The background features large, stylized letters 'KSR' in a light blue color, set against a dark red background. The letters are partially obscured by a light blue gradient that covers the top right portion of the cover.

# Kennedy School Review

**New Administration,  
New Directions**

*Policy proposals for  
a Bush Presidency*





# Kennedy School Review 2001

*New Administration, New Directions  
Policy Proposals for a Bush Presidency*

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## Foreword

When it comes right down to it, politics is really about ideas. Good policy grows from an ideas-rich environment, where competing proposals can be argued, discussed, debated and dissected. In the eighteen years we served side by side in the US Senate, and the time that each of us have spent as Director of the Kennedy School's Institute of Politics, we have worked as friends to try to foster new solutions and craft new ways of making our country a better place.

In short, ideas matter. Which is why we are both delighted to support the second volume of the *Kennedy School Review*, under the theme 'New Administration, New Directions: Policy Proposals for a Bush Presidency'. The papers in this volume cover topics as diverse as education, housing, information technology policy, welfare, criminal justice policy and campaign finance reform. All are critical issues for our nation's future. These are areas on which members of Congress have some pretty strong views – but they do not have all of the solutions.

As you might expect from a former Democrat Senator and a former Republican Senator, there are some ideas in this volume with which we both agree, others with which we both disagree, and some on which we indeed differ. But we earnestly commend the authors for the time and energy they have invested in their papers. As with numerous graduates of the Kennedy School, we are confident that many of these writers will go on to leadership roles in the public sector. For the reader, here is your opportunity to engage with some of the policymakers of tomorrow.

Washington, DC is sometimes a tough place to try to make a difference. Even as a Senator, there are times when the policymaking process can be intensely frustrating. But one of the great things about our system of government is that good ideas do break through. Were it not so, our thinktanks and public policy schools would not continue to attract some of the best minds in the world.

We congratulate the authors and editors of this volume, and we commend the papers to policymakers, academics, students and all who are interested in the topics they span. Together, the ideas in the *Kennedy School Review* represent a fresh approach to a set of challenging topics. They deserve to be read and understood.

Finally, we both hope that the *Kennedy School Review*, now in its second year, continues to prosper as the Kennedy School's generalist policy journal. The Review provides a splendid opportunity for students to publish their papers,



and a chance for those outside the School to benefit from their knowledge. We sincerely hope you enjoy this volume of the Review, and we eagerly await the 2002 edition.

**Alan Simpson**

**Director, Institute of Politics, 1998-2000**

**US Senator (R-WY), 1979-1996**

**David Pryor**

**Director, Institute of Politics, 2000-01**

**US Senator (D-AK), 1979-1996**



## Message from the Dean

It is my privilege to introduce the second edition of the *Kennedy School Review*. Launched last year to showcase the diverse thought of emerging public leaders at the Kennedy School, this volume maintains a tradition of which we are proud.

The editors this year have chosen, in a timely fashion, to focus on the theme of policy ideas for the new Administration. Election 2000 was a closely fought contest, with both candidates championing powerful visions for the United States. As the new Bush Administration begins the process of shaping its legislative agenda, it seems only fitting that Kennedy School students join the debate. Indeed, it speaks to very heart of our educational mission.

The Kennedy School strives to strengthen democratic governance around the world by training people for public leadership and by helping to solve problems of public policy. By fostering the collaborative efforts of scholars, public officials, and others who are concerned with the public good, our faculty and students have played an important role over the years in advising both Democratic and Republican Administrations.

I am glad that this Journal is an entirely student-led initiative. It reflects not only the rigor we expect in policy analysis, but also the entrepreneurial spirit so vital to being a successful public leader. The range of ideas advanced in this volume confirms the diversity of thought that fills our classrooms. That diversity comes from a student body drawn from 70 countries around the globe. It is no coincidence that we are the most international of all professional schools at Harvard.

The mark of a superior institution of higher learning is the degree to which it cultivates disparate ideas and demands judicious scholarship. This Journal embraces that spirit and reflects the promise of our current students. I hope the articles inside not only prove enjoyable to read, but also that they receive the serious consideration they merit.

**Joseph S. Nye, Jr**  
Dean



## Introduction

In a world of strategists and spin-doctors, the process of generating political ideas sometimes finds itself relegated. We are frequently told that politics is all about managing the media agenda, fundraising, or providing 'leadership'. Implicit in this is that forming good policy is easy – putting it into practice is the hard part.

This journal stands against that proposition. Formulating good policies is a vital, difficult process. Yet in the words of one of the twentieth century's greatest economists, John Maynard Keynes, 'the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.'

Each of the contributions to this volume synthesizes the existing literature, then goes beyond, to propose new and innovative ways to deal with some of the difficult policy problems facing the federal government. From welfare reform to technology policy, from campaign finance to school vouchers, the papers present new approaches to challenging problems. In the best tradition of the Kennedy School, the authors meld academic expertise and an understanding of political realities.

As students, we are fortunate to have the opportunity to spend one or two years studying here. We benefit not only from engaging in classrooms with our professors, but also from countless conversations in the Forum (a veritable font of social capital), and throughout the School. To hone some of those ideas, and in so doing to help advance public debate, is at the core of the KSG mission.

The job of Managing Editor of the Kennedy School Review has been both more challenging and more rewarding than I initially anticipated. For me the transition was an unusual one. Not a few people commented on the fact that for the second year running, the editor was an Andrew from Australia. This tradition may, I fear, prove unsustainable in the long run (though it has had the effect that none of the KSR editors now bat an eyelid at being called 'mate'). But I hope that in future years the journal will continue to be a collaboration of students from the United States and overseas.

I have been fortunate to work with such a talented group of editors as Kathy Crewe, Clint Davies, Ann Marie Jackson, Nicolas Jimenez, Jay Kommers, Kristina Larson, Heather Price, Marilse Rodriguez-Garcia and Amy Squires. As you will see from their biographies at the end of this volume, they are an extraordinary bunch. Thanks especially to Nicolas Jimenez, who helped me out more times than I can recall.



Joshua Rubin designed our cover and promotional materials with a sharp eye and ready wit. In the early stages, I received many words of wisdom from last year's editors, Andrew Laming, Finbarr Livesey (who suggested this year's theme) and Lynne Lyman, as well as from faculty members Joe McCarthy, Julie Wilson, Richard Parker, Fred Schauer and Mimi Goss. Dean Joseph Nye and Senators David Pryor and Alan Simpson kindly agreed to pen introductory remarks. Curtis Nelson, Mel Litter, April Kreyssig and Ashley Arrington coordinated fundraising, gave substantial administrative assistance, and were always ready to help in making this volume a success. Thanks to the alumni and donors who provided generous financial support. Jesus Mena and Pieter Ott from the KSG Communications and Public Affairs Department aided with publicity.

For a second year, the indefatigable Fred Schauer has headed the faculty review panel, as well as personally reviewing two papers for us. The other reviewers were Mary Jo Bane, Derek Bok, Anthony Braga, Jeff Brown, Jean Camp, John Donahue, Ron Ferguson, David Hart, Joe Kalt, Viktor Mayer-Schoenberger, Nicolas Retsinas, Guy Stuart, Mariachiara Tallacchini, Richard Weissbourd and Julie Wilson. Despite the many other demands on their time, all worked hard to determine whether submissions ought to be published, and for those that they believed merited publication, to suggest ways in which they could be improved.

But the greatest credit for this volume must go to those who have written for us. All 900 Kennedy School students were invited to submit papers. We could not publish every submission, and I am grateful to all those who sent articles to us. The papers inside speak for themselves. As we say in Australia, fill your boots!

**Andrew Leigh**  
**Managing Editor**



# Science and Technology Policy



# Technology and Innovation Policy: Past, Present, and Future

## T. Finbarr Livesey

### Abstract

*The role and prominence of technology policy in the United States has changed and evolved dramatically since the end of the Second World War (WWII). Initially intended to support the development of military technology for national security, technology policy has expanded to include mission-based research and now pre-competitive research. While current policy makers acknowledge the centrality of technology and innovation to future economic growth, they cannot adequately address the needs of the nation, as their discourse is trapped within a stale framework. This paper reviews the development of technology policy since WWII and proposes a systemic view of the innovation system, which would provide policy makers with a better understanding of the issues of innovation within the United States.*

### Introduction

The United States has an enviable record in the research and development of new technologies. As we move further into the 'information age', technological progress and economic growth become increasingly interrelated, and many policymakers agree that a dynamic level of innovation is required to ensure future growth. However, since the publication of *Science: The Endless Frontier* in 1945 by Vannevar Bush, the debate over technology policy, and implicit within that innovation policy, has been cast within very specific constraints.<sup>1</sup> The past has handed us a debate set in concrete terms that no longer apply.

At the same time, technology is reaching into every part of life, as well as becoming more complex and obscure. It is more difficult for policymakers to understand the science on which they are asked to legislate while that science becomes all the more fundamental to modern life.

This paper examines the evolution of technology policy since WWII and how the policy debate has been defined in the minds of policymakers. Specific attention will be given to the policies put forward during both terms of the Clinton Administration. The paper then suggests a framework for discussing technology and innovation policy that builds from the current discourse to a more systemic view of innovation. This evolution of the terms of the debate is necessary: without it, the policy debate will continue in an obsolete framework, and opportunities and threats will be misinterpreted at a crucial time in the development of advanced technologies and their governance.



### Why are we interested in technology policy?

The development of new technological artifacts is in itself of no interest to the general public and to policy makers. However, over the past number of years we have come to understand that the development of new technologies is an inherent driver in economic development and growth. According to the Council on Economic Advisers (CEA):

'Evidence indicates that investments in research and development (R&D) have large payoffs in terms of growth. R&D yields new products, improving the quality of life, and new processes, enabling American firms to reduce costs of production and become more competitive. Indeed, investments in R&D are estimated to account for half or more of the increase in output per person.' (CEA, 1995)

Even those who have ridiculed the growth of pork barrel spending on many areas of research agree that '... technological progress is a vital source of economic growth and R&D a vital source of technological progress.' (Cohen and Noll 1991, p.11)

A broad definition of technology policy, linking how technology affects our lives and how we govern the development and use of technology, covers a multitude of debates from medical research to electricity deregulation. As we continue to expand our uses of technology through the Internet, advanced electronics in cars, and nanotechnology in medicine, technology has become the foundation for modern living. As a result, technology policy can no longer be addressed on an ad hoc basis and needs to be understood by all policymakers at a greater level of detail.

### Is there a justification for government involvement in technology development?

The importance of technology policy is based on the connection between economic growth and technological development. However, this by itself is not enough to justify the federal government spending billions of budget dollars on programs of research and development. If the private sector is providing adequate investment and there is continued growth, why should the government intervene?

The justification that is implicit in *Science: The Endless Frontier* is that of national security. The funding of military technology development provides the United States with a distinct theatre advantage and arguably strengthens the ability of the United States to deter aggressors. Coming as it did at the end of WWII, and being so broad in its recommended action, *Science: The Endless Frontier* can be characterised as a major restructuring of the R&D process.<sup>2</sup> Prior to WWII, the government's role was more laissez-faire, expressed, for example, through its formation of the



land grant colleges. After WWII, the government was placed in the role of protector and removed from any involvement in non-critical (in terms of national interest) technology development. This rationale is compelling on the issue of military development, but it does not help us when it comes to non-military investment.

US technology policy has also mobilized in response to crisis. The response to Sputnik, with the goal of placing a man on the moon before the end of the 1960s, both expressed national security concerns and provided the ultimate example of a mission-based program. The justification for heightened federal involvement in technology development was raised during the Arab oil embargo of 1973, to which Congress reacted with the Energy Restoration Act of 1974 establishing the Energy Research and Development Administration.

The major argument for federal involvement beyond non-military technology has been to remedy a market failure—the failure of the private sector to invest adequately in innovation.

‘The private sector on its own will not commit the level of resources to R&D that is best for society or even for the individual firms. A firm bases its investment expenditures, including those on R&D, on the expected return on an investment to that firm. Because firms realize only a portion of the total returns to an investment in R&D, they will not invest enough from a societal standpoint.’ (CEA 1995)

Firm-based, profit-driven investment decisions do not necessarily equate to the optimum level of technology development for society. While government actors are sensitive to timeframes as well (consider the electoral cycle), it is expected that the federal government generally at least would have a broad perspective on the investment needs of the nation. Whether or not industry is consistently under-investing in research and innovation is very difficult to ascertain, as we cannot know what the optimal level of investment should be. Is investment in technology development a case of constant, decreasing, or even increasing returns to scale? As there is no current answer to this question, and there remains the problem of local optimization for companies, it appears that there is a place for the federal government in supporting diversity in early stage technology development.

In summary, innovation is necessary for economic growth, and therefore higher standards of living. If we accept that we should not depend on crisis to prompt innovation, as such crises bring other significant negatives, and that, all else being equal, the private sector will not invest adequately in R&D, the federal government has a responsibility to promote early stage technology R&D. It can do this through incentives to private firms (for example, research tax credits), the funding of early stage research to provide the base of inventions that will become the new products and services, and the provision of a stable, highly skilled labor supply to technol-



ogy-based firms.

### Technology policy from WWII to Clinton

The role of technology policy in the modern era was defined initially by the war effort, when funding was used to support military technology development and hence strengthen national security. This position was strongly supported by Vannevar Bush, as he was opposed to direct federal funding of technology development, depending instead on the private sector to adequately fund necessary development. *Science: The Endless Frontier* took the position that the federal government should not provide direct financial support for non-defense research in industry, nor interfere in any way with industry's prerogative to determine its own research priorities and directions. (National Science Foundation 2000)

Since WWII, the basic research needs of federal agencies have also been supported. The exemplar of funding in this manner, referred to as mission-based research, has been the National Institutes of Health within the Department of Health and Human Services.<sup>3</sup>

'The two main elements of post-war technology policy, then, were government support for research in basic science, and active development of advanced technology by federal agencies in pursuit of their statutory missions.' (Branscomb and Keller 1997, 16)

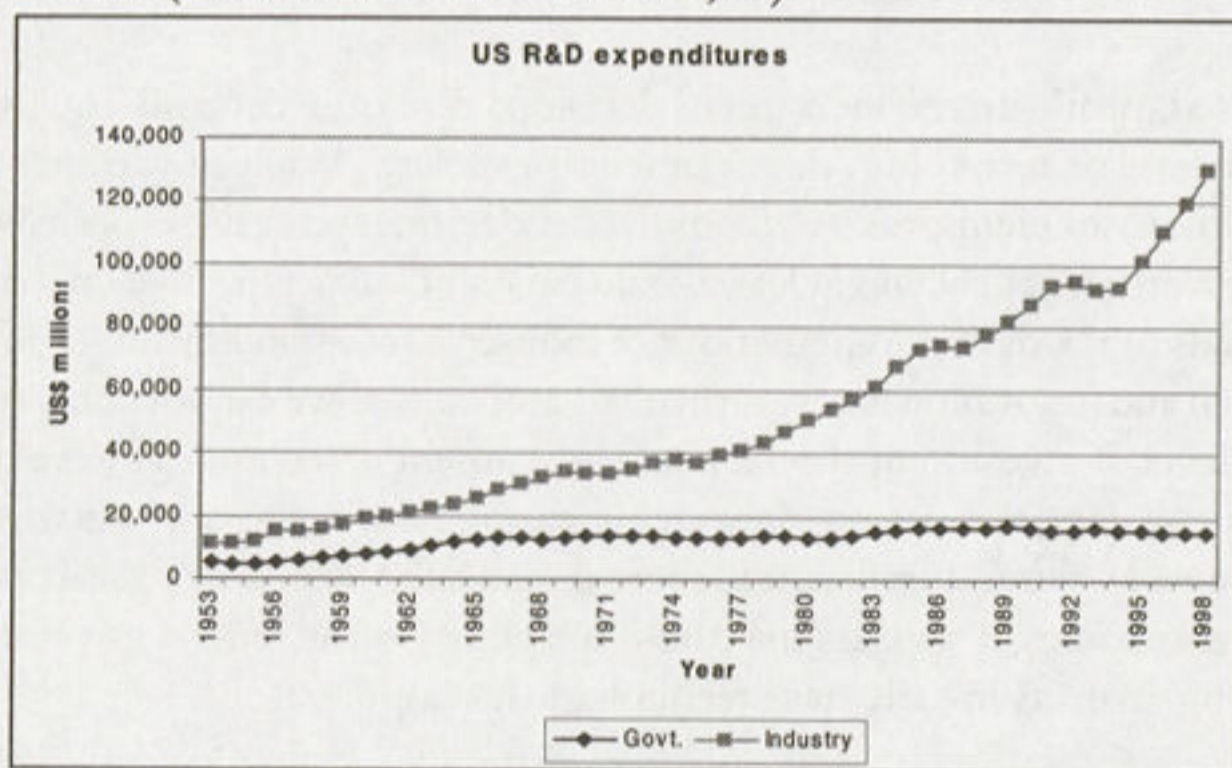


Figure One – US R&D expenditures in constant 1992 US dollars  
 Source – National Science and Engineering Indicators 2000, National Science Foundation

Moving on to the mid-1950s and through the 1960s, we see the United States responding to the technological threat of Sputnik in the form of the space program. Focused through the National Aeronautics and Space Administration (NASA), the true possibilities of the United States development engine were obvi-



ous in the achievement of placing a man on the moon. In retrospect, that appears to have been the golden age of federal funding. 'In fact, between 1969 and 1975, real R&D expenditures declined by 1 percent per year as business and government tended to de-emphasize research programs. Federal funding in particular fell 19 percent in real terms during this period; this decrease was felt in defense- and non-defense-related programs.' (National Science Foundation 2000)

From this point on, there is significant expansion in the level of industrial R&D, while federally funded R&D remains relatively constant (see Figure One, above). This increase in funding from the private sector, which is heavily biased towards applied research,<sup>4</sup> is paralleled by academia's movement away from applied to basic research.

Figure Two illustrates the percentage of basic, applied, and developmental research that was carried out in academic institutions in the United States from approximately 1950 to the late 1990s.

In the Reagan Administration, technology policy was severely relegated in importance, as it was viewed as a microeconomic issue. President Reagan focused on macroeconomic tools, such as large tax cuts, and '... technological dynamism was expected to flow from the incentives to private enterprise that this policy supplied.' (Hart 1998, p.443) There was also a shift back towards military research, as '... federal defense-related R&D funding reached a peak of about 70% of total federal funding in 1986 after reaching a post-war low of about 50% in 1979.' (Congressional Research Service 1997)

During the Bush-Quayle Administration, the role of technology policy was strengthened by a more active science adviser, Allan Bromley. Bromley created an Industrial Technology Division within the Office of Science and Technology Policy (OSTP) and revived the Federal Coordinating Council for Science, Engineering, and Technology (FCCSET), which devised a 'crosscut' process to develop interagency coordinating structures. (Hart 1998) Many programs such as the Advanced Technology Program (ATP) were given life at this time.<sup>5</sup> The level of activity on technology issues during the Bush Administration led the National Science Foundation to note that 'George Bush ... oversaw the development of the federal government's first technology policy, which was intended to augment and extend the established bipartisan consensus on science policy.' (National Science Foundation 2000)

With 'It's the economy, stupid' on everybody's lips, the Clinton presidential campaign of 1992 placed technology policy at the forefront of its national economic strategy. The campaign statement read:

'America can compete and win, but only if we have a positive vision guiding our economic policies. Leadership in developing and commer-



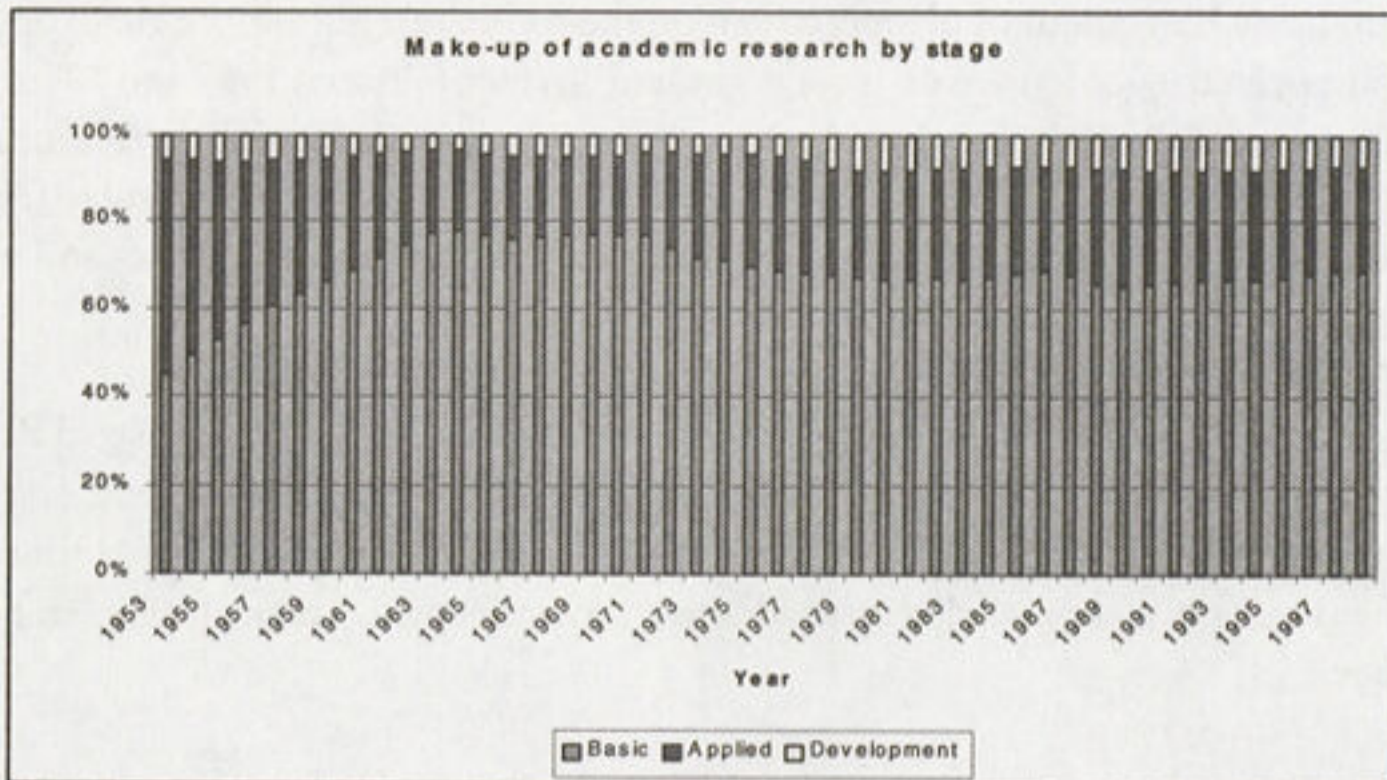


Figure Two – Breakdown of academic research by type

cializing new technologies is critical to regaining industrial leadership.’  
(Hart 1998, p. 444)

From the outset of the Clinton campaign, it appeared that there would be a high profile for technology issues, which would mean understanding how to involve the government in technology development in a positive way.

The Administration took immediate steps to emphasise technology policy. The campaign promises were refined into an official policy document in ‘Technology for America’s Growth: A New Direction to Build Economic Strength,’ issued just a month after the inauguration. This document rejected trickle-down or spin-off models of funding military research and garnering the societal benefits for free at a later date.

‘American technology must move in a new direction to build economic strength and spur economic growth. The traditional federal role in technology development has been limited to support of basic science and mission-oriented research in the Defense Department, NASA, and other agencies. This strategy was appropriate for a previous generation but not for today’s profound challenges. We cannot rely on the serendipitous application of defense technology to the private sector. We must aim directly at these new challenges and focus our efforts on the new opportunities before us, recognizing that government can play a key role helping private firms develop and profit from innovations.’ (Clinton and Gore 1993)

The key characteristic of the Clinton Administration’s agenda on technology development was public-private partnership. The programs that were brought forward



included stronger funding for the Advanced Technology Program (ATP) to promote development in high-tech industries; the Technology Reinvestment Project (TRP), which introduced the concept of dual use (civilian and military) technology; and the Manufacturing Extension Partnership (MEP), to support states in helping manufacturers use the best production tools and methods.

Underpinning the concept of partnership was the development of 'pre-competitive' technology. President Clinton was not the first to use the idea of 'pre-competitive' technology within policy documents: the Bush-Quayle Administration '... endorsed federal cost-shared investments in private firms to create 'pre-competitive, generic' technology in his technology policy declaration of September 1990.' (Branscomb 1997) However, the Clinton Administration proposed strengthening these programs significantly, while revitalizing OSTP and the Technology Administration in the Department of Commerce.

### **What were the results of the Clinton Administration's policies?**

The Clinton Administration failed to meet a number of its goals with regard to technology and innovation. There are two major reasons for this: the reduction of spending targets necessary to meet the larger goal of balancing the federal budget, and the strong opposition presented by the 104<sup>th</sup> Congress. 'The President abandoned much of his ambitious investment agenda in 1993 in order to bring down the deficit and interest rates.' (Hart 1998, p. 447) Many commentators were surprised by the amount of opposition that Clinton received, since his program was seen as a natural evolution from the 1980s rather than a radical departure.<sup>6</sup> The trade-off for President Clinton was between following through on a technology development program that he believed would bring significant growth to the United States, or winning the political battle with the Republican Congress on the overall budget.

The President attempted to offset the scale-back in funding by pushing forward on the specific proposals that were made during the 1992 campaign, such as the ATP.

This was unfortunate as 'ATP was the flagship of the Clinton technology policy, but by 1994 it had become a lightning rod for Republican conservatives.' (Branscomb 1997, endnote xxii) The ATP program, as noted earlier, had been created under President Reagan and supported by President Bush. President Clinton simply proposed a significant funding increase as part of the overall 'stimulus package' in 1993, but this was defeated in Congress in March of 1993. In funding the ATP program to a significant level, the Clinton Administration attracted the label of choosing 'winners and losers,' going beyond the traditional role ascribed to government in funding R&D.

One of the key promises that the Clinton Administration was not able to keep was



the balancing of federal investment in R&D between defense and civilian programs.

The last two years of the above figure are misleading, as they are budget projections rather than actual spending. While this is the expression of the will of the Clinton Administration, the appropriations process may significantly change these figures. These figures highlight the distributed nature of power in Washington, as the will of the President can be blunted by the actions of the Congress during appropriations.

However, the Clinton Administration made significant progress in relationships with specific industries (for example the automotive industry through the Program for a New Generation of Vehicles, PNGV) and garnered some praise for its strengthening of the principles of innovation within the American economy. Overall, the Clinton Administration did not move the debate significantly forward in terms of understanding innovation as a national system, and this is the remaining challenge for forthcoming administrations.

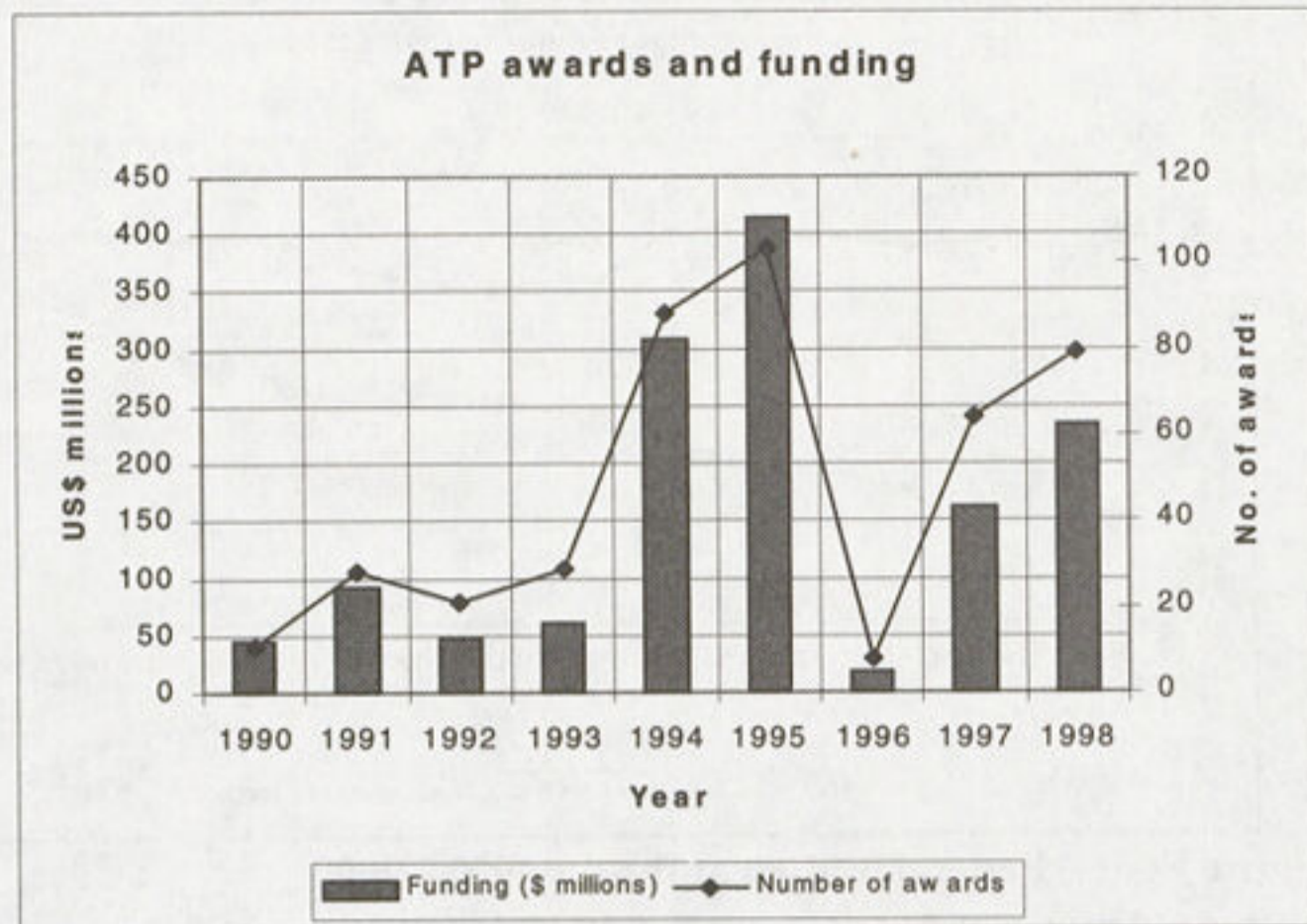
### **Problems with words – the weak foundation of the technology policy debate**

A foundational issue in discussing technology policy is the legacy of terminology that obfuscates the real debate. Vannevar Bush entrenched some of these ideas post-WWII by using the terms 'basic' and 'applied' research in trying to describe the range of activities that fall under the heading of research and development. This is the essential division of the classic linear model, under which stages in invention and innovation lead to marketable goods and therefore economic growth. Some writers originally attribute this to Francis Bacon, who ordered the process as academic research, pure science, applied science, which then leads to economic growth. (Kealey 1996, p.5) Stemming from this, the debate on technology policy has been cast as a discussion on appropriate roles. The usual division of roles gives government responsibility for basic research on the assumption that it is unattractive to the private sector, while the transfer from applied research to market is the exclusive domain of the private sector.

There are many problems with this approach. The linear model does not describe the real world of innovation properly. The process by which ideas become inventions, and, at some later stage, innovations that are marketable goods, is not clearly understood. The process is iterative, with multiple feedback paths throughout. An example of the complexity of the process, and of the inadequacy of a crude division between 'basic' and 'applied,' is offered in Branscomb's comments on the fundamental mislabelling issue.

'When the political debate divides the world of R&D into basic scientific research on the one side and lumps everything else – from basic technol-





**Figure Three – Level of ATP funding and number of awards**

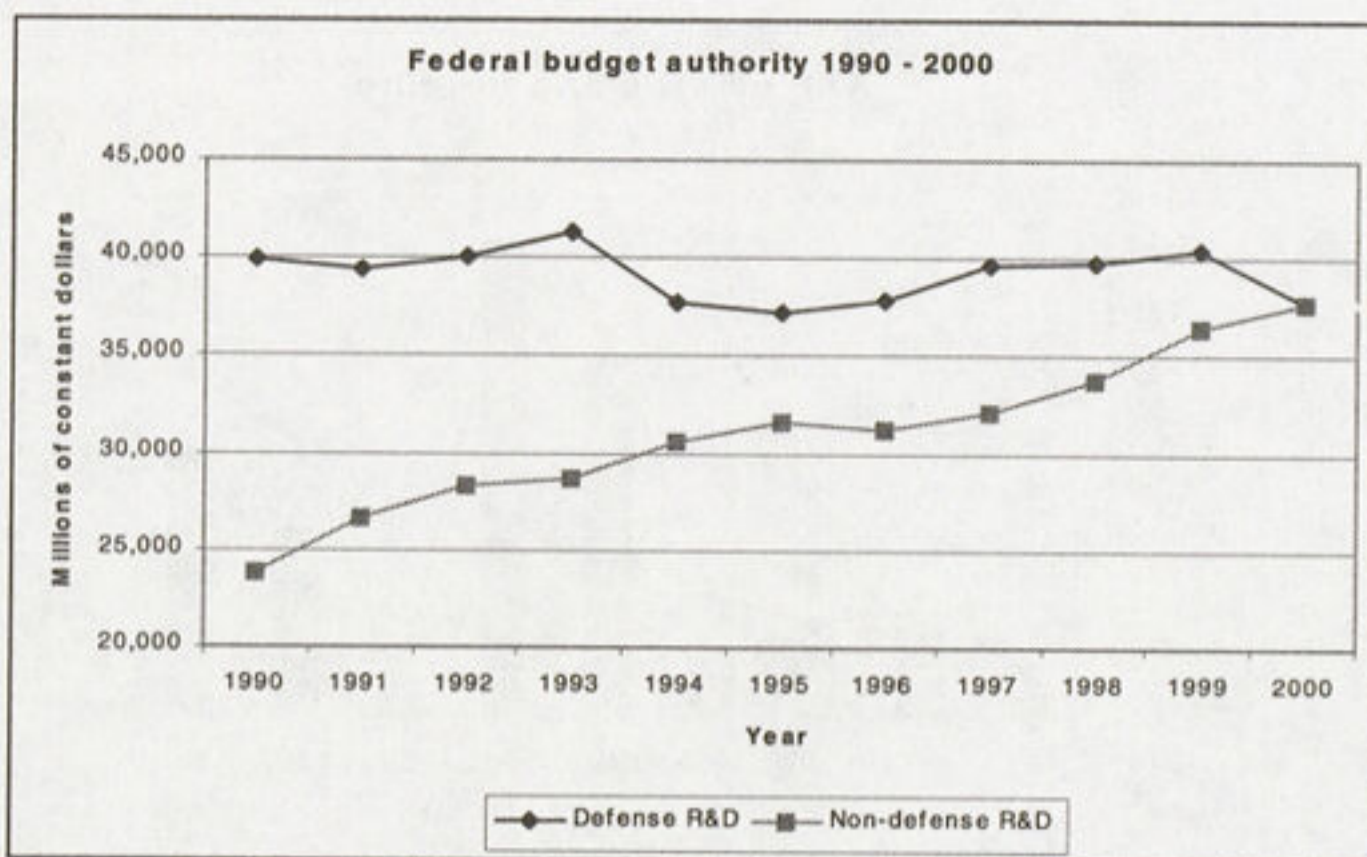
Source – National Science and Engineering Indicators 2000, National Science Foundation

ogy research to product development – together on the other side, we lose sight of a huge and vitally important area in between; the world of need driven creative research.’ (Branscomb 1997)

The process of innovation has expanded beyond the large R&D laboratories of established firms, and is now carried out in a more distributed manner. This has occurred as the rate of change has increased, and the knowledge on which the innovations are based is sophisticated and dispersed among many actors. It is argued that the ‘locus of innovation is found in a network of interorganizational relationships.’ (Powell et al., p. 119) Proponents of social capital theory, and its effect on innovation, argue that ‘the development of new technologies increasingly comes about through broad-based, multi-party cooperation.’ (Fountain, p.111) The many actors that are involved in individual innovation serves to underscore the complexity of the process and its evolutionary nature.

We can see that the innovation landscape has been grossly oversimplified in policy discussions. Furthermore, even in the simplified version of the innovation process, there is no clear agreement on what is ‘basic’ and what is ‘applied’ research. This leaves us without the terms and tools to have an informed and productive debate on how to set priorities, define boundaries, and ascribe roles and responsibilities, at the precise moment in time when technology, its development, and its governance are critical to further economic growth. A new and more inclusive model of innovation is needed, shared between the scientific community, private





**Figure Four – Federal budget authority 1990 – 2000**

Source – American Association for the Advancement of Science

sector firms, and policy-makers.

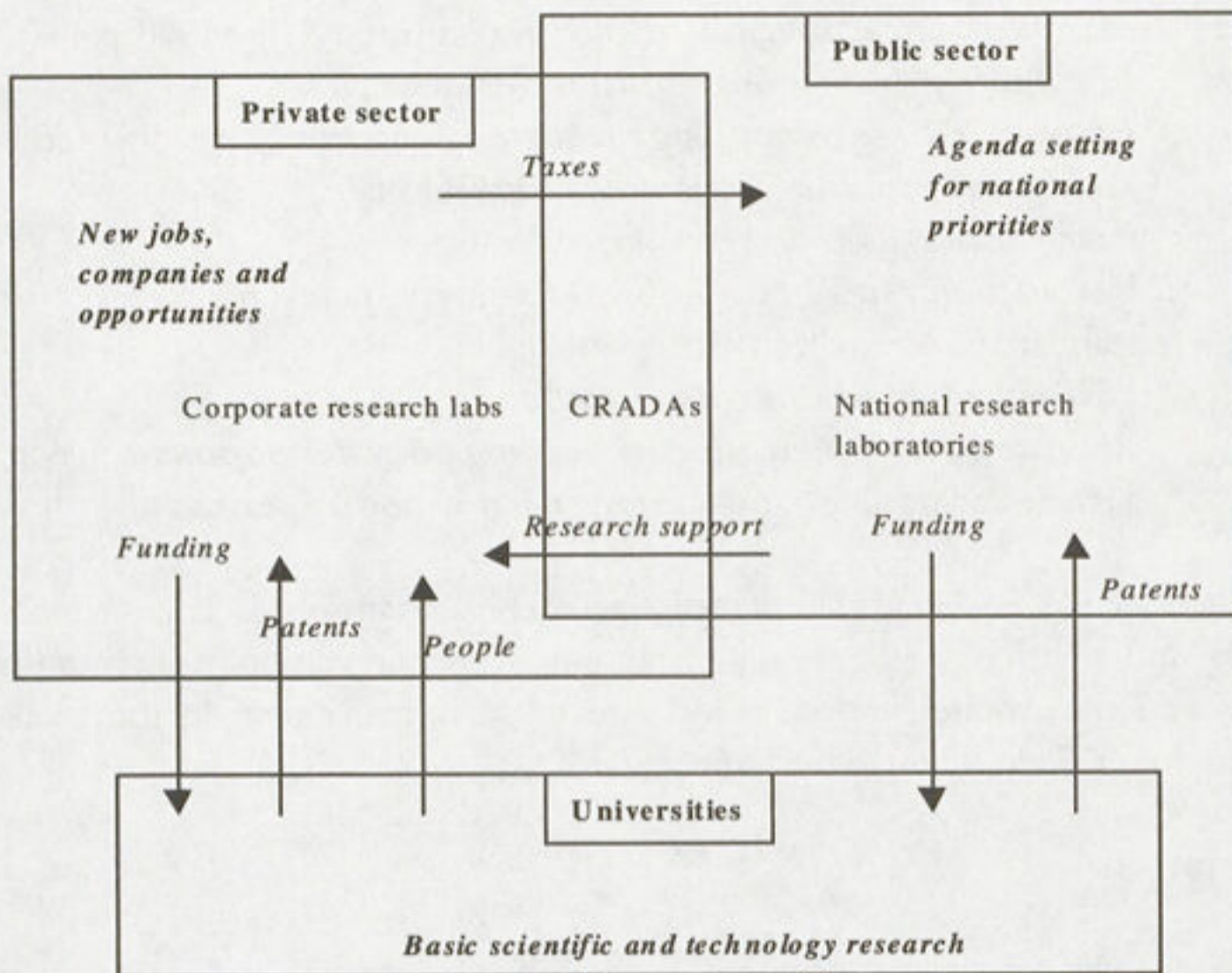
### Private and public perspectives

The characteristics of the business and government relationship in the United States are reflected strongly in the rhetoric of both sides when discussing technology policy. There is significant mistrust of the government, specifically in its ability to pick ‘winners and losers’ through road maps or direct investment in new technology. Many of the programs proposed by the Clinton Administration were attacked as ‘corporate welfare,’ seen as neither targeting desired technology nor spending federal money on real needs. On the other side, industry is perceived as focused primarily on short-term profit, particularly in the wake of the dot.com boom.

Business and government need to overcome the combative nature of their relationship. ‘A consensus on the federal role is urgently needed. Federal policy lacks the reality of the innovation process and is unpredictable and discontinuous.’ (Bloch 1996) As we have seen, the discussion on technology policy has been played out either in the broad frame of basic versus applied research, or in terms of very specific programs such as the National Information Infrastructure project. What is missing is a discussion of the complete innovation system of the United States. In part, this again reflects the distributed nature of American government and society. However, it means that the debate does not allow us to ask important questions such as what levels of growth we wish to have, how that kind of growth pattern fits into the investment pattern, and how the interlocking pieces of the innovation system actually play off of one another.



Figure Five offers a simplified view of some of the linkages and flows between the different sectors of the national innovation system. The actual picture is more complicated and would have to acknowledge a strong international component to innovation in the modern information society.



**Figure Five – Simple sketch of the national innovation system**

A systemic view of the innovation system, such as the one outlined above, differs from the traditional linear structure in a number of ways. First, it implicitly acknowledges that there are multiple feedback loops between the different types of activities that are undertaken in both the public and the private sectors. Market-driven, for-profit research, for example, can have an impact on the basic research carried out at a university. Second, this model attempts to bring together the processes of innovation and the goals of the system into one discussion. The purpose we ascribe to research and development will have an impact on the type of R&D that we will fund. Because the basic and applied labels carry with them an implication of purpose, we can be misled in our choices about resource allocation and roles. Finally, by viewing the innovation process as a national level system, we can understand how individual actions can have multiple impacts on the overall output of the system. In these ways, a systemic view of the innovation system is preferable to a simplified linear model with its outdated and misleading labels.

As long as private firms, Congress, the President, and external interest groups are stuck with the simple world view of technology policy, we will not be able to move forward, and so significant efforts need to be made to investigate the national



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innovation system and to educate both members of Congress and the broader public on its operation.

As a starting point for policy, Branscomb identifies six principles that can inform policy makers in answering questions on program scope and purpose for the federal government. These principles are: (Branscomb and Keller 1998, p.464)

- Encourage *private innovation* through incentives
- Emphasize *basic technology research* (long range, broadly useful research in basic technology as well as basic science)
- Facilitate *access* to new and old technologies
- Use *all policy tools*, not just R&D (economic policy, regulatory reform, standards, and intellectual property rights)
- Leverage *globalization of innovation*
- Improve *government effectiveness in policy development*, making it a stable and reliable partner in long range national research

These principles are likely to be at the heart of a bipartisan approach to technology policy and, married to a better understanding of the innovation process in Congress and the Administration, could lead to an improvement in the level of technology development in the United States.

## Moving on

The new Bush Administration comes to the White House with an economy that is losing its shine, as the dot.com companies have lost their over-valued sticker price and the pace of expansion has slowed. The Bush campaign did not issue many statements on technology policy, but it did provide the AAAS magazine *Science* with answers to specific questions on many technology related issues. (Science 2000) President Bush's focus on education and skill provision comes through very strongly, as does his intention to make the R&D tax credit permanent. However, the majority of his statements indicates that he is willing to support extending funding for defense-related research, the most costly of which will be the national ballistic missile defense system. When asked directly what policies he would put in place to foster innovation, his response was vague at best:

'I am committed to pro-innovation and pro-research policies that will strengthen America's technological leadership. I believe that we should encourage greater investment in research and development. That is why I support increasing the federal investment in basic research.' (Science 2000)

As his other remarks all point towards military spending, it appears that President Bush will not invest new monies in civilian research, and he has not indicated any support for programs such as the ATP. The labels of the past are attached to his, and most other commentators', remarks, and this underscores the need for policy commentators to update their language and to move the debate into a more



realistic phase. Without a concerted effort from those that take part in the technology policy debate, these weaknesses will persist and fundamental errors may be committed in developing future policy.

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## Endnotes

<sup>1</sup> It is interesting that there is not a specific innovation policy. The phrase is used very rarely in the literature and especially in the comments of the political actors involved.

<sup>2</sup> This section is based on the introduction to 'Analysis of ten selected science and technology studies' Congressional Research Service Report for Congress, September 4, 1997. This report characterizes science policy into three types – restructuring, reaction to crisis, and fine tuning. These distinctions are useful in understanding



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the federal role as it shows how the ideological underpinnings of such action have evolved over the past fifty years.

<sup>3</sup> I refer to it as the exemplar as its research budget consistently has grown, in real terms, since its inception. This contrasts sharply with other departments, such as the Department of Energy, which has seen its budget significantly curtailed in real terms over a twenty-year period from the mid-1970s.

<sup>4</sup> Some sources estimate that 70% of industry research expenditures are for applied research. See press releases from the American Association for the Advancement of Science for further details.

<sup>5</sup> The ATP program was brought into existence by the Omnibus Trade and Competitiveness Act in 1988.

<sup>6</sup> Branscomb states that 'The vehemence of the attacks came as a surprise to many observers. The evolution of a bipartisan policy for U.S. science and technology (S&T) that seemed to be emerging at the end of the Bush administration had collapsed.' (1997)



# Implications of Policy Decisions on Human Embryonic Stem Cell Research in the United States

## Stephanie Oestreich

### Abstract

*Recent advances in human stem cell research have raised hopes for potentially groundbreaking clinical treatments and improvements of scientific knowledge in the field of embryonic development. However, ethical critiques present a formidable challenge to research involving human embryos. The current NIH guidelines, which still ban federal researchers from using funding for the derivation of human embryonic stem cell lines, will require significant revision in order to equally provide incentives for privately and publicly funded researchers in the United States to contribute to this promising field of research.*

### Introduction

Although research with human embryonic stem cells was recognized by the journal 'Science' in 1999 as one of the most promising fields in science (Bloom, 1999), the issue of public funding remains very controversial in science policy. Because federal law prohibits the use of public funding for any research that harms a human embryo, research projects in this area are at present conducted exclusively by the private sector. The field of human stem cell research has recently seen promising scientific results; scientists now clearly envision applications in tissue engineering and transplantation. These techniques could have a major impact on the treatment of a variety of currently incurable diseases (see below).

Although a number of very insightful experiments can be conducted with mammalian embryonic stem cells, clinical research will ultimately require the use of human embryonic stem cells. Ethical issues linked to the production of human embryonic stem cells solely for research purposes thus pose a serious challenge to policy makers. A significant fraction of the general public is strongly opposed to any research involving human embryonic stem cells, despite numerous promising applications. Policymakers must therefore weigh the potential life-saving benefits of such research for the patient against public concerns and reservations regarding its ethical implications.

In order to balance scientific advancement in this field with mounting ethical concerns, the National Institutes of Health (NIH) revised its funding guidelines last year. The new guidelines, issued on August 23, 2000, made federal funding available for derivation of, and research upon, fetal stem cells. However, federal funding remains unavailable for derivation of embryonic stem cells, and research using



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embryonic stem cells may only receive funding if these cells were derived by private researchers in compliance with NIH guidelines (Vogel, *Science* 289 (2000), 1442-1443).

This article aims to provide a scientific background and solid basis for policy recommendations. After describing the current status of funding and regulation of human embryonic stem cell research, the final section will propose recommendations to establish a persuasive regulatory framework.

### Scientific Background

Recent scientific advances regarding the isolation and successful culturing of human pluripotent stem cell lines have generated great excitement. These advances promise major benefits for public health. Scientific studies have demonstrated that embryonic stem cells can be made to differentiate into any specific cell type, ultimately allowing the generation of tissue that can be used for transplantation therapy without causing any adverse immunological reaction. Such research could also contribute to the understanding of complex events that occur during human development, thereby facilitating gene discovery and drug development.

Although recent experimental success has raised expectations for the clinical potential of human stem cells, most experts believe that healthcare benefits will not be realized before several years of research. Many experts are concerned that overconfidence in the interim could damage the field's credibility. They accordingly suggest restraint in making exaggerated claims.

Political decision-makers requiring a sound basis for policy action will benefit from the explanation and clarification of certain scientific terms. Essentially three different types of stem cells are currently employed in scientific research:

- embryonic stem cells,
- embryonic germ cells, and
- adult stem cells.

Embryonic stem cells can develop into any kind of tissue. They are consequently termed totipotent. Embryonic germ cells are more specialized stem cells, which eventually give rise to the gonads of the embryo. Embryonic germ cells and adult stem cells occur in later stages of development. Adult stem cells, such as blood stem cells, are found in human adults and can develop into more specialized cell types, such as red blood cells. Both adult stem cells and embryonic germ cells are pluripotent, which means that they can give rise to many, but not all, of the cell types necessary for fetal development. Thus, pluripotent cell types cannot develop into a fetus when placed into a woman's uterus (NIH: Stem Cells - a Primer, 2000).

It is important to distinguish here between a fetus and an embryo. An embryo in



this context is defined as existing in ‘the period from after the long axis appears until all major structures are represented. In humans, this is from about two weeks after fertilization to the end of the seventh or eighth week.’

A fetus, in contrast, is ‘a developing human offspring in the postembryonic period, from seven or eight weeks after fertilization to the time of birth’ (Harcourt Dictionary of Science). While stem cells are necessarily present during early human development, pluripotent stem cells are found in both children and adults. However, the process of specialization substantially decreases the potential of pluripotent stem cells to differentiate into other cell types .

### **Potential Development of Treatments**

Recent successes in the field of stem cell research have triggered hopes of eventually being able to treat a number of diseases which are currently either completely incurable or curable only in conjunction with the significant disadvantages of organ transplantation. Apart from a challenging scarcity of organ –donors , transplant patients generally have to endure life-long suppression of their immune systems in order to avoid graft-host reactions.

Advances in stem cell research could offer a solution to this problem: a number of cell types (see below) can be developed from undifferentiated stem cells. With tissue derived from these cells, the following diseases and conditions might eventually be cured without fear of graft-host reaction, since the transplanted tissues would be immunologically identical to the patient’s own cells:

### **Possible Treatment Uses of Stem Cell-Derived Cell Types**

<b>Cell type</b>	<b>Target disease/condition</b>
Neural (nerve) cells	Stroke, Parkinson’s Disease, Alzheimer’s Disease, Spinal Cord Injury, Multiple Sclerosis
Heart muscle cells	Heart Attack, Congestive Heart Failure
Insulin-producing cells	Diabetes
Cartilage cells	Osteoarthritis
Blood cells	Cancer, Immunodeficiencies, Inherited blood diseases, Leukemia
Liver cells	Hepatitis, Cirrhosis
Skin cells	Burns, Wound healing
Bone cells	Osteoporosis
Retinal (eye) cells	Macular degeneration
Skeletal muscle cells	Muscular dystrophy

*(source: Science 289 (2000), 1269-1270)*



## Drawbacks of Stem Cells in Later Stages of Development

Based on primarily ethical arguments, a number of critics of embryonic stem cell research favor the use of cells in later stages of human development, such as embryonic germ cells or adult stem cells. However, stem cells in later stages present many drawbacks for research purposes. Stem cells from adults may not have the same capacity to proliferate as younger cells have. Additionally, adult stem cells do not exist in all tissues of the body, are often present in only small quantities, and are difficult to isolate and purify. Their numbers may also decrease further with age. In addition, adult stem cells are likely to contain more DNA abnormalities than embryonic stem cells, as a result of long-term exposure to sunlight and toxins, as well as errors made during DNA replication over the lifetime of the cell. Adult stem cells also differ from embryonic stem cells by nature of their shortened telomeres (chromosome ends). This characteristic could trigger undesirable developments, such as apoptosis (programmed cell death), which would undermine the potential utility of adult stem cells in research and medical treatment.

Furthermore, research on the early stages of cell specialization may not be possible with adult stem cells, since these cells appear to be farther along the developmental pathway than pluripotent stem cells derived from embryonic tissue. In order to determine the best source of specialized cells and body tissues for new treatments—and eventually cures—it will be necessary to study the developmental potential of adult stem cells compared to that of embryonic pluripotent stem cells (Aldhous, 2000).

Embryonic germ cells, which are obtained from fetal tissue after miscarriage or abortion, carry less of an ethical burden than the use of embryonic stem cells. However, while embryonic germ cells have some potential to develop into different types of tissue, these cells have led to abnormalities when introduced into embryos (McLaren, 2000). In addition, scientists have not been able to culture embryonic germ cells for more than 21 days, a fact that clearly limits their use in scientific research.

It is crucial that political decision-makers and the public clearly understand relevant distinctions between the different cell types, as well as the possible consequences for stem cell research and future applications.

### *The NIH Guidelines*

In compliance with federal law, the newly revised NIH guidelines state that NIH-funded scientists are allowed to work with pluripotent stem cells. The cell lines used in such research must be derived by private companies from frozen embryos discarded after fertility treatment. The donor of the embryo must have expressed informed consent and cannot accept any compensation. The NIH guidelines also



seek to ensure that embryos are not created specifically for this purpose and that embryonic stem cells are not combined with animal cells. In addition, any attempts at reproductive cloning and the use of stem cells to create human embryos are strongly opposed. The NIH guidelines, therefore, do not allow public funding to be utilized for any of the above mentioned purposes (Vogel, *Science* 289 (2000), 1442).

The following table summarizes the most important characteristics of the NIH guidelines for funding research with embryonic stem cells:

Deriving new cell lines from embryo	Prohibited
Research on privately derived cell lines from embryos	Allowed
Deriving new cell lines from fetal tissue	Allowed
Research on cell lines from fetal tissue	Allowed
Research that would use stem cells to create a human embryo	Prohibited
Combining human stem cells with animal embryos	Prohibited
Use of stem cells for reproductive cloning	Prohibited
Research on stem cells derived from embryos created for research purposes	Prohibited

(source: *Science* 286 (1999), p. 2050)

### **NIH Guidelines for Research on Embryonic Stem Cells**

In determining which types of embryonic stem cell research should be eligible for funding, two main points should be considered. First, it is possible that the creation of research embryos will provide the only means by which to conduct certain kinds of research, such as research into the process of human fertilization. Second, as in vitro fertilization techniques improve, it is likely that the supply of embryos for research from this source will decline. Nevertheless, the NIH has concluded that, from a scientific and an ethical perspective, there is no compelling reason at this time to provide federal funding for the creation of embryos for research. According to the NIH, cadaveric fetal tissue and embryos remaining after infertility treatment provide an adequate supply of research resources for federal research projects.

The derivation of human embryonic stem cells is currently permitted only in privately funded laboratories. Cell stem lines derived in privately funded labs can be passed on to federally funded scientists. However, researchers supported by federal grants are concerned that privately funded scientists will gain privileged insights and unfair research advantages through the initial derivation and experimental manipulation of stem cells. NIH-funded researchers, limited to the cell lines provided by private firms, will not be able to create and tailor cell lines to meet their specific



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needs.

Most scientists and their supporters do not view the derivation and use of embryonic stem cells as ethically distinct activities and believe that it is important that federal funding be made available for protocols to derive such cells. Researchers using human embryonic stem cell lines hope to obtain substantial scientific benefits from a detailed understanding of the process of embryonic stem cell derivation and argue that the methods of derivation may affect the properties of the embryonic stem cells. Those dissatisfied with the current funding policy of the NIH emphasize the close connection in both practical and ethical terms between the derivation and use of embryonic stem cells.

### *Oversight and Review of Human Stem Cell Research*

To ensure that research involving stem cells delivers the anticipated positive benefits, federal oversight at the local, national and institutional level must identify any concerns which may arise, in order to assure the public that this research is being undertaken in a controlled and legal manner.

When applying for NIH funding, scientists must currently submit their research proposals to four separate review bodies. The newly founded Human Pluripotent Stem Cell Review Group (HPSCRG) seeks to further ensure compliance with the NIH guidelines. Despite the promise of the federal agency to work quickly, this process imposes bureaucratic hurdles that may delay research (Davis, 2000).

The current system could pose at least two other problems for federally funded scientists. First, the embryonic stem cell lines currently used in federally funded research may not be approved for further research due to noncompliance of their derivation with the new guidelines. In such cases some research projects could be substantially impeded and deferred or would have to be abandoned altogether (Kennedy, 2000). Second, anonymous donation of embryonic stem cells to ensure privacy and informed consent of the donor might conflict with the requirement of the NIH guidelines to trace back and document the precise origins of the cells (Marshall, 1999).

### **Conflicting Opinions**

Outside of the scientific community, there remains widespread disagreement regarding the NIH guidelines. The new NIH guidelines received support from scientific groups (e.g. the American Society for Cell Biology), patient advocacy groups (e.g. the American Heart Association and the Juvenile Diabetes Foundation International), a number of Nobel laureates, former President Bill Clinton, and former Vice President Al Gore.



However, a number of right-to-life activists and religious groups, the American Cancer Society (ACS), the Coalition of Americans for Research Ethics (CARE), and some legislators oppose the use of embryos in research despite the potential medical benefits. The Vatican issued a highly critical statement on the moral implications of stem cell research and Pope John Paul II condemned human cloning and embryo experiments (Dickson and Smaglik, 2000). President George W. Bush has stated that his pro-life views would compel him to continue the ban of public funding for stem cell research, but he might not be able to overlook corporate interests in this field. Two British patents which granted the U.S. company Geron the commercial rights to human embryos created by cloning also sparked protests (Hagmann, 2000).

Opponents of stem cell research maintain two main ethical concerns. First, they fear that abortions may be encouraged if fertility patients are pressured to donate their embryos—clearly violating the premise of informed consent. Second, they argue that the most vulnerable members of society, namely the disabled and elderly, will ultimately be put at risk by new views regarding eugenics or euthanasia. Some opponents even relate embryonic research to the horrific experiments conducted in Nazi Germany and human cloning.

Most of the conflicting opinions in this area arise between scientists and their supporters, on one hand, and groups who value ethical concerns and the protection of embryos more highly than scientific advances and potential medical treatments, on the other hand. Using a strategy similar to the NIH guidelines, most opponents of stem cell research prefer to simply terminate or refrain from making individual donations that might be used in the field of embryonic stem cell research. The American Cancer Society (ACS), for instance, which raises \$ 500 million per year for cancer research, has cancelled its membership in the Patient's Coalition for Urgent Research (pCURE), since pCURE began lobbying Congress to support stem cell research. The ACS came to this decision largely under pressure from officials of the Catholic Church after some 100 lay Catholics withdrew from an ACS-sponsored breast cancer fundraising event and retracted promised contributions (Wadman 1999).

### **Ethical Considerations**

Although, recent developments in human stem cell research have raised hopes for groundbreaking new clinical therapies, deep moral concerns present a formidable challenge to research involving human embryos.

Opinions vary widely about whether the potential benefits outweigh the ethical costs of such research. Few people disagree with the view that a human embryo deserves respect as a form of human life, but considerable disagreement surrounds the extent to which an embryo is a mere 'form' of human life, and the degree of



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respect and protection therefore required for embryos and human life at different stages of development.

Those who believe that a human embryo carries the moral status of a person from the moment of conception, consider any activity that would destroy an embryo morally unacceptable. At the other end of the spectrum, some argue that an embryo does not deserve any special moral consideration. Yet others, according to the NIH, accept the special status of an embryo as a potential human being, but argue that because the respect due an embryo increases as it develops, this respect, particularly in the early developmental stages, may justifiably be weighed against the potential benefits arising from embryonic research.

Although public policy in a pluralistic society cannot resolve all differences that arise regarding controversial issues, the weight and sensitivity of this particular issue necessitate a cautious advance to further stimulate an important public debate about the profound ethical issues surrounding this potentially beneficial research.

### The International Perspective

The NIH represents a major source of grants for scientific research not only in the United States but also for a number of laboratories abroad. The funding policy of the NIH therefore significantly influences the decision-making process in other countries.

At the same time, other scientifically advanced societies might apply less stringent ethical guidelines (as in Great Britain) thus leaving federally supported US scientists at a disadvantage compared to researchers in other countries (Nature 406 (2000), 815; Kennedy, 2000; Dickson and Smaglik, 2000). US policymakers must therefore also carefully consider recent policy statements from abroad.

At present, the **Japanese** government prohibits scientists from working with human embryonic stem cells, but the Japanese Council for Science and Technology is still discussing final guidelines for general stem cell research.

In November 2000 an advisory board of the **European Union** recommended funding all types of research involving stem cells, particularly adult stem cells. However, the advisory board discouraged work that created embryos solely for research purposes, since 'excess' embryos, which would otherwise be discarded, could be obtained from fertility clinics (Vogel, Science 290 (2000), 1673).

In the **United Kingdom** – perhaps the most permissive country with respect to stem cell research - the House of Commons recently passed a law that allowed cloning of embryos up to 14 days into embryonic development (Vogel, 2001).



Despite the recommendations of the European Union, the **French** government will soon submit a bioethics bill to the parliament that proposes to permit research with human embryonic stem cells and would not explicitly forbid therapeutic cloning of human embryos to create embryonic stem cells (Butler 2000).

**Germany's** embryo-protection law prohibits research that harms a human embryo and bans the production of human embryonic stem cells. Although legislation is unlikely to be revised in the near future, the law does not prohibit the import of already derived embryonic stem cells (Schiermeier, 2000).

### **Policy Recommendations**

Recent advances in the area of stem cell research suggest substantial clinical advantages over existing treatments, as well as improvements of scientific knowledge in the field of embryonic development. In light of the fact that these encouraging results have been achieved entirely by privately funded scientists, the NIH has revised its funding guidelines in order to permit publicly funded researchers to actively engage in this important and rapidly evolving field.

In the long term, however, the current NIH guidelines fail to adequately provide a solution to the issue of how to provide public funding for embryonic stem cell research. As noted, the guidelines allow federal funds to be used for actual stem cell research but not for the derivation of cell lines. As the guidelines attempt to both satisfy the immediate needs of US researchers and account for the public's ethical concerns, this approach rests on fragile logic. While the actual derivation of stem cell lines is not allowed under public funding, researchers receiving federal funds will inevitably use federal grant money to order stem cell lines from the private companies who can derive them.

However, federally funded researchers should also be permitted to use public funding for the derivation of embryonic stem cell lines. This policy will not only enable government supported laboratories to adjust the properties of these cell lines to their own needs, but will also allow them to conduct a number of enlightening experiments to address basic scientific questions in the field of embryonic development. Reliance on the distinction between use and derivation of embryonic stem cell lines leaves the future of this research uncertain and subject to the influence of politics and the courts. Republican Senator Arlen Specter from Pennsylvania proposed a bill to allow funding for the use and derivation of embryonic stem cells which would end this ambiguity (*Nature* 406 (2000), 921; Kennedy 2000), but the Senate rejected it (*Science* 290 (2000), 261). Although Specter announced that he would reintroduce the bill in the new Congress, his influence in promoting federal funding for stem cell research might soon be diminished by his resignation as chairman of the appropriations panel overseeing the NIH budget (Davis 2000).



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President George W. Bush will also have significant influence on the decision of whether to continue public funding of stem cell research. He has already issued a statement criticizing the new guidelines. Corporate interests will most likely prevent the Bush administration from banning federally funded stem cell research altogether, but it could reject the current NIH distinction between use and production of embryonic stem cells, or require a change in the guidelines at the administrative level. It is therefore not at all certain that the newly issued guidelines will remain unchanged in the near future (Kennedy, 2000; Davis, 2000; Aldhous, 2000).

Opponents of abortion state that funding stem cell research tacitly supports the derivation of stem cell lines, and consequently the destruction of embryos. Pro-life activists also point out that the NIH guidelines do not clarify existing laws, but rather circumvent them. Indeed, federal law prohibits the NIH from funding work that harms or destroys a human embryo. However, considering that more than one million electively induced abortions are performed annually in the United States and that the embryos are normally discarded after such procedures, it seems unlikely that an abortion would be encouraged solely to collect the embryo for research purposes.

Since accurate documentation of embryonic stem cell sources represents a task that cannot be completed satisfactorily due to patient confidentiality, assurance of informed consent and privacy of the donor of these cells should be emphasized. At the same time, it must be made clear to donors that compensation of any sort or specification for donation purposes is impossible.

Because there exists a number of methods to derive stem cells without harming an embryo, opponents of abortion may still find room to favor stem cell research (Robertson, 1999). Nevertheless, policymakers must consider varying views since it will not be possible to liberalize the NIH guidelines without the consent of right-to-life-advocates. Due to the conflicting values stated above, political feasibility may demand a gradual and successive relaxation of the guidelines. A thorough but efficient oversight and review process should be established in order to assure the public that stem cell research is conducted in a controlled and scientifically valid manner and that ethical concerns are seriously addressed.

Although decisions regarding the distribution and utilization of federal funds must account for public opinion, the NIH guidelines represent an unsatisfactory compromise between supporters of stem cell research and the ethical concerns of the general public. In addition, the NIH guidelines fail to establish a clear ethical and regulatory framework for the private sector, whose research is not federally supervised or publicly disclosed. This double standard allows for inconsistent moral standards in privately and publicly funded research.

As yet, this debate has focused on governance of the federal funding process rather



than on national regulation of stem cell research. But the current NIH guidelines and funding policy in and of themselves significantly limit the potential of stem cell research, thus depriving this promising field of the full benefit of the entire American scientific community, much of which operates within institutions dependent upon federal sources of support.

To promote research equally in the public and private sector, the NIH guidelines should either also require compliance by privately funded scientists or make the guidelines more permissive so as not to disadvantage publicly funded research. The NIH must also strongly emphasize placing adequate caution ahead of pursuit of economic interests.

Although it is difficult to ethically control a very rapidly progressing area of science, it is crucial that policymakers and scientists attribute sufficient respect to developing forms of human life apart from the potential medical benefits of stem cell research. That noted, when considering the ethical implications of stem cell research, policymakers must recognize that there exist several methods that allow for derivation of embryonic stem cells without harming an embryo, and that such derivation and general use of stem cells can be separated in neither practical nor ethical terms. In order to achieve important clinical benefits and scientific insights, experimentation with embryonic stem cells, embryonic germ cells and adult stem cells must be equally permitted for scientists using public funding.

Society will have to define clear boundaries to provide scientists with appropriate expectations and requirements when conducting stem cell research. Certain practices, including the transfer of an embryo created by cell nuclear replacement into the uterus of a woman (a process called 'reproductive cloning'), the mixing of live animal and human embryonic stem cells, and the creation of embryos solely for research purposes should remain strongly discouraged. Policymakers should revisit the guidelines whenever scientific advances, possible new applications, or general public concern suggest the need for regulative change. It is also important for US policymakers to closely observe the policy decisions regarding stem cell research in other countries, but ultimately the United States must be aware of its leading role in this field. American decision-makers should seriously consider their influence on the science policy decision-making processes of other countries, but they must also distinctively state an independent position in research policy tailored to meet the specific concerns of the United States.

As the American public grows more receptive to the idea that the potential benefits outweigh the ethical concerns regarding stem cell research, and comes to support progress in this field, the NIH will have to revise its guidelines in a more permissive spirit so that scientific knowledge and public discussion may advance.

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# Social Policy



# The Welfare Safety Net: What is it, how is it doing, and where will it go from here?

## Policies and Challenges for the Hard-to-Serve Population

### Rachel Hitch

#### Abstract

*As the re-designed welfare reform package, Temporary Assistance to Needy Families, comes up for reauthorization in 2002, there are a number of challenges for federal and state-level policymakers. One of the primary challenges is the so called hard-to-serve population, those members of the welfare caseload that have remained on the rolls, unable to achieve self-sufficiency in the new work-first climate. This paper describes a number of policy options available to target this more disadvantaged population, including a re-visitation of time limits and exemption criteria, alteration of definitions for work activities, provision of community service jobs, and creation of non-cash assistance benefit programs.*

#### Introduction: What is the welfare safety net?

##### safety net n.

1. *Something that provides security against misfortune or difficulty*
2. *A guarantee, as of professional, physical, or financial security*
3. *A large net for catching one that falls or jumps, as from a circus trapeze.*

Over the past 100 years, the US government significantly increased the size and scope of benefits available to impoverished families and individuals. In particular, the Aid to Families with Dependent Children (AFDC) program provided a safety net to disadvantaged mothers to enable them to care for their children when they themselves were unable to do so.

Yet, there is evidence that this social safety net has begun to erode in recent years, particularly for the most vulnerable families. To qualify for services, individuals and families must now comply with extensive rules and regulations to demonstrate a willingness to conform to society's demands. It appears that the theory of the *Homo reciprocans* (Bowles and Gintis, 1999) has been borne out. The American public supports altruistic efforts to help out those in need, but only when aid recipients demonstrate acceptable societal values. The public distinguishes 'among the recipients themselves, favoring those thought to be 'deserving.' For disadvantaged families support comes with strings attached.

Nevertheless, as Michael Wiseman (1999) states, 'if getting the caseload down were an unambiguous good, then the sensible strategy would be simply to eliminate



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cash assistance and end the agony once and for all.' But this is not the case. The truth is, the general public affirms the need for socially provided assistance and thus there is support for rebuilding the safety net to simultaneously serve the goals of the *Homo reciprocans* and assist the most disadvantaged families.

In this paper, I will explore the remnants of the safety net for disadvantaged families in the US and the potential policies that can be adopted as supports for them. In the first section, I will look briefly at the background and evolution of the welfare program, as well as some of the significant developments to date. Next, I will explore the status of the most disadvantaged families – those who remain on the welfare rolls despite drastic caseload declines in recent years. The third section will examine some of the policy options available to target these families. The final section will offer thoughts on the future challenges for policymakers.

One caveat is critical. While many of the policies and programs discussed in this paper are applicable to both custodial and non-custodial parents, the primary target is the female heads of families that comprise the majority of the welfare caseload. Having said that, many of these programs could also benefit the primarily male population of non-custodial parents.

### **Background: From AFDC to PWRORA**

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 fundamentally changed the traditional welfare safety net and altered the landscape of entitlement and protection offered to the least disadvantaged citizens of this nation. In President Clinton's landmark decision to 'end welfare as we know it,' a new program – Temporary Assistance for Needy Families (TANF) – replaced the entitlement system of AFDC. While disadvantaged families can still rely upon a system of government aid for support in times of need, the system has changed to a significant degree. To make the system more transitional and work-oriented, TANF incorporates work requirements, time limits, and limited exemptions from policy rules. This makes it considerably less likely families will remain on welfare for extended periods or receive assistance without contributing to their family income and to society (Bloom, 1997).

Several aspects of the TANF program are worth noting. First, the new program gives individual states much more flexibility to design and implement welfare programs. Since funds are transferred to states in block grants, states have the ability to design innovative programs and offer alternative services not available under AFDC. At the same time, however, TANF funds come with several restrictions; most notably, required work-participation rates, maximum exemption amounts, and a federal time limit of five years<sup>1</sup> on benefit receipt for families (Bloom, 1997).



### What has happened since 1996?

Recent reform efforts have had considerable results. Welfare policy and caseloads today are much different than they were under AFDC. Fewer families receive benefits, and a significant number of current and former recipients are now employed. However, as a result, those who remain on welfare look quite different than the caseloads of the past, presenting a new set of challenges.

**Caseload decline.** Reducing projected spending on low-income assistance was one explicit goal of the 1996 reform. Noting the high caseloads of the early 1990s, some perceived welfare spending to be 'excessive,' and aimed to significantly reduce this amount. (Greenberg et al, 2000). Currently, however, welfare caseloads across the country are dropping by unprecedented amounts. According to the U.S. Department of Health and Human Services, nationwide the number of families receiving benefits declined by about 50 percent from August 1996 to June 2000, and by 56 percent from January 1993 (US Dept. of Health and Human Services, 2000).<sup>2</sup> Many states have seen even larger decreases – by mid 1999, Wisconsin's caseload had dropped by 87 percent, South Carolina's by 61 percent and Texas' by 55 percent (Brauner and Loprest, 1999).

It is worth noting that caseloads began to decline prior to 1996, making it clear that the economy has also been a contributing factor.. A widely cited study by the White House Council of Economic Advisers (CEA) notes that the 1996 reform and the waiver programs implemented from 1994-1996 have contributed to about 30 percent of the caseload reduction.<sup>3</sup> The CEA estimates that from 1993-1996, about 26-36 percent of the decline in welfare caseloads was due to the strong economy and a low unemployment rate, and that about 14 percent was due to the welfare waivers. By 1999, it estimated that the economy only accounted for only 8-10 percent of the decline (CEA, 1999).<sup>4</sup>

**Increase in work activity.** Critics of the AFDC program argued that it 'did too little to encourage and require employment, and instead either encouraged or at least allowed non-work' (Greenberg et al., 2000). Thus, at the core of TANF is the focus on leaving welfare for work. This approach, called a 'work-first' strategy by welfare researchers, emphasizes job search and quick job entry over employment and training or other activities. There are explicit rules requiring an increasing percentage of the caseload to engage in work activities. In 1997, for example, 25 percent of families receiving benefits were required to participate in work activities as defined by both federal and state rules. This percentage will rise to 50 percent by 2002, a figure considered by many researchers to be quite high. Sheila Zedlewski (1999) states that 'these requirements represent a major shift from AFDC/JOBS (Job Opportunities and Basic Skills Training) rules, under which a large share of the adult caseload was exempt from participation in work activities and, of the nonexempt, only 20 percent were required to participate in work activities.' Further-



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more, earlier studies of the JOBS program under AFDC found that achieving participation rates of over ten percent within a particular month in JOBS activities was relatively difficult (Bloom, 1997).

Reality, however, has differed from expectations. A number of state-sponsored follow-up studies of families leaving welfare have found that between 50 and 70 percent of those families are finding jobs, an increase of about five to ten percentage points from previous welfare populations (Tweedie, Reichert, and O'Connor, 1998). One study of the National Survey of America's Families (NSAF) that incorporated both welfare recipients (current and former) and low-income workers found that, for 69 percent of the group that most recently left the rolls, 'work is the most common reason for leaving welfare' (Loprest, 1999). Most of these former recipients' jobs pay over the minimum wage. Loprest's sample estimated a mean hourly wage of \$6.61 for those who leave welfare and are employed, and average wages from state follow-up surveys range from \$5.50 to \$7.00 per hour.

**The remaining population.** While the two phenomena described above paint a rosy picture of welfare reform, there are still some incredible challenges that reformers are only beginning to face.<sup>5</sup> Time limits, work first strategies, and work incentives have combined to achieve their intended effect and families that are able to work are leaving welfare to do so. Thus, the families that remain on the welfare rolls appear to be a much different population than earlier generations of aid recipients. In a way, the preliminary regulations of reform have had a 'skimming' effect, picking off the more employable members of the population and moving them towards the private sector, while leaving 'an entrenched group of welfare recipients who show no sign of heading anywhere near the workforce' behind (Cohen, 1999).<sup>6</sup> These recipients, termed the 'hard-to-serve' by welfare researchers, are not responding to the current set of program regulations and supports in the same way. Wisconsin, a leader in welfare reform and upon which PRWORA was modeled, has found anecdotal evidence that the remaining cases 'have bigger problems and more of them' (Stephenson, 1999). The remainder of this paper will focus on this population.

### **The Hard-to-Serve: What are their issues?**

Families that remain on welfare despite current reform differ somewhat from the pre-reform caseload. As Eli Segal, president of the Welfare-to-Work Partnership proclaimed, 'when I started out, we talked about one-thirds. One-third would be easy to move off the rolls, one-third would be harder, and one-third would be impossible' (Cohen, 1999). The hard-to-serve population is that bottom third and their structural issues are often much more intractable than the other two-thirds of the caseload.



Previous research shows that 'a non-trivial portion of the current AFDC caseload faces substantial personal or family challenges that potentially could make it difficult for them to make a permanent transition from welfare to work' (Olson and Pavetti, 1996). These challenges include:

- drug and alcohol problems;
- mental and physical health issues;
- low IQ or low basic skills;
- family violence;
- learning disabilities; and
- health issues of dependent household members

According to these researchers, about 54 percent of the former AFDC caseload face one or more of these issues. Furthermore, they state, 'steady employment is not the norm for this group of recipients: while 53 percent spent some time working in the last or current year, only 11 percent worked continuously.' Thus, for a majority of these recipients, following the intended path of welfare reform will be difficult or impossible. It is important to note that multiple barriers do not constitute simply an additive situation. Recipients with more than one barrier may face exponentially larger amounts of difficulty achieving self-sufficiency.<sup>7</sup>

In a recent study of the NSAF, the Urban Institute reported that obstacles limiting TANF recipient's ability to work are quite prevalent in the population. Furthermore, the NSAF indicates that barriers to work are 'markedly more prevalent among women on welfare than others in the survey, and among those on welfare for longer periods of time' (Kramer, 1998). The table below illustrates the prevalence of these barriers in recent TANF populations. While these estimates appear to vary considerably, they are not insignificant amounts – each of these barriers affects a sizable portion of the recipient population. It is also highly likely that many families are affected by more than one of the obstacles below.

**Table 1: Estimates of the prevalence of various obstacles in the welfare population**

Barrier	Percent of AFDC or TANF population
Some disability – either mother or child in family	20-30%
Low basic skills	65%
Learning disability	20-50%
Substance abuse	5-20%
Domestic violence	50%
Mental health issues	25-35%

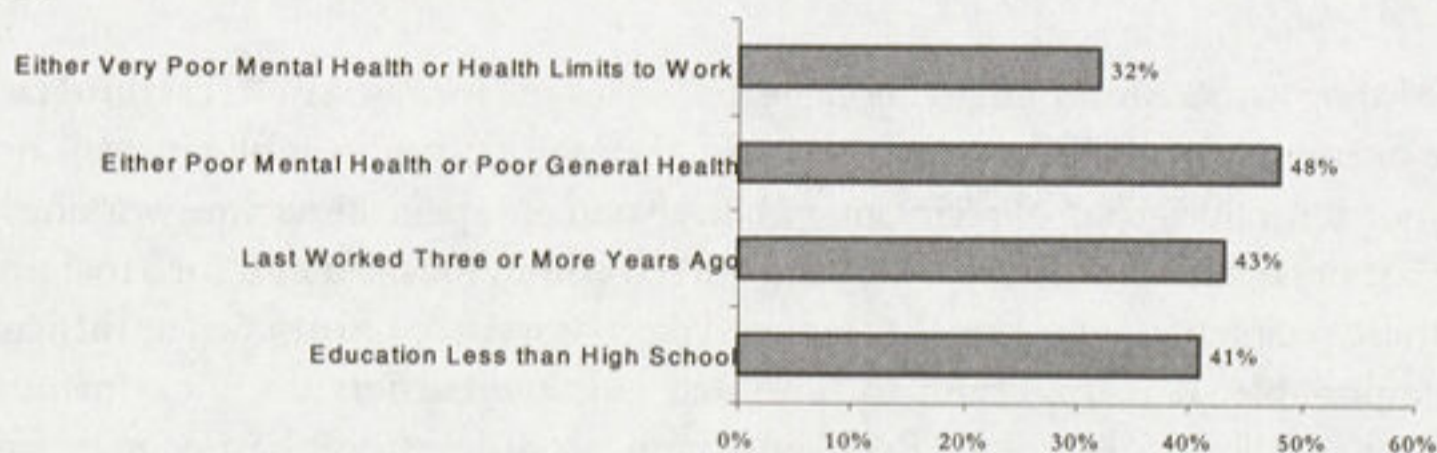
(Source: Kramer 1998 and Sweeney 2000.)



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It is worthwhile to note that many of these barriers are statistically significant factors contributing to recipients' inability to work (see Figure 1 below, from Zedlewski, 1999). As the number of obstacles increased, the percentage of recipients reporting no work activities in the previous year also increased. For example, 'of those with one obstacle, 60 percent reported some kind of work activity,' but 'of the most disadvantaged group – those reporting three or more obstacles – 73 percent reported no work activity and only 3 percent reported working.'

**Figure 1: Percentage of TANF Recipients Reporting Obstacles to Work, 1997**



(Source: Zedlewski, 1999. Urban Institute calculations from the National Survey of America's Families, 1997)

As noted above, most of the families with these personal and family challenges do not have a history of work. In previous research, 'between 55 to 70 percent, depending on the barrier, worked less than 25 percent of the time or not at all' during a three year period. In addition, 'fully 44.4 percent of those with extremely low skills did not work at all' (Kramer, 1998).

### **The Hard-to-Serve: What are the Policies?**

This section outlines a number of policies that both address the barriers these families face and construct a new safety net for disadvantaged families. A caveat: a major implication of the results of welfare reform are that supports for working recipients and the working poor are definitely needed. The final TANF regulations began to address these needs, allocating more funds for child care subsidies and state EITCs, for example, but many more supports have been called for. A discussion of these policies, while intricately linked to the policies for disadvantaged families, is outside of the scope of this paper.

### **Effects of current policies on this population**

Before discussing the advantages and drawbacks of innovative policies and providing recommendations for federal policy-makers, it is important to consider the effects of current policies on this population – in particular the effect of sanctions and exemptions.



**Sanctions.** Recent literature suggests the major aspects of the current welfare reform – time limits, work incentives, and sanctions – may have a limited effect on this population. For example, many states have adopted tougher sanctioning policies with more ‘teeth’ than in the past. Oftentimes the entire family is taken off of the caseload after non-compliance with welfare regulations whereas in the past only the adult’s portion was removed. There is evidence, however, that while sanctions have had some effect, they are increasingly being used on families that are facing multiple obstacles. Pavetti (1997) cites a study in Minnesota found that ‘sanctioned families were four times as likely to report chemical dependence, twice as likely to report a mental health problem, twice as likely to report family violence, and three times as likely to report a family health problem.’ Thus, it is unclear whether sanctions are punishing those families who *won’t* comply with program rules or those who *can’t* comply. Kramer (1998) states ‘noncompliance may also result from clients failing to understand program rules and expectations, a problem of particular relevance to individuals with low social or cognitive skills.’ If families *unable* to comply with work or participation mandates are sanctioned, then it is unlikely that sanctions will have their intended behavioral effect.

In a way, however, the policies of PRWORA have worked to help identify a number of issues that may have remained dormant under AFDC. Some researchers consider this the ‘sleeping giant’ issue. As stated in a forthcoming Hudson Institute study on the Wisconsin welfare reform, ‘the provision of a monthly AFDC check without required activity could easily disguise a variety of problems in someone’s life’ (Schwartz and Hein, forthcoming). Thus, with the new requirements, many issues facing the hard-to-serve population have surfaced. As these issues arise, policymakers will have to devise new and innovative strategies that target this disadvantaged population and move them successfully to work. Strategies of the past – developed with caseloads of the past in mind - will not necessarily apply to contemporary welfare recipients.

**Exemptions.** Under TANF, many disadvantaged families have been exempted from both time limits and work requirements. Federal law allows states to exempt up to 20 percent of their caseload from the five-year time limit on federal funds (Schott, 2000). States are also able to exempt additional families from state time limits and work requirements, particularly if they use state funding for cash assistance to these families. The 20 percent figure, however, is based on ‘20 percent of the average monthly number of families receiving assistance during the current fiscal year...it is not based on 20 percent of the caseload at the time welfare reform was implemented’ (Schott, 2000). Thus, as the caseload numbers dwindle, that 20 percent will become an ever smaller number and families that may have previously qualified for exemptions will be increasingly likely to be subject to the reform requirements.



**Policy strategies to address the hard-to-serve population**

There are a number of policy options that can address the needs of families remaining on welfare and reaching state and federal time limits. The following four stand out among those put forward in this debate:

1. extending the time limit or exemption percentage beyond federal requirements.;
2. counting different activities towards participation percentages;
3. providing Community Service Jobs (CSJs) after the time limit; and
4. providing non-cash assistance supports.

In addition, the Supplemental Security Insurance program – a federal-level disability program – deserves attention as an alternative policy and is discussed below.

**1. Extending the time limit/exempting additional families.** Many states, when implementing program reforms in response to PWRORA, adopted the federal five-year time limit on welfare receipt. A number of states chose time limits that were even shorter. As families reach these limits, advocates are now calling for increased flexibility, caseworker discretion and time to address the larger challenges. In Florida, for example, where the state WAGES program has adopted a two-tiered time limit (two and three years for more and less work-ready recipients), state officials are ‘calling on lawmakers to extend time limits for deserving families’ and asking that case workers be given ‘more room to assess and deal individually with these clients – and the flexibility to be both tough and smart’ (Wagner, 1999). They note that their state time limit ‘looks good on paper, but it doesn’t give us enough time to help the recipients with the most barriers to work toward self-sufficiency’ (Wagner, 1999).

Recipients with bigger and more numerous barriers to work may take longer to achieve self-sufficiency. As families reach time limits, states are beginning to recognize that families’ ‘transitional’ assistance needs vary considerably. States can extend time limits beyond the federal limit of five-years for up to 20 percent of their caseload with federal TANF funds, and they can extend cash assistance for additional families beyond this cap with their own state Maintenance of Effort (MOE) funds (Schott, 2000). Some states have already established criteria for extensions, including domestic violence, disability of the adult or household members, and when ‘the adult has made a good faith effort but is still unemployed or underemployed’ at the time limit. Additionally, benefits can be extended for the children in the family, removing the adult from the case, in order to ‘assist needy families so that children can be cared for in their homes’ (Schott, 2000).

Extensions can also be granted in innovative ways that still abide by the time limit message. As noted above, some states have implemented strategies that recognize when recipients ‘play by the rules’ and yet are still not self-sufficient (Schott, 2000).



For these families, short extensions have been granted when a 'good faith effort' to find employment has been made. In many of these states, however, even the criteria of 'effort' are difficult for many hard-to-serve families to achieve.<sup>8</sup> In addition, other states have made 'credits' towards the time limit – months that can be added to families' clocks when recipients are working while on welfare.

On one hand, extended time limits will allow harder-to-serve recipients extra time to address barriers to self-sufficiency. It will also help caseworkers to really identify specific challenges that families face.<sup>9</sup> Implementing compliance-based procedures continues to reinforce the time-limited message while simultaneously recognizing the hardships that families face. Exempting very disadvantaged families demonstrates a state's commitment to a safety net assurance. On the other hand, however, it may be highly difficult to 'distinguish those who cannot find work from those who merely prefer not to work. As a result, 'flexible' time limits will tend to make work requirements meaningless' (Jencks, 1997). Increasing the flexibility of time limits will have the immediate effect of diluting the original time limit's message. If recipients know that the time limit doesn't have real 'teeth,' then they will be less likely to alter behavior as a response.

**2. Alternative definitions for work activities.** Currently, TANF regulations count the following activities towards the 30-hour per week work participation requirement:

- unsubsidized employment;
- subsidized private-sector and public-sector employment;
- work experience activities and on-the-job training programs;
- job search and job readiness assistance;
- community service programs; and
- vocational educational training.

Participation in most counseling, remedial skills training, and education programs can only count towards a fraction of the required work hours (Bloom, 1997). Given the population described in the previous section, it is unlikely that these individuals will satisfy participation requirements with accepted activities alone. To ensure that hard-to-serve recipients engage in activities that help them to move towards self-sufficiency, alternative activities could be included in this definition. Pavetti et al (1997) notes, 'it is likely to take multiple strategies, rather than a single strategy, to help recipients facing personal or family challenges to make the transition from welfare to work: program strategies that are effective at helping welfare recipients with a substance abuse program...are likely to be quite different than strategies that are successful at helping recipients with extremely low skills.' Hard-to-serve individuals may be more successful with targeted, customized strategies that address their challenges directly before they are required to attempt to work in the private sector.



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A number of programs and strategies have been suggested that could be placed under the rubric of work activities participation for this population (Pavetti et al., 1997):

- substance abuse treatment programs and counseling;
- incremental work experience programs (such as Project Match in Chicago);<sup>10</sup>
- remedial programs, including education and skills training; and
- mental health counseling and treatment services.

Most of these strategies incorporate up front assessment and ongoing counseling, and are highly customized in nature. Because they focus on the barriers to self-sufficiency and target 'human capital development', they are not currently considered work-first strategies. Education and skills training, in particular, has received little attention since the focus has shifted towards work.

On the positive side, these programs have the potential to address directly some of the issues facing the hard-to-serve population. Caseworkers can establish individual programs for disadvantaged families and focus on the 'sleeping giant' issues brought to the surface through work requirements. When issues such as substance abuse are addressed through these programs, positive employment results and government savings may be accomplished. Studies note that 'for low-income persons, within two to three years of completion of treatment, the benefits of treatment far outweigh the costs (Pavetti et al., 1997).

Nevertheless, customized programs are likely to cost significantly more than work-first strategies, and require substantial up front assessment in order to identify participants. Some up front assessments have been developed, such as the Substance Abuse Subtle Screening Inventory (SASSI) used in Portland, Oregon, that can help determine if substance abuse treatment is warranted, but these assessment tools are not universally used nor have they been determined to be empirically effective (Kramer, 1998). Moreover, 'there is little theoretical or empirical literature on the effects of social or supportive services on employment or income,' and evaluations of many human-capital development programs have found little evidence of later impacts on employment and income (Pavetti et al., 1997).

**3. Providing Community Service Jobs (CSJs).** The 1996 welfare reform had its roots in a more liberal agenda than was eventually borne out. David Ellwood's (1994) original plan envisioned a transitional assistance program with a time limit on cash assistance. The time limit, however, referred more to time on welfare without the 'responsibility' to engage in work activities, than to a limit on welfare receipt overall. Ellwood proposed that at the end of two or three years of cash assistance combined with education and training experience, recipients would be required to work to receive their checks. They would remain eligible for aid after the time limit, and for those recipients unable to obtain unsubsidized employment,



government would supply work in the form of community service jobs (CSJs) and subsidized work experience (Bane and Ellwood, 1994).

The new law adopted time limits without guaranteed jobs, and many researchers have begun to raise the call for the provision of transitional jobs for the hard-to-serve, particularly at the end of time limits. These jobs are particularly valuable to very disadvantaged welfare recipients given their relatively depressed level of work experience and job-readiness. Schott (2000) advocates that states can 'provide the parent with subsidized employment that serves the needs of the community through private nonprofit or public agencies' to help recipients 'gain valuable work experience, provide a public service and earn wages to support their families.' Other researchers (Sweeney et al., 2000) note that transitional jobs can address issues of low work-readiness and low skills as well as to insure jobs 'in depressed communities and remote areas with high rates of joblessness.' For this population in particular, a unique and transitional step on the ladder to employment is significant.

Transitional jobs can help to provide a "stepping stone" into unsubsidized employment for individuals with poor work prospects while simultaneously reinforcing the 'work-first' philosophy' (Sweeney et al., 2000). CSJs provide a public service while transitioning hard-to-serve individuals off of welfare. They can also help to identify additional barriers to work that appear in a workplace setting, allowing recipients and caseworkers more opportunity to address and resolve these issues. Costs of these programs can be kept low, particularly if states use federal welfare-to-work funds to support them. Federal TANF funds can be used for subsidies and not count as 'assistance' according to the final TANF regulations – thus time limits and other requirements will not apply to these families (Sweeney et al., 2000).

Yet CSJs have their disadvantages as well. First, when the state is using subsidized workers rather than government workers for traditional functions, public service jobs have the potential to displace government workers already on the payroll. It has also been argued that community jobs are nothing more than 'make work,' as labor economics stipulates that any kind of valuable service will already be adequately recognized by private sector wages. Finally, the efficacy of these programs has not been fully proven. A large research evaluation from the early 1980s found that while 'a majority of recipients were employed while they were guaranteed employment, fewer than half were employed once they graduated to regular employment.' Further, this program cost significantly more per recipient than other programs even while it decreased government spending on benefits (Pavetti et al., 1997).

**4. Providing non-cash assistance supports.** The final TANF regulations stipulate that federal time limits do not apply to aid that is not considered assistance. Assistance includes 'cash or non-cash payments designed to meet a family's ongo-



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ing basic needs for food, clothing, shelter, and other household expenses' (Schott, 2000). Greenberg and Savner (1999) note, 'the final regulations enunciate some key exclusions from the definition of assistance, including many work supports for employed families (such as child care, transportation subsidies) and expenditures for non-recurrent, short-term needs.' By capitalizing on this distinction, states can provide a number of services to recipients, including the hard-to-serve, without having to apply the federal requirements.

A few proposals under this umbrella are noteworthy, namely safety net services and work supports. For families reaching time limits without subsidized employment, states can offer non-cash-based short-term aid and 'safety net' services to help families meet their basic needs. These policies recognize that a state's programs 'may not provide sufficient protection for all families and that other back-up aid may be needed under certain circumstances.' By providing basic services through direct vendor payments (rent, utilities, transportation), the state can assist sanctioned and post-time limit families and still guarantee a basic level of subsistence (Schott, 2000). Short-term, emergency aid can also be provided to help families cope with 'temporary financial crises that can jeopardize family stability or a parent's employment', and can easily be funded by state MOE funding sources (Sweeney et al., 2000).

In addition, states can provide certain amounts of work supports for families to help achieve self-sufficiency. For hard-to-serve families, additional work supports will not necessarily address their particular challenges, but may help smoothen the transition from welfare to work. Work supports could come in the form of cash assistance for expenses accrued as a result of working (e.g., payroll deductions), or they can be directed assistance for a particular need (e.g., work-appropriate clothing, child care, transportation), and can be provided to families both on and off of assistance (Schott, 2000).

On the one hand, non-cash assistance, particularly assistance directed towards working supports, helps reinforce the work-first and transitional messages of welfare reform. Further, the benefits can accrue to all low-income families, including the hard-to-serve. It can safeguard the stability of a family without violating the principles of a state's welfare reform program, and help to ensure that families remain together even in financially difficult situations. Federal TANF funds or state MOE funding can be used, and due to their temporary and emergency nature, should be more politically viable than ongoing support.

On the other hand, safety net services – particularly assistance such as short-term, emergency aid – may not have any clear link to work nor include any incentives for recipients to transition from these benefits to work (outside of any administrative hassle).<sup>11</sup> In addition, a generous benefit program could ostensibly be viewed as an alternative assistance system for recipients rather than a transitional one. Further,



costs of these programs have yet to be measured, and are likely to be high. In the final evaluation of Florida's Family Transition Program (FTP), final costs were found to be over \$8,000 more than the state's original AFDC program. Much of these higher costs were due to the rich variety of working supports that were provided to participants, including virtually unlimited childcare and transportation assistance (Bloom et al., 1999).<sup>12</sup>

### **Recommendations for Policy Strategies**

Given the advantages and drawbacks of the four options outlined above, the two that hold the most promise for this population are extending the time limit and exempting additional families, and counting alternative work activities towards required participation rates. These two policies, particularly if implemented concurrently, can serve both the purposes of the recipients themselves along with the reform's objectives. Recipients with low skills, for example, will have an increased amount of time to raise their skill levels and education scores, but while they are working to accomplish this task, their participation will count towards state requirements. Further, the implicit contract – you need to participate in order to receive a check – will not be violated. Finally, these policies can be advocated from the federal level by adapting the final TANF regulations. The other policies, while innovative and potentially beneficial, are more likely to be state-level programs utilizing state and TANF funds.

### **Other Innovative Funding Mechanisms**

Two alternative funding structures are worth noting. The state Maintenance of Effort (MOE) funds and the federal Supplemental Security Income (SSI) program can be applied to this population to either fund innovative state-level programs or continue benefits for disadvantaged recipients outside of the formal welfare system. These structures are critical to both federal and state-level policy makers, for if states are to address this population with the appropriate force, then they will have to utilize more than simply the TANF block grants.

**State's Use of Maintenance of Effort (MOE) Funds.** The block grants of TANF provide states with flexible funds to use for innovative programs. In addition, for states to receive the federal grant, they are required to meet a MOE standard 'which mandates that states spend at least 80 percent of state spending on AFDC-related programs in 1994' (Sweeney et al., 2000). The matching MOE funds are not contingent on many of the federal TANF requirements.

As a result, much of the current state-level innovation has and can be supported with these funds. MOE funds can be used for all needy families – on or off of welfare – to provide non-cash assistance, transitional benefits, and supports for the working poor. For the hard-to-serve, MOE funds have the most potential for the



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extension of time limits and expansion of exemption criteria. For example, 'Massachusetts uses segregated state MOE funds within its TANF-funded program to stop the TANF time clock for a family for any month during which it is exempt from the state's 24-month time limit (e.g. families in which the parent or caretaker meets state disability standards or cares for a child under age two). Because the family does not receive any TANF-funded assistance for a given month, that month does not count toward the 60-month TANF time limit' (Schott, 1998).

**Funneling recipients to disability insurance and SSI.** By utilizing the 'sifting' nature of the welfare reform stipulations, it may now be easier for states to identify individuals who can qualify for state disability funding and federal Supplemental Security Income (SSI). Disabilities and barriers to work that were hidden under the AFDC system may surface, and apt caseworkers can take advantage of these alternative supports. Loprest (1999) noted that slightly less than 25 percent of non-working former welfare recipients reported that a family member received SSI benefits during the survey year. She notes that 'about half of those who say they cannot work due to a disability report receiving SSI' in the survey year. Given the figures cited in the previous section citing the prevalence of physical and mental disabilities, disability insurance appears to be a worthwhile alternative.

As a result, many states have begun to take advantage and actively move participants to obtain benefits from SSI (Pavetti et al, 1997). Additionally, some states have helped families obtain SSI eligibility for dependent children, thus securing an alternate source of income when TANF benefits run out. Yet, SSI and state disability insurance programs were designed primarily for the severely disabled and use a highly restrictive definition of disability – 'disabilities that are expected to last at least twelve months or result in death and which prevent substantial gainful activity' (Sweeney, 2000). Thus, it is unlikely that the majority of TANF recipients will qualify for this support, although many may have 'impairments that, either singly or in combination, affect their ability to function in daily life' (Sweeney, 2000). Thus, federal policymakers will need to reevaluate the criteria for eligibility to this program if it is to truly assist this population.

### Policy Challenges for the Future

The 1996 welfare reform was adopted in its final form in April 1999 and will be up for reauthorization in 2002. At that point, many of these issues discussed above will be under debate. The fight will be between those who advocate increased spending on targeted programs and those who believe that the stated rules are working adequately enough. For those who are concerned about the hard-to-serve population and the maintenance of a safety net, this is an important moment. The following challenges will be at the forefront of this debate:

**Assumption that everyone can work.** It seems implausible to assume that a



universal set of rules for a diverse population will have an all-encompassing effect. Yet, for the most part, the regulations of PRWORA and the subsequent state-level reforms have expected that their work-first message and transitional focus will induce most recipient families to engage in work activities and eventually leave the welfare rolls. The underlying principle to the 1996 reform is that *everyone* can and should work. Reality has not fully demonstrated the veracity of this assumption, however, and it will be up to policymakers to determine how they intend to proceed.

If, as stated earlier, a full one-third of the welfare caseload will find it impossible to work, a real back-up safety net must be built to protect these families. Yet, many of the policies outlined above draw an inherent tension between work-ready and work-unable participants – exceptions to a steadfast rule will necessarily dilute its strength. As Christopher Jencks and Joseph Swingle stated (2000), ‘drawing a line between those who can and cannot work is never easy.’ For now, policymakers have erred on the side of the rule rather than the exception. As this hard-to-serve population becomes clearer, it is definitely time to consider the alternatives.

**Costs and political feasibility.** As illustrated by many past programs, the policy options above will require significant financial investments. In the past few years of fiscal belt-tightening and a potential recession on the horizon, increased spending for programs will not be readily accepted by legislatures. As Robert Lerman (1999) notes, ‘benefit programs for the poor face inevitable tradeoffs between assuring adequate benefits, providing reasonable incentives to work, and limiting budgetary outlays.’ Nevertheless, the huge caseload declines and funding reform have generated huge amounts of savings for states Schwartz and Hein (forthcoming) estimate that ‘in total, states have saved nearly \$5 billion as a result of the shrinking welfare rolls.’ States have reinvested these dollars into innovative programs and established ‘rainy day funds’ for increased caseloads in recession times (Schwartz and Hein, forthcoming). One of the more positive outcomes of the economic boom and reduced caseload numbers is that states have had the chance to test programs on a concentrated population. Thus, when and if a recession hits, they can implement the more successful strategies with more limited funds.

**Ensuring that programs successfully target the hard-to-serve.** The 1997 Welfare-to-Work federal program specified that ‘at least 70 cents of every dollar’ must be spent on those deemed the ‘toughest to employ’ – recipients who have ‘spent at least 30 months on welfare or are nearing their lifetime limit for benefits and have two out of the following three other problems: they must need substance abuse treatment, have little work experience, or have poor educational skills’ (MacDonald, 1999). There is evidence, however, that many of these programs are inaccessible for the hard-to-serve population. Project Quest, for example, a highly successful sectoral strategy program in San Antonio, Texas, links low-income workers to job vacancies in the area. The program, however, is restricted to those individuals with



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high school diplomas or their equivalents – a certification that many recipients in this population lack (Dresser, 1997 and Walljasper, 1997). Future programs need to account for both the needs and abilities of this population, and while they may be implemented at the state-level, can certainly be advocated for at the federal level.

**Ensuring that recipients receive necessary safety net benefits.** There is evidence that as people leave welfare, they are not utilizing benefits available to them, including Food Stamps, Medicaid and subsidized childcare (Lerman, 1999). The New York Times recently noted, ‘at least 12 million people – including at least a million children – are not receiving Food Stamps even though they are eligible’ (Becker, 2000). Recipients ‘may believe they are no longer eligible’ for these benefits, potentially because of decreased contact with government agencies, or they may choose not to partake of these programs ‘because of high stigma and transaction costs and . . . asset tests’ (Lerman, 1999). Alternately, states may fear that they will be penalized for providing too much in Food Stamps benefits, and therefore provide caseworkers with confusing or conflicting information – impacting the delivery of benefits to recipients (Becker, 2000). As many researchers have noted, this area deserves increased attention in the future, as these benefits are integral to the safety net package available to all families, including the hard-to-serve. Federal and state marketing and targeting efforts will be necessary to increase the participation rates in eligible families, particularly as they leave the welfare caseloads.

**Creation of a federal safety net.** With the PRWORA reform, significant responsibility for disadvantaged families was shifted to the states. Fears that there would be a ‘race to the bottom’ of benefits between states were not actualized, but a federal-level safety net is not universally available. For example, families with similar barriers have access to widely different services across states, and do not have access to the same opportunities to move towards self-sufficiency. In the reauthorization discussions in 2002, policymakers might want to discuss the creation of a federal-level, two-tiered safety net of benefits for disadvantaged and low-income families – one that protects the most disadvantaged families and another that provides supports for the working poor.

## Concluding thoughts

It is clear that the work-first message of the 1996 welfare reform has had its intended effect – many recipients are working while on welfare and many more are leaving the rolls for work. Welfare’s negative public perception has been altered, and it appears that support might be growing for additional assistance for low-income families (Becker, 2000). The remaining welfare population, however, includes many individuals with a number of challenges and barriers to work. For these families, the social safety net still seems to be incomplete. Policies and programs targeting the hardest-to-serve cases are warranted if the US wants to continue protecting disadvantaged families and children. The fabric of the safety net has indeed



changed, and many may say for the better, but a number of challenges have yet to be addressed.

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## Endnotes

<sup>1</sup> Note that the five-year time limit applies only to cash assistance received from federal funds. States are free to determine their own time limits – either shorter or longer – on assistance received with state funds.

<sup>2</sup> It is important to note that 1991-1994 were peak years in terms of overall caseload as a proportion of the US population (U.S. Department of Health and Human Services, 2000)

<sup>3</sup> States had the option, until 1996, to request a waiver for federal requirements on the AFDC program and implement their own innovative practice. In the late 1990s, a number of states were incentivized to do so, and much of the reforms attempted in these programs were adopted in PRWORA.

<sup>4</sup> This study has also been widely scrutinized, and a few notable economists have criticized the cited figures. For example, some economists noted that the CEA's reliance on unemployment data rather than employment rates is faulty, and observed that the dates of implementation of reform programs used in the regression analyses may be incorrect (Martini and Wiseman, 1997).

<sup>5</sup> The picture itself is not as positive if benefits such as Food Stamps and health care are also considered. Food Stamps, for example, are not being used by a large amount of the eligible population (Becker, 2001).



<sup>6</sup> Note that there are two methods that states have achieved caseload declines. The more work-ready members leave the current rolls. But, at the same time, many of those who would have applied for welfare are not applying and are being either implicitly or explicitly diverted from the rolls.

<sup>7</sup> Parker, Greer and Zuckerman (1988) explain that models of the effects of poverty do not adequately address the impact of adversity on child development and adult outcomes. They note that 'children living in poverty experience double jeopardy. First, they are exposed more frequently to such risks as medical illnesses, family stress, inadequate social support, and parental depression. Secondly, they experience more serious consequences from these risks than do children from higher socioeconomic status.' Extrapolating these risks and consequences to the adult welfare population indicates again that the hard-to-serve are in a precarious position.

<sup>8</sup> In Florida's pilot time-limited program, the Family Transition Program (FTP), for example, recipients who had complied with program rules and were unable to obtain employment by the time limit were eligible for hardship extensions. In practice, however, only a handful of the program participants were granted these extensions – many were denied because FTP program officials based their compliance criteria on employment during welfare receipt (e.g., recipients who were employed were deemed compliant, those who were not working were non-compliant and thus ineligible for extensions) (Bloom et al., 1998).

<sup>9</sup> Well-trained, flexible caseworkers, skilled in more than just eligibility determinations, may be one key to making time limits work for hard-to-serve families. In the new systems, caseworkers with lower caseloads and the ability to counsel, guide, and teach their recipients will be the most successful in helping more recipients achieve self-sufficiency.

<sup>10</sup> Project Match, developed by Toby Herr and the Erikson Institute, 'relies on community-based activities to teach welfare recipients who have not succeeded in traditional welfare-to-work programs the skills and behaviors they need to succeed in the world of work.' It utilizes an organizing principle of a job ladder – incremental steps of activities that eventually lead to unsubsidized work. Activities and ladder progression 'differ based on a recipient's unique family and personal circumstances and characteristics' (Pavetti et al., 1997).

<sup>11</sup> Programs such as emergency vouchers for necessities or one-time diversion payments provided in lieu of application for full welfare benefits would fall under this category (Sweeney et al, 2000). Other non-cash assistance benefits such as childcare, are inherently both transitional and directly connected to a recipient's choice to work.

<sup>12</sup> Yet, there is evidence that there may be long-term benefits that can justify the initial high costs. For example, Hamilton and Freedman (2000) state, 'the programs could affect children through their effects on the parents required to participate in them...Program effects on parents' education levels, welfare status, employment, earnings, and income could potentially result in changes in family routines, parents' self-esteem or stress, or parents' supervision of children or use



of child care arrangements.' As a result, children's achievement in school or eventual participation in the work force could be positively impacted by their parents' work experience.



## **Workforce Development for the 21<sup>st</sup> Century: The Role for Government in Sectoral Employment Training**

**Lazar Treschan**

### **Abstract**

*This paper examines 'sectoral strategies' for training and placement of low-wage workers, looking at the history of such programs and the role of business and government in their development and administration. It draws on recent studies to determine the most advantageous route for the public sector in these efforts to improve the skills and pay of the nation's low-wage workers. The author concludes that state and local government need to go beyond the federal guidelines in the Workplace Investment Act in order to meet the requirements for successful sectoral workforce development.*

### **I. Introduction: The Training Dilemma**

Despite the promises of politicians, the economic boom of the 1990s did not ensure that 'no one was left behind.' Rather, the growth in wage inequality during the 1980s only increased in the first half of the next decade, before leveling off somewhat in the second half. 'The rising tide of inequality is a story of stagnant real wages for the average worker and falling real wages for the low paid, compared with healthy gains for the highest paid' (Freeman 1997, 16). Non-college-educated workers new to the labor force have experienced the worst of wage deterioration. Further, contrary to what theory might suggest, lower wages at the bottom of the wage scale have not increased employment – either absolute or relative – of low skill workers compared to that of high skill workers (Freeman 1997, 23).

### **Policy Responses**

The causes of these phenomena are numerous and difficult to pinpoint. They include increased international trade, immigration, institutional change, technology, values and various interactions of these and other factors. But while the causes of increased inequality may be difficult to isolate, policy responses need not mirror them. Rather, efforts such as the Earned Income Tax Credit go further towards redressing working poverty and inequality than do backward-looking efforts such as decreasing trade or immigration would. Another approach to ameliorating poverty and inequality lies in economic development programs. Traditionally, these efforts have consisted of business development, community development and education/training efforts. Business development programs seek to attract or assist business in an area, without specifically addressing the working poor. Community development programs typically work through local organizations to combat geographically specific poverty or urban decay. Education and training



efforts focus on the individual, trying to empower him or her to enter the workforce. Unfortunately, these programs typically suffer from a disconnect with one another: businesses attracted to an area are not likely to offer good jobs to a poorly skilled workforce, and, conversely, a skilled workforce needs real jobs to occupy.

### **Sectoral Employment Training Programs**

This paper will focus on the sectoral strategies that involve the training and placement of low-wage workers. These programs work with firms, generally through employer consortia, to tailor training for jobs in specific industries. But as I will discuss, government involvement in these efforts is very diverse. I will think about the opportunities and challenges for government in these activities and then examine various examples of each. I will then try to determine what the best role for the public sector is in developing these strategies and I will make specific policy recommendations for how to get there. Lastly, I will also look at the new Workforce Investment Act and the environment it creates for successful public involvement in sectoral strategies.

### **Training as Anti-Poverty Policy**

Various studies have shown the potential for training, specifically formal, company-provided on-the-job training, to help poor workers on a path towards economic sustainability. Unfortunately, the workers who most need the benefits are often the least likely to receive training: 'Formal company training, however, tends to be provided only to a minority of workers and at much higher rates to workers who possess more years of formal schooling and higher literary proficiencies, with four-year college graduates the most likely recipients of such training. Less-educated, less-literate, and low-skilled workers are the least-likely recipients of formal employee-provided training' (Bennici, et al 2000, 37).

Traditionally, public sector efforts at providing job training to the under-skilled have been largely ineffective. Participants in programs sponsored by the largest federal training effort, the Job Training Partnership Act (JTPA), have shown increases in earnings, but these gains are minor, mostly due to increased hours worked, and usually do not raise a participant's household income over the poverty line (Stanley, et al 1998, 27). Similar conclusions were drawn from evaluations of the Comprehensive Employment and Training Act (CETA), JTPA's predecessor (Barnow and King 2000, 131). As James Heckman dismally points out, 'most persons who complete JTPA are still eligible for it at the end of their training' (Heckman 1994, 14).

As such, Heckman urges government to emphasize 'firm-specific and match-specific investments,' instead of general skills training. While both CETA and



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JTPA were enacted with the hopes of meeting the demands of firms – through Private Industry Councils (PICs) intended to give employers input into training design - they have largely failed to do so for various reasons including:

- Publicly-funded training programs have often been considered by employers as part of the welfare system and, as such, viewed with skepticism and mistrust;
- The bureaucratic approach of government agencies conflicted with private sector and community-based organizations;
- Training programs have tended to be inflexible to changing labor market needs (Clark and Dawson 1995, 5).

In sum, public training has shown the need to tap into the benefits of on-the-job training, industry-designed skill-training relevant to the demands of the ever-changing market. If training is not linked to employers, then the increased labor market supply will not meet any relevant labor market demand needs.

## Sectoral Strategies

Sectoral employment strategies are efforts that address the training disconnect between labor-market supply and demand. Traditionally, a 'sectoral strategy' is an economic development policy that targets a specific industry. In the 1960s, state and local governments moved towards targeted industrial strategies, whereby they studied particular industries for recruitment into their regions. Around 1980, the US government began to adopt what appeared to be a national industrial policy, whereby specific sectors – notably automobile and manufacturing – were federally supported. While a Republican-controlled Congress moved away from a national industrial policy, states and local government gravitated towards such efforts, moving towards the now-popular industry cluster analysis as a means of promoting growth. Cluster strategies - developed in the 1980s by various researchers and brought to the forefront in the 1990s by Michael Porter – focus on the benefits of regionally linked business relationships (Kwass and Siegel, 5). Today, state and local governments engage in various sectoral efforts including cluster analyses, development of industrial networks, and worker training and employment programs.

## II. The Role of Government in Sectoral Employment Training

### Public Involvement in Sectoral Employment Training: Theory

Relatively early in the development of sectoral strategies, Paul Osterman viewed building 'employer consortia,' groups of businesses working together to address the needs of their respective industries, as being of fundamental importance to the development of effective state training programs. 'By using employer associations as brokers for training programs, states can build institutions that outlive particular projects' (Osterman 1992). This feature, which others have called the 'systems



reform' aspect of sectoral strategies, is very attractive. Peggy Clark and Steve Dawson of the Aspen Institute argue that 'participating – and thus influencing – complex relationships among a variety of actors... [makes] sectoral employment development a systems approach, not simply a resource-delivery approach, to securing jobs for the urban poor.' Furthermore, sectoral employment development is 'explicitly aiming to influence how the targeted labor market either recruits, hires, supports, or promotes low-income individuals...' Clark and Dawson foresee the sectoral training program 'as a leading source of technical and policy expertise' for the industry as a whole (Clark and Dawson 1995, viii).

Employer consortia are an example of the type of institution that can have long-term influence on labor market demand. Unlike untargeted government efforts, industry consortia can be effective in organizing small firms who might not trust the role of the state or local government in developing training and placement programs. The work of employer consortia can also prevent the bureaucratic inefficiencies likely resulting from government efforts to contact and contract with many small businesses, which, on their own, might not seek state monies. Firm associations are also much more up to date on training needs for their industry whereas public agencies might fall behind in this regard. Keeping training in the hands of firms ensures, to the greatest extent possible, that participants' activities remain relevant to their potential future employment.

Writing in 1992, Osterman foresaw two roles for government in training programs. One model has employer consortia 'develop and initiate training programs and the government plays a largely passive funding role. This model relies on the existence of associations that are active and well-organized, a description that probably applies to only a minority of associations in the country.' Were this not the case, however, more sectoral employment programs would already exist.

Where effective employer consortia do not already exist, Osterman saw a role for government to develop them. 'This model also involves broadening local participation, not only among firms but by community groups, unions, educational institutions and a range of government bodies. This model is more difficult to create than the first, but it offers the possibility of a broader political base to weather funding crises and a broader constituency to serve a range of groups' (Osterman, 1992). While this prototype seems appealing in its inclusiveness, Osterman seems to take for granted the existence of community and worker organizations to design and help implement the programs along with the newly formed employer consortia. Practical questions arise when these groups do not exist.

### **Public Involvement in Sectoral Employment Training: Practice**

In 1995, Mt. Auburn Associates studied ten sectoral employment programs where



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the public sector played a major role in initiating and/or implementing the projects. Their findings about the role of the public sector include:

- the public sector generally shared project implementation responsibility with private or non-profit institutions;
- the public sector often played a key role of broker, bringing together diverse groups such as government, academia, community organizations and private industry;
- the public sector used its procurement and regulatory powers in favor of targeted sectoral development;
- the public sector played a key 'oversight' role, because 'the potential existed for the entire effort[s] to become focused on meeting industry's needs, rather than achieving public policy objectives';
- the public sector played a major funding role, albeit in different forms, in all of the programs (Kwass and Siegel, 19-20).

The first four functions described above all fit into Osterman's model of active public sector involvement. However, it is clear that there exists a potential tension between the interrelatedness of the models, especially when the government is providing a major funding source. In examining each of these public sector roles, it is important to keep an eye on how the public sector's role as funding source affects its behavior in project implementation decision-making.

## Impacts/Outgrowths

The Mt. Auburn study found major impacts of publicly initiated sectoral strategies, including:

- *The development of industrial networks.* Just as Osterman had hoped for, studies found that various projects increased the level of cooperation and collaboration between firms in diverse industries.
- *Increased industry competitiveness.* The cooperation and collaboration noted above led to improved business operations within targeted sectors. It is important to note that firms and workers shared many of the benefits of this increased efficiency. While profits rose for companies involved, many firms' adoption of high performance workplace standards led to a higher required skill level and better labor-management relations. Such developments appear to create an environment for a virtuous circle between labor and management, whereby profits are tied to improved labor conditions.
- *Job creation and retention.* Most of the projects found large numbers of jobs were not only created, but retained for over a year. It is important to note that, although standards varied, these jobs all met 'livable' wage and benefit standards.



- *Skill upgrading and job placements.* Targeted training of unskilled and otherwise disadvantaged workers was often successful. In many cases, industry leaders – not responsible for the development or success of the sectoral programs – reported increases in the supply of skilled labor for their sector, which was rapidly incorporated into the workforce.
- *Job quality.* The Mt. Auburn study found that none of the ten programs they examined focused on job quality. The study did point to lower turnover rates in some firms as evidence of improved job quality. The previously noted skill upgrading probably also serves as a partial proxy for job quality (Kwass and Siegel).

The first two impacts described provide ample reason for private sector buy-in to sectoral employment strategies. The final three give evidence that the public goals of the projects can be met at the same time. It is important to note that a review of the case studies does not show that the above impacts are mutually exclusive. In fact, it appears that where a project succeeded in one of the ways described above, it usually worked on most counts. The projects that were most successful in developing firms' associations were more competitive, created more jobs, etc. This observation leads one to believe that, as Osterman had hypothesized, spending time early on to develop the non-governmental institutions that will implement the programs is of vital importance.

### **Which Public Sector Role Works Best?**

The Mt. Auburn study concludes that the programs they examined succeeded because:

- Public agencies did not actually implement the projects;
- The public sector worked to facilitate collaboration between various actors;
- Local political leaders provided support;
- The public sector used its regulatory and procurement powers;
- The public sector provided strong oversight of the allocation of resources (Kwass and Siegel, 27).

Most of these conclusions fit well with the previously articulated theory behind sectoral programs. Nevertheless, some of them raise concerns, largely due to the political nature of the public sector.

- Collaboration between sectors. On the surface, this appears to be simple: public agencies, who share the interests of the private sector and disadvantaged workers can act as objective facilitators between representatives of the two groups. But many factors can corrupt this process. The strength of the institutions that represent each side can affect the work of



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the government facilitator. If, for instance, a government broker sees a power imbalance, should she work to change it, or would such action corrupt her role as an objective broker?

- Support of local political leaders. While this may help in getting sectoral strategies off the ground, it seems the last thing a program aiming for a long-term system reform would want is identification with a short-term political leader. Once a project becomes known as a certain political figure's 'pet program' it becomes an easy target for cuts by succeeding office-holders.

- Regulatory and procurement support. This factor also seems to defy the definition of long-term economic sustainability in a competitive market. Once again, this support may work to provide an initial boost to a sector, but sustained regulation or subsidization – which targeted procurement over the long-term can become – does not put the project on solid competitive ground. As such, any changes in policy – from changed administrations, etc. – could bring about a rapid demise of the sectoral program. Furthermore, with any policy, regulation can lead to corruption and eventually regulatory capture of the supposedly 'objective' government agent.

### Other Issues to Address

Other obstacles that the study found which hinder the success of sectoral strategies include:

- Confusion between a focus on industry development or improving employment opportunities for disadvantaged workers. The Mt. Auburn study finds tensions in programs that targeted emerging industries: these 'growth industries of tomorrow' appear to have fascinated policymakers to the extent that they forgot about their social goals.

- Lack of appropriate intermediaries who represent the interests of workers. This appears to be a major problem of publicly initiated sectoral strategies. In contrast, privately initiated sectoral strategies tend to stem from community-based organizations that were founded to promote the interests of this very constituency.

The first of these problems stems directly from the second, and highlights a major problem in the focus of all studies on sectoral strategies. The need for intermediary organizations that represent workers is often addressed in sectoral strategy literature, but there is little consensus on how policymakers can effectively assist in their growth. It is clear, however, that development of institutions among both employers and workers must take place before any project implementation can



begin. Only after both sides have adequate representation can the government play an effective role in sectoral strategies.

The development of employer consortia should not be difficult, provided the upside is clearly advertised. State and local governments, acting as information brokers, can dangle the benefits of cluster research in front of local firms, who will realize that it is in their best interests to join. The problem, however, lies in the development of institutions to represent workers where unions or other organizations do not exist. Research into privately initiated sectoral strategies shows success where strong leaders of community-based efforts exist. But whereas firms have easily identifiable leaders (owners), the low-wage and out-of-work force does not. Here the public sector faces a dilemma. It can provide funding incentives to community groups in the hopes one will respond to the challenge of representing local low-wage workers. However, incentivizing leadership is not something the government has been very effective in historically. Nevertheless, local officials can and should maintain close links to community organizations where leaders exist, but might go unknown.

### III. Recommendations

Drawing from the Mt. Auburn study, and looking ahead to other challenges, local governments seeking to develop sectoral employment strategies are advised to follow these steps:

*Work actively to develop employer consortia.* Where employer organizations do not exist, state and local government should work with business leaders to identify target sectors for employment programs and inform them of the benefits of sectoral strategies.

*Work with community groups to identify leaders for the low-wage workforce.* By maintaining close ties to community organizations, government can establish trust with potential leaders of worker institutions where they do not already exist. These organizations can be formed into traditional unions or worker institutes, whose representatives sit with employers and public agents to design sectoral programs.

*Provide funding for training, but leave implementation in the hands of employer-worker partnerships.* While the public sector should play a role in helping employer and workers groups come together and provide advice for program design, implementation should be left to employer-worker partnerships. By limiting its role to funding and keeping out of the training itself, government can create an independent, competitive market for training through vouchers for eligible workers.

*Be a broker/overseer.* The public sector should facilitate communication between representatives of each side emphasizing the goals of industry growth and im-



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proved employment opportunity and their potential for integrative gains. By assuring the lines of communication stay open between established firms and workers' groups, state and local government can make sure each side understands the perspectives and interests of the other.

*Political, regulatory, and procurement support should only be used as an initial boost to sectoral programs.* To avoid dangers stemming from political turnover and ensure self-sustainability, these measures should be viewed as temporary start-up support to overcome initial fixed costs or attract industrial groups.

### What Does the Future Look Like?

Congress recently overhauled JTPA and replaced it with the Workforce Investment Act (WIA), an effort to streamline employment and training services by devolving power to the states. Replacing the Private Industry Councils (PICs), are Workforce Investment Boards (WIBs), which oversee one-stop service centers. At these centers, job seekers will have access to various services including counseling, skill evaluations, training and job search assistance.

The extent to which WIA taps into sectoral programs depends on the recommendations of WIBs. Appointed by state officials, a majority of members, including the chairperson, must be from the business sector. The board will identify labor market areas for investment, oversee service centers and select training providers, who must meet performance measurement criteria (Pantazis 1999, 48-50). While it appears that this policy is on the right track in terms of private sector involvement, there is little evidence of a concern for worker representation.

That establishment of performance measurements for training providers is encouraging, but hard to imagine working successfully from the outset. A market for training is intended to cover up a present market failure, skills shortages and mismatches. As such, training institutions should not be formed by shock-therapy funding approaches. Rather, it would seem that careful development of training by employer-worker partnerships would be more effective.

State and local government stand a better chance of developing sectoral employment strategies by manipulating WIA to take advantage of its funding potential. Various states and local governments outside of the Mt. Auburn study have already succeeded with their own sectoral programs. Wisconsin's Regional Training Partnership has successfully linked various industry consortia to unions and community groups that have formed solid and sustainable institutions in the manufacturing and printing sectors (McNerney 1995, 7). Locally, efforts such as the Seattle/King County Workforce Development Council have identified programs for the information technology, construction and transportation sectors. Adhering to a dual focus of industry specific growth and worker wage progression, the WDC



is working to establish the employer and worker consortia necessary for the project.

#### IV. Conclusion

Publicly initiated sectoral strategies face many challenges that private programs do not. At the same time, however, potential exists for state and local governments to successfully promote them. The fact that WIA sends funding to the states is promising, but state and local government need to go beyond these federal guidelines in order to meet the requirement for successful sectoral strategy development. By spending time to foster the development of employer and workers' groups, funding and brokering sectoral strategies, while keeping out of program implementation, the public sector can make good on the promise 'to leave no one behind.'

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## Individual Development Accounts: A Social Insurance Perspective

### Shankar Narayan

#### Abstract

*Programs promoting asset accumulation complement existing income- and consumption-based policies, guarding against the risk of poverty both directly, by providing a wide variety of economic benefits associated with asset ownership, and indirectly, by helping to foster the values needed to generate self-reliance. This article analyzes the effects of the IDA program, a promising new asset-based social insurance scheme, with particular attention to current knowledge about the savings behavior of the poor. The IDA program is an effective response to some causes of low savings among the poor, but not to others; with close attention to strengths, weaknesses, and limitations, policymakers can expand the IDA program into an innovative means of combating some of the constraints that prevent asset accumulation among the poor.*

#### I. Introduction

Public policies to assist low-income households have traditionally focused on providing income support. However, in the past decade, a growing number of scholars—galvanized by Michael Sherraden's influential study, *Assets and the Poor* (Sherraden 1991)—have highlighted the need to focus on the level of asset accumulation by the poor, not merely on their income or consumption levels. These scholars see asset accumulation as a form of social insurance that both prevents vulnerable groups from falling into poverty due to income shocks, and prevents those in poverty from remaining there indefinitely. Programs promoting asset accumulation guard against these risks both directly, by providing a wide variety of economic benefits associated with asset ownership, and indirectly, by helping to foster the values needed to generate self-reliance. Thus, an asset-based social insurance policy would complement existing policies, improving the welfare of low-income households in ways that income- and consumption-based programs cannot.

Driven by this growing body of literature, as well as by increasing alarm over the near-zero saving rates of low-income households, interest in plans to promote asset accumulation has surged. The most promising and broad-ranging of these plans is the Individual Development Account (IDA) project, a federal demonstration program which establishes special savings accounts to enable low-income families to save toward particular assets. The purpose of this article is to analyze the effects of the IDA program from a social insurance perspective, taking into account current knowledge about the savings behavior of the poor. After describing the IDA program and analyzing the risks against which it insures, I examine a number of previous studies which show that low-income households accumulate almost



nothing. I then discuss what is perhaps the most important analytical question relating to IDAs: *why* don't the poor save? Existing scholarship on the issue points to a number of contributing factors and provides no conclusive reason to favor one over the rest. Next, I evaluate the IDA program in light of this mixed picture, concluding that it is an appropriate response to some causes of low saving levels but not to others. I also highlight certain additional negative effects of the IDA program against which policymakers should guard. The article concludes with policy recommendations drawn from the foregoing analysis and an enumeration of the elements of an ideal IDA program.

A focus on assets has been shown to be an essential complement to income-based social insurance schemes. With careful attention to potential pitfalls and an awareness of limitations, policymakers in the new administration can expand the IDA program into an innovative means of combating some of the constraints that prevent asset accumulation among the poor.

## II. A Working Description of IDAs

From modest beginnings in community-based organizations in the early 1990s, IDA programs have steadily grown more widespread. Today, more than 200 community IDA plans have been or are about to be implemented. The 1996 federal 'welfare reform' law allows states to use Temporary Assistance to Needy Families (TANF) resources to fund IDAs; importantly, any money in an IDA is exempt from asset limits in all federal means-tested programs. To date, nine states are using or plan to use TANF funds for IDAs, and about 25 others have included IDAs in their welfare reform plans. On the federal level, the Assets for Independence Act (1998) created a demonstration project which is to run from 1999 to 2004, backed by \$125 million in federal funding. For ease of discussion, I focus here on the details of the federal program.

IDAs are special-purpose matched savings accounts which enable low-income households to save toward the purchase of particular assets: a down payment on a home, post-secondary education or training, or capital to start or expand a small business. Eligibility for IDAs is means-tested: any individual who is eligible to receive TANF funds or the Earned Income Tax Credit (EITC) can open an IDA. As with the state plans, money accumulated in these IDAs is excluded from consideration in determining eligibility to receive federal means-tested benefits. The accounts are administered by community development corporations (CDCs) in partnership with state and local government and with local financial institutions, such as small banks and credit unions.

A key feature of IDAs is their subsidization of asset accumulation: IDAs match deposit funds through a varying mix of federal, state, local, and private monies, subject only to the restriction that the federal contribution cannot comprise more



than half of the matching funds provided. In practice, each dollar that an account holder deposits in her account is matched at a rate of anywhere from 50 cents to seven dollars, with an average match ratio of 2 to 1. This match rate is often progressive, becoming larger for individuals at lower income levels. The accounts are also custodial in nature, with premature withdrawals restricted to emergency situations such as eviction, loss of employment, and emergency medical care; but even in these dire cases, only deposit money, and not match funds for the withdrawn amount, can be accessed. At the end of a specified saving period ranging from two to four years, the accounts are cashed out by the CDC to purchase the target asset.

### III. IDAs as Social Insurance

Viewed as a social insurance program,<sup>1</sup> IDAs guard against two risks. First, vulnerable groups face the risk of falling into poverty due to unanticipated income shocks such as loss of employment, illness, or accident. Second, groups already below the poverty line face the risk of remaining there perpetually. Therefore, to the extent that all members of American society face—albeit to greater or lesser degrees—the risk of falling into poverty, and to the extent that we wish to avoid creating an underclass of individuals in indefinite poverty, some kind of social insurance program to insure against these risks is desirable.

Although the newness of large-scale IDA programs means that there is little empirical verification available, in theory, at least, IDAs guard against both of the risks enumerated (Haveman 1998; Sherraden 1991). For households vulnerable to falling below the poverty line, assets provide a key source of insurance against income shocks, improving household stability by providing a source of collateral to borrow against, as well as a buffer stock of resources to rely on. Assets such as education or small business capitalization also raise an individual's earning potential, increasing self-reliance and making it less likely that she will ever go into poverty, or if she does, that she will remain in poverty. Assets provide a foundation for risk-taking, allowing an individual to further improve her financial position: for example, individuals who own their homes may be more likely to take up higher-paying but riskier jobs, since they are insured against the prospect of homelessness upon job loss. Assets confer a number of additional benefits which lower an individual's likelihood of remaining in poverty: they encourage future orientation and planning, allow further development of human and financial capital, enhance personal efficacy through increased flexibility and security, and increase their owner's social influence.

Even given these reasons to favor asset-based social insurance, why should *government* intervene to provide it? There are a number of theoretical reasons for inadequate savings behavior that might warrant governmental intervention. For example, if some individuals are too poor to save because all of their disposable income goes to maintaining a subsistence level of consumption, the government may wish to provide income smoothing devices. Institutional obstacles, such as credit constraints



or a lack of access to tax breaks, might prompt governmental intervention to make those institutions more inclusive. There may also be a paternalistic motive to intervene if the poor lack correct information about the value of assets and therefore consistently under-invest in them. From a behavioral standpoint, some individuals may attain higher saving levels if a saving regime is externally imposed, and the government may want to make such a mechanism available. Finally, the significant racial disparity in wealth may also be cause for concern.

Which of these reasons are valid? Available data present a mixed picture, and are the focus of the following section.

### IV. Why Don't the Poor Save?

#### *a. Data on Saving Among Low-Income Households*

Studies conducted thus far on the savings behavior of low-income households are in broad agreement: the poor save almost nothing. Numerous studies show that low-income households hold very few liquid assets: for example, Oliver and Shapiro (1990) found that one-third of American households had zero or negative net financial assets (see also Bernheim and Scholz 1993; Bunting 1991). Families in the middle quintile have financial wealth adequate to replace only 1.2 months of income, while those in the bottom quintile cannot replace current income at all (Wolff 1998a). Mean net worth among low-income families declined precipitously between the mid-1980s and the mid-1990s, accompanied by a decline in home ownership rates among younger households (Wolff 1998b). During the same period, wealth inequality increased significantly, with a decreasing likelihood of wealth transitions at either end of the wealth distribution (Hurst, Luoh, and Stafford 1998). As a result, aggregate shares of wealth held by households are distributed far more unevenly than income shares, with the bottom 60 percent of households holding less than 5 percent of net worth (Carney and Gale 1998). There are also significant racial disparities in wealth holdings: the white-black wealth ratio was 7.5 to 1 in 1994 (Hurst, Luoh, and Stafford 1998), and 67 percent of black households had zero or negative net financial assets in the 1980s (Oliver and Shapiro 1990).

#### *b. Theories of Savings Behavior*

The study of savings behavior is an evolving field, and the savings behavior of the poor in particular is widely acknowledged to be inadequately understood. Existing theories of saving fall into three categories: (1) neoclassical economic, (2) psychological and sociological, and (3) behavioral. Each of these theories imputes different causes to the low saving rates of the poor, but none by itself provides an adequate explanation. The neoclassical models—of which the life cycle hypothesis (Modigliani and Ando 1957) and the permanent income hypothesis (Friedman 1957) are the most prominent—explain saving in terms of expected future in-



come, with households saving as a way to smooth consumption in the face of income fluctuations. When current income exceeds average expected lifetime resources, households will save. These models, however, suffer from the unrealistic assumptions of perfect information, rationality, perfect credit markets, and the fungibility of different types of wealth. In reality, the poor have imperfect knowledge, are particularly likely to face barriers in obtaining credit, and may not easily be able to substitute different kinds of wealth. Although 'augmented' life cycle models—such as that proposed by Hubbard, Skinner, and Zeldes (1995)—successfully take a number of these constraints into account by parameterizing, adding institutional effects, and allowing for the 'precautionary' saving motive, they still cannot completely explain the sensitivity of household consumption to changes in current income.

Psychological and sociological theories attempt to explain savings behavior in terms of individuals' willingness to save, which is conditioned by intervening variables such as motives, aspirations, and expectations (Katona 1975). Behavioral theories question the assumption that income and wealth are fungible, and instead posit separate systems of 'mental accounting' with different marginal propensities to consume across accounts: for example, individuals are less likely to consume future income than current income (Shefrin and Thaler 1988). Behavioral theories also allow for the possibility of irrational behavior where individuals have difficulty resisting temptations to spend: these theories view household saving as the result of self-imposed constraints on spending (Maital and Maital 1994; Shefrin and Thaler 1988). Although neither psychological and sociological nor behavioral theories of saving have yet been explicitly extended to the savings behavior of the poor, it will be useful to keep these theories in mind as we examine currently available empirical studies. Each theory will also help us to map the expected effects of the IDA program.

### *c. Empirical Evidence on the Causes of Low Saving Rates Among the Poor*

Existing knowledge about the savings behavior of low-income households is reminiscent of the fable of the blind men and the elephant: each study reveals some piecemeal portion of the truth, but there is no coherent, unified picture. Much more research will be needed to determine which factors exert the greatest influence, on which groups, and under what circumstances. The following is a list of the major determinants of the savings behavior of the poor identified by current research, along with some discussion of the evidence on each factor.

- 1. Current consumption needs:* Some households may simply be too poor to save. For a given household of a particular size, there exists an essential subsistence level of consumption necessary to survive: say, whatever is required to purchase shelter and a certain number of calories.<sup>2</sup> A household whose income falls below, at, or barely above this essential subsistence level will be unable (or unwilling—a separate



issue discussed in point 8 below) to reduce consumption even further to save for the future. Therefore, households may depart from the consumption models envisioned by the neoclassical saving theories—which posit periods of saving and dissaving—if they face severe short-term liquidity constraints. However, this hypothesis does not explain the low rate of saving even among those cohorts who are below the poverty line but who have more than subsistence consumption levels—in other words, the ‘middle poor’ and the ‘rich poor.’ Furthermore, saving among typical households has declined even as real incomes have risen (Beverly 1997), and saving rates in many developing countries, where real incomes are far lower than those in the U.S., are very high (Beverly 1997; see also Maital and Maital 1994). More plausible is Angus Deaton’s hypothesis—which falls under the neoclassical rubric, modified to accommodate the precautionary saving motive—that liquidity-constrained households save for short-term consumption smoothing through buffer stocks of assets, but cannot save for long-term needs such as retirement, as projected in the life-cycle model.

*2. Lack of access to institutional saving mechanisms:* Michael Sherraden makes a convincing case for assigning a key role to institutional constraints and enabling mechanisms in determining savings behavior. According to Sherraden, ‘asset accumulations are primarily the result of institutionalized mechanisms involving explicit connections, rules, incentives, and subsidies’ (Sherraden 1991). Sherraden stresses the fact that a significant amount of tax spending is already available to subsidize saving for retirement and housing among the middle class: for example, deductions for home mortgage interest and property taxes, deferment of capital gains on residence sales, exclusions for employer-sponsored pension contributions, and deferments for IRAs. Saving that occurs in tax-preferred accounts constitutes a large proportion of personal saving (Gale and Sabelhaus 1999). The poor, however, may be unable to access this tax spending: many of these institutions are provided by employers, while the poor are more likely to be unemployed or employed part-time (Beverly 1997). The option of over-withholding income taxes is available only to employed individuals, and payroll deductions are available only in particular employment situations. Finally, promotion for these programs is rarely, if ever, aimed at the poor, and the large number of poor households who pay no federal income tax, or who have low tax liability, will not benefit at all from incentives structured as tax deductions.

Low-income individuals tend to have less access to attractive saving incentives. For example, because the rate of return often increases with the level of resources committed, those who can save only small amounts will receive lower returns. Also, low-income homeowners in minority neighborhoods generally receive lower rates of return on their housing investments (Oliver and Shapiro 1995).

Differential access to other institutional factors is also significant. Poor households may not have ready access to credit markets in order to borrow (Finn et al. 1993),



and, particularly in minority neighborhoods, may have less access to local bank branches (Caskey 1994). Other screening mechanisms, such as parentage, type of employment, and level of income, may restrict access to saving opportunities (Sherraden 1991). Low-income individuals also tend to have less financial education (Bernheim and Garrett 1996), an important determinant of whether an individual saves.

The institutional theory of saving is bolstered by the finding that many of the poor, even when not actively saving, manifest the behaviors and attitudes that foster asset accumulation: for example, budgeting, reducing expenses, and imposing restrictions on spending (Finn et al. 1993). The poor may therefore be willing to save but lack institutional support.

*3. Correlation of low income with determinants of wealth:* Heads of low-income households tend to be younger and have fewer years of schooling, and are more likely to be single parents or unemployed, than heads of higher-income households. They are also less likely to be financially educated (Bernheim and Garrett 1995). All of these factors lower saving rates (Beverly 1997; Oliver and Shapiro 1990).

*4. Higher rate of time preference:* Low-income households may place a lower value on the future relative to the present than other households. In a much-discussed study, Lawrence (1991) estimated a time-preference rate of 19% for minority families in the bottom 20% of the income distribution, compared to a 12% rate for white families in the highest 5% of the distribution. However, later researchers have disputed Lawrence's results: allowing for wealth shocks and the different lending rates experienced by high- and low-income groups may eliminate the time-preference gap (Carney and Gale 1999).

*5. Asset-testing for public assistance:* Current social insurance programs reduce asset accumulation among the poor in at least two ways. First, they provide a consumption floor, reducing the precautionary motive for saving. Second, to the extent that means-tested programs feature asset limits, they impose high implicit taxes on further asset accumulation. These significant negative effects on saving have been documented by a number of scholars, including Engen and Gruber (1995), Neumark and Powers (1998), and Hubbard, Skinner, and Zeldes (1995).

*6. Psychological constraints:* George Katona, an economic psychologist, has suggested that individuals will increase their effort level when a goal is near completion (Katona 1965). Accordingly, because the poor may see the accumulation of significant assets as a distant and therefore unattainable goal, they may not take the initial steps toward asset ownership. At least one empirical study supports this proposition (Romich and Weisner 1999).

*7. Sociological constraints:* In support of previous theoretical work, Beverly (1997)



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shows that community influence may be an important factor in making saving decisions. Therefore, an individual living in a community where others do not save, and who has no positive past experience with saving, is less likely to save. Furthermore, living in a neighborhood with high burglary rates or declining property values may discourage home ownership (Beverly 1997).

*8. Behavioral constraints:* Behavioral theories of saving recognize that even if low-income households have the resources, on paper, to save, they may still fail to do so because of an inability to curb spending (Shefrin and Thaler 1988; Maital and Maital 1994). Because of their family and community backgrounds, the poor may also lack the opportunity to form positive saving habits or financial strategies.

*9. Lack of bequest ability:* The poor may save less if they receive only limited bequests compared to higher-income households. Bequests are an important source of capital accumulation, and not having this source of wealth directly limits the ability of the poor to acquire assets (Kotlikoff and Summers 1981). Furthermore, having a lump sum of money to build on may ease the psychological difficulty associated with saving.

### V. IDAs as a Response to Low Saving Rates Among the Poor

The foregoing analysis shows that there are a number of possible explanations for why the poor don't save, including current consumption needs, institutional barriers, higher rates of time preference, and psychological, sociological, and behavioral constraints. The IDA program is an effective response only to some of these factors. Building upon the previous section's list, this section describes ways in which the positive and negative behavioral effects of IDAs interact with determinants of savings behavior among the poor. The effectiveness of the IDA program depends on the extent to which each of these factors is found to be important in causing that savings behavior.

*1. Current consumption needs:* IDAs are intended to address the problem of asset accumulation among the poor by making saving cheaper relative to consumption, and should supplement, not replace, programs designed to address short-term consumption needs. Implemented without attention to short-term consumption needs, the harsh constraints of the IDA program could well lead to a number of undesirable effects for the poor. First, by rendering money necessary for short-term consumption needs inaccessible and thereby reducing the ability of the poor to smooth consumption, the program could prove too burdensome during unexpectedly difficult periods. This could increase the probability of participants' eventual dependence on other federal and state assistance programs, even if they otherwise would not have needed them. Shortsightedness among the poor as to the harshness of the conditions might also lead to a high dropout rate, as participants discover that the program requires unrealistic cuts in already low consumption



levels. Finally, the poorest of the poor might avoid the program altogether, because they lack the income to both consume at subsistence levels and save toward asset purchases. This self-selection bias could lead to a program that subsidizes saving among groups—the ‘middle poor’ and the ‘rich poor’—which arguably would have saved anyway.<sup>3</sup> Therefore, in order to target the program toward those groups among the poor who need it most, as well as to mitigate other detrimental effects on the poor, an ideal package of social insurance programs should include both consumption- and asset-based elements.

*2. Lack of access to institutional saving mechanisms:* Perhaps the most important positive effect of the IDA program is that it makes an effective saving institution readily accessible to the poor. If, as Sherraden and others have suggested, savings behavior is largely a response to institutional incentives, then we should expect IDAs to substantially boost asset accumulation among the poor. By providing an institutionalized saving opportunity, financial education, and greater incentives for saving, a well-designed IDA program makes available to the poor the kind of assisting mechanism already available to the middle class through various kinds of tax spending. Institutionalized saving opportunities are usually secure and convenient: both characteristics that tend to promote saving, in contrast to traditional methods such as stuffing cash under a mattress. Also, the very availability of institutionalized saving opportunities is likely to promote saving by calling attention to the need for and benefits of saving (Carroll and Summers 1987). The financial component of the IDA program also helps: there is a growing body of empirical evidence which suggests that financial education increases saving (see Bernheim and Garrett 1996). Because the poor tend to be less financially sophisticated, this piece of the IDA program should work independently to boost saving. Finally, the IDA program makes saving cheaper relative to consumption, helping to raise the low rates of return on investments that the poor generally face.<sup>4</sup>

This is not to say, however, that IDAs remove all of the institutional barriers to saving that the poor face. For example, where access to credit is concerned, IDAs are an indirect response at best. IDAs help by improving the perceived creditworthiness of the poor by giving them assets to use as collateral, and the IDA program facilitates the acquisition of lump sums to use in asset purchases, but IDAs are not a credit program that can suffice for other consumption smoothing needs of the poor, such as emergency job loss or eviction. The credit problem should be addressed by providing tax incentives to banks to lend in low income communities, anti-redlining enforcement, and legislation such as the Community Reinvestment Act (CRA).

*3. Correlation of low income with determinants of wealth:* Whether the IDA program can overcome the observed correlation between certain demographic characteristics depends on why, in fact, those correlations occur: an unanswered question that should be the subject of future empirical research. It seems reasonable to assume, how-



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ever, that at least some of these characteristics are acting as proxies for the other factors which cause low saving rates: for example, having fewer years of schooling is probably correlated with less financial education as well as unemployment or part-time employment, with the consequent decreased ability to take advantage of saving subsidies. Therefore, IDAs will be an effective response if they addresses these underlying factors.

4. *Higher rate of time preference:* Again, we are uncertain as to the reasons why the poor might value the present more highly than the future. If the underlying cause is the urgent nature of their current consumption needs, IDAs are not an effective response (see point 1 above). If, however, this impatience is caused by psychological, sociological, or behavioral factors, then IDAs could help to give the poor a longer time horizon, as discussed below.

5. *Asset-testing for public assistance:* To the extent that current social insurance programs reduce the precautionary motive for saving, the IDA program will not raise saving levels. Nor are IDAs a response to the decreased saving that results from programs requiring asset tests. The high implicit tax rates on asset accumulation should be reduced or removed by directly modifying the social insurance programs that impose them. In fact, this kind of reform is already well underway: many social insurance programs have already increased the level of asset accumulation allowable for eligibility, and proposals to substantially increase these levels in most other programs have been floated.<sup>5</sup>

6. *Psychological constraints:* Because IDAs are individual accounts that build a sense of ownership, control, and commitment in the accountholders, they are a particularly powerful weapon in breaking the psychological constraints against saving that the poor face. IDAs empower the poor to save in a number of ways. Their very existence sends the message that saving can have benefits and that low-income households are capable of accumulating assets. Through monthly statements, the IDA program also reminds individuals of both their savings goals and their progress toward these goals, breaking down the saving process from a large, seemingly unattainable task to a series of manageable steps. Finally, the IDA program encourages individuals to consider the benefits of asset accumulation through economic education classes, and provides positive reinforcement, both formal and informal, for saving.

7. *Sociological constraints:* The financial education component of the IDA program is an important counterweight to savings disincentives that come from an individual's community. Economic education helps the poor understand the importance of saving, and can be a powerful revelation for an individual not raised in a culture which teaches savings values. Furthermore, ownership of an IDA may itself have positive feedback effects: an initial positive saving experience may increase a participant's future motivation to save.<sup>6</sup>



8. *Behavioral constraints:* For a number of reasons, IDAs can be an effective means of addressing the behavioral constraints to saving that the poor face. Monthly savings goals, for example, encourage participants to develop the habit of saving regularly. Economic education classes help the poor overcome their imperfect knowledge about how to save, and help them to develop long-term financial strategies rather than short-term plans. IDAs may also give participants a socially acceptable reason not to share surplus resources with their extended family and friends, a particularly important effect in communities with traditions of strong family ties.

Furthermore, IDAs take advantage of behavioral patterns which place different sources of funds in separate mental accounts with differing propensities to spend: IDA funds may be mentally labeled as being off-limits, helping individuals resist the temptation to spend them. Programs which incorporate automatic deposits facilitate this mental separation. Restrictions on withdrawals, which put some of an individual's money beyond the reach of spending for daily consumption needs, also help individuals to refrain from spending that money. Current research on the uses and effects of the Earned Income Tax Credit (EITC) strongly supports the mental accounts hypothesis, indicating that the marginal propensity to save out of lump sum payments is greater than the propensity to save from a paycheck (Smeeding and Ross 2000; Romich and Weisner 1999). Overall, therefore, IDAs help reduce the direct cost of self-control to poor individuals.

9. *Lack of bequest ability:* IDAs respond to the issue of the gap in bequests between the poor and others in several, albeit limited, ways. First, IDAs help the poor to accumulate a stock of assets<sup>7</sup> which they can bequeath to their children, thereby helping to break the vicious cycle of low asset accumulation in successive generations of poor families. Second, IDAs themselves can be bequeathed, thereby providing the poor with an easy and tax-free way to make bequests. Finally, the very fact that IDAs can be bequeathed increases awareness among the poor of the possibility and benefits of making a bequest, and may therefore encourage them to save more towards that goal. Of course, because of their short time horizon and limited savings goals, the average size of IDA accounts is likely to be fairly small; therefore, they are unlikely to significantly narrow the bequest gap between the poor and others, although they are a step in the right direction.

## VI. Potential Stumbling-Blocks for IDAs

As we have discussed above, IDAs can be an effective response to low levels of saving caused by institutional, psychological, sociological, behavioral, and bequest-related factors. However, the IDA program also faces a number of potential negative effects and barriers. The most important of these are discussed below:

1. *IDAs may crowd out existing savings:* Because there are no empirical studies on the



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issue and because so little is known about the savings behavior of the poor, the magnitude of a potential crowd-out effect is subject to debate. The neoclassical model of savings behavior suggests that, because individuals make their consumption decisions based on lifetime economic resources, the IDA program will not change preferences. Therefore, individuals will finance deposits by simply withdrawing money from existing assets, and the crowd-out effect will be very large. As previously noted, however, the neoclassical model may not hold for the poorest of the poor, who are unable to save because their entire income stream is diverted to survival needs. For this group, the crowd-out effect will be negligible—any saving stimulated by the IDA program will be new saving. Although there is much empirical evidence to undermine the neoclassical model, there is also cause to be concerned that IDAs may attract only the moderately poor who would have saved anyway: for example, in preliminary results from the federal demonstration program, it was found that IDA program participants are more likely to have a college degree than others in the same income bracket (Center for Social Development 2000). Since a college education is correlated with higher saving levels, these individuals may simply be reshuffling their existing savings, rather than generating new savings. The crux of the crowd-out issue is the question of which segments of the poor population the IDA program is attracting; policymakers should remain aware of the potential for crowding out private savings and target their programs accordingly.

2. *IDAs may cause over-investment in targeted assets:* This potential negative effect is unlikely to be a serious cause for concern, particularly in light of the current negligible asset accumulations of the poor. It is difficult to imagine how, for an individual with almost no assets, there could be the danger of too much home ownership, education, or business capitalization. However, if the IDA program causes the poor to invest in these goods in cases where they might have preferred other necessary goods such as automobiles, the range of target assets might be broadened to include those goods.

3. *IDAs fail to provide future savings incentives:* IDAs and their match funds cover only short periods of time—typically two to four years—and the IDA program makes no provision for supporting participant saving after that period ends. Making savings affordable over a relatively short period of time and then expecting the poor to begin saving on their own may be unrealistic. Although we can expect higher levels of saving from former program participants due to better financial education and the removal of some psychological and sociological barriers, institutional barriers remain in place which will continue to inhibit saving by the poor.

4. *IDAs suffer from high administrative costs:* IDA programs generally incur large administrative costs because they are run by non-profits or CDCs. Not only do these institutions often lack in-house financial processing capacity, but they typically provide highly personalized levels of service to participants, further increasing



costs. This is a particularly difficult issue to tackle because larger commercial banks may find the transactions costs too high to provide this level of personal support, and yet it is this very support that is often critical in preventing participants from dropping out.

*5. IDAs may be vulnerable to political attack:* Because IDAs may be viewed as an anti-poverty welfare program benefiting the lower classes disproportionately, rather than as a social insurance scheme that benefits all, they could come under political attack. Broadening the base of the IDA program to make it universally available has been suggested as a possible means of insulating it from political criticism (Sherraden 1991). That kind of broadening, however, could backfire: it risks turning IDAs into a more expensive and high-profile program, and therefore a more attractive political target. Happily, thus far, the IDA program has enjoyed broad support from across the political spectrum, mainly because it is seen as a targeted project that empowers the poor to help themselves, rather than as a handout scheme: in a sense, its very narrowness ensures its political survival.<sup>8</sup>

## VII. Policy Recommendations

Based on the discussion in sections V and VI, there are a number of steps that could be taken to make the IDA program a more effective means of encouraging saving. It should be understood, however, that these are conditional recommendations that should be modified as more becomes known about the determinants of savings behavior among the poor.

*1. Encourage saving and facilitate consumption by the extremely poor:* If current consumption constraints are found to be a significant determinant of savings behavior among the poor, a well-designed IDA program should specifically facilitate saving among those in extreme poverty. This recommendation also addresses the potential problem of encouraging saving only by those groups among the poor who would have saved anyway. One way to achieve this goal is to increase match rates or subsidies for the poor with the lowest incomes. Although this would add to the cost of the program, a CRA-like piece of legislation mandating match contributions from larger financial institutions could help to mitigate the expense. Another possibility is to link IDA deposits to current lump-sum payments to the poor, such as the EITC, and thus take advantage of the mental accounts model of saving. This is a particularly promising avenue because of the pre-existing tendency to reserve lump sum payments for long-term savings goals, and because getting a match for a large sum of money is an attractive proposition.<sup>9</sup>

Finally, it is important to recognize that IDA programs must be implemented as part of a complete package which addresses short-term consumption needs as well as long-term asset accumulation. While there are numerous possibilities for external programs to address short-term consumption needs, the IDA program itself



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might help mitigate these needs in several ways. First, the program could provide revolving loans, funded through the matching contribution funds controlled by the CDC, to participants on a short-term basis. This would help ease participants' lack of access to efficient credit markets. Second, the program could encourage and enable participants to open parallel savings accounts along with their IDAs.<sup>10</sup> This would facilitate participants' consumption-smoothing abilities by providing a source of short-term funds without compromising the asset-focused nature of the IDA itself.<sup>11</sup>

*2. Strengthen the institutional design of IDAs:* If providing institutional support is an important reason for the success of the IDA program, then steps should be taken to strengthen that support. In particular, a good IDA program should provide incentives, information, and access. Incentives should be sufficient to induce a target population, such as the extremely poor, to save. Because of the strong correlation between financial education and positive savings behavior, local programs should be encouraged to incorporate strong informational components in the form of comprehensive financial class sessions. Access is a particularly important variable here in light of the possible self-selection bias among program participants: rather than passively accepting those among the poor with the information and enterprise to participate, IDA programs should reach out through active targeting and recruiting strategies to those among the poor who would not save without additional incentives.

*3. Expand the range of qualifying assets:* If the possibility of over-investment in the target assets, to the exclusion of other essential assets, is found to be substantial, then the IDA program should expand the range of target assets toward which the poor can save. This should only happen, however, after additional research on what constitutes an 'essential' asset. In particular, many IDA programs are considering allowing the poor to save toward car purchases, which, in some areas, may well be a crucial prerequisite to holding a job.

*4. Extend the saving period for IDAs:* In order to avoid leaving participants in limbo after the saving period on their IDA ends, saving periods should be extended indefinitely. Ultimately, this would result in life-long IDAs which participants could use to address different asset accumulation needs at different times. This scheme has the advantage of consistency: it allows the poor constant, and not merely intermittent, access to a subsidized saving scheme such as those to which the middle class already have continuous access. The downside, of course, is expense: such a scheme could become very costly. Restricting life-long IDAs to the poorest of the poor might be one way to contain these costs.

*5. Scale up the IDA program:* Moving the administration of IDAs from CDCs to larger commercial banks could significantly reduce the administrative costs of the IDA program. Commercial banks, with in-house financial capabilities, are much



better equipped to handle account administration than are non-profits, and their participation in the IDA program could be legislatively mandated.<sup>12</sup> However, program designers must take great care to ensure that commercial banks continue to work with CDCs to provide the level of personal service and attention that will keep participants in the program.

### VIII. Conclusion: An IDA Practitioner's Checklist

Asset-based social insurance policy—of which the IDA program is the most prominent piece—is an exciting new field which promises to greatly reduce the risk of allowing groups to remain in perpetual poverty. Although little is as yet known about the specific reasons why IDAs facilitate saving by the poor, a preliminary review of the federal IDA demonstration program indicates that IDAs do, indeed, induce higher levels of saving by the poor. This review found that the poor in these initial IDA programs attained a proportion of savings goal of about 0.7, indicating that for each dollar that a typical participant was entitled to deposit and have matched, that participant actually saved 70 cents. Importantly, the review found that the combination of incentives, information, access, and facilitation is the strongest determinant of saving: even more influential than personal characteristics or income. These results, however, are very rough and are subject to revision (Center for Social Development 2000).

Even without a definitive statement of the reasons why the poor save, this paper shows that there are a number of characteristics which any good IDA program should have. Well-designed programs should:

- Complement, not replace, consumption-based aid.
- Provide progressive match rates for the poorest of the poor.
- Give favorable tax treatment to deposits.
- Disregard deposits in determining eligibility for other public assistance.
- Incorporate extensive financial education.
- Allow access to all low-income individuals.
- Allow bequests.
- Minimize administrative costs.
- Allow for future program expansion.

Programs that incorporate these elements will provide effective institutional support for asset accumulation by the poor. Future empirical research on the causes of savings behavior among the poor, as well as on the effects of existing IDA programs, will help revise these recommendations and refine IDA program policy.

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## Endnotes

1 Although the classic theoretical definition of social insurance programs excludes schemes which employ means-testing, this distinction has grown increasingly blurred in practice. As a scheme to guard against the risk of falling into poverty or that of remaining in poverty, IDAs can certainly be viewed as a social insurance mechanism.

2 While economists differ over the precise definition of this subsistence level of consumption, the point to note is that there is a certain 'consumption floor' required for survival below which consumption may not be diverted toward savings.

3 The magnitude of this crowd-out effect is subject to debate: see Section VI below.

4 Admittedly, this effect has been the subject of much debate. Under the neoclassical model of saving, although an increase in the rate of return may cause individuals to save more because of the substitution effect, which makes saving cheaper relative to consumption, the income effect points in the opposite direction: individuals can now enjoy the same amount of future consumption by saving less. Empirically, it is unclear which effect predominates. However, it is important to note that the saving incentives of IDAs encompass psychological and behavioral as well as the purely economic factors envisioned by the neoclassical model, as will be discussed.



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5 It is important to reiterate here that IDAs themselves do not count toward asset limits in most social insurance programs, a trend that future programs should continue.

6 Of course, IDAs cannot address other sociological constraints such as declining property values in disadvantaged communities. Separate neighborhood improvement programs should address those asset accumulation disincentives.

7 It is important to remember that IDAs do this not only through direct saving subsidies, but also through the increased earning potential associated with a higher level of education.

8 As will be discussed in section VII, an expanded IDA program—featuring an extended savings period and a broader range of qualifying assets—may be inherently desirable. However, policymakers must consider the potential political repercussions of such expansion. The current political support for IDAs stems from the very narrowness of the program: a collective consensus that the ability to purchase assets such as housing and education should be universal and publicly supported if necessary. That consensus could be shaken by an expansion of the IDA program to encompass assets considered 'less essential,' population subgroups considered 'less deserving,' or periods of time so long as to be considered 'unreasonable.' Hence, there are significant political constraints on the growth of the IDA program.

9 A possible criticism of this approach is that it encourages over-saving, since the poor do not truly internalize the costs and benefits of saving money that never reaches their hands. However, for the reasons detailed in section VI, the over-saving issue is not likely to be critical.

10 These recommendations would increase administrative costs; an efficient program should compare costs and benefits in deciding on an appropriate level of service.

11 There have been a number of proposals to increase the flexibility of borrowing from the IDA itself. While these proposals would allow greater for greater consumption-smoothing in the short run, they risk turning IDAs into tax-deferred savings accounts. Keeping the long-term saving and short-term consumption functions separate therefore seems the best way to maintain the asset focus of IDAs.

12 For example, by allowing participation in IDA programs to count toward fulfillment of CRA obligations.



# Housing and Communities



## Housing Mobility and Mixed-Income Housing: An Assessment of Current Urban Poverty Deconcentration Strategies

Gabriel F. Grant

### Abstract

*This paper reviews housing voucher models, in particular Chicago's Gautreaux Program and the Moving to Opportunity program, and mixed-income housing models, specifically the Lake Parc Place development in Chicago and early results from HOPE VI developments. It concludes that both types of programs appear to provide participants with a greater sense of safety and psychological well-being, and that while neither model has shown particularly significant impacts on employment and earnings thus far, this may be a function of premature evaluation. In order to successfully deconcentrate poverty across metropolitan areas, programs will have to be implemented in a coordinated manner that takes into consideration population dynamics on a regional level.*

### Introduction

In his landmark 1987 book, *The Truly Disadvantaged*, William Julius Wilson argues that the exodus of black middle class families from inner-city areas that began in the 1960s left the poor of those neighborhoods socially isolated. The absence of economically stable families meant that the basic institutional structure of strong schools and local businesses in inner-city areas could not be sustained during the long periods of high unemployment in the 1970s and 1980s. According to Wilson, these areas lacked the 'mainstream role models that help keep alive the perception that education is meaningful, that steady employment is a viable alternative to welfare and that family stability is the norm, not the exception (Wilson 1987, 56).' The poor of these neighborhoods, according to Wilson, were thereby cut off from the resources, information and social capital that could have connected them to educational and job opportunities, and more general upward mobility. In short, Wilson argues that neighborhoods with concentrated poverty are trapped in a vicious circle whereby the lack of educational opportunities, role models and social capital leads to subsequent generations of entrenched poverty, welfare dependency and hopelessness. If Wilson is correct in his assertion of strong neighborhood effects on behavior and social outcomes, then stronger, more economically diverse communities are likely to be an important ingredient in reducing poverty, dependence on welfare and improving poor families' futures (Rosenbaum and DeLuca 2000, 1).

Since the publication of *The Truly Disadvantaged*, Wilson's hypothesis has been validated by extensive empirical research. In a comprehensive review of the



research, Turner and Ellen conclude that most studies find a positive relationship between neighborhood characteristics and labor market success in terms of employment and earnings (Turner and Ellen 1997, cited in Rosenbaum, et al 1998, 707). They also conclude that most studies 'find that having more affluent neighbors is associated with higher IQ at ages 3 and 5 after controlling for family attributes,' presumably because of 'better day care centers, pre-schools, and playgrounds and greater adult supervision and monitoring' (Turner and Ellen 1997, cited in Rosenbaum, et al 1998, 707). They also note that 'virtually all of the existing empirical research points to some relationship between neighborhood environment and sexual activity or pregnancy among adolescents' (Turner and Ellen 1997, cited in Rosenbaum, et al 1998, 707). Finally, other research has found that normative disapproval of deviant or illegal behavior is less common in areas of concentrated poverty, which may explain the increased violence and homicide rates in these areas (Rosenbaum et al 1998, 708).

Beginning in the 1990s, policy makers began to implement a variety of policies to deconcentrate poverty through mixing income groups.<sup>1</sup> These policies were primarily the result of research indicating strong neighborhood effects on behavior and social outcomes, in addition to calls by journalists, politicians and activists to address concentrated inner-city poverty and its attendant maladies. The belief inherent in these policies is that families with somewhat higher incomes will serve as models of mainstream values: They work to support themselves, pursue education, maintain family structures and support community institutions. In addition, higher income families are thought to bring social capital, in the form of friendships, role models, job and educational contacts, and cooperation, to mixed-income communities.

Since the publication of *The Truly Disadvantaged*, two broad visions have emerged for how to successfully create mixed-income communities. While these two models by no means represent the totality of efforts to encourage economically heterogeneous communities, they are currently the most visible and politically viable programs with this explicit objective.

- Residential mobility voucher programs, such as Moving to Opportunity (MTO) and its predecessor, the Gautreaux program in Chicago, through which low income families receive housing vouchers that can be used to help pay market rent only in low poverty neighborhoods;
- Mixed-income housing developments, such as Lake Parc Place and others created by local housing authorities (LHAs) and the federal HOPE VI program, in which middle and low income residents live together in the same buildings or developments.

This paper addresses these two income mixing strategies with regard to their ability to reduce poverty, and to improve educational opportunities, safety, health, employment and other measures of quality of life. How successful these programs



are at helping the poor gain the skills, social capital and motivation needed to attain long-term prosperity has a direct and important impact on inequality. If, as a result of moving from concentrated 'ghettos' of poverty to mixed-income communities, poor workers and families are able to find jobs that allow for advancement beyond minimum wage, find out about and enroll in training programs, send their children to better schools, and even complete post secondary education, rates of poverty and inequality can be expected to improve. Determining which of these models proves most successful at reducing poverty has clear public policy implications. The goal is to determine which path policy makers should follow in the future.

The remainder of the paper proceeds as follows: Section I explains the historical context through which the current emphasis on income mixing has emerged in housing policy. Section II addresses the housing voucher model, in particular Chicago's Gautreaux Program and MTO. Section III addresses the mixed-income housing model, looking specifically at the Lake Parc Place development in Chicago as well as early results from HOPE VI developments. Section IV discusses social and political constraints on income mixing strategies. Finally, Section V presents this paper's conclusions.

### **I. Historical Context**

This section briefly outlines the major historical trends in federal housing policy that preceded the current emphasis on mixed-income communities. This historical overview illustrates two important trends regarding housing the poor; the first from generally unsuccessful attempts by the federal government to unilaterally develop and manage millions of public housing units to the current market-based approach, and the second from housing large numbers of the poor together in tower block developments to the current pattern of scattered site housing and mixing of incomes.

The first federal housing assistance programs for low-income people began in the 1950s and financed the construction of new housing that was outside the market, in this case owned by LHAs. During this period, approximately 1.3 million units of public housing were constructed (Barton 1996, 109), most of which were in immense high-rise (or 'tower block') structures in inner-city areas and were occupied entirely by the very poor. Many of these buildings, such as the Ida B. Wells Homes in Chicago, continue to house the poorest residents and have been made infamous by authors such as Alex Kotlowitz and Jonathan Kozol.

By the 1960s, federal housing assistance began to shift toward greater reliance on the private market. Construction subsidies were awarded for approximately 1.9 million units of housing, most of which were to be owned and operated by private, for-profit organizations (Barton 1996, 109). The for-profit owners of



subsidized housing were required to rent the new buildings to low income tenants at federally determined affordable rents, but were allowed to opt out after 20 years. Consequently, starting in the late 1990s, in areas where market rents had increased substantially many owners raised rents to market levels, displacing thousands of poor tenants. In areas where market conditions had declined, many owners simply allowed their properties to deteriorate, pocketed funds for maintenance and allowed the US Department of Housing and Urban Development (HUD) to foreclose on the buildings (Barton 1996, 109).

In the last three decades, federal policy has shifted away from supply side subsidies and toward the use of housing vouchers and the promotion of mixed-income communities. In late 1967, in response to urban riots across the country, President Johnson appointed the Kerner Commission (officially called the President's National Advisory Commission on Civil Disorders). The Kerner Report, completed in March of 1968, looked beyond the riots, 'to racism and poverty and the other terrible, underlying conditions out of which the riots had mushroomed. The report called for new efforts to combat American poverty, unemployment and racism (Harris and Williams 1988, iv),' including new housing policies to promote both enrichment and integration of economically and racially homogeneous neighborhoods.

In the 1970s and 1980s, vouchers (or housing allowances as they were then known) emerged as the policy of choice to respond to the housing needs of the poor and deconcentrate urban poverty. In 1970, Senator Edward Brooke of Massachusetts sponsored Section 504 of the Housing Act of 1970, which authorized the Experimental Housing Allowance Program (EHAP). Throughout the 1970s, EHAP was implemented in twelve sites across the country and allowed thousands of families to move out of public housing. In 1974, Congress passed the Section 8 program. Unlike the public housing program, which subsidizes the construction and operation of housing developments for the poor, the Section 8 tenant-based program supplements what very low-income families and individuals can afford to pay for housing in the private market. Thus, tenant-based assistance enables recipients to choose moderately priced housing of the type and in the location that best meets their needs. The Section 8 program is administered by local and state housing agencies under contract to the federal government. Participants generally contribute 30 percent of their monthly income toward housing costs, with the Section 8 program making up the difference—up to a locally defined 'payment standard (Turner, Popkin and Cunningham 1999, 1).' After Reagan was elected in 1980, his Commission on Housing concluded that a 'housing payments [voucher] program...for lower-income consumers is the most efficient way to help the largest number of poor families in their quest for a decent home (President's Commission on Housing 1982, xxiii, cited in Orlebeke 2000, 505).'

Throughout the 1990s, the emphasis of housing policy was on public-private



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partnerships and market-based voucher programs to deconcentrate urban poverty. In 1993, HUD's HOPE VI program began awarding approximately \$500 million annually to public housing authorities around the country to work with private developers and management companies towards the goal of demolishing troubled public housing developments and redeveloping mixed-income communities (Howell and Leonard 1999, 1). By 1995, the number of Section 8 vouchers had doubled to approximately 1.5 million, and HUD offered all public housing tenants the option either to stay or to use a voucher to find housing in the private market. This policy was implemented primarily in response to the severe criticism of the concentrated poverty in public housing developments and to the fact that subsidizing new housing construction and operation was more expensive than simply offering vouchers. Also at this time, HUD began the Moving to Opportunity (MTO) demonstration project in which certain families are given vouchers that can be used to rent housing from private landlords in census tracts with less than a 10 percent poverty rate.

Since the 1950s and even the 1980s, federal housing policy has undergone a considerable evolution. Whereas housing for the poor was initially developed and managed by public housing authorities and, by nature of its design, encouraged the concentration of the very poor, by the mid 1990s, it had changed significantly. Current policies emphasize the deconcentration of poor families, the creation of mixed-income communities and a focus on market-based solutions. Currently, two of the most prominent and promising housing policies are housing voucher programs, through which low income families receive housing vouchers that can be used to help pay market rent in lower poverty neighborhoods, and mixed-income housing developments, in which middle income residents live in the same developments as those with lower incomes.

Which of these strategies is most successful at reducing poverty and increasing opportunities for people with low incomes? Which is most politically and economically feasible? The following sections (II and III) address housing voucher programs and mixed-income housing developments respectively, focusing on how successfully these programs deconcentrate poverty and engender the type of interaction and social and human capital development their supporters promise.

## **II. Income Mixing through Vouchers: Housing Mobility Programs**

The Gautreaux program was the result of a 1976 Supreme Court decision in a lawsuit filed by public housing residents against HUD and the Chicago Housing Authority (CHA), charging them with racially discriminatory policies. The Gautreaux program allowed public housing residents and those on the waiting list to receive special Section 8 vouchers, rent subsidies that cover the difference (up to a stipulated amount) between public housing rent and market rate rent. Whereas in the standard federal Section 8 housing voucher program, low income black families



tend to move to black, low income neighborhoods similar to the ones they left (Cronin and Rasmussen 1981, cited in Rosenbaum 2000), the Gautreaux program, in a deliberate effort to create social class and racial mixing, mandated that families move to census tracts that were less than 30 percent black (Rosenbaum 2000, 3). All housing assignments were made randomly, on the basis of availability, and no participant was allowed to choose where in the Chicago area he or she would move. By 1998, over 7,000 families had participated in the Gautreaux program, over half moving to the 115 suburbs in the six counties surrounding Chicago with the remainder moving to Chicago neighborhoods undergoing economic revitalization.

What impacts in terms of social, economic and behavioral outcomes did this deliberate policy of mixing incomes have on the program participants? Rosenbaum found that 'by the time they were young adults, those children who moved to the suburbs were much more likely to graduate from high school, attend college, attend four year colleges (vs. two year colleges) and (if they were not in college) to be employed and to have jobs with better pay and with benefits (Rosenbaum 1995, cited in Rosenbaum 2000).' In addition, a study of Gautreaux mothers found that those who moved to the suburbs had higher employment rates than city movers and that the difference was particularly large for adults who were unemployed prior to the program. Rosenbaum and DeLuca found that 'census tract placement strongly predicted later AFDC incidence' and that the 'census-tract effect occurred in both the city and suburbs (Rosenbaum and DeLuca 2000, 4).' For example, for suburban movers, only 25.9 percent of families who moved to the more educated neighborhoods received AFDC in 1989, while 39.2 percent of families moving to the least educated suburban neighborhoods received AFDC at the end of the period examined. Of intra-city movers, 22.9 percent of families in the most educated city neighborhoods received AFDC in 1989, while 35.3 percent of families in the least educated city neighborhoods received AFDC in the same period. This research demonstrates that, although families assigned to different Chicago neighborhoods had equal incidence of AFDC participation before Gautreaux, families randomly assigned to neighborhoods with more educated residents were much less likely to receive AFDC at the end of the period.

These results indicate that neighborhood effects on employment and welfare incidence are strong. It is likely that these results are due, at least in part, to simply correcting a spatial mismatch whereby many semi-skilled jobs are located in more affluent areas but many of the semi-skilled workers who could fill the jobs are concentrated in the inner-city where there are fewer jobs. In addition to greater job availability, interviews with Gautreaux program participants corroborate Wilson's hypothesis about the importance of middle class role models, norms and expectations. Mothers reported that moving to safer neighborhoods allowed them to travel to work without fear of being attacked on the way home. Many of those interviewed also indicated that 'positive role models and social norms inspired



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them to work and showed them how to do it. Upon seeing neighbors work, Gautreaux participants reported that they felt that they too could have jobs ((Rosenbaum and DeLuca 2000, 5). Many reported having learned how to dress for work, how to find adequate childcare and how to effectively manage their time.

While the results of the Gautreaux program are promising, they are limited by a reliance on anecdotal data to draw conclusions about participant behavior and results that are drawn from only one metropolitan area. Also, Gautreaux's apparent success is tempered by the fact that after 25 years in existence and significant financial and judicial support, the program has helped only approximately 7,000 people move to low poverty areas out of a public housing population of 40,000 in Chicago.

The Moving to Opportunity (MTO) demonstration was created to address some of these shortcomings. MTO was designed by HUD to support a direct analysis of neighborhood effects and in 1994 began operation in five cities: Baltimore, Boston, Chicago, Los Angeles, and New York. MTO participants, families with children who resided either in public housing or project-based Section 8 assisted housing in a high poverty area, were randomly assigned to one of three groups: Experimental, who received mobility counseling and a Section 8 subsidy for a census tract with no more than a 10 percent poverty rate; Comparison, who received a geographically unrestricted Section 8 voucher; and Control, who were offered no new assistance but were allowed to remain in public housing.

Early results from the MTO project in Boston indicate that Experimental families moved to neighborhoods that differed from the Control group families on a variety of levels, including poverty, racial make-up and employment. The differences in neighborhood characteristics for Section 8 Comparison program movers were substantial but typically not as great. In short, while Experimental families generally moved to neighborhoods that were very different from those that they left, the Section 8 Comparison moved to areas somewhat less different than those they left, and most of the families in the Control group didn't move at all. According to study authors Katz, Kling and Liebman, 'differences in residential location appear to have had significant beneficial influences on the social behavior of boys, the physical health of boys and girls, and the overall mental health of household heads (Katz et al 2000, 30).' In addition, 'the experimental group also had fewer injuries and criminal victimizations among children (Katz et al 200., abstract).' Results from the Boston evaluation show that while employment rates for all three groups increased over the course of the study, this was likely due to a strong economy and high labor demand, and that there were no significant differences between MTO groups in employment or earnings (Katz et al 2000, 29). These results are similar to those from the Baltimore MTO evaluation (Ludwig, Duncan and Pinkston 1999). Results from the Los Angeles MTO evaluation, however, suggest some gains in employment and earnings (Hanratty, Mclanahan



and Pettit 1997, cited in Rosenbaum et al 1998), indicating that the specific economic and demographic characteristics of cities, including spatial mismatch of low-skilled jobs and workers, impact how effective mobility programs such as MTO are.

In conclusion, results from programs that have attempted to mix incomes by offering low-income families vouchers that can be used in more affluent areas are positive, though still somewhat limited in scope. It appears that over the short term, impacts on safety, physical and mental health are significant. In addition, AFDC participation appears to have declined more among those who moved to higher income areas although these results are somewhat clouded by the fact that by the mid 1990s welfare participation rates began to drop across all groups as a result of welfare reform. Over the long term, there is evidence that children who moved to higher income areas had more success in school, entering college and finding work. There is little evidence, however, that employment or earnings increased for heads of households who moved to more affluent areas. Many of the most important impacts expected from housing mobility voucher programs, such as education, employment and earnings improvements, appear to occur over the long run, and it may still be too early to know precisely the breadth and depth of impacts.

### III. Mixed-income Housing Developments

The second strategy that has emerged for how to successfully create mixed-income communities are mixed-income housing developments, in which middle income residents and people of fewer means live in the same buildings or developments.

It is important to recognize the variety of types of developments that are considered mixed-income housing. Most mixed-income housing falls into four broad categories.

- First, LHAs have recently become involved in mixed-income housing through HUD's HOPE VI program. Since 1993, HOPE VI has awarded approximately \$500 million per year to LHAs to work with private developers and property management firms to transform troubled public housing developments into lower density, scattered site, mixed-income communities (Howell and Leonard 1999, 1). Prior to HOPE VI, individual LHAs obtained Federal waivers to redevelop selected public housing projects such as Chicago's Lake Parc Place and Boston's Harbor Point into mixed-income developments.
- Second, many State and local governments (New Jersey and Maryland, for example) promote mixed-income developments through density bonuses, inclusionary zoning laws and other land use regulations that



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require developers to reserve a portion of new housing for low and moderate income households (Shwartz et al 1997, 73).

Third, some State and local housing programs require mixed-income occupancy as a condition for funding proposed developments. For example, State housing agencies, such as the MHFA in Massachusetts, provide tax-exempt financing for projects that reserve at least 20 percent of their units for low and moderate income households (Shwartz et al 1997, 73). In New York, the New York State Housing Finance Agency and the New York City Housing Development Corporation issue tax-exempt bonds for housing that reserves 20 percent of the units for low-income households with incomes below 50 percent of area median. A total of 1,858 low-income units have been produced since the 80/20 program's inception in 1985 (Schwartz and Tajbakhsh 1997, 90).

Fourth and finally, a great deal of mixed-income housing occurs without any overt government policy. New York City, home to the nation's largest LHA, has long sustained mixed-income communities in its projects despite Federal pressure to house only the very poor, and likely has the nation's largest stock of mixed-income housing (Shwartz and Tajbakhsh 1997, 73).

This section focuses specifically on the first category, mixed-income housing developments created through the efforts of LHAs. In general, these developments have focused primarily on improving the lives of very low-income households by demolishing 'tower block' public housing developments and redeveloping lower density mixed-income communities. In contrast, while inclusionary zoning and state housing finance agency tax exemptions do result in low-income housing production, the resulting housing often places different income groups in separate and distant buildings, a situation not conducive to interaction across income groups.

Lake Parc Place is a 282-unit development owned by the Chicago Housing Authority (CHA), which was converted in 1991 from one of Chicago's most troubled public housing projects to a mixed-income development. Lake Parc Place represents one of the first (and most studied) attempts by a major LHA to transition traditional public housing into mixed-income housing by attracting working individuals and families of somewhat higher income levels into buildings that were formerly only for the very poor. At Lake Parc Place, half of the 282 apartments are designated for and were marketed to families with one employed adult earning between 50 and 80 percent of area median income (between \$21,700 and \$34,700 for a family of four in 1992) (Rosenbaum et al 1998, 705). The remaining units were designated for very low-income tenants, those earning less than 50 percent of area median income. From the start, Lake Parc Place had an explicit policy of



income mixing on every floor of the buildings in an effort to stimulate interaction between people of different income levels.

In their 1998 evaluation of the Lake Parc Place development, Rosenbaum, Stroh and Flynn conducted interviews with 198 households, 118 from the 'non-project' or higher income group, and 80 from the 'project' or formerly public housing group. Not surprisingly, the two groups were very different with regards to household income (\$21,879 vs. \$4,930), average years of education (13.2 vs. 11.5) and number of children (1.7 vs. 2.6).

Given the primary role safety plays in enabling people to concentrate on and overcome educational or employment barriers, Rosenbaum, et al looked at how safe residents felt at Lake Parc Place compared to their former homes. 'At a time when local news media carried daily stories of assaults and murders in housing projects, the vast majority of residents felt safe in Lake Parc Place, and less so in the surrounding neighborhood. While the move to Lake Parc Place led to the greatest gain in safety for project residents, Lake Parc Place also represented a clear improvement in building safety for many nonproject residents (Rosenbaum et al 1998, 720).'

While perceptions of safety are important, equally crucial is social interaction between income groups. Calls for the deconcentration of poverty rest on the assumption that people of different income levels will interact and that through their interaction social capital, employment and educational opportunities will emerge. To address interaction, Rosenbaum, et al asked Lake Parc Place residents how often they engage in a variety of different activities, such as watching neighbors' children, having a meal, spending more than ten minutes talking, loaning things, letting a neighbor use their phone, and greeting a neighbor in the street or hallway. According to the authors, 'greeting a neighbor is done often, with an average of over 4.69, on a scale where 5 is almost every day... In contrast, having a meal with a neighbor is relatively rare, 1.17, where 1 is once a year and 2 is a few times a year... [W]atching a neighbor's children is relatively rare, between once and a few times a year. Lending items to neighbors is somewhat more common in both groups, but still less than several times a year on average (Rosenbaum et al 1998, 723).' Finally, a substantial proportion of both groups (about half) volunteered to participate in the maintenance and upkeep of the development, and anecdotal evidence suggests that the middle-income group's volunteerism encouraged lower income groups to participate (providing potential evidence for the role-model theory) (Schwartz and Tajbakhsh 1997, 78.) In conclusion, Rosenbaum, et al found 'indications that nonproject residents interacted with the project group, that nonproject residents got involved in improving public housing and that nonproject residents provided a clear constituency to support rules. Most of the nonproject residents interact and get involved with their community and provide strong support for rules and enforcement (Rosenbaum et al 1998, 726).'



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While the Rosenbaum, et al study of Lake Parc Place demonstrates that both groups socialize with their neighbors, it doesn't thoroughly measure if these interactions were between 'project' and 'non-project' groups (assertions of 'project' and 'non-project' interaction are based on anecdotal evidence). As stated earlier, it is crucial to determine how much cross-income interaction takes place in mixed-income developments as poverty deconcentration policies rely on the assumption that such interaction produces social capital and job and educational opportunities. In addition, it is not clear how much of Lake Parc Place's success is due to income mixing and how much simply to the fact that attractive renovations were done on apartment interiors, buildings and surrounding gardens, and that it was turned into a well managed development with high security and a carefully screened group of tenants (Vale 1998, 749). This possibility is supported by work done by Ryan, et al, which concluded that increased satisfaction of tenants living in mixed-income developments was primarily related to the quality of the development, 'specifically its superior design, construction and management (Ryan 1974 cited in Brophy and Smith 1997).'

In an effort to create more mixed-income developments like Lake Parc Place, in 1992 Congress began the Urban Revitalization Demonstration Program, commonly known as HOPE VI, to transform distressed public housing developments. Although public housing currently houses 1.2 million households with a median income below \$7,000 per year, HOPE VI focuses only on the most distressed of this public housing (US Department of Housing and Urban Development cited in Salama 2000), and has the explicit goal of decreasing the concentration of very poor residents. In the majority of cases, HOPE VI projects have done this by demolishing high-rise public housing developments (classic 'warehouses for the poor') and redeveloping lower density, mixed-income communities. In fact, much of the initial political support for the HOPE VI program stemmed from the desire to demolish high-rise public housing developments.

While to date only a small number of HOPE VI projects are completed and occupied, some preliminary descriptive results are available. In Atlanta, the Techwood and Clark-Howell HOPE VI projects have transformed what was formerly 'a crowded, dilapidated...slum (Palmer 1955 cited in Salama 2000, 106)' into a mixed-income, mixed-use project with residential, commercial, community and educational uses. The site houses a K-5 magnet school, YMCA community center and library, swimming pool and commercial center (Salama 1999, 106). It contains a total of 900 units of housing, 40 percent of which are market rate units, 20 percent for residents with incomes no more than 60 percent of area median income (AMI) and 40 percent for residents with incomes between 40-60 percent of AMI. In Chicago, the notorious Cabrini Green project has been changed dramatically and now includes 49 percent market rate units as well as a supermarket, a library and a small shopping center. The remaining units are reserved for residents with incomes no greater than 30-40 percent of AMI. In both of these developments,



accommodation of market rate tenants and greater amenities, such as community centers, has entailed the displacement of many of the public housing residents. Most of these households, 540 in Atlanta and 1,047 in Chicago, were given vouchers, but to date no research has shown where this population has moved or how it has fared economically.

In conclusion, while the impacts of mixed-income housing on security and interaction appear to be somewhat positive, a great deal more evaluation is required before any definitive conclusions can be drawn regarding the extent to which mixed-income housing promotes greater economic self-sufficiency and well being. Regarding Lake Parc Place, it is difficult to determine how much the improvements reported by researchers are a function of the mixing of incomes and how much is due simply to renovations and improved maintenance and security of the buildings. Also, it is impossible to draw more than limited conclusions from an assessment of one mixed-income housing development. Regarding HOPE VI, while a variety of seemingly attractive mixed-income developments have been created, little to no evaluation has yet been completed on how well lower income residents fare in these projects. In addition, in order to assess the full impact that HOPE VI developments have on poor residents, some account must be taken of how the people who are displaced fare. If, as in Atlanta and Chicago, more than half of the low income population is displaced and seemingly ends up no better off, it will be difficult to conclude that the overall policy is beneficial for most low income public housing residents.

#### **IV. Social and Political Constraints to Income Mixing Strategies**

There are a variety of social and political constraints to the poverty deconcentration and income mixing strategies described in this paper.

First, the current scale of poverty deconcentration programs is small, and many programs are still in an experimental stage. Implementing either a housing mobility program such as MTO or a mixed-income housing program such as HOPE VI on a large scale could be difficult economically, politically and administratively and, as a result, might not produce the same results that have been produced thus far. For example, the families who move to new neighborhoods through the MTO program are currently too few in number to substantially change the character of neighborhoods (Katz et al 2000, 32). If low income, predominately minority families begin moving into more affluent, predominately non-minority neighborhoods in numbers great enough to actually change the character of the areas, a 'not in my back yard' political backlash is likely. This issue of scale is relevant for mixed-income housing programs as well. There are a limited number of middle-income people willing to move to inner-city areas and live among lower income neighbors, particularly if important amenities such as schools, shopping facilities and public safety are inadequate.



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Second, low-income tenants often face restricted residential choices due to economic or racial discrimination. 'Since many suburban areas have pervasive restrictions on construction of multi-family housing, rentals in these suburbs are limited. Some low-income people cannot afford to own a car or are unable to drive. They depend on transit, so they cannot move into suburban areas where a car is necessary. Others do not want to move away from family members on whom they depend for help in caring for their children (Barton 1996, 110-111.)' In sum, 'families relocating from public housing are more likely than other families to face extreme discrimination in the private rental market and to have multiple family problems (Khadduri 2000, 220).' This reality could make large-scale implementation of the MTO program impossible.

Third, widespread implementation of income mixing strategies may prove difficult politically. Strong political constituencies and voting blocks exist within poor inner-city areas. These strong and predominately minority blocks are able to elect representatives, often minorities, who share their interests and fight on their behalf. The representatives, in turn, depend on these concentrated groups for reelection. If lower income households are spread throughout a metropolitan area and inner cities begin to house greater numbers of higher income households, these strong political constituencies and voting blocks will be diluted, with important ramifications on the distribution of representation and power. Strong resistance from those who derive power from these concentrated political blocks will likely show strong opposition to the widespread implementation of income mixing strategies. This phenomenon also holds true with the strong constituencies and voting blocks within more affluent suburban areas.

Fourth and finally, the current political environment at the federal level presents a serious constraint to both tenant based housing mobility programs and project based mixed-income developments. Given the current administration's emphasis on reducing the federal budget and cutting taxes, the relevant question unfortunately may be which income-mixing and poverty deconcentration housing programs not to cut rather than which programs to expand.

## V. Conclusions

This paper has outlined the two main visions that have emerged over the last decade for how to successfully deconcentrate poverty and create mixed-income communities: First, residential mobility voucher programs, such as MTO and its predecessor, the Gautreaux program in Chicago, through which low income families receive housing vouchers that can be used to help pay market rent only in low poverty neighborhoods; and second, mixed-income public housing developments, such as Lake Parc Place, and more recently HOPE VI developments, in which troubled public housing units are demolished and replaced with lower density buildings in which middle and low income residents live together.



In conclusion, it is important to recall that while these different policies for creating economically heterogeneous communities have existed in varying forms for over thirty years, their current manifestations are still relatively young. Only a small number of MTO projects or HOPE VI developments have been implemented and even less have been evaluated. Consequently, more extensive evaluation and research still needs to be completed before definitive conclusions can be drawn. With that limitation in mind, four preliminary conclusions are offered here.

First, both housing mobility and mixed-income housing programs appear to provide participants with a greater sense of safety and psychological well-being. This is especially true of the MTO program. 'Early analysis of the experience of MTO families in Boston found that even those in the control group who use regular vouchers and move to neighborhoods with fairly high poverty levels have improved their psychological and physical health, because their exposure to violent crime and environmental hazards has decreased' (Khadduri 2000, 220). This lesson is very important given the role a safe housing environment plays in overall well-being and the ability to overcome barriers to education, employment and upward mobility.

Secondly, while neither the housing mobility nor the mixed-income housing programs have shown particularly significant impacts on employment and earnings thus far, this may be a function of premature evaluation. The factors that lead to increased employment and earnings, such as connections to jobs and improved education, take time to develop and may not be visible in evaluations of programs that have been recently implemented. In addition, many of the most important outcomes of mixed-income community programs may affect children more than adults (because children will have the longest exposure to new neighborhoods or developments) and therefore may take even longer to show up in evaluations of employment and earnings.

Thirdly, mixed-income housing programs such as HOPE VI may eventually improve employment and earnings of low income residents who remain in the developments, but currently little attention is being paid to how the people who are displaced fare. Most mixed-income housing developments, thus far, have required significant displacement of low-income residents in order for middle-income residents to move in. If a large percentage (often more than half) of the low income population is displaced and ends up no better off, it will be difficult to conclude that the policy is beneficial for low income people overall. This concern leads to the final point.

Fourthly, and finally, in order to successfully deconcentrate poverty across metropolitan areas, both housing mobility and mixed-income housing programs will have to be implemented in a coordinated manner that takes into consideration population dynamics on a regional level. Either program, in isolation, could have



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damaging and destabilizing effects on the region. For example, housing mobility programs (such as MTO) could lead to a further emptying out of the inner-city, which would leave these areas in even worse condition. Mixed-income housing programs (such as HOPE VI), by drawing more middle income households back into inner-city areas, could lead to significant displacement of current low income residents. But these two strategies implemented together in a coordinated fashion have the potential to deconcentrate poverty and leave both inner-city and more affluent suburban areas with more economically diverse populations. For example, as more middle income residents move into inner-city areas through programs such as HOPE VI, the displaced low-income population could be awarded vouchers for use in low poverty neighborhoods (as with MTO and Gautreaux). In sum, poverty deconcentration should not be viewed as a question of choosing the single best strategy, but figuring out how the two, and possibly additional, income mixing strategies can work together.

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## Endnotes

<sup>1</sup> The focus in the early 1990s on deconcentrating poverty was not the first time US policy makers had debated new programs with that explicit goal in mind. Rather, the policy debate between using housing mobility vs. mixed-income housing to achieve poverty deconcentration dates back to the 1960s and has been characterized in a variety of ways; project-based vs. tenant-based, market vs. social engineering, gilding the ghetto vs. deconcentration. This is addressed in greater detail in Section II.



# Re-investing in Community Reinvestment: An Analysis of the Community Reinvestment Act and Proposals for Reform

Eliza G. Mahony

## Abstract

*The CRA requires that financial institutions serve the communities from which they draw deposits. This article reviews the background of the legislation, and makes two main recommendations: (1) expanding the eligibility requirements so that a portion of the regulations cover nontraditional financial institutions such as mutual funds and insurance companies, as well as wholesale and limited purpose banks; and (2) including positive incentives (such as relaxed regulatory restrictions, tax reductions, or direct payments) to achieve compliance or improvements in CRA ratings.*

## Introduction

Enacted in 1977, the Community Reinvestment Act (CRA) was designed to combat geographical discrimination by those financial institutions that systematically denied credit and other financial services to residents living in low-income and minority neighborhoods in the surrounding community. The CRA requires most financial institutions to 'serve all areas from which they draw deposits' (Schwartz 1998, 270). The legislation directs Federal banking regulators to consider a financial institution's record of meeting the credit needs of the *entire* community in which the institution is chartered, before approving the bank's applications for a bank or thrift charter, a new branch, or permission to merge, consolidate or purchase assets (Hagg, 2000). The potential delay or rejection of the bank's application serves as the CRA's principal enforcement mechanism. Over the years, the Community Reinvestment Act has been credited with establishing community development priorities and infrastructure within the banking industry as well as fostering relationships between bankers, local and state governments, and community-based organizations (Hagg 2000, 2).

This piece will start with a discussion of the rationale behind the Community Reinvestment Act, including an analysis of discriminatory lending and wealth inequality in the U.S. Then the second section will summarize the history of the legislation, its enforcement, and recent reforms. The third section will analyze the current debate over the Act's efficacy as well as present and future challenges to the CRA posed by changes in the financial services industry and shifts in the political climate. The piece will conclude with policy recommendations for reforming and expanding the CRA so that it can address the challenges outlined.



Presently, the CRA is up for review in a particularly hostile political environment. In November of 1999, Congress passed the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act, which exempts those financial institutions that have received three consecutive years of satisfactory CRA ratings from the annual review. It seems certain that the Bush Administration will be much less supportive of the enforcement and expansion of the Act than its predecessors and we may see a substantial contraction of the law's regulatory reach in the near future. In order to protect one of the only pieces of legislation that prioritizes financial access for low-income and minority communities, CRA advocates will have to be especially vigilant in their efforts to expand the Act's influence over the next couple of years.

### **The 1960s and 1970s: The Birth of Fair Lending Laws and the Community Reinvestment Act**

*'We live in an age that is redefining – and quite properly so – the role of government in the lives of our people. CRA – a law that calls for no public expenditures, little bureaucratic intervention, and local control – has become a model for this new relationship.'*

(Eugene Ludwig, Former Comptroller of the Currency)

In the 1960s and 1970s, fair lending laws were introduced to combat lending discrimination based on the individual characteristics of the borrower. The 1968 Fair Housing Act (FHA) prohibits discrimination in residential real estate transactions based on race, religion, national origin, gender, handicap, or family status. The 1974 Equal Credit Opportunity Act (ECOA) prohibits discrimination in an aspect of a credit transaction (consumer, commercial, or real estate loan) based on race, religion, ethnic origin, gender, marital status, age, and receipt of public assistance.

Community reinvestment legislation was the result of community organizing in Chicago in the 1960s and 1970s against 'block-busting' and other forms of 'disinvestment' affecting many urban neighborhoods. In the minds of legendary community organizers such as Saul Alinsky, the lack of access to mortgage credit, as well as the failure of public authorities to enforce the civil rights statutes and fair lending laws mentioned above, were the principal causes of the deterioration of urban communities (Schwartz 1998, 271). Inspired by implementation of a variety of fair housing initiatives in Illinois, national organizers lobbied for regulations that would enforce federal disclosure of mortgage lending data by race and income level. Under the sponsorship of Wisconsin Senator William Proxmire, Congress passed the Home Mortgage Disclosure Act (HMDA) in 1975 requiring all federally regulated financial institutions with assets larger than \$10 million to report mortgage-lending data by census tract for all metropolitan areas. HMDA was extended indefinitely in 1987 and requires financial institutions to release information about the income and race of each mortgage applicant, the census tract of the property to



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be mortgaged, and the outcome of the mortgage application. It also requires that such lending data 'be provided to the public at a reasonable cost'(Schwartz 1998, 271-272).

After the HMDA was passed, community reinvestment advocates quickly realized that mandated disclosure of lending data would not be sufficient to stop disinvestment without a mechanism through which they could exert direct pressure on financial institutions. Based on the premise that such regulated institutions have a 'continuing and affirmative obligation' to meet local credit needs, they lobbied for a community reinvestment law that would hold each institution accountable for their lending performance and investment in local communities (Schwartz 1998, 272).

The resulting legislation required each depository institution to go through a periodic evaluation by Federal banking regulators that assessed 'the institution's record of meeting the credit needs of its entire community, including low and moderate-income neighborhoods, consistent with the safe and sound operation'(Pub.L.No.95-128) of the institution.<sup>1</sup> The law further directs banking regulators to take the results of the CRA assessment into account when evaluating a given institution's applications for the following purposes:

- a Federal bank or thrift charter
- FDIC deposit insurance for a state bank or thrift
- permission to establish a branch
- permission to relocate a home office or branch
- permission to merge, consolidate, or purchase assets or assume liabilities of another regulated financial institution. (Pub.L.No.25-128)

If the institution's most recent CRA assessment points to problems in their CRA record, the regulators are empowered, but not required, to delay or reject the application.

The CRA also endows community organizations with the legal ability to publicly challenge any of the above transactions as well as negotiate agreements with the given institution, thereby including an element of 'regulation from below' (Schwartz 1998, 270). The CRA and the HMDA have become crucial instruments of local, regional, and national movements to expand access to credit and financial services. However, there is much debate surrounding whether or not the legislation utilizes the most effective mechanism for promoting investment in community development among commercial institutions. Some question whether positive incentives for investment would not be more effective while others criticize the law as too vague and difficult to enforce. These critiques will be analyzed in a later section on the 1995 reforms to the law.



## The Rationale for the CRA

Unlike the other fair lending laws, the 1977 Community Reinvestment Act (CRA) was designed to address geographical discrimination on the part of financial institutions that were failing to meet the credit needs of the communities in which they had been chartered (Evanoff and Segal 1996, 20). Specifically, CRA advocates hoped that the Act would combat a practice commonly known as 'redlining,' in which the decision whether or not to approve a loan application is based on, or significantly influenced by, the location of the property without appropriate consideration for the qualifications of the applicant or the value of the property (Evanoff and Segal 1996, 24-25). Although there seems to be little evidence that redlining fully explains lending patterns in low-income neighborhoods, a series of studies of mortgage application denial rates across low-income and minority areas suggest that minority neighborhoods do suffer from disproportionately higher rates of application rejection. Specifically, Canner and Smith (1991) found that neighborhoods with less than 10 percent minority rates had a denial rate of approximately 12 percent in 1990 while areas with 80 percent or more minority residents experienced a denial rate of approximately 24 percent (Canner and Smith 1991, 872-873). In addition, data from the 1993 National Survey of Small Business Finances (NSSBF) demonstrate that black-owned small businesses are up to two-and-a-half times as likely to be denied for loans as white-owned firms (Blanton, Williams and Rhine 1999, 8-9). Large disparities appear to persist even after controlling for differences in credit records as well as various firm and owner characteristics (Blanchflower, Levine and Zimmerman 1998, 12-13).

In addition, by expanding access to financial services that enable low-income clients to accumulate assets, the CRA plays an important role in closing the widening wealth gap in the U.S. In 1995, the top 5 percent of the income scale held 60 percent of net worth<sup>2</sup> in the country and while the bottom 60 percent of households held less than 5 percent of total net worth (Carney and Gale 1998, 2). According to Carney and Gale (1998), 45 percent of black families and 49 percent of those on public assistance do not have basic transaction accounts. When controlling for other factors, not having a transactions account is correlated with substantial reductions in the probability of owning a home, owning a vehicle, and of having positive net financial assets (Carney and Gale 1998, 13).<sup>3</sup> By 'banking' the many unbanked residents in lower-income communities, the CRA helps to redress asset inequality in the U.S.

## 1980s: Weak Enforcement of the CRA

Many people believe that prior to the 1990s, the enforcement of fair lending laws such as the CRA was 'generally unaggressive' (Evanoff and Segal 1996, 20). The original legislation set out 13 criteria for bank regulators to use in annual evaluations. These criteria were process-based in that they focused on bank efforts to



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attract lower-income customers rather than actual institutional results in fair lending. CRA regulators could not hold institutions accountable for the performance of their community programs but merely rewarded banks for putting them in place. Weak evaluation and implementation criteria prevented the legislation from achieving its stated purpose. In addition, during the 1980s, the Reagan Administration did little to improve the Act and, if anything, restricted its reach through neglect.

### **1990s: Strengthening the CRA through Regulatory Reform and Political Will**

During the 1990s, several regulatory reforms strengthened mechanisms of CRA enforcement. In 1991, the Equal Credit Opportunity Act (ECOA) was amended to require bank evaluators to refer discrimination cases to the Department of Justice instead of handling them independently, signaling that the government intended to prosecute these cases more aggressively in the future. In addition, the Home Mortgage Disclosure Act (HMDA) was amended in 1988, 1989, and 1991 to provide Federal banking regulators and the general public with lending data on a regular basis. Also in 1991, the Federal Housing Enterprises Financial Safety and Soundness Act placed the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation under an affirmative obligation 'to facilitate financing of low and moderate-income housing' (Evanoff and Segal 1996, 23). All of these various amendments of the fair lending laws set the stage for a long-awaited reform of the CRA's assessment and compliance guidelines.

In 1994, an interagency task force set out to clarify guidelines for compliance with the CRA, which both financial institutions and community advocates had always criticized as too vague. The task force specified the following 3 forms of illegal discrimination in lending:

- overt discrimination
- disparate treatment, such that the lender treats applicants differently based on inherent attributes such as race, gender, or national origin; and
- disparate impact, such that the lender applies a certain practice uniformly to all loan applicants, which has a discriminatory effect and 'cannot be justified by business necessity.' (Evanoff and Segal 1996, 21)

In 1995, the federal government issued new regulations for enforcing the CRA. These regulations replaced the original 13 criteria that focused on documentation of bank procedure to recruit lower-income clients. The new regulations required that bank evaluators assess institutions based on their actual service delivery and lending performance (Schwartz 1998, 272). The revised regulations dictated separate compliance examination tests for three types of financial institutions: large retail, small retail, and wholesale or limited purpose institutions. A single institution could have one geographical assessment area or many, depending on the reach



of its services. With the recent removal of restrictions on interstate banking, one bank could have various CRA assessment areas across the country (Haag 2000, 28). These new guidelines went into effect in July of 1997 for smaller institutions with less than \$250 million in assets and in July of 1998 for larger institutions (Dahl, Evanoff and Spivey 2000, 7).

The new CRA regulations included compliance tests in three areas: lending, investment, and service. After the assessment, bank regulators were directed to assign institutions one of five grades, ranging from outstanding to substantial noncompliance, in each compliance area. The lending test is disproportionately weighted in determining the institution's overall compliance rating. The focus of each of the compliance tests is on institutional performance and results in each of the areas. These tests evaluate such data as the number and total amount of loans in the institution's assessment area(s), the dollar amount of investments in community development ventures, and the distribution of bank branches across low-income areas. Preliminary research suggests that the 1995 reform has been relatively successful in shifting the emphasis of CRA examinations to performance, rather than documentation of existing programs (Immergluck 1998, 23). Whether or not this shift will actually translate to an expansion of credit and services in low-income and minority communities remains to be seen.

### **Current Debate over the Efficacy of the CRA**

Fair lending laws such as the CRA have received criticism from both the financial services sector and community advocates since their inception. Community advocates argue that the CRA legislation is inadequate or inadequately enforced and that financial institutions continue to divert capital from deposits away from low-income communities, resulting in a lack of access to financial services for those most in need. Representatives from the banking industry argue that loan applicants receive fair treatment and that legislation such as the CRA enforces 'credit allocation that could adversely affect bank safety and soundness' (Evanoff and Segal 1996, 19). They assert that the CRA is basically a tax and credit redistribution scheme that shifts bank capital to lower-income markets that are less profitable. However, other representatives from the private sector claim that the CRA has uncovered new profitable lending opportunities at opportune times when demand in traditional lending markets has stagnated. Evidence on the profitability of CRA ventures has been mixed. Canner and Passmore (1996) found no evidence of lower levels of profitability at financial institutions specializing in lower-income markets once start-up costs had been incurred. In contrast, Esty (1995) evaluated the performance of Chicago's South Shore Bank, which has been portrayed as the model community development bank that adheres to both financial and social objectives, and found the bank's financial performance to be below industry standard (Evanoff and Segal 1996, 27-28). Harrison (1999) also demonstrates that CRA lending can lead to a decrease in institutional profitability (Dahl, Evanoff and Spivey 2000, 4).



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CRA advocates claim that private market failure causes disinvestment in lower-income areas. One can imagine that providing credit to lower-income neighborhoods would produce positive externalities, which, '... from a societal perspective, generate a total return greater than that received by the providers of the credit' (Evanoff and Segal 1996, 19). While this fact may provide an economic rationale for providing credit to lower-income markets, it does not necessarily justify providing this credit through the banking system. When analyzing the effectiveness of the CRA, it becomes important to question whether the banking industry is the best mechanism for the implementation of community reinvestment.

### Evidence of CRA Impact

There are a variety of studies that analyze mortgage-lending data from the Home Mortgage Disclosure Act (HMDA) in order to determine whether or not the CRA is associated with increased lending to minority and low-income households. The use of mortgage application denial rates as an indicator of good performance under the CRA is controversial. Commercial banks reject the idea that the fact that denial rates for minority applicants are much higher than for their white counterparts is at all indicative of discrimination. Their representatives claim that any difference in the two rates is due to an objective evaluation of creditworthiness, income, assets, employment history, debt burden, and loan to value ratio. Schwartz (1998) demonstrates that, once he removes those institutions, such as mortgage banks, that are not subject to CRA assessment from a 1994 HMDA data set, those 'banks with [CRA] agreements post a significantly lower denial rate index than banks without agreements for black mortgage applicants (2.5 vs. 3.13, significant at the .05 confidence level)' (Schwartz 1998, 283). In addition, those institutions with CRA agreements have significantly larger market shares of mortgage approvals for disadvantaged households and neighborhoods.

Another approach is to look at those financial institutions that recently experienced consolidation or some kind of merger to see if, as a result, their portfolios have larger shares of low-income residential loans. Given that the principal point of intervention by CRA regulation is during the consolidation process, comparing those institutions that are consolidating to those that are not may reveal some information about the impact of the CRA regulations on institutions' lending portfolios. Although bank consolidation appears to be consistently associated with decreased residential lending in general, national aggregate data indicate that the portfolio share of consolidating institutions dedicated to low-income lending increased, indicating a possible positive impact of CRA requirements on these institutions (Avery et al 1999, 82).

There is much less information available on the effects of CRA regulation on the availability of banking services, such as saving and investment accounts, in low-income and minority areas. The Community Reinvestment Act (CRA) was born



out of a community movement for increased access to mortgage credit. This movement helped to create a public database of mortgage lending data through the Home Mortgage Disclosure Act (HMDA). As a result, many of the evaluations of the CRA measure the impact of the legislation on mortgage lending and neglect many of the other services that institutions may or may not be providing under the auspices of the CRA. Those studies that do evaluate the availability of other services focus on the number of banking offices open in a given low-income area. Given the increased number of services offered by ATMs and other non-branch delivery systems, the number of open offices is not likely to be a reliable indicator of available services.

More research regarding the effects of the CRA legislation itself on the distribution of branch and non-branch-based services for low-income and minority clients, is needed. As we shall discuss in a later section, savings and asset accumulation opportunities seem to be a crucial yet neglected component of banking services for the poor. By focusing somewhat exclusively on the need for credit, CRA regulators may be ignoring the role that the CRA can play in addressing the large inequalities in wealth described by Melvin and Oliver (1990).

### **Present and Future Challenges to Community Reinvestment**

Changes in both the banking industry and financial service delivery in general may threaten the effectiveness and relevance of the Community Reinvestment Act (CRA). The consolidation of the banking industry and the deregulation of interstate banking and branching and other financial activities challenge the 'local nexus' of CRA enforcement and reduce the fraction of financial institutions that are accountable to the law's requirements.

In addition, the following two trends in the financial marketplace currently restrict 'the reach and effectiveness of the CRA regime:' (1) The proliferation of non-branch delivery systems for banking products and services, including internet banks, electronic commerce, mail, and telephone, has meant that decreasing numbers of people obtain financial services from providers that are subject to CRA requirements. (2) The deregulation of interest rates and other banking services, increased competition in the financial services industry, and technological innovation has resulted in a transfer of financial assets out of those depository institutions covered by the CRA to insurance providers, mutual funds, pension funds, and finance companies (Haag 2000, 55).

As a result, one of the principal challenges to effective enforcement of the CRA is how to define the geographical assessment area of those institutions that deliver financial services through these non-branch systems. Regulated financial institutions are directed to define their assessment areas to correspond to metropolitan statistical areas (MSAs) or contiguous counties, cities, or towns and to include



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complete 'geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans' (12 C.F.R. 25.41). CRA advocates claim that this statutory language includes areas where institutions dispatch agents or conduct business through electronic means. However, thus far, most Federal banking regulators have not made use of such a broad interpretation in their assessments. The other crucial challenge is the issue of expanding the definition of institutions covered by the CRA to include those non-depository organizations that are beginning to dominate the market.

### **Political Threats to the CRA**

With the recent change of Administration, congressional forces that have opposed the Community Reinvestment Act for some time may gain a louder voice. The departure of President Clinton signals the loss of one of the Act's most influential advocates. In particular, Senator Philip Gramm, Chair of the Banking Committee, may capitalize on Clinton's exit by proposing various legislative amendments to dismantle some of the more powerful aspects of the law.

In November of 1999, the U.S. Congress passed the Gramm-Leach-Bliley Act, which permitted affiliations between depository institutions, securities firms, and insurance companies (Haag 2000, 2). Given that securities firms and insurance companies are not covered by the CRA, this legislation may have important implications for financial services in low-income and minority communities. In addition, the law dictated that small banks and savings and loan associations that had received an outstanding rating at their most recent CRA assessment would not receive an assessment more often than once every five years.<sup>4</sup> This stipulation may jeopardize consistent community investment on the part of smaller financial institutions.

It is clear that community reinvestment advocates will have to gear up their efforts to promote and expand the reach of the CRA if they expect the legislation to survive the near future in its present form. The next section proposes various strategies for strengthening the Community Reinvestment Act. Although the present political climate makes expansion of the Act somewhat unlikely, it is crucial that CRA supporters push such an agenda at this point in time, so that the legislation does not lose ground over the next few years.

### **Policy Recommendations for Further Reform of the Community Reinvestment Act (CRA)**

Various policy recommendations for future CRA regulatory reform emerge from this discussion. While the 1995 reforms made progress towards a clearer definition of CRA compliance and stronger enforcement of the new regulations, recent



trends in the financial marketplace make further reform of the regulations necessary. The following is a summary of recommendations for further reform, some of which will be described in more detail below.

1. *Expand eligibility for the new compliance tests beyond wholesale and limited purpose banks to include a larger group of nontraditional financial organizations.* By expanding the CRA eligibility standards to cover institutions that capitalize rather than merely provide loans and other services, policymakers can make use of new pressure points for increased investment in community development. These non-bank institutions are becoming increasingly more important actors in all financial markets.

2. *Expand the regulatory definition of the assessment area to include communities in which an institution gathers a significant amount of its deposits or grants a significant portion of its loans.* These assessment areas should be based on communities where customers, rather than banking offices, are located (Seidman 1999).

3. *Promote the use of the strategic plan option, which gives banks more flexibility while making them more accountable to community representatives as well as regulators.* Advocates believe that if the evaluation criteria come from the institution itself, there will be more opportunity for enforcement and transparency.

4. *Expand the regulations to include positive incentives for CRA compliance.* Rewards for compliance or improvements in CRA ratings could include relaxed regulatory restrictions, tax reductions, or direct payments to incentivize banks to invest in distressed urban communities (Hylton and Rougeau 1998).

5. *Expand the service compliance test so that it gives explicit credit for institutional provision of savings and asset accumulation mechanisms for low-income clients.* More weight must be given in CRA assessments to the provision of innovative banking services. The regulations could be reformed to give the service test more weight in the calculation of the overall CRA compliance rating. Regulators should at least look very favorably upon bank participation in such low-income savings efforts as the Individual Development Accounts (IDA) program and the Electronic Transfer Accounts (ETAs) for public benefits recipients (see below).

#### *Extending the Reach of the CRA*

Extending the reach of the CRA to include non-bank institutions is particularly crucial now that mutual funds, pension funds, insurance companies, and finance companies hold more than two-thirds of Americans' long-term savings and investments as compared to less than one-third in the mid-1970s, and now serve as the primary source of credit for many American households and businesses (Pinsky and Threlfall 1996). In order to expand the CRA to cover these institutions, the regulations must include mechanisms for participation as well as requirements



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that are tailored to these kinds of organizations. New regulations could require such institutions to:

- Target a minimum portion of their total lending at affordable rates to low to moderate-income households
- Offer savings instruments such as mutual and/or pension funds that are tailored to low to moderate-income households (these instruments could be modeled after Individual Development Accounts, or IDAs, which are matched savings accounts for individuals receiving Temporary Assistance to Needy Families or the Earned Income Tax Credit)
- Participate in community development through partnerships with CDFIs and/or the sponsorship of investments, loans, lending pools, or socially responsible investment funds

### *Working on the Capitalization Side*

Another approach would involve holding those large secondary market participants, such as Fannie Mae and Freddie Mac that capitalize loans by purchasing them in blocks, accountable to CRA requirements. One important barrier to low-income loan provision by financial institutions is the lack of funds available for capitalization due to the refusal on the part of investors to purchase such 'high-risk' liabilities. Marcus (1996) proposes requiring institutions such as Fannie Mae and Freddie Mac to purchase loans from banks in blocks that include a minimum portion of low to moderate-income loans originated within the banks' CRA assessment areas (Marcus 1996). This requirement would: (1) encourage banks to recruit enough lower-income loans to be able to sell them in the secondary market and (2) ensure that capital is available to fund such loans.

### *Focusing on Services*

As evidenced by the domination of mortgage lending as a topic in the CRA evaluation literature, the legislation and its new performance-based enforcement, in which the lending test receives disproportionate weight, emphasizes the importance of credit provision over other banking services. However, access to savings and investment opportunities remains limited in low-income areas. Scholars such as Michael Stegman (1999), argue that the CRA must focus more on institutional provision of these services. Stegman points out that the Debt Collection Improvement Act of 1996, which requires that all periodic Federal payments other than tax refunds be made via electronic funds transfer (EFT) by January 2, 1999, provides a crucial opportunity for increasing banking services to low-income individuals. The Debt Collection Improvement Act (commonly referred to as EFT '99) requires the creation of an Electronic Transfer Account (ETA) for any public benefits recipient that does not have access to a bank account. Stegman (1999) asserts that, if combined with a financial literacy campaign and a national individual development account (IDA) savings initiative, EFT '99 could begin to help the working poor to



accumulate savings and become financially self-sufficient (Stegman 1999, 150). It is crucial that the EFT'99 is linked to the CRA such that financial institutions receive CRA credit for providing ETAs, IDAs, and other low fee/no-fee depository and payment services.

### Conclusion

The Community Reinvestment Act (CRA) of 1977 was one of the first pieces of legislation to hold the banking industry responsible for serving all neighborhoods in their communities. The principal flaws in the legislation involved vague guidelines for compliance and therefore poor enforcement. Because the legislation was produced by a movement in favor of increased mortgage credit for low-income and minority communities, it also gave disproportionate weight to mortgage lending, to the exclusion of other important financial services. The reforms of 1995 helped to address some of these issues. But now the Act faces new challenges in the form of a restructuring banking industry, increased deregulation and decentralization of services, and, most importantly, political threats from the Senate and new Administration. In order to meet these challenges, policymakers and Federal banking regulators must redefine and expand the locus of CRA intervention, before the changes in the financial and political landscape undermine the Act's regulatory reach.

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## Endnotes

1 Pub. L. No. 95-128, Title VIII, 91 Stat. 1147 (Oct. 12, 1977), codified at 12 U.S.C. 2901-2901 (as amended).



2 For the purposes of this study, net worth was defined as the value of all assets excluding social security and pensions, minus liabilities.

3 Melvin and Oliver (1990) define net financial assets as 'financial assets normally available for and used as sources to command future resources' (137-138). NFA excludes home equity, which is not considered a particularly liquid asset that can be easily cashed in in times of need.

4 Financial Services Modernization Act: Community Reinvestment Act Amendments in the Gramm-Leach Act,' <http://www.senate.gov/~banking/conf/craamd.htm>



# Education



# Using School Vouchers to Improve Student Performance

## Scott Peck

### Abstract

*The debate continues on the effectiveness of school vouchers. This paper examines recent studies and the impacts of voucher programs in different communities; the funding scheme for the Milwaukee Parental Choice Programs is also examined. The results of the studies are inconclusive and no recommendations are given on effective voucher implementation. However, the key finding of this paper determines that public schools in Milwaukee actually receive more money when they lose students to the Milwaukee Parental Choice Program. This renders a primary argument against vouchers – that they will take money away from public schools – specious.*

### I. Introduction

As debate continues about the best methods to educate America's schoolchildren, a maelstrom develops over using public funds to defray the cost of private school education. This usage is commonly known as school vouchers or educational scholarships.

Support and use of vouchers first garnered extensive support in 1990, when the nation's first voucher initiative – the Milwaukee Parental Choice Program – was founded in Milwaukee, Wisconsin. Controversy and rhetoric have accompanied voucher programs ever since. In Florida, the NAACP, the National Education Association, and the Florida PTA, filed a lawsuit protesting the establishment of a voucher program approved by the state legislature in May 1999. These groups believe that the 'opportunity scholarships' violate the Establishment Clause of the U.S. Constitution. Supporters contend that vouchers are the only solution to address the growing inequity in America's school districts. This support stems from the belief that public schools must improve to effectively compete with private schools that are siphoning away students.

The voucher movement, for some, has even become a more fundamental debate about civil rights. Corey Booker, noted Newark City Councilman and Rhodes scholar, is impassioned about the role of vouchers in inner cities and in the African-American community. Discussing the role of education and school vouchers, Mr. Booker states:

'It's one of the last remaining major barriers to equality of opportunity in America, the fact that we have inequality of education...I don't necessarily want to depend on the government to educate my children — they



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haven't done a good job in doing that. Only if we return power to the parents can we find a way to fix the system.' (Wilgoren 2000)

Mr. Booker and a host of others seek, ultimately, a viable solution to solve the well-documented plight of America's urban schools. This paper analyzes the research methods used to determine the effects of vouchers on student achievement and public school funding, and proposals for public school systems.

### II. Measuring Student Performance

Normally, when voucher programs are analyzed and studied, researchers use standardized test scores to attempt to understand the impact of private school education on student success. Criticism abounds about using standardized tests to measure student achievement. The most common argument is that standardized testing is not an accurate measure of a child's ability to learn (i.e. teachers teach to the test rather than teaching to students). This point is acknowledged, but arguments surrounding the peculiarities of standardized testing deserve another paper and cannot be dealt with here. In discussing vouchers, the primary concern is the measurement of student performance and this paper uses standardized test scores as a benchmark. The ability to perform adequately on standardized tests, across class and race lines, is a major assumption.

Two major assumptions are at work in this paper. First, standardized testing is the best and most accurate method for measuring student achievement. Second, randomized field research is the best approach to reducing the selection bias inherent in non-random field studies. If these two assumptions are true, it is possible to construct an argument in favor of school vouchers. The recent information available on school voucher use (where the two assumptions hold) suggests that there are positive effects on student test scores.

Paul Peterson, director of the Program on Education Policy and Governance at Harvard University, examines the effectiveness of voucher programs in New York City; Dayton, Ohio; and Washington D.C. This is the most recent research on voucher effects. In all three studies, a randomized field trial is used to measure the effect of school vouchers on student test scores. Random field experiments, akin to medical experiments, separate control and experimental groups. Among social scientists, this is commonly understood to be the best method to conduct research. In the case of school vouchers and Peterson's research in those cities, the students not offered vouchers were considered the control group.

The conclusions of the field studies indicate that combining achievement scores in all three cities, African-Americans, score 6.3 percentile points higher than students not using a school voucher. In Washington D.C., African-American students who participated in the voucher program experienced a 9 percentile point increase in test



scores. The Dayton voucher program yielded a 6 percentile point increase in their test scores (Peterson 2000). The numbers, seem to build a conclusive argument for the implementation of vouchers. Although the study has flaws, the data suggest that vouchers have some positive effect on student achievement.

For researchers, it is often difficult to determine the voucher's effect on student achievement: was it the private school or the characteristics of the family that took advantage of it? Although family attributes are difficult to define, some studies are fundamentally flawed because their measurements are biased. For example, the Horizon Scholarship Program (HSP) in San Antonio, Texas, admitted students on a first come, first serve basis (Peterson 1999). The program offered scholarships to students in grades K-12 who resided in the Edgewood School District, serving primarily low-income neighborhoods in San Antonio. The study, conducted by Mathematica Policy Research, was designed to address the question of who takes advantage of voucher programs. It attempted to answer this question:

What kinds of families take advantage of vouchers when they are offered to all low-income families living within a school district? (Peterson 1999)

Who, exactly, takes advantage of school vouchers? In trying to answer this general question, the authors conclude that, 'the mothers are somewhat better educated, less likely to depend of government programs, and more likely to attend church and be engaged in the community' (Peterson 1999). The data suggest a creaming or selection effect and, because of this correlation, students scored higher on their tests. Unfortunately, one flaw with the study is that it was not randomized and could not, in effect, reduce the noise of the selection effect.

### III. Criticisms of Study Design

Common criticisms of school vouchers – from academics and researchers – is that the research is inherently biased. For the opponents of vouchers, the bias in research explains most of the variation in measurement. In statistical research, this type of bias is commonly understood as the selection effect. The effect of selection bias on school vouchers works in the following way: parents who understand education systems and, specifically, the nuances of public school (i.e. those with better education or resources to offset the cost of private school tuition) are the ones who are likely to benefit from it. Basically, this means that intelligent parents take advantage of the voucher and send their children to private schools. There are ways around this problem. Florida's voucher program attempts to address this by specifically targeting failing schools. The vouchers, or 'opportunity scholarships,' are part of a plan to improve education in a state that is near the bottom of school rankings. Under the legislation, public school students in grades 3 through 10 are tested annually and the results are used to grade all schools. If public schools do not receive a passing grade for two years, the parents can use the scholarships to



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send their child to a private school. Seeking out the poorest school districts results in a reduction of the selection effect – wealthier, suburban families are unable to take advantage of the voucher.

Although these studies utilize the most effective study design, the randomized field studies have come under considerable criticism. New York Times education journalist Kate Zernike asserts that the New York City study cannot demonstrate higher performance at the 3rd, 4th, and 5th grades because improvements in the test scores of these students were not statistically significant. Another major criticism directed at the New York City/Washington D.C./Dayton study is that a large percentage of vouchers offered to parents were not used and higher income families actually benefited from their use (Zernike 2000). This is a type of de facto selection effect: after low income families are offered the voucher and decline, the proportion of higher income families using the voucher is larger and, therefore, test scores increase. The article contends that the authors intentionally suppressed this discrepancy in their paper, a point Paul Peterson and other researchers involved in the study refute (Peterson, Wolf, Howell and Campbell 2000). The study did in fact include separate categories for decliners and takers; the percentage of students who accepted the voucher is clearly stated. All criticisms aside, the experiments conducted in the three cities should be considered as real experiments on voucher effects. The random experiment method is the best way to measure the effects of policy interventions.

## IV. Impacts on School Funding

Other voucher research, however, has revealed different conclusions. University of Wisconsin-Madison professor John Witte was the state's official evaluator of the Milwaukee Parental Choice Program. His 1995 'fifth-report' on the program marked the final annual evaluation of the Milwaukee voucher program. Mr. Witte discovered no significant achievement differences between students who participated in the voucher program and those who remained in the Milwaukee public schools. Voucher students' achievement scores varied in the first five years of the program (1990-1995). The study concluded that voucher students' reading scores increased the first year, fell substantially in the second year, and remained the same in 1993, 1994 and 1995. Since the sample size was very small in the first year, the gain in reading was not statistically significant, but the decline in the second year was. Although the data suggest that there were no real differences in test score performance, parents involved in the program seemed satisfied with the results. Mr. Witte comments on this reality:

'Honorable people can disagree on the importance of each of these factors. One way to think about it is whether the majority of the students and families involved are better off because of this program. The answer of the parents involved, at least those who respond to our surveys, was clearly yes. This is despite the fact that



achievement, as measured by standardized tests, was no different than the achievement of MPS students....the attrition rate and the factors affecting attrition indicate that not all students will succeed...but the majority remain and applaud the program.' (Witte 1995)

The study conducted by Mr. Witte indicates that student participation in voucher programs may not lead to an increase in test score performance. This may not be the most important discovery in his research, however.

Parents, regardless of their child's performance, still prefer to use the voucher and send their children to private schools. In Milwaukee, there is some satisfaction with school choice and private schooling. Although the study was conducted four years earlier than Harvard's and the research findings are based on a different student population, increased parental satisfaction is the one constant in each study. Harvard's research on the Washington, D.C., voucher program (started in 1997) indicates a high level of parental satisfaction. Among voucher participants in Washington, D.C., 46 percent of private school parents gave their school an 'A,' compared to 15 percent of public school parents.

Other factors showed a marked difference in other aspects of school life. Sixty percent of private school voucher parents said they were 'very satisfied' with school safety. Public school parents were only 20 percent satisfied with this aspect of their child's school. Finally, 56 percent of the voucher parents, but only 17 percent of public school parents, were 'very satisfied' with their school's academic program. If parental satisfaction marks the effectiveness of vouchers, the programs are effective at some level. The sentiment that 'anything is better than our public school' seems valid for the parents participating in the Milwaukee and Washington, D.C., voucher programs.

The most common argument against school vouchers is that they will take away much needed resources from ailing public school systems. Voucher opponents want more funds directed toward public schools. Vouchers are viewed as an escape from the real problem: funding of public schools. The perception is that vouchers will decrease funding appropriated to public schools and administrators – already trying to operate their schools on a cash strapped budget – will have less to work with.

Typically, parents receive a voucher worth some fraction of the state's per-pupil expenditure (PPE) (Schuck 2000). This percentage hovers near the 50 percent mark and normally this number falls somewhere between \$2,000-\$4,000. Parents can use the voucher at any private school that falls within certain state standards. If the state's PPE affects funding, it would appear that schools actually have more money to work with. Public schools normally keep half of the PPE allocated for each student who leaves school to enroll in a private school. Private schools use the half



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of the PPE – the \$2,000-\$4,000 voucher – while public schools keep the rest. This renders the primary argument against vouchers specious. Ostensibly, more money is available to public school administrators because they still receive money for a student who is no longer enrolled. Unfortunately, school district funding is often more complex and difficult to understand.

In Wisconsin, for example, funding relies on a system of equalization aid and it is designed to even out differences in the property tax base – per pupil – among school districts. A direct effect of the Milwaukee Parental Choice Program on equalization aid to Milwaukee Public Schools (MPS) is the amount needed to operate the choice program (Legislative Audit Bureau 2000). For the school year 1998-99, the estimated total subtracted from equalization aid and given to the Milwaukee Choice Program was \$26.9 million. Voucher opponents could point to the \$26.9 million and construct an argument against the Milwaukee Parental Choice Program: \$26.9 million seems to be the amount that public schools lose to the program. However, this is not the case in the Milwaukee Public School System.

Since the inception of the school choice program, funding for MPS has actually increased. Normally, each year a revenue limit is calculated: this number represents the total amount of money the district can collect from state aids (i.e. equalization aid) and the levy on property taxes. The amount of money a school district collects in property taxes is the difference between the amount of revenue a district is permitted and the amount of aid the state provides. For example, if a district had a revenue limit of \$100 million and was provided \$75 million in aid from the state, the school district could impose \$25 million in property taxes. MPS is allowed to adjust enrollment figures used in calculating its revenue to include voucher students. The district had a \$702 million revenue limit in 1998-99; \$5.1 million resulted from this adjustment. MPS was allowed to increase property taxes to make up the difference between the state aid it received and its revenue limit. The district levied \$26.9 million in property taxes subtracted from its equalization aid to fund the choice program. MPS did not lose money because of the choice program, since it was able to recover the \$26.9 million from property taxes and an additional \$5.1 million from the state.

Vouchers are surrounded by ambiguities. It is easy for someone to conclude that vouchers have a positive impact on student achievement. Conversely, other research suggests that private schools do not significantly increase student test scores. Depending on the preference and point of view of the advocate, there is sufficient information to support either perspective. There is difficulty ascertaining the effects of vouchers at a national level or their impacts in school districts with characteristics different from New York City, Milwaukee, or Washington, D.C. This paper looked at a few studies and could not come up with a concrete conclusion that vouchers are effective across all communities. There are, however, some results that are worth pointing out.



Overall, parents seem genuinely satisfied with their child's education and harbor negative attitudes about public schools. Access to private school – for parents participating in the voucher programs – is tantamount to a better education for their child. Although parental satisfaction is important, a far more important fact about vouchers is unearthed: the argument that vouchers take tax revenue and money from the public school system is, in the Milwaukee Public School System, a dubious one. It is difficult to extrapolate this information to every school district in the United States because of the complexity and variation in public school financing. Generating more revenue for school districts by levying a higher property tax is not, however, exclusive to Wisconsin. If school districts and states employ a system similar to Wisconsin's, they might have more money to spend on students. Unfortunately, the allocation of money – for private schools and public schools – does not translate into better student performance. Why wouldn't an increase in money, through the use of vouchers in private schools or an increase in tax revenue in public schools, translate into higher student achievement or test scores? Perhaps it isn't the infrastructure or the funding. The failure of students might be a failure of the people running the schools.

In the United States, the ability of school districts to attract and keep quality teachers is suspect. There have been numerous national and state programs designed to attract and cultivate talented educators. At the national level, Teach for America (TFA) has recruited some of the nation's top graduates and placed them in underserved rural and urban school districts. TFA requires a two-year commitment from its teachers and over 60% of these teachers decide to teach for a third or fourth year (see [www.teachforamerica.org](http://www.teachforamerica.org)). Massachusetts has designed the Massachusetts Institute for New Teachers (MINT), a state program similar to TFA: a short 2-to-3-summer training program with mentors and night classes during the first year of teaching.

Unfortunately, for every well thought out program like TFA or MINT there are thousands of other certification programs throughout the country that are considered sub-par in the profession. Normally, the cadre of school administrators comes from these programs. Administrators are likely to be former teachers who desire to move up in the education profession. In some cases, they teach during the day and attend classes at night. A prospective principal enrolls in a Master's Degree program – usually steeped in pedagogical methods and administrative management – and earns the degree in one or two years. This is not an assault on the administrative certification process or the managers they produce; there are many qualified and exemplary administrators throughout the country. However, these programs were not designed to address the problems and plight of urban schools. Urban districts may need a different kind of manager, one who understands the community and the realities it faces.

Perhaps the per pupil expenditure for the missing voucher students (normally half



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of the original PPE) should be used in a different manner. The expenditure could be used to attract members of the business community to partner with schools to identify a strategy that alleviates waste in funding and inefficiencies in time management. The traditionally trained administrator may not have the expertise to deal with these issues and outside partnerships with business might identify gaps in performance. Instead of using money on vouchers (although, it has already been pointed out that funding actually increases or remains constant in public schools where vouchers are in place), lawmakers could grant individual schools more flexibility with their budgeting. Line item budget could be used in specific urban schools or districts. A particular school wouldn't have to spend a fixed amount of money on a particular service or good (e.g., books or computers or transportation) if that service was already operating efficiently. The administrator could move funds from a line item budget into areas she identifies as more important: a specialized instructor in web development, after school tutorials, keeping the gym open until 8:00 p.m., or paying a staff member overtime to supervise students, extend library hours to parents, etc. Primacy is given to new ideas and experimentation at a micro level – the school and community – rather than experimentation at the state level.

## V. Conclusion

The problematic realities confronting our nation's schools are unique to individual communities, school districts, and states. School vouchers have been offered by some lawmakers as the viable and logical solution to educational inequity. This represents a genuine attempt to ameliorate the educational barriers that disadvantaged students encounter daily. Unfortunately, information about voucher's effectiveness to achieve this is inconclusive. Depending on the study you look at, vouchers may or may not help students. The prevailing attitude in urban communities seems to be, 'let's try anything,' and vouchers are seen as a genuine attempt to fix the problems they face. If that is the sentiment within these communities, perhaps it would be beneficial to experiment with how public schools are managed and financed to see if test scores improve after new techniques are tried. That is, after all, the prevailing logic motivating the school voucher movement in the United States.

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## Filling the Education Gap by Teaching Enterprise Skills

Angie Datta

### Abstract

*Accountability, standards and local control were the main themes of education reform during the 2000 Presidential campaign. Reaching low-income students was cited as a priority, but curriculum reform to include the teaching of business skills was not discussed. Instead, it was overshadowed by accountability and testing issues. Innovative student outreach programs, however, are not mutually exclusive with high stakes testing and accountability standards. Teaching entrepreneurship to low-income, inner city and rural high school students has proven to be a resounding success across America and internationally. Studies show students who have skills such as business planning and finance have a much higher probability of starting their own businesses (65% compared to 2% among their peer group). It is time this issue was considered as part of the federal government's approach to education reform.*

### Introduction: The Need to Rethink Education

Many high schools in low-income areas need to complement traditional curricula with courses that teach specific skills to improve their employment prospects. With today's global workplace putting a premium on technology and service skills, the new Administration should work with states to make entrepreneurship courses available nationwide. Organizations like the National Foundation for Teaching Entrepreneurship (NFTE) have created successful programs and forged partnerships with private partners such as Microsoft and Goldman Sachs to assist teaching students business development skills. The empowerment students feel in creating mock-businesses and learning about markets engenders an enormous boost to self-confidence that can help break cycles of poverty and dependence. Not only does the government have an obligation 'to leave no child behind,' but it also should take on the responsibility of giving low-income students a chance to learn key skills before they graduate that will, in many cases, shape their futures. The necessary curriculum is one that focuses on reading, writing, math and business skills, and will both enhance the educational experience of these youth as well as performance on achievement testing.

Education was identified as one of the top priorities of the Bush Administration, evidenced by the fact it was the White House's first major legislative policy package sent to Congress in January 2001 (Wolgoren, 2001, A1). The proposed reforms are a mix of liberal and practical ideas that seek to improve standards and accountability for teachers and schools (Wolgoren, 2001, A1). The legislation's four pillars are :

- yearly testing for all students;



- agents of reform are schools and school districts;
- low-income schools need assistance in the transition to higher standards; and
- children should not be left in failing or persistently dangerous schools (Bush 2001, A14).

These reforms are sorely needed, and constitute an important first step. The Administration must also meet the goal of raising standards in low-income areas with innovative and multi-faceted programs that complement testing and accountability. The bottom line should be to teach and learn basic skills that equip children with the tools to take advantage of work opportunities after graduation. The Administration has pledged close to \$50 billion to fund education programs that marry both innovation in teaching and improvement in basic skills evidenced in continuous testing (McWhorter, 1999, 75). This is particularly important and a large factor in economic opportunity for those struggling the most, namely low income students living in inner city and rural neighborhoods. These two socioeconomic groups have the most to gain from education reform that focuses on providing life and workforce skills.

Urban poverty and school achievement data are staggering for these two groups nationwide, and the federal government has an obligation to level the playing field and correct for systemic deficiencies. The gap in education threatens goals of racial equality, upward mobility, and social inclusion, particularly in the inner city where a disproportionate number of minority children are schooled. Measures of school performance must be used to understand where gaps exist, and then students must be engaged and exposed to effective teaching methods (Feder, 2001, C4). More importantly, it is becoming increasingly apparent that business leaders and trade organizations are recognizing that training our nation's children is not be the sole responsibility of the education system (Douglas, 1999, 33). The burden is too heavy to bear, and we are already starting to see the strains of the system in terms of student achievement and performance on the job. Fortunately, although still an unusual occurrence, there are successful public/private partnerships already taking place. Low-income communities are realizing that they cannot turn to their traditional tax base for funding improvements. As a result, communities like Niagara Falls, NY, have struck partnerships with corporations like Honeywell Inc. to fund school improvements (Zernike, 2001, B1).

Workforce and business education are not entirely new concepts in education circles, however teaching entrepreneurship has not become mainstream despite major successes throughout the country (Kourilsky, 1997, 205). This is largely because education reform has often been framed as a tradeoff between innovations and accountability/testing (NFTE, 2000, About NFTE/Overview/#3). This paper argues that innovation should not be a zero sum game with high stakes testing and school accountability. There are entrepreneurship programs across the country that



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have raised the levels of basic skills of participating students (Douglas, 1999, 31). One reason is perhaps because this type of learning is typically highly experiential and collaborative — qualities that not only require additional teaching resources, but also that also engage students to a higher degree (Ries, 2000, 27). Programs that focus more on acquiring business skills through textbook knowledge of finance and accounting principles may not be the best medium for low-income young adults (*i.e.*, those who may not perform well in traditional lecture-style experiences) (Kussman, 2000, 45).

## How to Impact Education Curricula

The NFTE provides an excellent example demonstrating the power of teaching business education and entrepreneurship programs. The Foundation has a replicable model that could easily serve as a national standard (NFTE, 2000, About NFTE/Overview/NFTE Programs). The model is has already been embraced by 21 states and can be found in 14 other countries. Essentially, the idea is to teach business skills to students who may not be exposed to business leaders or cannot afford post secondary education (Kellner, 2000, 66). Entrepreneurship courses should meet the academic needs of students, sustain their interests, and help improve retention rates. It is important that courses match the cognitive abilities and emotional maturity students, and in so doing bridge basic education with career interests (Douglas, 1999, 33). Outreach to students at an early age is the most effective way to create a difference in their working lives. By focusing on entrepreneurship as a way to synthesize and reinforce basic skills, we can shore up the leakages that exist in the education system. Too many children advance to high school without competency in requisite basic skills. High stakes testing, accountability and courses like small business enterprise can ensure that students do not move through the system until basic life skills have been acquired.

Soft programmatic changes in curricula have not worked to a large degree, thus requiring concerted and explicit action to improve this basic educational right. A mandate from the federal government to engage students in business training has a limitless upside. The program's goal is to help youth become involved in businesses, get tangible experience in a variety of industries, and learn more about markets. It is less about creating tomorrow's corporate leaders than it is about imparting useful lessons in financial independence, understanding the needs of a community, and harnessing one's entrepreneurial spirit. Outcomes should include a wide range of commercial enterprises, including a restaurant, beauty salon, gym, delicatessen, an Internet start-up or a delivery service (Johnson, 2001, 3).

For students who do not traditionally consider themselves 'business types', this program is appealing because it illustrates that everyone has the power to create a business idea and that teamwork is an integral part of that process. Creating a business is typically regarded as an expensive endeavor, a luxury that most of these



young adults cannot and do not enjoy. However, by learning more about the process involved in establishing and sustaining a business, students quickly realize that there are avenues for low interest loans and seed money, particularly for minorities and women.

Furthermore, data on school achievement strongly suggests that reform must be embraced in order to change the state of education in the US (Johnson, 2001, 3). A report entitled *Reality Check 2001*, an annual national survey conducted by Public Agenda and Education Week found the following:

‘The number of teachers who say their schools passed students based on age rather than mastery of required skills has dropped from 41 percent to 31 percent in the last four years. In addition, 53 percent of teachers say that students take summer school seriously, up 10 percentage points since 1998. Despite the controversy over standardized testing, most parents and teachers support its use to motivate students and identify those who are struggling. Some 81 percent of parents and 62 percent of teachers agree that testing is a good way to identify those who need special help. But 90 percent of teachers and 75 percent of parents say it’s wrong to use the results of just one test to decide a student’s future’ (Johnson, 2001, 12).

If these sentiments are shared across the country, then it would appear that the climate for change is ripe in the U.S. to implement a program such as ‘Teaching Entrepreneurship’.

### **Curricula Recommendation**

The program should be called ‘Teaching Entrepreneurship’ and it should be flexible enough to accommodate differences in ages and demographics, but standardized enough to be able to be measured in different locations. The mission of the ‘Teaching Entrepreneurship’ program is to provide students with tools to learn and expand basic education skills, promote financial independence, learn about opportunities in the business world, and gain skills to achieve economic development and empowerment. The goal is to teach students all facets of planning a business venture, while reinforcing basic skills that can be testable and that fit in the frameworks of accountability and high stakes tests. As such, the program has sufficient flexibility that it can be adapted to the specific needs of schools, business partners, and students. This flexibility can take the shape of regular school courses, after school programs, summer camps, or on-line teaching. Based on the NFTE model, students between the ages of 13-19 are appropriate recipients of this type of educational program (NFTE, 2000).

The curriculum should be focused on the six pertinent areas necessary for a successful business plan:

- **Business Description** – Industry overview, company description, prod-



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- ucts and services, and positioning and pricing;
- **Market Description** — Customers, market size, trends, competition, and estimated sales;
- **Development and Production Description** — Development status, production process, cost of production and development, labor requirements, operating expenses, capital requirements, and cost of goods;
- **Sales and Marketing Plan** — Sales and marketing strategy, method of sales, advertising and promotion;
- **Management and Organizational Structure** — Management description, ownership, advisory board/board of directors, and support services; and
- **Financial Documents & Funding Sources** — Risk, cash flow, balance sheet, income statement, funding request and return (Bangs, 1995, 7).

These six areas can be taught in modules. Each module should convey basic skills required to research and analyze the relevant issues and offer examples of successful plans and best practices. Guest speakers should be invited to discuss real world applications of the a business plan and the associated skills in that module. Despite the increasing sophistication of many businesses today, the core elements of business plan are essentially the same. Therefore, this curriculum is ideal for national roll out because it can be standardized to a high degree. Also the instructor training is a highly standardized process that focuses predominantly on the three main technical skills required in business planning, namely:

- the ability to identify local resources for competitor and market analyses;
- the ability to identify funding sources and funding strategy; and
- production and development knowledge, or the ability to find subject matter experts in the field.

An effective teaching medium for this curriculum is the formation of small teams to complete a plan. This effectively simulates a typical entrepreneurial experience with multiple business partners. The essential assignment is to create a business idea that can actually work in a student's local community. Once completed, a steering committee of instructors and business partners and a panel of guests will be presented with each student's plan, and then will decide on the winning entry. Prize money can take the form of a donation from the corporate sponsor or a federal or state grant, given to qualified districts that apply for funding. Although the business planning model is not likely to be tested formally, the program, if targeted towards younger high school students, can provide reinforcement of reading, writing, math, and analytical skills. Further, if implemented properly it can impact students at a time when they may be wrestling with a decision to quit school or not pursue post secondary education — this is desperately needed in failing schools and low income areas.



## Public and Private Partnerships

It was noted above that developing partnerships with local businesses is one successful model that has worked for teaching business skill programs in schools. As statistics about volunteering and charitable giving show positive and upward trends, the Administration, and consequently schools and communities, should capitalize on this philanthropic momentum (Evans, 2001, 34). A partnership program should have four main components:

- obtain, train, and retain on-site school and volunteer instructors;
- create incentives for participation by students, such as internships, class credit, and opportunities for business plan competitions;
- involve the corporation regularly through mentors and guest speakers; and
- create a Steering Committee of parents, professionals, and teachers to oversee finances and program development.

Given the emphasis of practical skills and real life applications, one of the keys to successfully implementing the 'Teaching Entrepreneurship' program is finding resources to obtain and train instructors. Local schools will need to allocate resources for dedicated, on-site instructors who can co-teach with volunteers.

Student achievement is highly correlated to expectations set by adults, role models and peers. The program must give students a sense of empowerment, achievement and purpose. Providing mentor and internship opportunities is one way to achieve this result. Also, a successful component of entrepreneurship teaching is a business plan competition, whereby the winning teams are awarded a cash prize or seed money to implement their plan.

The partnership model enables local companies to work with a community or specific school to provide volunteer instructors, guest speakers, internships opportunities, and access to mentors for the school. For business, it marries the complementary priorities of community investment and public outreach. Managed responsibly, this partnership can be mutually beneficial to all parties.

Finally, the involvement of parents with professionals and teachers is critical to the program's success and viability. Depending on their backgrounds, parents may also have a special interest in the subject matter. Regardless of their interest level, participation lends the program additional legitimacy and accountability.

## Resource Development

There are two distinct components of teaching business planning and entrepreneurship to students:

- working within local schools to provide infrastructure, space, computing



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- capabilities, and teaching staff; and
- working with corporate and private sponsors to provide funding, expertise, and volunteers.

The first component will need to be funded via federal and state supported grants. The second can be achieved through federal tax credits. Influencing the incidence of private sector social initiatives should be an Administration priority because it can be harnessed not only in education, but also in healthcare, housing and community development.

In 1999 and 2000, the Congress voted on a number of legislative initiatives that involved community development tax credits and assistance to underprivileged entrepreneurs (Hill, 2000, 24). In the same vein, the initiative to give resources to corporations that devote time and resources to schools is an obvious linkage. This program cannot work without the commitment of business professionals and a commitment of stable funding. Therefore, to guarantee a level of involvement, tax credits should be considered. In many ways this education program can be likened to the Targeted Jobs Tax Credit (TJTC) (Hollenbeck, 1991, 1). Like the TJTC, the education program seeks to increase the employability of disadvantaged people, but it goes further to encourage financial independence, personal enterprise, and community development.

Finally, it should be clear that the program can only be sustained by strong working relationships between communities and schools. The limited government funding can be matched by private donations, foundation grants and fundraising. These activities can be pursued by both the Steering Committee and the school administration.

### Selecting Eligible Communities

Currently, one in six children in the US are living in poverty. These children will be 'left behind' if meaningful interventions are not made, and specifically in their education. The Bush Administration should use Census 2000 data to identify a cross-section of American communities (rural and urban split, geographical balance, etc.) for the 'Teaching Entrepreneurship' pilot. Contingent on the success of these pilot programs, the government should gradually make available funds to a larger number of states and counties. 'Teaching Entrepreneurship' resources and information should be made available to those school not selected to participate but that wish to in the absence of government funds.

According to the 2000 Census results, there are six states, mainly rural and agriculture-based, that have the nation's highest percentage of persons below the poverty line (18% to 25%) (2000 Census FactFinder, People/Poverty/Poverty in the US: 1999). Furthermore, there are an additional nine states whose percentage of



persons below the poverty line is 14% to 18% (2000 Census FactFinder, People/Poverty/Poverty in the US: 1999). These states are obvious candidates for the Entrepreneurship program. The Bush Administration must work with Governors to implement plans that will ultimately raise these family and household income statistics. Though there are many social interventions that ought to be made by a state government, the federal government must assume a national responsibility to enhance opportunities for the nation's children.

### **Performance Indicators**

Bright ideas can and should only be implemented if there is a clear mission and quantifiable indicators of success. In the case of 'Teaching Entrepreneurship', there are five clear indicators (see below), as well as a host of less tangible measures such as empowerment, increased self-esteem, and business knowledge and savvy:

- improvement and reinforcement of basic education skills as evidenced by testing and accountability measures;
- successful completion and of 'Teaching Entrepreneurship' program;
- increase in the number of students entering workforce at graduation;
- increase in the number of student business internships; and
- implementation of student business ventures in the community.

There is no expectation that every student going through the program will become an entrepreneur upon graduation. Students will, however, have a variety of tools that can be applied to any issue or problem, regardless of whether they work in a business environment. Representative outcomes could include:

- students can work with local businesses to recommend improvements in their services or products;
- students can obtain business-related employment based on skills they attained; and
- students can become mentors for others in future iterations of the entrepreneurship program.

This list is by no means exhaustive, however, it is clear, that 'Teaching Entrepreneurship' equips young people with necessary skills and the intellectual curiosity to create positive change in their lives.

### **Conclusion**

In keeping with the 'leave no child behind' mantra of the Bush Administration, it is imperative the Federal government play a role in giving schools and communities the resources to equip young people with the skills, energy and enterprise necessary to succeed in life. Education in the US must be recast to include ways that reach out to high school students to promote basic skills learning in a practical context. For many, the American education system has failed to develop adequate capabilities in



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math, reading and analysis. The era of high stakes testing and accountability is upon us, and we must be careful not to reform curricula to teach to tests, but rather to teach to life skills in ways that support testing. Most accountability regimes inherently label some students as 'failures'. In reality, the failure must be shared with a system that does not create engaging learning environments and address weaknesses early on in a child's development.

Teaching personal enterprise and entrepreneurship in low-income areas, both in rural and urban schools, is a proven technique that has worked in the US and overseas. The key is not in channeling billions of federal dollars into the education system, but rather in fostering meaningful public and private sector partnerships. The federal government can assist this program by offering tax credits to organizations that choose to donate time and resources to our nation's schools. At present, the American dream is unattainable for many children in persistently low-income areas. The current education system creates systemic disadvantages for those unfortunate enough to be raised in places where society will leave them behind if proper interventions are not made. 'Teaching Entrepreneurship' is a tangible way to break cycles of poverty and dependence among low income and at-risk youth, and must be considered by federal policy makers as they shape the education agenda for the coming years.

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# Criminal Justice



## Implementing Community Policing: Police-Community Partnership

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### Abstract

*Community policing means community and police working together in a partnership for public safety. Several factors are required to for it to be effectively implemented: organizational and structural reform, strong and innovative leadership, the transformation of organizational culture, use of the media and other advertising strategies, political support, additional resources and community partnerships. If police-community partnerships are to be sustained, they require work from both parties. The federal government can assist in promoting this innovative new model by supporting initiatives that have already been proven to be effective.*

### I. Introduction

Municipal policing is on the brink of a new era. Police departments across the country have flirted with the emerging model of community policing in some capacity or another for over twenty years, but few have actually succeeded in incorporating this model department wide or in its entirety. The few that have forged into this new frontier have left a legacy of successes and failures for other departments to learn from. Although there is currently ample literature available on community policing philosophy, adapting police organizations to implement such a model, and developing alternative performance measurements, very little has been written or explored around the issue of developing and maintaining effective police-community partnerships. This paper will address the themes and necessary elements for the successful implementation of community policing department wide, focusing on the development of strong and lasting police-community partnerships.

As George W. Bush embarks upon his presidential term, it will be crucial that he address the issue and role of police in American communities, particularly communities of color. The mandate is clear – urban communities want the police to provide protection and control crime in their neighborhoods, yet at the same time they want to be treated with respect and dignity. I believe Community Policing and the problem-solving approach offer the greatest potential for successfully addressing this crisis and democratizing the approach of municipal police.

In particular, successful adoption of community problem solving and partnership building could help reduce tensions and avoid many of the unfortunate incidents that have plagued departments and communities in New York City, Los Angeles, and other metropolitan areas. It is imperative that President Bush continues to



build on the foundations of his predecessor, specifically the many initiatives undertaken by Janet Reno and the Justice Department. Attorney General Reno provided real leadership in the arena of policing, committing much of her attention to expanding and enhancing community policing efforts across the country. Her successor, John Ashcroft, should heed the call and provide direction, innovations, and funding for new models of policing.

The term community policing encompasses the essence of the topic – community and police working together in a partnership for public safety. In order to institutionalize community policing in a department, numerous challenges must be surpassed. While not downplaying the importance or difficulty of the other elements necessary for transformation, I choose to focus on the partnership between the police and the community because in the end that is the cornerstone of this model. Although examples and case studies of successful implementation do exist, there is very little scholarship on how to build and maintain that partnership. To set the context, I will briefly summarize the main police models, theory and history, and discuss the emergence of the community policing movement. Then I will discuss what it requires of the police department and of the community to implement and institutionalize successful community policing, citing examples from police departments in Los Angeles, Lowell, and Portland.

## II. Municipal Policing: History and Models

The police occupy a distinct role in American society. They are simultaneously the most relied upon branch of government while being the most controversial in public opinion. The police are the only government entity that shows up at your doorstep with a phone call – truly government at a retail level. Beyond the provision of public safety, it is precisely this aspect that makes policing so interesting and so essential to civic life in America. Millions of Americans come into contact with a police officer every day and the public's opinions and relationship to government are often molded by that interaction. And, of course, the central role and responsibility of police officers is to keep the peace and provide public safety to all citizens.

Policing as we understand it is relatively new, appearing first in England in 1829, and then in America in 1839 (the first American police force was created in Boston, Massachusetts). Municipal policing manifested itself in two dominant forms before the most recent evolution of community oriented policing and problem solving – the political model and the reform/professional model. The political era of policing developed in conjunction with big city machine politics, patronage, and partisan mayors. This meant that the police chief and his<sup>1</sup> department came and went with the mayor and police precincts were contiguous with political wards (Sparrow, 1990:33). The department was generally highly decentralized, with great power resting with the precinct captains, who often lived in the neighborhood they



patrolled on foot. The police operation of the political era was highly informal, with officers maintaining close relationships with the public and offenders. This closeness with the criminals, as well as with the politicians, generated high levels of corruption within the police department and eventually elicited criticism from reformers.

Police reform did not transpire in a vacuum. At the turn of the century there was a powerful movement for municipal political reform that swept the entire country, forcing a transition to the Reform or Progressive Era of policing (Sparrow, 1990:34). This movement ushered in a new professional model of policing that was highly centralized, technically sophisticated, distant from the public, and distant from the politicians through the mandate of civil service reform. The tactics of the department changed from foot patrols and service provision to preventive patrol (cars), rapid response, and retrospective investigations, all directed by the new 911 call-for-service system. Professionalism narrowed the scope of police function to straight crime control, utilizing the method of law enforcement, and operating in an incident driven and reactive manner (Sparrow, 1990:40-41). The proliferation of special units during this period also took control and problem-solving opportunities away from patrol officers making their function much more narrowly defined.

### **III. A New Era: Community Policing Emerges**

In the early 1970s, however, the reform model began to lose legitimacy due to rising crime rates, race riots (often sparked by police actions), discontentment among rank and file officers, and the ineffectiveness and community disconnect that resulted from the basic tenets of the reform model – random preventative patrol, ad-hoc criminal investigations, and reliance on citizen calls for service (Sparrow, 1990). From this surge in public, political, and internal discontent, emerged a call for a return to foot patrols, greater involvement of the community, and a more preventative approach that could identify and solve problems before they spiraled out of control (Kennedy, 3/8/00). Simultaneously, the intellectual roots of this movement – from Herman Goldstein's argument for a 'problem-solving' approach (Goldstein 1990) to James Wilson and George Kelling's 'Broken Windows' theory (Wilson and Kelling 1982) – helped to advance at least the concept of community policing, if not the implementation, into municipal police departments across the country. Phrases such as 'reducing fear of crime' and 'problem-solving approaches' have since become commonplace in the criminal justice debate.

Community policing can basically be defined as enhancing the reliance on 'problem-solving' as an operational method, and increasing efforts at establishing partnerships with the community and other government agencies in order to more effectively solve community-identified problems (COPS Cross-Site, 1999:5). However, more than twenty years after these concepts came into inception, very few police departments have fully embraced the community-oriented approach.



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Why, if community policing is generally understood to be the new standard model of policing, have so few police departments managed to implement it successfully? Beyond the slow pace of any massive organizational change, the central problem lies in the manner of implementation. Most departments have relegated community policing to a special unit or specific program. But law enforcement practitioners and criminologists alike agree that community policing can only succeed if adopted department wide and truly institutionalized. Chief Parks of the LAPD writes, '...community policing, like its political and professional predecessors, cannot be some program run by a few people out of a few offices. It must permeate the entire organization' (Parks Homepage, 2).

The failure of compartmentalized community policing is exemplified by the Los Angeles Police Department (LAPD), which has historically been on the forefront of policing reform and innovation. One of the pioneer departments in terms of community policing, LAPD created the patrol rank of Senior Lead Officers (SLOs) in 1970 (Sparrow, 1990:9). These SLOs, who were initially considered full time community activists and problem solvers, were one of the innovations that came as a result of the Christopher Commission, a report which challenged the LAPD to build partnerships with the community and implement their police services with a 'community focused philosophy of policing' (Parks Homepage, 2).

The difficulty in transitioning from the professional model to community policing is evident in the initial deployment of the SLOs. Until the mid-1980s the SLOs were still required to respond to calls for service and as the call load steadily increased SLOs had very little time to actually attend to community problems and crime prevention work (Sparrow, 1990:9). It was the crisis of the deteriorating neighborhood of the Wilshire Area that prompted the department to take all eight of the area's SLOs off patrol duty completely and put them in the community to solve the problems (Sparrow, 1990:9). The SLOs became accountable for everything that happened in their area and were responsible for identifying and acting upon the concerns of the residents. This action was a monumental step towards true community policing. However, by the mid-1990s, the SLOs have been returned to their patrol cars and are required to respond to calls for service once again.

For the last twenty years, the SLOs have served the function of carrying out community policing within the Los Angeles community, while the rest of the organization has continued with the professional approach of patrol and arrest. Thirty years after the initiation of a community policing program, the LAPD persists in being the center of corruption scandals, despised by most of the community, and has not advanced its community policing efforts in any meaningful way. Although some neighborhoods work closely with their SLO and participate in a monthly Community-Police Action Committee (CPAC) meeting, there has been no organizational overhaul to institute community policing into the practice of all officers. This represents a clear failure to employ community policing as a departmental



tactic and organizational mission.

#### IV. How to Implement Community Policy: Necessary Elements

Implementing community policing department wide requires broad and decisive actions on behalf of both the police and the community. Any police department serious about adopting the community policing model will need to initiate organizational and structural reform, exercise strong and innovative leadership, transform the culture of the organization, utilize the media and other advertising strategies, garner political buy-in, attain additional resources and develop true partnership with the community. This section of the paper will briefly address each of these necessary elements and then discuss the police-community partnership in detail.

**Organization Structural Reform.** Given that community policing emphasizes prevention and problem solving, rather than incident-driven reaction and arrest, organizational restructuring is necessary in order to incorporate these new tactics and methods. Structural reform is an extensive area and all of its elements will not be addressed here. However, I will outline three general areas – operations, evaluation, and training/recruitment – that must be entirely revamped to allow the community policing model to succeed.

In order to address real community concerns, police departments must shift away from traditional, incident-driven policing tactics. Tactics of random patrol and responding to calls for service essentially function to keep officers in their cars and out of the community. One study in Portland found that after responding to 911 calls, officers were only left with 13% of their time for ‘self-initiated activity’ (Thacher, PPB, 1999:9). Police departments must change their methods of operation to truly work *in* the community and *for* the community. Such methods first include identifying problems in conjunction with the community (specifics on how to do this will be outlined in the partnership section). Community policing necessitates applying problem-solving techniques.<sup>2</sup> A multitude of additional methods can be applied to mold a more community-oriented operation, such as redrawing precinct boundaries to correspond with self-identified neighborhoods (as occurred in both Portland and Lowell), opening police storefronts in targeted neighborhoods, and requiring police representation at community meetings. On a more mundane level, small adjustments can be a force for change, such as improved reception area set-up or better phone-answering protocols.

Evaluation systems that measure number of arrests or 911 calls per shift cannot accurately gauge the impact of police officers in the community. Changing evaluation and measurement systems is fundamental for structural reform of police departments. For officers who have been trained to count numbers



of arrests as productivity, new incentives must be implemented to encourage adherence to more appropriate standards. For example, in the Lowell Police Department, officers are evaluated based on what their neighborhood looks like and their level of involvement with the community (Davis, 4/26/00). Sergeants will go out and count numbers of abandoned cars or graffitied buildings on a beat and officers are awarded medals for high levels of community service (Davis, 4/26/00). These are just a few of the innovative measurement techniques that can be employed to more effectively gauge the effectiveness of the police in a community policing model.

Training and recruitment are essential components for impacting organizational change in a police department. It is harder to teach department veterans entirely new methods of operating than to instill a new definition of municipal policing in new recruits from the outset. Therefore, much emphasis should be focused on the department's training curriculum and recruitment methods. As the Transition Team immediately concluded in the Portland Bureau, to make community policing work, it was essential to 'recruit, hire, and train personnel that are representative of community demographics and community policing philosophy' (Thacher, PPB, 1999:39). The mission and techniques of community policing must be instilled in trainees from the beginning to preempt the inertia of organizational culture that limits so many departments' ability to adopt this new model. In both the Lowell and Portland cases, two highly successful examples of the implementation of community policing, it became necessary to start a new academy or entirely revamp the curriculum of the existing academy.

- **Strong and Innovative Leadership.** To initiate and carry out massive structural reform in a police organization requires strong, innovative and courageous leadership. Without a police chief's commitment to the philosophy of community policing and the will to implement it, change on this scale would be hard to accomplish. In transitioning an entire department to a new model of policing, a chief is asking his or her employees to completely alter their way of thinking, acting, speaking, and operating on every level. Therefore, it is critical that clear directives come from the chief in terms of mission and operation, that the chief has the support of the organization, and that policy is followed through with action. Chief Ed Davis in Lowell engaged in participatory management and led by example, beginning by making a number of high visibility gestures that signaled to his organization that he was serious about change (Thacher, LPD, 1999:36). Finally, the transition to community policing requires creativity and innovation at every level (examples will be provided in the Partnership section).
- **Transformation of Culture.** One of the greatest obstacles police departments confront is the inherent inertia and ingrained organizational culture



that permeates most police organizations. As with many professions, police officers often possess their own truths that govern their behavior and attitudes and create a strong impenetrable culture, which encourages and legitimizes insensitive and unproductive behavior (Sparrow, 1990:50). Most veteran officers tend to be averse to the concept of community policing, seeing it as 'soft' on crime. The SLOs I worked with in Los Angeles often faced a lack of understanding or appreciation of their work on the part of other members of the department. In Portland, Chief Potter found one of the greatest challenges was building support within the organization, recalling that the cultural objection from officers was often, 'I wasn't hired to be a social worker' (Thacher, PPB, 1999:34). Some of the ways this was overcome in both Portland and Lowell was by holding awards ceremonies to honor dedicated community policing officers and considering community involvement in promotion decisions.

**Engaging the Media.** Many police organizations have operated in a bunker-style mentality with regard to the media. Successful police departments are rapidly realizing the power of the media and the advantage of having a strong and good relationship with the press. This relationship gives the police some mechanism of control over the negative or positive spin that incidents are likely to receive. Moreover, the media is the most efficient outlet for disseminating information about new police programs or crackdown efforts. In both Lowell and Portland, the department was able to use the media to a significant advantage. Officers in Lowell contributed the drug dealers' virtual disappearance before the police even arrived in their neighborhood through the intense media coverage of the precinct that was to be opened there (Thacher, LPD, 1999:33). In Portland, the Bureau took a proactive approach, issuing press releases and bulletins, holding regular meetings with assignment editors, and holding public ceremonies (Thacher, PPB, 1999:30).

**Garnering Political Support.** A police department will need strong political buy-in and support in order to make all the changes required in the community policing model. If the mayor or council does not initiate the change, the police will have to use lobbying techniques and community clout to garner an adequate level of political support. The Portland Police Bureau encouraged community residents to call and send letters to City Hall to voice their support for police efforts and specific resolutions that mandated a community policing mission (Thacher, PPB, 1999:29). In Lowell, the police worked to improve their relationship with City Hall by submitting timely and informative reports and putting time in to 'schmooz' with the elected officials (Thacher, LPD, 1999:56). Consequently, much of the LPD's success in impacting organizational change was due to the strong support of the City Manager (Thacher, LPD, 1999:28).



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- **Securing Additional Resources.** Most police organizations are grossly under-funded and insufficient funds can serve as the greatest impediment to change. However, the adoption of community policing and problem-solving techniques can be a great opportunity to secure additional funds. Indeed, this is exactly what spurred the Lowell Police Department to approach the community policing model. LPD had faced massive budget cutbacks and decided to pursue additional funds through federal and state block grant requests, many of which stipulated community policing efforts (Davis, 4/26/00). The importance of adequate funding for transitioning to community policing cannot be over-emphasized. Ed Davis stressed that they could not have put additional officers on foot patrols, in community meetings, and on problem-solving teams if they had not acquired grants to fund their efforts. Community policing will always require an initial expansion of the police presence in order to continue providing traditional services (such as 911 response), while putting officers in the new capacity of community organizer and problem-solver.

## V. Police-Community Partnership

I have argued that strong leadership, structural reform, the transformation of organizational culture, use of the media, attainment of additional resources, and garnering political buy-in are all necessary components, not only of implementing community policing as a whole, but also of building a lasting and effective partnership with the community. This section outlines specific techniques for building and sustaining the partnership, first on behalf of the police department and then on the part of the community.

### The Police as Partners

Most police departments have acted in isolation from their communities for many decades and therefore the most basic community outreach efforts may not have been established. Police departments face numerous challenges to successfully engage and partner with the community on public safety issues. Some of those key challenges which I will address below are the need to identify the community partners, ensure true community representation, build social capital and involve the disengaged, and sustain the partnership by delivering on community needs.

#### *Identify the Community Partners*

To those unfamiliar with the art of community organizing, determining where in a community to begin identifying potential partners can seem quite daunting. There are some basic steps that can simplify this process and yield better outcomes. The first stop for an officer seeking to partner with community leaders and organizations should be the local council office or any other form of municipal represen-



tation that exists in that jurisdiction. Most council offices keep a ready list of local organizations, community groups, and key players in each neighborhood. If such a list is not available and the police must start from scratch, however, the places to start would be:

- *Churches* – sitting on almost every block in America, one can easily visit neighborhood churches and talk to local clergy.
- *Home Owners Associations/Tenants Associations* – may be listed in the phone book, or if more informally associated, can locate them by word of mouth.
- *Business Councils or Associations* – can be neighborhood or street-based and are often registered with the City or local Chamber of Commerce.
- *Community Development Corporations (CDCs)* – Most CDCs provide housing or other services and have been in their communities for many years, and are therefore intricately involved in the neighborhood needs and concerns. They are always listed in the phonebook.
- *Nonprofit Social Service Agencies* – most communities have a proliferation of various agencies, ranging from government to private, that provide services such as homeless shelters, youth programs, and medical clinics.
- *Interest Groups* – communities can have any number of organized interest, political, or ethnic groups that draw membership from diverse sections of the community. Examples include political party organizations, environmental groups such as the Sierra Club, ethnic groups such as the Cambodian Association, Gay and Lesbian organizations, and the local Dog Lovers Club.

Where social capital such as this already exists in a community, the police should use such organizations as a starting point for identifying active community members and involving concerned citizens. These will be the easiest people to engage in a conversation about enhancing public safety in the neighborhood. By their prior civic involvement they demonstrate the capacity to engage on behalf of their community.

#### *Ensure True Community Representation*

A challenge that the police may confront after engaging these groups is ensuring that the whole community is being represented by the existing organizations. Often those who make the most noise get the most attention, but do not represent all the relevant constituencies. In Portland, for example, the existing system of the Office of Neighborhood Associations (ONA), that provided financial support and liaison services, allowed easy and direct access to the community for the police department to each of the Neighborhood Associations (NAs) (Thacher, PPB, 1999:5). However, some Portland residents felt frustrated with the formalized nature of ONA and did not feel that it adequately represented them, leading them to turn instead to organizations such as the Black United Front (Thacher, PPB, 1999:54).



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Likewise, in Boston, the police department has developed a strong relationship with Reverend Eugene Rivers of Dorchester and the Ten Point Coalition. The clergy and others involved in this faith-based organization serve a critical role in this public safety partnership, identifying menacing youth, providing youth programs in lieu of incarceration for others, undertaking pastor/police home visits to families of troubled youth, and acting as court advocates for the unrepresented. However, some in the community felt that Rivers was monopolizing the community agenda and that they had no other venue for the police to hear their concerns. It is imperative for the police department to maintain awareness about other groups in the community and the existing tensions between groups so that they can ensure they are serving the whole community (although it is advisable for the police not to get drawn into the warring territorial community factions that inevitably exist).

Many departments, including Portland, Los Angeles, and Seattle, have created 'advisory committees' to ensure that often marginalized groups in society have a venue to voice their concerns. Examples of this include the African-American Roundtable and the Asian Law Enforcement Council, both of which advise the Portland Police Bureau. In the Seattle Police Department there are several Chief's Advisory Councils, each representing a different constituency that advises the Chief directly on issues of concern to their community. However, it may be necessary to delve even further into an underrepresented community to make sure that their voices are truly being heard.

### *Building Social Capital: To Involve the Disengaged*

In some communities, there is minimal social capital and the police will be challenged to generate it and ensure that the community is not only represented by those already organized. Police all over the country have been initiating such efforts for many years, manifesting in programs such as DARE, National Nite Out, and Neighborhood Watch. Community policing calls for an enhancement of such efforts to engage the community. Both Lowell and Portland offer great examples of attempts to do just this.

In Portland the police have innovated a number of ways to engage the uninvolved and generate participation from the whole community, employing the following tools (Thacher, PPB, 1999:53):

- *Problem Identification Form (PIF)* – forms widely available to Portland residents that allow them to anonymously report public safety concerns.
- *Police Athletic Leagues* – the police recruit community members to participate in various athletic leagues.
- *Sharing Precinct Space* – the police allow the precinct office space to be used for community meetings and various service activities, essentially serving as a community center.



- *Community Newsletter* – informing the community and inviting dialogue through a regular newsletter relating to specific communities.

The Lowell Police Department, which ‘also tries to gauge the views of the unorganized citizenry, especially through citizen surveys and ad hoc focus groups,’ offers other examples of building social capital and engaging the uninvolved (Thacher, LPD, 1999:57):

- *Welcome Wagon* – officers in the public housing buildings go around to new residents and knock on doors to introduce themselves.
- *School Liaison* – this position has been created to allow officers time to sit in on classes and develop a number of different youth programs in the schools.
- *Precinct Stations* – located throughout city and staffed by citizen volunteers, they make the department more accessible to the average citizen.
- *Community Meetings* – when the police called a community meeting on an issue, they would go door to door in the neighborhood and inform people about it to ensure that the whole community would be represented (this was particularly important with migrant communities).

These examples from both Portland and Lowell demonstrate the extent of what can be done with a little creativity and innovation. Both departments have been extremely successful in engaging unorganized residents and involving the large segments of the community in public safety decisions.

#### *Sustaining the Partnership*

Once the police have identified the community partners, ensured broad representation and developed a good working relationship, the issue of sustainability arises. Often, building the relationship can be easier than actually sustaining it. On the part of the police the most important elements for sustaining the partnership with the community are that they are accessible, consistent, and able to deliver on the community needs that have been jointly identified. Many officers now carry pagers with voicemail and freely give this number out to residents in their community (this is done in Portland, Lowell, and Los Angeles). In the community I worked in Los Angeles, many residents felt a sense of empowerment and control in the fact that they had a pager and voicemail number to reach their SLO at any time.

Consistency is another important quality for nurturing a sustainable police-community partnership. Officers often have multiple demands on their time and may get over-committed once they begin participating in community activities. The most important guideline is that an officer only commits to what she knows she can follow through on. Clear and frequent communication with the community organizers is essential. Although community groups may forgive eventually, they never forget and they interpret no-shows as a sign of low priority by the police. This also discourages less active residents from attending the next time.



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Finally, if the police solicit the input of the community in identifying problems and needs, they must have a means to deliver on those commitments. If all the above-mentioned elements have been accomplished, delivering to the community should not be terribly difficult. However, it will be necessary to create new programs and institute new systems of response to effectively follow through on community needs. Creating relevant programs that serve the specific needs of the community and facilitating ongoing working groups or Forums are two venues through which the community's needs can be met.

Once again, both Portland and Lowell have employed such methods for delivering to their communities. In Lowell 'Safety First' is a working group that cuts across all sectors of the criminal justice system, bringing different networks of people together using a powerful neutral convener to discuss and address critical safety issues (Davis, 4/26/00). Having all the players at the same table affirms accountability and allows problems to be dealt with more efficaciously. Portland, likewise, created the 'Chief's Forums' to get all the stakeholders to the table on a regular basis to address and solve community problems.

In Portland, the Bureau has instituted several programs that respond directly to community concerns. First there are the Neighborhood Response Teams (NRTs), which are protected from answering 911 calls and are charged with coordinating the response to most neighborhood problems (Thacher, PPB, 1999:61). These NRTs have strong relationships with other government agencies and therefore are able to ensure follow through on various types of neighborhood problems. The Bureau created a Landlord Training Program to educate landlords on how to screen tenants effectively, streamline evictions, and maintain physical security (Thacher, PPB, 1999:56). And similar to the LAPD's SLO program, Portland has designated Neighborhood Liaison Officers (NLOs) in each district to maintain direct contact with that neighborhood and attend Neighborhood Association meetings (Thacher, PPB, 1999: 59). These innovations are an extremely effective means of ensuring that the community receives attention to its problems.

### **The Community as a Partner**

Just as critical as the police to the successful partnership is the role and response of the community. Communities can be disorganized, factionalized, and often hostile to government, and particularly police, presence. However, in a police-community partnership, the police cannot be expected, and should not, do all the work themselves. With more resources and organizational capacity available to them, the police may have to be the initiators of this partnership, but the community must eventually engage as a full participating partner. Where social capital is deficient, residents must be helpful and responsive to police, clergy, or government efforts to organize them. Successful partnership will require the community to lower the bar of suspicion and invite police into their neighborhoods, meetings, and homes.



The organized community must be willing to compromise, be accountable and reliable, and follow through on their side of the problem-solving strategy.

The greatest challenge that may confront the police in seeking a partnership with the community is their unwillingness to compromise. It is often difficult for residents to understand the complexity of addressing even the most basic issues such as inadequate street lighting. Community members will demand that things be done and be done the way they want them. Then surfaces the problem of different factions vying for opposing responses. In my experience with community organizing I settled for the reality that 'for every one person you please, you annoy two more.' In the end the police must make the decisions on what to act on or not and aim to be as informed as possible by a wide cross-section of the community. The community must be prepared to compromise and resolve its own internal disputes without dragging the officers into the middle of each one. Strong and respected community leaders that can also communicate with the police are critical to this process.

Next, as is required of the police, the community must also be accountable and reliable as a partner. This includes attending scheduled meetings, informing the relevant constituencies, and maintaining frequent communication with the officers. If a community group invites an officer to a meeting to speak on an issue, they must mobilize residents to be there and facilitate a smooth meeting that allows for the flow of information to go both ways. Inviting officers to be the object of a shouting match is not productive and will discourage further officer participation.

The community must be willing to put the time in to actually solve the problems that have been jointly identified through this partnership. In other words, if a neighborhood has identified underage drinking and the sale of alcohol to those already inebriated as a problem, residents of that neighborhood must be willing to participate in a plan of liquor store surveillance, recording violations, and informing the police. There is not a large enough police force in any city to have officers spending all their time monitoring liquor stores. Once a certain store has established itself as a nuisance through resident-documented violations, the community can ask the storeowner to sign a 'Good Neighbor Plan.' If that is unsuccessful, the police can then bring the respective agencies in to take action, such as the Bureau of Tobacco, Alcohol, and Firearms, the Department of Health, the City Attorney, or the Building and Safety Department. This example represents a true partnership in which both sides bring their resources and efforts together to solve a problem.

Lastly, if the community is the initiator of the partnership, they may have to work through the council office or other local political jurisdiction to initially engage the police. In most American cities, the police department is funded through the city budget and is therefore directly accountable to (and essentially an employee of) the mayor and council members. As the mayor and council members are the elected



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representatives of the people, they should be pushed to act on behalf of the community and direct the police to engage in a partnership. Community groups can organize to request specific items from their council members, such as additional storefront police centers or bicycle patrols. If the constituency is large and organized enough, council members will write such items into the budget of the police department. Regardless of which direction the partnership is pursued from, council offices can serve as an excellent resource and facilitator.

## VI. Conclusion

A complete 'how-to' manual on incorporating community policing department wide could fill the pages of a book. This paper has in no way attempted that feat. What I have tried to do is to outline some of the necessary elements, providing actual examples, and then offer a deeper discussion on how to build a partnership between the police and the community. Each community will face a different set of challenges in this effort and contain a different set of community groups and dynamics. There is no cookie-cutter model that can be followed, but much of the above discussion can be used as a base guideline for any police department.

Although the term 'community-oriented policing' has been around for over twenty years and police departments all over the country have adopted it in some form or another, municipal policing is still on the brink of a new era. What have been absent since the 1970s are examples of large police departments that successfully transitioned to and incorporated the community policing model department-wide. Portland and Lowell, among other departments, serve as excellent examples of police organizations that were able to achieve all the necessary elements, including developing strong partnerships with their respective communities. Now that these courageous departments have pioneered the way and demonstrated that community policing can be implemented and that it yields a high return in value to the community, there should be nothing to stop the adoption of this new model throughout the country.

Clearly, the blessing and substantive support of the federal government could go a long way towards achieving these ends. Initiatives such as the COPs (Office of Community Oriented Policing Services) program out of the US Department of Justice have encouraged and assisted police departments across the country to undertake and implement community-oriented policing strategies. The National Institute of Justice under former Attorney General Reno's leadership proffered numerous other grants in this arena, including funds for initiatives that sought to stem racial profiling by promoting respectful policing through integration of sensitivity training into standard training curriculums. We must build on the momentum of these initiatives, always seeking to democratize our policing system, making the officer a true friend, and not a foe, of all communities.



*Author's note: In submitting this paper for publication, I would like to acknowledge three people. First, Frank Hartmann, my advisor and the Director of the Kennedy School of Government Criminal Justice Program, who first engaged me in debate around criminal justice policy and helped solidify my interest in the field. Second, David Kennedy, a Research Fellow with the Kennedy School of Government Criminal Justice Program, who forced me to bend my mind and left me with several head-aches as he tried to impart to his students the intricacies of municipal policing. And finally, I would like to acknowledge Anthony Braga, also a Research Fellow with the Kennedy School of Government Criminal Justice Program, who has patiently and supportively reviewed this paper on two separate occasions, as well as always had his door open to discuss my latest quandary on guns, gangs, problem-solving, or even internal BPD politics. I am grateful to these three academics and friends who have helped me develop my understanding and ideas about criminal justice policy and policing during my two years at KSG.*

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## Endnotes

- 1 Gender neutrality is intentionally omitted, as there were no women chiefs, or even officers, in police departments at that time.
- 2 In his course, 'Working in Criminal Justice: Municipal Policing' (Spring 2000), David Kennedy outlined his framework for applying the problem solving approach: 1) choose a problem, 2) convene a group, 3) unpack the problem, 4) frame a 'new' understanding, frame an intervention, and 5) implement/adapt/assess it.



# Reversing the Negative Economic Impacts of Increased Incarceration on Ex-Offenders and Their Families

Dania Palanker

## Abstract

*Incarceration negatively impacts on ex-offenders' ability to obtain and maintain employment, and has a lasting effect on their own as well as their children's economic well-being. The increased rate of incarceration over the past few decades has created a larger number of ex-offenders and families impacted by these effects. Policies that aim to help provide prisoners and their families with resources and skills necessary to obtain and maintain employment will help to reduce poverty and break the cycle leading to more crime.*

## I. Introduction

This paper analyzes the trends in increased incarceration over the past few decades in the United States, the negative economic impacts of these policies on ex-offenders and their families, and provides policy recommendations to lessen these negative impacts. The U.S. prison population began to increase, after 200 years of rather steady numbers, during the 1970's. The growth in the prison population is primarily due to changes in policy, outlined below. The data appears to show that the increased prison population has disproportionately affected minorities, the less educated, and the poor. Any economic effects coming from these policies would, therefore, affect these same disadvantaged populations disproportionately as well.

This paper finds that there appear to be negative economic effects from policies leading to increased incarceration. The exact effects on ex-offenders are not clear, but there seem to be diminished employment opportunities and decreased wages. A large result of incarceration is the creation of single-parent, female-headed families, leading to increased poverty and economic difficulty in families of the incarcerated. The effects of increased incarceration may result in what Freeman describes as 'a major change in the nature of poverty and youth unemployment from that in previous decades' (Freeman, 1991:22), as disadvantaged families and communities cope with the unprecedented loss of working age men, and these same men are later released with reduced chances of succeeding in the labor force.

With the current high numbers of incarcerated individuals, it is imperative that steps be taken to reduce these effects. No child should be thrust into poverty because a parent is imprisoned. Policies need to be implemented that will prevent a weakening of the economic situation of the families of the incarcerated. Policies should also aim to help keep the previously incarcerated employed and out of poverty. If for no other reason, because employment reduces the chances of ex-



offenders returning to prison. This paper does not discuss the effectiveness nor debate the merits of policies leading to increased incarceration. It does not aim to change criminal justice policy. The aim of this paper is to provide recommendations for keeping those who are incarcerated, and their families, out of poverty during the time of incarceration and following release.

## II. The US Prison Population

### *Current Prison Population*

A large proportion of the prison and jail population are members of disadvantaged groups. The incarcerated disproportionately represent members of minority groups, and people with low education and low income. According to the Bureau of Justice Statistics, there were 1,890,837 inmates in federal and state prisons and local jails in 1999. Women represented only 6.6 percent of the incarcerated population in the same year. Blacks made up a greater proportion of the imprisoned population than whites. An estimated 46 percent of inmates with sentences of one year or more at the end of 1999 were black, 33 percent were white, and 18 percent were Hispanic. Black males represented almost 43 percent of the prison population. Approximately 18 percent of the inmates were under 25 years of age, and 38 percent were between 25 and 34 years of age. About 48 percent were convicted of a violent offense, 21 percent of property offenses, 21 percent of drug offenses and 10 percent of a public order offense (Beck, Allen). In 1997, approximately 43 percent of state inmates, and 29 percent of federal inmates, had less than a high school education. Only 14 percent of state inmates, and 27 percent of federal inmates, had some college or higher (Beck, et. al., 2000). A profile of 1996 jail inmates revealed that 35.8 percent were not employed at the time of arrest. Only 49.3 percent were employed full-time. The same study found that 46 percent of jail inmates reported a pre-arrest income of under \$7,200 annually (Harlow: 1998).

### *Trends in Prison Growth*

For nearly 200 years, the American prison population remained relatively constant in proportion to the population. In 1973, the prison population began to grow and, after 1980, soared to unprecedented numbers. The initial push came with the Nixon administration's platform vowing a war on crime. The growth in the 1980's and 1990's coincided with tough-on-crime laws on the federal and state level.

In 1972, before the initial growth in the prison population, about 330,000 Americans were in prison and jail. Today that number has grown to nearly two million (Gainsborough and Mauer, 2000). The national jail and prison population increased by an average of 8.5 percent annually between 1980 and 1991 (Freeman, 1994). The annual increase in state prison populations alone between 1990 and 1997 was 7 percent, up to 1,100,850 state prison inmates in 1997 from 689,577 in



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1990 (Ditton and Wilson, 1999). In 1997, 98,944 federal inmates were serving a term in prison, up from 36,156 in 1986 (Sabol and McGready, 1999), for a total of 1,119,794 people serving state or federal prison terms in 1997. This number does not include those being held in local jails. For federal offenders, the largest increase in incarceration was primarily for drug offenses. The number of federal prisoners incarcerated for a drug offense increased from 14,976 in 1986 to 58,610 in 1997 (Sabol and McGready, 1999). By 1998, 1,252,830 state and federal prisoners were serving a prison term, representing a 59 percent increase in the U.S. prison population over 7 years. The rate of incarceration increased by 47 percent during this period (Gainsborough and Mauer, 2000).

### *Sentencing Reform*

Changes in public policies leading to a greater tendency to incarcerate, and longer sentences, are undoubtedly some of the reasons for the growth in the prison population. An examination of the increase in the incarcerated population between 1980 and 1996, by Alfred Blumstein and Allen Beck, found that changes in crime only explained 12 percent of the growth. They found that 51 percent of the increase was attributable to a greater tendency to incarcerate offenders and that 37 percent of the increase was attributable to longer sentences (Gainsborough and Mauer, 2000).

The changes in crime policy primarily followed a trend of diminished emphasis on rehabilitative programs and new policies increasing the number of people incarcerated and the length of sentences. In the early 1970's, most states applied indeterminate sentencing. The authority to release offenders from prison was primarily given to parole boards. During the 1970's, indeterminate sentencing began to give way to fixed prison terms, allowing good-time or earned-time credits to be used towards reducing a prison sentence. In the 1980's, mandatory minimum sentences, that required incarceration for some offenses and specified the minimum sentence for different offenses, were introduced in many states. Sentencing guidelines were also a product of the 1980's, with states establishing commissions to create ranges of sentences for specific offenses. The next step in policies leading towards increased incarceration was truth-in-sentencing policies that reduced or abolished parole eligibility and good-time credits by requiring offenders to serve a certain portion, often 85 percent, of their prison sentences.

### *Increased Incarcerations*

Mandatory minimum sentences originally arose out of the war on drugs. Through time they expanded out of mandatory sentences only for drug offenses. In November 1987, the Sentencing Reform Act of 1984 took effect establishing federal sentencing guidelines, including the requirement of prison terms for offenses traditionally resulting in probation. This legislation was accompanied by



similar acts in many states. An increased number of investigations, arrests and prosecutions also lead to an increased number of incarcerations. Between 1986 and 1997, investigations by U.S. attorneys increased by 22 percent and prosecutions by U.S. attorneys increased by 20 percent. The greatest increase, however, was in the number of incarcerations. The number of defendants incarcerated increased 71 percent, from 23,048 to 39,421, whereas the increase in the number of defendants convicted was only 29 percent. In fact, 16,363 more defendants were incarcerated whereas only 12,750 more defendants were found guilty. The number of increased incarcerations was close to the 17,841 more investigations, and was greater than the 10,634 more prosecutions by U.S. attorneys (Sabol, 1999). This shows that while there was an increase in investigations and prosecutions during this time period, the greater propensity to incarcerate convicted criminals far outweighs the other factors.

#### *Increased Time Served*

Increased length of sentences is another reason for the increased prison population. As the length of time prisoners serve increases, the number of prisoners released each year decreases. The result is an overall increase in the prison population. While this does not affect the overall number of people ever incarcerated, it does increase the length of time offenders spend in prison and will increase any economic impacts resulting from length of time served.

The Violent Crime Control and Law Enforcement Act of 1994 provided incentive grants awarded in 1998 to 27 states and the District of Columbia that met truth-in-sentencing requirements. In addition to these 27 states, another 13 states have adopted some form of truth-in-sentencing. Truth-in-sentencing laws have resulted in the elimination of early release discretion by a parole board in 14 states. Other states have limited the role of parole boards in determining early release. The result has been that the estimated time served before first release by people entering prison increased by over 13 percent between 1990 and 1998, from 38 to 43 months (Gainsborough and Mauer, 2000).

#### *War on Drugs*

The war on drugs has been a major factor leading to the policies of increased incarceration. By 1998, the percentage of drug offenders as part of state prisons was 20.7 percent, an increase from 7.6 percent in 1984. Nineteen percent of the increase in the incarcerated population between 1990 and 1998 can be attributed to drug offenders (Gainsborough and Mauer, 2000). Between 1977 and 1985, new admissions to prison for drug offenses represented more than 40 percent of the overall growth in admissions (Bloom, 1995). Some of the policies leading to increased drug incarcerations also increased the incarceration of minorities and the poor. One example is the differing sentencing standards for crack and cocaine.



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Because crack is a drug found more often in low-income minority neighborhoods, the war on crack led to a large number of low-income, minority drug offenders being sent to prison under mandatory minimum sentences for crack possession. Sentences for cocaine, a drug more often used by middle and higher income whites, were shorter.

Official and unofficial state and local policies also affected the numbers of arrests of different types of people in different neighborhoods. The war on drugs put a large emphasis on police arresting people in low-income, inner city neighborhoods for drug violations, resulting in more people from those neighborhoods being incarcerated. This not only increased the population of disadvantaged members of society in prisons, it also increased the number of people removed from disadvantaged families and communities through incarceration.

### III. Effect on Employment and Income

#### *Unemployment and Income Following Imprisonment*

Many studies have shown that ex-offenders experience high rates of unemployment and low income following release from prison. The unemployment rate for ex-offenders in 1976 was three times the unemployment rate for the general public (Dale, 1976). Estimates of the overall unemployment rate for ex-offenders who served a sentence vary between 25 percent and 40 percent (Finn and Fontaine 1985).

A study in the late 1970's found that one year following release from prison, federal parolees had an overall unemployment rate of almost 25 percent. The national unemployment rate at the time was 6 percent. Median earnings for the parolees were \$6,025, which was below the poverty level for a family of four in a city (\$6,700) but slightly above the poverty level for a family of four in rural areas (\$5,700). The parolees worked only an average of 184 days per year.

The study showed worse outcomes for minorities and young offenders. The unemployment rate was 20 percent for whites and 29 percent for minorities 12 months after release. The median income for whites was \$7,200, which was above the poverty level in a city or rural area. The median income for minorities was only \$4,942, well below the poverty level for a family of four. The unemployment rate for ex-offenders under 25 years of age was 43 percent for minorities and 28 percent for whites. The median income for young ex-offenders was \$3,638 for minorities and \$5,280 for whites. The national unemployment rate for people under 20 years old at the time was 35 percent for minorities and 14 percent for whites (Beck, James).

Unemployment and low-income may diminish over time, but they still appear to persist years after release. A study of ex-offenders imprisoned in North Carolina in



1969 and 1971 (Witte) showed that the first year after release was the most difficult, and that three years later wages improved but were still only about 70 percent the average income for comparable adult males in the same occupations. An average of three years after release, the ex-offenders experienced a 15 percent unemployment rate. While lower than the unemployment rate of ex-offenders in other studies, it was higher than the average unemployment rate of 3 percent for the area at the time. A study of ex-offenders in Georgia (Needels, 1996) found that employment and earnings problems continued through a nine-year period following release from prison. In each of the nine years following release, only 30 to 40 percent of the sample had any officially recorded earnings. Average earnings per year, between 1983 and 1991, were approximately \$6,100. Adjusting for repeat incarcerations during that period, the earnings were still less than \$6,800 per year. While above the poverty line for an individual for that period (ranging from \$4,500 to \$6,200), the earnings were well below the average annual pay in Georgia at the time (more than \$16,000) and the median household income in Georgia (more than \$25,000). The earnings were higher for ex-offenders with no officially recorded criminal activity during the period of study, \$10,137 compared to \$5,141 for recidivists. This may be because recidivists lost income while re-incarcerated or were gaining unreported earnings through criminal activity. It is also possible that the recidivism was a result of ex-offenders being forced into criminal activity to earn enough income. Needels also found large job instability: the average ex-offender had more than six employers during the nine-year period.

#### *Imprisonment as a Potential Cause*

Although it is true that unemployment and poverty may have been a factor in the incarcerated committing crime, and being convicted, the incarceration itself also appears to add to the problem. A number of studies point to the incarceration of offenders as the cause for the diminished employment and income of released ex-offenders. If it is true that incarceration is the cause, then these effects need to be recognized as an aspect of the punishment, or action needs to be taken to reverse the economic impacts.

Hagan and Dinovitzer suggest that time spent in prison affects the mobility ladder of an individual and therefore the individual's future success in the job market. They point to data showing that only one-fifth of people on parole following imprisonment are employed, whereas over half of state prisoners were employed prior to incarceration (Hagan and Dinovitzer). Similar data is found by Freeman (1991). The study of ex-offenders in North Carolina, cited above, found that the average income from the first job after release was lower than the real income of the last job prior to imprisonment (Witte). This suggests that some aspect of imprisonment affects wages upon release. Needels found that offenders lose income while incarcerated, and that total earnings after release decreased more depending on how long the ex-offender was incarcerated.



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Freeman finds an impact of incarceration and time served on the earnings and employment of youth. By analyzing the National Longitudinal Survey of Youth, Freeman determines that in the eight years following incarceration, young men who had been incarcerated worked about 25 percent less than young men who had not spent time in prison. His analysis of other associations with the criminal justice system shows that only probation and incarceration have discernible effects on the future employment of youth (Freeman, 1994). Other analysis by Freeman reveals that probability of employment is reduced by 15 to 30 percentage points due to incarceration (Nagin and Waldfogel, 1995). These effects are long-term. By comparing the employment outcomes of non-incarcerated youth with incarcerated youth who shared 'similar initial employment experiences,' Freeman finds that it is incarceration that causes at least some of the employment effect (Freeman, 1991).

### *Barriers to Employment and Income*

There are multiple potential barriers to employment and higher income of previously incarcerated ex-offenders. Among these barriers are: denied access to career jobs, employer prejudices, policies and procedures, and different traits of the incarcerated. It is most likely that multiple barriers work together to prevent the previously incarcerated from participating in the labor force.

In Nagin and Waldfogel's study of young British offenders (1995), they found that although employment opportunities diminished after a conviction, income actually rose. They suggest that the reason is that conviction prevents young offenders from gaining access to career jobs, which they describe as offering a prospect of long-term, steady employment, with increasing salaries. Initially the salaries are low, to cover for the training the individual is receiving and the security of the position. Once they acquire experience in the job, their salary rises. Instead of working in career jobs, Nagin and Waldfogel argue, convicted youth work in short-term spot jobs that are less steady but pay more initially. Whereas convicted offenders may initially make more in spot jobs, their income will not rise to the level of those working career jobs and they will therefore experience negative income effects in the future.

It is not clear that convicted or incarcerated offenders do not choose to take spot jobs. Nagin and Waldfogel use previous employment data to show that something had to happen post-conviction to change offenders' job course. However, it is possible that there are unobserved characteristics associated with those youth who are convicted that would have resulted in their moving to spot jobs anyway. These characteristics could include lower risk aversion that might have resulted in their taking the greater risks associated with crime and resulting in arrest. They do not address the possibility that either spot jobs or career jobs are not as readily available to 17 year olds, so that at 17 all youth have jobs that are similar.



Prejudices by potential employers may account for a large portion of the incarceration effect on income and employment. Ex-offenders bear a stigma of criminality following incarceration (Dale, 1976). This stigma often reduces an employer's willingness to hire an ex-offender. Studies show that employer willingness to hire ex-offenders ranges from 6 percent to 51 percent (Albright and Denq, 1996). A study by Albright and Denq (1996) found that 42 percent of employers interviewed strongly disagreed or disagreed with hiring an ex-offender, while only 12 percent strongly agreed or agreed. They also found that 46 percent were neutral, and many of them were willing to change their attitudes with incentives or more knowledge about the ex-offender. The Albright and Denq study focuses only on employers hiring for high-skilled jobs; it is not clear that the numbers would be similar for the low-skilled jobs sought by many members of the prison population. Initially, employer prejudice may be lower for some low-skilled jobs that do not require the trust described by Waldfoegel. However, some of the options that decreased employer prejudice were education and training, which may have less effect on employers of low-skilled positions. It is also possible that when there is a labor shortage, such as in the late 1980's, employer prejudices will not play as large a role in the hiring of ex-offenders (Odiorne and Henry, 1988).

Some of the difficulties facing the formerly imprisoned population are due not to bias, but to restrictions placed on employers. Some trade unions do not allow ex-offenders membership; many state and local governments have laws preventing the hiring of ex-offenders for state or municipal work, and certain licensed professions deny licenses to ex-offenders (Dale, 1976). Ex-offenders also face difficulty in being hired for jobs requiring bonding of employees, because the standard blanket bond often nullifies coverage if an employer knowingly hires a person with a criminal record.

There are also policies associated with imprisonment that result in financial difficulties. In her study mentioned above, Witte found that prisoners obtained employment quickly following release: 67 percent obtained a job within one week of release, and over 90 percent within one month. However, the initial wages were low, often below the last wage prior to incarceration. She ascertains that there are few resources available to individuals upon release from prison, so many take the first available job, which may be low paying or unstable. Although it varies by state, prisoners receive a very small amount of money upon release, sometimes in the range of \$10 to \$50. This may account for their rapid entry into inadequate jobs. Lacking policies that provide resources to ex-offenders upon release, the previously incarcerated population will be forced to take any jobs that become available. These jobs may be low paying or unstable and therefore reduce income and employment opportunities.



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### *Policy Recommendations*

The state needs to recognize that incarceration creates negative economic impacts on ex-offenders following release from prison. Action needs to be taken to reverse these impacts. Claims that the criminal justice system unjustly singles out minorities and other members of disadvantaged populations imply that these impacts are unfairly burdening those communities. Even if the system is just in its greater propensity to incarcerate members of disadvantaged communities, we must be recognized that it is detrimental to communities and society at large to release people from prison who are unable to find employment or rise out of poverty. The previously incarcerated will be forced to be a strain on that community if they are unable to provide for themselves, or would be expected to return to crime in order to provide a livable income for themselves.

There are multiple policies that can be implemented that would work to decrease the negative economic impacts of incarceration, without weakening the current sentencing systems. By removing or minimizing the barriers discussed above, policies that:

- remove laws and regulations restricting access to jobs;
- provide adequate job training in prisons; and
- provide assistance following release

will make it easier for the previously incarcerated to find jobs that are stable and provide an adequate income following release. These recommended policies are described below in greater detail.

As discussed above, many current policies of private and public institutions create restrictions preventing the previously incarcerated from obtaining certain jobs. We need to ensure that options of employment are provided for the previously incarcerated. The current economic situation places us in a position to take this action. With a low unemployment rate, employers are looking for a larger employee base from which to choose. Employers who are prevented from hiring ex-offenders are more likely to support efforts to remove these restrictions.

*Efforts should be made in the states to ban the restriction of ex-offenders from employment in state and local governments, where they do not pose a threat to the public.* Although many of these restrictions are made with the public good in mind, they may actually be hurting the public rather than helping. Denying the previously incarcerated access to jobs hurts the public good by creating a larger economically disadvantaged group. If ex-offenders are less likely to hold jobs, then they are also more likely to need to go on public assistance or return to crime as a means of sustenance. These costs need to be weighed against the risks of having a person convicted of drug possession collecting garbage or answering telephones in City Hall. The benefits of removing such restrictions may be particularly strong since many government jobs are particularly stable, and there appears to be evidence that the previously incarcer-



ated face greater job instability.

*Trade unions should be called upon to remove any restrictions of ex-offenders.* Such restrictions not only limit the ability of the previously incarcerated to accept certain forms of employment, they also limit the size of the trade union. With their current struggles for membership, trade unions should be open rather than closed to accepting new types of members. Allowing membership to ex-offenders will allow those trade unions that currently deny membership to grow in size. It is also possible to expect that the previously incarcerated will be more likely to join unions that are not mandatory for employment, since their stigma may increase their need for the support provided through such an organization.

Policies need to do more than ensure that jobs are available for the previously incarcerated. They need to ensure the incarcerated ex-offenders are prepared to enter the workforce upon release. Without adequate preparation, the incarcerated are released from prison with an added stigma, facing new prejudices and limited access to jobs without new resources to obtain a job. Policies need to aim to adequately train the incarcerated to both obtain and hold employment following release. Support also needs to be provided, both financially and through other resources, to guide the ex-offenders through the process of obtaining and holding employment.

*Encourage fair work release programs that provide skills that can be used by ex-offenders.* Work release programs allow the incarcerated to gain work experience while in prison, and make participating individuals more attractive to potential employers. Participating prisoners leave prison with many of the benefits accompanying work experience. These programs must meet two criteria: (1) they need to be fair to the prisoners, and (2) they need to provide jobs that give skills that will help the prisoners upon release. Work release programs should not exist as slave labor. The state should not take so large a portion of the income obtained by prisoners from work release as to simply create a situation where the state is earning money off of free labor.

Employers should also pay a competitive salary to work release prisoners, and the program should provide real skills. A work release job that does not give the prisoner adequate work skills simply adds to a situation of slave labor. Prisoners should be encouraged to join such programs because they will help them gain employment following release. In order to provide skills, work release programs need to provide consistent work for prisoners. Prisoners should be offered positions that are long-term, and may even become full-time following release.

*Provide training in prisons on how to hold a job.* Job training does not help if the individuals trained are not prepared to hold a job for a long period of time. Job training in prisons needs to do more than prepare prisoners to acquire a job. By



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stopping there, prisoners are more likely to find themselves in unstable job situations. Considering the large portion of the incarcerated population that was unemployed prior to incarceration, it can be concluded that many prisoners do not have the skills to hold a job. Training should address issues including the necessity of arriving to work on time, on-the-job etiquette, proper attire for the workplace, and proper language for the workplace. Inmates should also be prepared psychologically for holding a long-term job. If many inmates are not used to having a job, or are used to gaining income through criminal activity, they might not be prepared for the day-to-day monotony of a job. Preparing them for such a situation may reduce the job instability experienced by the previously incarcerated.

*Provide financial resources that give time to released prisoners to find good employment.* Without adequate financial resources, released prisoners are unable to shop for jobs. They are forced to take the first job offered, which might be a low paying or unstable job. Once they have a job, it is difficult to continue searching due to time constraints. If the state provided economic resources to released prisoners for a short period of time (2-3 months) it would give ex-offenders time to adapt to release before searching for a job, and time to shop for a job that is a good fit, providing enough income and more job stability.

*Extend the responsibilities of parole officers to counsel released prisoners on finding and holding employment.* The resources and training provided to ex-offenders should not end with release or three months after. Continued resources need to be provided to guide the ex-offender through the process of obtaining and maintaining employment. Parole officers should be trained, and given the resources, to help released prisoners with the tasks of job hunting and to counsel ex-offenders on maintaining a job. Perhaps instability can be reduced if prisoners are given the opportunity to speak with somebody about adapting to the workplace. The parole officer can also work as a mediator between employee and employer if needed determining what problems an employer may be having with an employee, or creating for the employee, and coaching the employee on how to overcome the problem.

## IV. Families of the Incarcerated

### *Effect on the Family*

Incarceration can also negatively impact families of the incarcerated. Multiple studies show that families are faced with financial difficulties following the incarceration of a parent (Hagan and Dinovitzer). The increase in the prison population is undoubtedly accompanied by an increase in the imprisonment of parents, and specifically fathers. In the case where the father was living with the mother and child before imprisonment, his incarceration creates a single-parent household lead by a woman. This increases the chance that the family of the offender will be in poverty,



since one out of three female-headed families is poor (Girshick 1996:60). Even in cases where the father is not living with the child, he may still be providing economic support that is lost during incarceration.

In 1999, a majority of prisoners in federal and state prison, 721,500, were estimated to be the parents of children under the age of 18. Of these parents, 46 percent, an estimated 336,300, reported they were living with their children before incarceration. Moreover, 2.1 percent of the 72 million minor children in the U.S. in 1999 had a parent in prison (Mumola, 2000). The proportion is even greater for minorities. In that same year, one out of every fourteen black children had a parent in prison (Gainsborough and Mauer, 2000).

In 1999, there were an estimated 666,900 fathers incarcerated, up from 423,000 in 1990. These fathers had 1,372,700 and 872,800 minor children respectively. Of these fathers, approximately 144,326 were living with their children in a two-parent household in the month prior to arrest (Mumola, 2000) resulting in 144,326 new single-parent, female-headed families. These are not the only families that suffer economically from a father's imprisonment. Studies show that many fathers contribute income, child-care and other support even when they do not live with the child. A 1997 study found that one-third of single mothers on welfare and more than 40 percent of low-income single mothers who worked received cash support from a child's father. (Hagan and Dinovitzer). However, these numbers may not hold true for fathers who are committing crime. The unemployment rate of criminals is higher previous to arrest and incarceration, so one would expect these mothers to be receiving less cash support from the fathers. One could still anticipate some impact on some single-parent families.

#### *Economic Situation of Families*

The families that are left behind by offenders in prison do appear to suffer financial difficulties. Because the prison population disproportionately represents the impoverished, many of the families who lose a financial contributor are greatly dependent on the lost income. In a study of men incarcerated in a prison in Arizona in 1983, financial problems due to the absence of the father occurred in 92 percent of the families left behind (Hagan and Dinovitzer). A study in the 1970's in Indiana found that more than one half of the families began receiving public assistance one month following incarceration (Rose and Clear, 1998). Fifty-six out of 93 wives in a 1976 study experienced a decrease in income following a husband's incarceration (Girshick, 1996).

The financial difficulties of single-mother families left behind by incarceration should not be surprising. Similar effects occur to the income of a mother and child following a separation or divorce. The standard of living of an ex-wife and children is estimated to be reduced by 73 percent following a divorce (Girshick,



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1996). At least the same reduction in standard of living can be expected of wives and children of incarcerated offenders. The reduction may actually be larger because of other effects due to the stigma that attaches to the family. It is also expected that the reduction in standard of living is greatest for families with higher incomes. If the father had little or no income to begin with, the mother and child will not lose as much financially. Some mothers may even gain, as they become eligible for forms of public assistance.

Financial difficulties occur in families of the incarcerated for reasons other than a loss of income; there are also costs associated with an incarcerated family member. In a study of the wives of incarcerated men, Girshick (1996) found that costs associated with visiting the prison, phone calls, letter writing, and supplies for the husbands can all create economic difficulties for the families. One woman in her study said it costs between \$150-\$200 every time she visited her husband. Girshick reported phone bills ranging from \$75 to over \$200 a month, because prisoners can only make collect phone calls out of the prison. Packages, allowed to be sent four times a year to prisoners, cost wives between \$100-\$300. These costs are expenses that accrue continuously during the time of incarceration. Some families must also pay legal fees. One woman in Girshick's study had to pay a lawyer \$5,000 in fees for a lawsuit against the prison.

### *Policy Recommendations*

No child should be punished because of the actions of a parent. If a parent commits a crime and is incarcerated, that is not a reason to force a child into poverty. With the large number of children in families of the incarcerated, policies need to be implemented to ensure that the economic situation of these families does not deteriorate while the parent is incarcerated or following release. The previously stated policy reforms will help the economic situation of children following release, as they are aimed at helping the ex-offenders find and maintain employment. Other policies should be aimed specifically at aiding families of the incarcerated during time served. It is understandable that policies providing direct income transfers to the families of the incarcerated will not be politically popular since they may appear to be a reward to the family for crime. However, some assistance needs to be provided to prevent the actions of one parent from forcing an entire family, including children, into poverty. The policies below aim to make it easier for the remaining parent to provide enough income to keep the family out of poverty.

*Resources should be provided to aid the spouse in finding a job.* If one of the breadwinners of a family is removed to prison, the state should provide resources to help the remaining parent find and maintain a job that will support the family. In some cases the remaining parent will not be working and will need to receive skills training and training in finding a job. In other cases, the spouse will have been working but the remaining salary will not be enough to allow the family to live



above poverty. In this case resources need to be provided to help the spouse obtain a higher income. Similar resources should be available to aid a spouse in finding a job if the family chooses to relocate closer to the prison. Because of the high costs associated with visiting prisoners, it is understandable that a family would choose to live closer to the prison. If this is the case, the state should provide employment services to help the spouse search for a job in the area. Such a service could even include a network of employers in the area around the prison.

*Child-care should be provided for the children of the incarcerated.* No parent should be denied a job because of an inability to access child-care. If the state somehow, through its actions, creates a single-parent family, the state should take some responsibility for the care of the children affected. Providing child-care for children of the incarcerated population will allow for the newly-single parent to obtain and maintain a job, without having to lose a large portion of income to child care.

*Public-sector jobs should be available to spouses of the imprisoned.* Policy makers need to consider providing public-sector jobs to the spouses of the imprisoned. This is particularly important if we move into a time of economic decline with increased unemployment. The state has a responsibility to the children who find themselves in a single-parent household. Creating public-sector jobs will ensure that the remaining parent has access to a stable job that will provide for the children while the other parent is incarcerated.

*Child support that was provided by the incarcerated parent should be assured during time of incarceration.* Although this may be unpopular, as it may appear to be a transfer of income from the state, a single-parent family should not lose needed income because the absent parent committed a crime. If the absent parent was providing support, the state should assure that support is provided during the time of incarceration. If possible, this money should come from the holdings of the ex-offender. It is also possible for the state to set up a loan system, requiring the ex-offender to pay back the child support upon release. However, a loan system needs to recognize the economic impacts of incarceration on the ex-offender. The state should not attempt to get the money back from an ex-offender who is unable to find employment or rise out of poverty following imprisonment. In this case, the system would have to risk the loss of the money given to the families of the incarcerated.

## V. Conclusion

If the incarceration rate in the U.S. continues to rise, there will be larger and larger numbers of individuals and families forced into poverty. Steps must be taken to reverse the economic impact of incarceration of ex-offenders and their families. Our system of criminal justice is based on the concept of rehabilitation. If we believe in a common value of justice, then we must give ex-offenders the chance to



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rehabilitate. We must ensure they have the opportunity to succeed following their imprisonment. If the system deprives ex-offenders of the ability to succeed financially, then we have failed in our system of justice. Ex-offenders should have access to jobs, training to find and maintain jobs, and support services following release to ensure financial stability.

A system of justice is particularly unjust if it punishes children for the actions of a parent. How can we, as a society, inflict poverty upon innocent children? Too many children are left behind by imprisoned parents. These children should not be forgotten by the state. There are common-sense steps that can be taken to ensure the children and families of the incarcerated are kept out of poverty. Families of the incarcerated should be given every opportunity by the state to succeed economically. Parents left behind should receive job training and resources, day care, and child support.

These are common-sense policies because they not only keep children out of poverty, but they also help prevent crime. By reducing the poverty of ex-offenders, we will be reducing the need for ex-offenders to return to crime in order to sustain a living. These policies will make it possible, and more attractive, for ex-offenders to live a crime-free life. And in providing more financially stable families for children, we help make it less likely those children will grow up to live a life of crime. There is a vicious cycle in the U.S. of poverty and crime. By reducing the poverty of those within the criminal justice system, these policies should help break that cycle.

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# Foreign Policy



## Defining a New Intervention Strategy for Ethnic Wars

### Michael Boyle

#### Abstract

*This paper seeks to provide the Bush Administration a frame of reference for considering when and how to intervene in ethnic wars such as Rwanda and Bosnia. It rejects the myths that sometimes are used to support isolationism, and argues for intervention where four tests are met: proximity to US interests, proportionality of response, equity vis-à-vis other allies and maintaining legitimacy. The paper outlines some suggested lessons on deciding whether to use force against another state, how to engage, and how to get out. It concludes that the Bush Administration has the opportunity to adopt a far more precise strategy on intervention than did the Clinton Administration.*

#### Introduction

No matter how carefully it circumscribes its definition of the national interest, the Bush Administration will not long be able to avoid the decision over whether to intervene in ethnic wars. According to many academic critics, the age of disintegration – of the collapse of empires and the weakening of traditional states through the proliferation of wars for national identity – has only just begun.<sup>1</sup> While the evidence for a new round of state disintegration is mixed, it is indisputable that ethnic war – in Bosnia, Kosovo, Rwanda and many others – was among the greatest problems that the Clinton Administration faced during the 1990s. If the Bush Administration draws any lesson from the Clinton's record, it should be that a policy of inaction – that is, closing one's eyes in the hopes that the problem goes away – has extraordinary political and diplomatic costs. It is imperative, therefore, that the Bush Administration establishes a political, military, and moral framework for managing these crises. Three questions arise:

- Why can the United States not afford to refuse interventions in ethnic conflicts?
- What variables should govern the political decision over whether to employ military force in an intervention?
- What lessons concerning the use of military force should the US pay attention to?

This paper provides preliminary answers to each of these questions. It does not purport to present a comprehensive framework that captures the range of possible policy instruments in every instance; instead, it is designed to be a general frame of reference that can help to reconcile the Bush Administration's commitment to protecting national interests with the nation's moral and legal obligations to protect human rights. The first section will address some common assumptions about the US ability to resist intervention and suggest that the limited definition



of a 'national interest' endorsed by the Bush Administration is not tenable. Recognizing both that intervention is a political decision and that the 'CNN effect' should not be the deciding factor for intervention, the second section will propose a number of political variables that can assist the Bush Administration to determine proportionate responses to ethnic wars bearing on US national interests. The final section will draw lessons from the Clinton Administration's use of force in Bosnia and Kosovo to demonstrate how, if needed, the Bush Administration can better employ coercive power in the next ethnic war.

### **I. Intervention and the National Interest**

During much of the Clinton Administration, the renewed debate over intervention in ethnic conflict became a dialogue of the deaf, with realpolitikers denying the need to act in the face of mass slaughter and liberal internationalists arguing that inaction is a criminal betrayal of the legal and moral imperatives of human rights. The Clinton Administration never fully subscribed to either view; instead, it employed a selective policy for interventions which reflected the so-called 'CNN effect' and the calculations of domestic politics far more than the view of any one policy camp. But because it lacked an ideological basis, the Clinton Administration's intervention policy succeeded only in infuriating both sides. For the realpolitikers, any momentary diversion from the hard reality of a strategic rivalry with Russia and China or from the imminence of terrorist-based nuclear attack was at America's peril. For the liberal internationalists, President Clinton's willingness to avert his eyes in Rwanda, Burundi, and East Timor indicated his moral bankruptcy and the corrupt cynicism of American politics.

But the truth is that both the realist and liberal internationalist camps misread the political and strategic necessities that confront the President. An American president that ignores slaughter in Bosnia and Kosovo does so at his electoral peril. An American president who engenders a global backlash by charging recklessly into the abyss with countless interventions also commits political suicide. President Clinton correctly realized that the right path lies somewhere between. The failures of the Clinton Administration arose not from taking the wrong path, as some in the Bush Administration suspect, but from taking it in the wrong way. President Clinton's intervention record, particularly in Bosnia and Kosovo, serve as a cautionary tale about the dangers of being 'boxed' into a strategy by circumstance, the preferences of allies, or the actions of opponents. In both cases, the Clinton Administration fielded a reactive and desultory policy that often solved the immediate crisis but failed to offer sustained leadership for the future of the Balkans. Rather than 'shaping the sand pile' itself, the US was instead carried along by the rush of events only to discover, at crucial points in both crises, that its options had narrowed and its room to maneuver had been compromised.

If there is an outbreak of ethnic war in a strategically important region over the next



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four years, President Bush will have to walk down the same path that President Clinton stumbled down in Bosnia and Kosovo. But this does not mean that he will be condemned to make the same mistakes. If the Bush Administration hopes to have a clear-headed policy which avoids the pitfalls of the Clinton's record, it needs to first break free of three myths which have dominated the current intervention debate.

### *Myth #1: Ignoring Civil and Ethnic Wars Has No Consequences for the US*

Many of the realpolitikers argue that the US has nothing to lose by ignoring slaughter in Africa or ethnic repression in Asia. This simply is not true. According to the UN Declaration on Human Rights, signed in 1948, the US has a legal obligation to act in the face of genocide and crimes against humanity. This legal obligation – not a right, but a duty mandated by the protections that the US itself enjoys in the international system – is considered a *jus cogens* obligation and therefore not subject to derogation under international law (Shaw 1997, 212).<sup>2</sup> Granted, international law does not demand that the US undertake a military intervention across state borders. But it clearly does demand a form of legal, political or economic response that far exceeds the policy of silence often recommended by the realpolitikers in these circumstances. As a leader in the international order, and a guarantor of legal obligations in the international system, the US had a responsibility to ensure that other states do not shirk their legal obligations. And this kind of rule enforcement needs to start at home.

Moreover, there is (arguably) a moral obligation to act in the face of mass slaughter. Many of the realpolitikers who argue that American foreign policy should forget its moralism forget that political action is rarely divorced from moral impact. While the lines between political and moral action can be finely drawn in theory, every action that the US takes appears to speak volumes about its priorities around the globe. To put a fine point on it, the failure of the US to respond to the Rwandan genocide says to Africa, and more broadly to the rest of the world, that the protection of human rights is not a priority and that murder is acceptable outside our sphere of influence. While this abhorrent conclusion is objectionable on purely moral grounds, there are three political consequences to allowing others to draw an implicit moral judgment about US priorities. First, it encourages those doing the killing to continue or escalate their work because they have a guarantee of US inaction. Second, it can (paradoxically) encourage the victims of ethnic repression to escalate with their oppressors if they realize that the only way to change Washington's mind is to catch the attention of CNN. In the aftermath of the Kosovo war, many accused the Kosovo Liberation Army (KLA) of provoking the Serbs under the camera lights of CNN to win US support for their cause. Third, it sends a signal to other regional powers that the US has decided upon its sphere of influence and will turn a blind eye if they expand their power through proxy wars, thuggery and other forms of illegitimate intervention.



*Myth #2: Intervention Is Not in Our 'National Interest.'*

Much of the realpolitik arguments against interventions in civil and ethnic war relate to arguments that such interventions are not in the 'national interest.'<sup>3</sup> These arguments often rely on a definition of the national interest an objective criterion reflecting the proximity of a particular event to the security and economic interests of the United States. However, these definitions often ignore that the 'national interest' is as much a milieu goal – that is, a series of preferences about how Americans would like to have the world look and work – as much as any set of objective criterion. In many Western democracies, governments are judged on whether their foreign policies conform to these preferences. For this reason, the Bush Administration's attempt to objectify national interests misses the crucial role of popular opinion in deciding how a state should act. The Bush Administration should draw two conclusions from this analysis. First, it is political suicide in a democratic state to ignore the 'CNN effect' in favor of rigidly defined national interests. Second, preventing or alleviating human suffering in an ethnic war is well within its 'national interest' if the values of the American people demand it to be so.

*Myth #3: Intervention Requires or Implies Military Force*

During the debates of the 1990s, the terms 'intervention' and 'military intervention' were often used interchangeably. The debate itself became a proxy for a greater debate over the use of force in international affairs. In part, the mental images of Bosnia and Kosovo seemed to linger over the debate and imply that massive military force is a prerequisite for an effective intervention. But there are two reasons to question whether 'intervention' implies 'massive military force.' First, military intervention does not need to be massive. It is commonly estimated that a small UN force of 5,000 peacekeepers with the ability to defend themselves and to protect the safe havens would have saved approximately 800,000 Tutsis from the Hutu-administered genocide. Second, as the effective UN mediation in Burundi demonstrated, intervention need not be of a military character. Other equally effective forms of 'intervention' include: economic sanctions, the freezing of assets, diplomatic mediation, the withdrawal of trading rights, the refusal to grant official legal recognition, and elections monitoring. All of these less intrusive forms of international action fall under the broad category of 'intervention,' yet almost all of them are left out of the current debate. The Bush Administration should not ignore these less intrusive forms of intervention simple because it does not want to countenance employing military force abroad.

**II. The Political Decision to Intervene**

The US should not adopt hard and fast rules for deciding whether to intervene in a civil or ethnic war. Each decision *whether* to intervene will doubtlessly be affected



by domestic political considerations, the needs of allies, international legal obligations, and the level of media attention given to the ethnic war. However, the choice of *how* to intervene cannot be surrendered to any of these factors alone. Intervention is an inherently political act and, as such, the choice of means must be circumscribed by strategic necessity and a hardnosed, realpolitik view of the crisis. The admission that the decision to intervene is political act – and admitting that the realist perspective is then valuable – does not ‘crowd out’ the moral necessity behind the act. Rather, it suggests that a rigorous analysis of the political dimensions of intervention is a necessary complement to the moral call for intervention. In order to ensure that this analysis is not based on the level of CNN coverage or on the political exigencies of the moment, it is useful to have a series of political variables to guide the decision over how to intervene.

*1. Proximity to Security and Economic Interests:* While the US should reject an objective definition of its national interests, it must in part base its decisions on (admittedly subjective) analysis of the proximity of the US security and economic interests to a given ethnic war. An open and honest assessment of the proximity of Kosovo to the US security interests (in NATO) and economic interests (in Europe) would have quieted complaints of hypocrisy from advocates of US intervention in other conflicts. The US cannot act irrespective of these security and economic interests; however, it can be more honest in its decision to act upon them.

*2. Proportionality:* The second criterion should demand that the US response be proportional to the scope and nature of the conflict. If the Clinton Administration had obeyed this criterion in Bosnia, it would have fielded air strikes sooner in the crisis and avoided criticism that its response to nearly 200,000 dead was too little, too late. However, if it had obeyed this criterion in Kosovo, it might have forsaken force altogether in favor of a diplomatic solution that could have left thousands dead. While the choices surrounding proportionality are difficult because of imperfect information and the potential for leaving people to their slaughter, they are ultimately necessary if the President hopes to extend his political career beyond the next election.

*3. Equity:* The best phrase to describe the US decisions over intervention is the following: ‘damned if you do, damned if you don’t.’ When the US chooses to intervene, it is accused of doing so with thoughtlessly and violently. When it chooses not to intervene, it invites charges of weakness and a failure of leadership. Moreover, the US receives a disproportionate share of the blame when interventions fail but rarely receives credit when they are successful. The solution is not, as some have suggested, to close up shop and leave the world to its troubles. Despite the political and military costs of multilateral action, the US should seek an equitable multilateral coalition when considering military-based interventions in ethnic wars. Only by acting in partnership with its allies does the US share the burden of the operation and deflect criticisms of American recklessness or arrogance. A de-



mand for equity in the cost of the operation – from the European Rapid Reaction Force or coalitions of the willing in other parts of the world – should then be a necessary precondition for US intervention.

4. *Legitimacy*: Finally, the US should seek a UN mandate, whenever possible, for its proposed intervention in an ethnic war. While a UN mandate does not necessarily deflect criticisms under all instances, it is perhaps the best way to minimize the political and diplomatic costs of a controversial action in the international arena. Ultimately, the US decision not to seek UNSC authorization under Chapter VII for undertaking air strikes against Yugoslavia forces in March 1999 did more damage to US-Russian and US-Chinese relations than was anticipated. The so-called ‘Kosovo exception’ to the prohibition on the use of force contained in Article 2(4) of the UN Charter may have the following effects: (1) to encourage unsanctioned regional or ‘coalition of the willing’ interventions based on the US action in Kosovo; (2) to discourage UNSC members (particularly Russia and China) from declaring crises ‘threats to international peace and security’ for fear of unsanctioned NATO action; and (3) to damage the standing, ‘stabilizing function’ and credibility of the UNSC over the long run.

### **Lessons on the use of Military Force**

Despite the fact that military force is not the only way to intervene in a conflict, the specter of US military action in Bosnia (1991-1995) and Kosovo (1998-1999) still hangs over the intervention debate. The simple truth is that military force will, on occasion, need to be employed. But in order to ensure that the Bush Administration employs it better, it should carefully consider the following lessons derived from the Clinton Administration’s rocky experiences in Bosnia and Kosovo.

### **III. The Decision to Use Force**

#### *Lesson 1: Tread carefully*

As Bosnia and Kosovo demonstrated, internal wars are usually ‘the problem from hell’ for four reasons:<sup>4</sup>

- *Asymmetry of Interests*: Because of the high numbers of casualties, the intensity of the fighting, and the brutality of tactics like ethnic cleansing, internal wars create an environment in which the warring parties are engaged in a zero-sum game with their culture, religion, and historic territory at stake.<sup>5</sup> For the West, these wars often do not pose a threat to vital national interests and contain none of the significance – strategic or emotional – that they do for the combatants.

- *Multitude of Parties*: In Bosnia, the US was forced to contend with five parties (Bosnian Muslims, Bosnian Serbs, Bosnian Croats, Serbs and Croats), not to



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mention the irregulars outside the control of any of the five. In Kosovo, the US had to negotiate not just between the Serbs and Albanians but also between the Albanians themselves (Ibrahim Rugova's DPK versus Hashim Thaci's KLA). Because of the sheer number of stakeholders in such conflicts, the US must be careful in selecting interlocutors and in granting concessions in order not to alienate a party needed for settlement.

- *Lack of Leverage*: In part because of the asymmetry of interests, the West usually lacks natural leverage over the warring parties and must create ways to exert pressure on them. For example, in Bosnia, the US attempted to use the lifting of the UN arms embargo as a 'carrot' and the prospect of NATO air strikes as a 'stick' to draw parties who had little, if any, relationship with the US to its negotiating table.

- *All Options Are Unattractive*: As the debates over the Bosnian embargo and air strikes revealed, most of the policy options for dealing with the Bosnian Serbs' advances amounted to a discussion over the 'least worst' option. Similarly, Milosevic's ethnic cleansing campaign in Kosovo left NATO with an uncomfortable dilemma: do nothing and let ethnic cleansing take place, or bomb and add to the flight of refugees out of Kosovo (which, in a perverse way, fulfills Milosevic's objective).

### *Lesson 2: Define the problem in a way that connects means and ends*

During both Bosnia and Kosovo, the Clinton Administration came under heavy fire from the media and Congress because it vacillated over defining the national interest in the Balkans. In the early days of the Bosnia crisis, the Clinton Administration warned that it was a 'European problem' and precluded the use of US military forces for its resolution. (Daalder 2000, 10-11) Later, after extensive policy reviews in 1994 and 1995, the US changed course and declared that Bosnia was a vital national interest, worthy of a commitment of 20,000 troops. While the changes in the strategic situation and the impotence of the Europeans clearly warranted a policy review, the sudden declaration that Bosnia was a vital national interest struck many as disingenuous. Also, while the US now objects to characterizations of Kosovo as a 'tiny former Ottoman possession of no strategic importance or economic value,' its conciliatory behavior prior to Rambouillet did not suggest that it would fly thousands of sorties in defense of a province that had been suffering from Milosevic's repressions since 1989 (Mandelbaum 1999, 2-8).<sup>6</sup>

When it declared its national interests in Bosnia, the US still failed to be clear about the specific objective of its proposed intervention. Between 1991 and 1994, when the US had not made up its mind about its national interest in the Balkans, the guiding objective of the US Bosnia policy seemed to be: 'just go away.' But even when it committed troops for IFOR in 1995, the US still did not clarify its objective (i.e., either stop the violence or rebuild a multiethnic Bosnia) and many questions



about its mandate remained unanswered. (Daalder 2000, 140-153) While the US clearly defined and met its short-term objective in Kosovo (i.e., an end to the Serb attack), it left the long-term objective – the final status of Kosovo - undefined. (Mandelbaum 1999, 4)

Finally, once the national interest and operational objectives have been defined, the US needs to ensure that its means are connected to its objectives and commensurate with its interest. In Bosnia, the US was never able to reconcile its threats to use force against the Bosnian Serbs with its objective of just making the violence stop; similarly, it was never able to reconcile its deference to a passive European-led diplomatic effort with its desire to create a multiethnic Bosnia consistent with the territorial split laid out by the Contact Group. Simply put, the confusion over the ends in Bosnia left the means equally confused. Also, in Kosovo, NATO was never able to reconcile its willingness to use force against civilian targets with its proclaimed goal of winning a war on behalf of moral values.

*Lesson 3: It is extremely hard to change course on an existing policy*

As evidenced by the Clinton Administration's difficulty in changing course in Bosnia, bureaucratic inertia can induce considerable friction in the policymaking process and slow down shifts in policy in two ways. First, inter-bureaucratic politics can harden positions and make bureaucracies resistant to change, despite the apparent failure of the policy to all concerned. For example, in July 1995, the Clinton Administration's Bosnia policy was in tatters. With the Bosnian Serbs targeting Bihac and Gorazde for immediate takeover and the US options still held hostage to the presence of UNPROFOR troops on the ground, President Clinton ordered a 'blue skies' policy review that should have led to a radical rethinking of US objectives and strategies. Instead, the interagency policy grinded to a halt, with DoD, USUN, State, and the NSC jockeying for influence with the President and eyeing each other suspiciously.<sup>7</sup> In the end, only Anthony Lake's back channel lobbying of the President broke the deadlock and forged a weak consensus (Daalder 2000, 171-172). Secondly, while some of this 'friction' can be attributed to bureaucratic politics, it also results from the 'mental models' that key actors find difficult to shed. During that review, many of the principals – including Secretary of State Warren Christopher and Secretary of Defense William Perry – proved unable to seriously countenance engagement after they had thought only of containment for three years (Daalder 2000, 83, 101).

*Lesson 4: The signal sent is not always the signal received*

The final lesson drawn from the Bosnia can be widely applied to many international relations: what one means is not always what is understood. For example, the UN's decision to employ UNPROFOR in Bosnia was intended to symbolize the international community's commitment to protect the innocent in Bosnia.



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Instead, its relatively small size, limited mandate, lack of military hardware, and reluctance to engage the Bosnian Serbs communicated more about its lack of resolve and emboldened the Serbs to attack cities like Bihac, Gorazde, and Srebrenica, aware that UNPROFOR could do little to stop them.<sup>8</sup> When the UN finally authorized air strikes, Mladic's forces held UNPROFOR troops hostage, and the Serbs seemed genuinely surprised that the UN would interfere in *their* war. The reason for this surprise is simple: the Serbs had never received the message that Bosnia matters, despite UNPROFOR's presence. This example highlights the need to back up threats credibly but also the need to reiterate diplomatic messages to ensure that they get across.

### IV. How to Engage

#### *Lesson 1: Allies have costs*

The Clinton Administration's decision to form a Contact Group to manage both crises reflects one fundamental lesson: every extra voice in the policymaking process adds to the difficulty of making a decision. Allies can eliminate options just as easily as they can make them possible. In Bosnia, Europe's involvement in the UNPROFOR effectively precluded the US from undertaking a 'lift and strike' against the Bosnian Serbs throughout most of 1993-1994. (Daalder 2000, 14-15) Involving too many international organizations has its costs its well, as evidenced by the infamous and unwieldy 'dual key' arrangement that effectively gave the UN (and, by extension, London and Paris) veto over NATO air strikes. The decision to form a Contact Group was borne of these experiences and of a desire to avoid seeking approval from every North Atlantic Council member before each step. In Kosovo, the US struggled to maintain Alliance cohesion over the 78-day campaign and underwent a number of white-knuckle moments when the German Green Party looked as if it might balk on further military operations, especially those involving ground troops. While future interventions will require allies to defray costs and to build legitimacy, the Bush Administration should bear in mind that these allies are never a costless good.

#### *Lesson 2: Air power can be effective but it is not a magic bullet*

From their experiences in Bosnia and Kosovo, the Clinton Administration learned the hard way that air power can work in the service of diplomacy but that it is not a panacea for all problems. In Bosnia, NATO air strikes were often credited with changing the strategic landscape and driving the Serbs to the negotiating table. (Daalder 2000, 130-134) However, Operation Deliberate Force was only one part of an endgame strategy that included Holbrooke's relentless diplomatic push, Milosevic's intervention to negotiate on behalf of the Pale leadership, and the entry of Croatian troops alongside Bosnian Muslims in a ground offensive. Alone, each of these factors did little; together, they convinced the Bosnian Serbs that it was a



good time to strike a deal. Embedded in a coercive diplomacy strategy and coupled with a credible threat, air power was a success; outside that strategy, it would have remained a necessary but insufficient factor in making Dayton possible.

In Kosovo, air power was not as successful until it was linked with the threat of a NATO ground invasion in May 1999. There are three reasons for this failure:

- *Lack of a Coherent Grand Strategy*: In Kosovo, air power was a substitute for a strategy instead of a key component. For most of the campaign, NATO was unclear about its objective (i.e., simply stop the ethnic cleansing or overthrow Milosevic) and its contingency plans if air power failed (i.e., the use of ground troops). Only when NATO clearly defined its goals (Serbs out, NATO in, refugees back) and hinted the use of ground troops did air power have its intended effect. (Daalder 2000, 186)

- *Lack of Credibility*: In Kosovo, the Clinton Administration had a poor record of following through with its threats. In March 1998, a Serb crackdown in Kosovo failed to generate a response (or even new threats) from the US, and the Serbs' violation of the October agreement did not produce the promised NATO air strikes. (Daalder 2000, 186) Given these two examples, it is not surprising that the Serbs did not believe that NATO posed a credible threat when it seemed only to back up diplomacy with more diplomacy.

- *Strategy of the Bombing Campaign*: The use of air power in Bosnia was successful because it denied the Bosnian Serb military strategy by rolling back their territorial gains, destroying their hardware and interrupting their lines of supply. (Pape 1996, 18-19) In Kosovo, NATO coupled similar attempts against the Serb forces with a punishment strategy (that is, direct attacks on civilian targets indirectly related to the war effort, including power grids, bridges and television stations), in order to incite revolt against the Milosevic regime. This second element strategy backfired by actually increasing support for Milosevic and stiffening the Serbs' will to resist NATO's demands (Mandelbaum 1999, 4; Pape 1996, 68).

*Lesson 3: Economic sanctions will not change behavior but can be a bargaining chip.*

The use of economic sanctions in the Balkan crises illustrates the value of linking this tool to a diplomatic approach. From July 1994 to July 1995, the US repeatedly used sanctions relief as a 'carrot' to persuade Milosevic to sever economic ties with the Pale regime, to accept the territorial division of Bosnia, and to eventually replace the Pale leadership at Dayton through the infamous Patriarch Paper. While sanctions did not have the desired effect of changing Serb behavior on the battlefield, the prospect of sanctions relief eventually won 'buy-in' from Milosevic for the Dayton process. However, in Kosovo, sanctions had the opposite effect against Milosevic because they were wielded as a 'stick' but never a 'carrot.' With the collapse



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of the Rambouillet accords, the US threatened additional sanctions but did not offer Milosevic the kind of incentive necessary to win compromise on Kosovo prior to his spring offensive. Given the deterioration of the US-Yugoslav relationship, lifting sanctions was not a political possibility for the US nor was it probably enough to induce a change in Milosevic. The contrast between the effectiveness of sanctions against the same man highlights an important lesson: sanctions are more likely to win concessions from a sometimes ally than from a hardened opponent. (Dresner 1998)

### *Lesson 4: There is no such thing as an 'impartial' arms embargo*

The UN in September 1991 imposed an arms embargo on the whole of Yugoslavia. (Daalder 2000, 60) Originally, the objective of the arms embargo was simple: to preserve the status quo and to prevent all the warring parties from gathering enough arms to continue the slaughter. But as the war progressed, it became clear that the embargo privileged the Bosnian Serbs because they had possessed most of the heavy artillery, arms, and tanks prior to its imposition. (Mearsheimer and Pape 1993, 25) By freezing the status quo of 1991, the UN locked the Bosnian Muslims and Croats in a position of permanent strategic inferiority and made it easier for the Bosnian Serbs to gain territory. Despite numerous demands from Congress, the Clinton Administration would not lift the embargo for fear that a sudden influx of arms into Yugoslavia might endanger the UNPROFOR forces on the ground and encourage Europe's quick retreat. Despite its hopes to remain impartial in the embargo's application, the US soon learned that, unless the balance of armaments is exactly equal, an arms embargo always helps the current leader of the arms race and hurts everyone else.

### *Lesson 5: The option of using ground troops should never be ruled out explicitly*

The most vociferous critics of the Clinton Administration's foreign policy have often charged that its unwillingness to use ground troops seriously damages US credibility by making its threats seem reckless and toothless. While President Clinton clearly sought to minimize the political costs of losing too many lives for America's interests abroad, his unwillingness to send in the troops reflects as much about the political and popular culture in which he operates as it does about his own lack of resolve. Like President Clinton, President Bush will not be able to count on high levels of political and popular support for deploying troops abroad in all but the most limited circumstances. Therefore a more nuanced lesson to take from President Clinton's experience is simply to be more ambiguous about one's willingness to deploy the troops. Clinton's decision to calm a jittery Congress by publicly excluding the use of ground troops in the early days of the Bosnian and Kosovo crises had two unintended effects: (1) before the conflict, it suggested a lack of resolve that encouraged adventurism from the Serbs; and (2) during the conflict, it strengthened the resolve of the Serbs to hold out in the hopes that the alliance



would break apart over the ground troops issue. If the Clinton Administration had employed some strategic ambiguity about its willingness to invade, its negotiating leverage before and during the conflict might have been greater.

*Lesson 6: Internal wars tend to get bigger over time*

Internal wars like Bosnia and Kosovo rarely burn out; rather, they smolder until one of the combatants launches an offensive that ignites the entire region. In August 1995, the joint Croat-Muslim offensive seized the Krajina from the Serbs and quickly changed the strategic balance of power in their favor. While most of the heavy fighting had been localized around safe areas like Srebrenica and Zepa in the months prior to their offensive, renewed fighting broke out like wildfire across Bosnia and soon the Muslims had broken from the Bihac pocket. (Daalder 2000, 122-123) In this case, the tendency of internal conflict to spread proved a boon for the US, as it reversed the Serb territorial gains to the percentage endorsed by the Contact Group two years earlier. In Kosovo, on the other hand, this tendency threatened the viability of the US position, as nearly a million refugees flooded into Macedonia and Albania and risked destabilizing these fledgling democracies.

*Lesson 7: Beware the law of unintended consequences*

Finally, internal wars often provide ideal examples of the fundamental law of physics as applied to international relations: every action taken has an equal but opposite (and often unexpected) reaction. In May 1995, NATO's decision to attack Bosnian Serb munitions sites in response to their violation of the exclusion zone around Sarajevo led Mladic's forces to take several hundred UN peacekeepers hostage. (Daalder 2000, 40-43) To gain their release, the UN bargained away UNPROFOR's right to take action in support of air strikes. The result of this series of events – that NATO was now handicapped by UNPROFOR's decision not to support the use of force – was certainly not Washington's intention. While it is impossible for the Bush Administration to assess every possible response to its actions, it can better manage the unintended consequences of its actions by continually posing itself two questions: what can they do in response to our action? How will we respond?

## V. Getting Out

*Lesson 1: Internal wars will continue until the winning party suddenly realizes it is going to lose*

Because internal wars are often a zero-sum game for the combatants, the 'tipping points' created by air power or ground offensives are critical to inducing dramatic shifts in the negotiating positions of the combatants. In early spring 1995, the Bosnian Serbs publicly declared their intention to destroy Gorazde, Zepa and other



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safe havens and showed little interest in Holbrooke's negotiations. When the Croat-Muslim offensive and the NATO air strikes rolled back their gains to less than the 51% they would receive under the Contact Group's plan, the Serbs panicked and approached the negotiations as a way to consolidate their gains. Similarly, in Kosovo, Milosevic showed little interest in striking a negotiated settlement with the West as the bombing campaign continued and sanctions remained in place. It was the May decision to reconsider ground troops that made him realize that the survival of his regime was at stake and that negotiations may be the only way to avoid overthrow. In both cases, a sudden, dramatic, and public reversal of fortune – focused on strategic and emotional weak points – was the only thing that induced the hitherto winning party to consider compromise.

### *Lesson 2: What is the new mission? Peace enforcement or peace building?*

Once the Dayton Accords had been signed, the US faced an 'enforcement gap' created by the distance between its means and ends. In Bosnia, this distance reflected the widespread confusion within the US government about whether the new mission in Bosnia was peace enforcement or peace building. If the Dayton Accords aimed to create a multiethnic state through peace building, the US should have insisted on a broader mandate and longer lifespan for IFOR. If the US was committed only to enforcing the peace, it should have rejected the Dayton Accords as inconsistent with its mandate. But because it did not define its mission, IFOR was not capable of fulfilling the Dayton Accords and the US had to turn to other organizations like the Permanent High Representative for Bosnia, the Organization for Security and Cooperation in Europe and the UN to close its 'enforcement gap.' However, in Kosovo, this gap never appeared because the West clearly declared peace building its mission and assigned KFOR the broad mandate and authority needed for success. Because it had a clear understanding of its post conflict mission, KFOR was better equipped to address the root cause of the war – the lingering insecurity of the Serbs and Albanians – than its Bosnian counterpart.

### *Lesson 3: Partition should always remain an option of last resort*

While the US has publicly committed to creating multiethnic polities in Bosnia and Kosovo, it should not be so quick to dismiss partition as a possible solution for intractable ethnic wars elsewhere. As some critics have noted, an internationally monitored partition in Bosnia would have created the same *de facto* partition that exists after Dayton, with perhaps a lot less bloodshed. (Kaufman 1999) In the worst conflicts, mass population transfers may be preferable to allowing ethnic cleansing to take place and they would allow the ethnic groups to escape the vicious cycle of the security dilemma which fuels many internal conflicts. (Posen 1993) It may also be the only way to provide stability in situations where the wounds are so deep that the ethnic groups simply cannot live together any more. However, aside from the legal challenge of displacing thousands of people, there are political



reasons to be wary of this approach. If the international community had committed to a partition of Kosovo prior to the crisis, it would have incited the Serbs in Serbia proper and created a moral hazard problem by rewarding the provocations of the KLA with independence. The Bush Administration should always remember that partition is an option but carefully consider the consequences of its decision to support it.

### Conclusion

The Bush Administration is left with the unique opportunity to 'shape the sandpile' and change the course of America's intervention policy over the next four years. To do so, it needs to remember that the key lesson behind the Clinton Administration's handling of the Balkan crises is that the President must take the lead in directing policy, using force, and breaking the deadlock with allies. President Clinton's initial hands-off approach to foreign policy meant that he never exerted the kind of control over events needed to prevent the escalation of Bosnia or Kosovo until it was almost too late. He also did not shepherd the policymaking process in a way that remedied bureaucratic inertia or filled the analytic gaps evident in much of his policy. Finally, his reluctance to use force and his deference to the Europeans rendered policy innovations difficult to create or sustain, even when the current policy had clearly failed. This was perhaps his greatest mistake. When intervention is at stake, it is ultimately the President's responsibility to use the extraordinary power of his office – for example, his latitude concerning the use of force and his control over foreign policy – to become a 'policy entrepreneur' and to shape the sand pile in the way he sees fit. Ultimately, the Bush Administration should ensure that the US is never again forced to adopt an intervention strategy dictated by circumstance or chance.

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## Endnotes

1 For a consistent view, see Eckstein 1964, 1-32, and Brown 1996, 1-29. For a counterpoint, see Gurr 1994, 347-377.

2 In 1996 war crimes trials for the former Yugoslavia, the International Court of Justice affirmed that the provisions of the 1948 Convention on the Prevention and Punishment of the Crime of Genocide was *erga omnes* (essentially meaning that it imposed obligations on all mankind, regardless of the type of conflict. This obligation was also not territorially limited by the Convention. See Shaw 1997.

3 For an illustrative example, see Allison and Blackwill 2000, 1-53. For an interesting counterview, see Nye 1999. For a view similar to mine, see Hoffman 1998, 'The Politics and Ethics of Military Intervention' *World Disorders* (Lanham: Rowan and Littlefield, 1998), 160.

4 Warren Christopher, quoted in Daalder 2000, 36.

5 For an interesting analysis of this, see Huntington 1996.

6 See Mandelbaum 1999 and response by Steinberg 1999.

7 See Van Evera 1988 for an interesting discussion about why bureaucracies are often unable to do the radical rethinking that President Clinton had asked for.

8 A good example of the Bosnian Serb's perception of the international community's lack of resolve is their decision to take UNPROFOR troops hostage following NATO air strikes. See Daalder 2000, 41-43.



# Elections



## Reforming Campaign Finance Michael Passante

### Abstract

*This paper touches on most aspects of campaign finance reform. It first reviews the Watergate origins of modern federal campaign finance, looks at the loopholes that have opened since then, and summarizes the funding of the 2000 Presidential and Congressional elections. It then analyzes possible reform goals and some proposals to meet them, including a soft money ban, public funding of elections, and independent expenditure restrictions. Finally, it examines the prospects for reform, including McCain-Feingold and beyond.*

### Introduction

It is thought that the 2000 Presidential and Congressional elections will end up costing a total of about \$3 billion (Center for Responsive Politics 2001b).<sup>1</sup> Where does this money come from, and why should we be concerned about it? How has the role of money changed in the 2000 Presidential election compared to previous Presidential elections? How should the system be reformed? This paper will address each of these questions.

Part I reviews the recent history of American federal election finance, including the 1970s Watergate campaign reforms and the loopholes that have opened since then. Part II examines the role of money in the 2000 Presidential and Congressional elections and concludes that the biggest changes were the increased use of soft money and independently financed issue advocacy ads. Part III analyzes the goals of campaign finance reform and how well various reform proposals meet them. Options examined include a soft money ban, public funding of elections, and independent expenditure restrictions. I conclude that some combination of all three of these options would be ideal, but that a soft money ban and reasonable independent expenditure restrictions are currently more politically viable than public funding. Part IV describes the prospects for reform, including the current status of the McCain-Feingold legislation (as of April 2001) and what reformers should do if McCain-Feingold becomes law.

### I. Recent History of Federal Election Finance

#### *The Watergate Era Reforms*

Responding to the Watergate scandals, Congress passed the Federal Election Campaign Act amendments (FECA) in 1974 to reduce the potential for government corruption. These amendments created both the Federal Election Commission (FEC) to enforce campaign laws and a presidential election system of volun-



tary public finance through a federal income tax checkoff box. Presidential candidates that meet a set of complicated requirements in the primary can receive federal 'matching funds' for the money they raise. In exchange, these candidates abide by state-by-state spending limits. In the general Presidential election, extensive federal public funds are awarded to candidates who agree to limit overall spending, eliminating the need to raise more hard money.

FECA also required donor information disclosure for all contributions of \$200 or more, set limits on wealthy candidates' self-financed campaign expenditures, and limited the amounts of so-called 'hard money' donors could contribute to campaigns. 'Hard money' thus has strict contribution limits – currently \$1,000 per candidate per election for individual donors and \$5,000 per candidate per election for Political Action Committees (PACs). The primary and general count as *separate* elections. Each individual donor is also limited to contributing \$25,000 total per year to all candidates and parties.

### *Campaign Finance Loopholes*

Since FECA was passed in the 1970s, at least three loopholes have decreased the law's effectiveness: the *Buckley* ruling, soft money, and independent expenditures. First, the Supreme Court's landmark 1976 decision in *Buckley v. Valeo* (424 U.S. 1, 1976) upheld FECA's contribution limits as acceptable for eliminating corruption in the political system, but struck down the overall Congressional spending limits as a violation of free speech. Since then, the only presidential primary candidate who has taken advantage of the self-financing loophole *Buckley* created was multi-millionaire Steve Forbes in 1996 (Hagen and Mayer 2000, 5 and n9). So unless *Buckley* is someday overturned, Congress is prohibited from enacting mandatory overall spending limits (although not necessarily voluntary ones) on campaigns, wealthy candidates, or independent expenditures.

The second loophole, created by the 1979 amendments to FECA, is 'soft money.' The parties and their principal Congressional committees are the primary recipients of soft money.<sup>2</sup> Soft money comprises almost all of the fundraising in the general presidential election since the presidential candidates' hard money expenditures are limited if they choose to accept federal funds. Soft money differs from 'hard money' in two principal ways. First, soft money evades the legal limitations of hard money. Individuals and PACs face contribution limits for hard money, but can give unlimited amounts of soft money. Corporations and labor unions are barred from giving hard money, but not soft money. Second, soft money cannot be used to advocate the election or defeat of specific candidates, while hard money can. At least in theory, soft money is only supposed to be used for 'party building activities' such as voter registration drives or issue advocacy. For many years, the parties assumed that the law prohibited them from engaging in candidate-focused advocacy rather than party-focused advocacy, but FEC inaction encouraged a change



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of thinking. The major parties spent substantial sums on television ads for the first time in 1996 without penalty (Brennan Center for Justice and Goldstein 2000), and now candidate names appear in almost all of the so-called party-sponsored 'issue ads' (Brennan Center for Justice 2001).

A little reported fact about soft money is that the national party committees must use \$2 of hard money for every \$1 of soft money in order to run issue ads in support of their presidential or congressional candidates. This rule limits parties' ability to collect too much in soft money relative to hard money, but they are now circumventing the rule by transferring money to the states. When the soft money is transferred from national to state parties, about \$2 in soft money can be combined with \$1 in hard money to run issue ads, although the formula varies from state to state (Center for Responsive Politics 2001a).

The third major loophole, which has developed more recently, is that of 'independent expenditures.' These are expenditures by outside groups to promote a certain political issue (eg. the environment or tax cuts) without advocating the election or defeat of a specific candidate. Campaign reformers criticize these groups because their 'issue advocacy' ads are often thinly disguised attempts to help or hurt particular candidates, and yet the groups are not required to disclose the sources of their funds as parties do. As long as express words of advocacy like 'vote for,' 'elect,' 'support' or 'defeat' do not appear in these ads, they are virtually unregulated by the FEC – even if candidates' names appear in them. As political consultant Michael Berman put it in a lecture at the John F. Kennedy School of Government (28 September 2000), to get an issue ad, just take a candidate ad and remove the magic words 'elect' and 'defeat.' Often the groups sponsoring and paying for the ads do not identify themselves,<sup>3</sup> and sometimes use mysterious front-names such as 'Committee for Fairness' or 'Citizens for Better Medicare.'

Many types of organizations that are separate from parties can serve as campaign finance vehicles. 'Joint committees' are organizations set up by interest groups and politicians (including many U.S. Senators in the 2000 election) to run issue advocacy ads. 'Leadership PACs' are set up by members of Congress to distribute money to certain candidates to curry favor for Congressional leadership positions. Until very recently, 'stealth PACs' created under Section 527 of the tax code were permitted to raise unlimited political funds with no disclosure requirements, which is arguably worse than soft money, which has at least required donor disclosure since a 1992 FEC ruling. In June 2000, Congress closed its first campaign finance loophole in more than two decades when it required public disclosure by these 'stealth PACs' (Trister 2000, 32).

### *The Current System*

The current presidential campaign finance system is essentially the original 1970s



FECA rules seriously weakened via the loopholes enumerated above. The 2000 presidential primaries were financed mainly by a combination of public funds and hard money raised by candidates facing contribution limits, much as the FECA rules had intended. The 2000 presidential election, on the other hand, was financed primarily by a combination of public funds and soft money raised by parties. The original FECA rules had intended to limit presidential general election spending to the public funds, but they did not anticipate the rise of soft money later permitted by the 1979 amendment. Fortunately, the soft money loophole has largely been confined to the general election, since party organizations do not take sides financially in presidential primary contests. Congressional elections are mostly financed by a combination of hard money and soft money, with some independent expenditures and no public funds at all.

## II. Money in Election 2000

In the 2000 election cycle, all categories of political fundraising increased, including hard money raised by presidential candidates, hard money raised by House and Senate candidates, and soft money raised by the parties (Center for Responsive Politics 2001b). The biggest change in 2000 election finance compared to previous election cycles was likely the rise of both soft money issue advocacy and independent expenditures. The transfer of money from national party committees to the states in order to circumvent soft money spending restrictions has also been increasingly popular. Several individuals gave more than \$1 million each, and the top ten categories of donors were the retired, lawyers, securities and investments, real estate, health, insurance, entertainment, computers, oil and gas, and business services (Center for Responsive Politics 2001e and 2001f).

### *Public Funding in the 2000 Presidential Election*

Table 1 lists the federal matching funds received by the 2000 presidential candidates in the primary and the total primary expenditures for the four major candidates.

**Table 1: Matching Funds and Expenditures by 2000 Presidential Primary Candidates<sup>4</sup>**

Candidate	Federal Matching Funds Received for Primary (\$)	Total Primary Expenditures 1/1/99-8/31/00 (\$)
Al Gore	15,456,000	46,996,000
John McCain	14,475,000	46,316,000
Bill Bradley	12,462,000	42,680,000
George W. Bush	0	94,559,000
Gary Bauer	4,825,000	N/A
Pat Buchanan	4,124,000	N/A
Alan Keyes	4,021,000	N/A
Dan Quayle	2,103,000	N/A
Lyndon LaRouche	1,285,000	N/A
Ralph Nader	664,150	N/A
John Hagelin	574,000	N/A
Steve Forbes	0	N/A



In the primaries, both Bush and Gore out-raised their opponents, although Gore's financial advantage over Bradley was smaller than Bush's advantage over McCain.<sup>5</sup> All primary candidates except Bush chose to accept public matching funds and the state-by-state spending limits that went with them. Bush rejected public funds because early in the pre-primary period, he had already amassed tens of millions in private hard money. He calculated that he was better off forgoing public funds to avoid state spending limits and outspend his opponents. Bush spent about \$100 million to win his party's nomination and depleted almost all of his funds in the process (Center for Responsive Politics 2001b). This was more than twice as much as McCain, his most potent rival, who spent about \$46 million (including matching funds) in the primary.<sup>6</sup>

For the general election campaign, both Bush and Gore accepted public funding of about \$67.5 million each.<sup>7</sup> Both limited their hard money spending to that level, exclusive of legal compliance and party convention costs. Both major party conventions were partially paid for with public funds. The 2000 Reform Party nominee, Pat Buchanan, was also eligible for general election public funds since the party's 1996 presidential candidate, Ross Perot, received more than the needed 5% popular vote threshold. Buchanan received about \$12.5 million in public funds (FEC 2001), but only after winning a legal dispute over the money against rival candidate John Hagelin.

### *Hard Money in the 2000 Presidential Election*

For the primaries, Bush and Gore raised substantial sums of hard money with extensive networks of fundraisers. Bush raised more hard money than any candidate in American history,<sup>8</sup> due in large part to his group of top fundraisers, the 'Pioneers.' While using fundraising networks is hardly a new development in presidential election finance, the extensive amounts of money raised through these networks in election 2000 led some experts to conclude that the people who raise money are now more influential than the people who give money.<sup>9</sup> Both Bush and Gore collected about three-quarters of their hard money contributions from donors who gave the maximum \$1,000 contribution (Center for Responsive Politics 2001b). The largest presidential campaign expenditures have typically been on media (television ads in particular). Other expenses include polling, communication, debates, field operations, travel, management, and legal costs. Table 2 lists primary and general election receipts and expenditures, including hard money,<sup>10</sup> for Bush and Gore. These totals do not include soft money or Congressional spending.



**Table 2: Money Received and Spent by Major Party Presidential Candidates for 2000 Primary and General Elections Combined<sup>11</sup>**

Category of Money Received	Bush (\$)	Gore (\$)
Individual donations	101,520,773 (52.6%)	45,612,601 (34.3%)
Federal public funds <sup>12</sup>	67,560,000 (35.0%)	83,016,084 (62.5%)
PAC donations	2,229,056 (1.2%)	0
Candidate self-financing	0	0
Other <sup>13</sup>	21,778,821 (11.3%)	4,271,567 (3.2%)
<b>Total Receipts</b>	<b>193,088,650 (100.0%)</b>	<b>132,900,252 (100.0%)</b>
<b>Total Spent</b>	<b>185,860,812</b>	<b>120,369,160</b>

*Soft Money in the 2000 Election*

Soft money was particularly notable in the 2000 election for several reasons. First, compared to other fundraising categories, soft money saw the largest percentage increases over previous years. For both parties, the soft money intake nearly doubled. Republicans raised \$244.4 million in soft money (a 73% increase over the same period in 1995-96) while Democrats raised \$243 million (a 99% increase), for a total of almost \$500 million that shatters all previous soft money records (FEC 2001, 2).

Secondly, this was the first recent election in which the parties spent more television advertising dollars in the general election (in soft money) than their chosen presidential candidates did (in public funds). As Joshua Rosenkranz, President of the Brennan Center for Justice put it, 'soft money has become the loophole that swallowed the law' (Brennan Center for Justice and Goldstein 2000).

Thirdly, the transfer of funds, particularly soft money, from national to state parties increased significantly. This is not surprising given the larger sums of soft money and inability to use it under the 'two-thirds hard money' national rule rather than the more favorable 'one-third hard money' state rules. In the 2000 election cycle, the Democratic and Republican Parties' national committees transferred \$226.9 million and \$184.9 million respectively to the states (the majority in soft money for both parties) (FEC 2001, 2). Not surprisingly, the soft money that was transferred from the national parties went disproportionately to the presidential swing states (Center for Responsive Politics 2001a).

Fourthly, the 2000 presidential election further weakened the rule that close coordination between candidates and parties is not allowed. The FEC seldom enforced the rule to begin with, and recent FEC and federal court rulings have weakened it even further.<sup>14</sup> Unfortunately, this rule has been violated so often that it has become almost meaningless. Bush, for example, personally stopped a soft money issue advocacy ad paid for by the RNC, and few people even raised an eyebrow (Hamburger 2000).



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### *Independent Expenditures in the 2000 Election*

Independent expenditures refer to political spending by groups other than candidates and parties. A study by the Annenberg Public Policy Center at the University of Pennsylvania found that the number of issue ads, the number of groups using them, and total spending on them increased in the 2000 election cycle compared to previous cycles (Mintz 2000). The best-known independent expenditures from the 2000 election were probably the primary ads sponsored by 'Republicans for Clean Air' criticizing McCain's environmental record. The \$2.5 million ad buy was actually purchased by Bush fundraiser and Texas billionaire Sam Wyly and his brother Charles.

A Brennan Center study shows that independent groups spent roughly equal amounts on ads for federal Republican and Democratic candidates in the 2000 election.<sup>15</sup> Groups that generally helped Republicans included Citizens for Better Medicare (a pharmaceutical industry group), the U.S. Chamber of Commerce, Business Roundtable, and Americans for Job Security (a 'stealth PAC' established by Senator Trent Lott under section 527 of the tax code). They spent 75% of their total \$27.5 million on ads for House candidates, while only spending \$2.1 million for Bush. Groups that generally helped Democrats included Planned Parenthood, AFL-CIO, Handgun Control, and Emily's List. They, on the other hand, spent 50% of their total \$29 million on ads for Gore, so that Gore benefited far more than Bush from outside issue ads. Outside groups paid for 18% of all ads aired for Gore, compared with 2.4% of all ads aired for Bush. One outside group alone, Planned Parenthood, paid for almost 10% of Gore's TV ads. But despite Gore's advantage among outside groups, total nationwide expenditures on Bush ads (\$86.1 m) still exceeded total nationwide expenditures on Gore ads (\$77.1 m).

### *Congressional Spending in the 2000 Elections*

Spending on 2000 Congressional races increased dramatically compared to 1998 Congressional races, in part because of the close contest for control of the new Congress and Democrats' increasing success in matching Republican fundraising totals. According to the FEC, Congressional campaign spending in the 1999-2000 election cycle was about \$858 million, including both self-financing and hard money from individuals and PAC's, a 39% increase from the 1997-98 cycle. Individuals contributed \$490.9 million to Congressional candidates, PACs and other committees contributed \$243.1 million, and candidates themselves contributed \$128.9 million in loans and gifts.<sup>16</sup> Spending on Senate races increased significantly from 1998,<sup>17</sup> in part due to extremely expensive campaigns by Hillary Clinton and Rick Lazio for the seat of New York and multimillionaire Jon Corzine's campaign for the seat of New Jersey (Corzine broke the record for a self-financed Senate campaign by spending \$60 million of his own money). Table 3 shows money raised and spent in the 2000 Senate and House races by party.



Another notable feature of the 2000 Congressional races was the relative inequality in spending between candidates. 394 of 401 House incumbents were reelected (a whopping 98.3%). Incumbents, on average, enjoyed a 4-1 fundraising advantage over their challengers.<sup>18</sup> In nearly two-thirds of all House districts, one candidate out-raised his or her challenger by a factor of 10-to-1 or more (Center for Responsive Politics 2001c). This imbalance, partially a result of gerrymandered 'one party' districts, led some campaigns to transfer their extra money to more competitive districts. In Senate races, traditionally more competitive, 23 of 29 incumbents were reelected (79.3%).<sup>19</sup>

**Table 3: Total Money Raised and Spent for 2000 Senate and House Races<sup>20</sup>**

	Senate Democrats	Senate Republicans	House Democrats	House Republicans	Grand Totals
<b>Total Raised</b>	\$230,738,678	203,811,741	279,637,327	308,545,808	1,022,733,554
<b>Total Spent</b>	226,385,062	206,312,536	258,085,162	291,833,176	982,615,936
<b>Average<sup>21</sup> Raised</b>	6,992,081	6,176,113	747,693	840,724	-
<b>Average Spent</b>	6,860,153	6,251,895	690,067	795,185	-

### III. Reform Options

#### *Defining Reform*

What specifically does 'campaign finance reform' mean, and what are its goals? People have applied this catch-all phrase to very different campaign finance changes, in part because those who want to change the system often have quite different goals in mind. Five of the most common goals of campaign finance reform are as follows. First, to ensure that someone with good ideas but neither money nor wealthy supporters can still get elected to office (dissatisfaction with the link between money and politics often arises from the tension between the premium Americans place on political equality and the reality of financial inequality). Secondly, to level the playing field between incumbents and challengers by limiting the institutional advantages of incumbency and helping challengers. Thirdly, to limit the excessive influence of special interests and large political contributors, especially when they convince legislators to help them at the public's expense (the 'legalized bribery' problem). Fourthly, to alleviate the time and pressure politicians spend fundraising to allow them to engage in more socially productive activities. Fifthly, to increase political participation and help restore people's faith in the integrity of their government in an era of cynicism – a goal which is intimately tied to the other four, and speaks to the symbolic importance of campaign finance reform.

In short, reform advocates have different ideas about the exact goals of 'campaign



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finance reform,' and hence have different visions for the ideal campaign finance system. All of these are worthy goals, but reformers will obviously prioritize them differently. Fortunately, the various goals are usually complementary rather than mutually exclusive. Perhaps it is most useful to think of these goals as yardsticks to use in evaluating the reform proposals.

Several proposals have been put forward to achieve campaign finance reform. Those analyzed here include soft money limits, public funding of elections, and independent expenditure restrictions. There are obviously many other possible reforms, such as better disclosure requirements, reduced cost media access, or moving away from majority-takes-all Congressional districting. This paper focuses only on the first three proposals, since they are probably the most widely discussed among reform advocates.

### *Soft Money Limits*

Soft money is widely viewed as the most harmful category of campaign financing since the contributions are unlimited and can come from unions and corporations. Banning or limiting soft money is politically viable compared to other reform proposals such as public funding, and it would limit the ability of special interests and wealthy individuals to influence legislators with single contributions of six or seven figures. While it would still be possible to donate large sums of hard money by having a group of individuals contribute the maximum, a soft money ban would at least make it more burdensome to contribute very large sums. In addition, unions and corporations are not allowed to contribute hard money, so banning their soft money contributions could reduce their political spending. At a minimum, it would tend to shift their political spending toward other avenues, such as more grassroots efforts and independent expenditures.

The primary objection to banning soft money (besides freedom of speech, which is a potential objection to almost all of these reform proposals) is that it would weaken the two major political parties. There is a good deal of truth to this point, but it is debatable whether or not weakening the parties is a bad idea. Opponents of banning soft money fear that a few wealthy individuals or interest groups will be able to buy advertising through independent expenditures, and parties will be unable to respond. The two major political parties are primarily fundraising vehicles today since they do not do much policy development. If we eliminate their responsibility for raising soft money, then their most important functions will probably be coordinating communications and nominations (unless they chose to take on other responsibilities). Opponents of a soft money ban argue that the two parties have been a stabilizing force in our political system, while third party candidates argue that the major parties do not represent a broad enough spectrum of ideological viewpoints. In any case, banning soft money would likely shift attention away from national parties and toward each parties' individual candidates, who at least



percentage-wise would bear relatively more fundraising responsibility than before. Unfortunately, this means that banning soft money would do little if anything to alleviate fundraising burdens on officeholders.

### *Public Funding*

Another proposal is to institute at least partial public funding for Congressional elections and raise the level of public funding for presidential elections. Candidates would be given sufficient taxpayer dollars to run their campaigns, often in exchange for agreeing to abide by certain restrictions, such as limiting the amount of hard money they raise and spend. Candidates in either the primaries or the general election would qualify for public funds by meeting certain requirements, such as collecting a target number of signatures within their districts. Although direct public funding has never been a part of Congressional elections, the idea is not entirely foreign in the federal system since presidential candidates receive public 'matching funds' in both the primary and general elections. Public funding systems are also used to varying degrees in many state and local elections.

Public funding scores well on almost all of the reform criteria. It would reduce the influence of special interests by replacing privately raised money with 'clean' public funds. If politicians are indebted to who gives them money, why not have them indebted to the taxpayers, whom they are supposed to be serving? The system could be set up either with voluntary overall spending limits (a 'floors with ceilings' system) or without any spending restrictions (a 'floors without ceilings' system). Whether or not public funding would reduce the time spent fundraising or the overall amount of money in politics might depend on which of these systems is adopted. But if the main problem with the current system is the source of potentially tainted money rather than its overall amount, then this might be a moot question. Even though most contributors probably give out of genuine ideological convictions or personal affinity for a particular candidate, reformers generally believe it is problematic if even a small percentage of contributors expect large favors in return (witness special interests that hedge their electoral bets by contributing to *both* parties).

Public funding, even without spending restrictions, is an excellent solution for reformers who believe the main problem with the current system is that good candidates of modest means do not have sufficient resources to get their messages out. Public funds would allow less affluent candidates to compete in the political process and reduce incumbent fundraising advantages. Unfortunately, this is precisely why public funding is unpopular in Congress: no incumbent politician wants to give public funds to his or her otherwise poorly-financed rivals in the next election. This also explains why politicians hesitate to raise the levels of public funding in states that currently provide meager public funds. We know from state experiences that the key to getting politicians to choose 'clean elections' and accept



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public funds is to raise the levels of public funding high enough so that it does not pay to opt out and raise money privately. A good modified version of this is to double or triple the level of public funding given to candidates whose opponents opt out of the public system, which reduces the incentive to opt out.

Public funding is also a clever way of circumventing the free speech issue raised by mandatory spending caps, which *Buckley* ruled unconstitutional. Even 'floors with ceilings' public funding systems are set up so that candidates can choose whether or not to accept taxpayer dollars and the spending restrictions that go with them. If candidates do not wish to abide by spending restrictions, they can simply choose not to accept any public funds for their campaigns. Some public funding opponents object that this is still coercive enough to violate free speech, but most courts have disagreed and upheld such public funding systems at the state level.

Some commentators have criticized public funding on the grounds that it would reduce the power of the two major parties. Under most such systems, third party candidates could qualify for funding by meeting signature or other requirements.<sup>22</sup> Ironically, some reformers like public funding for exactly the same reason. Others object to public funding on the basis that it is a waste of taxpayer dollars that could be better used elsewhere. I find this unconvincing. If campaign contributions help certain groups persuade politicians to spend public funds on projects or subsidies of questionable worth, then replacing such donations with public funds would probably *save* taxpayers money in the long run. Furthermore, the money needed to publicly fund all federal elections in the United States is minuscule compared to overall government spending (compare, for example, the \$3 billion cost of the 1999-2000 federal elections to Bush's proposed \$1.6 trillion tax cut).

### *Restrict Independent Expenditures*

Outside non-profit groups ranging from the AFL-CIO to the National Rifle Association run issue ads and election ads to influence public policy and elections. The goal of reformers here is to differentiate true 'issue ads' – which solely address issues – from 'election ads,' whose purpose is to help or hurt particular candidates. A typical proposal to limit independent expenditures might cover any ad that mentions or pictures a candidate for federal office within a certain period of time before election day. Any independent expenditures that fall into this category would then have to follow the same rules that affect campaign spending. This effectively strengthens the Supreme Court's weak 'magic words' test to differentiate the two types of ads.

The Constitution is the main obstacle for reforms in this area. Controlling independent expenditures is very difficult to do since it is the most constitutionally questionable of the proposals discussed here. Any reform effort in this area must be tailored narrowly enough to avoid being declared invalid. Proposals that pro-



hibit these types of independent expenditures altogether would probably be struck down as a violation of free speech. On the other hand, proposals that only make these types of independent expenditures comply with campaign spending and disclosure rules would probably survive the scrutiny of the Supreme Court. Another problem in enacting independent expenditure restrictions is opposition from those groups whose advertising would be affected. The AFL-CIO, for example, supports a soft money ban, but opposes issue ad restrictions.

Another important point to note is that if soft money is banned, the changes in independent expenditure restrictions will suddenly become even more important. Banning soft money will cause more political spending to shift into regulated hard money and into largely unregulated independent expenditures. Many opponents of banning soft money (and some supporters of it) fear that without better independent expenditure restrictions, non-profit groups and wealthy individuals will be able to attack the parties, and the parties will be unable to respond adequately without the use of soft money.

#### IV. Prospects for Reform: McCain-Feingold

##### *Prospects for Reform*

Current prospects for enacting federal campaign finance reform are fairly good. At the recent opening of the 107<sup>th</sup> Congress, reformers sensed that a confluence of factors made the timing right. First, Sen. John McCain had made campaign finance reform the centerpiece of his presidential run, and had performed surprisingly well in the Republican primaries. Secondly, both Gore's fundraising scandal at the Buddhist temple and Clinton's Marc Rich pardon scandal were fresh in everyone's mind.<sup>23</sup> Thirdly, the 2000 Presidential and Congressional elections broke all previous spending records, in large part because of the Democratic Party's success in raising both hard and soft money. This success ironically helped to change Republican impressions that a ban on soft money would harm the Republicans more than the Democrats. Fourthly, Democrats picked up several seats in the Republican-controlled Senate, which had consistently blocked reform in the Clinton administration by filibustering. Fifthly, public opinion is strongly behind reform.

While opinion polls show that the American public strongly supports campaign finance reform, many remain skeptical about whether such reforms will actually limit the influence of special interest groups.<sup>24</sup> In October 1999, 64% said that the way federal campaigns are financed needs either major changes or a complete overhaul (compared to 34% who said the system was either fine, or required only minor changes).<sup>25</sup> An overwhelming 72% favored new laws limiting soft money, while only 24% opposed such limits (and the poll did not even mention that soft money contributions are currently unlimited).<sup>26</sup> But in October 2000, only 28% said they believed that changes in campaign finance laws could succeed in reducing the power



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of special interests, while 64% said that whether campaign finance changes were passed or not, special interests would always find a way to maintain their power in Washington.

### *McCain-Feingold Legislation*

Reformers used McCain-Feingold, the most popular campaign finance reform legislation in Congress, to take advantage of this window of opportunity. At the time of writing (early April 2001), the McCain-Feingold legislation had passed the Senate by a vote of 59-41, but the House debate on the Shays-Meehan counterpart has not yet begun. The 106<sup>th</sup> House previously passed Shays-Meehan by a significant margin of 252-177, and since the 107<sup>th</sup> House has a partisan composition similar to the 106<sup>th</sup> House, the legislation is likely to pass once again. Although support for Shays-Meehan is strong, if the House changes the McCain-Feingold version that was passed by the Senate, the dispute will likely go to a conference committee, where reform opponents might have another opportunity to kill it. House whip Tom DeLay (R-TX) has vowed to do everything he can to defeat it (Shenon 2001).

President Bush has not made any definitive commitments on the McCain-Feingold bill as passed by the Senate, but he has indicated in recent days that he is likely to sign it even though he may not agree with all of its provisions (Mitchell 2001). During his presidential campaign, Bush's own campaign finance proposal called for banning corporations and unions from giving soft money without banning individuals from giving it. At the time, McCain called this proposal 'a camouflage and a joke' since it would merely allow the unlimited contributions through a different route (Mitchell 2001). Reform advocates are putting political pressure on Bush to sign the legislation over the opposition of the Republican Congressional leadership. A veto would cost him politically since one opinion poll shows that even 71% of Republican voters favor limiting soft money.<sup>27</sup> A decision not to sign campaign finance legislation could also undercut his image as a 'reformer with results,' end whatever honeymoon period he has with Congress and the public, and open Bush up to accusations of being a tool of wealthy special interests in 2004. On the other hand, signing it could be seen as capitulating to McCain, his former opponent.

As of the time of writing, the McCain-Feingold bill has three central provisions. First, it completely bans the unregulated soft money contributions that come from unions, corporations, and wealthy individuals. Secondly, it raises the individual contribution limits on hard money from \$1,000 to \$2,000, the individual contribution limits to all federal candidates and political parties from \$25,000 per year to \$37,500 per year, and the individual contribution limits to national party committees from \$20,000 to \$25,000 per year. All of these limits are set to rise with inflation. The PAC contribution limit would remain at \$5,000. Thirdly, it would



impose stringent fundraising curbs on independent advocacy groups that run sham issue ads that mention the names of candidates in the 60 days before a general election or 30 days before a primary.

There are also several other provisions in the bill. One raises contribution limits for candidates running against wealthy opponents who finance their own campaigns. Proponents argue that this evens the playing field by limiting the ability of wealthy candidates to buy elections. Critics call it an 'incumbency protection' measure. Another provision forces television broadcasters to provide discounted airtime to candidates, which would help limit campaign costs. Proponents argue that this proposal is justified since the airwaves belong to the public, not to broadcasters, although broadcasters characterize it as politicians giving themselves a free gift at the industry's expense.

The independent expenditure restrictions are the most constitutionally questionable part of McCain-Feingold. If the bill becomes law, courts could strike down parts of the restrictions, which is why the defeat of the non-severability amendment was key. The Snowe-Jeffords amendment barred corporations and unions from running sham radio or television issue ads that mention candidates by name within 60 days of a general election or 30 days of a primary election. Individuals who run ads also need to meet some disclosure requirements. The Wellstone amendment then passed 51-46, which extended the ban on running issue ads mentioning a candidate to all outside interest groups, not just unions and corporations. Supporters of the Wellstone amendment were an odd coalition of genuine supporters of the idea and reform opponents who tried to kill the bill by voting for the Constitutionally questionable Wellstone provision in addition to the non-severability clause (which was later voted down, foiling the plans of reform opponents).

Many reformers rightly consider the higher hard money contribution limits to be a step backward. Hard money is by far the largest source of campaign funds, and increasing the limits so dramatically will allow more of it into the political system. Under the \$37,500 per year aggregate limit, each donor would be able to give \$75,000 in each two-year election cycle, while a couple would be able to give \$150,000 in each two-year election cycle - quite a substantial sum. This provision was added to the bill largely to gain the support of Republicans who hope that their already significant hard money fundraising advantage over Democrats will expand further with increased limits.<sup>28</sup> Many Democrats reluctantly supported the increase to make the bill truly bipartisan and to avoid a Bush veto. Supporters of the increase correctly point out that inflation has dramatically eroded the value of the \$1,000 limit set in 1974, but this argument assumes that the \$1,000 limit was a subjectively 'correct' level to begin with.

Reformers blocked a series of amendments that could have killed or weakened the



bill. The Hagel bill was the main rival. Riddled with loopholes, it placed a rather high \$60,000 cap on soft money donations and was fortunately defeated in the Senate by a margin of 60-40 (New York Times 2001). A 'paycheck protection' proposal that would have prevented unions from using their members' dues for political campaigns without their explicit permission was also defeated. Such a provision would have made the bill anathema to Democrats supported by labor unions. In perhaps the most significant vote of the two-week debate, 13 Republicans joined 44 Democrats to defeat 57-43 a 'non-severability' amendment that would have thrown out the entire bill, including the ban on soft money, if courts found any one part of it, such as the independent expenditure restrictions, to be unconstitutional. Proponents of non-severability argued that it was needed to prevent an unbalanced system from emerging if courts struck down only part of the legislation, while opponents of non-severability argued that it was a 'poison pill' designed to surreptitiously kill the core of the bill, the ban on soft money. McCain cleverly said that non-severability was French for 'kill campaign finance reform' (Feingold 2001, A16).

During the debate, leading reform opponents such as Senator Mitch McConnell (R-KY) emphasized that the two party system is a force for political stability and that McCain-Feingold would weaken the parties. Opponents also view donation and expenditure limits as unconstitutional violations of donors' and candidates' First Amendment rights. They argue that since ads are paid for with money, limiting money restricts the means of free speech. There is legal precedent for this in *Buckley's* rejection of mandatory Congressional spending limits. Some civil liberties groups have forged an unusual alliance with conservative Republicans to advance this view.

Reform proponents disagree, arguing that other goals are just as important as protecting free speech. There is also legal precedent for this view in *Buckley*, which upheld contribution limits as acceptable to limit political corruption. Some legal scholars, for example, argue that the First Amendment free speech rights of the wealthy should not take precedence over the Fourteenth Amendment Equal Protection rights of everyone else (see, for eg, Bonifaz and Raskin 1993). They cite cases in which courts struck down state poll taxes and high filing fees as unconstitutional violations of the rights of the poor to vote and run for office. Supreme Court Justice John Paul Stevens has also advanced the argument that money bears more resemblance to property than speech, and hence government has a limited right to regulate it.

Reform opponents also criticize the characterization of organized groups that contribute money as 'special interests.' They correctly point out that all citizens have a right to try to influence the legislative process and that political participation should not be discouraged. But to reformers, such arguments become unconvincing once money enters the picture. They argue that the political influence of any



particular constituency should be tied to the size of its membership and maybe to how well-organized it is, but not to how much money it has. To most reformers, it is fundamentally unjust for a group of wealthy professionals to have far more political influence than an equally large group of poor people who cannot afford to give large campaign contributions.

*What Should Reformers Do After McCain-Feingold?*

It is premature to say that McCain-Feingold will become law, but it seems likely that it will. If it is enacted, where should reformers turn their attention? Surely many reformers will not be satisfied that the changes have gone far enough, but Congress would be unlikely to enact further changes until people fully understand the changes already instituted. It would take at least several election cycles for the political system to adjust fully, and since unintended consequences are not unusual in enacting campaign finance changes, it might be wise to wait and see what the results are before enacting further changes. Another possibility is that reformers should closely monitor the new system to ensure that courts and the FEC do not open up more loopholes. A large part of the monitoring function will be defending against legal challenges that will undoubtedly be brought against the independent expenditure restrictions and soft money ban.

Finally, if a new system is settling in on the federal level, it may be more productive to shift campaign finance reform efforts to the states. It is important to remember that McCain-Feingold only covers federal elections, not the other 99% of elected offices in America. Many of the same reform principles can be applied to elections for governors, state legislators, mayors, and city council members, which are controlled by state and local laws. In fact, if special interests find that their campaign contributions are restricted on the federal level, they may shift their resources to influence policy at the state level. This might be especially productive for them in an era of devolution. Some states concerned about this, such as Vermont and Maine, have already instituted reforms. Maine, for example, now provides public funding for gubernatorial and state legislature elections.

**Summary**

Referring to campaign finance, a somewhat hyperbolic Common Cause President Scott Harshbarger claims 'there is no law' (Hamburger 2000), but the 2000 elections actually provide ample support for his argument. The Presidential election saw dramatic increases in every major category of presidential political fundraising, but particularly in unlimited soft money and independent expenditures. These increases, which far outstrip the rate of inflation, were unimaginable just a few decades ago. As Professor Stephen Wayne points out, current campaign finance laws are only partially successful because they increase the importance of having a large base of contributors in primary elections (when many candidates are not well



known enough to have a large base) and fail to eliminate the soft money influence of large donors in the general elections (Wayne 2000, 59).

If the 2000 election illustrates anything about campaign finance, it is that the numerous loopholes are out of control. Public financing of elections is an excellent long-term goal for reform, but banning soft money and placing reasonable, constitutional restrictions on independent expenditures are probably the most politically viable solutions, as McCain-Feingold recognizes. Fortunately, the prospects for reform are better now than they have been in a generation.

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## Endnotes

1 \$3 billion includes spending by outside groups.

2 Currently these include the Democratic National Committee (DNC), Republican National Committee (RNC), Democratic Senatorial Campaign Committee (DSCC), National Republican Senatorial Committee (NRSC), Democratic Congressional Campaign Committee (DCCC), and the Republican National Congressional Committee (RNCC).

3 The Brennan Center found that despite FCC regulations, slightly less than 25% of 1998 political TV ads in their study did not show legible sponsorship.

4 [www.fec.gov](http://www.fec.gov) 'Campaign Finance Reports and Data,' 9/28/00. Taken from the summary pages of the reports filed by the campaigns.

5 [www.fec.gov](http://www.fec.gov) 'Campaign Finance Reports and Data,' 9/28/00. Taken from the summary pages of the reports filed by the campaigns.

6 'Primary Expenditures and Related' from 1/1/99-8/31/00. Taken from the summary pages of the reports filed by the campaigns.

7 [www.opensecrets.org](http://www.opensecrets.org) '2000 Presidential Race: Total Raised and Spent,' Center for Responsive Politics, 1/15/01.

8 [www.opensecrets.org](http://www.opensecrets.org) 'Meet the President: George W. Bush,' 3/30/01.

9 Michael Berman in lecture at the John F. Kennedy School of Government on 9/28/00.

10 I use 'hard money' here to refer only to the individual and PAC donations categories, not to public funds or other categories.

11 [www.opensecrets.org](http://www.opensecrets.org) 'President George W. Bush' and '2000 Presidential Candidate Al Gore,' Center for Responsive Politics, 3/30/01. Based on 3/26/01 FEC data. All totals include compliance fund receipts.

12 Although Bush and Gore received the same amount of public funds for the general election, Gore received more public funds overall because he accepted them for the primary while Bush did not.

13 Includes all other receipts by the candidates (e.g. outside loans or interest on contributions).

14 Federal District Court Judge Joyce Green cleared the Christian Coalition of illegal coordination with the RNC by defining 'coordination' very narrowly. Partially in reaction to this decision, the FEC subsequently cleared the AFL-CIO of illegal coordination with the DNC. Earlier, the FEC did not sanction the 1996 Clinton



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and Dole campaigns for coordinating soft money issue ads with their parties.

15 [www.brennancenter.org](http://www.brennancenter.org) All information in this paragraph is taken from a 12/11/00 press release, '2000 Presidential Race First in Modern History Where Parties Spend More on TV Ads Than Candidates.' The study was limited to the nation's 75 largest media markets.

16 [www.fec.gov](http://www.fec.gov) 'Congressional Financial Activity Soars for 2000' press release, Federal Election Commission, 1/9/01, p. 1. Figure does not include candidates in special elections or candidates who lost in the primaries.

17 Senate campaign spending figures from subsequent elections are not exactly comparable because a different group of states holds Senate elections every two years.

18 [www.commoncause.org](http://www.commoncause.org) '98 Percent of House Incumbents Win Reelection in 2000,' Common Cause study, 11/14/00, p. 1. I modified the incumbency statistic to account for the two House races that were not decided when the study was released (FL District 22 and NJ District 12, which both incumbents won).

19 I modified the statistic to account for the Washington Senate race that was undecided when the study was released. The challenger Maria Cantwell (D) won.

20 Based on FEC data released on 3/26/01, Center for Responsive Politics (2001c) and author's calculations.

21 Averages include all incumbents and major party challengers, but not third party challengers.

22 Two of the most common requirements for receiving public funding are signature requirements (a certain number of voters in the district must sign a petition supporting the candidate) or poll requirements (candidates or their parties must have a certain threshold level of support in recent public opinion polls). For example, a candidate is eligible for public funding in the general presidential election if he or she is the nominee of a party that received at least 5% of the vote in the previous presidential election.

23 In Clinton's departing days at the White House, he pardoned Marc Rich, a fugitive financier wanted for tax evasion and racketeering. His ex-wife Denise Rich had given hundreds of thousands in campaign contributions to the Democratic Party, creating a strong impression that the pardon had been purchased.

24 [www.gallup.com](http://www.gallup.com) All public opinion data here are from the Gallup Organization's polls on campaign finance, most recently conducted on Oct. 6-9, 2000. Unless noted otherwise, they were based on telephone interviews with a randomly selected national sample of 1,052 adults 18 years and older. The margin of error is +/- 3%, although question wording and practical survey difficulties can introduce additional bias.

25 Based on a sample of 568 national adults. Margin of error +/- 5%

26 Question: 'As you may know, soft money is the amount of money that individuals, businesses, and labor unions are legally allowed to contribute to the national political parties. Would you favor or oppose new federal laws limiting the amount of soft money that any individual or group can contribute to the national political parties?'



27 Gallup News Service poll released 10/18/00.

28 In the 2000 campaign, Republicans and Democrats raised approximately equal amounts of soft money, but Republicans outraised Democrats in hard money \$447 million to \$270 million. From 'Influential Senate Republican Says He Would Back Ban on Soft Money as Part of Deal,' *The New York Times*, Friday, 3/23/01, A12.



# Biographies



## The Editors

**Andrew Leigh** (MPA) is a lapsed lawyer from Australia, now focusing his studies on economic and social policy. He completed his BA and law degree at the University of Sydney, following which he clerked on the High Court of Australia for Justice Michael Kirby. Prior to coming to the Kennedy School, he worked for two years as the senior trade advisor to Senator Peter Cook, Deputy Minority Leader in the Australian Senate. Andrew has a penchant for writing, and has written numerous articles and op-eds on topics ranging from globalization to criminal justice. He recently co-edited a book on political ethics, entitled *The Prince's New Clothes: Why do Australians Dislike their Politicians?* Andrew will spend summer 2001 working at the Progressive Policy Institute in Washington, DC. In his spare time, he sings in a graduate choir, goes to the gym and uses his university holidays to explore parts of the Americas. He can be contacted at [andrew\\_leigh@ksg02.harvard.edu](mailto:andrew_leigh@ksg02.harvard.edu).

**Kathryn Crewe** (MPP) is a Minneapolis native working toward a career in international law and public policy. She holds a Bachelor of Science in Foreign Service with Honors in International Politics from Georgetown University, as well as a Certificat du Programme International from the Institut d'Etudes Politiques de Paris. She has worked on the Senate floor and in the Office of Senator Paul Wellstone, and was most recently employed by the International Project Finance group at the law offices of Morrison & Foerster LLP in Washington, DC. Outside of school she is actively involved in dance performance and choreography, public school tutoring and innovation, language studies, running, biking, and traveling.

**Clint Davis** (MPA) is focusing his study in the area of Business and Government Policy. He is from Goose Bay, Labrador, Canada and most recently served as the Special Advisor (North) to the federal Minister of Indian Affairs and Northern Development. Clint is also Inuit and a member of the Labrador Inuit Association - the only Inuit organization without a land claim agreement with the federal and provincial governments. He enjoys snowboarding, ice fishing and other Arctic adventures.

**Ann Marie Jackson** (MPP) is a graduate of Stanford University, where she double-majored in Economics and Political Science. She also spent a term abroad at Magdalen College, Oxford, focusing on international economic development. Before coming to the Kennedy School, Ann Marie served as national Manager, Publications and Special Projects, for A Better Chance, a non-profit organization that develops leaders among students of color by helping them access expanded educational and career opportunities. Her professional interests now center on human rights advocacy; she will spend the summer of 2001 in the Washington



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office of the International Human Rights Law Group. Travel is Jackson's avocation. To date, she has explored Tibet, Nepal, China, Thailand, Vietnam, Japan, Cuba, Mexico, Guatemala, Costa Rica, Belize, Panama and Western Europe. She is a native of the Pacific Northwest. She can be contacted at [ann\\_marie\\_jackson@ksg02.harvard.edu](mailto:ann_marie_jackson@ksg02.harvard.edu).

**Nicolas Jimenez** (MPA) is a Canadian who maintains his pronunciation of 'out' and 'about' is quite normal. Prior to KSG, he spent three years in Vancouver employed by a large energy company where he worked in both the Public Affairs group and more recently in the Executive Operations business unit. Before Vancouver, he spent two years in Ottawa where he split his time between the Prime Minister's Privy Council Office and Parliament Hill. He holds a BA from Wilfrid Laurier University and an MPA from the University of Victoria. Outside of work, he has developed an unhealthy passion for rock & ice climbing and mountaineering. Sadly, his studies at Harvard have seriously compromised the pursuit of these endeavours.

**Jay Kommers** (MPP) received a B.S. in economics from Montana State University. Prior to matriculating to the Kennedy School, he was a 1999-2000 Coro Fellow in Public Affairs in New York City. His professional interests include working on trade and environmental issues. He can be contacted at [jay\\_kommers@ksg02.harvard.edu](mailto:jay_kommers@ksg02.harvard.edu).

**Kristina Larson** (MPP) is pursuing information technology policy studies and business government relations at the Kennedy School. She hails from Washington, DC where she contributed to RAND studies on emerging technologies and, prior to RAND, led an international team to author a book on global leadership at a corporate strategy research firm, The Corporate Executive Board. She can be contacted at [kristina\\_larson@ksg02.harvard.edu](mailto:kristina_larson@ksg02.harvard.edu).

**Heather Price** (MPA) has worked as a journalist for Bloomberg News in London and Amsterdam and for the St. Louis Post-Dispatch in St. Louis, Missouri. She holds a Master of Arts in International Relations from Universiteit van Amsterdam and a Bachelor of Arts with Honors from New York University in Romance Languages and in English and American Literature.

**Marilse Rodriguez-Garcia** (MC/MPA) has focused on issues and relationships among schools, government and community in Boston. She holds a BA from the University of Puerto Rico and a Master of Library and Information Science from Simmons College. Among her interests are Latin American literature, cinema, photography and music. Future plans include a pilgrimage to Santiago de Compostela. She can be contacted at [marilse\\_rodriguez-garcia@ksg01.harvard.edu](mailto:marilse_rodriguez-garcia@ksg01.harvard.edu).

**Amy Squires** (MPA) has worked for ten years in policy and regulatory settings with



state and federal agencies across the country, primarily in environmental policy. She is interested in business-government relations, particularly how business and government signal each other through rule development and implementation.

## The Contributors

**Michael J. Boyle** (MPP) is currently completing a masters in Public Policy at the Kennedy School of Government at Harvard University. He holds a Master in Philosophy in International Relations from Cambridge University and a BA in Political Science from La Salle University. He has interned for the US Department of State and the Center for Strategic and International Studies. A former editor of the Cambridge Review of International Affairs, he is interested in the European security, civil wars and ethnic conflicts, and peacekeeping.

**Angie Datta** (MPP) has a focus area in Business and Government relationships and a particular interest in using entrepreneurship to foster economic development both domestically and internationally. Prior to the Kennedy School, she worked for 3 years in Corporate Finance in Citibank in New York and London, and there developed an interest in emerging economies. In addition to professional experience, she was active in working with the Young Entrepreneurs Association in the New York City, which focused on connecting entrepreneurs with funding and teaching business development skills to at-risk youth. She received a Bachelor of Science in Business Management from Cornell University. She can be contacted at [angiedatta@aol.com](mailto:angiedatta@aol.com).

**Gabriel F. Grant** (MPP) is a native of Seattle, Washington. After graduating Phi Beta Kappa from the University of Washington with a B.A. in International Studies, he was a Fulbright Scholar in Guatemala where he researched and wrote about micro-finance programs. A year spent teaching a bilingual fourth grade class in Harlem, NYC led him to the Kennedy School to study affordable housing and urban economic development. Gabriel enjoys playing soccer, cooking, reading and drinking good coffee. He can be contacted at [gabriel\\_grant@ksg01.harvard.edu](mailto:gabriel_grant@ksg01.harvard.edu).

**Rachel Hitch** (MPP) is interested in improving the design and delivery of human service programs, particularly through innovative collaborations of the public and private sector. She worked for over three years at a nonprofit research firm evaluating welfare reform initiatives, specifically examining several time-limited programs in four states, and is currently employed as an organizational consultant designing leadership development programs for the public sector. A graduate of Wesleyan University with a dual degree in Sociology and Psychology and a native of Newton, Mass., Rachel can't wait to move to a new city, decorate her apartment, and get a yellow Labrador retriever of her own. She can be contacted at [rachel\\_hitch@ksg01.harvard.edu](mailto:rachel_hitch@ksg01.harvard.edu).



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**Finbarr Livesey** (MPP) focuses on the interaction between the public and private sectors for long-term innovation and growth, as well as the role of technology in development. Prior to attending the Kennedy School, he was a technology consultant with Arthur D. Little's technology subsidiary Cambridge Consultants. He received a Diploma in Computer Science from Cambridge in 1995, focusing on genetic algorithms for natural language induction. His primary degree is in theoretical physics, from University College Cork, where he worked on optimal laser design.

**Lynne Lyman** (MPA) focuses on the social problems confronting inner city communities, particularly issues relating to race and urban youth. Her work emphasizes government-community partnerships applying problem-solving approaches to enhance community safety and quality of life. Lynne spent the summer of 2000 first doing an internship with the Boston Police Youth Violence Strike Force, and then as a Policy Advisor on Government-Community Partnership in the Lowell Police Department. Before commencing the Masters Program, she spent over three years working in local politics in the Los Angeles area and earned her B.A. in Political Science from UC Berkeley. She can be contacted at [lynnelyman@yahoo.com](mailto:lynnelyman@yahoo.com).

**Eliza G. Mahony** (MPP) is from New York City and holds a Bachelor of Arts with High Honors in Politics and Latin American Studies from Princeton University. She is primarily interested in issues of financial access for low-income communities, including asset development and microfinance models. Prior to graduate school, she worked for four years in the fields of microfinance and reproductive health, two years based in central Guatemala and two in New York. After graduating from the Kennedy School, she will continue working in community finance. She can be contacted at [eliza\\_mahony@ksg01.harvard.edu](mailto:eliza_mahony@ksg01.harvard.edu).

**Shankar Narayan** (MPA/JD) received his Bachelor of Science degree in Economics from Bates College and is completing a concurrent Juris Doctor degree at Yale Law School. He is interested in economic development, both domestic and international, as well as in human rights issues, and has worked for human rights advocacy organizations in several countries. Most recently, he drafted a federal appellant's brief for the American Civil Liberties Union. He is a native of Delhi, India, and greatly enjoys travel, poetry, music, and the outdoors. He can be contacted at [shankar.narayan@yale.edu](mailto:shankar.narayan@yale.edu).

**Stephanie Oestreich** (MPA/PhD) holds a Masters degree in Biochemistry from the Free University of Berlin. At the Kennedy School, she focuses on Science and Health Policy and is interested in the interaction of science and public policy. Concurrent with the MPA Program, Stephanie pursues her PhD studies in Biochemistry. As a violinist, she appears in concerts as a soloist, with chamber music ensembles and as a member of the Boston Philharmonic Orchestra. She can be contacted at [stephanie\\_oestreich@ksg02.harvard.edu](mailto:stephanie_oestreich@ksg02.harvard.edu).



**Dania Palanker** (MPP) is focusing on political advocacy with an interest in addressing issues of urban poverty, inequality and the American criminal justice system. She holds a Bachelor of Arts from Middlebury College. Prior to graduate school, she worked for three years at Handgun Control and the Center to Prevent Handgun Violence. She is interested in working towards ensuring all Americans have a voice in our political system.

**Michael Passante** (MPP/JD) received a BA in Economics from Harvard University and is currently completing degrees at the Kennedy School and at Harvard Law School. A New Jersey native, he has worked as an Economics Teaching Fellow, a White House intern, and a Let's Go Italy travel guide writer. His professional interests include economic policy, criminal law, campaign finance reform, and renewing democracy at home and abroad. He enjoys music, movies, and travel. He can be contacted at [mpassant@law.harvard.edu](mailto:mpassant@law.harvard.edu).

**Scott Peck** (MPP) is a native of the American West and calls Colorado home. He holds a Bachelor of Arts from Colorado State University. He served a two year commitment with Teach for America teaching 6th grade Social Studies in the Rio Grande Valley, Texas. His professional interests include international trade and development, educational leadership in rural communities, and corporate influence on major news networks. Prior to enrolling in the Kennedy School, he was employed as a research assistant for a Member of Parliament in the British House of Commons. He enjoys literature, writing, and backcountry hiking.

**Lazar Treschan** (MPP) is a native of Washington Heights, New York City. He studied History at Wesleyan University, after which he worked in non-profits in the United States and abroad. He has since taken up community development policy analysis, in search for the perfect combination of social policies he knows is out there, somewhere.

## The Cover Designer

**Joshua Rubin** (MPP) is a native of Columbia, MD and a graduate of the University of Chicago with a bachelors degree with general and departmental honors in Religion and the Humanities. Before attending the Kennedy School he was a policy and budget analyst for The Coalition of Voluntary Mental Health Agencies, Inc. in New York City, representing 110 nonprofit providers of outpatient mental health care. His professional interests include mental health policy and state and local government. He can be contacted at [youngamerican@davidbowie.com](mailto:youngamerican@davidbowie.com).

## The Reviewers

**Mary Jo Bane** is the Thornton Bradshaw Professor of Public Policy and Manage-



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ment. She is a former Assistant Secretary for Children and Families at the U.S. Department of Health and Human Services, and a former Director of the Malcolm Wiener Center for Social Policy. Bane's work centers on poverty, welfare, and families. She is currently researching the role of churches in poverty and welfare issues.

**Derek Bok** is the 300th Anniversary University Professor and Harvard University President Emeritus. He also formerly served as Dean of the Law School. His current research interests include the state of higher education and the adequacy of the U.S. government in coping with the nation's domestic problems.

**Anthony A. Braga** is a Senior Research Associate in the Program in Criminal Justice Policy and Management of the Malcolm Wiener Center for Social Policy. His research focuses on developing problem-oriented policing strategies to control violent crime hot spots, disrupt drug markets, and reduce firearms violence. He received his PhD in criminal justice from Rutgers University.

**Jeffrey R. Brown** is an Assistant Professor of Public Policy. His primary fields of interests are public finance, social insurance, and the economics of aging. Brown's current research focuses on the role of public and private insurance markets in providing retirement income and the impact of the internet on competition within the insurance industry. He received a BA from Miami University in Ohio, an MPP from the Kennedy School, and a PhD from MIT.

**Jean Camp**, Assistant Professor of Public Policy, is a senior member of the Institute of Electrical and Electronics Engineers and an elected Director of Computer Professionals for Social Responsibility. Camp's interests lie at the intersection of technology, society, and the economy. Her research is based on interdisciplinary studies of policy, law, and computer science, and includes the policy implications of technical decisions. She received her doctorate at Carnegie Mellon University.

**John D. Donahue**, Raymond Vernon Lecturer in Public Policy, is Director of Visions of Governance in the 21st Century and Faculty Chair of the David T. Kearns Program in Business, Government, and Education. His research deals with the allocation of responsibilities across levels of government and between public and private organizations. He served in the first Clinton Administration as an Assistant Secretary and then Counselor to the Secretary of Labor. Donahue holds an MPP and PhD from Harvard and a BA from Indiana University.

**Ronald Ferguson**, Lecturer in Public Policy, is an economist and Senior Research Associate at the Malcolm Wiener Center for Social Policy. Ferguson's consulting and policy advisory work centers on issues of education, employment, youth development, and urban development. He received his undergraduate degree from Cornell and his PhD from MIT, both in economics.



**David Hart** is an Associate Professor of Public Policy. Hart's research interests lie at the intersection of American political development, political economy, and science and technology policy. His current research focuses on the politics of high-technology businesses, on civilian technology policy, and on entrepreneurship and public policy. He earned his PhD at MIT and his BA at Wesleyan University.

**Joseph P. Kalt** is the Ford Foundation Professor of International Political Economy. His research focuses on exploring the economic implications and political origins of the government regulation of markets. He also heads the Harvard Project on American Indian Economic Development. Kalt received his BA from Stanford and his MA and PhD from the University of California at Los Angeles.

**Viktor Mayer-Schoenberger**, Assistant Professor of Public Policy, focuses on the policy issues of the European Union, particularly its regulatory framework and business-government relations. He is also an expert on the governance issues of cyberspace. He holds law degrees from the University of Salzburg and Harvard as well as a degree in International Relations from the London School of Economics.

**Nicolas P. Retsinas** is Director of Harvard University's Joint Center for Housing Studies and a Lecturer at the Harvard Design School and the Kennedy School. He has served as Assistant Secretary for Housing-Federal Housing Commissioner and as Director of the Office of Thrift Supervision. His research interests focus on housing, community development and banking issues. He received his master's degree from Harvard and his AB from New York University.

**Frederick Schauer** is the Frank Stanton Professor of the First Amendment and Academic Dean. His research centers on the philosophical groundings, legal contours, and practical implications of constitutionalism, often focusing on issues of freedom of speech and press; the relationship between law, ethics, and policymaking, with an emphasis on the making; enforcement; and the nature of rules. Schauer holds an AB and MBA from Dartmouth and a JD from Harvard.

**Guy Stuart** is a Lecturer in Public Policy. Stuart's research interests lie in understanding the way in which decisions made by actors employed in public, private, and non-profit organizations have an impact on the development and ongoing viability of urban communities. To this end, he is conducting research projects on home mortgage lending by mainstream financial institutions and on the activities of community loan funds. He received his PhD from the University of Chicago.

**Mariachiara Tallacchini** is a research fellow in the Belfer Center for Science and International Affairs. Her interests focus on the interrelations of science and legal philosophy, such as the legal regulations of biotechnology and the ethical and legal problems of tissue engineering. She was a World Health Organization representative to the United Nations for the revision of the UNECE Convention on



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Transboundary Water Pollution. She earned a law degree from the University of Milan and a doctorate from the University of Padua.

**Richard Weissbourd** is a Lecturer in Education at the Kennedy School and Harvard School of Education. His research focuses on risk and resilience in childhood and on school reform. He is engaged in several school and community interventions and is a founder of ReadBoston, a city-wide initiative designed to increase the number of children reading by 3rd grade.

**Julie Boatright Wilson** is the Harry S. Kahn Lecturer in Social Policy. She also serves as Director of the Malcolm Wiener Center for Social Policy and as Associate Academic Dean and Secretary of the School. Her work focuses on issues of urban poverty and child welfare. She is currently involved in research on the historic roots of urban ghettos and on issues of child welfare and child protective services.





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The Journal of Sexual Orientation and Public Policy at Harvard

Q, the Journal of Sexual Orientation and Public Policy at Harvard, will be releasing its first issue this spring.

Q is a non-partisan academic forum for original public policy scholarship related to sexual orientation and gender identity. Q also considers broader public policy issues facing gays, lesbians, bisexuals, and transgender persons, such as race and class. A non-partisan publication, we make every effort to address these issues from an international perspective. Our first volume focuses on the issue of same-sex marriage.

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**Notes**



**Notes**







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