

Poverty  
(1966 folder)

THE ECONOMIC OPPORTUNITY PROGRAM:  
EXPECTATIONS AND REALITIES,

by  
Werner Z. Hirsch  
and  
E. L. Loren,

(MR-55)

INSTITUTE OF GOVERNMENT  
AND PUBLIC AFFAIRS

UNIVERSITY OF CALIFORNIA, LOS ANGELES

February 11, 1966



THE ECONOMIC OPPORTUNITY PROGRAM:  
EXPECTATIONS AND REALITIES,

by  
Werner Z. Hirsch  
and  
E. L. Loren,

(MR-55)

✓  
Paper presented to The Young Presidents Association,  
Los Angeles, California, February 11, 1966. //

THE ECONOMIC OPPORTUNITY PROGRAM: EXPECTATIONS AND REALITIES

by

Werner Z. Hirsch\*

and

E. L. Loren\*\*

Adam Smith felt that the "invisible hand" would operate to enable each person serving his own self-interest to also serve and advance society. Despite modifications that have grown out of the economic sophistication of Ricardo, Mill, Marshall and even Keynes, the above is still a simple truth as it applies to the concept of free enterprise in the United States today. While the invisible hand works in theory, we now recognize that it may need help if major segments of our society are to participate in the fruits of economic growth -- a goal which most of us take for granted. One of the goals of the Economic Opportunity Program is to achieve broad participation; it has initiated steps to assure the maximum possible opportunity (consistent with ability) throughout our society.

The opportunity to "make a million," "do something creative," etc., or to at least realistically dream of realizing such goals by one's own best efforts seems crucial to continued acceptance of our democratic economic system. It almost goes without saying that if opportunity is closed because of race, religion, or any criterion not truly related to ability, then discontent with the system is bound to result. In today's world, our economic and political system cannot long survive broad lack of opportunity and the dissatisfaction

---

\*Professor of Economics, and Director, Institute of Government and Public Affairs, UCLA.

\*\*Acting Assistant Professor of Economics, and Research Associate, Institute of Government and Public Affairs, UCLA.

it generates.

In an economic sense, the lack of opportunity, regardless of cause, can only mean foregone gross national product and purchasing power, which affects us all. Viewing the racial aspects of unequal opportunity, the Council of Economic Advisers reports that "society loses up to \$20 billion per year of potential production as a result of employment discrimination and poorer educational opportunities for non-whites."<sup>1/</sup> Non-whites earn nearly 1/3 less than whites, even when they've received similar amounts of education and are in the same occupations. Part of the reason for this is found in the quality differences of the education received, but this really begs the question. Given the above, it is not surprising that the incidence of poverty is about two and one-half times as high for non-whites as whites. In absolute terms, however, there are many more poverty-stricken whites than non-whites -- in fact, about three times as many.<sup>2/</sup>

In 1963, there were approximately 9 million families (19% of the total U. S. families) with incomes under \$3000.<sup>3/</sup> The number has declined somewhat since then, but with the price level rising along with our standard of living, the figure of 9 million poverty families (about 40 million people) is still considered realistic. Non-whites constitute almost 25% of the above group. If the aged poor are excluded from the above, non-whites constitute approximately one-third of the remainder.<sup>4/</sup> These figures should be compared with the non-white percentage of the U. S. population, 12%. Negroes represent about 90% of the U. S. non-white population and probably a still higher percentage of the non-white poor.

The extent to which the economic benefits of our prospering society are not shared by non-whites is indicated by the following table adapted from the 1965 Economic Report of the President. The data reflect considerable progress since 1960 as well as a considerable distance yet to go.

SELECTED MEASURES OF DISCRIMINATION  
AND INEQUALITY OF OPPORTUNITY -- BY RACE

<u>Characteristic</u>	<u>White</u>	<u>Non-white</u>
Housing, 1960:		
% of families in substandard units	11.2	41.6
Education, 1964:		
Median school years completed, age 25 and over	12.0	8.9
% completed high school, age 20-24	75	53
Health, 1963:		
Life expectancy at birth (years)	71	64
Infant mortality rate (per 1000 live births)	22	42
Employment, March 1964:		
Professional-managerial occupations	} as % of total civilian employment	9.4
Craftsmen and foremen occupations		6.9
		25.3
Median Income of Males, 1963:		
Some, or completed, college	\$6829	\$4070
High school graduates	\$5600	\$3821
Labor Force and Population, 1964:		
Civilian labor force -- %	88.8	11.2
Not in labor force (age 14 and over) -- %	90.2	9.8
Participation rate (% of population, age 14 and over, in labor force) -- %	56.1	59.8

---

Source: Economic Report of the President, 1965, p. 168.  
Manpower Report of the President, 1965, pp. 198-9.

The elimination of discrimination and creation of an environment with broad economic opportunity would have direct and indirect costs. However, when these are compared to rising police and welfare costs -- at least some of which could be avoided by improving opportunity -- the economic benefits of increasing opportunity are further enhanced. The additional moral and political benefits from such a program make broad economic and social opportunity all the more rewarding.

It is our contention that the Economic Opportunity Program, while not without some serious flaws, represents a major step forward in providing the opportunity essential for keeping our political and economic system viable. When the framers of the Program began to pull their ideas together, they were faced with a choice between two distinctly different approaches. One possibility -- direct money transfers -- would have left it to the poor to create their own opportunity. With all due respect to human nature, the poor are probably the group in our society least prepared to help themselves. It was clear to most of the experts that money alone couldn't do the job.

The second approach -- based on improving human capital -- counted on programs to help the poor gain skills and knowledge necessary to help themselves out of the rut in which they were somehow trapped. The Employment Service, among other agencies, was already attempting to act along these lines. The new approach, a "War on Poverty," called for expansion of existing programs and the initiation of new projects within a framework that integrated programs designed to develop human capital.

As with any war, there have been problems. One well publicized issue concerned salaries and numbers of executives involved in administering the battles. In an effort to get the best administrators, a bidding for talent raised the price beyond traditional government levels. It is difficult to

generalize, but if relatively high salaries have led to high quality, the long-term dividends will help silence the early critics. The numbers involved may be partly explained by the anticipated magnitude of the Poverty Program. Much of the overhead was put in before operational programs could actually be initiated. Again, in the short run, this is a costly way to do things. However, in the long run, the experience gained will mean that initial costs were not as wasteful as was sometimes charged.

Meanwhile, the problems to be resolved by the War on Poverty are mounting. At a minimum, our awareness of these problems is expanding almost daily. The Moynihan Report, The Negro Family: The Case for National Action, has led to a broader acceptance and awareness of the problems of this minority group. The family instability that is revealed by this study indicates that a major difference in social mores must be dealt with as part of our war against poverty and discrimination. The Report itself has posed problems for Negro leadership. This aspect of the question is beyond the scope of this paper. However, it is important to recognize the implication of official action or inaction on this segment of the problem. As suggested by Lewis Bowman, for the poor minorities to be satisfied, should victory come in their fight against hunger and discrimination, it must be their own achievement. They must furnish the leaders, not only in terms of protest, but also in terms of constructive action.<sup>5/</sup> We are now fully aware that low social-economic status and social problems form a vicious circle.<sup>6/</sup> There is general agreement that mere handouts or single faceted programs cannot really break the circle. In the long run, jobs, housing, education, and economic opportunity must be closely linked and readily available.

Because the War on Poverty is so multi-faceted, it suffers as well as gains from the extensive publicity afforded it. Sam Lubell, the pollster,

reports that the public attitude toward the program is not too different from that toward foreign aid -- i.e., because the programs and benefits are ill-defined for the public, they're unable to form specific opinions and rely instead on their overall political party line.

Obviously, it takes more than publicity to put people to work and to generate real grass roots program support. If there are approximately 9 million poverty families, then the 1965 \$1.5 billion budget involves little more than \$166 per family. The 1966 figures, including other welfare programs, represent some expansion, but Congress is yet to be heard from. While such figures are somewhat spurious, they do indicate the magnitude of the problem compared to the present performance. In more specific terms, there is evidence that some programs, e.g., Project Headstart, have perhaps been over sold. President Johnson said a few months ago that Project Headstart, "which began as an experiment, has been battle-tested -- and it was proven worthy." No less an authority than Martin Deutsch, who has done most of the significant work on early school entrance, is very skeptical about this claim at this time.

At best, it is difficult to evaluate many of the poverty programs. To do so prematurely may do more harm than good. We refer to the effect on expectations. Certainly one of the major sources of discontent among the poor is the high visibility of wealth and the higher standard of living it represents. This source of unfulfilled expectations may offer incentives to some, but without tools to improve one's lot, little but frustration can result. To add to this frustration by holding out the carrot of improved opportunities and then not delivering is hardly good psychology, let alone adequate economics.

Another facet of the Program that has lead to questionable expectations is the "participation elections" and the general role of the poor in their

own program. Here is a real dilemma. True, the poor know what it's like to be poor but can they be expected to know the best way to rise above this condition? As Art Buchwald reminds us, once a poor person "makes it" the first thing he generally does is leave the blighted area. In fact, even modest successes are generally barred from public housing projects, though some pilot programs may lead to change in this respect. If the poor are really to participate in anti-poverty programs, then we should reassess our definitions of poverty, based on family size, wealth, local prices, age, etc. We might also modify the "all or none" concept of many welfare programs and extend the use of subsidies on a sliding scale.

The importance of local participation and leadership has already been suggested. It is consistent with the notion of "human capital formation" rather than "the dole." To keep such participation meaningful may involve more than elections, though elections do serve the function of focusing interest. In any case, there appears to be a tendency toward greater local participation in the federal program. This should help the local poor see their potential voice in the War on Poverty.

Perhaps one program that would extend this view is to attack poverty through consumer education. There is evidence that the poor generally pay more for given products and services, often through lack of information on alternatives.<sup>7/</sup> The Labor Department is beginning to investigate this issue more fully. If the vicious circle of poverty is to be broken, here is a relatively simple place to begin. Education alone cannot resolve poverty and discrimination, but it is an important start.

In fact, the entire War on Poverty has just begun. As of this writing, there is a rumor that despite Viet Nam, the budget for the domestic war will be expanded. It is our opinion that such expansion is essential if we are not to fall backward in the War, given the expectations that have been

created. If necessary, the size of expansion in the program may justify a tax increase to mollify inflation fears.

The fiscal policy aspects of this problem are certainly intriguing but lie beyond the direct concern of this paper. We would suggest, however, that the use of pilot projects be expanded. While we feel our way in this new type of war, the use of pilot projects may prevent serious over-commitment. Moreover, the demonstration effect of a number of pilot projects may enable us to buy time to select and implement the most effective programs on a broader national scale. Such pilot projects should relieve complaints that relatively little of the EOA money ever reaches the poor. The importance of the pilot approach may be emphasized if we recall that to give each school child even a cookie is a costly program. And we are dealing in costlier commodities than cookies. If we don't expand the use of pilot projects there is danger that mounting pressure for action may lead Washington to revert to the dole, the very thing most experts -- in both parties -- most want to avoid.

Though we have emphasized the role of government, particularly the federal government, we have not meant to minimize local charitable and private efforts. The federal government will inevitably play a key role in the poverty war if only because of its resources and broad perspective. Its relationship with local governments and organizations is currently subject to a great deal of discussion. The reported struggle between local and federal officials over the mechanism to handle the program here in Los Angeles did little to enhance acceptance of the programs when they finally started.<sup>9/</sup>

To win the War on Poverty, sincere and able local leadership, is required. Nowhere do we need thoughtful, honest and forward looking leadership from the Mayor's office more than in the large cities of California in general,

and in Los Angeles in particular. In most states, county government is headed by a single chief executive. Not so in California with its county supervisor arrangement. Therefore, in such large metropolitan areas as Los Angeles, the single most important leadership position is assigned to the mayor of its largest city. Yet in recent months very little serious, convincing leadership in the field of poverty and minority problems appears to have emerged from Los Angeles City Hall.

During the city's dark days of the Watts riots, the city's official spokesman, it seems, was its Chief of Police, -- a man to whom narrow technical functions have been assigned in other communities. A police chief cannot and should not speak for a city on the far-reaching broad issues involved in the Watts riots with their close affinity to the War on Poverty.

In fact, now that publicity and the communications media have created a "revolution of rising expectations," we cannot really afford to rely completely on any one agency or person. Personal differences and politics can destroy or delay a program; the disappointment that follows unfulfilled expectations, with no alternatives to which an individual can turn could be disastrous. Businessmen can and must play a major direct and indirect role in providing the opportunity and climate essential for the survival of our economic system, within which they have prospered. In this context, we can repeat an executive's remarks reported recently by a friend who sat next to him on a flight to New York. This senior officer was worried that the Poverty Program might develop a large segment of our society who would be totally committed to the government as the source of "everything." While the individual firm may see little gain in taking on minority trainees, or even training beyond its immediate manpower needs, there is a benefit to the business community itself in addition to the benefits accruing to society as a whole. Government may be expected to pay for the benefits that

a trained, employed labor force provides for society. Similarly, it might help business to collectively recognize its responsibilities as well as the direct and indirect benefits that it derives from such a labor force.

The Los Angeles Chamber of Commerce has decided to do something positive to improve its image and meet community needs: they have arranged for more than 2000 job placements in Watts. It is too early to tell much about the quality of these jobs or their duration. Moreover, the number covered is less than 10% of the anticipated need. Still, a start has been made. Future efforts might continue the cooperation between government and business that was demonstrated in this project. Such cooperation and interaction would benefit both groups, if only by extending effective communication between them.

Business might also act to relieve the problems of poverty and discrimination by developing more realistic job specifications. In a loose labor market, qualifications of education, age, sex, etc., are means of differentiating labor and perhaps simplifying hiring procedures. Today, however, the market is tightening. Business may be wise to self-impose tight conditions to anticipate shortages as well as meet social goals. Such a program would help eliminate labor bottlenecks before they developed. To this end, it might be recognized that many aptitude tests don't accurately reflect basic ability. It might also be admitted that a high school degree isn't required to sweep floors, or even to run a sweeping machine; nor a college degree to run a switchboard or sell roofing. Though we haven't personally met a payroll recently, it doesn't take too much insight to recognize that some additional effort in hiring may really pay off in the long run; both directly (in terms of profit maximization), and indirectly for the business community as a whole.

In the course of this paper, we have tried to suggest that, whatever the source, it is good business to eliminate the pockets of poverty that exist in our society, which are much more than the "invisible poor." Such elimination involves a multi-faceted approach involving the best efforts of government, business, private agencies and the poor themselves. With the crisis in Viet Nam, it will be tempting to delete or minimize many projects from the EOA Program. This is understandable politics, but questionable economics, particularly in the long run. A pilot program approach may reduce such pressure and relieve unfulfilled expectations. While there are many justifiable criticisms of the War on Poverty, the present approach does represent an important step forward in or recognition of the value of the individual as a part of society. Now that Sargent Shriver can concentrate on this program, perhaps it can achieve some of the lustre that had previously been reserved for the Peace Corps. There is a long struggle ahead. However, if the business community expands its constructive role in this war, and is supported by responsible local political leadership, victory may be realized much sooner.

If you are interested in further reading on this topic you may want to consider:

Becker, Gary, The Economics of Discrimination.

Haddad, William F., "Mr. Shriver and the Savage Politics of Poverty," Harper's Magazine, December, 1965.

Harrington, Michael, The Other America: Poverty in the United States.

Hechinger, Fred M., "Head Start to Where," Saturday Review, December 18, 1965.

McDonald, Dwight, "Our Invisible Poor," New Yorker Magazine, January 19, 1963. (Reprints available)

Miller, Herman P., Rich Man, Poor Man.

The Negro Family: The Case for National Action, U.S. Government Printing Office 1965 O-787-326.

## FOOTNOTES

1. Economic Report of the President, 1965, p. 167.
2. Herman P. Miller "Changes in the Number and Composition of the Poor," IGPA MR-32, p. 8. Depending on the concept of poverty used, Miller reports that the estimate of white poverty families ranges from 5.2 to 6.8 million, while the estimate of non-white poverty families is generally estimated at 2 million. The question of the definition of poverty to be used is not an easy one to resolve. It is clear that age, family size, wealth and income are all relevant, but the weighting of these factors is the subject of great controversy. Moreover, for publicity and some program purposes, the definition of poverty has been oversimplified.

A further factor in the definition of poverty is education. Thus, the standard poverty budget estimates a cost of \$.70 per person, per day for food. It took a home economist to calculate such a budget and almost as much skill to live within it. Most of the poor don't have such skill and may even be paying more than their wealthier neighbors for many of the standard items.
3. Economic Report of the President, 1965, p. 165.

Between 1962-63, the absolute number of families with incomes below \$3000 declined .3 million (3.2%). At this rate of reduction, there were 8.7 million poverty families in 1964 and 8.4 million in 1965. The growth of the economy suggests an increase in the rate of poverty elimination. However, the number of new families being formed has also increased. Many of these are at the poverty level. It must be stressed that a moving concept of poverty would probably indicate very little change since 1963. The article cited above, by Herman P. Miller, discusses this issue.
4. Herman P. Miller, "Who Are the Poor?", The Nation, June 7, 1965. Also available from IGPA, Reprint 14.
5. Lewis Bowman, "Racial Discrimination and Negro Leadership Problems: The Case of Northern Community," Social Forces, December, 1965, vol. 44, #2, pp. 173-183.
6. Lee Robins, "Social Problems Associated with Urban Minorities," in Urban Life and Form, Werner Z. Hirsch, editor.
7. Caplavitz, E., The Poor Pay More.
8. Rightly or wrongly Negro expectations are currently very high. Should they be left unfulfilled, the hands of responsible Negro leaders will be weakened and further large-scale social unrest can be expected. The cost of inaction may be higher than readily realized.
9. McCone Committee Report, p. 4.