a fair distribution, and the limit of society's obligation to help those who are at least partly able to help themselves. . . . Society is not even-handed in subjecting programs for the poor and nonpoor to experimental investigation. It has not examined transfers to the nonpoor with the same degree of intensity as it has examined those to the poor. We should therefore not be surprised that experimental scrutiny has been less kind to programs designed to benefit the poor. There is a moral here, and it is illustrated in the three experiments we have considered: if you advocate a particular policy reform or innovation, do not press to have it tested.[11]

Present programs and future directions

In 1982 the Job Training Partnership Act (JTPA) replaced CETA. Put in place in October 1983, it is characterized by decentralized administration, emphasis on the private sector, and a focus limited to job training for poor youths and permanently displaced workers. Public service employment ended with JTPA. The program grants federal funds to the states for administration of training at the local level, where advisory councils composed of members from private industry devise the training plans. Living expenses of trainees are not covered, as they were under CETA. Although it is too soon to judge the effectiveness of the program, it has the advantage in Gottschalk's terms of containing a specific (if limited) objective: training a relatively small number of clients, with advice from the private sector.

Another employment program proposed under the Reagan administration would permit "enterprise zones" to be established in a number of low-income areas. This program also reflects a tilt toward the private sector. Using the model of Hong Kong as a free trade zone, it would allow federal tax credits and substantially reduced regulations for employers who set up plants in such severely depressed areas as the South Bronx. It would also encourage state and local governments to improve public services in the zones. The proposal has so far failed to gain congressional approval, although a number of states have passed legislation to permit their own versions of it.[12]

Workfare

The welfare reforms introduced by the Reagan administration in 1981 included a provision allowing states to implement what is formally titled the Community Work Experience Program (CWEP), commonly termed "workfare." Under it states can require employable recipients of AFDC to perform community work in exchange for their benefits. The work may take the form of such activities as improving parks or serving as a teacher's aide, and the number of hours the recipient must work is equal to the individual's grant divided by the minimum wage.

By the end of 1983, half of the states had adopted the program, most of them implementing it in only a few counties, as a sort of trial. Implementation has varied widely in terms of program scale and in selection of particular segments among the eligible welfare population. West Virginia has put 70 percent of its employable AFDC-UP (providing aid to needy children of unemployed parents) recipients to work under CWEP; other states have guided participants into job search rather than job performance; and in some cases the public service jobs vacated when CETA was eliminated seem to have been converted to CWEP slots.[13]

The workfare program differs from the Work Incentive (WIN) component of AFDC, enacted in 1967 and still in existence, by mandating work in an amount determined by benefits received. The participants are not paid employees; the possibility of wage increases in return for work well done does not exist, because there is no wage. The program

is administered solely by welfare agencies, without the collaboration of federal and state employment offices. WIN, on the other hand, is a registration program intended to move employable welfare recipients into the work force. It has never been fully effective owing to funding limitations and lack of employment opportunities for its clients. Administered jointly by welfare and labor departments, it requires "employable" AFDC recipients to register for an assessment of their skills, job training, and employment placement. Over the years few of the registrants have actually received training or placement; many have remained on hold, in an unassigned recipient pool.[14] (In an effort to remedy these defects, the 1981 legislation also permitted states to experiment with three-year WIN demonstration programs of their own devising. So far, twenty states have set up such demonstrations.)

The term "employable" as applied by WIN and CWEP is defined by its exceptions: it covers all AFDC recipients except those with children under 6 (or younger for CWEP, if adequate child care is available), full-time students, the disabled, those of advanced age, those who need to care for an ill or incapacitated family member, and those who work 30 hours or more a week.

Workfare is both controversial and problematic. Supporters consider it only fair that those receiving public aid be asked to give something to the community in return; opponents consider the work requirement demeaning and punitive, in effect exploiting those in need. Problems have been encountered in designing and administering this new program during a period marked by budget cuts, recession and its aftermath, and implementation of the welfare rule changes of 1981. To test the program's effectiveness, the Manpower Demonstration Research Corporation is carrying out a four-year evaluation project.[15]

Future possibilities

What will become of employment programs for the poor is uncertain, but a new study issued by the Brookings Institution strongly urges specific directions in which to move.[16] Alice Rivlin, former director of the Congressional Budget Office, makes the point that well-designed job training and placement programs stand a better chance of succeeding in an improving economy with a declining unemployment rate. In contrast, the programs of the recent past were carried out in a period of low economic growth, high unemployment, and high inflation. Furthermore, in the near future a demographic population shift offers a new opportunity for escape from poverty. The cohort of young people entering the labor market in the coming years consists of those born after the baby boom ended. They can be expected to encounter less crowding and competition in the market. Circumstances will be propitious for efforts to improve the education, training, job experience, and motivation of low-income youth, who now constitute a significant portion of the poverty population and who typically live in households headed by women, a group afflicted by high poverty rates.

Institute Publications

Gary Burtless and Robert Haveman, "Policy Lessons from Three Labor Market Experiments." IRP Discussion Paper no. 746-84.

Peter Gottschalk, "U.S. Labor Market Policies since the 1960s: A Survey of Programs and Their Effectiveness." IRP Discussion Paper no. 730-83.

John Bishop and Glen Cain, "Evaluating the Targeted Jobs Tax Credit." IRP Special Report no. 29 (1981).

Thomas Corbett, Stanley Masters, and James Moran, "Tax Credits to Stimulate the Employment of Disadvantaged Workers." IRP Special Report no. 31 (1981).

Rivlin cites the success of a demonstration project, the first guaranteed jobs program for low-income young people, initiated under the Carter administration. The Youth Incentive Entitlement Pilot Projects gave poor teenagers who lacked a high school diploma summer jobs and part-time jobs during the school year so long as they continued their schooling. In its two and a half years, 1978 to 1981, public and private employers hired 76,000 young people at 17 sites around the nation. The results were encouraging overall, particularly among blacks. A recent evaluation found that the participation rates were high (73 percent among blacks 15-16 years old), that job incentives to stay in school worked well in inducing the students to complete their studies, that the employment of black youth not only equaled that of white youth but that blacks tended to stay on their jobs longer than whites, and that the employment of young black women rose to a rate one-third higher than that of young white women.[17] The program thus provided firm evidence that the low employment rate among young blacks is not voluntary. The study also showed that black youths in those areas where the program was carried out later earned $10.50 a week more than their counterparts in comparison sites where the program was not available.

In addition to recommending that a program like the Youth Incentive project be implemented nationally, Rivlin endorses measures to increase the attractiveness of work among low-income parents who might otherwise turn to welfare. The tax code at present allows credit for child day care expenses only if a single parent earns enough to owe taxes. Rivlin's study urges that the tax credit be eliminated in favor of a universal, taxable grant to cover both formal and informal child care and other work-related expenses.

By aiding poor teenagers on the one hand and single parents on the other, these two employment-oriented policies hold promise for reducing the numbers of the poor by helping them earn their way over the poverty threshold. If the necessary public sentiment and motivation among policymakers can be aroused, it seems likely that economic and demographic conditions could permit employment programs for the poor to succeed in the 1980s. ■

[1]Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 190.
[2]Charles F. Adams, Jr., Robert F. Cook, and Arthur J. Maurice, "A Pooled Time-Series Analysis of the Job-Creation Impact of Public Service Employment Grants to Large Cities," *Journal of Human Resources, 18* (1983), 383–94.
[3]Laurie J. Bassi, *CETA—Is It a Cost Effective Method for Increasing the Earnings of Disadvantaged Workers?* (Washington, D.C.: The Urban Institute, 1982).
[4]Ibid., and Howard S. Bloom and Maureen A. McLaughlin, *CETA Training Programs: Do They Work for Adults?*, study by the Congressional Budget Office (Washington, D.C.: U.S. GPO, July 1982).
[5]For a discussion of the program's structure and recommendations covering its development, see John Bishop and Robert Haveman, "Targeted Employment Subsidies: Issues of Structure and Design," IRP Special Report no. 24 (1978).
[6]See *The New Jersey Income-Maintenance Experiment:* Vol. 1, *Operations, Surveys, and Administration,* ed. David Kershaw and Jerilyn Fair (1976); Vols. 2 and 3, *Labor-Supply Responses* and *Expenditures, Health, and Social Behavior,* ed. Harold Watts and Albert Rees (1977). All three volumes are in the IRP Monograph Series, published by Academic Press, New York.
[7]U.S. Department of Health and Human Services, Office of Income Security Policy, *Overview of the Seattle-Denver Income Maintenance Experiment: Final Report* (Washington, D.C.: U.S. GPO, 1983).
[8]Gary Burtless and Robert Haveman, "Policy Lessons from Three Labor Market Experiments," IRP Discussion Paper no. 746–84, p. 7.
[9]The results are summarized in Manpower Demonstration Research Corporation, *Summary and Findings of the National Supported Work Demonstration* (Cambridge, Mass.: Ballinger, 1980). See also *Focus* 5:3 (Summer 1982), 1–7.
[10]Burtless and Haveman, pp. 15–16.
[11]Ibid., pp. 26–27.
[12]See Samuel R. Pierce, Jr., "Enterprise Zones: A Major Gain for the Nation," *Journal of the Institute for Socioeconomic Studies, 9* (Summer 1984), 1–8; and Rochelle L. Stanfield, "Legislative Action on Enterprise Zones," pp. 8–11 of the same issue.
[13]Judith M. Gueron and Richard P. Nathan, "The MDRC Work/Welfare Project: Objectives, Status, Significance," paper prepared for the Fifth Annual Research Conference of the Association for Public Policy Analysis and Management, Philadelphia, Pa., October 22–23, 1983, p. 34.
[14]U.S. House of Representatives, Committee on Ways and Means, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: U.S. GPO, 1984), pp. 329–30.
[15]A detailed description of the demonstration is given in Gueron and Nathan.
[16]Alice M. Rivlin, "Helping the Poor," in *Economic Choices: 1984,* ed. Rivlin (Washington, D.C.: The Brookings Institution, 1984), pp. 168–70.
[17]Judith M. Gueron, *Lessons from a Job Guarantee: The Youth Incentive Entitlement Pilot Projects* (New York: Manpower Demonstration Research Corporation, June 1984).

Small grants: New competition and Round III awards

New competition

In association with the Office of the Assistant Secretary for Planning and Evaluation at the Department of Health and Human Services, the Institute is sponsoring another Small Grants Program for research on a variety of poverty-related topics. Program guidelines will be available by the end of December 1984. The grants will fund research for the summer of 1985. The application deadline is March 1, 1985. Further information on obtaining program guidelines can be obtained by writing to Elizabeth Evanson, Institute for Research on Poverty, 3412 Social Science Building, 1180 Observatory Drive, University of Wisconsin, Madison, Wisconsin 53706.

Round III awards

Awards in the competition for work to be carried out during the academic year 1984–85 were announced in August 1984. The following grants were made:

- *Changing Family Structure and Government Policy for the Defeminization of Poverty*

The research will focus on the causes of the feminization of poverty as well as study the success of various employer-provided training programs and the effectiveness of government policies to reduce poverty among women.
Principal Investigators: Thomas Kniesner, University of North Carolina at Chapel Hill, and Marjorie McElroy, Duke University.

- *Poverty in the Press: News Media, Public Opinion, and Policy toward the Poor*

This study will explore such factors as the effects of news reporting on the ability of lower-status citizens to identify their political self-interest. It will draw implications for public policies toward the mass media.
Principal Investigator: Robert Entman, Duke University.

- *Social Security and the Wealth Holdings of the Poor*

How do social security entitlements affect the wealth position of the poor compared to other income classes?
Principal Investigator: Edward Wolff, New York University.

- *Working Off of Welfare: The Earnings Route to Self-Sufficiency*

This research will explore the means by which welfare mothers earn their way off the rolls.
Principal Investigator: David Ellwood, Harvard University.

Can and should universities help government with policy-oriented research?

by Robert J. Lampman

A member of the Economics Department of the University of Wisconsin, Robert J. Lampman has been actively involved with the Institute for Research on Poverty since its inception in 1965. This article exploring the history of the Institute and the past and future role of university research in public policy is the text of the keynote speech presented at a workshop sponsored by the Institute and the Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services in June 1983. It provides an appropriate backdrop for the commemoration of the Institute's twentieth birthday. Lampman's monograph *Social Welfare Spending: Accounting for Changes from 1950 to 1978* has just been published and is available from Academic Press, New York.

Let us start with discussion of a case in which a university answered that question in the affirmative. In March of 1966 the University of Wisconsin said it could and would help the Office of Economic Opportunity with its policy-oriented research, and to carry out that purpose it established the Institute for Research on Poverty.

The OEO was established in 1964 with Sargent Shriver as its first director. The Economic Opportunity Act specified that the director would wear two hats. Under one he would administer certain programs, such as the Job Corps and Project Head Start, and under the other hat he would advise the president on the whole range of antipoverty programs in all federal departments. It was under this second hat that Mr. Shriver presented his first antipoverty budget in July 1965.

The OEO was quite an unusual organization. It was located in the executive office of the presidency and it was designed to experiment with and to evaluate ways to reduce poverty. This meant that the OEO's division of research and evaluation would be at the center of its operation. To head that division, Shriver selected Joseph Kershaw, who had been chair of the economics department at Rand Corporation, the think tank of the Air Force. Earlier, Secretary McNamara had brought people from Rand—notably Charles J. Hitch—to introduce PPBS (planning, programming, and budgeting system) into the Department of Defense. By 1964, there were assistant secretaries for research, planning, and evaluation in several departments and President Johnson was to mandate PPBS for all departments. All this was consonant with the mood expressed by President Kennedy that the solution to problems was technically complex but not ideologically based.

Kershaw set out to develop a strong in-house research unit at OEO, but he also saw the need for an outside research group to do for OEO what Rand was doing for the Air Force plus some other things. He wanted to have a team of researchers who could (1) respond to short-term technical assistance assignments from his office, and (2) build a backlog of information, concepts, evaluation procedures, and ideas, and add to the nation's capacity to do research needed for a sustained War on Poverty. Kershaw emphasized the need for a critical mass of research effort to be concentrated on the goal of his agency. He proposed to give this outside think tank a free rein to investigate the nature, causes, and cures of poverty in the United States and thereby to dramatically increase scholarly research on these matters.

When Kershaw visited Wisconsin in the fall of 1965 to talk with Chancellor Robben Fleming about his idea, he got a rather cool reception. The university was cautious about being an outpost for a government agency or a tail to a political dog. Fleming saw the prototype agreement as the one previously negotiated with the Army for the Mathematics Research Center. He emphasized the need for academic freedom of researchers and the need for long-term funding. Other important issues seen by the university involved the guidelines for the institute—its mission, governance, relationship to the tenure-granting disciplinary departments, its role in subcontracting, and its need for space. Some doubted that the university's goal of contributing to knowledge was compatible with a partisan political goal of what might be a one-term president. Others worried that federal funding and pressures for results might upset the balance of scholars and teachers in established departments.

An agreement was nevertheless reached, and the Institute for Research on Poverty began functioning in 1966 with Harold Watts as its first director. In 1967, the Institute took on an important responsibility as research contractor for the New Jersey experiment in negative income taxation, which led to close work with the first Nixon administration. The second Nixon administration liquidated the OEO and in 1973 transferred the Office of Plan-

ning, Research, and Evaluation to the Department of Health, Education, and Welfare. It might at that point have declared that the War on Poverty was won. However, the grants to the Institute continued through the Nixon, Ford, and Carter administrations. During this period, the National Academy of Sciences gave the Institute two strongly favorable reviews, published in 1971 and 1979. The Reagan administration decided it did not want to continue the discretionary grant to the Institute, but a special act of Congress has at least temporarily extended the grant.

The 20-year life of the IRP spans a period of turbulent change. It was spawned at the time when enthusiasm for government action on economic and social problems—and the role of research and evaluation—was at a peak. By the middle of the 1970s, this enthusiasm had waned. Henry Aaron, in his 1978 book, *Politics and the Professors,*[1] offers some explanations for the change. He assigns primary importance to the loss of credibility of government in Vietnam and on the stagflation front. However, he also believes that the dissolving of the scholarly consensus about the effects of social programs had something to do with the big change. He points out that research and evaluation have a "profoundly conservative tendency" (p. 33). They have contributed to a widespread belief in government failure as being as pervasive as market failure. Aaron says the process by which R&E is created corrodes the kind of simple faiths on which political movements are built (p. 159) and that those responsible for economic policy must proceed with a "cacophonous intellectual chorus in the background" (p. 139).

I have given you a brief review of one case where a university took an unusual step to help a particular government agency with its policy-oriented research. Both the OEO and the IRP were unusually goal-oriented. The OEO was centrally concerned with research and evaluation and its Office of Planning, Research, and Evaluation unit was equipped to nurture and to make use of research produced at the Institute. It is noted that the IRP was and is unique among university-based social science organizations. No federal agency has replicated the IRP for dealing with another social goal.

What light does this case study shed on our more general question of how university researchers should relate to governmental policymaking?

We can agree, I suppose, that making public policy requires social science research, and we can observe that a considerable amount of such research does go on in the federal government. But should the long arm of Uncle Sam reach out to the universities and motion them to engage in social science research that is relevant to—or useful for—governmental decision-making? The government does, of course, have alternatives. It can hire its own researchers, including faculty members on a short-term basis, or contract with private companies that hire researchers. Why should it seek to get universities to accept and administer funds for academic research?

Before taking up that last question, please let me note that there is inevitably a tension, within government, between those of a research discipline and those in a decision-making and hence a political role. The political role often requires that decisions be taken and adversary stances be developed even before research is completed. It also seems to dictate that policies be clouded as regards the multiple goals to which they are oriented. On occasion a policy is adopted first and researchers are called upon to find a rationale for it.

Now, to get back to universities. The scholars' guilds that developed into modern universities deliberately walled themselves off from the turmoil around them in order to pursue the truth. They asked for freedom from government influence and, in turn, did not seek to influence government. Some contemporary observers see the same danger to the primary mission of the university as did our forerunners. They urge that we should study government but not help it; we should chronicle the struggles of society but not intervene. We should be dedicated critics rather than actors. Both conservatives and radicals are among those who warn of the possible corruption of the university ideal—what Robert Nisbet calls "the degradation of the academic dogma"—which may result from government's contracting with universities to help it solve social problems. Some would go further to urge that government is not the solver but, rather, the source of many problems.

Furthermore, university scholars see autonomy as necessary if they are to pursue the goals internal to their academic disciplines. This means that they are unlikely, if adequately and autonomously funded, to follow shifting government priorities in selecting their research questions. Robert Oppenheimer observed that what is regarded as a contribution to knowledge is "anything that is of interest to our colleagues." Paul Samuelson asserted that the only applause that matters to us scholars is our own.

The need for autonomy and the fierce loyalty to academic discipline would seem to make it difficult for government to enlist academic researchers in its policymaking studies. Certainly no university wants to risk its long-run stability by becoming a handmaiden of an administration in power, or by getting entangled in serving a partisan position. However, it can be argued that it is in the interest of government and of the larger society at this juncture to seek to enlist faculties, taking account of their special role in pursuit of truth and its dissemination, in the struggle to solve our national social problems. I would argue that government (especially the federal government) can reap dividends from investment in academic social science research that is long-term and broad-based. For this to work out most successfully it must be part of a general

effort to encourage scientific and rational modes of public-policy decision-making. In other words—and this I regard as my most significant point— if government is to benefit from universities, it must run the risk of changing the frame within which political decisions are made. Let me spell that out a bit.

If universities are to play a bigger part, government must elevate the role of researchers in government. These people are the ones who are best-equipped to play a mediating, interpretative, and translating role between university specialists and policymakers (including interested private citizens). They are the ones who can bring research findings to bear on government problems in the frame of the planning, programming, and budgeting system, wherein a goal is specified, and alternative means to approach the goal are arrayed in terms of cost-effectiveness as established by the research. After a decision has been made by informed policymakers, the results of the decision are monitored under arrangements which, ideally, are written into the legislation, and the benefits and costs of the decision are evaluated after the legislation has gone into effect. And that scientific audit then becomes a part of the basis for decision in the next decision-making cycle.

It is that optimistic view of the contribution that universities can make to rational public decision-making—and I would note that this is consistent with the land-grant university philosophy of knowledge in the public service—that leads me to argue that the federal government should support social science research. In some instances that research support will be most effective if channeled to a multidisciplinary team of researchers concentrating on a selected topic and addressing it in a problem-oriented way. But that group must be equipped to draw on the basic research going on around them and to communicate to others—including their students—the disciplinary significance of what they are doing. Only if that is the case, and only if the research is subjected to scientific criticism by those in the disciplines, will the government be getting its money's worth. And for this to occur, there must be an arm's-length relationship between a government operating agency and the university. The university should select the research personnel and should insist that research findings be unclassified.

Tension will remain between researchers within government and in universities on the one hand, and between researchers and politically based decision-makers on the other hand. But these can be fruitful tensions if all parties show respect for the others' needs. So, I conclude that, under certain arrangements, academic social science research can be relevant to public policy, and, at the same time, government can contribute to the basic and unique mission of the university, namely, the pursuit of truth. ■

[1]Washington, D.C.: The Brookings Institution.

ASPE-Institute workshop

A workshop was held in Madison June 18–20, sponsored by the Institute for Research on Poverty and the Office of the Assistant Secretary for Planning and Evaluation of the Department of Health and Human Services, to examine the initial results of some ongoing projects.

Small Grants Projects. The three recipients of small grants in Round I of the Small Grants program presented preliminary results of their research.

- Philip Robins (University of Miami), "Child Support Enforcement as a Means of Reducing Welfare Dependency and Poverty."
- Laurie Bassi (Georgetown University), "AFDC: An Empirical Examination of the Forces behind the Growing Caseload."
- Richard Burkhauser, Kathryn Anderson, and J. S. Butler (all of Vanderbilt University), "Return of the Phoenix: A Hazard Model Approach to Labor Market Reentry."

Relative Economic Status Project. Researchers are examining changes that have taken place in the patterns and causes of poverty and income inequality.

- Saul Schwartz (Tufts University), "Earnings Capacity and the Trend in Inequality."
- Michael Sosin (IRP), "The Utility of Private Social Welfare Agencies in Delivering Emergency Assistance."
- Peter Gottschalk (Bowdoin College) and Sheldon Danziger (IRP), "The Effects of Demographic Changes in Labor Force Participation on Male Earnings Inequality."
- Timothy Smeeding (University of Utah), "Nonmoney Income and the Economic Status of the Elderly."

Project on Income Security and the Low-Wage Labor Market. Studies are being undertaken on how to increase the earnings of low-wage workers.

- Glen Cain (IRP), "Work and Economic Well-Being: Men and Women."
- Gary Chamberlain (IRP) and George Jakubson (Cornell University), "Dynamic Models of Labor Supply: Female Labor and Leisure over the Life Cycle."

(continued on p. 17)

The economics of discrimination: Part 2

by Glen G. Cain

This is the second part of a two-part article on discrimination. Part 1 appeared in *Focus* 7:2.

In Part 1 of this article two definitions of economic discrimination were given, along with a variety of statistical tables that illustrated them. Societal economic discrimination was defined as the difference in (or ratio of) the average family income of minority and majority groups. Income is the main component of economic well-being, and income tends to be positively correlated with other components, such as leisure, favorable nonpecuniary aspects of one's job, and so on. The statistical tables in Part 1 showed large income disparities between white and black families, between white non-Hispanic families and Hispanic families, and between families with a male primary earner compared to families with a female primary earner (or head of household). These disparities in income are widely perceived as inequitable.

Economic discrimination was also defined as the difference in (or ratio of) average wage rates of minority and majority workers who may be reasonably assumed to have equal productive capacities. This concept of economic discrimination has theoretical as well as practical importance because it challenges a fundamental principle of the workings of competitive economies: that equally productive workers should receive equal wages. It is essentially equivalent to the proposition that the same good or service (like labor) should receive the same price (or wage) in a competitive market.

The practical importance of wage, or labor market, discrimination is that wage rates or earnings—the latter being the product of the hourly wage and hours worked—are the most important component of income. Even such sources of nonlabor income as pensions, disability insurance, and unemployment compensation may be considered earnings-based, sometimes as deferred earnings or as an insurance payment derived from one's earnings. Earnings also reflect self-support and economic independence and therefore carry psychological benefits.

If equally productive workers are systematically paid unequal wages, there is a prima facie case for inefficiency, in addition to inequity, in the workings of the labor market. A condition may be said to be economically inefficient if the economy's output (or income) is less than it would be if that condition were eliminated, which implies that the costs of eliminating it are more than offset by the increased output that would result. As examples, inclement weather is not economically inefficient, whereas monopoly usually is. Whether labor market discrimination is economically inefficient depends on the theory and evidence one adopts. Economic efficiency need have no direct relation to ethical standards.

Persistent wage differences between workers of different ethnic and gender groups were shown in Part 1. Whether they reflect wage discrimination depends on how well productivity is measured and controlled for in the empirical evidence. The empirical research is complicated and controversial, in part because of data limitations and in part because of inadequacies in prevailing theories. This article summarizes the main theories and empirical research. The material is less well suited to simplification and summary, however, than were the descriptive statistics and definitions in Part 1.[1]

Theories of labor market discrimination

The uses of theories

There are many economic theories of discrimination. They consist of models that specify selected features of labor markets in combination with selected theoretical principles drawn from a larger body of "textbook theory." The models are listed in Table 1 and will be discussed below. In this section on the uses of theories, references will be made to both these models and to principles from general economic theory.

We use theories to address the normative problems of inequity and inefficiency associated with labor market discrimination and to predict and explain the existence and persistence of discrimination. A theory should be testable with available data and point to policies and even remedies. Ideally, the quantifiable application of the theory should be translatable into measures of the costs and benefits of specific policies.

To illustrate, the theory of competitive markets predicts equal pay for equally productive workers. Assume that labor market discrimination is measured by the ratio of

minority wages to majority wages in a given labor market. Now consider testing the hypothesis that discrimination is greater when monopoly is greater, using data for different markets. A refined empirical investigation might quantify the relation between competition and discrimination so that we could estimate, say, the increase in the ratio of minority wages to majority wages as competition is increased. Ideally, the relation could be supplemented with additional information that reveals the costs of reducing monopoly and the benefits of the resulting increase in the ratio. (The costs and benefits do not have to be in dollars—perhaps "political capital" or votes are the relevant coin—but they do have to be in commensurable units if they are to be compared.) In principle, the benefit/cost calculation could be carried out for different strategies, and the most efficient strategy could be granted the highest priority in policy actions.

Unfortunately, the foregoing illustration is not easily applied. Current economic theories leave open the possibility of special cases in which competition is consistent with labor market discrimination, and the theories do not conclude that monopoly necessarily produces labor market discrimination. Furthermore, it is extraordinarily difficult to establish causal relations between variables like degree of competition and wage ratios with current methods of economic research.

Another illustration is the theory of wage determination, especially the part of this theory that involves human capital investments. This theory specifies a positive relation between wages and such assumed causes of productivity in the labor market as the worker's education and training. Empirical investigations of these productivity/wage relations for minority and majority groups attempt to discover the sources of wage discrimination and to provide benefit/cost information to guide policies to remedy discrimination. This type of research has been abundant, but there is considerable controversy about how successful it has been, particularly in its policy implications.

Basic concepts of economic theories

Economic theories of discrimination deal almost exclusively with discrimination in the labor market and they deal almost exclusively with the demand side of the market. The theoretical challenge is to explain how workers who are intrinsically equal in productivity receive unequal wages. Thus, the supply side of the market is effectively neutralized by the assumption of either equal productivity or "controlled-for" productivity differences.

Discrimination in demand can be seen as a willingness-to-pay to avoid contact with the minority group or, equivalently for my purposes, a willingness-to-pay *for* contact with the majority group. This specification, which is due to Gary Becker, expresses and measures *prejudice* as a taste (preference) in money terms.[2]

This definition also involves the central principle by which discriminatory outcomes tend to diminish if competition in markets is assumed: namely, that many producers and mobility among economic agents will lead to the separation of groups to avoid the costs of contact. The separation does not imply autarky; trade between the groups continues. Once the groups are separated, economic discrimination disappears, given the definition of economic discrimination as different wages for equally productive workers. Thus, segregation is a mechanism for eliminating discrimination in competitive markets. This is a rather depressing conclusion for those who favor competitive markets and an integrated society as well as the elimination of discrimination.

But segregation is not the only way to eliminate discrimination in competitive markets. Collective action to offset the effects of discriminatory tastes or changes in those tastes can be accomplished without seriously restricting competition in markets. Indeed, common sense and casual observation indicate that an integrated society is generally more competitive. Nor is segregation necessarily a concomitant of no discrimination, as witness the Republic of South Africa.

Indeed, the conclusion about the incompatibility of discrimination with theories of competitive markets is not agreed to by all economists. There is not the space to defend the conclusion in any detail, but see the useful articles by Kenneth Arrow and Finis Welch.[3] If competition is not assumed, then there are several additional theories of discrimination.

Types of theories

Table 1 provides a taxonomy of theories of labor market discrimination. As discussed below, none of the theories listed is widely accepted as a satisfactory explanation of the observed outcomes in the labor market. The problem is not that the theories lack logical consistency; rather, that none has convincing empirical support—a point reemphasized in the next section on empirical analyses. Consequently, the economist is not on firm ground when called upon to suggest policies for reducing the disparities in economic outcomes due to discrimination.

Neoclassical theories. The neoclassical theories of discrimination in competitive markets by consumers, workers, and employers imply that there will be *no* long-run (sustained) wage differential between equally productive majority and minority workers. Since competitive markets will reward the least-cost producer (indeed, the least-cost producers are the only survivors) and a necessary condition for least costs is that majority workers be paid no more than equally productive minority workers, it follows that wage differentials will disappear.

Using the case of consumer discrimination as an illustration, assume that all workers are equally productive and that consumers (who are predominantly white) are willing

Table 1

A Taxonomy of Theories of Labor Market Discrimination

Neoclassical Theories
A. *Exact Models:* Assumes perfect information[a]
Competitive Theories
No monopolies or collusive behavior among economic agents. Sources of discriminatory preferences may be 1. Consumers 2. Workers 3. Employers
Monopoly Theories
Exclusive control by one person or group. Control may be exercised 1. By the firm over the product's price (only one seller) 2. By employer over workers' wages (monopsony, only one buyer) 3. By workers over wages (trade unions) 4. By government over a variety of market conditions (e.g., wage regulation)
B. *Stochastic Models:* Information lacking in some respect[b]
Theory of Statistical Discrimination
In the absence of full knowledge of the workers' productivity, firms rely on observable characteristics (race, sex, age) to estimate productivity.
Institutional Theories
Characterized by reliance on historical studies, legal analysis, or case studies.
Capable of describing combined forces of monopolies, discriminatory preferences, and particularistic circumstances, but no generalizable theory is generated.

[a]The assumption of perfect information is equivalent to the assumption that the expected values (or means) of the variables fully describe the outcomes of interest.

[b]Variability in the values of the variables, in addition to their means, may determine the outcomes, and the mean or variance may be unknown to the decision-makers.

to pay a price, p, for a good produced by white workers. If, however, there is customer contact with the producers, the consumers consider the effective price for a good produced by black workers to be $p' = p + d$, where p is the cost of production and d is the monetary value of white consumers' distaste for contact with black producers. But, most goods and services are not produced with customer contact, and consumers would not discriminate against, say, clothing or automobiles according to the color of the workers in clothing or automobile factories. For these goods the price would simply be p, regardless of the color of the workers. Therefore, black workers would specialize in the production of goods with no customer contact and, in so doing, avoid being paid a wage lower than that of an equally productive white worker, which would be the outcome if they competed with whites in, say, retail selling, where there is customer contact. Competition, activated by worker mobility and the incentives of firms to produce their product at the lowest cost, eliminates the discriminatory wage difference. This model does result, however, in segregation of the workers by industry.

Similar motivations, actions, and outcomes characterize the response to worker or employee discrimination. If white workers discriminate against black workers by acting as if they require a higher wage to work with black workers, then the labor force will become segregated by color, but there should be no wage differential by color for equally productive workers.

If employers discriminate against black workers by acting as if the labor cost (wage) of a black worker is higher than the labor cost (wage) of an equally productive white worker, then the wage rate of white workers will be higher than that of black workers. The money profits for employers hiring blacks will be higher, but this only "compensates" these employers for their distaste. However, any employer who does not discriminate will be able to undersell his competitors. If there are some nondiscriminatory employers, they become the only survivors, and the extinction of the discriminatory employers results in the disappearance of wage differences by color for equally productive workers. As Arrow emphasizes and demonstrates, employer discrimination could result in a sustained wage difference only if no employers could be found who were nondiscriminatory.

Now consider the neoclassical monopoly models. Each offers the possibility for sustained discrimination, but none has persuasive empirical support.

Product monopoly does not imply monopoly power in the labor market. The monopolist must have the power to determine wages and must be willing to forgo money profits to "overpay" white workers (or male workers, etc.), and the monopolist must be willing to repel the efforts of nondiscriminating capitalists from taking over and increasing the monetary return on the investment. Surely the stockholders of a monopoly corporation desire to maximize profits. These considerations imply limited scope for discrimination due to product monopoly.

Monopsony, in which an employer is the *sole* buyer of labor in a market, is theoretically important, because it is the neoclassical model of exploitation. Workers are captive in a market where there is only one employer, or where a

group of employers collude and act as one buyer. Monopsony represents a rare area of common ground between neoclassical and Marxian models of the labor market. I doubt, however, that the monopsony model is empirically important in modern times, when markets are larger, the one-industry town has declined, and workers are more mobile than they were in decades past.

Workers' monopolies—trade unions—are potentially a source of discrimination against minority workers. We know that unions attempt to gain economic rents for their members in the form of above-competitive wages, and that this requires that the unions must limit entry. Thus, the union's control over entry, its domination by majority-group workers, and its ability to raise wages above competitive levels give the majority group the capacity to discriminate against minorities without being at a competitive disadvantage. Historically, American trade unions have been guilty of many specific acts of discrimination against minority groups. Yet the most thorough empirical study of the effects of unions on white-black and male-female wage differences does not show that unions are an important source of economic discrimination.[4] This study will be discussed in the next section.

The government may regulate labor markets in ways that promote or retard the status of minority workers. A much-discussed example is the minimum wage law, which may prevent the competitive principle of least-cost production from operating. In particular, the law could prevent a discriminatory advantage to majority workers from being eliminated by competition. On the other hand, governments have enforced laws against discrimination and have aided minority workers in other ways. The net result of these conflicting policies is not clear.

In conclusion, there is surprisingly little empirical evidence that the various monopoly theories explain much of the labor market discrimination that exists and has persisted in the United States.

My first category of neoclassical models were those constructed on the basis of complete information. In practice, the variables cannot be known with certainty. The theory of statistical discrimination is based on this uncertainty and, therefore, has an initial appeal. Because firms must hire, pay, and promote workers without perfect knowledge about the workers' productivity, employers rely on observable demographic characteristics as indicators of productivity. Thus, if employers believe black workers are, other things equal (such as, say, years of schooling, etc.), less productive than white workers, they will pay blacks less. Moreover, various conventional indicators of productivity may be less reliable for minority workers than for majority workers. Despite these conditions, the two postulates of the competitive model—large numbers of firms and the survivor principle for least-cost producers—will lead to a tendency for average payments to workers to equal their average productivity. The statistical uncertainties affect the groups' variances (or dispersion) of wages, but not their averages.[5]

Institutional theories. Institutional theories of discrimination are a varied group of historical, legal, and case-study analyses of labor market discrimination. They lack a formal structure and are limited in their generalization. At the same time these studies are able to deal with more complicated structures than the economic neoclassical models; they may describe the interrelations of the combined forces of, say, monopolistic industries, trade unions, government regulation, and community prejudices. I believe that there are many useful and persuasive examples of discrimination in the institutional literature.[6]

Empirical analysis of labor market discrimination

Aside from simple descriptive statistics, empirical research on labor market discrimination may be divided into (1) tests of hypotheses suggested by the theories, such as the proposition that discrimination is less in competitive industries, and (2) estimation of the amount and determinants of discrimination; for example, estimating the change in the relative wages of minority workers over time, over the course of the business cycle, or in different industries, and so on.

Testing of hypotheses

Hypothesis testing has been, as Masters noted, "surprisingly limited"[7] and has produced few firm conclusions. One reason is that the theories often yield ambiguous predictions. Discrimination may, for example, be predicted to exist in the short run but not in the long run, with no basis for determining the time required for the transition. Also, the theories suggest many economic influences, and the empirical work usually concentrates on one influence in isolation.

Ashenfelter's previously mentioned study is one of the few that test hypotheses with convincing results. Ashenfelter tested the hypothesis that labor unions are a source of economic discrimination. He found that the white-black wage difference was *reduced,* rather than increased, by unions, because black workers are somewhat more likely than whites to be union members, and the effect of unions on wages is somewhat larger for blacks than whites. On the other hand, unions were found to increase slightly the wage difference between men and women, because women are less likely to be union members and, when they are union members, their wage gains are smaller than those of men.

The importance of Ashenfelter's study is that it offered no support for a neoclassical hypothesis of discrimination by unions, which appeared stronger theoretically than the hypotheses rationalizing discrimination by other economic agents—consumers, employers, or governments.

Estimation of discrimination

In Part 1 of this article I mentioned that wage discrimination against a group was measured empirically by a "negative effect of group status on wages, after controlling for productivity. . . . Typically, a statistical regression function is used to estimate the effect of group status on wages, and the control over productivity, as measured by various characteristics of the workers, is handled by this statistical technique."[8] Such a technique attempts to measure a remaining or residual difference between minority and majority workers' earnings by equalizing (holding constant) the factors that determine a person's productivity. Let us call this residual difference a difference in *predicted* earnings. It turns out that the ratio of minority workers' predicted earnings to majority workers' predicted earnings varies widely, partly reflecting variation in the data sources, and more important, partly reflecting the theoretical ambiguity about the proper set of variables to hold constant in attempting to equalize productivity.[9] Furthermore, the estimated difference in predicted earnings can be biased as a measure of discrimination because some of the factors that determine productivity (such as training) may in themselves reflect discrimination. In such a case this statistical method understates the amount of discrimination.[10] A second type of bias occurs because inevitably some factors that determine wages are not taken into account. Obviously a statistical technique is restricted to only those variables that can be observed and measured. There are bound to be omitted variables, some of which may be known to the worker and employer, but not to the statistical analyst.

Sometimes the statistical analyst will merely assume that the omitted productivity variables lead to a bias such that labor market discrimination is overstated. The analyst may assume, for example, that men are more productive than women in ways not measured by the variables in the statistical model predicting earnings. Clearly, if this is *assumed,* it follows that labor market discrimination has been overstated. However, I do not believe that the omitted variable problem should be referred to as a *systematic* bias. The omission of variables can lead to a bias in either direction.

Marketwide studies. A number of marketwide studies of discrimination have been carried out.[11] These studies usually report the observed, unadjusted ratios of minority workers' wages to those of majority workers—the ratio that is measured without adjusting for any productivity variables. This ratio will typically be around .6, as was shown in Part 1 for the earnings ratios of women to men and of black men to white men.[12] This ratio rises to .7 when exogenous variables (those not affected by discrimination) such as age, years since immigration, region of residence, and so on, are held constant. The ratio rises again, to .8 or .9, when such variables as industry, occupation, and years with the firm—which in my view are endogenous to the process of discrimination under analysis—are held constant.

Several analysts claim that a ratio of around .9 is found for Hispanic wages compared to non-Hispanic white wages, holding constant the following variables: age (Hispanics tend to be younger); education (Hispanics tend to have less schooling); years of residency in the United States; and a variable measuring whether English was the primary language spoken at home when growing up.[13]

When comparing women and men, the ratios rise from .6 to .8 or so when variables like marital status, numbers and ages of children, hours worked per year, and years of labor market experience are held constant. Note that each of these variables might be considered to reflect labor market discrimination—that is, women work less in the market and more at home because they are not offered employment opportunities and wages equal to those of men. Note also that controlling for age and education would not much affect the ratios, because the means of these variables tend to be the same for men and women.

Studies of individual firms. The statistical model is also used to analyze discrimination in individual firms. In the United States such analyses are sometimes offered as evidence in litigation stemming from antidiscrimination laws.

Again, the model holds constant those worker characteristics that are assumed to represent productivity—here, productivity to the firm. As noted in Part 1, many variables, like years of schooling, which may reflect marketwide discrimination, are clearly exogenous to the individual firm. Moreover, if the issue is "fairness" in the treatment of employees, rather than fidelity to an abstract ideal of "true productivity," then the selection of variables may be determined from the employer's explicit criteria for hiring, retention, promotion, and pay. These criteria can be specified with relative precision. They may be examined to determine if they do or do not reflect employer discrimination.

Unfortunately, the analyses of data from a single firm have two serious faults that limit their use for assessing marketwide discrimination. First, the sample is small and nonrandomly selected. Data for one company refer to only one industry and a few occupations, and the role of market discrimination in determining the allocation or distribution of minorities among industries and occupations is not examined. Second, we seldom know the selection rules that determine how the workers become applicants to or attached to the firm. Nor do we know whether the company's tactics of, or reputation for, discrimination affect the number and composition of minority workers who apply for jobs at the firm.

The value of empirical analysis

I conclude that the estimation procedures discussed in this section serve the following purposes: (a) they provide a way of monitoring discrimination over time and in different

contexts; (b) they may suggest policy variables to manipulate by showing which productivity characteristics have a large effect on earnings; (c) they help to determine whether an individual firm is discriminating. Nevertheless, the empirical research taken as a whole does not have a solid theoretical foundation, and the research requires subjective interpretations.

Welfare implications and conclusions

Variation in the analyses of different groups

Inequities in economic well-being among racial, ethnic, and gender groups appear to be widespread, and economic theories for why they persist are only moderately helpful. Empirical research on the discrimination experienced by different groups has yielded explanations of varying levels of satisfaction.

The case of blacks in the United States offers the strongest evidence for labor market discrimination and, given existing theories, for flaws in the competitive functioning of the market. By contrast, the discrimination believed to have faced such immigrant nationality or religious groups as Irish Catholics, Italians, Japanese, and Jews some 50 to 100 years ago seems today to have been overcome with respect to income and earnings. This evolution toward equality with whites whose ancestry was Anglo-Saxon is consistent with a neoclassical view of the workings of competitive markets, assuming that the productive capacities of the different ethnic groups are equal and that the economy is sufficiently competitive.

The disparities in wages between men and women may be rationalized by the argument that specialization in work in the market sector rather than the home sector leads to higher market wages for men. However, this hypothesis must rely on unobserved productivity characteristics, because when observed characteristics are held constant, a wage disparity between men and women remains. Furthermore, the argument about specialization does not explain why the total income received by women during their lifetimes is less than that for men, as was shown in Part 1.

The lower earnings of Hispanic Americans relative to white non-Hispanics may be explained by the importance, in determining earnings, of information about the labor market, facility in the English language, and years of schooling. The theories postulating these determinants of earnings for Hispanics and white non-Hispanics are qualitatively supported by empirical evidence, but I doubt that the quantitative gap in earnings is well explained by these theories.[14]

The wages, earnings, and incomes of black workers and black households are substantially less than those of whites, and the conventional human capital variables, such as education, training, and health care, do not explain much of the difference. Even if they did, the question would then be, Why is the market for such human capital investments functioning so poorly that blacks continue to be shortchanged? If whites find that these investments in human capital result in higher earnings and better jobs, why are blacks' opportunities for these investments so curtailed? If the answer is not labor market discrimination, is it discrimination in the capital markets that supply funds or sources of human capital investments? It is not scientifically satisfactory for economists to argue that labor market discrimination is minimal, if they have no explanation for how discrimination in capital markets creates and sustains the disparities we measure in the labor market.

The effect of discrimination on total output

One issue that has not been much studied is the implications of discrimination for economic efficiency, as measured by the size of total societal income.[15] The neoclassical economist's convention (perhaps it is an obligation) to take tastes—individual preferences—as given, virtually prevents the translation of "different prices (wages) for the same good (labor)" into a loss in total societal income, or deadweight loss. Thus, there is no presumptive case for inefficiency in a competitive economy in which tastes are the fundamental cause of discrimination. Surely something is amiss. Discrimination in its many forms, not only economic, is widely believed to suppress the achievements of the minority group with no fully offsetting gains to the majority group. The economists that I know agree with this belief, yet conventional economic theories do not, to my knowledge, explain or analyze this widely shared conviction.

Economists have prescribed limits for themselves in many policy spheres. Economics does not distinguish among the ethical merits of different tastes; between, say preferences for physical attractiveness or for race. As economists we have nothing to say about the justness of laws that prohibit an employer from refusing to hire someone on the basis of color but that permit hiring on the basis of physical attractiveness. As citizens we may, of course, have strong opinions about such matters.

Instead, the role of economic analysis lies in the measurements and methods that permit prediction. Empirical regularities such as time trends may be useful even in the absence of fully developed theories. At a minimum, the measurements provide valuable data for monitoring progress or regress regarding discrimination.

A more ambitious form of empirical research is that aimed at evaluating government policies that attempt to reduce discrimination and to offset its outcomes. The essential difficulty in evaluating these programs is the classic problem of making inferences from an uncontrolled experiment. We observe an outcome for a group of workers, some of whom participated in the program or, alternatively, had the program imposed on them. To establish causality between

Institute Publications by Glen G. Cain on the Economics of Discrimination

"Welfare Economics of Policies toward Women." IRP Discussion Paper no. 732-83.

"Economic Discrimination against Women and Racial and Ethnic Minorities." IRP Discussion Paper no. 745-84.

"Women and Work: Trends in Time Spent in Housework." IRP Discussion Paper no. 747-84.

"The Economic Analysis of Labor Market Discrimination: A Survey." IRP Special Report no. 37 (previously listed as Discussion Paper no. 748-84).

"Lifetime Measures of Labor Supply of Men and Women." IRP Discussion Paper no. 749-84.

program status and the outcome, the factors that selected the workers into the program must be either (a) known and controlled for in the evaluation, or (b) known to be unrelated to the outcome.

It is difficult to know enough about the selection process and about all the causes of the outcome to satisfy either condition (a) or (b). Random assignment would satisfy condition (b), but this selection procedure is rare. Legislators and courts, therefore, seldom rely on the research of economists to determine the fate of government programs.

Final word

The economics of discrimination is a particularly complex subject. Theories of discrimination have been useful for providing definitions and for suggesting measurements of discrimination but not for providing convincing explanations of the phenomenon or of its patterns. The econometric work has also been useful, but more for its descriptive content than for testing hypotheses or for providing estimates of causal relations. ■

[1]A longer discussion of these topics is given in Cain, "The Economic Analysis of Labor Market Discrimination: A Survey" (see box).
[2]Gary S. Becker, *The Economics of Discrimination* (Chicago: The University of Chicago Press, 1971, original edition, 1957).
[3]Kenneth J. Arrow, "The Theory of Discrimination," in *Discrimination in Labor Markets*, ed. Orley Ashenfelter and Albert Rees (Princeton, N.J.: Princeton University Press, 1973); Finis Welch, "Human Capital Theory: Education, Discrimination, and Life Cycles," *American Economic Review, 65* (May 1975), 63-73.
[4]Orley Ashenfelter, "Racial Discrimination and Trade Unionism," *Journal of Political Economy, 80* (May/June 1972), 435-64.
[5]These ideas, along with some special cases of sustained discrimination, are presented by Dennis J. Aigner and Glen G. Cain in "Statistical Theories of Discrimination in the Labor Market," *Industrial and Labor Relations Review, 30* (January 1977), 175-87. As discussed in this article, the special cases in which the model predicts discrimination do not seem to be empirically important.
[6]For two illustrations, see the legal case studies in Herbert Hill, *Black Labor and the American Legal System* (Washington, D.C.: The Bureau of National Affairs, Inc., 1977); and the case study of discrimination against black workers in the Southern railroad industry in Malcolm Ross, *All Manner of Men* (New York: Reynal and Hitchcock, 1948).
[7]Stanley H. Masters, *Black-White Income Differentials* (New York: Academic Press, 1975), p. 19.
[8]"The Economics of Discrimination: Part 1," *Focus,* 7:2, p. 7.
[9]Ibid.
[10]Ibid., see "Case 2."
[11]A large number of studies presenting empirical estimates of wage discrimination against women and blacks are summarized in Cain, "The Economic Analysis of Labor Market Discrimination."
[12]"The Economics of Discrimination: Part 1," *Focus,* 7:2, Tables 4 and 5.
[13]See, for example, Cordelia W. Reimers, "Labor Market Discrimination against Hispanic and Black Men," *Review of Economics and Statistics, 65* (November 1983), 570-79.
[14]For a discussion of the empirical evidence about wage discrimination against Hispanics, see Cain,"The Economic Analysis of Labor Market Discrimination."
[15]I have elsewhere addressed this question regarding discrimination against women, and my conclusions were embarrassingly thin. See "Welfare Economics of Policies toward Women," *Journal of Labor Economics, 2* (October 1984). Also available as an IRP Discussion Paper (see box).

ASPE-Institute workshop
continued from p. 10

Research on the Labor Market and Program Participation of Hispanics, Immigrants, and Southeast Asian Refugees. This project examines the income and employment experiences of these groups and compares them to the native population.

- Robert Bach (State University of New York at Binghamton) and Marta Tienda (IRP), "Contemporary Immigration and Refugee Movements and Employment Adjustment Policies."
- George Borjas (University of California-Santa Barbara), "The Impact of Assimilation on the Earnings of Immigrants: A Reexamination of the Evidence."

An additional paper was contributed by Robert Lampman (IRP), "Some Topics in Need of Poverty Research: Retrospect and Prospects."

The discussants included Irwin Garfinkel (IRP), Paul Menchik (Michigan State University), Maurice MacDonald (IRP), Christopher Flinn (IRP), Marcia Weaver (U.S. Department of Health and Human Services), Robert Moffitt (Brown University), Gary Sandefur (IRP), Bernard Stumbras (Wisconsin Department of Health and Social Services), George Borjas, and Daniel Weinberg (U.S. Department of Health and Human Services). ■

New project under way: Income security policy and the low-wage labor market

Although substantial progress has been made in raising the absolute standard of living of the poor, no equivalent progress is evident in their market income. A widely held policy objective is to replace the handout with a hand up. Increasing the employment opportunities and earnings of low-wage workers is therefore an essential part of antipoverty policy.

With funds from the Department of Health and Human Services, Institute researchers and affiliates at other universities will investigate the low-income labor market to provide an empirical base to be used in designing policy strategies to reduce the incidence of poverty among low-wage workers. Eight studies will be completed by mid-1985. Glen Cain (IRP) will compare the relative economic well-being of men and women, using lifetime measures of labor participation and income. The trends of participation in the work force have differed between the two sexes over the past 70 years; men have decreased their participation, whereas the participation rates of women have increased. One of the purposes of this study is to examine the extent to which these trends represent improvements in economic well-being for both sexes. Cain's work will also examine the issue of labor force discrimination against women.

Two related studies look at what happens to workers when they are laid off from factories. Peter Gottschalk (Bowdoin College) will measure the distribution of costs borne by workers who are displaced when plants close. Daniel Hamermesh (Michigan State University) will estimate the size of the losses in human capital experienced by workers with specialized training who are displaced when large industries, such as steel, decline. Using data from the Panel Study of Income Dynamics (PSID) for 1976-79, his study will analyze what policies—if any—are needed to compensate or retrain workers who find themselves unemployed, often after years of work for a single firm. His paper, "The Human Capital Losses of Displaced Workers," is now available at the Institute (Discussion Paper no. 753-84).

Christopher Flinn (IRP) will use data from the new panel of the National Longitudinal Survey and Coleman-Rossi Life History Survey to measure the effects of a poor initial experience in the labor force on the wage history of a young worker. By separating economic effects from individual characteristics, he expects to clarify the role played by government intervention in improving a young worker's subsequent performance in the labor market.

Existing studies of the effects of Aid to Families with Dependent Children (AFDC) fail to include specific aspects of the changing relationship between wage growth and participation in AFDC. George Jakubson (Cornell University) and Robert Moffitt (Brown University) will use data from the PSID to find out whether participation in AFDC, by reducing human capital accumulation in the form of work experience, leads to slower growth in wages and thus has long-term detrimental effects on the income of participants.

In another study, Moffitt, using AFDC Recipient Characteristics Surveys, will examine the effects of local labor markets on AFDC participation. Recently developed econometric techniques have enabled researchers to tap this data source for AFDC studies. The quantification of the relationship between local labor markets and the work of AFDC recipients will aid state policymakers in tailoring programs to increase the amount of labor supplied by AFDC beneficiaries.

Whether or not they receive welfare benefits, women tend to leave the labor force more often than men. This tendency introduces a bias in the measurement of the effect of welfare participation on labor supply. Gary Chamberlain (IRP) and Jakubson hope to rectify this bias by using the PSID data to develop a more accurate measure of the effect of welfare participation on work effort. ■

We are gathering a list of past Institute affiliates—research assistants and research associates—as part of our program to mark the 20th anniversary of the Institute. If you have information on the current location and work of former IRP researchers, please send it to Elizabeth Uhr, 1180 Observatory Drive, 3412 Social Science Building, University of Wisconsin, Madison, Wisconsin 53706.

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