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Summary and Critique

"The Impact of Affirmative Action" by Jonathan Leonard

I. Background and Overview

1. The Leonard report is a reworking of his Ph.D. dissertation at Harvard University, which was supported in part by a small contract from the Office of Policy.

2. The paper addresses many different facets of affirmative action (AA). It is the most comprehensive study of its kind to date, made possible because Leonard was able to obtain heretofore unavailable confidential data from OFCCP. No other researchers will be able to verify or dispute Leonard's findings because these data remain confidential.

3. Leonard presents many results, some conflicting. Our impression is that he has been relatively modest and careful in interpreting his results. Individuals using his results in the press have been less modest and careful. Due to the report's broad scope, there is "something for everyone."

4. We feel Leonard has performed a generally competent analysis of these data. His report, however, is quite sloppy in places, leaving obvious questions unanswered.

II. Objectives of the Report

1. Compare employment patterns among federal contractors and non-federal contractors.

   -- Leonard utilizes EEO-1 data on 70,000 establishments that submitted EEO-1 forms in both 1974 and 1980. These data contain detailed information on the demographic composition of the workforce for contractors and non-contractors.

   -- This is the section of the report cited most frequently in the press.

2. Examine the effect of AA on productivity.

   -- Tries to distinguish whether AA reduces discrimination or induces reverse discrimination.

-- That is, does job redistribution under AA hurt productivity by inducing firms to hire less qualified people (induce reverse discrimination); or does AA improve productivity by breaking down barriers that keep qualified individuals from good jobs (reduce discrimination)?

-- Leonard analyzes aggregate productivity with data on various industries and states to address this question.

3. Examine the compliance review system:

   - Who is and who should be reviewed?

   - Utilizes establishment specific data to address these questions.

4. Examine the impact of class action lawsuits filed under Title VII of the Civil Rights Act of 1964 on demographic composition of the workforce.

III. Main Conclusions

These results are presented as Leonard reports them; our critique follows.

1. AA has been successful in promoting the employment of black males and females; blacks' share of total employment increased more at federal contractor establishments than at non-contractor establishments between 1974 and 1980.

2. AA's impact on minority employment has been greatest in high-skill occupations.

3. There is no significant evidence that the increased employment of minorities and females in recent years has been associated with a decline in productivity. This finding calls into question some of the large efficiency costs attributed to job redistribution under AA.

4. Compliance reviews have been an effective regulatory tool in increasing black employment. The targeting of compliance reviews could be improved by focusing on firms with low shares of minorities and women.

5. Litigation under Title VII of the Civil Rights Act has played a significiant role in increasing black employment and has had a relatively greater impact than AA.

IV. Elaboration and Comments

A. Employment Effects

1. Results on employment effects should not be surprising. They are consistent with previous studies, although other studies have been limited to the pre-1974 period.

2. Results are sensitive to econometric specification (i.e., the assumed functional form of the regression framework). Leonard focuses on the results that yield the largest estimated impact of AA.

3. Leonard finds a positive employment impact on blacks but a small effect on white females. (Griffin Crump finds a much larger impact on females). The effect on non-black minorities is also ambiguous.

4. Leonard does not examine the extent to which gains in the federal contractor sector are offset by declines in the non-contractor sector. Aggregate, economy-wide changes in employment patterns are not examined.

5. Differences between contractors and non-contractors with respect to changes in workforce composition are statistically significant, but not dramatic in terms of magnitudes. For example:

Black Males' Share of Total Employment

	1974	1980
Non-Contractor	5.6%	5.6%
Contractor	7.3%	7.4%

-- Instead of simply comparing these means, Leonard performs a regression analysis that controls for industry, region, establishment size, employment growth and whether or not the firm was reviewed for compliance. After accounting for these factors, Leonard concludes that black males' share of total employment grew 17 percent faster at contractor firms than at non-contractor firms during 1974-1980; black females' share grew 15 percent faster at contractor firms, while white females' share grew 4 percent faster.

-- Leonard's results appear to indicate that if there had been no affirmative action between 1974-1980 then black males' share of employment in contractor firms would have fallen from 7.3 percent to 6.2 percent.

6. Some other patterns in the results:

-- Large firms tend to have a larger share of blacks and a smaller share of whites relative to small firms.

-- Unionized firms tend to have more blacks than non-unionized firms (based on a sample of California firms).

-- Growing firms tend to have more black males, black females and white females than firms in declining industries. (Note: this does <u>not</u> imply firms in declining industries discriminate more. These firms have less turnover of the workforce so there will be a longer lag between changes in hiring patterns and noticeable changes in workforce composition).

7. Impacts on Occupational Status:

-- Leonard finds that contractors increase black males' employment share most relative to non-contractors in high-skill occupations (occupational upgrading).

-- There appears to have been a small amount of occupational upgrading for black females.

-- There has been occupational downgrading for white females (that is, any relative increase in white females' share of employment among contractors has been in low-skill occupations). Leonard has no explanation for this anomalous pattern.

8. Effects of Changes in Contractors' Status

-- When Leonard examines employment in establishments that <u>changed</u> contractor status between 1974-1980, he finds firms that <u>stopped</u> contracting with the federal government had <u>more</u> growth in employment for white and black females than did firms that remained contractors. Firms that remained contractors had the largest increases in black male employment.

-- Leonard offers no explanation for this pattern.

B. Productivity Effects

1. Productivity is analyzed to determine whether AA reduces discrimination or induces reverse discrimination. Does AA hurt productivity by inducing firms to hire less qualified people, or does it help productivity by breaking down barriers that keep qualified individual from good jobs?

   -- Leonard concludes there has been no decline in productivity that can be traced to AA, implying no reverse discrimination.

2. We have serious problems with Leonards productivity analysis and consider it invalid.

   -- One major problem is his use of value added (VA) as a proxy for output in productivity analysis. VA by definition largely reflects labor costs. If AA increases labor costs, VA will also increase. This distorts productivity measurement and biases the results toward rejecting the reverse discrimination hypothesis.

   -- Leonard looks at productivity in the aggregate economy. He should instead focus on the contracting sector alone. Productivity increases in the non-contracting sector can easily offset changes in the contracting sector leading to a conclusion of no impact when productivity among contractors is, in fact, affected.

   -- We have written a detailed technical memo on these issues which is attached as an appendix.

C. Compliance Review Impacts

1. In analyzing employment changes between 1974 and 1980, Leonard includes a variable on whether or not a firm underwent a compliance review over this period.

   -- He finds contractors that underwent a compliance review showed slightly higher increases in the employment share of miniorites and females compared with non-reviewed contractors.

2. In an analysis of which contractors get reviewed, he finds that (a) firms with larger shares of minorities and females; (b) larger firms and (c) growing firms are <u>more</u> likely to be reviewed.

-- he concludes that targeting is inefficient (given a goal of reducing discrimination) because the inspected firms are generally "doing better" than non-inspected firms.

D. The Impact of Title VII Lawsuits

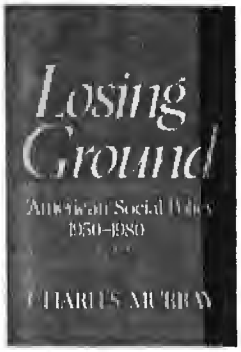
1. In a brief and rather cursory analysis, Leonard finds that in areas of the country in which relatively more class action lawsuits have been filed under Title VII of the Civil Rights Act, there has been relatively higher rates of employment growth among blacks.

   -- We are very skeptical about this analysis because of its emphasis on measuring regional impacts of a federal law (without explaining why such regional effects should occur). It is likley that this "regional propensity to litigate" proxies for other regional factors which are not controlled for in the analysis.

BY HERBERT STEIN

A POVERTY PARADOX

Perversely, welfare spending may have slowed the decline of poverty. But that's not the whole story.



"If the numbers of neglected children and numbers of rats seem to be going up instead of down, it is understandable that we choose to focus on how much we put into the effort instead of what comes out. The tax checks we write buy us, for relatively little money and no effort at all, a quieted conscience."

■ In *Losing Ground* (Basic Books, $23.95), Charles Murray asks an extremely serious question and gives an answer that, if correct, has important implications for national policy. The question is why we seem to have been losing ground in many aspects of American life, especially the life of the poor and most especially the life of the black poor, since about 1965 or 1970. His answer is that this deterioration has been due to grave errors of social policy, notably the social policies usually described as liberal. I do not find the answer entirely convincing, perhaps because I start with the proposition that assigning weights to the causes of such complex phenomena is inherently very difficult. Therefore, I am suspicious of highly confident, one-dimensional explanations. But I must also say that I find Murray's whole argument worrisome and not to be rejected but to be contended with.

The evidence that we are losing ground may be summarized from a few figures among the many that Murray cites. Between 1960 and 1970 the proportion of the U.S. population with incomes below the official poverty level fell from 22.2% to 12.6%. Between 1970 and 1980, however, it rose slightly, to 13%. Between 1960 and 1965 the average score of black students on academic aptitude tests rose from 68% to 79% of the white score. By 1980 the black score had fallen to about 45% of the white score. The rate of violent crime rose from 154 per 100,000 persons in 1950 to 161 in 1960, 364 in 1970, and 581 in 1980. Between 1950 and 1980 the number of illegitimate live births per 1,000 live births to white women rose from 17.5 to 110.4; for black and other women the number rose from 179.6 to 484.5. Between 1957 and 1980 the proportion of white families headed by married couples declined slightly, from 88.4% to 85.6%; for blacks and others the record shows a much sharper decline, from 74.7% to 59.3%.

What was the cause of these trends in poverty, education, crime, and family life? According to Murray, a political scientist and senior research fellow at the Manhattan Institute for Policy Research, the basic cause was the development of a certain attitude in the white, governing, opinion-forming establishment, mainly liberal, in the 1960s and 1970s. The attitude was that the poor, the actually or potentially criminal, the young who resist education, and the unmarried mothers are not responsible for their behavior and are not to bear the consequences for it. Rather it is the "society" that is guilty and must rescue or compensate those who fall behind. This attitude was reflected in a big expansion of welfare expenditures, in laxity in enforcing criminal law, in permissiveness about education, and in other ways. The attitude and the policies it generated in turn affected, or infected, the poor, so that they lost any sense of responsibility and won no feeling of self-worth if they behaved in an upstanding way.

This is a plausible argument. Murray presents it intelligently and with abundant data

HERBERT STEIN, *chairman of the Council of Economic Advisers in the Nixon Administration, is a senior fellow at the American Enterprise Institute.*

KATHERINE LAMBERT

Political scientist Charles Murray

and references to scholarly studies. This is no mere shriek of pain from an unwilling taxpayer. But still, I am reluctant to go all the way with it. I will explain my reluctance by discussing the problem of poverty, because that is central to Murray's analysis and because economists have studied it more than they have the other problems.

Great reliance should not be placed on the statistics showing that the poverty rate failed to decline after 1970. As Murray recognizes, adjusting the official figures, which reflect only cash income, to take account of income in kind, such as food stamps, not only reduces the poverty rate but also reveals a small decline in the rate even after 1970. The drawing of the poverty line is necessarily arbitrary, and we cannot assume that the relation between that arbitrary line and the "truth," whatever that is, remains constant through time. Moreover, existence below the poverty line is not a homogeneous state. There is a big difference between being 10% below the poverty line and being 50% below it. So even if we knew that a constant proportion of the population was below the line, we would not know whether the conditions of the poor had worsened or improved.

THERE SEEMS little doubt that the poverty rate declined less during the 1970s than during the 1960s. But to say that it declined very little in the 1970s despite the increase in welfare expenditures is significantly different from saying that it did not decline at all. One might expect that as poverty declined, those still left in poverty were those with a greater propensity to be poor and a greater resistance to being raised by welfare programs. You might expect the payoff from welfare expenditures to decline, in terms of the reduction of poverty, but not to zero. And so long as the payoff was not zero, there would still be a possibility that the expenditures were worthwhile.

The key question, however, is what caused the decline of poverty to level out or slow down. Murray dismisses general economic conditions as a cause by noting that real (inflation-adjusted) GNP and real GNP per capita rose as fast in the 1970s as earlier, when poverty had been declining rapidly. But the 1970s were not a good period, especially for families with only one worker. Real GNP per *worker* and output per hour of work rose much less, absolutely and relatively, in the 1970s than they had in the 1960s. Real weekly earnings rose 13.3% between 1960 and 1970 but they *fell* by 7.6% between 1970 and 1980. The unemployment rate of married men with a spouse present is a fairly good measure of the demand side of the labor market, because such men have a strong attachment to work. That rate fell from 3.7% in 1960 to 2.6% in 1970 but rose again to 4.2% in 1980. Overall economic performance should not be written off as a contributor to poverty.

The argument that poverty failed to decline because welfare programs grew comes down to a priori reasoning about rational behavior. What would a rational poor person do if offered a sum of money for which he not only didn't have to work but which would also be reduced in proportion to the amount he does work? Presumably he would work less than if the offer had not been made. But here the argument falls into the same error that the extreme supply-siders fell into about taxation. The supply-siders slid from the reasonable proposition that if taxes are reduced people will work more to the unlikely proposition that they will work so much more that the lower tax rates will yield more revenue within a reasonable period. The core of Murray's thesis about the cause of poverty is the proposition that welfare programs induce poor people not only to work less but to work so much less that they are poorer than they would be without the welfare programs. But this step cannot be deduced from the assumption of rational behavior; in fact, it is probably not rational behavior.

Toward the end of the book Murray seems to recognize that welfare programs have not explained the failure of poverty to decline. The argument of *Losing Ground* then shifts to the evils of dependency. Dependency is bad, Murray tells us, because it atrophies the will or ability to work and so creates poverty in the long run, and because it is psychologically bad for the welfare recipients. But again we are invited to conclude that, given an additional option that they did not have before, namely the welfare option, rational people will choose behavior that makes them worse off, economically or psychologically. And if we give up the hypothesis of rationality, what other theory do we have from which to predict the behavioral response to welfare?

Fortunately, there is some empirical evidence on the extent of persistent dependency, which Murray believes to be the consequence of liberal social policy. The Survey Research Center of the University of Michigan continuously studied the economic experience of a sample of identical families over the decade of 1969-78. During this time the official figures showed 11% or 12% of the American population in poverty in each year. But the Michigan study found only 2.6% of the population *persistently* poor—that is, poor in eight or more of the ten years. Only 2% of the population was dependent on welfare for more than 50% of their family income during eight or more years. According to Greg J. Duncan of the University of Michigan, who was deeply involved in collecting these data and who analyzed them in *Years of Poverty, Years of Plenty*, they "provide mixed evidence on the contention that welfare receipt is passed on from one generation to another . . . In general, the parents' overall economic status is a more powerful determinant of subsequent welfare use by adult children than is the parents' welfare status itself." Also the study found "few, if any" effects of the welfare system in encouraging divorce or illegitimate births.

OTHER EVIDENCE and arguments could be cited for taking with some grains of salt Murray's evaluation of the problems and their causes. You could argue, for example, that what he calls liberal policy has also been in part liberating policy, freeing some people from restraints of race or class that had impeded their upward movement.

But his basic thesis deserves serious attention. If the deterioration is less than he says, and if there are offsetting gains not counted, still the deterioration has to be viewed as disturbing. And if the social policies of the past two decades do not bear sole responsibility for what has happened, they cannot be entirely acquitted either.

It would be a pity if Murray's book were used to justify indiscriminate cuts of welfare programs or toughening of attitudes. But it would also be a pity if deficiencies in the book were taken to show that the programs are working just fine. Many of the programs have given too little weight to the preservation of incentives to work, to keeping families together, and to diligence in education. This needs to be redressed, even at some risk to the income levels of the beneficiaries. Murray himself draws what seems to me an unexceptionable conclusion: "The lesson is not that we can do no good at all, but that we must pick our shots."

(Cont)

The Washington Times

Hands Across America
— Photo story, page 4D

Black scholars oppose study of black America

By Isaiah J. Poole
THE WASHINGTON TIMES

A group of black scholars opposes a National Research Council study of black America because it fears the study will legitimize efforts to scale back civil rights programs.

The council says the privately financed, $1.9 million study, when it is completed three years from now, will be the most comprehensive and objective study of the state of black America since Gunner Myrdal's "An American Dilemma" 40 years ago.

But Howard University political science professor Ronald Walters, leader of a group of college professors and political activists opposing the study, said, "We are very suspicious of the study because of the political climate."

Mr. Walters said opponents base their fears in part on a study proposal that asks if the poverty rate among blacks is higher than among whites because black families on average are larger. He also noted that the team of 22 scholars leading the study includes Glenn Loury, an outspoken black critic of affirmative action programs, and Nathan Glazer, a neoconservative.

That indicates a preconceived notion that the federal government has no role in ameliorating the problems of blacks, Mr. Walters said. "If these ideological assumptions are legitimized by research, we could have this enshrined as public policy for years to come," he said.

Gerald Jaynes, who is directing the study, said the criticisms are "really rather ridiculous."

Calling the charges "politically motivated," he said, "What they are saying is, 'We want a study where we don't have anybody on it except people who think like us.'

"Their charges are so anti-intellectual and so anti-scientific that I shudder that it comes from people in the scholarly community," he said.

Mr. Jaynes noted that the 11 blacks participating in the study include noted black historian John Hope Franklin and former Equal Employment Opportunity Commission Chairman Eleanor Holmes Norton, both staunch critics of the Reagan administration.

"That would be enough credibility to most people that it is not a sellout," Mr. Jaynes said.

But Mr. Walters said the blacks participating in the study will be nothing more than "super research assistants" and noted that the chairman of the panel, Cornell University sociologist Robin Williams, is white.

"John Hope Franklin is relegated to chairman of a committee when he should be chairman of the whole thing. That is an insult," Mr. Walters said.

Sharp criticism of studies of black Americans is hardly new. The Myrdal study, which documented the severity of America's race gap and its effects on blacks up to World War II, was criticized by blacks at the time for focusing on social integration and ignoring the need for whites to share economic and political power with blacks. That study, critics note, also had a panel that included blacks but was headed by a white.

Criticism of studies and polls that appear to challenge the priorities of the nation's established black leadership has escalated recently.

When the Rand Corporation issued a federally funded study in February that said blacks in many respects had come close to economic parity with whites, the National Association for the Advancement of Colored People issued a statement castigating the study as "misleading" and offered statistics they said proved the economic status of blacks was worsening.

Several polls that indicated black support for President Reagan is three or more times higher than the 10 percent of the vote he received in 1984 have been repeatedly denounced. "That's just mess," civil rights leader Jesse Jackson told a group of reporters last week.

Hampton University professor Bernadette Chachere, one of the opponents of the National Research Council study, said black Americans are already the most studied and analyzed group of people on earth. "There is no need for anybody to do a study of the status of black Americans."

But Mr. Jaynes said existing studies are narrow in their focus and a broad look is needed. "If we don't have good studies out there, what are policy decisions going to be based on?" he asked.

GAO finds partiality likely
...agon hotline probes

OBSERVER
Russell Baker

Creepy Feely Folk

These are the feelgood days. In Washington we have President Feelgood. In New York's Feelgood Street (formerly Wall) feelgood guys and feelgood girls greet each other every morning with "Have a nice $25 million day."

Many persons see the feelgood life all around them and wonder why they feel so bad. Has nature shortchanged them? Are they mentally, morally, spiritually or physically incapable of becoming one of the feelgood people?

These questions are brought to me daily by pitiful wretches who say: "I know you're not a doctor, and I know you don't even play one on TV, but as a newspaper columnist you've got all the answers. How do I get in on the feelgood go-around?"

My answer: Easy if you abandon old feelbad habits and do as the feelgood people do.

Note, for example, how often you see a feelgood person's two-bedroom limousine double-parked in a crowded street. Guess why its windows are tinted black, the color of mourning, a feelbad state of mind.

It's so nobody outside can see the feelgood sensation being experienced inside by the limo's occupant watching other motorists succumb to feel-murderous moods toward each other as they compete to squeeze past his limo.

Do you have the courage to create traffic jams for your own convenience? The poise to feel good about seeing people you inconvenience surrender to their inferior feelrotten natures?

Do you live in a condo? Feelgood people always live in condos. This is

How to get in on the feelgood go-around

because the feelgood life is built on words ending in "o."

A feelgood person goes by limo to his condo. He does not take the bus to a two-story rowhouse in Southwest Baltimore or hitch a ride to a failing farm on the Iowa border. If you do, cut it

Reagan's War on Poverty

By Gregory A. Fossedal

STANFORD, Calif. — Imagine that Government workers appeared in Harlem and Watts tomorrow morning, tacking up this message: "Notice: Special bonus for poor families. Extra $700 to family of four. Inquire, Internal Revenue Service."

The program hasn't got much fanfare, but something like this, without the signs, seems about to happen. If we adopt the tax reform bill being considered in the House or the Senate, a family of four at the poverty line — earning $10,990 in 1985 — would be virtually dropped from the rolls: instead of the $1,200 in income tax that such a family paid last year, it would now pay only a small Social Security levy. Money that was once handed out to the poor at the local welfare office would in effect be "handed out" by the I.R.S. — for it would not be taxed away, to begin with.

But changing the way such amounts are distributed is far more than a juggling act. For, according to such writers as George Gilder and Charles Murray, the effect of a dollar handed out by Government social programs may be vastly different from the effect of a dollar simply not taxed away in the first place.

Consider what tax reform would mean for one poor family. In 1984, a single parent with three children, in a typical state, could receive no more than $178 worth of food stamp payments. And in most states, the family could receive no more than $327 from the Aid to Families with Dependent Children program. Under the new tax plan, the same family would have received a tax break of almost $800 in 1985, growing to $1,100 by 1988.

And consider the cumulative difference this would make. In 1982, total spending on safety net programs, such as food stamps and A.F.D.C., was about $50 billion. Yet families making $15,000 or less paid back $22 billion in income tax, plus $10 billion

The Senate tax plan is a good start

to $15 billion in Social Security taxes. This burden would be largely lifted under the Senate tax plan.

A great cry went out in 1981, when the Administration and Congress cut various social welfare programs directed at poor people. According to the Congressional Budget Office, a typical family at the poverty level lost $340 worth of benefits in 1982. The tax reform bill would more than make up for these cuts. From the point of view of the poor family, it would simply replace what was lost.

Maybe so. But the way the Government hands out such help may make all the difference in the world.

Certainly, a dollar given out in food stamps is a disincentive to work. Most poor people do not, of course, actually sit at home with pocket calculators, figuring out the precise return on an hour of work, and concluding, because they can get food stamps instead, that it just isn't worth the bother. But large social welfare benefits are part of a culture that discourages the poor from climbing that first, arduous rung in the work ladder.

In the past, the graduated tax system made for a second disincentive to work. The tax reform bill could change that by lessening the penalty to be paid on taking that first job or making the first few thousand dollars. In rough terms, then, America is shifting a substantial portion of its social welfare away from incentive-sapping handouts and toward incentive-enhancing tax relief.

Unfortunately, incentives to work don't do as much good if jobs are scarce anyway. For all the Administration's support for high growth, the gross national product has advanced little faster under President Reagan than during the sluggish 1970's, and unemployment hovers in the 7 percent range. Faster growth has been hampered by a unnecessary deflation, engineered by the Federal Reserve, that has virtually brought the farming, manufacturing and raw materials sectors to their knees.

If Congress and the President are serious, then, they should get moving on other incentive-enhancing proposals to improve overall growth and direct it to those not yet reached by America's rising tide. The proposals would create special "enterprise zones," tax and regulation relief for blighted areas; reform public housing laws to allow for management and ownership by tenants; and provide education vouchers to poor and handicapped students.

With the coming tax reform, the country will declare a second war on poverty. The Senate tax plan is a good start, but we should be fighting with a full arsenal of weapons. □

Gregory A. Fossedal is a media fellow at the Stanford University Hoover Institution on War, Revolution and Peace and a contributing editor to Harper's magazine.

WASHINGTON
James Reston

The Class of 1986

WASHINGTON

This year's college graduation ceremonies were marked by an unusual event. At Georgetown University's Law Center here, Justice Sandra Day O'Connor of the Supreme Court made a speech that lasted no more than five minutes. This confirmed my long-held conviction that the hope of the world depends on the women.

They know more about the beginning and the end of life, and the struggles in between, and the limited attention span of children. So the first woman Justice in the long history of the Supreme Court of the United States gave the law graduates a quick slap and sat down.

You will, she said, be paid "as much as, or better yet, more than you're worth." But she felt they would gain far more from contributing their increasingly expensive services to the needy who couldn't afford them than they would ever hope to get from money.

It's at this time at the end of the school year, and almost only at this time, that thoughtful Americans concentrate, as the Founding Fathers were always doing, not on themselves but on their children and the "future generations."

The young men and women getting out of college this year will be coming to the end of their 30's at the end of the century — a little older than the young Jefferson and others who produced "The Miracle at Philadelphia."

They will be approaching middle age — those tough years of the 40's when they will be caught in the middle between their aging parents and their rebellious children.

What kind of world will they be living in then? What is to come out of all these arguments between the economic supply-siders and the religious back-sliders; the problems of the poor in the richest country in history, and the dreams of a nuclear "shield" in outer space that will bring "security" here on earth?

These are the questions that between Memorial Day and graduation day get a little attention, not much but some. And there's a theme that seems to run through these graduation speeches on these sunny campuses at the beginning of summer.

Unlike the extremes of political thunder we hear in Washington most of the year, these quieter voices are calling on us, almost imploring us, to be a little more moderate and understanding of one another

Here is A. Bartlett Giamatti, in his farewell address as President of Yale, warning us to beware the tyranny of self-righteousness:

"There are many," he observed,

Our time to concentrate on the future

"who lust for the simple answers of doctrine or decree. They are on the left and right. They are not confined to a single part of society. They are terrorists of the mind."

Here also is Elie Wiesel, the author and survivor of the Holocaust, deploring the rise of fanaticism and pleading, at the College of New Rochelle, for understanding of the lonely and rejected and suffering people of the world.

Julius Erving, Dr. J of the Philadelphia 76ers, a dropout 16 years ago, finally finished his work and got not only a degree but an honorary degree from the University of Massachusetts. "I needed that to fulfill a promise I made to my mother," he said. It would help him, he added, when speaking to young people, and "especially to my children."

Even Tip O'Neill, the Speaker of the House, maybe the most combative partisan on Capitol Hill, reflected the other day on his way to retirement that maybe the Republicans were not all bad and the Democrats not infallible in the achievements of his long years in Congress.

"These achievements," he said in Harry Truman's hometown, Independence, Mo., "were not the work of one political party.

"It was Abraham Lincoln who created the land-grant colleges that have made American agriculture the wonder of the world. It was Franklin D. Roosevelt who signed the great G.I. Bill of Rights that gave so many Americans the chance to go to college.

"And it was Dwight D. Eisenhower who signed the National Education Act, establishing education as a vital element in the United States' strength and security."

Why don't we hear more about this good news, about the things that unite us, instead of the things that divide us?

Partly because we have no memory of the disasters that went before and the sacrifices that were made to fix them, and also because the people are being told there's nothing to fix, and they can do what they like and loo' out mainly for themselves.

But the commencement speak are saying, as the prophets have saying for centuries, that we' alone but are our brother's k' It's too bad we don't listen to rest of the year.

ally, Africa

NOBODY WANT

OBSERVER

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A feelgood person goes by limo to his condo. He does not take the bus to a two-story rowhouse in Southwest Baltimore or hitch a ride to a failing farm on the Iowa border. If you do, cut it

Reagan's War on Poverty

By Gregory A. Fossedal

STANFORD, Calif. — Imagine that Government workers appeared in Harlem and Watts tomorrow morning, tacking up this message: "Notice: Special bonus for poor families. Extra $700 to family of four. Inquire, Internal Revenue Service."

The program hasn't got much fanfare, but something like this, without the signs, seems about to happen. If we adopt the tax reform bill being considered in the House or the Senate, a family of four at the poverty line — earning $10,990 in 1985 — would be virtually dropped from the rolls: instead of the $1,200 in income tax that such a family paid last year, it would now pay only a small Social Security levy. Money that was once handed out to the poor at the local welfare office would in effect be "handed out" by the I.R.S. — for it would not be taxed away, to begin with.

But changing the way such amounts are distributed is far more than a juggling act. For, according to such writers as George Gilder and Charles Murray, the effect of a dollar handed out by Government social programs may be vastly different from the effect of a dollar simply not taxed away in the first place.

Consider what tax reform would mean for one poor family. In 1984, a single parent with three children, in a typical state, could receive no more than $178 worth of food stamp payments. And in most states, the family could receive no more than $327 from the Aid to Families with Dependent Children program. Under the new tax plan, the same family would have received a tax break of almost $800 in 1985, growing to $1,100 by 1988.

And consider the cumulative difference this would make. In 1982, total spending on safety net programs, such as food stamps and A.F.D.C., was about $50 billion. Yet families making $15,000 or less paid back $22 billion in income tax, plus $10 billion

The Senate tax plan is a good start

to $15 billion in Social Security taxes. This burden would be largely lifted under the Senate tax plan.

A great cry went out in 1981, when the Administration and Congress cut various social welfare programs directed at poor people. According to the Congressional Budget Office, a typical family at the poverty level lost $340 worth of benefits in 1982. The tax reform bill would more than make up for these cuts. From the point of view of the poor family, it would simply replace what was lost.

Maybe so. But the way the Government hands out such help may make all the difference in the world.

Certainly, a dollar given out in food stamps is a disincentive to work. Most poor people do not, of course, actually sit at home with pocket calculators, figuring out the precise return on an hour of work, and concluding, because they can get food stamps instead, that it just isn't worth the bother. But large social welfare benefits are part of a culture that discourages the poor from climbing that first, arduous rung in the work ladder.

In the past, the graduated tax system made for a second disincentive to work. The tax reform bill could change that by lessening the penalty to be paid on taking that first job or making the first few thousand dollars. In rough terms, then, America is shifting a substantial portion of its social welfare away from incentive-sapping handouts and toward incentive-enhancing tax relief.

Unfortunately, incentives to work don't do as much good if jobs are scarce anyway. For all the Administration's support for high growth, the gross national product has advanced little faster under President Reagan than during the sluggish 1970's, and unemployment hovers in the 7 percent range. Faster growth has been hampered by a unnecessary deflation, engineered by the Federal Reserve, that has virtually brought the farming, manufacturing and raw materials sectors to their knees.

If Congress and the President are serious, then, they should get moving on other incentive-enhancing proposals to improve overall growth and direct it to those not yet reached by America's rising tide. The proposals would create special "enterprise zones," tax and regulation relief for blighted areas; reform public housing laws to allow for management and ownership by tenants; and provide education vouchers to poor and handicapped students.

With the coming tax reform, the country will declare a second war on poverty. The Senate tax plan is a good start, but we should be fighting with a full arsenal of weapons. □

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WASHING

mes Reston

The Class of 1986

WASHINGTON

This year's college graduation ceremonies were marked by an unusual event. At Georgetown University's Law Center here, Justice Sandra Day O'Connor of the Supreme Court made a speech that lasted no more than five minutes. This confirmed my long-held conviction that the hope of the world depends on the women.

They know more about the beginning and the end of life, and the struggles in between, and the limited attention span of children. So the first woman Justice in the long history of the Supreme Court of the United States gave the law graduates a quick slap and sat down.

You will, she said, be paid "as much as, or better yet, more than you're worth." But she felt they would gain far more from contributing their increasingly expensive services to the needy who couldn't afford them than they would ever hope to get from money.

It's at this time at the end of the school year, and almost only at this time, that thoughtful Americans concentrate, as the Founding Fathers were always doing, not on themselves but on their children and the "future generations."

The young men and women getting out of college this year will be coming to the end of their 30's at the end of the century — a little older than the young Jefferson and others who produced "The Miracle at Philadelphia."

They will be approaching middle age — those tough years of the 40's when they will be caught in the middle between their aging parents and their rebellious children.

What kind of world will they be living in then? What is to come out of all these arguments between the economic supply-siders and the religious back-sliders; the problems of the poor in the richest country in history, and the dreams of a nuclear "shield" in outer space that will bring "security" here on earth?

These are the questions that between Memorial Day and graduation day get a little attention, not much but some. And there's a theme that seems to run through these graduation speeches on these sunny campuses at the beginning of summer.

Unlike the extremes of political thunder we hear in Washington most of the year, these quieter voices are calling on us, almost imploring us, to be a little more moderate and understanding of one another

Here is A. Bartlett Giamatti, in his farewell address as President of Yale, warning us to beware the tyranny of self-righteousness:

"There are many," he observed,

Our time to concentrate on the future

"who lust for the simple answers of doctrine or decree. They are on the left and right. They are not confined to a single part of society. They are terrorists of the mind."

Here also is Elie Wiesel, the author and survivor of the Holocaust, deploring the rise of fanaticism and pleading, at the College of New Rochelle, for understanding of the lonely and rejected and suffering people of the world.

Julius Erving, Dr. J of the Philadelphia 76ers, a dropout 16 years ago, finally finished his work and got not only a degree but an honorary degree from the University of Massachusetts. "I needed that to fulfill a promise I made to my mother," he said. It would help him, he added, when speaking to young people, and "especially to my children."

Even Tip O'Neill, the Speaker of the House, maybe the most combative partisan on Capitol Hill, reflected the other day on his way to retirement that maybe the Republicans were not all bad and the Democrats not infallible in the achievements of his long years in Congress.

"These achievements," he said in Harry Truman's hometown, Independence, Mo., "were not the work of one political party.

"It was Abraham Lincoln who created the land-grant colleges that have made American agriculture the wonder of the world. It was Franklin D. Roosevelt who signed the great G.I. Bill of Rights that gave so many Americans the chance to go to college.

"And it was Dwight D. Eisenhower who signed the National Education Act, establishing education as a vital element in the United States' strength and security."

Why don't we hear more about this good news, about the things that unite us, instead of the things that divide us?

Partly because we have no memory of the disasters that went before and the sacrifices that were made to fix them, and also because the people are being told there's nothing to fix, and they can do what they like and loo out mainly for themselves.

But the commencement speak are saying, as the prophets have saying for centuries, that we alone but are our brother's k It's too bad we don't listen to rest of the year.

ally, Africa

NOBO

JUNE O'NEILL
May 15, 1986

TRANSFERS AND POVERTY: CAUSE AND/OR EFFECT

Recently there has been a resurgence of concern about high levels of poverty in the United States. At the same time attention has been focused on the growth of the public transfer sector. Although the two developments have been linked, different commentators have reached quite opposite conclusions. Authors such as Harrington (1984) maintain that welfare spending has not been adequate to address the problem. Others, however, have pointed to the transfer system itself as the source of the problem. Charles Murray (1984) has stressed the disincentives for work and marriage created by the welfare system which "made it profitable for the poor to behave in the short term in ways that were destructive in the long term". Gallaway, Vedder and Foster (1985) have taken this argument a step farther and argue that the disincentives are so strong that poverty is directly increased as transfers rise, once the level of benefits reaches a certain threshold.

This paper discusses the growth in transfer programs and its relation to poverty, family structure, and work effort. Since almost everyone concedes that the state of the economy influences the poverty rate, this paper begins with a brief review of the poverty statistics and their relation to economic trends and fluctuations, and then goes on to examine the effect of expenditures on the trend in poverty. It is concluded that economic growth and the business cycle are major determinants of the change in poverty, while the role of transfers is more difficult to establish.

The next section discusses the relation between transfers, and poverty focusing on one particular program -- Aid to Families with Dependent Children (AFDC). It is likely that the increase in female headed families has been influenced by welfare as well as by the rise in women's labor market opportunities. While welfare alleviates poverty in the short term it may in the long run foster dependency and impede the upward mobility of families.

POVERTY AND THE ECONOMY

Between 1979 and 1983 the poverty rate rose from 11.7 percent to 15.3 percent (Table 1). 1/ This development has undoubtedly motivated the current concern about poverty. The recent rise in poverty is no mystery, however. It was brought on by the deep recession that started in 1979 -- a recession marked by a decline in productivity and a sharp rise in unemployment. The real income of the average American male was lower in 1983 than in 1979; so it should come as no surprise that the income of those at the lowest portion of the income distribution also fell, resulting in a rise in poverty.

The relation between the economy and poverty is a long-standing one. It was basically the remarkably high rate of economic growth during the 1950s and 1960s that caused the poverty rate to decline by close to two-thirds over the post

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1/ The rise in the poverty rate over this period may be overestimated due to mismeasurement of inflation. As Weicher (1986) notes until 1983 the CPI gave a large weight to the mortgage interest rate which is a cost faced only by the small percentage of homeowners who actually finance their homes in the given year. The CPI now uses a rental equivalency measure for homeownership. However, the new method was not used to change the official CPI before 1983 although it had been estimated for prior years. John Weicher has reworked the poverty data using the alternative CPI for years prior to 1983. (See Table 1). Weicher's adjusted rate rises from 10.5 percent in 1979 to 13.3 percent in 1983 -- a rise of 2.8 percentage points, which is lower than the rise of 3.6 percentage points indicated by the official poverty rate.

Table 1.

Trends in Unemployment, Real Income and Poverty

	Civilian Unemployment Rate	Median Income (1984 dollars, in thousands)		Poverty Rate		
	Year	All Men	Men Working Full-time Year Round	Official Rate	Weicher Adjustment	Adjusted for In-Kind Benefits 1/
1949	5.9	10.2	na	33.0 2/	na	na
1959	5.5	14.2	18.7	22.4	na	na
1969	3.5	18.2	24.6	12.1	11.8	na
1973	4.9	18.8	26.8	11.1	10.7	na
1975	8.5	17.1	25.0	12.3	11.5	na
1979	5.8	16.9	25.0	11.7	10.5	6.8
1980	7.1	15.8	24.2	13.0	11.5	7.9
1981	7.6	15.4	23.6	14.0	12.2	9.0
1982	9.7	15.0	23.3	15.0	13.2	10.0
1983	9.6	15.3	23.5	15.3	13.3	10.3
1984	7.5	15.6	24.0	~~14.4~~	12.6	9.7

1/ Non-cash benefits measured by market value

2/ Estimated

Source: For columns 1-4, Council of Economic Advisers (1986), Statistical Appendix, Tables B-29 and B-31; for column 5, Weicher (1986); for column 6, U.S. Bureau of the Census, (1984).

World War II period. Then, during the period of economic stagnation of the late 1970s, poverty stopped falling. In other words, the rising tide lifts all boats, but first there ~~must be~~ a rising tide.

SOCIAL WELFARE SPENDING

In principle it would seem that Government should be able to reduce the number of people in poverty, regardless of the state of the economy, by taxing those who are well-off and giving to the poor. The appeal of this seemingly straightforward solution has undoubtedly influenced the growth in transfers over the past two decades. Broadly defined, publicly funded social welfare expenditures increased from 11 percent GNP to 19 percent over the period 1965 to 1983. 2/

There are several reasons why this massive change in the transfer system would not reduce poverty to the extent expected. One reason is that a large share of these transfers was not directed exclusively at poor people. The social insurance programs (including social security, medicare, public employee retirement, and unemployment compensation) make up more than half of all social welfare expenditures. These

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2/ This is based on the definition and estimates made by the Social Security Administration. See Social Security Bulletin (1986).

programs are intended to replace a significant fraction of income during retirement or unemployment. While poor individuals also benefit, the largest benefits go to those with higher incomes. 3/

However, although the huge expansion in social security was costly and could be judged an inefficient way to reduce poverty among the elderly, it does appear to have contributed to the large reduction in poverty for this particular group. Thus, the poverty rate for persons 65 and older declined from 25 percent in 1969 to 15 percent on 1979, while the rate for all persons edged down only four tenths of a percentage point. This was a stagnant period for the economy, but the average social security benefit rose by about 35 percent in real terms. 4/

3/ Benefits are related by formula to past earnings and although the "replacement rate" falls as lifetime earnings rise it is still the case that the highest earners receive the largest benefits. High earners, of course, have paid in higher taxes. Note too that many of the very poorest do not receive benefits because they do not have a history of covered earnings (or a spouse with covered earnings).

4/ The poverty rate for those aged 65 and older actually fell between 1979 and 1984 by 2.8 percentage points while the overall rate rose by almost the same amount. This decline in poverty for the elderly may be related to high interest rates, since the elderly have greater saving than others. Social security benefits were increased with the price level, but this was not a period of real increases in social security. So social security is not likely to have been the source of decline in the elderly poverty rate during this period.

The growth in a subset of social welfare expenditures targeted on low-income individuals (that is, a means test is required) is shown in Table 2. These programs rose from 1 percent of GNP in 1965 to about 3 percent in 1975 and have remained roughly at that level.

A second reason why transfers have not had a greater effect on the overall poverty rate is that a growing share of all transfers is given in the form of noncash benefits (such as food stamps and medical care) which are not counted as income for the purpose of measuring the official poverty rate. The Census Bureau, however, now provides estimates of the poverty rate based on a definition of income which includes an estimated value of noncash benefits. In 1984, this adjusted poverty rate (in which noncash benefits were measured by their market value) was 9.7 percent compared to the unadjusted "official" rate of 14.4 percent. Moreover, the Census Bureau estimate misses a significant amount of noncash benefits. Based on reported program data I estimate that about $41 billion in noncash benefits targetted on low income individuals was unreported in the 1984. (It is also true that cash welfare benefits are significantly underreported.)

A third and more substantive reason why transfers do not reduce poverty as much as expected is that the transfers themselves have offsetting effects. A dollar of benefits does

Table 2

Means Tested Public Welfare Expenditures
(in Billions of $1984's)

Fiscal Year	Cash Benefits 1/	In-Kind Benefits 2/	Total	Total as % of GNP
1960	12.4	5.1	17.5	1.0
1965	14.8	10.6	25.4	1.1
1970	24.7	27.7	52.4	1.0
1975	33.4	56.2	89.6	2.9
1979	31.1	75.3	106.4	3.0
1981	29.7	76.4	106.1	3.1
1983	29.8	73.0	102.8	3.0

1/ Categorical cash payment programs including aid to families with dependent children, supplemental security income, and general assistance.

2/ Includes medicaid, food stamps, maternal and child health programs, child nutrition programs, other food programs, low-income energy assistance program, and certain social service and work-experience programs.

Source: Social Security Bulletin, February 1986.

not simply add a dollar to a needy individual's income since it creates incentives for other individuals to change their behavior in order to qualify. For example, in the case of the social security programs, early retirement has undoubtedly been encouraged by sharply rising benefit levels. In 1948, 47 percent of men 65 years and over were in the labor force; in 1984 their labor force participation rate was 16 percent. Retirement benefits were extended to men aged 62 to 64 in 1961. In 1960, the labor force rate of men aged 60 to 64 was 78 percent--a level held for the two previous decades. By 1975 the rate for this group had fallen to 66 percent. Similarly, the expansion of the disability program is linked to a substantial reduction in labor force activity among the disabled. 5/

Thus the earnings or "pretransfer" income of the elderly is not a good measure of their need, since if not for the transfer, a much larger proportion would be working and their earned incomes would be higher. The true poverty-reducing effect of social security can only be honestly estimated if

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5/ Current Population Survey data show that an increasing proportion of men, particularly at older ages, reported that they are out of the labor force due to disability during the late 60s and early 70s when disability benefits were rising. This is consistent with the expansion of the disability program caseloads. It is unlikely that these patterns could be explained by a spontaneous increase in the incidence of disability in the population. Also, see Parsons (1980), and Leonard (1979) who analyze the effect of disability on labor force participation.

account is taken of the offsetting work disincentive effect. This is a difficult measurement problem since behavior changes over a period of time in response to a benefit change as well as to changes in other factors.

Empirical Evidence from Time Series

Several studies have tried to estimate the effect of both transfers and economic factors on poverty using time series analysis. The results of studies by different researchers are shown in Table 3. They are hardly conclusive. In fact, one conclusion to be drawn from these results is that time series analysis is a slippery business.

Gottschalk and Danziger present several equations estimating the determinants of poverty, where the equations differ in the way the variables are defined and in the time period considered. In most cases they find that an increase in transfer payments is associated with a reduction in poverty. But in some equations they find no significant effect of transfers. The variables intended to measure economic growth and cyclical fluctuations do not always have the expected effects either. The problem is that, over time, many variables are correlated with each other, and as a result, their independent effects are difficult to discern. The startling finding of the second study by Galloway and Vedder---that

Table 3

Poverty Rate Regressions Using Alternative Specifications of the Model

	Gottschalk and Danziger				Galloway et al.	
	1949–1982	1966–1982				1953–1983
Year	−.16	−.57			Wage Rate	.79
	(3.1)	(25.0)				(3.73)
Year 2/	.001	.004			GNP Deflator	−.83
	(2.9)	(26.3)				(3.41)
Log Real GNP Per Household			−.09		Productivity	−.49
			(.1)			(5.07)
Log Real Median Family Income				−1.7		
				(6.0)		
Log Unemployment	.17	.30	.31	.04	Real National Income Per Capita	−.14
	(4.2)	(21.5)	(1.9)	(.6)		(3.74)
Log Real Cash Transfer Per Household	−.17	−.25	−.51	.06	Aid 1/	−.0577
	(1.0)	(5.5)	(1.6)	(.5)		(2.28)
					Aid^2	.00026
						(3.17)
R^2	.97	.99	.97	.99	R^2	.98

Note: t - statistics in parentheses.

1/ Federal public aid per capita, as defined in Social Security Bulletin's tabulations of Social Welfare Expenditures. (Excludes social Security Programs).

Source: Gottschalk, Peter and Sheldon Danziger (1984), Tables A-1 and A-2
Galloway, Lowell; R. Vedder; and T. Foster (1985), Table 3

transfers reduce poverty only up to a threshold level (attained in 1971) beyond which they increase poverty---may simply reflect time series intercorrelations.

Changes in the definition of a variable can have a significant effect on the outcomes of the analyses. The measurement of transfer payments is a case in point. In the Galloway-Vedder paper, transfers are measured inclusive of in-kind benefits while the Gottschalk-Danziger paper limits transfers to cash benefits. 6/

In-kind benefits, however, cannot affect measured poverty since the official poverty measure (used in all the studies) is based only on cash income. Since in-kind benefits have grown much more rapidly than cash benefits, the transfer variable used by Galloway and Vedder increasingly becomes irrelevant as a factor that can possibly affect poverty under the official definition, which excludes in-kind benefits from income.

In sum, an examination of long-term trends shows that economic growth lifts incomes at all parts of the income distribution and thereby reduces poverty. Efforts to alter the

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6/ The income and unemployment variable used by Galloway and Vedder, and Gottschalk and Danziger also differ. The former use national income per capita, the latter use GNP per household in some equations and median family income in others. Neither variable is a good measure of productivity or wage increases. (See, O'Neill, 1984).

distribution of income through the tax and transfer system are likely to accomplish less than expected because of offsetting changes in behavior induced by the promise of benefits. Identifying the magnitude of these behavioral effects, however, is a difficult problem.

For this reason analyses of the effects of aggregate social welfare transfers on poverty have not found consistent results. However, it is likely that transfers have on balance contributed to some reduction in poverty and if our poverty statistics were based on an income definition that included non-cash benefits, the reduction would be more apparent.

To say that social welfare transfers reduce poverty is not necessarily an endorsement. Including social security, these programs amount to 19 percent of GNP! Any evaluation must take into account the costs, and not just the dollar costs but the costs associated with work disincentives and other disincentives.

AFDC, AND THE FEMALE HEADED FAMILY

The program most closely identified with welfare--Aid to Families with Dependent Children (AFDC)--is largely targeted on families with children and no father present. AFDC has come under suspicion as a transfer program generating potentially important disincentives. More than one kind of disincentive may operate -- one, the usual work disincentive; another, a disincentive to marry or remarry. This section looks at the interrelations between the increase in female headed families, their work and poverty status, and the AFDC program.

Changing Family Structure

The structure of the family has undergone considerable change over the past 25 years. In 1960, among white families with children of their own under 18, only 6 percent were headed by the mother alone; in 1984, such families represented 15 percent of all white families with children (Table 4). Among black families with children the trend was even more pronounced, as mother-only families rose from 21 percent in 1960 to 49 percent in 1984. Underlying these trends is a sharp increase in divorce, a rise in out-of-wedlock births, and an increasing tendency for women with children to set up their own households rather than move in with relatives.

Table 4

Changes in Family Composition, by Race, 1960-1984

	1960	1970	1980	1984
Family Households with Own Children				
Percent Headed by Mother Only:				
All races	7.4	10.2	17.6	19.0
White	6.0	7.8	13.4	14.7
Black	20.7	30.6	46.9	48.8

Source: U.S. Bureau of the Census

Although the causes of marital dissolution (and illegitimacy) are, undoubtedly complex and numerous, economic incentives are believed to be important elements in the process. Theoretically, the gains from marriage are expected to be larger, the greater the gains from the division of labor in the household (Becker, Landes, and Michael, 1976). For example, the "traditional" marriage, in which the wife specializes in home activities and the husband in market activities, is likely to be associated with significant marital gains. Moreover, the higher the husband's market earnings and the greater the wife's home skills, the more efficient the arrangement.

Alternatives to marriage, however, come in two forms for women. One is the woman's own prospects for earning an income; the other is welfare. Either route provides a means of financial independence apart from marriage; and the higher the earnings or the higher the welfare benefit, the greater is the independence. There is some research evidence showing that the increase in women's earnings and employment has increased marital dissolution (Becker, Michael, Landes, 1976). Through feedback, however, divorce and the expectation of divorce also seem to increase women's labor force participation (O'Neill, 1981). A discussion of the effect of welfare and other transfer payments on marital dissolution and family formation follows.

The AFDC Program

Federal government participation in welfare activities began with the Great Depression of the 1930s. The intent of Congress was not to establish a federal commitment to support local welfare programs, but rather to establish a national system of social insurance. It soon became evident, however, that it would take several decades until most members of society had built up enough employment credits for adequate retirement and survivor benefits. Hence, provision was made for a system of federal matching support to help the states fund programs of local public assistance. Only people who fell into certain categories of need--old age, disability, blindness, and the death, disability, or absence of the family's breadwinner--were to be aided by federal funds.

The need for each of these cash assistance categories was expected to lessen as time passed and more of the population was covered by the social security system. This has in fact occurred in the case of the old-age assistance program. In the case of aid for dependant children, renamed Aid to Families with Dependent Children (AFDC), this expectation has not been fulfilled. Indeed this particular federal-state public assistance program has grown since the end of World War II and is now a major cause of the current public concern over welfare.

The fundamental purpose of the AFDC program has always been to provide for children who are caught unexpectedly in deprived circumstances because of the loss of support by the father (who until the past decade or two, was likely to be the family's main breadwinner). The underlying reasons for nonsupport by the father, however, have changed radically since the program began in the 1930s. At that time fully 75 percent of the children covered by the program had fathers who were either dead or severely incapacitated. This percentage has declined steadily. In 1982, 88 percent of fathers of AFDC children were living but absent; and 47 percent had never been married to the children's mother (Committee on Ways and Means, 1985).

The AFDC program is still administered by the States, while funding is shared with the federal government. States set their own benefit levels, and establish income and resource criteria for eligibility, subject to federal limitations. Benefits vary widely among the States. Although the program is largely made up of families without able bodied fathers at home, a large number of States (25 in 1985) provide benefits, under certain circumstances, to families in which the father is present, but unemployed.

Analyses of the patterns of participation show that the majority of women who go on the welfare caseload do not stay long. For example, O'Neill et. al. (1984) found that about half of the women starting on welfare do not stay beyond a year. On the other hand, a significant proportion become long-term recipients. About 31 percent of black women and 13 percent of white women remain on AFDC continuously for more than five years.

These data refer to a single welfare spell and, therefore, understate lifetime participation since many women undoubtedly return to the program. Data limitations make it difficult to develop reliable measures of total lifetime welfare participation. Ellwood (1986), however, has estimated that, counting all spells, about 70 percent of women embarking on a first spell will accumulate more than two years on welfare, 50 percent 5 years or more, and 24 percent will accumulate as any as 10 or more years. Thus, for many participants, AFDC is an episode providing temporary aid during a period of financial distress. For a significant proportion, however, AFDC seems to become a permanent substitute for other sources of income, with dependency lasting 10 years or more.

Do High AFDC Benefits Affect Marital Status? A key issue is whether government policy, through the generosity of welfare benefits, has itself influenced women to divorce or separate, to have a child out-of-wedlock or in other ways change marital and family patterns. One way to address the question is by examining changes in benefit levels, caseload growth and family structure over time.

The pattern of growth in the AFDC caseload over time appears to correspond to the change in the benefit level over time (Table 5). Between 1964 and 1972 the average real benefit (for a family of four with no other income) increased by 35 percent. And this does not reflect the introduction of earnings disregards, or of medicaid, public housing, school meals or other programs and services, which significantly added to the value of the welfare package during this period. Even without these add-ons the cash benefits plus food stamps provided an average allotment of close to $9000 in 1972 (for the family of four without other income, expressed in 1984 dollars). This income was tax free and required no hours of work away from home or work expenses. It may well have appeared an attractive alternative for a woman with little education or work skills and with poor marriage prospects. Moreover, as shown in Table 5, the AFDC benefit level not only rose absolutely, but also rose relative to the earnings of potential husbands (represented by male earnings) or of women working full-time.

Table 5

Trends in AFDC Families and Benefits and in Female Headed Families with Children

	Number of AFDC Families 1/	Number of Female Headed Families with Children (FHFC)	Annual AFDC Families as Percent of FHFC	Real AFDC and Food Stamp Benefit (1984's) 2/	Male Annual Earnings	Female Annual Earning (Full-Time Year-Round Workers)
1964	992	2895	34.3	6604	42.4	53.2
1968	1400	3269	42.8	7129	39.9	52.3
1972	2915	4322	76.4	8894	48.1	59.2
1976	3444	5310	64.8	8743	50.8	57.6
1980	3570	6299	56.6	7486	47.4	51.2
1984	3438	6832	50.3	6955	44.6	45.1

1/ Excludes families with an unemployed father. Average monthly number of recipients in calendar year except for 1984 which is for the fiscal year.

2/ Benefits for a family of four with no other income.

Source: AFDC families: Social Security Bulletin, various issues.
Female headed families with Children: Committee on Ways and Means (1985b).
AFDC and food stamp benefit levels: Committee on Ways and Means (1985a), p. 532.
Annual earnings (median): Council of Economic Advisers (1986), Table B-29.

During this period of rapid benefit increases, the number of female headed families on AFDC tripled. This was the outcome of a doubling in the percentage of female headed families going on welfare (from 34 percent to 67 percent) as well as a 50 percent rise in the number of female headed families.

After 1976, the total AFDC benefit package began to erode as states failed to raise AFDC cash benefit levels to keep pace with inflation. 7/ Since this was a period of stagnant or declining incomes for Americans in general, the relative decline in benefits (relative to earnings) is less than the absolute decline would suggest.

At the point when benefits stopped rising, the AFDC caseload stopped rising. Following the changes introduced in the Omnibus Budget Reconciliation Act of 1981, which deliberalized benefits somewhat, there was a small decline in the caseload, despite rising unemployment which usually causes a cyclical increase.

The data strongly suggest that rising welfare benefit levels are associated with an increase in welfare participation. Up to 1976 the data are also consistent with

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7/ Using the official CPI the decline in the real AFDC benefit from 1976 to 1984 is 20 percent. Using Weicher's (1986) recalculated CPI, which adjusts for the error in housing price increases before 1983, the real decline is 16 percent.

the hypothesis that increasing welfare benefits induce changes in family structure. After 1976, however, the number of female headed families continued to increase despite the fact that the number of welfare families remained fairly constant.

This finding alone does not negate the hypothesis. It would be naive to suppose that welfare benefits were the only factor affecting family structure. Women's opportunities for earnings are also important and throughout the period these opportunities expanded. Moreover, in the early 80s women's earnings increased relative to men's (O'Neill 1984) and this may have been a factor affecting marital patterns. It should also be noted that the rate of increase in female headed families slowed during the late 70s and early 80s, which may reflect the decline in relative benefit levels.

Several studies have examined AFDC disincentive effects controlling for the effects of other factors. A clear association between the generosity of AFDC benefits and program participation has been found by a number of analysts. 8/ A

8/ Honig (1974), has analyzed the static incidence of welfare receipt. Plotnick (1981), Wiseman (1977), Hutchens (1981), Saks (1975) and O'Neill et al. (1984) analyzed welfare exit probabilities (or welfare duration). These authors have found that the probability of exit is likely to fall, the higher are welfare benefits relative to potential earnings.

positive correlation between benefit levels and the relative number of female headed families has also been found in studies using aggregate data, across metropolitan areas (Honig, 1974; Ross and Sawhill, 1975). Studies based on microdata have sometimes found no effect of transfers on marital dissolution (Sawhill et al., 1975; Hoffman and Holmes, 1976). Wolf (1977) suggests that these weaker findings may result from inadequate control for the economic alternatives to welfare, such as the potential wage of the woman and her employment opportunities. 9/

The same level of welfare benefits in a State will not be equally attractive to all women; even those with the same education. For example, a woman with a substantial work record will likely have higher potential earnings than a woman with little work experience. Welfare would likely be relatively less attractive to the former than to the latter. When Wolf (1977) improves the specification of his model, to take better account of earnings alternatives to welfare, he finds a positive association between AFDC benefits and marital dissolution.

9/ The same criticism is applicable to recent research by Ellwood and Bane (1984) who conclude that welfare has little effect on family structure. But their analysis suffers from an errors of measurement problem since they did not control for the relative attractiveness of welfare to different individuals within a State.

In general, however, no definitive work on the effect of welfare benefits on family structure has been done, because the data needed to measure work opportunities, marriage opportunities and the real level of the welfare package have proven difficult to obtain. The studies using aggregate data are better able to measure variation in AFDC relative to earnings or other alternatives, which may explain why these studies have shown stronger links between welfare and family structure.

I am inclined to believe that welfare has had a significant effect on family structure, particularly among the population with little education and weak economic opportunities. The relative attractiveness of welfare would clearly be greater for these groups. Among those with more schooling and better earnings prospects, the increase in women's earnings opportunities is likely to be the more important factor enabling women to set up their own households.

The sharper rise and higher level of marital dissolution and out-of-wedlock births among blacks may be attributed to the disproportionate effects of both welfare and women's earnings on blacks compared to whites. A larger proportion of black women than white women fail to graduate from high school. 10/ On the other hand, the earnings of black working women have increased dramatically over the past two decades, rising relative to virtually all other groups. In the early 60s, black women earned about 60 percent as much as black men; by 1982 this earnings ratio was close to 80 percent (O'Neill, 1985). The rapid rise in the relative earnings of black women may have been destabilizing to marriages during the transition period.

Some authors, notably Wilson (1985), have assigned the blame for the increase in black family disintegration on growing black male joblessness. However, the rise in female headed families began in the 60s when unemployment for black men, as for others, was falling. For example, the out-of-wedlock birth rate for black women ages 15 to 19 rose sharply between 1965 and 1970, although the unemployment rate of black men was substantically lower than it had been during the early 60s. 11/ Black male unemployment climbed during

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10/ The 1980 Census shows that among black women aged 25 to 34, 18 percent had not gone beyond the 10th grade; 25 percent had not completed high school. Among white women these percentages were 10 percent and 13 percent respectively.

11/ Between 1960-65 the black male unemployment rate averaged 10.2 percent; between 1965-70 the rate was 6.3 percent. These data are for black and other nonwhite males. (Employment and Training Administration, 1982).

the late 70s and early 80s; but out-of-wedlock birth rates leveled off and then declined during this period and, as noted, the rate of formation of female headed families also slowed. Moreover, during the entire period 1960-1980, black male annual income was rising relative to white male income despite any increases in unemployment. 12/ In 1940-1960 the black family was essentially a two-parent family although both in absolute and relative terms black male income was much lower in that period. One must look at factors other than the economic situation of black men to find the motivation for black family disintegration.

The two most likely candidates are the expansion of the welfare state, which played a role from 1965 to 1975, and the rise in the earnings of black women relative to black men.

Work Incentives: High levels of welfare benefits are believed to discourage work as well as marriage and in this way increase dependency. The availability of an acceptable income guarantee induces women who would otherwise work to go on welfare. Of course, welfare could be used to supplement work, but it seldom is. The percentage of welfare mothers who are employed at any time has always been low.

12/ Based on data from the decennial censuses the black/white ratio of annual income of men aged 25 to 34 increased from 57 percent in 1960 to 74 percent in 1980. These data include the earnings of all men with any earnings during the year and therefore reflect changes in weeks of unemployment as well as in hourly wage rates and hours worked per week.

Several studies have documented a negative effect of welfare benefits on work effort. Findings from the Seattle-Denver Income Maintenance Experiment (Office of Income Security, 1983) show that female heads of families responded to income guarantees by significantly reducing their work effort. Other studies have found that women are less likely to work in states with high levels of AFDC benefits, other things the same (O'Neill, 1985b). Since withdrawal from th labor force reduces work experience and training it also reduces potential earnings and in this way would increase future dependency.

Efforts to increase work effort among welfare recipients have not had much success. In 1967 the Work Incentive Program (WIN) attempted to make work more attractive by allowing welfare recipients to keep a larger proportion of their benefit if they worked. Prior to that time, a dollar of benefits was lost for each dollar earned. Under WIN, the first $30 of monthly income was disregarded, after which benefits were reduced by 67 cents for each additional dollar earned. Despite this change, however, the proportion of welfare women employed remained at 15-16 percent. In fact, the change may have decreased work effort for female headed families as a whole, since the program liberalization seems to have attracted more women to welfare, but once on the program these women worked less than they otherwise would. 13/ In 1981 the earned-income disregard was eliminated after four months of consecutive employment. This was part of an effort to tighten program eligibility. A study by the Research Triangle Institute (1983) found no effect of the change in work patterns of women on AFDC. It will take more years of observation, however, before a full evaluation can be made.

Family Structure and Poverty Rates

The changes that have occurred in family structure have affected statistics on income and poverty. Female-headed families, particularly those with children, are more likely to have low incomes than husband-wife families. Fathers do not provide child support in many cases or such support is low. For example, in 1981 only 35 percent of women who have children from an absent father received any child support payments. The prospective earnings of single mothers are typically lower than those of men since most women have less work experience and occupational training. Moreover, responsibilities for small children place limitations on the hours and kinds of jobs that can be held. In terms of family income, the single mother family will have lower income simply because there is no spouse to be a second earner.

13/ See the study by Levy (1979), which found that lower marginal tax rates on AFDC seem to reduce total work effort for the reasons stated above.

An additional factor is that female family heads with little or no earnings are likely to be on welfare, and cash welfare benefits do not bring a family above the poverty line. Families on welfare, however, are apt to receive non-cash benefits which would in some cases raise their income over the poverty line if these benefits were counted as income. Thus, the poverty rate for female headed families falls from 34.5 percent to 21.3 percent when the poverty definition is adjusted to count for food, housing and medical benefits as income.

For these reasons, the poverty rate of female headed families is higher than that of other (primarily husband-wife) families. In 1984 the poverty rate of female headed families was 34.5 percent against 6.9 percent for married-couple families (Table 6). Among female-headed families poverty status varies with the woman's work status. Thus, the poverty rate of a female headed family was only 6.7 percent if the woman worked full-time year-round; but it was 56.4 percent if she never worked during the year. Since this group depends heavily on welfare, their incomes are not strictly comparable as they are likely to include substantial in-kind transfers which are not counted in the official poverty measures.

Over the years, persons in female-headed families have increased as a percentage of the poor, both because they have increased as a percentage of the population and because their

Table 6

Poverty Rates of Families by Work Experience and Sex of Family Head, 1959–1984

	1959	1979	1984
Families with female head (no husband present)	42.6	30.2	34.5
Head worked ever during the year	33.3	18.9	21.0
Worked full-time, year-round	16.6	5.4	6.7
Head never worked during the year	54.1	49.5	56.4
Families with male head	15.8	5.5	7.2
Head worked ever during the year	13.4	3.8	5.4
Worked full-time, year-round	9.1	2.2	3.1
Head never worked during the year	39.4	13.9	14.5

Source: U.S. Bureau of the Census, Current Population Reports, Series P. 60.

poverty rate, while having declined, did not decline as fast as that of the rest of the population. This is what is meant by the expression "the feminization of poverty".

These changes have implications for the overall poverty rate. Mary Jo Bane has calculated that if household structure had remained as it was in 1959, while the poverty rate for each household type changed as it actually did, the overall poverty rate in 1979 would have been 7.8 percent instead of 9.1 percent for whites, and 24.2 percent instead of 30.9 percent for blacks. As Bane notes, this calculation is likely to overestimate the effect. 14/ Even if the true effect was only half, however, compositional changes in family structure have a significant impact on measured poverty.

Does Welfare Cause Poverty?

The answer is complex. One would not expect a woman to choose poverty voluntarily. In a mechanical sense a woman may forego a higher cash income based on full-time earnings for a

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14/ The calculation is likely to overestimate the effect since it assumes that women who become family heads are randomly drawn from other families. If they were disproportionately drawn from poor families some of the additional poverty in female headed families would simply be "reshuffled poverty". The extent of reshuffled poverty is hard to estimate, however.

lower cash income from welfare. In a real sense, however, her income may be higher on welfare because of non-cash benefits, the absence of work or work expenses, more leisure and more time with her children.

Indirectly, welfare may increase poverty if it leads to choices that close off options for self-improvement. For example, if welfare encourages out-of-wedlock births among teenage girls the long-run effects may be lower education and training which would in turn reduce future earnings and affect other aspects of life.

Differences between the North and the South in the share of families headed by women and in their poverty rates may be traced to differences in welfare levels. In the South, the maximum AFDC benefit for a family of four ranges from $120 to $379 a month, while outside the South the benefit ranges from $282 to $676 a month. Despite lower levels of schooling in the South, a characteristic associated with out-of-wedlock births and marital dissolution, the percentage of black families headed by women was 40 percent in the South compared to 48 percent outside the South (Table 7). (Among black children, 46 percent were in female headed families in the South; 59 percent outside the South). Among white families, 12 percent in the South and 13 percent in the non-South were female

Table 7

Poverty Rates in Female Headed Families
and Female Headship in the South and Non-South, 1984

	Poverty Rate		Percent of Population in Female Headed Families	
	South	Non-South	South	Non-South
Blacks				
Family Heads	50.7	52.6	39.8	48.1
Children under 18	64.3	68.0	46.4	59.0
Whites				
Family Heads	22.9	28.9	11.9	13.2
Children under 18	38.9	48.7	13.4	15.2

Source: U. S. Bureau of the Census, Current Population Survey, unpublished tables.

headed. These data support the view that high welfare benefit levels contribute to marital dissolution and the formation of female headed families.

It is also noteworthy that the low benefit strategy of the South has not produced more poverty. Quite the contrary, the measured poverty rate in 1984 among female headed families was somewhat lower for both blacks and whites in the South than it was in the high benefit North and West. Evidently, women in the South, who are less likely to be on welfare, develop more work experience and have higher earnings, which more than compensates for the lower welfare benefits.

Perhaps the most important question about the effects of AFDC concerns the effects long-term welfare dependency has on the children in AFDC families. Are they more likely to become unemployed, to commit crimes, to be less well motivated in school, to become teenage mothers and ultimately to go on welfare? Because of a lack of data, solid research in these areas is lacking, although abundant anecdotal evidence suggests that these outcomes may be real.

CONCLUDING COMMENTS

The extent of poverty in the nation has largely been determined by the state of the economy. Efforts to redistribute income have succeeded in shifting income from the young to the old; and at enormous cost have helped to reduce poverty among the aged. Transfers from the rich to the poor among the nonelderly population have been done on a more modest scale, but with little observable positive effects on measured incomes.

It is difficult if not impossible, however, to design a system intended to provide assistance to needy families headed by an able bodied adult and at the same time avoid harmful disincentives. "Need" is not an inherent trait but is to a large extent the consequence of voluntary decisions relating to work, fertility, marriage. Therefore, the extent of need is not a fixed number, but is susceptible to change based on incentives offered. Efforts to change behavior through work requirements and work and training programs have not had significant effects as the history of the WIN program testifies. If welfare benefits remain high, work programs will always have trouble competing. On the other hand, individuals can become the victims of past choices, and particularly where children are concerned, it is difficult to ignore their plight. These conflicts have created the basic dilemma of welfare.

Hard choices must, therefore, be made. Implicitly the public has chosen to cut back on welfare. The level of funding provided to welfare programs has leveled off in the past decade. Cash benefit levels in AFDC have declined in real terms. As a result, the welfare caseload has also stopped rising. There also are signs that the formation of female headed families is not rising as rapidly as it was, and that the out-of-wedlock birth rate is steady or falling slightly.

In seeking welfare new options one possible direction is to remove the open-ended aspect of AFDC for families headed by able bodied adults and to place a finite limit on program duration, as is the case with unemployment insurance. In this way welfare would no longer be able to replace other sources of income on a permanent basis. Another direction already underway is the requirement that absent fathers contribute to their children's support. Although the income provided might not remove many from the AFDC caseload, it would perhaps foster greater concern for the consequences of behavior and, hence, prevent the birth of childen who cannot be supported by their parents. Finally, it should be emphasized that prevention measures, such as improving basic education, may have the added pay off of reducing welfare dependency in the long run.

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