

In Focus

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FOCUS

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Newsletter

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"WHITE FLIGHT" TO THE SUBURBS: A DEMOGRAPHIC APPROACH

by

Jan Blakeslee

Over the past two decades, the plight of America's cities has become almost a commonplace of social comment. While city tax bases are eroding and their job markets declining as companies seek cheaper, newer, or more accessible facilities in the suburbs, their schools and services struggle against the combined impact of inflation, unemployment, and shrinking federal assistance. The cities are seen increasingly as deteriorating ghettos for the poor, the

unemployed, and the disadvantaged—above all, for minorities. In 1973, 64% of the metropolitan poor lived in the central cities.¹

Linked to this decline has been the phenomenon described as "white flight." Between 1960 and 1970 the white populations of central cities in U.S. metropolitan areas declined by 9.6%—in the Northeast, the figure was 16.2%. In 1968 the Kerner Commission issued a stark warning that the nation was headed on a course toward "two separate societies"—a white, affluent society located primarily in the suburbs and a black society concentrated within large central cities. Most ominously, the bulk of those leaving appeared to be upper-class, high-status whites whose withdrawal would affect the city directly, through a reduced tax base, and indirectly, by contributing to further deterioration of the social and physical environment in the central core.

It is apparent that central cities can ill afford to sustain additional reductions in their nonpoor, nonminority populations. It is small wonder that policy proposals aimed at lowering unemployment or achieving greater racial equality are being carefully scrutinized for their potential impact on further white flight. In the debates that arise, however, conventional wisdom and anecdotes are all too often substituted for empirical evidence. Is white flight racially motivated, or is it merely a continuation of the metropolitan community's natural expansion process, which includes dispersion of both jobs and housing? Depending on the answer, the consequences for policy are very different. But despite the fact that whites have been moving to the suburbs since at least the end of World War II, we still have no firm explanations. Moreover, much of the research that has been done merely describes past patterns; it does not provide insight into the selective migrational responses that might be associated with various ecological, demographic, or policy-relevant attributes of individual cities, nor does it allow us to predict the consequences of a policy or to map out the most effective procedures for alleviating urban problems.

A Demographic Analysis of White Flight

Over the past two years William H. Frey, of the Center for Demography and Ecology and the Institute for Research

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

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

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on Poverty, University of Wisconsin-Madison, has developed and refined an analytic migration framework that can be applied to the examination of aggregate data on population change in metropolitan areas.

The causal relationships between the characteristics of a geographically delimited community and the population movement that takes place across its boundaries are complex and hard to specify. The net migration that large central cities experience results both from streams of local movers changing residences between the city and its suburbs, and from streams of migrants coming into or leaving the whole metropolitan area. The size of each stream reflects the sum total of each mover's decisions and evaluations.

Why do people decide to move? And how do they choose their destinations? These two questions must be analyzed separately, for we know that different explanatory factors are in operation at each phase.² An individual household's decision to move is linked to the stage in its life cycle—the age of the parents, the number of young children, and the community services the family requires. Younger people, for instance, move more often than older people, and those without children may not look closely at school systems. A family's choice of destination, however, more clearly depends upon a strict cost-benefit analysis, in which the mover evaluates the relative attributes of different destinations. When one is considering movers in the aggregate, it is this latter choice that is most crucial in determining both the size and the direction of central city population changes.

In his analysis Frey has isolated several key factors that enter into the residential choice made by a local mover or metropolitan immigrant. These can be divided, very generally, into two categories: (1) attributes that serve as demographic "controls," in that they shape the underlying demographic growth structure of a metropolitan area but cannot effectively be manipulated by policy, and (2) attributes that may be considered "policy relevant," in that some of them have become a focus of public debate and that the status of most of them in a particular metropolitan area can be altered by public policies.

Demographic Controls

There are three important demographic controls affecting white flight. First and most significant is the city's share of the population of the larger metropolitan area—the Standard Metropolitan Statistical Area (SMSA). Historically, the jurisdiction of the American city has been rather strictly limited to a small central core; the suburbs have in most instances successfully fought off efforts by the city government to extend its authority, especially in matters of taxation. Not least of America's urban problems is the fact that most metropolitan areas remain a patchwork of fragmented authorities. There is, notwithstanding, substantial variation. In Dayton, Ohio, in 1965, city residents composed 32% of the population of the SMSA; in Dallas, 57% (a difference that reflects very real regional variation in city/suburb population ratios).³ The larger the city's share of metropolitan population, the more potential residential

choices within the city an individual has, and the less likely he or she is to move to the suburbs.

Two other factors relevant to city-suburban migration patterns are the extent of suburban development since 1950 and the age of the central city—the number of years between the census year when it first attained a population of 50,000 and 1970. On the whole, cities with histories of recent suburban growth continue to experience a high loss of population to the suburbs, and all other factors being equal, old cities, by virtue of their aging housing stock and high density levels, will be less attractive as destinations than their suburbs.

Policy-Relevant Attributes

Under this heading Frey has examined a variety of factors that may affect the extent and nature of white flight. Some are financial: For instance, declining city revenues compel an increase in taxes, and that, in turn, tips the balance in favor of the suburbs, where taxes are generally lower (among 39 SMSAs studied, 36 had lower taxes in the suburbs). The quality of a community's school system, in contrast, is a powerful attractant, especially for families with younger children. In general, the suburbs spend more per capita for education (the average suburb/city ratio, for the same 39 SMSAs, was \$1.2: 1).⁴

Other types of variables may come under consideration in this category: region, crime rate, extent of school desegregation, percentage of the city population that is black, and age distribution within the city. These have all been considered as part of the explanation for white flight, and all

William H. Frey, "Central City White Flight: Racial and Nonracial Causes," Institute for Research on Poverty Discussion Paper no. 420-77.

William H. Frey, "White Flight and Central City Loss: Application of an Analytic Migration Framework," Institute for Research on Poverty Discussion Paper no. 453-77.

William H. Frey, "Class-Specific White Flight: A Comparative Analysis of Large American Cities," Institute for Research on Poverty Discussion Paper no. 507-78.

William H. Frey, "The Changing Impact of Migration on the Population Compositions of Origin and Destination Metropolitan Areas," Institute for Research on Poverty Discussion Paper no. 520-78.

Related Publications:

William H. Frey, "Black Movement to the Suburbs: Potentials and Prospects for Metropolitan-Wide Integration," Institute for Research on Poverty Discussion Paper no. 452-77.

William H. Frey, "Population Movement and City-Suburb Redistribution: An Analytic Framework," *Demography* 15, no. 4 (1978). Also, Center for Demography and Ecology Reprint FY-1 (Madison: University of Wisconsin).

are to some degree open to measurement. The choice of variables for emphasis will depend, in part, upon the questions that are being asked.

As part of a larger study of metropolitan migration patterns, Frey has attempted to answer specific questions about white flight: To what extent is it racially motivated? To what extent is it class-specific—that is, largely a movement of upper-class, highly educated whites? And finally, what are its implications for aggregate demographic change in the city?

Is White Flight Racially Motivated?

It seems fairly clear that the massive suburban relocation of whites immediately after World War II resulted in part from racial motivations.⁵ But has the recent white out-movement from large central cities been heavily influenced by interracial housing dynamics? Frey has argued that current white flight can be explained much more fully by nonracial economic and environmental factors than by those directly related to race. Since the 1950s the nature of black migration has changed and its pace slowed, while white attitudes toward racial integration have, however formally, altered: A majority of whites now endorse such integration, at least in principle.⁶

Frey examined census data dealing with white movement from the city to the suburbs between 1965 and 1970, in 39 SMSAs with a population of half a million or more. He used three indices of racial influence: the percentage of the city population that was black, the degree of desegregation in central city schools, and the prevalence of racial disturbances in the late 1960s. Juxtaposed to these were several factors not directly related to race, measuring the decline of the central city relative to the broader metropolitan area (educational expenditures, tax rates, crime rates, and suburban relocation of job opportunities), the recency of suburban development, the age of the city population, and the percentage of its residents who owned their own homes—factors whose relationship to residential mobility is well documented.

Using standard statistical analytic methods, Frey was able to confirm partially his hypotheses. By far the largest total effect on white suburban movement in the 39 SMSAs can be attributed to the extent of postwar suburban development—although in these newer and more rapidly growing cities there tend to be large counterstreams that balance and to some extent mitigate the effects of the outflow of whites. Next in influence was the percentage of the city population that was black—a factor that to some extent measures the degree of daily contact between blacks and whites in the central city. We cannot, therefore, wholly discount racial factors in our analysis of the causes of white flight. Of equal influence, however, were the suburb/city tax differential, and the degree to which employment opportunities had recently moved to the suburbs (measured by the percentage of city dwellers commuting to the suburbs to work). Some recent studies purport to show that school desegregation, as carried out in the 1970s, may under certain circumstances have spurred extensive white suburbanization. Because there has been no census since 1970 it is not possible to apply Frey’s methodology to a

Table 1
Losses to White City Population in Each Education Class as a Result of Movement to the Suburbs, 1965-70

City	Education Class					
	Elementary		High School		College	
	Under 8	8	1-3	4	1-3	4+
Detroit	-15.9%	-16.4%	-21.7%	-31.9%	-38.8%	-42.7%
Buffalo	- 8.9	-10.0	-14.4	-25.0	-29.6	-28.7
Hartford	-13.2	-18.6	-22.2	-32.9	-32.8	-32.2
Dallas	- 7.8	-10.5	- 9.8	-11.6	-10.5	- 9.5
Atlanta	-20.4	-23.6	-29.1	-41.1	-35.2	-26.2
Sacramento	-10.2	-11.2	-21.2	-23.4	-25.9	-24.3

Source: U.S. Bureau of the Census, "Mobility for Metropolitan Areas," *Subject Reports, Final Report PC (2) -2c* (Washington, D.C.: Government Printing Office, 1973).

thorough evaluation of post-1970 migration patterns. His findings based on the 1970 census, are, however, quite clear. School desegregation ranked as the least significant factor in this analysis; racial disturbances were very nearly as unimportant. The term "white flight," viewed in this context, appears to be somewhat of a misnomer.

Is White Flight an Upper-Class Phenomenon?

Once again, Frey examined 1970 census data for 39 large SMSAs, using the same variables as in his study of racial motivations but adding another to probe for regional variations between North and South. He asked three questions:

1. How did white city-to-suburb movement affect the social composition of large cities between 1965 and 1970?
2. Which demographic and policy-alterable attributes of a metropolitan area determine movement to the suburbs for whites at each of six educational levels?
3. How would changes in city-suburb fiscal disparities, the city crime rate, and its racial composition affect short-run changes in suburbanward movement from specific central cities?

The answer to the first question was unequivocal. For 1965-70 the most consistent pattern of class-selective redistribution occurred within older, northern SMSAs. Detroit, Buffalo, and Hartford, for instance, lost 30-40% of their college-educated city population, but only around 16% of those whose education stopped at or below eighth grade. In contrast, movement to the suburbs in southern cities affected all six education classes about equally; roughly 10% of all classes in Dallas, for example, moved to the suburbs (see Table 1).

The second question evoked different answers for different education classes. In northern SMSAs, the percentage of the city that was black appeared to be a more important determinant of suburban migration among the college-educated than did any other policy-relevant factor, although

educational expenditures were also important. For those with less than an eighth-grade education a different set of migration determinants appeared: Recent suburban employment growth and tax differentials were more significant than racial composition or educational expenditures.

To answer the third question, Frey estimated the short-run migration effects that would be associated with a hypothetical situation in which city-suburb fiscal disparities were eliminated, and both the crime rate and percentage of the city population that was black were reduced. In none of the situations posed in the study did he find a substantial immediate reduction in city-to-suburb movement, or significant increases in the city's upper-status population.

White Flight, Public Policy, and Central City Demographic Change

The studies of white flight were motivated in part by recurring debates over the indirect effects on white migration of proposed public policies. These policies range from ghetto enrichment programs for inner city minorities, like those spawned by the Kerner Commission in the late 1960s, to recent attempts to desegregate city public schools. Frey's demographic analyses make it clear that racial factors in white movement to the suburbs cannot be discounted; they do not, however, support the contention that increases in levels of integration or numbers of central city blacks will send a substantial flow of whites to the suburbs. The results from these studies indicate that other factors, particularly city-suburb fiscal disparities, are equally important causes of white city-to-suburb movement.

Another reason that racially-instigated city depopulation should not be feared is embedded in the demographic dynamics of city-suburb redistribution. Frey's causal analyses and simulations demonstrate clearly that even a significant change in the residential attractiveness of the city versus its suburbs affects mobility primarily by influencing the destination choices of movers, and not by instigating movement among otherwise stable residents. One positive consequence is that policies that would seem to have deleterious migration consequences for large cities and their tax bases are unlikely to affect greatly the magnitude and character of city population change over the short run. In a more pessimistic vein, we may conclude that policies aimed explicitly at halting the suburban movement of upper-class whites or promoting a "return to the city" of suburbanites are likely to be neither practicable nor very effective.

¹U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population: 1974 and 1970," *Current Population Reports*, Series P-23, no. 55 (Washington, D.C.: Government Printing Office, 1975).

²A. Speare, Jr., S. Goldstein, and W.H. Frey, *Residential Mobility, Migration, and Metropolitan Change* (Cambridge, Mass: Ballinger Publishing Company, 1975).

³U.S. Bureau of the Census, "Mobility for Metropolitan Areas," *Subject Reports*, Final Report PC (2) - 2c (Washington, D.C.: Government Printing Office, 1973).

⁴Advisory Commission on Intergovernmental Relations, *City Financial Emergencies: The Intergovernmental Dimensions*, Appendix B (Washington, D.C.: Government Printing Office, 1973).

⁵K.E. Taeuber, "Racial Segregation: The Persisting Dilemma," in *The Annals*, The American Academy of Political and Social Sciences, 422 (November 1975):87-96.

⁶T.F. Pettigrew, "Attitudes on Race and Housing," in A.H. Hawley and V.P. Rock (eds.), *Segregation in Residential Areas* (Washington, D.C.: National Academy of Sciences, 1973).

NEW INSTITUTE SPECIAL REPORTS

SR 20 *Labor Force Concepts and Definitions in View of Their Purposes*. A report prepared for the National Commission on Employment and Unemployment Statistics, by Glen G. Cain.

How, and to what end, are data on the labor force accumulated? The question is only apparently a technical one, and the stakes at issue are high: New definitions of unemployment may reflect different philosophies, different theoretical perspectives, and, at the level of public policy, determine different levels of aid to some groups and localities.

This report examines the usefulness of labor force statistics both as a measure of actual economic conditions—a cyclical indicator—and as a policy guide. Cain pays detailed attention to current criticisms based on the changing demographic composition of the labor force and the developing systems of income transfer, among other forces, and offers suggestions for improving the validity of statistics in this area. He examines several proposed alternatives to the unemployment rate as a measure of cyclical conditions, and argues that their shortcomings outweigh their advantages.

Unemployment statistics, Cain points out, were never intended as a measure of economic hardship, although they have been used in allocating federal funds to local areas. Less weight should be given to unemployment statistics for this purpose, and improved methods of measuring unemployment in local areas are needed.

SR 21 *The Implications of Changing Family Patterns and Behavior for Labor Force and Hardship Measurement*. A report prepared for the National Commission on Employment and Unemployment Statistics, by Harold W. Watts and Felicity Skidmore.

Our labor force concepts and their measurement were designed over thirty years ago; today, the authors argue, they are an inaccurate measure of economic hardship. Recent trends in family patterns and the development of public income support programs to alleviate hardship have combined to destroy the relationship between individual earnings and family income. The incidence of multiple-earner families is increasing rapidly, as married women enter the labor force in ever larger numbers, while the family unit itself is a rather volatile structure. Moreover, labor force status and behavior can no longer be inferred from demographic and family status: People, especially the young, move in and out of the labor force more readily, and are more prone to make substantial career changes in midlife.

In light of these facts, the authors make specific recommendations for revisions in the gathering of data. They urge a major new longitudinal survey of the material resources of families, and argue for revisions in the forms and functions of the gathering of labor market data from individuals.

SOURCES OF EDUCATIONAL GROWTH IN AMERICA

by

Robert Mare

The twentieth century has witnessed an educational revolution in the United States. A look at census statistics reveals the magnitude of this trend. Persons born during the first five years of the century achieved a median of 8.6 grades of schooling, while persons born at midcentury reached a median of 12.8 grades; in 1910 only 62.5% of young Americans aged 5-19 were enrolled in school, but by 1974 this figure reached 89.4%. The growth of educational attainment in the population has implications for many aspects of social life: the economic and social standing of individuals and occupations, political attitudes and behavior, consumer behavior, attitudes toward work and leisure, and marriage and fertility patterns. And yet the causes of this phenomenon are not well understood.

To be sure, one can cite a number of related modern social trends. Real family incomes have increased substantially throughout the century; the farm population has dwindled while the urban population and nonfarm segments of industry have grown; the labor market has demanded higher-skilled and better-educated workers, and has paid them better; compulsory school attendance laws have been passed; and school systems have been bureaucratized, extended, and enriched. But which, if any, of these changes have actually caused successive generations to spend more of their lives in school, and which are merely collateral developments?

Research Perspectives on Educational Growth

Sources of change in levels of educational attainment may be broadly divided into two categories, social demographic and macroeconomic. At any time, there are social demographic factors affecting how far an individual goes in school. Persons from high-income families, from families in which parents are well educated, and from small families tend to go the farthest. Over successive generations, as family incomes and parents' educational levels rise and as family sizes decline, average levels of school attainment increase.

The macroeconomic sources of change in educational attainment are aggregate market incentives, such as the costs of schooling and the expected economic advantage to having more education. At any one time these factors are experienced in approximately the same way by all persons of a given age, but as economic conditions change over time, the incentives to stay in school alter.

Most research on educational growth has emphasized only one or the other of these perspectives, rather than both. In a recent study of the sources of educational growth in America, therefore, I have attempted to examine social demographic and macroeconomic perspectives simultaneously. The study combines the best available survey data

Robert Mare, "Social Background and School Continuation Decisions," Institute for Research on Poverty Discussion Paper no. 462-77.

Robert Mare, "Market and Institutional Sources of Educational Growth," Institute for Research on Poverty Discussion Paper no. 494-78.

Robert Mare, "Social Background Composition and Educational Growth," *Demography* 16 (February 1979). Also Institute for Research on Poverty Discussion Paper no. 471-77.

Related Publications:

Robert Mare, *The Growth and Distribution of Schooling* (New York: Academic Press, forthcoming [1979]).

Robert Hauser and David Featherman, "Equality of Schooling: Trends and Prospects," Institute for Research on Poverty Reprint no. 193.

on family background and educational attainment for persons born during the twentieth century with aggregate social and economic statistics from published sources.

There are many benefits to this dual approach. First, it promises a more comprehensive understanding of educational growth. In particular, it can indicate whether changes in the perceived economic value of school credentials can indeed explain variations in educational attainment levels that are not related to changes in the family backgrounds of students. Second, it may lead to more accurate forecasting of school and college enrollments. Third, this approach affords a context within which to examine the effects of organizational and political factors (as opposed to strictly economic factors) on schooling—such factors as the quality of school systems, political support for education, and laws pertaining to attendance, military service, and child labor. Finally, it responds to the current demand for more focus on institutional and labor market effects in research on socioeconomic attainment.

Data and Analytic Approach

The data for the study are the 1973 Occupational Changes in a Generation Survey (OCG) and published information on the national economy and schools. From survey data one can determine, first, the effects of social background factors on school attainment; second, the extent to which long-term changes in the social backgrounds of Americans have caused the rise in attainment; and, finally, how much change in attainment would have occurred had there been no change in the social backgrounds of students. In other words, one can examine the *net* impact of market and institutional influences on educational growth. Data limitations have restricted the analysis to the white male population.

At each stage of schooling, individuals must decide whether to go on to the next level (within the limits of compulsory education laws). To compare the set of people born in a given year (a "birth cohort") with those born in a different year, we can look at either their average levels of attainment or we can look at the proportion who go on

at each specific level—for example, entry to high school. These “grade progression rates” can then be linked to economic and social conditions prevailing at the time that stage in the schooling process is reached.

Schooling and Social Background

Much research has documented the effects on educational attainment of aspects of family background such as parental occupational status, income, and education; number of siblings; intactness of family; region of birth; and farm versus nonfarm origin. The present study shows how these effects change over various stages of the schooling process and the implications for the number of people who will go on in school at various levels.

For every birth cohort, there is a similar pattern of family background influences throughout the schooling process. These effects are strongest at the earliest levels of schooling and weakest at the higher levels of schooling. For example, the effect of family income on the chances that a young child will finish eighth grade is twice as large as its effect on the chances that a high school graduate will go on to college. Paradoxically, then, it is the stage when schooling is most universally available that family background nonetheless plays the largest role in selecting those relatively few individuals who drop out. In contrast, when it becomes more problematic whether individuals can continue in school—at the college entry level—the effect of family background, though significant, is weaker.

Given the effects of family background on the decision to continue in school at each point in time, changes in the characteristics of families have implied intercohort increases in grade progression rates. The income, educational attainment, and occupational status of parents have increased while average number of siblings and the percentage of families on farms have decreased. Thus, more students have continued at all levels of schooling. As we have noted, however, the effects of the family are stronger in the elementary and high school years than at the college level. The impact of changing family background characteristics on changes in grade progression rates, then, has been much stronger at the lower levels of schooling.

This has an important implication for the future of educational growth in America. Historically, most of the change in average levels of educational attainment has occurred through changes in the percentage of each birth cohort continuing in school or completing school at the elementary and high school levels. (There are, of course, much larger proportions of young persons attending college now than in the past. But this has occurred mainly as a result of increases in high school graduation rates, rather than increases in rates of continuation between high school and college.) Since high school graduation has become almost universal, however, *future* educational growth must occur through increasing rates of grade progression at the college level—the level where family background effects are weakest. Thus the changes in family characteristics necessary to produce significant increments in average educational attainment in the future must be larger than in the past.

It seems clear that the influence of family background does not fully explain the long-run growth in educational achievement that has characterized the United States in the twentieth century. In fact, only one-third to one-half of the changes in rates of grade progression over cohorts born during the first half of this century can be ascribed to the changes in family background characteristics described earlier. Without changes in factors that operate independent of the family, moreover, the long-run growth in educational attainment will slow down.

In looking both for explanations of current changes and for ways to make accurate future projections, we must, then, turn to the influence of market and institutional factors.

Market and Institutional Factors

In the present study, three sets of these factors have been examined: economic returns to schooling, the costs of schooling, and the characteristics of educational institutions.

Economic returns to schooling. During this century, the most rapidly growing occupations and industries have had work forces with better than average educational credentials. This has apparently kept the demand for relatively well-educated workers high enough to maintain their earnings advantage. So long as this advantage exists, there is an economic incentive to remain in school. We are assuming, then, that persons in the labor force with varying amounts of schooling serve as “reference groups” for persons still in school. When the relative earnings of better educated workers are particularly high, grade progression rates should rise more rapidly; when the earnings advantage of education is lower, progression rates should not increase so quickly.

It is no easy task to assess this hypothesis. To determine *which* groups of workers are the ones whose experience is most salient to the perceptions of students requires complex exploratory data analysis (not detailed here). And, unfortunately, the limited available data permit analysis of only the first jobs of recent labor force entrants. But even with these restrictions, the answers that have emerged are unambiguous. If we hold constant the effect of changing family backgrounds, fluctuations in economic returns to schooling affect grade progression rates at every level of schooling, especially at the higher levels—as might be expected. But even prior to high school graduation, educational growth has historically been guided by labor market incentives. These incentives are by no means the whole answer, however. What about the costs of schooling?

Costs of schooling. These include both the direct costs associated with schooling—tuition, transportation, books, and supplies—and “opportunity” costs—that is, employment opportunities foregone while attending school.

At the college level, fluctuations in tuition and fees should be inversely related to fluctuations in grade progression rates. Below college there are no recorded data series of direct schooling costs, but it might be expected that a family’s ability to meet schooling costs will vary directly with

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DIRECT JOB CREATION: WHERE DO WE GO FROM HERE?

There has been recent dramatic growth in federal programs that promote directly the creation of jobs, but this expansion has not consistently been accompanied by a clear understanding of a number of fundamental issues concerning their design and effects. To help fill this gap the Institute for Research on Poverty and the Brookings Institution jointly sponsored a conference on direct job creation in 1977 (see FOCUS 1, no. 3, Spring 1977). The following discussion of the policy issues at stake is taken from Irwin Garfinkel and John Palmer's overview chapter for a new book that emanates from that conference, Creating Jobs: Public Employment Programs and Wage Subsidies (copyright © 1978 by the Brookings Institution).²

During the mid-1970s both unemployment and inflation in the United States set post-World War II record highs. Even after several years of vigorous recovery from the 1974-75 recession both are well in excess of comfortable rates. And many economists maintain that the persistence of high levels of structural unemployment may make it difficult to lower unemployment much below 6% through conventional macroeconomic policies without reaccelerating inflation. (Although unemployment rates are generally lower in Western Europe, a similar problem exists there.) For these reasons, selective federal policies to promote directly the creation of jobs are increasingly seen as desirable means of promoting two related objectives—reaching and sustaining low levels of unemployment without excessive inflationary pressure, and ensuring minimally adequate incomes for families with workers. These approaches have two distinctive characteristics: Federal funds are granted to public or private employers conditioned on their performance in providing employment; and restrictions are placed on eligibility and, possibly, other aspects of employment.

Such job creation programs can take many forms. Until recently they had been used intensively in the United States only during the Great Depression, but with the high unemployment rates of the 1970s, job creation programs once again are being used. The two predominant types are state and locally administered public service employment programs and employment tax credits for private employers.

Public service employment in the United States has evolved from very limited use in the late 1960s for particular groups of disadvantaged workers into several major programs with a mix of countercyclical and structural objectives. The federal budget for fiscal year 1979 provides 625,000 public service jobs for previously unemployed workers under Titles 2 and 6 of the Comprehensive Employment and Training Act (CETA) at a cost of about \$6 billion. The programs are administered by designated agents (local prime sponsors) of state and local governments. Almost \$1 billion more is being spent on public employment projects for unemployed youth, and smaller amounts on other special groups. Other large expenditures on public employment are being considered by Congress in conjunction with welfare reform.

Employment tax credits have only recently come into use in the United States. They are simply employer wage subsidies administered through the federal income tax system. The work incentive (WIN) tax credit, first passed in 1971 and then expanded in 1975, reimburses private employers for a flat percentage of the first year's wages they pay to any recipient of Aid to Families with Dependent Children (AFDC). It has operated only on a very small scale. A second, temporary measure—the New Jobs Tax Credit—was passed as part of the economic stimulus package in 1977. At a cost of over \$2 billion a year, it provided a tax credit to private employers for wages paid in excess of a base related to their prior year's wage bill. It was replaced in January 1979 by the Targeted Jobs Credit program, designed to increase hiring of certain categories of hard-to-employ workers.

What uses ought to be made of policies for creating jobs in the future and how should they be designed? Since value judgments often are crucial in determining the desirability of job creating relative to alternative policies, conclusions ought to be approached cautiously. Nevertheless, the already extensive use of public employment and wage subsidies, and the strong and immediate interest among policy-makers in improving and possibly expanding their use, make it imperative that these questions be addressed.

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CREATING JOBS: PUBLIC EMPLOYMENT AND WAGE SUBSIDIES

John L. Palmer, Editor

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WHY OLDER AMERICANS DON'T WORK

by

Richard Burkhauser and Roberta Kimmel

Retirement, to some, genuinely means the "golden years"—full-time leisure for indulging in travel, hobbies, and other pastimes that were previously limited by the constraints of employment.¹ For a considerable segment of older citizens, however, the decision to retire represents an uneasy financial compromise, marked by the onset of boredom, anxiety, and the mental strain of feeling suddenly useless to society. Recent legislation liberalizing mandatory retirement rules has been hailed as a milestone in policy that will significantly increase the employment of older persons: The 1978 Amendments to the Age Discrimination and Employment Act raised to 70 the minimum mandatory retirement age for nonfederal employees, while for employees of the federal government, age can no longer be used as the sole criterion for dismissal. But a closer look at the reasons for retirement suggests that this type of antidiscrimination policy may actually have little effect on the underlying economic incentives which induce most workers to retire "voluntarily" well before age 70.

Are Pensions Rigged Against Work?

The decline in work by older men represents a significant evolution in the American economy. In 1948, one-half of all men over 65 were still in the labor force; today fewer than one in five are at work. Since 1961, the proportion of employed men aged 62-64 has fallen from eight in ten to six in ten. These figures in themselves do not signal a problem. Indeed, our society places a high value on leisure and views it as a just reward for time spent working. The increasing segmentation of life into a period of full-time work followed by total retirement, however, has consequences that have only recently come to be questioned.

Studies of the labor market activities of older men fall into two broad categories. The first type stresses factors outside the control of individuals, such as state of health and mandatory retirement rules. These factors are undeniably important but fail to recognize the economic incentives influencing retirement decisions—the focus of the second type of study and our emphasis here. Older workers eligible for a private pension or Old Age Survivors Insurance (OASI)—the retirement program of Social Security—must weigh the consequences of continuing work and receiving wages against the consequences of accepting retirement benefits. While retirement will lead to benefit payments, OASI benefits are reduced for those who earn wage and salary income, and private pensions usually require workers to leave their jobs and in some cases restrict earnings in other jobs. In the presence of both restrictions on wage earnings and a fall in the value of a postponed pension (private or OASI), many workers reduce their hours of work or even completely retire. While this choice is voluntary, its timing is influenced by the antiwork biases of the pension system.

Richard Burkhauser and John Turner, "The Effects of Pension Policy across Life," Institute for Research on Poverty Discussion Paper no. 523-78.

Richard Burkhauser and George Tolley, "Older Americans and Market Work," *The Gerontologist* 18, no. 5 (1978): 449-453.

Related Publications:

Richard Burkhauser and John Turner, "A Time Series Analysis on Social Security and Its Effects on the Market Work of Younger Men," *Journal of Political Economy* 86, no. 4 (1978): 701-715. Also Institute for Research on Poverty Reprint no. 307.

Richard Burkhauser, "The Pension Acceptance Decision of Older Men," *Journal of Human Resources* 14, no. 1 (1979).

George Tolley and Richard Burkhauser, "Integrating Social Security into Income Policy," in George Tolley and Richard Burkhauser (eds.), *Income Support Policies for the Aged* (Cambridge, Mass.: Ballinger Publishing Co., 1977). Also Institute for Research on Poverty Reprint no. 267.

Richard Burkhauser, "An Asset Maximization Approach to Early Social Security Acceptance," Institute for Research on Poverty Discussion Paper no. 463-77.

Joseph Quinn, "Microeconomic Determinants of Early Retirement: A Cross-Sectional View of White Married Men," *Journal of Human Resources* 12, no. 3 (1977): 329-346. Also Institute for Research on Poverty Reprint no. 256.

Discrimination against work in the pension system is all too apparent. Consider a married worker aged 65 in 1978, earning \$12,000 per year, who is entitled to average OASI benefits of \$4,900. Because of the earnings test, continuing to work for one more year would mean a loss of \$4,000 in benefits.² In addition, the worker must pay federal and state income tax on earnings. (OASI benefits, on the other hand, are tax-free.) Such a worker faces a true tax rate of close to 75%; he takes home only 25 cents out of every additional dollar earned. If he or she is eligible for a private pension—and the majority of male workers aged 65 or older now are—any benefits from the private pension not taken currently are usually lost. If, for example, the pension amounts to 25% of current salary, an additional \$3,000 is forfeited.

It isn't surprising that older workers react to such powerful antiwork incentives by leaving their jobs. Our Social Security system, in effect, levies a special tax on work as we get older, a tax that has become increasingly significant as benefits paid through the system have increased.

The percentage of male workers aged 65-71 who are eligible for OASI benefits and have accepted them, with the accompanying constraint against work, has increased from 62% in 1955 to 90% in 1975. Since the inception in 1961 of early OASI benefits for men aged 62-64, the percentage of eligibles who have accepted the benefits has steadily risen

and was at 49% in 1975.³ The introduction of the Supplemental Security Income program (SSI) in 1974 promises to strengthen this trend. Monthly OASI benefits are reduced by an actuarial penalty when taken before age 65. However, for low-income persons over 65 the payments are, in effect, taken over dollar for dollar by SSI benefits (except for a small exclusion). This produces a potentially strong incentive for low earners to take reduced OASI benefits at age 62, since these three years of early benefits would otherwise be lost entirely.

A number of recent empirical studies using economy-wide data from the Social Security Administration offer evidence that our current pension system reduces the market work effort of older men. In addition, a detailed study of the automobile industry pension plan shows that workers responded to an early pension whose asset value fell if postponed by "voluntarily" retiring before the mandatory retirement age.

There are some private pension plans in which deferred payments are increased in an actuarially fair manner—that is, for every year a worker postpones acceptance of benefits, future benefits increase such that the expected lifetime value does not change. The Teachers Insurance and Annuity Association (TIAA) plan is one type of plan that is neutral with respect to its influence on the timing of acceptance. It does not link acceptance of benefits to the retirement decision, and furthermore it doesn't subject benefits to an earnings test.

The Life-Cycle Effect of Pensions

If the trend has been toward a shorter work life, has time in the work force at younger ages also decreased? Curiously, the work week for prime-age males declined steadily from 1900 through World War II (from 58 to 42 hours), but since the 1940s it has remained relatively stable at 42 hours—this despite the fact that real income has increased considerably. One explanation emerges when we examine the situation from a life-cycle perspective: The increase in lifetime income has increased the lifetime consumption of leisure, but leisure is now taken in a lump sum during old age. Responsibility for the lack of decline in hours worked, it can be argued, may again be placed on the pension system.

Let us look again at constraints imposed by OASI. By effectively decreasing the wage rate for work performed at older ages, the OASI earnings test (in the presence of a delayed retirement credit that is less than actuarially fair) induces workers to substitute more leisure at older ages for work at that age. Moreover, it encourages them to continually adjust to the earnings test throughout their lives by working more at younger ages. For example, a person who wishes to accumulate a given amount of assets will be pushed into working more at an earlier age in order to do so. Although the level of net wages earned at younger ages is obviously not affected directly by the earnings test, wages during that period are relatively higher than the net wages that are tax-reduced in older age. This results, we maintain, in a shift in the pattern of work over life: **The higher the wage during one period of life, the greater the work in that period and the less during the other period.**

Thus we have the almost paradoxical result that as work has evolved from predominantly heavy toil to more skillful and cerebral tasks, we have concentrated a greater share of our work life at a younger age.

There are those who feel that the effect of Social Security and private pensions on the work of the aged is a virtue rather than a fault. By removing older persons from the labor force, it is argued, more jobs are freed for unemployed youth. But the problem of unemployment is not so simple. For one thing, federal monetary, fiscal, and social policies play a more crucial role in combating unemployment. For another, youth unemployment is in some measure tied to lack of skill and training; vacancies left by skilled labor force veterans cannot directly remedy this.

Future Directions for the Pension System

If the model of life-cycle work described here is based less on worker preference than on economic biases built into pension systems, how can this pattern be reversed? There are three main areas in which important improvements can be made.

A first step toward reducing the distortion in the system would be to abolish the OASI earnings test. In the debate over the 1977 Amendments to the Social Security Act, liberalization of the earnings test had strong support, the earnings-test-exempt amount was increased and, beginning in 1982, the test itself will not operate after age 70. In addition, a token attempt to make the delayed retirement credit actuarially fair resulted in an increase in benefits to 3% (up from 1%) for every year they are postponed beyond age 65.⁴

Another step would be to permit the same tax concessions to pensions not directly tied to a job as are currently made to job-related pensions. In 1975 Individual Retirement Annuities (IRAs) were introduced and tax restrictions on Keogh plans were greatly liberalized. These pension plans allow workers to spread taxable income across their lives in

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THE ECONOMICS OF SOCIAL SECURITY

Leslie McClements

This study is the first to examine systematically the application of economics to Social Security in the United Kingdom, where the system transfers about one-tenth of national income and accounts for one-fifth of public expenditure. A wide range of issues are considered, including the objectives of Social Security, how these objectives are reflected in policies, equity and the measurement of living standards, and the distributional impact of transfers.

Available from Heinemann Educational Books, Inc., 4 Front Street, Exeter, N.H. 03833. \$27.75 (\$11.50 paper), 219 pp.

Direct job creation

(continued from page 7)

No attempt was made at the conference to arrive at majority or consensus judgments; thus, while the policy conclusions set forth here are informed by the conference discussion and generally supported by the conference papers, they are the authors' and are not necessarily attributable to conference participants at large.

The primary use of jobs programs in the United States has been for countercyclical purposes during periods of recession. At such times they are competitors of other fiscal policy measures, such as general tax cuts and expenditure increases, and their consequences should therefore be assessed in comparison with these alternatives. The other principal use of jobs programs has been to reduce structural unemployment. This refers to policies aimed at (1) aiding particular groups of workers or potential workers who suffer from relatively high rates of unemployment and underemployment even during times of relatively full employment, or (2) reducing overall unemployment in a way that will have a smaller inflationary impact than will conventional macroeconomic policies.

Countercyclical Policy

During periods of high unemployment, any expansionary fiscal policy is likely to yield strong economic benefits on balance. However, although they have some merits, the case for the use of public employment programs or wage subsidies for countercyclical purposes in preference to other macroeconomic policies is not strong.

The primary advantage of public employment programs is the potential for targeting the jobs directly created by the additional stimulus. This, in turn, could help disadvantaged workers or regions to participate more fully in the economic recovery and may exert less inflationary pressure than alternative fiscal stimuli of comparable magnitude. Public employment programs may also have a greater employment impact per temporary dollar increase in the federal deficit.

On the negative side, the timing and efficiency of public employment programs intended for countercyclical purposes appear to be less favorable than alternative fiscal stimuli that emphasize expansion of the private and regular public sectors. Rapid implementation is possible, but may come at some expense to targeting on the disadvantaged and avoiding fiscal substitution. (It is more difficult to design and implement special projects than to expand existing employment opportunities.) And the timely phasing down of countercyclical public employment programs is politically difficult. Similarly, such programs appear unlikely to provide additional output that would be valued as highly by society as the output that would result from an expansion of the regular public and private sectors of the economy, since the former is subjected to neither regular market nor political tests. And while in theory public employment might have a training effect that could raise the postprogram productivity of the working population beyond what an equivalent expansion of the regular sectors of the economy would, there is no evidence that this would happen—nor should it be expected of temporary

programs that must be rapidly implemented and subsequently phased out.

The evidence suggests that wage subsidies or tax credits could have as large an employment effect as public employment programs per dollar increase in the deficit. They also can be structured to favor low-skilled workers. They may be more economically efficient than public employment programs because the jobs directly created are in regular sectors of the economy, and the output therefore subject to conventional tests of consumer demand. And, since the jobs are regular ones, the problem of transition from specially created public jobs is avoided. Finally, general wage subsidies have the advantages of directly lowering labor costs to private employers (which should lead to lower product prices and lower inflation), of offering flexibility in the degree of the subsidy, and (perhaps) of being easier to phase out.

Structural Policy

The usefulness of direct job creating policies for structural rather than countercyclical purposes appears more promising. However, limits in both the current state of knowledge and expertise regarding their use and their likely ultimate potential dictate that we proceed deliberately.

If certain conditions are met, direct job creating policies can permit continued expansion of employment at relatively full employment levels with less long-run inflationary pressure than conventional fiscal policies. Appropriate targeting is necessary but not sufficient. In addition, the disproportionately high unemployment rates among certain groups of workers must be due to particular kinds of rigidities in wage determination and wage adjustment processes. Since these are currently issues of considerable uncertainty and dispute, the extent to which the inflationary consequences of direct job creating policies are superior to those of other expansionary policies is a speculative matter. Clearly, the more they are restricted to workers with the poorest regular employment opportunities, and the lower the wage paid in public employment programs, the better their prospects for minimizing inflationary pressures. But even so, higher employment among workers in the target group may be partially at the expense of higher unemployment among other workers.

Public employment and employer subsidy programs also can help to ensure minimally adequate incomes to families with workers. The targeting requirements for this purpose are likely to overlap considerably with those for the objective of increasing employment with minimal inflationary pressure. When the primary objective is distributional, a jobs program that has the disadvantage of reducing gross national product over the long run may nevertheless be desirable, if its economic efficiency compares favorably with direct cash assistance programs or if a high premium is placed on providing assistance through jobs rather than cash. In fact, if taxpayers are willing to pay more to provide aid to those expected to work through subsidized jobs rather than direct cash assistance, and the former alternative is more costly, it is almost certain that some combination of cash and jobs is optimal.

Although structurally oriented job creating programs do not have to promote economic efficiency to be desirable, the degree to which they do should influence the extent of their use, and the maximization of their economic efficiency should be a principal policy objective. Little is known about the economic efficiency of narrowly targeted public employment and wage subsidy programs, largely because experience with them has been extremely limited and not subject to rigorous scrutiny. What is known suggests that they have potential, but that it is difficult to make them efficient.

In the case of wage subsidies, the main problem is to induce employers to hire and train workers with characteristics other than those of their usual employees. Once this is successfully accomplished, one can be reasonably hopeful about the outcome since the output will be meeting the market test and the workers will have learned a salable skill while in the regular labor market. In the case of public employment programs, it should be easier to provide jobs for the desired target groups. However, deciding what to produce and how to produce and market the output is difficult, as is helping workers make the transition to regular employment. Furthermore, the incentive structure faced by managers of public employment programs is unlikely to lead them to place much weight on achieving economic efficiency.

For these reasons, policymakers should proceed cautiously. The inherent limitations of job creating programs probably will preclude their ever becoming a panacea for structural unemployment, but they may be able to play a constructive role for particular groups of workers.

Program Design

The design and operational requirements of countercyclically and structurally oriented job creating policies are quite different and, ideally, ought to be pursued through different program structures. Trying to accomplish the two types of objectives within a common framework will compromise both.

Table 1 lists the desirable design features of public employment programs. If such programs are going to be administered through state and local governments for countercyclical purposes, their eligibility criteria ought to be fairly broad, and state and local governments should not be restricted to special projects. Even though these conditions encourage fiscal substitution, they are important to rapid implementation and the provision of highly valued output. (Since the program is to be temporary, the degree of fiscal substitution will be limited.) The wage rate is not crucial from the point of view of displacing regular employment because of the assumed widespread cyclical unemployment.

In contrast, for structural programs, quite restrictive eligibility criteria are appropriate, as are low wage rates, in order to ensure participation of workers with lower opportunity costs. These also may be favored on distributional grounds, since they reserve the jobs for the most needy and, within a fixed appropriation level, reach the greatest number of workers. Emphasis on special projects will be

<i>Countercyclical criteria</i>	<i>Structural criteria</i>
Temporary funding with level varying inversely and rapidly with aggregate unemployment rate	Permanent funding
Funds allocated primarily to those local areas suffering from higher unemployment	Funds allocated to all local areas
Broad targeting on the unemployed	Narrow targeting on those with poor employment prospects even in a high employment economy
Emphasis on highly valued output	Emphasis on relevance of work experience to regular employment opportunities and transitional assistance
Employment of a type that can be promptly and effectively phased in and out	Employment in carefully designed, long-term projects
Wage rates that can be as high as prevailing rates	Wage rates close to minimum wage

Source: John L. Palmer (ed.), *Creating Jobs: Public Employment and Wage Subsidies* (Washington, D.C.: Brookings Institution, 1978).

necessary since the nature of the work generally will have to be tailored to meet the characteristics and needs of particular target groups and because the relatively permanent funding and assumed high employment rate make fiscal substitution and other forms of displacement more severe problems.

Although wages at or very near the minimum are desirable on some grounds in structural public employment programs, they can present difficulties. In many locales such wages are well below those of the lowest-paid jobs in the regular public sector. Consequently, the program jobs could either become dead ends with no relevance to regular employment or undermine standards in the public sector. In any event, the creation of a very large number of public employment jobs at a subsidized minimum wage raises the spectre of a stigmatized second class work force being permanently "warehoused" in the public sector.

Both public employment programs and wage subsidies have significant advantages and disadvantages for dealing with structural unemployment. Until more is learned about them, the scale on which they eventually might operate effectively is highly uncertain. There appears to be no general reason to greatly prefer one approach over the other (although one may have more potential effectiveness than the other for particular target groups). Current policies in the United States heavily favor public employment programs. A more balanced approach, with wage subsidies applicable to regular public as well as private employment, is likely to be more fruitful.

¹Irwin Garfinkel is Director of the Institute for Research on Poverty and Professor of Social Work at the University of Wisconsin; John Palmer is a Senior Fellow in the Economic Studies Program, Brookings Institution.

²This is a shortened and edited version of that paper.

Educational growth

(continued from page 6)

employment opportunities for parents. Carrying this one step further, grade progression should vary inversely with the level of unemployment.

How do we assess the opportunity costs foregone at different points? These can be indexed by *changes* in unemployment rates (as opposed to the level of unemployment) for the labor force as a whole. When the labor market is on the upswing more employment opportunities are open for young persons, making schooling seem less attractive. Conversely, when the labor market deteriorates there are fewer jobs to entice young persons out of school.

The data show that changes in grade progression rates from high school to college are indeed negatively affected by rises in tuition. Employment levels show significant effects for elementary school completion, high school graduation, and college entry, though not for high school entry. As for the opportunity costs, favorable labor market conditions significantly depress the growth in grade progression rates at the college level and depress growth somewhat less at all other transitions except for high school graduation.

Characteristics of educational institutions. Schools are better, and accessible to more young people, than they were 70 years ago. Can we expect these factors to yield changes in educational growth, particularly at the elementary and high school levels? Historical data from the Office of Education's Biennial Survey of Education allow us to assess the effects of the following: school expenditures per pupil, teachers' salaries, average days attended per pupil, number of one-teacher public schools, and number of four-year colleges.

The effects that these characteristics might have are fairly straightforward. The higher the per pupil expenditures, on average, the more diversified are curricula likely to be, and the better the physical facilities. These make school attendance easier and more attractive, and are thereby expected to increase grade progression rates. Teachers' salaries should be correlated (at a lag) with the quality of instruction received by students: The higher the pay, in general, the better the quality of the people attracted to teaching. And the better the instruction, the greater the number of students who will be qualified to continue their schooling—thus the higher the rates of grade progression.

Average days attended per pupil should positively affect grade progression for two reasons. First, this measures the intensiveness of schooling; longer terms imply increased student ability to continue schooling. Second, the traditional schooling pattern of seasonally interrupted attendance in favor of farm or other child labor encourages early labor force participation and withdrawal from school; conversely, lengthy school terms imply a break from this tradition, and a decline in the salience of competing work opportunities.

The prevalence of one-teacher schools also indicates the strength of the traditional rural schooling patterns. As schools consolidated they adopted more diversified cur-

ricula and a more rigidly age-graded organization that may have enhanced grade progression rates. Finally, the number of colleges is a measure of the physical accessibility of higher education; it may have a net positive effect on progression between high school and college.

The findings again corroborate most of our assumptions. Teachers' salary levels and instructional expenditures show significant positive effects at all transition points. When students average more days in school annually they are indeed more likely to continue, particularly at high school graduation (but not at high school entrance). There is, in fact, some evidence that the effects of economic factors on high school graduation are transmitted via average daily attendance: When labor market returns to high school graduation are above average or when overall unemployment is increasing, high school students tend to miss fewer days of school; this improved attendance, in turn, raises graduation rates. The consolidation of schools has tended to improve rates of elementary school completion, as indicated by the net negative effect of the number of one-teacher schools. The number of institutions of higher education, however, appears to play no significant role in college entry rates.

The significance of school characteristics for school continuation may seem somewhat surprising, given the weight of previous social science findings that such effects are minimal once family characteristics have been taken into account. But bear in mind that this study focuses on the long-run historical experience of the United States. The conclusion that the changing quality of schools has, over the long run, contributed to higher levels of formal achievement is not incompatible with the findings of cross-sectional or short-term studies that school characteristics have had modest or insignificant effects.

Conclusion

Several broad conclusions arise from this research. First, the pattern of family, organizational, and market effects accords with our intuition about the differential impact of various institutions over the early life cycle: The effects of family background and school characteristics decline and the effects of labor market returns and costs of schooling increase from the early to the later stages of the schooling process. Second, while persistent economic advantages to well-educated workers have affected educational growth, these effects do not dominate the data. Rather, while students (and their families) respond to their perceptions of the labor market, this is only one among many influential factors. Finally, the changing characteristics of school systems induce changes in attainment levels, in contrast to what much cross-sectional evidence would lead one to suspect. For the purposes of both gaining a historical understanding of educational growth in America and forecasting future attendance, therefore, structural characteristics of schools need to be taken into account, as well as the demographic profiles of students and the labor markets they face.

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Why older Americans don't work
(continued from page 9)

much the same manner as job-related pension plans, but benefit acceptance is not tied directly to leaving a specific job. Contributions to IRA plans, which are for employees not covered by group pension plans, are limited to the lesser of 15% of yearly salary or \$1,500. Annual contributions to Keogh plans for the self-employed are allowed up to the lesser of 15% of yearly salary or \$7,500. As the contribution limits of these plans are raised to levels more consistent with those available for other pensions, a full-fledged alternative form of pension saving is likely to develop. A recent Supreme Court decision restricts actuarial treatment of workers by sex in most firm-specific pension plans but does not prohibit differential benefits based on sex in the private annuity market.⁵ If this continues unchecked it may well further encourage the use of IRAs. That decision could also unintentionally contribute more to increasing the employment of older Americans than the recent mandatory retirement law.

Finally, the liberalization of mandatory retirement rules mentioned at the outset should, together with projected increases in the proportion of older persons in the population, make firms less willing to screen employees on an age criterion alone, and could lead to the possibility of more part-time work opportunities in older age.⁶ Still, it is unlikely to have much immediate impact as long as the pension system continues to discourage work at older ages.

⁵Richard V. Burkhauser is a Project Associate at the Institute for Research on Poverty. This article synthesizes research he has done in collaboration with George Tolley, Professor of Economics at the University of Chicago, and John A. Turner, Office of Research and Statistics, Social Security Administration.

⁶The 1977 Amendments to the Social Security Act raised the annual exempt amount from \$3,000 to \$4,000 in 1978. This exempt amount will increase yearly in units of \$500 until it reaches \$6,000 in 1982. As the annual exempt amount increases, the loss in benefits for working OASI recipients will fall. Thus, in 1979, this same married worker will lose \$3,750 in OASI benefits.

³U.S. Department of Health, Education, and Welfare, Social Security Administration, *1975 Annual Statistical Supplement, Social Security Bulletin* (Washington, D.C.: Government Printing Office, 1975).

⁴This article has emphasized efficiency problems in the current pension system. For a discussion of the success of OASI as a redistributive mechanism see R. Burkhauser and J. Warlick, "Disentangling the Annuity and Redistributive Aspects of Social Security," presented at Econometric Society Meetings, Chicago, August 1978; and R. Burkhauser, "Are Women Treated Fairly in Today's Social Security System?" presented at Gerontological Society Meetings, Dallas, November 1978. (Available from the authors.)

⁵*Manhart v. Dept. of Water and Power, City of Los Angeles, 1978.*

⁶In 1975 there were about five people in the 20-64 age bracket for every individual over 65. If this ratio remains constant while fertility rates stay at their current low levels (and even without taking rising longevity rates into account), the ratio could fall below three to one 50 years from now.

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