FOCUS

Institute for Research on Poverty
Newsletter

THE RURAL INCOME MAINTENANCE EXPERIMENT

Do the rural poor work less when they are eligible to receive cash benefits from an income maintenance program? The Rural Income Maintenance Experiment, fielded by the Institute for Research on Poverty and directed by D. Lee Bawden, has just released its final report to provide new evidence on this question.

The effect of income maintenance on how much the poor, particularly those with family responsibilities, choose to work has proven a recurrent and politically significant issue. Equity argues in favor of income support for the "working" poor, just like the rest of the poor; intuition and economic theory both lead us to expect that those who *can* work will work less if they receive benefits.

Several major social experiments—two of which were conducted by the Institute for Research on Poverty—have been funded by the Office of Economic Opportunity and the Department of Health, Education, and Welfare to find out whether, in fact, the poor will work less and, if they do, how much less. The Rural Experiment was the second of these. (The first one—the New Jersey Experiment directed by Harold W. Watts—reported its results in December, 1973. Revised results are currently being published in the Institute's Research Monograph Series.)

Why More Than One Income Maintenance Experiment?

When the possibility of fielding a large-scale social experiment was discussed almost ten years ago, a consensus rapidly developed that *one* such experiment, however well designed, would not be sufficient to provide definitive information concerning the effects of a national income maintenance program on work behavior. The diversity of demographic groups and labor markets, it was argued, necessitated several experiments with different samples and different subsidiary hypotheses.

The best-known experiment, and probably the project for which the Institute has received most professional and public recognition, was the New Jersey Graduated Work Incentive Experiment. Following the early consensus that no single experiment could answer everything, the New Jersey Experiment was designed with rather a restricted research focus. The sample was not only limited to families headed by able-bodied men who were in the 18–58 age range. It was also limited to families living in the urban northeast of the United States.

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

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

The views expressed are those of individual members of the Institute; they do not represent the position of the Institute for Research on Poverty, the University of Wisconsin, the Department of Health, Education, and Welfare, or other funding agencies.

ORDER FORMS ARE AT THE BACK

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Over a third of the U.S. poor population live in rural areas (on farms or in towns of less than 2,500), and are assumed to face very different opportunities from those faced by their urban counterparts. Most have rather limited income opportunities that are highly seasonal. Many are self-employed farmers, a large proportion of which also work for wages off the farm.

A second experiment was thus designed to find out whether these differences would result in a rural/urban difference in work response to a national income maintenance program.

The Rural Experiment

Like the New Jersey Experiment, the Rural Experiment set out to measure the effects on work and earnings (and therefore on the cost of a national program) of a particular kind of income maintenance program, namely one that relied on self-reporting of income and family size by the recipients. The two principal experimental variables were those common to all transfer programs that depend on income level for eligibility—a basic benefit (the payment level for a family with no other income) and an implicit tax rate (the rate at which the basic benefit payment declines as income from earnings and other sources rises). These together determine the size of the benefit payment. In the negative income tax plans under consideration they are set in such a way that total income (that is, earnings plus unearned income plus benefit payment) always rises as earnings rise.

Also like the New Jersey Experiment, eligible families were selected randomly from within the experimental sites. They were divided into three income categories and assigned randomly within the categories to the control group or to one of the various negative income tax plans to be tested. The experimental groups were eligible to receive payments every two weeks over a three-year period, based on monthly reports of income and family size. Experimentals and controls alike were interviewed every three months.

Unlike the New Jersey Experiment, single individuals, families headed by women, and families with an aged head were included in addition to the two-parent, "working poor" family. Five negative income tax plans were tested (in contrast to the eight tested in New Jersey):

Basic Benefit (as % of poverty line)	Tax Rate (%)
50	50
75	30
75	50
75	70
100	50

Summary Report

THE RURAL INCOME MAINTENANCE EXPERIMENT

conducted by

Institute for Research on Poverty

for

Office of Economic Opportunity

and

Department of Health, Education, and Welfare

Institute Special Report no. SR10

- There will be a conference on the Rural Income Maintenance Experiment at the Brookings Institution, Washington, D.C., in January 1977.
- A special issue of the *Journal of Human Resources* will be devoted to the Rural Experiment in the summer of 1977.

Iowa and North Carolina were the two sites chosen. The Iowa sample was all white, the North Carolina sample was half black and half white. The original sample totalled 809 families, of which 729 remained in the program for the entire three years.

In analyzing work and income response to the experiment, the sample was divided according to the principal source of earned income: wages or farming.

Work Behavior of Farm Families

Farm operators in the experimental group worked more on the farms than their control counterparts—11 percent more in both Iowa and North Carolina. Wives in the experimental group also tended to work more on the farm than the control wives (although hours worked declined in absolute terms for both groups).

Consistent with this, the hours worked for off-farm wages by members of farm families in the experimental group declined relative to controls in every group—and for wives the effect was large. (A substantial proportion of the farm families did have members working for wages—about 78 percent in North Carolina and 50 percent in Iowa.)

Table 1 shows the contrast.

Table 1

Experimental/Control Differences in Hours Worked for Farm Families On and Off the Farm

	North Carolina	Iowa
Farm Operators		
Hours of farm work	+10.7%	+10.9%
Hours of wage work	−33.3	−10.4
Total hours of work	− 2.7	+ 9.5
Wives		
Hours of wage work	−63.5	−56.7
Farm Operators and Wives		
Total hours of work	−17.0	+ 7.2

With the experimentals putting in more farm work than controls, one would expect their profit picture to be correspondingly better. But here again is a paradox. Farm operators' participation in the experiment generally *reduced* profit (defined as gross revenues less current costs) for a farm operation of a given size, as is shown in Table 2. Efficiency of farm operations (measured by the amount of output produced with a given bundle of fixed and variable inputs) also declined for experimentals relative to controls.

How are these paradoxes to be explained? We do not have definitive answers, but there are several possibilities.

Table 2

Experimental/Control Differences in Farm Profit, by Year

	North Carolina	Iowa
1970	−28.1%	−18.1%
1971	−26.7	+16.2
1972	−19.7	−22.9

Explaining the Paradox of the Farmers

There are three plausible reasons for the increased farm work of the experimentals relative to controls.

First, to the extent that farmers and their families also held wage jobs, the payments may have made it less costly for them to work less at those jobs (on the reasonable assumption that they liked them less than work on the farm), leaving more time free for farm work.

Second, farmers may tend to devote most of their free time to farm work, somewhat independent of the demand for their labor (via a more or less leisurely work pace), or they may simply *report* that all their free time is devoted to the farm, since they are unaccustomed to keeping track of their hours. Third, farmers in the experiment may have been able to spend more time on improvements and repairs.

The decrease in relative profits, in light of the reported increase in hours, is a puzzle with no definitive answer. The gain from additional hours worked in self–employment is not straightforward. A self–employed farmer, for instance, can respond to the payments by changing not only the amount of his own work, but the kind of work he does, the kind of work others do, and even the production process itself.

Possible explanations of the relative decline in profits include: (a) Farmers may have become less careful and less concerned with profit because of the financial cushion of the payments, enabling them to spend time on the farm for enjoyment without regard to the financial return; (b) They may have spent time on improvements that would increase profit in the long run but not during the three–year span of the experiment. The payments may also have allowed them to take more risks; (c) There may have been measurement problems in the data that biased the experimental–control comparisons. For instance, the necessity to report every month (as opposed to only every three months for the controls) may have made the experimentals more efficient at keeping track of all their costs.

Work Behavior of Wage Earners

Over half the rural sample earned most of their income from wage work, with most of them living and working in small towns. Their responses were analyzed separately because working for wages was expected to set up different behavior patterns from those of people working on their own farm. The work behavior of the members of these families differed somewhat by race and region. The results reported here involve husband/wife families where the husband was of working age.

No statistically significant evidence of withdrawal from the labor force appeared for any group of *husbands,* whether black or white, whether in North Carolina or Iowa. Nor was there any change in the average hours they worked.

For *wives,* in contrast, large statistically significant negative experimental effects on hours worked also appeared for all groups of wives, although they were only statistically significant for the blacks in North Carolina.

Among children living at home, the effect of the experiment on the average hours worked was also strongly negative (the difference between experimentals and controls amounting to 46 percent) although, again, a statistically significant level was only reached for one subgroup–white children in North Carolina.

All this added up to a statistically significant average reduction both in hours worked by families and in the numbers of earners per family compared with the control group.

These results cannot be generalized to the country as a whole. But they can be used to predict the response for the three midwestern and five southern states that the experimental sites were chosen to represent (Wisconsin, Illinois, Iowa, Mississippi, Alabama, Georgia, South Carolina, and North Carolina) —about 30 percent of the U.S. poor and near-poor rural nonfarm population. For this 30 percent, then, the results of the experiment predict a negative effect on hours worked of 13 percent.

Table 3 shows the experimental–control differences in hours worked for the various groups.

Table 3

Experimental/Control Differences in Hours Worked for Rural Wage Earners

	North Carolina		Iowa	8–State
	Blacks	Whites	Whites	Average
Husbands	− 8%	+ 3%	− 1%	− 1%
Wives	−31	−23	−22	−27
Family	−10	−18	− 5	−13

Note: These are expressed as percentages of the control mean for a middle–range negative income tax plan.

School Performance and Nutrition

As in the New Jersey Experiment, there was some change in expenditures, particularly an increase in purchase of consumer durables, but few aspects of behavior other than work patterns changed noticeably as a result of the Rural Experiment. Two conspicuous exceptions appeared in North Carolina, however, that were not found either in Iowa or in New Jersey.

First, although aspirations, attitudes, and school behavior of teenagers did not change, *school performance* improved significantly for both black and white grade school children (up through grade 8) in North Carolina as a result of the experiment. This was true for attendance, comportment, academic grades, *and* standardized tests.

Second, *nutrition* improved significantly among experimental families in North Carolina.

That Iowa (and New Jersey) did not share in the gains can probably be attributed to initially better home environments, school performance, and nutritional levels.

Important Implications for Program Administration

Changes in behavior are what everyone looks for in the income maintenance experiments. Indeed, issues with respect to behavior were the only ones paid major attention to as the experiments were being planned.

During the course of events, however, questions of administrative rules and reporting reliability *were found to have at least as great a potential impact on program costs as the actual changes in work behavior induced by the payments.*

Benefits in the Rural Experiment were calculated on the basis of family size, assets, and income as reported every month by the families. Reporting accuracy was thus extremely important, as it would be in any national program, not only to ensure accurate and equitable benefit calculation, but because underreporting could result in substantially inflated program costs.

Families showed satisfactory willingness and ability to complete the monthly forms on which they reported their financial status—this in spite of the fact that half the family heads in North Carolina either had difficulty reading or could not read at all, and a quarter could not write more than their own names.

Except for farm income, the families did a fairly accurate job of reporting. With the quarterly interview data as the standard of comparison, family size changes were reported faithfully on the monthly income report form even though adding a fictitious family member was the most straightforward way of inflating the payments received. Net worth was underreported by 27 percent in Iowa and 14 percent in North Carolina, although the effect of this on payments was slight. Transfer payments from other programs were reported with high accuracy. Wages, the most important source of income, were also reported accurately (about 91 percent of the total as ascertained from interviews and outside documentation). Altogether 89 percent of all nonfarm income was reported.

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TRENDS IN ECONOMIC INEQUALITY IN THE U.S. SINCE WORLD WAR II: A CONFERENCE

by
Sheldon Danziger

> . . . given the inadequacies of the data available, the true postwar trend in the distribution of income is a mystery. This is the only strong consensus emerging from a national conference on the subject held last week at the Institute for Research on Poverty. . . .
>
> *The New York Times*, Saturday, November 6, 1976

According to the official statistics, income inequality among households has remained stable throughout the post-World War II period. In spite of this, however, conflicting assessments of the trend in income inequality abound among economists:

Edgar Browning: *The share of net income accruing to the lowest quintile is estimated to be 62 percent higher in 1972 than in 1952.*[1]

Morgan Reynolds and Eugene Smolensky: *The distributions of net income were about the same in 1970 as they were in 1950.*[2]

Morton Paglin: *The trend of inequality from 1947–1972 has declined by 23 percent.*[3]

Sheldon Danziger, Robert Haveman, and Eugene Smolensky: *We reject the new measure of inequality proposed by Paglin, and with it the reliability of his conclusion.*[4]

The extent of the disagreement about the trend in inequality, combined with the enormous emotional charge it carries, led the Institute for Research on Poverty to hold a small conference of experts, both from academia and from government, to analyze the uncertainties, discuss needed research in the area, and relate the whole to public policy.

The focus of the conference was provided by Michael K. Taussig of Rutgers University, who was commissioned by the Institute to prepare a background paper surveying the literature and laying out the issues.

The Inadequacies of Existing Data

Although there was no strong consensus as to what appropriate data would show with regard to the trend in economic inequality, there was wide agreement that the official source of data on income—the Current Population Survey (CPS)—is so deficient that it cannot enlighten us.

First, and most straightforward, the CPS income series is designed to count current cash income.[5] Even if this were the appropriate income concept—and most economists agree that it is not—the CPS does not provide a good measure of it. There is substantial underreporting, the estimates of which range from 10 to 30 percent depending on the kinds of income. In addition, the income measured is *before* taxes. Since the tax burden falls unequally on different income classes, this omission distorts the picture of their actual command over resources. Finally, realized capital gains and losses are also ignored, producing a further distortion.

The second major criticism is that even if current money income were measured accurately it is not the appropriate concept with which to measure economic inequality. The argument is that there are many factors (in addition to cash receipts) that make significant contributions to economic well-offness and are not distributed uniformly across income classes. In-kind transfers from government constitute an obvious example (Food Stamps, Medicaid,

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Trends in Inequality of Well-Offness in the United States since World War II, background paper by Michael K. Taussig and Conference Overview by Sheldon Danziger, Institute for Research on Poverty, Special Report no. SR11. Forthcoming, January 1977.

SELECTED PAPERS

Sheldon Danziger, "Some Effects of the 1974–1975 Recession on the Level and Distribution of Income," Institute for Research on Poverty Discussion Paper no. 368–76.

Sheldon Danziger and Robert Plotnick, "Demographic Change, Government Transfers, and the Distribution of Income," Institute for Research on Poverty Discussion Paper no. 274–75.

Morgan Reynolds and Eugene Smolensky, "Why Changing the Size Distribution of Income through the Fisc is Now More Difficult," Institute for Research on Poverty Discussion Paper no. 356–76.

Morgan Reynolds and Eugene Smolensky, "Post-Fisc Distribution of Income: 1950, 1961, and 1970," Institute for Research on Poverty Discussion Paper no. 270–75.

FORTHCOMING MONOGRAPH

Morgan Reynolds and Eugene Smolensky, *Public Expenditure, Taxes, and the Distribution of Income: the U.S., 1950, 1961, 1970.* Institute for Research on Poverty Monograph Series (New York: Academic Press). Expected publication date, June 1977.

Medicare are all ignored). Another example is the holding of wealth. Wealth is ignored, although few would argue that two people with the same money income but vastly different wealth holdings are really equally well-off. An additional example emphasized at the conference was the increasing importance of job perquisites (such as pension rights, free time on the job, and business expenses) which are distributed very unequally among the population and are omitted from the CPS.

A third set of factors, difficult even to specify, is nonetheless relevant to any serious effort to compare well-being.

One example is the valuation of leisure time. Suppose two individuals earn the same wages, but one works sixty hours per week, while the second works only forty. The CPS considers each individual to be equally well-off, while a "complete" definition of well-being would consider the earner with more leisure (that is, fewer hours worked) to be better off.

A related behavioral issue concerns the effect of government transfers, both cash and in-kind. These transfers not only add to current income (remember that the CPS measures cash but not in-kind transfers), but also may induce changes in behavior. Some people may reduce the amount they work in order to become eligible. Others (particularly the old and women) may be encouraged by the transfers to form separate living units.

For example, aged parents who move out of their children's houses because of the additional income they might receive from Social Security, Supplemental Security Income (SSI), or Food Stamps add to the count of poor units if their current incomes as defined by the CPS are below the official poverty line. This increase in the poverty count also increases measured income inequality even though the combined resources of the aged parents and their children have increased.

This problem leads to the next measurement issue: What is the appropriate income-receiving unit for economic inequality comparisons? The CPS measures the income of individuals and families (that is, relatives living together). Conference participants made the point that neither of these is necessarily the appropriate unit to use. The concept we need is the resources individuals really have command over *in the context of the consuming unit within which they pool their incomes.*

What is the "Real" Trend in Inequality?

It proved simple enough for conference participants to draw up a list of inadequacies in the CPS measure. But the ultimate question was harder to answer: Is economic inequality decreasing or increasing?

A majority of participants would probably agree on their "best guess" as to what a perfect set of data would reveal—greater equality in any one year than shown by the CPS, and a slightly greater trend toward equality over time.

The trend would be only "slightly" affected not because each of the inadequacies noted makes little difference but because the differences offset each other. These are the directions in which conference participants estimated the various factors would alter the trend:

1. *Inclusion of in-kind transfers* would influence the trend toward greater equality.

2. *Inclusion of work-related perquisites* would influence the trend toward greater inequality because they are becoming more important and are concentrated in the top half of the earnings distribution.

3. *Inclusion of realized capital gains and losses,* it was generally agreed, would increase measured inequality, but there was no consensus on the influence they would have on the trend over time.

5. *Taking account of behavioral responses to government transfers* (family splitting and changes in work effort, for example) would influence the trend in the direction of greater equality as well as reducing inequality in any year.

6. *Inclusion of taxes* would show greater equality within any given year, because the overall tax system is progressive. But, the tax system has become less progressive over time (despite recent efforts to offset it), especially because the progressive effect of exemptions has been eroded by economic growth and inflation. The influence of the tax system on the trend, therefore, is probably toward greater inequality.

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THE NEW CHALLENGES TO ORTHODOX LABOR-MARKET THEORY—HOW NEW? HOW CHALLENGING?

The 1960s' mood of social reform produced the War on Poverty and the drive for full participation in the economy by minority groups and women. Dissatisfaction with the pace and direction of these efforts helped produce, in turn, the political unrest of the late sixties. It also produced radical challenges within the economics profession to the conventional approaches to labor-market theory.

What is interesting about these challenges is the response, or rather the lack of it, from those in the mainstream of American economics. The recent period has seen the persistence of social problems in the United States that were considered by most economists fifteen years ago as readily solvable within the framework of orthodox economic thinking. It has also seen a moving away from traditional liberal-democratic approaches to social problems—toward the right and toward the left—on the part of many countries in both Europe and Latin America. Yet the economics profession in this country has resisted taking seriously the attempts to reevaluate the basic framework within which they analyze the workings of the economy.

The challengers attack the orthodox descriptions of the workings of the labor market; they question the theories and methods used by conventional labor-market theorists; and, perhaps most important, they advocate economic changes (some of them major) in the direction of the political left.

Conventional (neoclassical) analysts at first ignored the challenge; they have only recently begun to respond. The combatants are grouped by their economic methodologies; but they also largely divide along political and ideological lines—leading on both sides to the raised voices and sometimes faulty logic that often characterize arguments on issues that are deeply felt.

In a stimulating review and synthesis of the extensive literature generated on both sides of the debate (his bibliography runs to 205 items) Glen Cain analyzes the issues, both theoretical and empirical, raised by the challengers. He puts them into the wider perspective of the history of economic thought. And he discusses the strengths and weaknesses of the modern neoclassical response.

Cain's thesis, in a nutshell, is that labor economics since the time of Adam Smith has always presented a target to be challenged—that the recent dissident theories are basically continuations of older debates.

Glen G. Cain, "The Challenge of Segmented Labor Market Theories to Orthodox Theory," *Journal of Economic Literature* (December 1976). Institute for Research on Poverty Reprint no. 210.

Dennis Aigner and Glen G. Cain, "Statistical Theories of Discrimination in Labor Markets," *Industrial and Labor Relations Review* (January 1977). Institute for Research on Poverty Reprint no. 211.

His main message is that (1) more empirical evidence is needed before the verdict can be rendered on the superiority of orthodox economic theory as an explanation for economic reality; but (2) the dissident positions are generally weaker on a priori grounds than the neoclassical one.

Cain's line of argument, and on occasion his tone, betray him to be a neoclassicist. This does not, however, detract from his informative discussion. His exposition of the arguments, his tracing of the connections among them and between them and older schools of thought, and his assessment of where the neoclassical approach is still really vulnerable, provide an enlightening framework for anyone seriously interested in disentangling the issues.

Orthodox Theory

Neoclassical labor-market theory—to be brief and somewhat simplistic—says that employers act to maximize their profit by paying as low a wage as they can for the worker skills that they need. Workers also want to maximize their gain (in this case their pay) so they accept the highest-paying job for which they have the requisite skills. Jobs demanding higher skills are assumed to be higher paid than less skilled jobs because the amount of training necessary makes that worker more valuable. Particularly unpleasant jobs are also assumed to be more highly paid because workers need more money to be persuaded to do unpleasant rather than pleasant work.

There are many employers and many workers and, in general, all members of both groups act independently. That is, even labor unions and business monopolies are considered relatively ineffective in distorting the operations of the competitive process. This competition (employers trying to keep wages down, workers trying to bid them up) leads to a wage scale such that the number of jobs available at each skill level, or at each degree of unpleasantness, just equals the number of persons able and willing to take those jobs.

As one edition of a well-known economics text states it:

> Never forget that many of the observed differentials in wages have little to do with the imperfections of competition. Equilibrium . . . necessitates tremendous differentials in wages. This is because of the tremendous *qualitative* differentials among people.

Few economic theorists buy neoclassical theory in this simplistic form. They do, however, view this as the appropriate framework within which to analyze the labor market; and they interpret inconsistent evidence as pointing up variations of the basic model rather than the need for a new framework.

The Nature of the Indictment

The source of the indictment of orthodox theory is found in the pervasive hardships and deprivation of large segments of the population, which reveal the inappropriateness of the neoclassical model of how the labor market works. The persistence of poverty; the persistence of income inequality; the failure of education and training programs to improve the lot of those at the bottom; the use by employers of education and training "credentials" to make discriminatory hiring decisions; sustained race and sex discrimination in labor markets; the levels, trends, and structure of unemployment; monopolies, unions, and other sources of protected labor markets; the increasing alienation of the American worker—these constitute the main bill of particulars.

From them flow the new theoretical formulations which veer progressively from orthodox theory.

- The *job competition theory* of Lester Thurow is closest to orthodoxy. The differences are that the number and kind of jobs are determined by technology. Workers' skills and the wages they are willing to work for are, practically speaking, irrelevant. Social custom and institutional considerations determine wage rates, which are rigid; and queues of workers at fixed wages constitute the supply of labor. Decisions concerning job allocation, promotion, and on-the-job training are made within the firm (not affected by the activities of other workers and other firms).

- The *dual labor market theory* of Peter Doeringer and Michael Piore comes next. It depicts two, nonoverlapping labor markets. The primary market is made up of jobs in large firms and/or unionized jobs—leading to higher pay, more chance of promotion, better working conditions, more job stability. The secondary market contains the low-paying jobs, held by workers who suffer discrimination and job instability. This theory places similar emphasis on the allocation of these jobs according to technology and not the relative skills of the workers. It places new emphasis both on employer discrimination and on the mutually reinforcing effects of worker attitudes, motivations, and work habits in assigning (and confining) a worker to the primary or secondary labor market.

- The most removed from the orthodox approach is the *radical theory* of Samuel Bowles, Herbert Gintis and others.[1] This theory expresses a more explicit critique of capitalism as such, acknowledges its ties to Marxian dialectical analysis, and emphasizes class conflicts. The general idea of the dual labor market is sometimes expressed as an analogy with an underdeveloped economy, or even a colony, which is exploited by an imperialist power. Radical theories also draw, as dual market ones do, on sociological analysis of institutional changes and power relations, plus psychological analysis of the attitudes, preferences and motivations of workers and employers.

Historical Antecedents

Cain sees these challenges as the latest in a long and distinguished history of criticism of classical and neoclassical theory. He also points out that until at least the late 1950s and early 1960s, the neoclassicists did not—among labor economists—constitute the "majority party" as they do today.

John Stuart Mill, as early as 1848, developed the theory of noncompeting groups, when he argued against Adam Smith that the

> more revolting the occupation, the more certain it is to receive the minimum of remuneration, because it devolves upon the most helpless and degraded, on those who are . . . rejected from all other employments.

Marx took up the struggle against the neoclassical position with his theory of the exploitation of labor. Although the radicals argue that there is more to the story than employer exploitation, some adopt his framework and many adopt his rhetoric.

Cain attributes the next challenge on the American scene as coming from the institutionalists like Thorstein Veblen and John R. Commons. The roots of the modern radicals' reaction against abstract theorizing and their incorporation of psychological, sociological, and legal material may be found in the works of these early twentieth century critics of neoclassical economics.

The neoinstitutionalists of the 1940s and 1950s came next—to whom, Cain believes, the new dual and radical labor economists owe their greatest debt. John Dunlop wrote of internal labor markets; Clark Kerr's "Balkanization" concept advanced the idea of labor market segmentation; and many of the dissidents had neoinstitutionalists as teachers. They have gone further than their teachers in the formulation of new and more encompassing theories.

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OCCUPATIONAL AND SOCIAL MOBILITY IN THE U.S.: IMPORTANT NEW DATA SOURCE

Job holding is the principal activity by which adults gain their livelihood in the United States. It also leads to a generally recognized social ranking. People asked to rank the social standing of occupations will find themselves in close agreement as to what that ranking is.

What job one holds may, thus, be the best single indicator of social standing; and, by the same token, the extent of intergenerational changes in occupational status may be the best single indicator of the degree of social mobility in this society.

How much hope can parents have that their children will achieve higher occupational status than they were able to manage for themselves? Are the differences between black and white achievement due to racial differences in equality of occupational opportunity? And did the decade of the 1960s see an increase in occupational mobility in the U.S.?

There is now a major new data source on occupational mobility to help us answer questions like these. Developed by Robert Hauser and David Featherman (sociologists at the University of Wisconsin who hold joint appointments between their respective departments and the Institute for Research on Poverty), this data base is essentially a 1973 replication of the 1962 *Occupational Change in a Generation* survey developed by Peter Blau and Otis Dudley Duncan.[1]

The Two Surveys

The target population of both the 1962 and the 1973 surveys on *Occupational Change in a Generation* (OCG) was the civilian noninstitutionalized male population in the prime working ages. Each survey was carried out in conjunction with the March demographic supplement to the Current Population Survey (CPS).

There are no other data for the United States that (1) are based on a large enough sample to allow detailed age, ethnic, and geographic classification, and (2) include retrospective measures of the social and economic characteristics of the parents of persons old enough themselves to have completed their education. The quality of these retrospective reports has been checked carefully.

The 1962 survey required the CPS interviewer to leave behind a four-page questionnaire. More than 20,000 men aged 20 to 64 completed and returned it, constituting an 83 percent response rate.

In 1973, an eight-page questionnaire was mailed out six months after the March CPS, and followed by mail, telephone, and personal call-backs. More than 33,500 men aged 20 to 65 responded, adding up to a response rate of 88 percent. Unlike in 1962, blacks and persons of Spanish origin were sampled at about twice the rate of whites, and almost half the black men were interviewed personally.[2]

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David L. Featherman and Robert M. Hauser, "Design for a Replicate Study of Social Mobility in the United States," in *Social Indicator Models*, edited by Kenneth C. Land and Seymour Spilerman, pp. 219–252. New York: Russell Sage Foundation, 1975. Institute for Research on Poverty Reprint no. 156.

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William T. Bielby, Robert M. Hauser, and David L. Featherman, "Response Errors of Nonblack Males in Models of the Stratification Process." Forthcoming in *Latent Variables in Socioeconomic Models*, edited by A. S. Goldberger and D. J. Aigner. Amsterdam: North Holland, 1976.

William T. Bielby, Robert M. Hauser, and David L. Featherman, "Response Errors of Black and Nonblack Males in Models of Status Inheritance and Mobility," Institute for Research on Poverty Discussion Paper no. 357–76.

THE INSTITUTE FOR RESEARCH ON POVERTY

> The research output of the Institute for Research on Poverty constitutes much of the best analysis on the economics of poverty, as well as on certain other aspects, evaluated by accepted scientific or scholarly standards. The very strength of the Institute in economics has almost defined the mainline of research on the economics of poverty. The National Academy of Sciences, 1972.[1]

History and Administration

The Institute for Research on Poverty was established in 1966 by the Office of Economic Opportunity (OEO) as a national, university-based center for the study of poverty and policies aimed at its elimination. While the Institute is not part of the government, its primary sponsor and funding source since 1974 has been the Department of Health, Education, and Welfare, with which it maintains close contact.

Several of the original members of OEO had previously been on the staff of the Rand Corporation, which (as is well known) was the so-called think tank for the Pentagon in the 1960s. When OEO was established, these people decided to produce an analogous research institution for poverty problems.

The University of Wisconsin's strong tradition of social policy research—epitomized in the early sixties by Robert Lampman, who was on the staff of John Kennedy's first Council of Economic Advisers—led the OEO planners to look to Wisconsin as the site for its research institute. The University agreed to OEO's urgings that it set up the Institute for Research on Poverty, on condition that the University be given complete freedom to allocate the grant funds to research and researchers as it saw fit.

The Institute is thus in a relatively unique position—funded predominantly with a grant from one government sponsoring agency, but able to pursue undirected academic research in a university context. As such, it operates under University regulations in receiving grants and disbursing funds. Similarly, staff appointments must be approved by the University, although the Institute is given substantial latitude in staff and program development.

A National Advisory Committee, whose members are chosen by the Director of the Institute, subject to HEW approval, plays an important role in current policy and future development. Its present members are:

Barbara Bergmann, University of Maryland;
Lisle Carter, Atlanta University;
Anthony Downs, Real Estate Research Corporation;
Nathan Glazer, Harvard University;
Alfred Kahn, Columbia University;
F. Ray Marshall, University of Texas at Austin;
Joseph Pechman, The Brookings Institution;
Frances Piven, Boston University;
Samuel Proctor, Rutgers University;
Lee Rainwater, Harvard University;
Margaret Rosenheim, University of Chicago;
Paul Samuelson, M.I.T.;
Adam Yarmolinsky, University of Massachusetts.

Two internal committees, Research and Publications, also serve a valuable advisory function.

Staff

The multidisciplinary research staff includes those who hold regular teaching appointments at the University of Wisconsin and divide their time between teaching and research, as well as full-time investigators appointed on a limited-term basis. The current Director is Irwin Garfinkel. The staff is drawn from the social sciences—primarily economics, sociology, social work, psychology, political science, law, and related fields.

Research programs mainly evolve from the interests of the investigators themselves. They generally select and develop projects with the consultation and agreement of the Director. Research is carried out both individually and in collaborative efforts.

Research and Publications

The primary activities of the Institute are sponsorship of the original research of its staff members and dissemination of their findings. Most of the research falls into one of the following broad areas: (1) poverty, economic status, and inequality; (2) income maintenance programs; (3) education, income, and attainment; (4) poverty, household decision-making, and demographic behavior; (5) segregation, discrimination, and poverty; and (6) the legal, political, and administrative systems affecting the poor. Three special group projects currently being conducted by the Institute are the Supported Work Evaluation (being undertaken jointly with Mathematica Policy Research), a study of Welfare Decision-Making in Wisconsin, and the Progress Against Poverty Series. The last is a biennial series of comprehensive reports on how poverty in the U.S. is changing, both in extent and in character. The first volume has already appeared.[2]

The Institute devotes more effort than most other comparable research institutes to disseminating its findings both to sponsoring agencies and to the public. There are three series of Institute publications:

- the Reprint Series of professional journal articles published by Institute staff;
- the Research Monograph Series of book-length technical research studies;
- the Poverty Policy Series of paperback books on policy-related subjects written at a less technical level.

In addition, the Institute distributes technical treatments of research in progress, as yet unpublished, through its

Discussion Paper Series. Articles by Institute staff appearing in a variety of nontechnical journals serve to inform the interested lay public.

Other principal activities include: the design and execution of special experimental studies (such as the innovative New Jersey and Rural Income Maintenance Experiments); consultation with HEW (and formerly OEO) on legislative and policy proposals and assistance in planning and evaluating major HEW-sponsored research projects; and sponsorship of conferences on policy and research issues of social programs.

Research Support

In addition to an annual grant from HEW, the Institute has received numerous grants for special research and experimentation projects from OEO and HEW. Among these are the above-mentioned Income Maintenance Experiments, a Data Center to release information on them to outside researchers, a study of the role of government transfers in the distribution of economic welfare, and a field study of the nonintellectual determinants of status attainment. Other research support has been provided by the Social Security Administration, the National Science Foundation, the Department of Labor, and the Manpower Development Research Corporation.

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[1]National Academy of Sciences, *Policy and Program Research in a University Setting* (Washington, D.C.: National Academy of Sciences, 1972).

[2]Robert D. Plotnick and Felicity Skidmore, *Progress Against Poverty* (New York: Academic Press, 1975).

FORTHCOMING INSTITUTE BOOKS

February 1977

Robert H. Haveman, editor, *A Decade of Federal Antipoverty Programs: Achievements, Failures, and Lessons*

In 1974, a decade after the War on Poverty was declared, the Institute sponsored a conference to evaluate that war. This book presents an overview paper by the editor of the volume, Robert H. Haveman. It also presents (with discussants' comments) the seven major papers commissioned for that conference:

Social and Political Perspective: Lawrence Friedman
Development of Income Maintenance: Laurence E. Lynn
Education and Training: Henry M. Levin
Health Care Provision: Karen Davis
Citizen Participation and Racial Change: Paul E. Peterson and J. David Greenstone
Legal Services: Ellen Jane Hollingsworth
Equal Opportunity in Employment and Housing: Phyllis A. Wallace

June 1977

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

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

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

In this book, Reynolds and Smolensky examine whether the "post-fisc" distribution of income (incomes minus taxes plus government services) was distributed more equally in 1970 than in 1960 or in 1950.

As is clear from the Trends in Inequality Conference report (see p. 5), this is not a simple question to answer. The authors conclude that although the pre-fisc income distribution was substantially less equal than the post-fisc distribution in each year, the post-fisc distribution itself changed very little over the period.

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

July 1977

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

The New Jersey experiment, the first large-scale social experiment, was designed to test the labor-supply responses of male-headed families and their members to various negative income tax plans. This volume includes econometric analyses of the work response of husbands, wives, teenagers, and the family as a whole. It also includes analyses of patterns of job characteristics and job change, and examines certain factors that might influence the labor-supply response—health, social psychological characteristics, and knowledge of the stimulus.

Occupational and social mobility
(continued from page 9)

Data tapes from the 1962 OCG survey are currently available at cost from the Data and Program Library Service, 4452 Social Science Building, University of Wisconsin, Madison, WI 53706. The 1973 data are currently being analyzed by Hauser, Featherman, and others at the University of Wisconsin. They will be made generally available to researchers sometime in 1977.

Results of the Blau–Duncan 1962 Survey

Until 1962, there was a dearth of systematic information on social and occupational mobility. Views about it had to be based largely on anecdotal and, at best, indirect evidence.

Peter Blau and Otis Dudley Duncan changed that in 1962, by persuading the Census to field (as an adjunct to the Current Population Survey) a major sample survey of the extent and sources of social mobility for adult males in the U.S. Data were collected on socioeconomic and demographic characteristics of the families in which these men grew up, their residential backgrounds, and certain characteristics of their wives. The work was supported by several federal agencies, including the National Science Foundation.

The 1962 survey is well known, as are the extensive analyses Blau and Duncan have done on the processes of status attainment and social mobility made possible by the data.

They found substantial upward mobility in 1962. The pattern of recruitment to occupations was not, however, by any means random. Self–employed professionals, proprietors, and farmers displayed a marked tendency to "inherit" the self–employed occupations of their fathers—unlike the three lowest white–collar groups (clerical, retail sales, and service) and the two lowest blue–collar categories (both nonfarm labor).

Perhaps the most fundamental contribution of Blau and Duncan was their development of a framework for studying the process of status attainment. This framework enabled attention to be focussed on how much of the son's eventual status is due to his origins (that is, the status of his father and the family in which he grew up), and how much to factors that intervene between those origins and the status he achieves for himself.

Years of formal schooling, they concluded, accounted in 1962 for nearly all the direct effects of the father's occupation on the occupational standing of the son. The son's education and the number of siblings he grew up with, moreover, explained virtually all the variations between those with a farm background (lower status) and those without.

Racial differences, however, told another story. Neither background characteristics nor differences in education could account for the relative social and economic disadvantage of blacks vis–a–vis similar whites. There was, thus, little evidence of a "cycle of poverty" for whites, but substantial evidence of cumulative discrimination against blacks over the life–cycle.

Results of the Hauser–Featherman 1973 Survey

What has happened to the picture since 1962? Did social mobility, as measured by job status and the factors determining it, change during the decade of the Great Society?

The overall similarity between the results of the two surveys is most striking. Hauser and Featherman found a similar pattern of net upward mobility, similar patterns of status attainment and status persistence, and an even greater influence of education.

In contrast to the overall results, however, they found marked changes in mobility patterns within the *black* population.

In 1962, black men seem to have been subjected to a perverse form of equality of opportunity in the world of work. There was little relationship between the occupational position of a black and that of his father. Black men born at the bottom stayed at the bottom; and even those few born into white–collar families were, in the main, destined to become blue–collar workers themselves.

By 1973, the mobility of blacks had become more like that of whites—particularly among the young men who got their first job between 1962 and 1973. Among whites, the correspondence between the status of a son and his father had decreased slightly; but, among blacks, there was a marked increase in the continuity of occupational status between father and son. Blacks, in this sense, have become more nearly equal to whites.

It is paradoxical that a trend toward convergence of black and white processes of achievement should have come about at the cost of increased inequality of opportunity *within* the black population.

Whether schools impart skills and attitudes that lead to occupational success, or whether they serve merely as certifying agencies for the job market, is a matter of controversy (as discussed in the *New Challenges to Orthodox Labor–Market Theory* article on p. 7). In any event, length of schooling in 1973 had an even more powerful effect on a man's occupational standing than in 1962; and this effect increased relatively more for blacks than for whites.

To measure such effects, each of the several hundred occupations identified by the Census Bureau was assigned a status score ranging from 0 to 96. This score represents an average of the schooling and income of men in the occupation. One year of schooling was worth 3.6 units in occupational status for whites in 1962—almost three times as much as one year of schooling for blacks in that year. By 1973, one year of schooling was worth 4.3 status units for whites—but the worth of schooling for blacks had increased to such an extent that this was now one and one-half times as much as it was worth for blacks.

The relative influence of schooling on black–white differences deserves a closer look. The racial difference narrowed—in years of school completed—to imply an occupational status differential of only 2.5 units in 1973, compared to nearly 8 units a decade earlier. The large gap in occupational status between black and white men who did have the *same* schooling and social background, in contrast, has remained unchanged. In both 1962 and 1973 the occupational standing of black and white men was separated by about 6 units when they shared the same levels of schooling and social background.

Most of the effects of social background on occupational standing are due to the facts that men with advantaged backgrounds stay in school longer and men with more schooling gain higher status jobs. The recent equalizing trends in schooling and in its effects on occupations have enabled black men to begin to experience the intergenerational gains in social standing that had earlier been largely restricted to whites. If these trends continue, the passage of time may one day eliminate the contribution of social background and schooling to the black–white status gap.

There is no such optimistic outlook for the effects of discrimination (that is, effects beyond background and schooling), however. The persistence of the black–white gap between men who did have the same schooling and social background means that time is *not* narrowing the status difference between blacks and whites that is due to the effect of race *per se*.

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[1]Seed money for the project came from the Institute for Research on Poverty. The major funding for the survey itself came from the RANN program of the National Science Foundation.

[2]In both samples, unfortunately, women were represented only through their husbands. But Featherman and Hauser have been able to make some comparisons of the socioeconomic opportunities of married men and women. See David L. Featherman and Robert M. Hauser, "Sexual Inequalities and Socioeconomic Achievement in the U.S., 1962–1973." *American Sociological Review* 41 (June 1976):462–483. Institute for Research on Poverty Reprint no. 202.

Note: FOCUS/Institute for Research on Poverty Newsletter should be distinguished from *Sociological Focus* (and from the Focus on Policy Series within it), information about which can be obtained from Margaret M. Poloma, Co–editor, Department of Sociology, The University of Akron, Akron, Ohio 44325. We apologize that this distinction was not noted in our first issue.

Trends in economic inequality
(continued from page 6)

Income Inequality and Social Policy

The final session of the conference was devoted to the importance (or lack of it) of the income inequality issue for domestic social policy. It was pointed out that Americans have never made the lessening of income inequality an explicit policy goal. Whatever economists may conclude about the income trends, the public seems relatively satisfied on that score.

Policy goals that are related to the issue have certainly been articulated: among them full employment, the alleviation of income poverty, and the elimination of race and sex discrimination. Some of these, it was realized, might conflict with the goal of reducing income inequality as such. An end to discrimination against women was cited as a prime example of a social policy goal that, as it becomes increasingly realized, creates greater income inequality. More women are finding jobs and, since the social norm in this country is for highly educated people to marry each other, increased work among women will disproportionately increase the earnings of high income families.

No ranking of social objectives was attempted at the conference. But it was generally agreed that evidence of a pronounced trend in inequality would alter perceptions of the performance of both the public and private sectors. This, in turn, would be likely to affect substantially any ranking of public policy goals.

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[1]Edgar Browning. "The Trend Toward Equality in the Distribution of Net Income." *Southern Economics Journal,* July 1976.

[2]Morgan Reynolds and Eugene Smolensky. "Why Changing the Size Distribution of Income Through the Fisc is Now More Difficult." Institute for Research on Poverty Discussion Paper no. 356–76.

[3]Morton Paglin. "The Measurement and Trend of Inequality: A Basic Revision." *American Economic Review,* September 1975.

[4]Sheldon Danziger, Robert Haveman, and Eugene Smolensky. "The Measurement and Trend of Inequality: A Basic Revision: Comment." *American Economic Review,* March 1977 (in press).

[5]The income series includes money wages and salaries: net income from self-employment; income other than earnings (such as dividends, interest, and rent); public cash transfers (such as Social Security, welfare payments, and Unemployment Compensation); and regular private cash transfers (such as annuities, alimony, and private pensions).

GOVERNMENT CONSIDERS NEW WAYS TO COUNT THE POOR

A perpetual debate within the academic community since the start of the War on Poverty has been: What is poverty? How should it be defined? The first in a new series of Institute reports on poverty[1] includes extensive statistical series on three different measures of poverty, and discusses additional possibilities. Other research at the Institute[2] (and elsewhere) also tackles this problem of definition.

A potentially explosive discussion is now taking place within the Congress and the federal executive branch regarding possible changes in the official measure of who shall be counted as poor. The discussion is capsulated in *The Measure of Poverty*—an HEW report submitted in April, 1976, in response to a congressional mandate requiring a

> thorough study of the manner in which the relative measure of poverty for use in the financial assistance program authorized by Title I of the Elementary and Secondary Education Act of 1965 may be more accurately and currently developed.

The Current Official Definition of Poverty

The current official definition of poverty provides a range of income cutoffs, usually expressed as dollars per year. These income cutoffs are adjusted by such factors as family size, age and sex of the household head, whether the household members are children or adults, and whether or not the household lives on a farm. These income cutoffs are an attempt to specify the level of income considered minimally adequate for various types of families in terms of American living standards.

People are officially considered poor if they live in households whose average income for the year is below the income cutoff appropriate for their size and type of family. The income counted in this calculation includes earnings, unearned income from private sources, and government cash transfer income. In-kind benefits (such as Food Stamps and Medicaid), taxes paid, and assets are ignored.

The Implications of Change

The implications of a change in the definition of poverty are numerous and extend into many areas of social policy. Social benefit programs are often designed with the poor especially in mind; many, in fact, exclude anyone who is not counted as poor under the current definition.

The official measure not only identifies financially needy individuals and families. It has recently been extended to designate whole geographical areas as eligible or ineligible for special financial aid. School aid under Title I of the Elementary and Secondary Education Act is but one example of such use. Although Title I educational services can also go to children from nonpoor families, the number of poor children within a school district is a critical element in the formula that decides which schools even receive the funds necessary to provide the services.

In addition to these administrative uses of the poverty measure, it also tends to define how much progress we think we have made as a nation in reducing poverty.

> **THE MEASURE OF POVERTY**
>
> A Report to Congress as Mandated by the Education Amendments of 1974. U.S. Department of Health, Education, and Welfare.

The Issues Involved and the Differences They Make

Many definitions and variants of them are discussed in the report. (Statistical estimates of the changes they would bring about are in some cases included in the supplementary Technical Papers rather than the report itself.)

Should in-kind benefits be included in income? How about taxes paid? How about assets? The inclusion of Food Stamp benefits reduces the poverty population somewhere between 5 and 15 percent. Income taxes affect it very little. Payroll taxes increases the poor by half of one percent. The inclusion of estimated rent for those who own their own homes may reduce poverty by as much as 16 percent. The inclusion of all liquid assets may, similarly, reduce it by as much as 18 percent.

For how long should average income be below the poverty cutoff before people are called poor? One year? Five years? Of the poor population in 1972, 31 percent would not have been poor if a five-year income average had been used. BUT: of those who would have been poor under the five-year average, 17 percent would not have been counted as poor in the year 1972.

Should there be different income levels for different demographic groups? Male versus female heads? Rural versus urban residents? Adults versus children? All these differences enter into calculation of the current official definition. The HEW report documents that their omission makes practically no difference to the overall size of the poverty population or to its regional distribution.

How high should the level be? The HEW report devotes a great deal of attention to this question, documenting the difficulties of making defensible estimates of minimum decent living standards (including all the value judgments that must be made), and making no bones about the tenuous food consumption rationale behind the current poverty cutoffs.

Statistical series in the report show the differences in the poverty population that raising or lowering the current level would make. Under the current measure, 11.6

percent of the population was poor in 1974. At three-quarters of the current level, this would drop to 6.9 percent. At one and one-half times the current level, the poor population would practically double, rising to 21.6 percent. And at twice the current level, 33 percent of Americans would be counted as poor.

There are also regional implications. At three-quarters of the current level, the South would have proportionately more of the poor than currently, and the Northeast proportionately fewer. At twice the current level, the South would have many fewer proportionately, and the other three regions (Northeast, North Central, and West) would all have proportionately more.

Should the level be established irrespective of family size? Why should large families be allowed more income for a given status than small ones? The 1974 poverty income cutoffs ranged from $2,487 for a single person, to $5,008 for a four-person family, to $8,165 for a family of seven or more.

The HEW report publishes extensive statistical series showing how different the poor population would be if no allowance were made for the number of people in the family. At their "low" poverty cutoff ($3,200 annual income), the poverty population would be reduced from 11.6 percent of the population to 8.3 percent. At their "high" level ($5,038), the poor would increase to 15.6 percent. An income cutoff that does not vary by family size (whether at the low or the high level) has also, it turns out, major implications for the regional distribution of the poor. The South would have proportionately fewer of the poor than under the current defintion and the other three regions would all have proportionately more.

Should poverty be defined with respect to the living standards of the whole society? If the rich get richer, are not the poor then poorer by comparison? This is certainly a most controversial issue in the debate. On any absolute standard (such as we have today), poverty can in principle be eliminated if incomes at the bottom rise, even if that rise is trivial with respect to the income gains of the rest of the population. A poverty line based, let us say, on the typical (median) income of society will only show progress if the incomes at the low end increase faster than incomes in general.

The HEW report presents detailed statistical series for a poverty income cutoff at 50 percent of the median income. On this measure, the number of people who were poor in 1974 would increase from 11.6 percent to about 18 percent (depending on how the median is calculated). The South would again have proportionately fewer of the poor than currently, and the other three regions would have proportionately more.

Note: poverty over the 1967–1974 period, according to this relative measure, did not decrease at all. Under all the other measures discussed the decrease over the period was significant, if not entirely steady.

* * *

Obviously, these are only highlights from a detailed and important report. *The Measure of Poverty: A Report to Congress as Mandated by the Education Amendments of 1974* can be ordered from:

Office of the Assistant Secretary for Planning and Evaluation
Department of Health, Education, and Welfare
200 Independence Avenue, S.W.
Room 443D, South Portal Building
Washington, D.C. 20201

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[1]Robert D. Plotnick and Felicity Skidmore, *Progress Against Poverty: A Review of the 1964–1974 Decade*, Institute for Research on Poverty Policy Series (New York: Academic Press, 1975).

[2]Marilyn L. Moon and Eugene Smolensky, *Augmenting Economic Measures of Well Being*, Institute for Research on Poverty Monograph Series (New York: Academic Press, forthcoming).

FORTHCOMING INSTITUTE WORK ON THE AGED

1. *A Monograph*

Marilyn Moon, *The Measurement of Economic Welfare: Its Application to the Aged Poor* (New York: Academic Press, forthcoming).

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

2. *A Conference*

Treatment of Assets and Income from Assets in Income-Conditioned Programs for the Aged. A Spring, 1977 conference on this topic will be jointly sponsored by the Institute for Research on Poverty and the Federal Council on Aging. From this conference will come a volume of commissioned papers on this important issue, and a policy statement and recommendations by the Council.

Rural experiment
(continued from page 4)

The monthly reporting of farm income and expenses proved to be very inaccurate: the average farm family reported only 61 percent of its net farm cash income (as measured against the net income figures derived from interviews, production data, and IRS tax returns). This underreporting arose mainly from the omission of income items rather than from an overreporting of expenses, and could be largely corrected with improved administrative procedures.

The time period over which income was counted in benefit calculation proved to be a very important issue both for equity and for program costs. If income is counted over a very short period (one week is used for Unemployment Compensation and one month for AFDC) benefits respond rapidly to changes in need. But such a system can also distort the timing of income receipts and create inequities between those receiving regular income and those receiving irregular lump sums. Under a one-month accounting period, for example, a wage earner making $1000 a month would not qualify for benefits under feasible levels of generosity, but a farmer clearing $12,000 in crop sales during a three-month period would be eligible for maximum benefits during the rest of the year.

To permit short-term responsiveness and still ensure equal treatment of wage earners and self-employed farmers, the Rural Experiment developed a system of accounting whereby income was counted for the most recent month but both excess income and losses were carried over and included in income for a twelve-month period.

* * *

Write to the Institute for Research on Poverty for a list of the Technical Papers from the Rural Experiment, which are available at cost.

New challenges
(continued from page 8)

The most recent challenge came from Charles Killingsworth and the structuralists of the 1950s. They questioned the orthodox view that full employment could be restored without inflation—arguing that technology, population shifts and other "structural shocks" were the root causes of pervasive unemployment and were beyond the easy remedy of economic stimulation through the "free market." This concept of structural unemployment of the unskilled due to the faults of the free market is closely allied to the modern dissidents' depiction of the depressed secondary labor market.

Defense of the Neoclassical Approach

A defense of neoclassical research must rest on (1) adherence to the view that positive economic analysis can be separated from normative issues; (2) a denial that neoclassical models assume away conflict among various economic groups in society; (3) a belief that it is useful to construct economic models which assume that tastes and institutional factors are determined *outside* the economic system, while at the same time (4) claiming that neoclassical theory is capable of analyzing a variety of "noneconomic" variables and "disequilibrium" conditions.

Cain's Assessment of the Debate

Cain's conclusion is that the theoretical contributions of the newest challenge to orthodoxy can be best formulated as modifications and additions to orthodox theory. (1) The new theorists have focussed "on a major gap in neoclassical models of labor market behavior," which make no allowance for the possibility that *attitudes may be a result of one's labor market achievement.* "The effects of discrimination, other systematic factors or even random factors that start workers off in the secondary sector (that is, in "bad" jobs), can shape tastes in an antiwork direction and thereby reinforce the disadvantageous position of low-wage workers." Neoclassicists need now to concentrate on building into their framework the possibility that these factors themselves affect and are affected by the working of the labor market.

(2) The new theorists have also reinforced the charge that neoclassical economics does not provide a very complete or convincing theory of *discrimination.* Neoclassical theories of discrimination have developed along three lines: competitive models which predict a long-run disappearance of wage (or job) discrimination; noncompetitive

theories, which are downplayed as being empirically unimportant; and models of the unreliability of the information channels operating in the labor market.

These are not, for Cain, convincing explanations for the extent of discrimination that we observe, and he suggests

> that we not lose sight of the substantial differences in the level of white and black earnings (10 to 20 percent)[2] even for recent data and even after available productivity variables have been held constant.

(3) The new theorists' emphasis on the *occupational structure* highlights our lack of empirical evidence on the questions of occupational choice and occupational mobility. According to Cain, labor-market economists should devote more serious effort to studying the institutional dimensions of operations *within* companies and firms (internal labor markets) to enrich our understanding of the economics of bureaucratic organizations. More evidence is also needed before we know whether workers with specific attributes are confined to one segment of the labor market and, if so, how substantial the incidence is.

(4) The new theorists' highlighting of *unemployment and job instability* points up, according to Cain, both theoretical and empirical gaps in the neoclassical approach, particularly the inadequacy of current efforts at explanation in terms of job search behavior. It also raises a basic issue, as yet unresolved, concerning the extent to which low education and training levels are *causal* to the observed instability of employment (as the neoclassical approach conventionally assumes), and the extent to which they are an *effect* of that instability.

(5) The alledged failure of *training and educational training programs,* according to Cain, involves the still messy issue of evaluating the evaluations of social action programs. Evaluations of government programs reveal the difficulties in applied economic research but also illustrate "the opportunities to test hypotheses in concrete situations where questions of bias and misspecification are not floating in abstraction, which is the bane of our current attempts to assess economic research."

* * *

As Cain rather eloquently sums it up:

> In the areas of empirical research and policy prescriptions, the dual and radical school represents an important voice. Although their research suffers, in my view, because it is not anchored to as tight and consistent a theory as neoclassical theory, this fault is compensated by their new ideas and their discovery of empirical anomalies in the orthodox paradigm.[3]

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[1]For example, Samuel Bowles and Herbert Gintis, *Schooling in Capitalist America.* New York: Basic Books, 1975.

[2]Other estimates put the unexplained difference in the neighborhood of 30 percent.

[3]Glen G. Cain, "The Challenge of Dual and Radical Theories of the Labor Market to Orthodox Theory," *American Economic Review* 65 (May 1975):16–22.

FOCUS/Institute for Research on Poverty Newsletter

Writer and Editor	Felicity Skidmore, with the assistance of Roberta Kimmel
Designer	Mary Grace Jondrow

I. Reprints

no. 156 "Design for a Replicate Study of Social Mobility in the United States," David L. Featherman and Robert M. Hauser.

193 "Equality of Schooling: Trends and Prospects," Robert M. Hauser and David L. Featherman.

202 "Sexual Inequalities and Socioeconomic Achievement in the U.S., 1962–1973," David L. Featherman and Robert M. Hauser.

209 "Changes in the Socioeconomic Stratification of the Races, 1962–1973," David L. Featherman and Robert M. Hauser.

210 "The Challenge of Segmented Labor Market Theories to Orthodox Theory," Glen G. Cain.

211 "Statistical Theories of Discrimination in Labor Markets," Dennis Aigner and Glen G. Cain.

II. Discussion Papers

no. 270–75 "Post-Fisc Distribution of Income: 1950, 1961, and 1970," Morgan Reynolds and Eugene Smolensky.

274–75 "Demographic Change, Government Transfers, and the Distribution of Income," Sheldon Danziger and Robert Plotnick.

336–76 "Occupations and Social Mobility in the United States," Robert M. Hauser and David L. Featherman.

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