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In this issue

- Improved Poverty Measure
- Gangs in River Falls
- Politics of Global Climate Change
- Employer-based Health Insurance

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Political Consequences of an Improved Poverty Measure

by Gary Burtless

Gary Burtless is a senior fellow at the Brookings Institution, Washington, D.C. This paper was prepared for a conference at the La Follette Institute, "Poverty: Improving the Definition After Thirty Years," held in Madison, April 15-17, 1999. Since Mr. Burtless's paper was prepared, the Census Bureau released its long-awaited analysis of alternative poverty measures by Kathleen Short, Thesia Garner, David Johnson, and Patricia Doyle, called Experimental Poverty Measures, 1990-1997, Report P60-205 (Washington, D.C.: U.S. Census Bureau, June 1999). The tabulations reported in this paper, therefore, do not reflect the Bureau's most recent estimates of the impact of changing the poverty measure.

Political controversy has swirled around the measurement of U.S. poverty for at least three decades. Unlike other economic indicators, such as the gross domestic product or the unemployment rate, the poverty rate arouses such intense controversy that government statisticians have been unable to make fundamental improvements in its calculation.

Measuring poverty is more troublesome from a political viewpoint than measuring national output, the incidence of joblessness, or inflation. Uninformed observers might think the difference springs from the fact that public spending is directly linked to the measurement and nationwide distribution of poverty. The income limits that determine some people's eligibility for Medicaid, for example, are tied to the official poverty thresholds. Some federal grants to states and localities are affected by the local prevalence of poverty. Since public budgets depend on how we measure poverty, politicians and journalists are naturally concerned that the statistical agencies do a good job of measuring it.

But public spending is also affected by the way we measure unemployment and price changes. Extended unemployment benefits, for example, are triggered when state unemployment levels rise above

specified thresholds. Social Security benefits and federal income tax thresholds are linked to measured changes in average consumer prices. Far more public spending is directly affected by our procedures for measuring price change than by the way we measure poverty.

Poverty measurement inspires political controversy because the programs that are directly and indirectly affected by poverty measures are themselves highly controversial. These programs typically inspire more intense conflict than the programs affected by procedures to measure unemployment or inflation. The budget for Social Security pensions is much bigger than the budget for Medicaid, but Social Security pensions enjoy much broader and steadier popular support than Medicaid benefits do. Because programs that benefit the poor arouse more intense political conflict than programs serving broader and more affluent populations, debates about the measurement of poverty provide a forum for indirectly debating the scope and focus of anti-poverty policy. Should the nation spend more or less money on poverty programs? Which groups are particularly deserving of extra help? Which groups receive too much help already?



Director's Perspective

The La Follette Institute's outreach efforts this past spring are reflected in this issue of the La Follette Policy Report. The Structure and Organization of Government conference, coordinated by Graham Wilson, our new associate director, highlighted presentations by scholars from around the world. The presence of these scholars in Madison stimulated consideration of how changes in national policies in many countries affect state and local governments in the United States. Barry Rabe's presentation on environmental issues in Canada and the United States is representative, and a shortened version of it is offered in these pages.

For the fifth year, Dennis Dresang, director of the La Follette Institute's Center on State, Local, and Tribal Governance, brought together groups of community leaders from five areas in Wisconsin to consider issues surrounding their number one concern: youth violence and gangs. A group of twelve graduate students worked with Dresang and the various community leaders prior to their gathering in Madison for the program in April. Their work contributed prominently to the quality of the program. One case study, prepared by La Follette students Melissa Mullikin and Travis Myren, is presented in this issue.

Jointly with the Institute for Research on Poverty of the UW-Madison, the La Follette Institute sponsored a conference of mostly Washington policymakers on the issue of how to measure poverty more accurately than has been done since the current technique was crafted in 1965. A class of La Follette graduate students conducted research and wrote papers for this conference also. As with most issues, the question

of how to improve the poverty measure moves to be at least as political as it is analytical. Gary Burtless's article here offers an excellent description of the issue and some of the political ramifications of addressing it.

David Vanness and Barbara Wolfe offer another piece relating to poverty, which argues that just because poor people find employment, even full-time employment, does not mean they have adequate health insurance. As more states move people from welfare to work, this issue clearly is becoming important.

As the Don Kettl passes the director's mantle to me and the fall semester at the Institute nears, we are looking ahead to the establishment of our new international master's degree program. This year we have added two new faculty members—Jeffrey Bernstein, a recent Ph.D. in business economics from Harvard University, and Geoffrey Wallace, who will be our Anna Julia Cooper Post-doctoral Fellow. He will be receiving his Ph.D. in economics from Northwestern University. The institute will eventually double in size—both in the number of students and in the number of faculty.

The search has begun in earnest for new faculty members who are interested in the multidisciplinary approaches necessary for guiding students—both domestic and international—to an understanding of politics, economics, and management in our global economy. We plan to admit our first class of students to the Master in International Public Affairs degree program in the fall of 2001. For more information see www.lafollette.wisc.edu. In the meantime, we welcome your feedback on the articles in this issue.

John F. Witte

Social scientists have long known that the official poverty measure offers a misleading picture of the trend in poverty over time and the distribution of poverty across population groups. A number of individuals and groups have offered concrete suggestions to improve the existing poverty measure, but no significant reform has occurred because of political controversy surrounding the proposed changes. Suppose the administration and Congress adopted a poverty measure that represented a significant improvement. How would this development affect public policy, especially with respect to the nation's anti-poverty programs?

Defining a Better Poverty Measure

The Census Bureau's current estimate of the official poverty rate is based on poverty thresholds and definitions of countable income developed in the early 1960s by the Social Security Administration and modified by the President's Council of Economic Advisers. The thresholds were originally determined as three times the cost of a minimally adequate diet, which in turn was based on the U.S. Department of Agriculture's economy food plan. The thresholds vary by family size, under the reasonable assumption that large families require more income than small families to enjoy the same standard of living. A person's or family's gross cash income is compared with the appropriate threshold to determine poverty status. The official poverty estimates have been subject to mounting criticism over the past three decades. Social scientists and statisticians have offered a variety of technical criticisms, and politicians and journalists have offered critiques of their own.

The official definition of poverty does not accurately distinguish between Americans who are poor and those who are not. The official measure is defective in a number of respects, which can pose problems for policymaking. The official poverty thresholds are used to establish eligibility in several federally sponsored programs, so errors in determining the thresholds can lead to mistakes in defining who is eligible for the programs.

State and local poverty rates are also used to allocate some federal funds across states and local areas. Flaws in measurement can lead to a misallocation of these funds. Finally, trends in the number of



people who are officially classified as poor are often used to decide whether public policies have been effective in reducing poverty. If poverty is mismeasured, this assessment can yield seriously misleading results.

In early 1995 the National Research Council of the National Academy of Sciences (NAS) published recommendations from the Panel on Poverty and Family Assistance suggesting ways in which the present poverty measure could be revised and improved. The panel drew attention to a number of problems with the official poverty measure:

- It excludes in-kind benefits, including Food Stamps and housing assistance, when counting family resources.
- It ignores the cost of earning wage income, including child care costs, when calculating the net income available to families containing working members.
- It disregards regional variations in the cost of living, especially the cost of housing, in determining a family's consumption needs.
- It ignores direct tax payments, such as payroll and income taxes, when measuring family resources. By the same token, it ignores the contribution to family resources provided by refundable income tax credits, such as the Earned Income Tax Credit (EITC).
- Differences in health insurance coverage are ignored in determining family resources, and differences in medical spending are disregarded in determining family consumption needs.
- The official thresholds have never been updated to reflect the changing consumption levels or patterns of U.S. households.

To remedy these deficiencies, the NAS panel recommended a thorough overhaul of the procedures and data sets used to measure poverty. Its core recommendations are:

- (1) Poverty thresholds should be based on the budget needed for food, clothing, shelter, and a small additional amount for other needs

(personal care, nonwork-related transportation, or "a little bit extra"). These budgets in turn should be based on actual spending patterns observed in surveys of representative American households, and the budget amounts should be updated each year based on spending patterns over the previous three years. In other words, the budget amounts should be updated on a regular basis to reflect the society-wide trend in actual consumption; they should not be set for all time based on a fixed market basket of goods and services.

- (2) Family resources should be defined as the sum of money income from all sources plus the value of near-money income, such as Food Stamps, that is available to buy goods and services in the budget, minus expenses that cannot be used to buy these goods and services.
- (3) The expenses subtracted from available family resources should include payroll and income taxes; child care and other work-related expenses; child support payments to another household; and out-of-pocket medical costs, including payments for health insurance premiums.
- (4) The equivalence scale that reflects differences in consumption needs according to family size and composition should be revised. The panel's suggested scale reflects a higher estimate of the anticipated cost of supporting a couple and a lower estimate of supporting a single person than are reflected in the existing scale, for example.
- (5) The poverty thresholds should be adjusted to reflect differences in the cost of housing in various parts of the country. The panel recommended that the Census Bureau make estimates of the cost of housing for the nine census regions and, within each region, for several population-size categories of metropolitan areas.
- (6) Assistance provided to the family in the form of near-money, non-medical, in-kind benefits—

specifically, Food Stamp benefits, subsidized housing, school lunches, and home energy assistance—should be directly added to net cash income to determine family resources.

- (7) Work-related expenses should be subtracted from cash. For each working adult, a flat amount per week worked should be subtracted from net cash income (up to a limit of after-tax earnings) to reflect transportation and other miscellaneous expenses connected to work. Also, for families in which there is no nonworking parent, actual child care costs per week worked (up to a limit of the net earnings of the parent with lower earnings or a standard weekly limit, whichever is lower) should be subtracted from net cash income.
- (8) The Survey of Income and Program Participation (SIPP) should replace the March Current Population Survey (CPS) as the source of survey data used to estimate the poverty rate.
- (9) Agencies responsible for federal assistance programs that use the poverty guidelines derived from the official poverty thresholds to determine eligibility for benefits should consider using the panel's proposed new measure instead of the current thresholds.

The NAS panel made no recommendation for including the flow of housing services from owner-occupied homes in its broadened definition of family resources. Families of the same size that live in the same communities would be assigned the same budget for housing regardless of whether they rented an apartment, made monthly loan payments on a home mortgage, or owned their homes free and clear of mortgage debt. While public housing subsidies would be treated as resources available to pay for a family's housing costs, the flow of services from an owner-occupied home would not be treated in an equivalent way.

Short-run Effects

Although the NAS panel urged government agencies to consider using their proposed measure once it is fully



implemented, no federal agency would be bound to accept that advice. Agencies that use the poverty guidelines derived from the current poverty thresholds to determine eligibility for benefits would be able to continue to use the existing official thresholds for the indefinite future, even if the Census Bureau publishes new estimates of the poverty rate based on revised definitions of the poverty threshold. In fact, if eligibility rules are defined by federal statute, agencies must continue to use the existing poverty thresholds until Congress amends the statute governing program eligibility.

If government agencies and Congress are rational, they will delay adopting the new poverty thresholds until it is clear how the new thresholds have worked over several years and possibly over an entire business cycle. The concern that a new poverty definition will have immediate consequences in determining program eligibility is baseless. Program eligibility and the allocation of federal funds will almost certainly be determined using the existing poverty thresholds and poverty definitions for several years after a new poverty measure is introduced.

Statistical reform is thus likely to have only one short-term consequence: The Census Bureau will annually publish one or more new measures of the incidence of poverty. The new measure(s) will produce poverty estimates that differ from those produced by the current official measure. The new series could show differences in the level and trend in overall poverty and in the relative incidence of poverty across population groups.

Effects on overall poverty rate. Estimates by Census Bureau and Bureau of Labor Statistics (BLS) analysts allow us to make a preliminary comparison of the level, trend, and incidence of poverty under alternative definitions. If the Census Bureau continued to measure poverty using survey information from the CPS and used the current official definition of income but adopted the poverty thresholds suggested by the NAS panel, measured poverty would decline slightly. As interpreted by the Census Bureau and BLS analysts, the NAS thresholds are slightly lower than the existing thresholds in part because they exclude any implicit estimate of the cost of purchasing medical care.

On the other hand, if the Census Bureau continued to use the existing

poverty thresholds but changed its definition of countable income to correspond with the definition proposed by the NAS panel, the measured rate of poverty would increase by more than one-third. In 1996, for example, the estimated poverty rate would have increased from 13.7 percent to 18.5 percent. If the Census Bureau adopted both the NAS definition of countable resources and its estimates of appropriate poverty thresholds, the overall poverty rate would increase somewhat less than one-third (rising from 13.7 percent to 18.0 percent in 1996).

The NAS panel proposed measuring the revised poverty index using survey information from SIPP rather than CPS. For several reasons, SIPP shows a lower prevalence of poverty under all definitions of poverty than does CPS. Because the SIPP questionnaire was designed to elicit more accurate and complete income information than other surveys, SIPP responses contain less under-reporting error. In addition, the survey is administered to the same household several times a year rather than only once, so it is possible to obtain more timely and accurate information about household size and composition.

In contrast, the household composition information obtained on the CPS provides information about household size in March of the calendar year following the year covered by the income information. The greater accuracy of the household composition information using SIPP makes it a better data source for measuring poverty.

Finally, there are differences in sample attrition between SIPP and CPS that affect poverty estimates obtained on the two surveys. The Census Bureau concludes

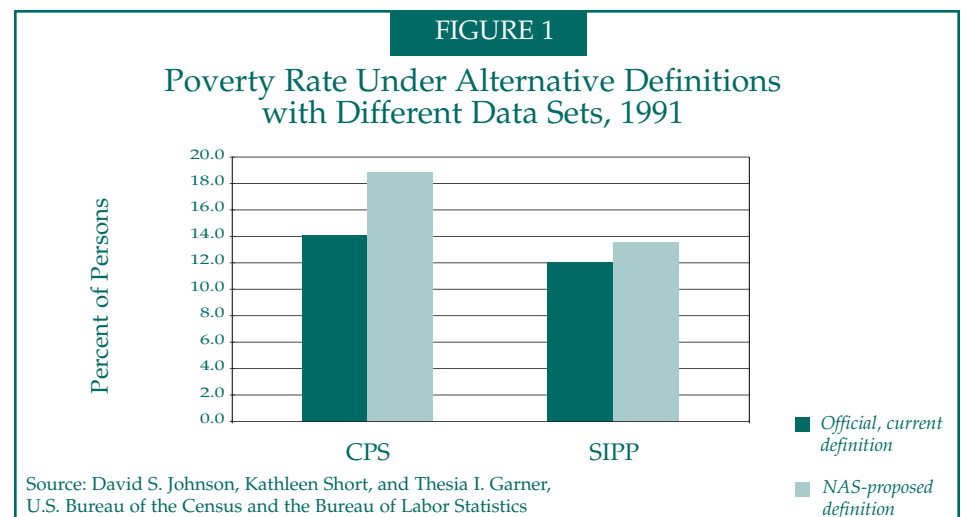
that substitution of SIPP for CPS survey data would have lowered the 1991 poverty rate under the current official definition by 2.1 percentage points, from 14.2 percent to 12.1 percent.

Under the NAS panel's revised definition, substitution of SIPP for CPS data would have lowered the estimated poverty rate by 5.3 percentage points, from 18.9 percent to 13.6 percent (see figure 1). Thus if all of the NAS panel's recommendations were adopted—with regard to resource definitions, estimates of the poverty thresholds, and data sources—the estimated poverty rate in 1991 would have fallen from 14.2 percent to 13.6 percent.

In order to allay the suspicion of conservatives that the poverty rate definition is being revised to increase the apparent incidence of poverty, and the suspicion of liberals that the change is being manipulated to reduce the apparent prevalence of poverty, some of my colleagues and I have suggested that the new poverty measure should be calibrated to ensure that the overall incidence of poverty in the first year of implementation is the same as it is under the existing official measure.

In other words, if new poverty measurement procedures were first implemented for incomes received in 2000, the overall poverty rate for 2000 should be identical under the new procedures and the procedures used to estimate the official poverty rate under existing definitions. In 2001 and later years, the overall incidence of poverty under the old and new definitions might differ, but in the first year of implementation the two sets

continued on page 15





The Politics of Global Climate Change: Implementing a “Law of the Atmosphere” in American States and Canadian Provinces

by Barry G. Rabe

Barry G. Rabe is Professor of Environmental Policy in the School of Natural Resources and Environment at the University of Michigan. He was a visiting professor at the La Follette Institute in 1993-94. This is an abbreviated version of a paper prepared for a conference at the La Follette Institute, “The Structure and Organization of Government,” held in Madison, April 22-24, 1999.

Vice President Al Gore has boldly characterized global climate change as “the most serious problem we have ever faced.” Recent Canadian Ministers of Environment and U.S. Environmental Protection Agency (EPA) Administrator Carol Browner have offered comparable statements. Concerns about the capacity of carbon dioxide and other so-called greenhouse gases (methane, nitrous oxide, and a series of related synthetic gases) to alter temperature, habitat, sea level, and human health are not new, but global climate change did not acquire popular or governmental salience until the past two decades. In fact, any serious discussions of international remedies for “global warming” have largely been confined to the 1990s, building on the 1992 Rio summit on the global environment and the December 1997 Kyoto greenhouse gas treaty. These meetings inspired discussions about future policy, and the process of translating such discussions into specific policy instruments began at November 1998 meetings in Buenos Aires.

Although scholarly and media analysis of this issue has focused on the scientific debates over the accuracy of global warming projections and the international dimensions of policymaking, any long-term strategy requires active involvement of leading nations such as Canada and the United States as well as their respective provinces and states. Indeed, sizable unilateral reduction of greenhouse gases by these two nations would not alleviate the threat of climate change. But given their long-standing roles as the two leading per capita sources of greenhouse gases among all developed nations, their large share (more than 25 percent combined) of world-wide greenhouse gases, their considerable prominence in the formation of international environmental policy, and their pioneering development of a

number of the regulatory tools now under consideration for international adoption, the timing is right for a systematic review of the institutional capacity of both nations to attain the greenhouse gas reduction goals set forth in the Kyoto agreements.

Preliminary findings from a review of recent experience in all ten provinces and a diverse set of ten states suggest that climate change is now on the agenda in each of these areas. Patterns of response differ markedly, however, with most provinces and some states proving either indifferent or hostile to proposals for policy innovation that might reduce greenhouse gas releases. At the same time, a smaller subset of subnational units, primarily involving select states as opposed to provinces, have begun to explore a series of policy options and implement promising greenhouse gas reduction strategies. Much of this policy innovation appears to be stimulated not through conventional interest group pressures or grass roots support but through creative policy entrepreneurship within the ranks of environmental or energy agencies. A good deal of this activity has a stealth-like quality, receiving remarkably little attention in the media or from industry, environmental advocacy groups, or elected officials.

A “Different Kind” of Environmental Problem

Global climate change constitutes a unique type of environmental problem. Whereas most environmental policy constitutes a response to pollutants or substances widely perceived as “bad” for the environment and human health, greenhouse gases are truly a mixed bag. Some of these gases, such as carbon dioxide, trap heat in the atmosphere and have fostered temperature levels in recent centuries conducive to staggering rates of agricultural and economic productivity as well as population growth. Moreover,

many of these gases are familiar to the most basic science student and are “natural” in origin, a vivid contrast with conventional environmental “contaminants” such as hazardous wastes and toxic air pollutants. Hence, they are hard to vilify, especially in the absence of exact cause-and-effect evidence of environmental or human health risk. But at the same time, greenhouse gas levels have risen at a steady rate in the industrial era. This rate of increase has been particularly dramatic in recent decades, due to population growth and continuing changes in transportation and commerce.

Scientific Complexities

Since world temperature record-keeping began in earnest in 1866, the 14 warmest years on record have occurred since 1979. In northern Canada and Alaska, the pace of ice cap melting and sea ice collapse has accelerated in recent years, corresponding with similar developments in Antarctica. Warming Pacific Ocean temperatures are contributing to significant declines in fish, mammals, birds, and seaweed from California to British Columbia. A number of states and provinces with significant coastal areas and large areas at or below sea level have experienced a range of unusually damaging weather episodes in recent years. Much of the recent analysis of the possible effects of climate change reads like a litany of horrors of biblical proportions, including massive flooding, fire outbreaks, habitat loss, species destruction, and major increases in illness and death during periods of extreme temperature.

Enormous debate continues to rage over the connections between these events and rising levels of greenhouse gases. Looking ahead, analysis becomes even more contentious as scientists from diverse disciplines—and ideological perspectives—attempt to project future trends. Slight adjustments in exceedingly complex



climate models can render dramatically different results. On the one hand, policy analysts and social scientists can draw some comfort from the fact that, in this case, the physical sciences may well be less “hard science” than conventional wisdom suggests.

This uncertainty poses serious challenges for policymakers, however, because environmental policy is commonly made in direct response to a disaster made more dramatic by media coverage. In the case of climate change, an exhaustive collection of possibly related problems abounds, but the direct connection remains debatable. At the same time, the potential consequences of indifference could be far more cataclysmic than in more conventional areas of environmental policy for which substantial public and private resources are devoted, such as hazardous and solid waste management. Consequently, climate change may constitute a test of North American governmental units’ ability to anticipate future problems and devise policy remedies in advance of possible calamity—and in the absence of scientific certitude.

Collective Action Complexities

The imprecision of science in guiding policy is compounded by the unique challenges posed by any concerted effort to reduce greenhouse gases. First, it is simply impossible to isolate a select set of industries or toxic substances as the culprits and target intensive regulatory efforts at them. The relatively rapid and successful international response to the challenge of ozone layer depletion is periodically heralded as a model for global action on climate change. However, the chemical sources of ozone layer depletion, primarily chlorofluorocarbons (CFCs), were, as policy analyst Peter Morrisette has noted, “relatively easy to manage, had high scientific and technical certainty attached to them, encompassed few stakeholders who shared many avenues for agreement, and engendered relatively low costs in taking action.”

In contrast, greenhouse gases lack any of these features. In turn, the successful American experience in reducing sulfur dioxide emissions during the 1990s through a flexible system of emissions crediting and trading is frequently examined as a possible model for policies to cope with climate change, perhaps

through an international trading scheme. Indeed, this may have much potential, but the sulfur dioxide system was applied to a relatively limited number of industrial point sources for which a variety of technological alternatives were well-established. In contrast, carbon dioxide and related greenhouse gases are emitted by countless sources both large and small that require demand- and supply-side measures.

Second, any comprehensive approach to this problem requires an unprecedented level of international cooperation. Although the United States, Canada, and other Western nations contribute the majority of greenhouse gases, their joint share is gradually declining as emissions climb from developing nations. At current rates of development, China will eclipse the United States as the world’s leading source of carbon dioxide at some point early in the next century; China currently plans to build as many new coal-burning power plants over the next two decades as the United States and Canada have in operation now. The Kyoto signatories are almost exclusively from highly developed nations.

In turn, analysts such as Thomas Schelling, a University of Maryland economist, contend that under most proposed international climate change strategies, the developed world will overwhelmingly bear the costs while the developing world will accrue the benefits of these strategies. This raises serious challenges to existing international environmental policy regimes because it may deter policy innovation.

Third, many possible strategies to reduce greenhouse gases may be politically unfeasible. Alternative sources of energy that create few if any greenhouse gases include nuclear power. Nuclear power currently supplies approximately 23 percent of American and 18 percent of Canadian electricity. Certain jurisdictions, such as Ontario and Illinois, are far more heavily dependent on nuclear power and consequently have lower levels of greenhouse gas releases than might otherwise be anticipated.

Even stringent critics of the nuclear power industry note that American nuclear power facilities annually “prevent the emission of about 133 million metric tons of carbon. If nuclear-generated electricity were to be fully replaced by fossil fuel sources, it would more than double

the amount of carbon that the United States needs to reduce to meet its treaty obligation to stabilize greenhouse gas emissions at their 1990 levels.” Canada, in turn, would face comparable challenges under such a transformation. And in both nations many existing nuclear power plants are nearing the end of their operational licenses, and the prospect for building new nuclear facilities is a dead-end proposition.

Greenhouse Gases and Climate Change in Canada and the United States

Neither Canada nor the United States are newcomers to issues concerning greenhouse gas emissions and questions of climate change. Canada has been active in building early coalitions on scientific research, most notably hosting—and actively supporting—the 1988 World Meteorological Association conference in Toronto that contributed to a growing international consensus and called for significant greenhouse gas reductions. The United States has supported an active program of climate change research for two decades and, through its 1990 Clean Air Act Amendments, established a system of emissions trading for sulfur dioxide that is widely seen as a promising model for an international exchange system for carbon dioxide and other greenhouse gas emissions.

Not only do Canada and the United States make comparable contributions to greenhouse gas emissions in per capita terms but both operate relatively decentralized environmental and energy policy systems that delegate much key decision-making to provincial and state capitals. This decentralization, as we shall see, is far more extensive in Canada than in the United States. But in many respects it is useful to think of individual provinces and states as independent political actors that make enormous contributions to worldwide greenhouse gas levels but also possess considerable resources and latitude to pursue policy innovation.

Indeed, if the 50 American states and 10 Canadian provinces were somehow to become independent nations, approximately half of them would rank among the top 60 national emitters of greenhouse gases around the globe. In annual carbon dioxide emissions, for example, Ontario

continued on page 20



To Be or To Wannabe: Drug Use, Gang Participation, and Youth Violence in River Falls

Melissa Mullikin and Travis Myren

The La Follette Institute's Center for State, Local, and Tribal Governance addresses the issue of youth violence and gangs in our state by working with communities, policymakers, social workers, business and religious leaders, and youth to consider strategies and share resources. While finishing their master's degrees in the spring 1999 semester, Melissa Mullikin and Travis Myren participated in this year's project, which involved Janesville, Steven's Point, River Falls, the Oneida Nation, and the Mitchell Point neighborhood of Milwaukee. Melissa Mullikin is now a budget and policy analyst for the State of Wisconsin and Travis Myren is special projects coordinator for the Dane County Department of Administration.

Although River Falls lies just thirty miles from the Twin Cities, it has been able to avoid many problems associated with big cities such as a high crime rate, pockets of poverty, congestion, and pollution. It is a community that "has a small town type feel where people watch out for each other, which probably keeps some of the [criminal] element out.... The bad element doesn't stay around long."

River Falls is divided between Pierce and St. Croix counties. The city's growth rate is approximately 2 percent, which is slightly above the state average. With a population of approximately 10,500, it is like many small communities in Wisconsin. The population is ethnically homogeneous; 2 percent of the population is non-white. Most of its citizens enjoy a relatively comfortable standard of living with 60 percent earning \$41,000 or more annually, and 55 percent of the population has attained some type of post-secondary education. The city is also the home of the University of Wisconsin-River Falls.

Community Resources

Civic leaders have taken a community approach to providing activities for young people. In some cases, organizations act independently while others work cooperatively to provide a consistent message and programming agenda for young people. Many of the community leaders involved in preventing destructive behavior among young people meet monthly to discuss comprehensive approaches and apprise one another of their individual efforts.

Public, nonprofit, religious, and private organizations all sponsor activities and prevention programming. Youth Officer Jon Aubart indicated, "There is always a big buzz of stuff for kids to do. The school, in particular, has been very supportive of cooperative efforts aimed at preventing gang activity and drug use." Since most

young people spend a large portion of their time in school, school activities are an especially important element of the community's prevention and programming strategy.

**In River Falls,
"Anything that looks
like a gang or acts like a
gang are probably
wannabes."
– Pastor Jon Neitzell**

The River Falls School District has one public high school, one public middle school, and three elementary schools. The high school accommodates 950 students while the middle school houses 500 students in grades six through eight. The prevention curriculum starts in the fourth grade when high-profile high school students present an anti-drinking, anti-smoking message to the elementary school students through skits. Active leaders in sports and band are chosen because elementary school students know and admire them. This program is relatively successful because it uses an effective delivery system, which is the key to a successful anti-drug curriculum. Counter Act, a prevention program covering drugs, violence, and decision making, is presented in the fifth grade.

In addition to drug and alcohol prevention education, the school has teamed up with the police force to educate seventh grade students about gang activity and youth violence. Youth Officer Jon Aubart teaches the Gang Resistance Education and Training program (GREAT) to middle

school students. The GREAT program is taught in conjunction with a personal development class, called Quest, which is unique to River Falls. The program teaches conflict resolution and heightens awareness of gang warning signs such as dress and behavior changes. Aubart enjoys the school setting where he is able to make personal connections with students. He feels these positive personal connections mitigate the otherwise negative perceptions students may have of the police force. Without these positive personal contacts, "most of the contact that young people will have with the police is negative."

In the high school, the prevention message and the development of positive decision making skills are continued in health, home economics, and psychology classes. Although these curricular activities are intended to be an effective prevention tool, some students are confused about the classes' intentions and are skeptical of their effectiveness. One middle school student stated that he had "no idea" of what the Quest class was supposed to be about. An entire group of students supported this notion by relaying a story of having to sew garbage together with no understanding of the point of the exercise. Other students simply question the effectiveness of prevention programs like GREAT. "People are already aware [of drugs and alcohol]. They'll make their own choices no matter what. No matter how dangerous they say it is, they'll still do it."

In addition to the curricular prevention program, the school district offers a variety of after school, extra-curricular activities for students aimed at providing healthy and fun ways for students to spend their free time. The most commonly cited youth activity, by adults and young people alike, was involvement in athletics. The high school has 21 athletic teams, and the middle school also offers a number of athletic activities. Team sports are also



available through the city's Parks and Recreation Department. Between 70 and 80 percent of the high school students are on at least one sports team.

Community leaders support and encourage student participation in athletics. A rise in overall individual achievement, both academically and socially, is attributed to participation in sports.

Along with increased individual achievement through personal development, involvement in athletics reduces the likelihood that students will get involved with drugs and alcohol. Pauly Cudd, former wrestling coach and owner of the Corner Youth Center, added, "More dedicated athletes don't use drugs or alcohol."

Some at-risk students may not be involved in sports because of the behavior code which prohibits smoking and drinking. Employment, too, may keep many at-risk kids from participating in sports; some at-risk students must work in order to support their "family, habit, car, or whatever." The school has considered adding intramural teams to accommodate students unable to participate in regular athletic teams, but they are finding it logistically difficult because the high school lacks the facilities to support additional sports teams.

Among some middle school athletes, there is the perception that students not involved in sports are a small but identifiable group who use drugs and alcohol. A group of middle school students who admit to drug use and gang affiliation acknowledged the prominence of sports in the lives of their classmates. Yet only one of these five at-risk students indicated she would be participating in an organized athletic team. One student acknowledged that he and his friends had been involved in sports, but "it's not fun anymore."

High school athletes seemed to downplay the prominence and social value of playing on an athletic team. They acknowledged that many of their friends aren't involved in sports. These students are most likely to be involved in drama or band and frequently attend sporting events. One student noted that non-athletes attend sporting events just to stay involved socially. "A lot of people go just to talk," he said. "They don't even pay attention."

Alternatives to sports can be found in the community. A local non-profit agency, Healthy Communities, works to organize

both one-time and ongoing events and projects. Healthy Communities receives most of its funding from the local hospital and is responsible for developing and implementing alternative programs for young people. Program Coordinator Eric Johnson works with an advisory board of students at the middle school to plan activities. Johnson is known as a facilitator among organizations and has been involved in several other initiatives to build partnerships within the community. For example, Healthy Communities is the lead agency for the Pierce County Family Community Partnership which will offer a mentoring program for at-risk kids. Johnson, who holds office hours at the local youth center, is viewed quite favorably by high school students. They cited his involvement as an adviser to the school paper and year-book staff and praised his good ideas, saying, "People respect him a lot."

At-risk middle school students are not interested in participating in athletics or other school sponsored activities, yet they are the students who are most in need of these alternative activities.

Cudd's Corner Youth Center is a popular destination for River Falls youth. Cudd opened the Youth Center ten years ago after being approached by a former city administrator. The center receives most of its funding from the City of River Falls, \$1600 per month. Although Cudd appreciates this financial commitment, he is surprised that the city is willing to support it as much as it does, noting that some of the aldermen appear not to care about what goes on at the Youth Center. The community is generally supportive of youth activities, but its willingness to pay for them is

sometimes questionable, according to some community leaders. Even Cudd's enthusiasm for the project has diminished through the years. Although he enjoys working with the kids and hearing them say how important the Youth Center is to them, he would like someone else to manage the facility while he maintains limited involvement in terms of building maintenance.

The Youth Center is open from 3 to 9 p.m. on weekdays and later on weekends. The facility includes video games, a pool table, air hockey, a dance floor/basketball court, lounging couches, and a d.j. booth. Young people can come in during business hours to hang out without having to buy anything. It is one of the only places in town where loitering is encouraged. While it is open to everyone, high school athletes frequent the Youth Center most. Despite being friends with those involved in sports, students involved in drama and band are not regulars.

Middle school students, including athletes, also avoid the Youth Center. One middle school athlete said, "Either you stay there and get tortured or...you leave." Middle school students prefer to socialize at Li'l Booda's, a pool hall right down the street. Unlike the Youth Center, however, Li'l Booda's doesn't tolerate loiterers, and young people may be asked to leave if they don't buy anything. While the middle school students are intimidated by the Youth Center and consider it a seedy place where older kids hang out, the high school students find Li'l Booda's "skanky," a place where young people can obtain marijuana.

Another popular after-school destination for middle school students is other friends' houses, particularly if the parents are not home. The students use this time just to hang out and listen to music or watch movies. Alcohol and drug use sometimes occur in this setting but is mainly a weekend activity. A middle school student claiming affiliation with a local gang indicated a sort of monotony in their daily activities: "It's like a daily ritual. We go downtown with friends, somebody has some drugs, we do them, go home, and then we go downtown again the next day."

While the high school students do not typically socialize at friends' houses, they may attend beer parties about every other weekend. Some parties are staged at a



secluded destination in the woods where the students build a bonfire and consume “quite a bit” of alcohol. The students denied that everyone drinks but did acknowledge some pressure to drink.

Crime

City police confronted only four violent crime cases in 1997, and the number of adult arrests declined by 17 percent. At the same time, the number of juvenile arrests increased, largely a result of a crackdown on curfew violations, increased shoplifting enforcement, and continued enforcement of underage tobacco violators. Police statistics also indicate that underage drinking has increased dramatically.

Property crimes, underage drinking, possession of marijuana and other narcotics are the most common youth offenses. The police department has also noticed an increase in vandalism, including gang graffiti. Along with these measurable violations, the manner in which young people interact has also changed. “There has been an escalation of violence in terms of how they (young people) treat one another.” However, common indicators of more fundamental and disturbing problems, such as tardiness and truancy, have remained relatively constant. Nearly all truancy and alcohol and drug problems seem to stem from problems at home. A common perception is that parents are either too busy or seem not to care what their kids are doing in school or after school.

Youth Drug Use

Consistent with well-recognized cultural norms, alcohol appears to be the drug of choice among River Falls youth. Alcohol is extremely easy to obtain since many adults keep it in the home, and many young people perceive it as a safe drug having minimal long-term detrimental effects. Marijuana is very accessible to high school students, and because of the proximity to the Twin Cities, other drugs are also accessible.

Methamphetamine abuse has increased substantially in Iowa and Minnesota, and Wisconsin counties bordering those states are feeling the effects. River Falls has had its share of problems with crank. One of Wisconsin’s most infamous crank cases has come from River Falls; Deb Cochran, a River Falls mother of four, was sent to federal prison in August 1998 for dealing crank. While reflecting on the incident,

high school psychologist Todd Schultz expressed frustration with the legal process. Because authorities wanted to build a strong case against Cochran, “it took two years of watching kids become chemically addicted and crash and burn, including her own daughter. We’re still dealing with a lot of fallout.”

Because of the highly dangerous and addictive nature of crank, it has the potential to drown out the more widespread problems of alcohol and marijuana abuse. Adults in the community appear to be aware of alcohol and drug use among youth. This perception is well founded. Nearly all of the young people interviewed acknowledged that alcohol use is widespread and that marijuana is readily available, in both the high school and the middle school.

A group of middle school students involved in sports and other school activities admitted that they and their friends sometimes drink alcohol. These same students are well aware of how to obtain marijuana. “You could go down to Main Street at any time and buy pot,” according to one student. Although these particular middle school students claimed not to use marijuana or other drugs, drug use among the middle school students appears to be common knowledge: “We know who does it and what they do.”

One of the students who has used drugs regularly supplements his \$6 a week allowance with drug sales to other middle school students. This student reinforced claims of easy access to narcotics: “I can get pretty much anything; it may just take a while.” This student’s desire to support his drug habit has resulted in possibly being held back a grade. “I used to be good in school,” he said. “I used to get A’s or B’s, but now I’m failing. It’s because I have other things on my mind—how I can get money and stuff like that.”

Stories of drug accessibility are not unique to the middle school. High school students also noted the ease with which they could procure alcohol and other drugs. Students are able to “go out at lunch and get it.” Among this group of students, primarily athletes, there is the impression that those who do “go out at lunch and get it” are “people not involved in school... They don’t care as much.... They hate school, have no school spirit.” Like the middle school, then, it appears

that there is a defined group of young people who are involved in illicit drug use (other than alcohol).

Youth Violence and Gang Activity

River Falls has experienced some gang activity. The city has seen the presence of Gangster Disciples and Latin Kings, most likely from Chicago, Milwaukee, and the Twin Cities. These gangs, however, have not maintained any sort of presence in the city, and other local gangs that have are disorganized and fragmented. In fact, Jon Neitzell, a local minister, says, “Anything that looks like a gang or acts like a gang [in River Falls] are probably wannabes.” The Police Department has taken a very aggressive approach to deterring the establishment of gangs. Officers generally have “a lot of contact” with individuals who are suspected of recruiting for gangs or establishing a gang in the city. “If they know we’re watching them, they don’t particularly care for it. They say we’re harassing them, but that’s okay. I can deal with that.”

River Falls was one of the first communities to use Wisconsin’s Gang Solicitation Statute in 1994. The city used the statute after a suspected gang-related beating at a nearby mall. As part of the plea agreement, the suspected gang member was asked to leave the community, and the Gangster Disciple connection to Minneapolis appeared to die out, at least temporarily. In response to the incident, the community also held a series of educational evening lectures on gang activity.

While corporate gangs have not firmly established themselves in River Falls, it appears that there is a local gang based at the Meyer Middle School and the Good Shepherd Christian Academy. Middle school students not involved in the gang say there is a small group of drug users who might become violent if provoked, but they did not classify this group as a gang. “As long as you don’t get in their way,” one student said, “they’ll leave you alone.... A lot of it’s just to show how tough they are.” Although students not directly involved with this group do not recognize it as a gang, those who are involved consider themselves to be gang members, and they fiercely guard the group’s secrecy, particularly from the police. Despite these efforts, Jeff Horner, the elementary and middle school psychologist, has identified a number of core members.



The gang is made up of about 15 members. One seventh grader at Meyer said she was supposed to join the gang, but didn't want to go through with the initiation which involved "brawlin'" with a friend (another initiate) in front of two of the gang leaders. Some members were initiated by being "beaten in" for a minute or more. The initiate is not allowed to fight back.

Details about the activity of the group are sketchy although one middle school student who is friends with a number of gang members said they are essentially "weed buddies." For the most part, the group socializes together, drinking and smoking marijuana. It appears that there is no rival gang, although one leader in

the gang did mention his hatred for "the Loopies," a group of people who park on the Main Street loop and harass passersby. This same young man mentioned the presence of Gangster Disciples, Vice Lords, and Crips in River Falls, with the Gangster Disciples (G.D.) attracting the most recruits. The middle school gang members, he says, "usually party with people who are G.D."

The group of middle school students who claim gang affiliation admitted to the most hard core drug use. One student has done crank on a number of occasions. He has been high on crank for three or four days at a time. He and his friends use this opportunity to "play" with local law enforcement: "We're so bored and so full of energy that

we'll just sit on the street downtown and wait for the cops to come. Then we run away. Then we come back and wait for them to come again." Another student admitted to having done crank once with a relative. "Crank gives you a really, really, really weird buzz.... Me and my cousin thought we were going to die." The two young women thought they saw bugs crawling all over the room and proceeded to scrub every inch of the walls with toothbrushes. While she admits that being on crank is "scary," the rush is so great that she wanted to do it again and again.

Many of these young people seem to thrive on this sense of invincibility. "I've done stuff that I didn't even know what it was. I have been at parties where

Happy 150th Birthday Bucky Badger— The La Follette Institute's Sesquicentennial Paper Series

In honor of UW's sesquicentennial, Governor Tommy Thompson asked the university to identify what the five biggest challenges facing Wisconsin will be in the year 2020 and how the university can help address those issues. In the proud tradition of the Wisconsin Idea—the notion that the university apply its knowledge to help solve the problems of the state—the La Follette Institute is publishing a series of papers to answer the governor's challenge. Bill Kraus, former adviser to Governor Dreyfus, kicked off the series with comments published in a local op-ed piece.

In the first paper, *Reinventing the Wisconsin Idea*, La Follette Professor Donald Kettl examines the issues that define Wisconsin's future and how the Wisconsin Idea can be redefined to keep pace with the state's needs during the first quarter of the twenty-first century.

Through a series of focus groups held during the summer of 1998, the La Follette Institute unearthed five primary challenges: (1) The changing economic framework, from a commodity-based economy—like dairy and pulp—to knowledge-based industries—like supercomputers and biotechnology; (2) The ever-expanding global information age, including existing technology and technologies yet-to-be imagined; (3) Social challenges—such as the growing prison population, ambitious welfare reform, threatening gang activity, and strained nursing home facilities; (4) Government's role in meeting these future challenges; (5) Shifting demographics.

Helene Nelson of Dane County and Robert Ibarra of UW-Madison tackle the latter topic in the second paper in the series, *Forward Wisconsin: Demographic Changes and Wisconsin Choices*. Although Census Bureau projections show that

Wisconsin will grow more slowly than most other states, significant demographic changes still pose challenges for Wisconsin: (1) The growth in the state's African American and Asian or Pacific Islander populations ranks in the top ten in the nation for the period 1995-2025. If seen as an opportunity rather than a problem, this growing diversity in our population is an avenue for new sources of knowledge and strength for the state; (2) Wisconsin's children and youth must be properly educated and prepared for the knowledge-based industries of the near future. Despite studies that show Wisconsin children better off than those in other states, many students, particularly minority students, are lagging in school performance; (3) The state predicts that the number of people age 65 and older will increase by 52 percent between 1990 and 2020, which means that fewer young and middle-aged workers will be supporting those who don't work; medical care and long-term care costs will increase; we must encourage and appreciate the vital participation of older people in community life.

Both papers suggest that the university's role in meeting these challenges involves partnership with students from all ethnic and age groups, partnerships with citizens here in the state and around the world, and partnerships across disciplines within the university.

Three forthcoming papers address other challenges:

- Land grant universities and the University of Wisconsin
- Economic and social growing pains
- State budgeting



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everyone brings a drug; then we sit in a circle and each take a drug from a bowl or something. It's really stupid. I've only done it when I was really drunk." This same student claims that parents are present at parties where she and her friends get high: "There are always parents there. They let you drink, they let you smoke, they let you do drugs." Another student claimed that some parents actually roll the joints for them.

It appears that the middle school gang members are reticent to join the ranks of big city corporate gangs. The young leader interviewed said he didn't want to get involved with "the big gangs" and, although he likes "guns and stuff," he doesn't want to carry one.

Policies and the Law

In response to past suspected gang activity, the school tightened school discipline and "refined" the way students are treated. School policy currently prohibits hats, baggy clothes, and backpacks in the hallway. Some high school students view these policies as unnecessarily harsh. According to one, for example, "I know high school isn't a democracy, but it shouldn't be an absolute dictatorship." Another noted, "If the policies weren't so harsh, maybe we wouldn't rebel as much." School officials justify these policies: "Is it worth the frustration it causes the few every year? Yes, because it makes a safer environment for the majority of kids. And that's important."

Assistant Principal Tom Carroll deals with all serious discipline problems at the high school. Carroll stresses the importance of clear and swift consequences for both good and bad behavior. He makes an effort to get to know students on a personal level and uses snack coupons and "positive telegrams" to let students know that their good behavior is appreciated. At the same time, he is not reluctant to use a progressive disciplinary policy if students disrupt the learning environment. The disciplinary policy includes negative consequences such as detention, in-school suspension, school service, and out-of-school suspension. If a student develops a pattern of negligence and abuse, Carroll refers him or her to the school psychologist.

High school psychologist Todd Schultz offers psychological assessments, crisis intervention, and direct counseling to students. He also organizes and facilitates

support groups called "personal growth groups" where students gather to talk about personal problems. The groups are not organized around a specific theme, and students don't know who other group members are until they join the group. Students leave the group with strategies they can use to solve problems now and in the future. Jeff Horner, the middle school psychologist, provides similar types of direct service to students.

Outside of school, new juvenile offenders are typically processed through the municipal court system. Repeat offenders, however, are often referred to the county's Human Services Department or are processed through the juvenile justice system. In some cases, hard core repeat offenders are placed in a juvenile detention center or group home. The threat of juvenile detention, however, does not deter all young offenders. One River Falls middle school student has been in a number of these detention centers. He states, "I don't really like it, but I get to see friends I haven't seen in a while."

Consistent with well-recognized cultural norms, alcohol appears to be the drug of choice among River Falls youth.

Conclusion

UW-River Falls Sociology Professor Brian Copp calls River Falls "a very well-kept secret." But for how long? Mere proximity to the Twin Cities serves as a constant reminder of the possible migration of gang activity. If left unchecked, this, along with rising methamphetamine use in Northwest Wisconsin, may disrupt the small-town sense of security felt by most River Falls residents.

Although the local police appear to have been successful in "moving gangs on" and out of the area, a new threat has emerged. While corporate gang members from outside the community have been relatively easy to identify and track, the newly

forming gang is made up of River Falls residents, many of whom have lived in the community since birth. Dealing with this low-profile secretive group will likely pose a significant, though not insurmountable, challenge to community leaders.

There are already a number of prevention and intervention strategies in place to address these challenges. Education programs aimed at prevention include GREAT and Counter Act. Activity programs aimed at prevention include extracurricular activities through school and programs and outings sponsored by Healthy Communities, the Corner Youth Center, and other community organizations. Current intervention services are provided primarily by school psychologists.

Prevention and intervention strategies can always be improved and new strategies can be introduced to enhance the effectiveness of current strategies. For example, the timing of current prevention strategies may need to be reconsidered, since most drug and alcohol abuse and gang activity appears to start in middle school. In addition, community leaders may want to consider the potential of athletic programming to prevent the youth problems cited above.

Additional emphasis could be placed on providing sports for students who are unable or unwilling to participate on traditional, competitive athletic teams, and alternatives to athletics should be encouraged, particularly at the middle school level. To maximize participation in these alternatives, students should be involved in planning activities and should be consulted regularly to assess the effectiveness of the programs and to develop new ones.

There appear to be very few intervention strategies and programs aimed at helping at-risk youth. At-risk middle school students are not interested in participating in athletics or other school sponsored activities, yet they are the students who are most in need of these alternative activities. The community should consider developing programs and activities targeted at young people who demonstrate the highest probability to hurt themselves and others. For these students, comprehensive intervention strategies may be required. Such intervention strategies would combine anti-violence and anti-gang messages with positive outlets and activities, preferably designed by the students themselves. ■



Government Mandates and Employer-based Health Insurance: Who is Still Not Covered?

by David Vanness and Barbara Wolfe

David Vanness is Ph.D. candidate in the Department of Economics at the University of Wisconsin–Madison. Barbara Wolfe is professor in the Department of Economics, Department of Preventive Medicine, and director of the Institute for Research on Poverty at the University of Wisconsin–Madison. This paper is an abbreviated version of a paper prepared for the International Health Economics Association conference in Rotterdam, June 1999. Their research was supported by funds from the Russell Sage Foundation and a training grant from the National Institute of Mental Health to the University of Wisconsin–Madison. The authors would like to acknowledge the helpful comments of Amy Wolaver, Robert Haveman, Sylvie Lambert, participants in the NIMH training program seminar at the University of Wisconsin–Madison, and those in the economics seminar at Taiwan National University, and the help of Elizabeth Evanson and Dawn Duren of the Institute for Research Poverty.

In the United States either health insurance or health insurance subsidies are available through government programs to the majority of citizens. Nearly all persons 65 and over have publicly provided coverage through the Medicare program. The majority of the non-elderly population has private insurance, the vast proportion of which is provided by employers as a fringe benefit. Such employer-based coverage is subsidized by government, however, through exclusion of employer-paid premiums from the employee's taxable income. Nevertheless, a substantial (and growing) number of citizens go without health insurance coverage.

In figure 1 we present a view of health insurance coverage over the last decade. Several patterns stand out. First, the proportion of the population with private coverage has dropped steadily over this decade, declining from 75.5 to 70.1

percent. Second, the prevalence of employer-based insurance bottomed out in 1993 and has been gradually increasing since then. While in 1987 the proportion of the population with employer-based coverage was more than 62 percent, as of 1997 it had fallen to 61.4 percent. Third, public coverage increased over most of the period, but since 1994 it has gradually declined. In 1997, the proportion of the population covered by publicly provided insurance was 23.3 percent. Fourth, the proportion without any form of coverage increased steadily over this decade and stood at more than 16 percent by 1997.

The situation is far different for poor families, as shown in figure 2: for this population, as of 1997, only about 23 percent have private coverage. Only 15.5 percent have employer-based coverage. More than half of the poor population has public coverage, yet nearly one-third

(31.6%) go without any coverage. Simply working does not guarantee access to employer-based coverage. Indeed, as of 1997 only 62 percent of all workers had employment-based coverage. In fact, according to the Census Bureau, poor full-time employed workers are less likely than poor nonworkers to have health insurance.

In this paper, we look back to 1977 and 1987 to examine the ability of workers to obtain health insurance through the workplace. We find that in both 1977 and 1987, low-wage workers (especially those anticipating high family medical expenditures) were less likely to hold insurance through employment than were higher-wage employees. Low-wage workers fared worse over the decade despite the federal government's passage of new rules in 1978, which required larger firms to offer coverage to lower-wage

FIGURE 1

Health Insurance Coverage in the U.S., 1987-1997





employees in order to deduct such contributions from federal income and payroll tax bills. These so-called “nondiscrimination rules” were to extend coverage to low-wage workers.

Why did the nondiscrimination rules fail to extend coverage? We suggest that employers will offer coverage only if by offering coverage their net profit does not deteriorate. Employees, for the most part, bear the cost of insurance offered by the employer. Hence to maintain profitably, employers may make sure that employees bear the cost of coverage by reducing wages.

The presence of a minimum wage law, however, may prevent employers from reducing cash wages to compensate for the cost of health insurance for low-wage workers. Yet, employers may be reluctant to offer health insurance to low-wage workers at the firm’s expense. We suggest that the minimum wage law, therefore, may present a barrier that prevents low-wage workers (particularly those with higher costs of insurance) from benefiting from rules regarding nondiscrimination in hiring.

Our goal is to explore which workers are likely, and which are not likely, to have firm-based coverage, and then to focus on the likely impacts of the minimum wage law, increasing costs of coverage, and the nondiscrimination law on the probability of coverage.

Background

In 1978, Congress enacted Public Law 95-600, which required ERISA (Employee Retirement Income Security Act) firms with health insurance benefits to offer those benefits roughly equally across wage classes of their employees for those benefits to be excludable from employee income. These nondiscrimination rules were designed in part to “provide adequate benefits to rank and file employees.” The exclusion of the value of health insurance benefits from employee taxable income constitutes a major incentive for firms to offer such benefits. A firm offering benefits affected by the new nondiscrimination rules would have to comply (therefore, likely offering the health insurance benefits to workers previously not offered them) in order to retain tax-favored status, or else circumvent the rules or drop coverage of benefits.

We assume that a firm will offer fringe benefits to its employees if its profit is greater than it would be without offering

fringe benefits. In order for this to be true, the total cost of compensating labor must stay constant or decrease. In addition to profiting by lowering costs, the firm also may profit by increasing productivity. For example, worker loyalty or duration at the job may be enhanced through the provision of health insurance, thereby reducing worker turnover. In the case of health insurance, the total cost includes not only the additional premium for the worker, but also the impact the worker has on the future premium costs for all covered workers.

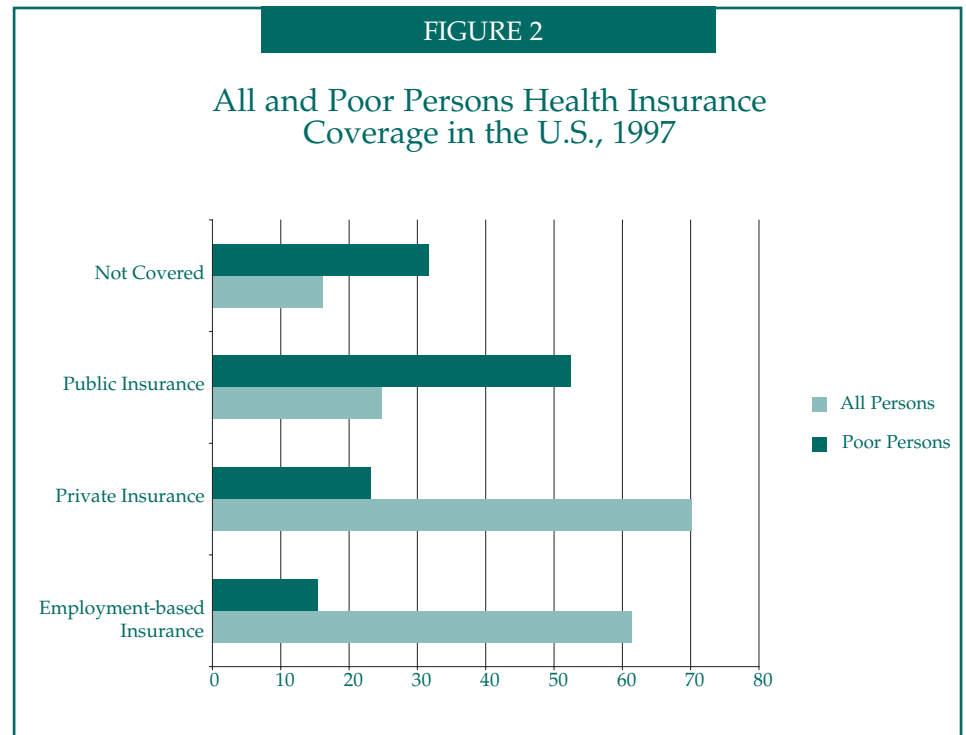
Workers are likely to be willing to “pay” more than the employer’s total cost for two reasons. First, firms can obtain insurance more cheaply than the employee can on his or her own. This is especially likely for larger firms, given lower administrative costs and the ability to spread risk over a large set of employees. Second, workers may value such insurance more highly because it is paid for with pretax dollars. Low-wage workers, however, may present difficulties for a firm’s strategy to decrease costs by offering insurance. For low-wage workers, the premium that can be shifted is constrained by the minimum wage—thus total costs of compensation may not be reduced. In addition, low-wage employees may not value insurance enough for the firm to profit by offering it.

Because health insurance is a fixed cost not related to earnings, the reduction in

compensation required of the low-wage worker is a far higher proportion of total compensation than that of high-wage workers. In addition, federal income tax rates are progressive, which means that the tax subsidy is far smaller on average for low-wage workers than high-wage workers. Both of these factors should reduce the low-wage worker’s willingness to pay for employer-based health insurance.

Exceptions to low willingness to pay are low-wage workers whose families expect high medical expenditures. For such workers the expected benefit of insurance is very high. The firm, however, must account for the impact that offering insurance to such costly workers has on the total premium for all workers. The firm’s willingness to offer insurance to these workers would be low unless all of this premium increase could be passed on to the worker. This is particularly the case in smaller firms, where the health care expenditures of a few high-cost employees may substantially increase the total premium cost. This effect becomes larger as the real cost of health insurance grows.

Other workers at the firm would face lower wages if the employer attempts to pass on the full cost of the higher cost insurance coverage. We assume they would not willingly accept lower wages to offset the higher cost of benefits. The alternative is that these firms would face





higher costs of employment. If a firm cannot discriminate against high-cost employees, its employees may be unwilling to accept lower wages. Firms might therefore prefer to circumvent the nondiscrimination rules by not offering health insurance to high-cost employees. They might also like to circumvent the nondiscrimination rules and not offer health insurance to low-wage employees to the extent that the firm cannot reduce their wages sufficiently to cover the cost of insurance. The firm's incentive to circumvent would be highest for those who are both low-wage and high-cost workers.

Employers could circumvent the nondiscrimination rules by any of the following means: (1) shifting certain types of low-skill jobs to other firms (contracting out low-wage work to firms that do not offer health insurance); (2) shifting low-wage work to part-time employment that is exempt from the law; (3) increasing hours worked to reduce the per-hour cost of the mandated benefit; (4) dropping health insurance coverage for all of its workers. Low-wage and high-cost workers, therefore, might be no better off under the nondiscrimination rules.

Data and Methodology

To investigate who gets employer-based coverage, we examined data from the two national medical expenditure surveys: the 1977 National Medical Care Expenditure Survey (NMCES), and the 1987 National Medical Expenditure Survey (NMES). These two data sets are the best available for this study as they are the only large-scale national data sets that include health status, medical expenditures, insurance coverage, and earnings and income, as well as relevant background characteristics. The 1977 survey was taken one year prior to passage and two years prior to enactment of the nondiscrimination law; the 1987 one was taken when the full response to the law was expected to be in place. With these data, we modeled the probability that a worker obtains health insurance coverage through his or her own employment at these two points in time, 1977 and 1987. Using statistical analysis, we tested our model.

The two periods of time we observed are separated by a decade, a longer period of time than ideal for this test. Many other changes occurred over this period that could influence the probability of firm-based health insurance coverage. We used

the experience of workers not at risk—those who are not low-wage and report no family health problems—as a control for all other changes that might have influenced the probability of a worker obtaining firm-based health insurance coverage. Nevertheless, this timing limitation means our results should only be viewed as suggestive.

We found that, in general, firms have increasing costs of health insurance. The increase and proportion of health insurance costs are both less for non-low-wage workers but also increased substantially compared to imputed wages, rising from 6.5 percent to nearly 10 percent. The cost to the firm for health insurance (its contribution or premium) on average is higher for the non-low-wage group. We believe this is consistent with both a greater share paid by the firm and more extensive coverage. This is consistent with a greater value of firm-based coverage by higher-wage (and higher marginal tax) workers,

Poor full-time employed workers are less likely than poor nonworkers to have health insurance.

and supports the idea that employers having large pools of low-wage workers attempt to reduce insurance costs by obtaining cheaper, less comprehensive plans and/or by contributing a smaller share to the premium. Employers who hire significant numbers of high- and low-skilled workers might choose to offer a menu of plans to their employees, setting employee premium shares such that lower-wage workers select lower-cost insurance; however, this is constrained by the nondiscrimination law which requires similar take-up rates of insurance packages across wage groups.

Estimation of Employer-Provided Coverage

To test whether the minimum wage law and/or the nondiscrimination law influence the probability of coverage, we again employed statistical analysis of the data.

We hypothesize that all workers with families having higher medical expenditures will be less likely to obtain coverage in both years—1977 and 1987—reflecting employers' desire to avoid the increasing costs of providing health insurance. We also expect that low-wage workers with higher medical costs will be far less likely to obtain coverage than other low-wage workers and all high-wage workers. They are the group for whom the employer has difficulty passing on the cost of coverage and who may, as a result, increase the cost of employing others.

The nondiscrimination law was designed to limit the ability of larger firms to discriminate, and this should lead to equal coverage for workers across wage groups or for those with high expected family medical expenditures. The law, however, may have led to a splitting apart of the labor market: The combination of smaller firms exempt from the nondiscrimination law, as well as firms that decided not to comply with the law or to drop coverage, reduces the probability that workers with low wages and/or those with high expected expenditures have coverage. Any increase in the difference in the probability that low-wage versus non-low-wage workers with high expected expenditures have coverage is viewed as evidence that the nondiscrimination law may not have helped families with both low-wages and high medical expenditures.

The results for employees are consistent throughout our analysis: the higher the expected expenditures for the employee, the lower the probability of employer-based coverage. Those with greater need for medical coverage are less likely to have that coverage. The results for children's expected medical expenditures are consistent with the hypothesis that the nondiscrimination law did not improve coverage for the low-income population.

The results also show that in the non-low-wage estimates, married employees are more likely to have employer-based coverage. This finding accords with the view that employees with families gain more from coverage than do single employees. Our results also suggest that, with the exception of the low-wage group in 1987, married employed women are less likely to have firm-based coverage than other groups. This does not simply

continued on page 18



continued from page 4

of procedures would yield identical estimates of the overall rate. Following the NAS panel's recommended procedures, this result could be achieved by appropriate selection of the budget amounts for food, clothing, shelter, and "a little bit extra" in the new poverty thresholds.

The budget amounts would be chosen to guarantee that the overall poverty rate under the new measure is the same in 2000 as it is under the old measure. In years after 2000, the budget amounts under the new definition would be annually adjusted according to the panel's suggested procedures. Of course, our proposal implies that the selected budget amounts are somewhat arbitrary. The NAS panel was itself uncertain about how these budget amounts should be chosen, so our suggested procedure for selecting the budget amounts represents a way to resolve the issue.

If adopted by Office of Management and Budget and the Census Bureau, our proposal would leave the initial overall poverty rate unchanged. Our proposal does not eliminate the possibility that the trend in overall poverty and the relative incidence of poverty will differ under the two measures. The statistical effect of a new definition on the short-term trend in overall poverty is less certain. Existing Census Bureau estimates of poverty under alternative income definitions shed some light on this issue.

Political implications. The short-term political consequences of changes in the cyclical pattern and trend in poverty are hard to forecast because it is difficult to predict whether measured poverty will rise faster, slower, or at approximately the same rate after a new measure is introduced. If a recession occurred soon after the NAS-proposed definition is implemented, poverty would probably rise somewhat faster under the new definition than under the old one. If instead a strong recovery from recession occurred soon after the new definition were implemented, the measured poverty rate would fall somewhat faster under the new definition than under the old one. Assuming the short-term trend in poverty has political consequences, those consequences might include greater popular and political support for anti-poverty relief during recessions and weaker support for such

relief in the early stages of vigorous economic expansions.

Long-run Effects

The long-term impact of a new poverty measure depends mainly on its effects on the long-run trend in measured poverty and on changes in the relative incidence of poverty across population groups. If all of the NAS panel's recommendations were implemented, the probable effect would be to boost measured poverty rates in the very long run. Because median real consumption usually rises over time, the poverty thresholds under the panel's suggested procedure will eventually increase faster than the current official thresholds. It is harder to predict whether countable resources will climb faster under the proposed NAS procedures or current Census Bureau procedures.

The most important political effects of a new poverty measure are likely to flow from new evidence about the relative incidence of poverty in different population groups. The comparisons that matter are obviously those that are of direct relevance to policymaking. Because federal and state policies focus on broad age groups—children, working-age adults, the elderly—it is hard to believe changes in the incidence of poverty across narrow age groups will matter much. Both federal and state governments have established discrete policies aimed at helping the working and nonworking poor, but few policymakers care much about measured changes in the incidence of poverty across workers in different industries or occupations. As far as families with children are concerned, American social policy has historically made distinctions between

family members with and without disabilities as well as among children in families headed by married couples, widows, and divorced, separated, or never-married parents.

Policymakers have also distinguished between old-age poverty in married-couple families and among widows. Because federal grants to state and local governments are frequently linked to the local incidence of poverty, elected officials are also concerned about how a new measure would change a state or local area's rank in the poverty distribution.

Young versus old. Figure 2 shows the effect of implementing the NAS panel recommendations on the relative incidence of poverty among children and the elderly. The darker bars show the relative incidence of poverty under the existing official definition in 1991. (Note that the official estimates are obtained using the CPS survey; the NAS estimates are based on the SIPP survey.) According to these estimates, the relative incidence of child poverty is reduced by moving from the current official definition to the NAS panel's definition. In contrast, the relative incidence of poverty among the elderly is increased by moving from the official to the revised definition of poverty. Under the existing definition, the 1991 poverty rate of the elderly population as a whole was 87 percent of the rate among the population as a whole. Under the revised NAS definition, it was 7 percent higher than the rate of the entire population.

A principal reason for the apparent increase in aged poverty is the high rate of out-of-pocket medical spending among the elderly. Even though virtually all of the aged population is covered by public or private health insurance, its out-of-

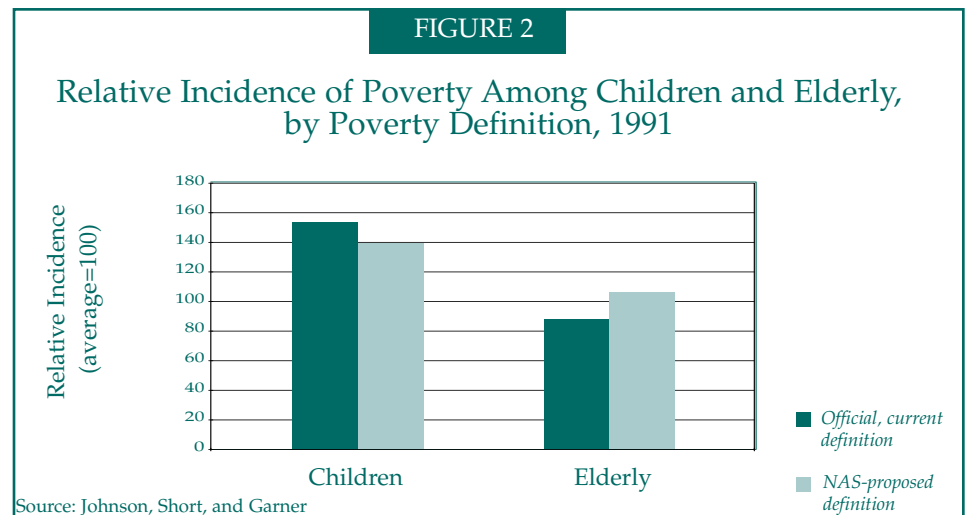
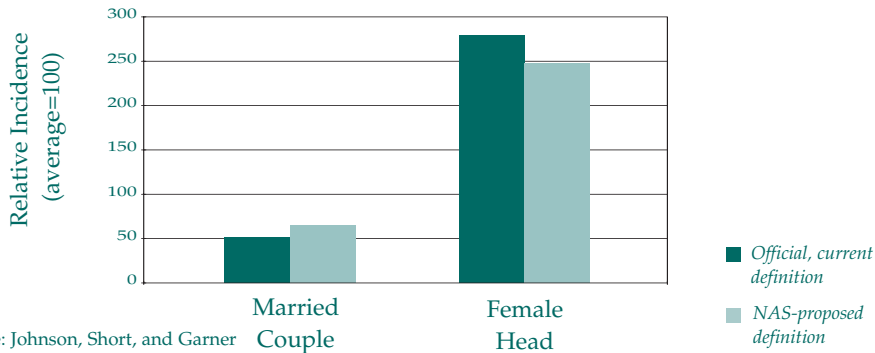




FIGURE 3

Relative Incidence of Poverty by Family Structure and Poverty Definition, 1991



Source: Johnson, Short, and Garner

pocket spending is sharply higher than that of the nonelderly. Under the proposed NAS definition of resources, this spending is subtracted from cash and noncash income to calculate the net income available to pay for necessary food, clothing, and shelter. Out-of-pocket medical spending is typically far smaller for children than it is for the elderly, so this subtraction from family income is usually smaller in the case of families with children than it is for families with an aged adult.

If these estimates of the impact of a revised poverty measure on children and the elderly hold up, they can increase the demand for policy changes that help the aged and may dampen public enthusiasm for new initiatives to aid poor children.

The NAS panel's poverty measure continues to show that poverty is more prevalent among children than it is among the aged, but the gap is smaller than under the official definition. Equally important, the poverty rate among the elderly under the NAS definition is higher than it is in the general population. This finding is sensitive to the way medical out-of-pocket spending is imputed to determine family resources. It is probably also sensitive to the NAS panel's neglect of income flows from owner-occupied homes, a source of income that may be more important among the low-cash-income elderly than it is among low-income families with children.

It would be rash to predict that a lower relative incidence of poverty among children will have a major impact on voter or policymaker sentiment toward child poverty policy. Under the NAS definition, poverty is 39 percent more common

among children than it is in the population at large. This differential is smaller than the estimate when the official poverty measure is used to compute poverty, but it is still very large.

According to tabulations by David Betson and Jennifer Warlick, professors of economics at the University of Notre Dame, the child poverty differential has increased since the late 1970s, regardless of whether the official or NAS definition is used to measure poverty. The large and increasing gap between child poverty and poverty in the rest of the population helps explain the impetus behind two notable expansions of government programs in recent years.

The EITC has been liberalized three times since 1986. It now transfers significantly more resources to families with poor children than Temporary Assistance for Needy Families, the main cash assistance program for needy children. Medicaid eligibility for low-income children was also significantly expanded in the late 1980s and early 1990s. Both policy changes were motivated in part by voters' and lawmakers' perception that child poverty had reached objectionable levels. This perception is valid no matter which poverty measure is used. But in comparison with poverty among the elderly, the child poverty situation seems somewhat less critical if we base our poverty estimate on the NAS proposed measure.

Family structure. Most voters and legislators recognize that poverty is especially acute among female-headed families. Under the official poverty definition, poverty among members of female-headed families was nearly 40 percent in 1991, more than 25 percentage points

above the rate in the population at large. Figure 3 shows the effect of changing the poverty definition on the relative poverty rate of people in married-couple and female-headed families. Although the relative poverty rate of people in single-parent families is much higher than the rate of members of other kinds of families, the poverty rate differential is smaller under the NAS definition. Relative poverty in married-couple families is significantly closer to the population average under the NAS definition.

Many single-parent families receive in-kind transfers, which are excluded from income in the official definition of poverty. Since a smaller proportion of female-headed families contain a working adult, they are less likely to face tax liabilities or other work-related expenses that reduce counted cash income under the NAS panel definition but that are ignored in the official definition of poverty. Nonetheless, the gap between the poverty rates of married-couple and single-parent families remains very wide under both definitions of poverty. Few policymakers would be tempted by the revised poverty measure to jettison policies that provide targeted help to single parents. The new poverty estimates might strengthen the political case for targeting some extra help to two-parent families, a group that until recently has not been viewed as susceptible to indigence.

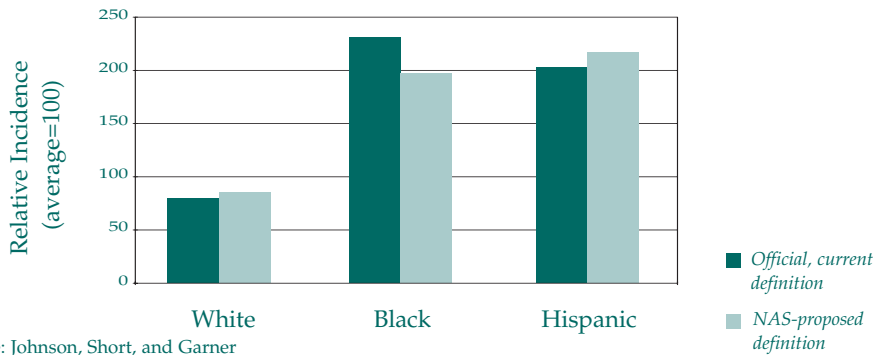
Race and ethnicity. Estimates of poverty among racial and ethnic groups can affect popular perceptions of the "deservingness" of the poor. If the racial and ethnic composition of the poor mirrored that of all voters and taxpayers, programs aiding the poor might be easier to sell to the public. Figure 4 shows the relative incidence of poverty among white, black, and Hispanic Americans under alternative poverty definitions. The NAS panel's proposed definition increases measured poverty rates among the white and Hispanic populations and reduces the relative incidence of poverty among African Americans. Although the gap in poverty rates among the groups remains very wide, the new poverty estimates make the racial composition of the poor population somewhat more similar to that of the population as a whole.

Regional and state poverty rates. In a democracy governed by regionally elected representatives, one of the most sensitive political aspects of poverty measurement



FIGURE 4

Relative Incidence of Poverty by Ethnicity Groups and Poverty Definition, 1991



Source: Johnson, Short, and Garner

is the distribution of poverty across electoral districts. This would be the case even if public spending did not depend on the regional incidence of poverty. Since spending in a number of grant-in-aid programs is linked to local poverty rates, the political consequences of changes in poverty measurement are even more important.

The state-by-state pattern of poverty-rate change is displayed in figure 5. I have divided states into seven categories depending on the direction and amount that the estimated poverty rate changes when the NAS definition is substituted for the existing poverty definition. States that are heavily shaded are those with the largest increases in measured poverty rate; states with no shading see the largest declines in measured poverty. States in the middle of the country experience substantial declines in measured poverty under the NAS definition. Many residents of these states face below-average apartment rents, so the NAS panel's proposal reduces their poverty thresholds more than it reduces their countable incomes. In contrast, residents of the East and West Coasts face above-average rents, which increases their poverty thresholds under the NAS definition.

Considering these poverty-rate changes, it is easy to imagine a political coalition in the U.S. Senate that could successfully oppose implementation of the NAS panel's poverty definition. Representatives from states where the poverty rate would fall will rightly fear that their constituents will (eventually) receive smaller federal allocations under grant-in-aid programs that link grant payments to state and local poverty levels. Of course, some of the changes in state poverty rates

would be eliminated if the government ignores the NAS panel's suggestion to link poverty thresholds to estimates of local home rental rates.

Final Reflections

Many policy advocates welcome news that their favorite target population is more deserving of public help. They resist evidence that favored target groups have less need for assistance. People who favor government redistribution thus welcome statistical reports showing that the incidence of poverty is higher (or is worsening at a faster pace) than previously thought. People who oppose redistribution naturally dislike such reports. Advocates who favor increasing aid targeted on a particular group hail new evidence that this deserving group suffers deep misery

and declining fortunes. Lobbyists who support assistance programs for competing population groups will profess skepticism of this new evidence. All sides of the debate believe that poverty statistics provide ammunition for winning new converts to their cause or at least for frustrating the ambitions of their political rivals.

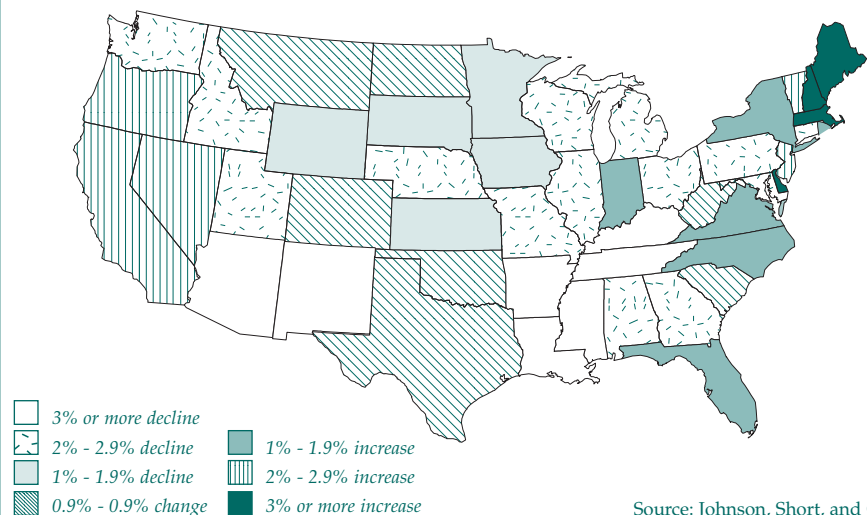
Policy advocates may be naïve in believing voters or lawmakers attach much weight to subtle differences in overall poverty trends or group-specific patterns of poverty, but there can be little doubt that this naïve political model has fueled most of the opposition to improvements in the current poverty definition.

The Census Bureau continues to publish an official estimate that all informed observers, regardless of political preference, agree is seriously flawed. The best that can be said for the existing measure is that its overall trend since 1979 has been closely correlated with poverty as measured under a more sensible definition. It is less clear that trends in relative poverty are correlated with estimates that would be produced by a rational measure. We are unlikely to find out unless the federal government develops and implements a better definition of poverty by collecting the evidence needed to estimate it.

The naïve political model may not tell us much about how policy choices are actually made, but it accounts for the failure of social scientists and statisticians to improve the nation's official poverty statistics. ■

FIGURE 5

State Poverty Rate Changes Under NAS Poverty Definition, 1991



Source: Johnson, Short, and Garner



continued from page 14

reflect the higher probability that they are covered through their husband's policy, since spouses' coverage is also included in the analysis. In addition, we find that when a child is present there is a greater probability of having coverage (consistent with the spouse findings), but that when the worker is the mother, the probability tends to be lower. The combined effect suggests that on average, female employees with children are less likely to have coverage than their childless or male counterparts.

The evidence suggests that the law may have helped the high-wage group. Persons with higher expected wages may be more likely to be offered coverage. While this might at first seem surprising, and argue against compensating wage differentials, recall that the wages are imputed values assuming insurance is offered. The results therefore suggest a greater probability of offering coverage to more highly skilled, more productive employees. This is also the group where the minimum wage is least relevant.

The results also support our expectation that low-wage workers are less likely to be offered coverage. The higher the premium, the larger the expected effect. A summary of our results are as follows:

- Higher hourly wages imply higher probability of obtaining insurance. The impact of wage on probability of insurance was greater in 1987 than 1977, and greater for low-wage workers than non-low-wage workers. If the nondiscrimination rules had been effective, we would have expected to see the difference between wage groups narrow in 1987.
- Higher imputed premiums imply higher probability of obtaining insurance in 1977, but lower probability in 1987. The positive impact of premiums in 1977 is less for low-wage workers, and the negative impact of premiums in 1987 is greater for low-wage workers.
- Higher expected expenditures for employees' children generally imply lower probability of obtaining insurance (except for non-low-wage workers in 1987). The negative association is greater for low-wage

workers, and the difference increased from 1977 to 1987.

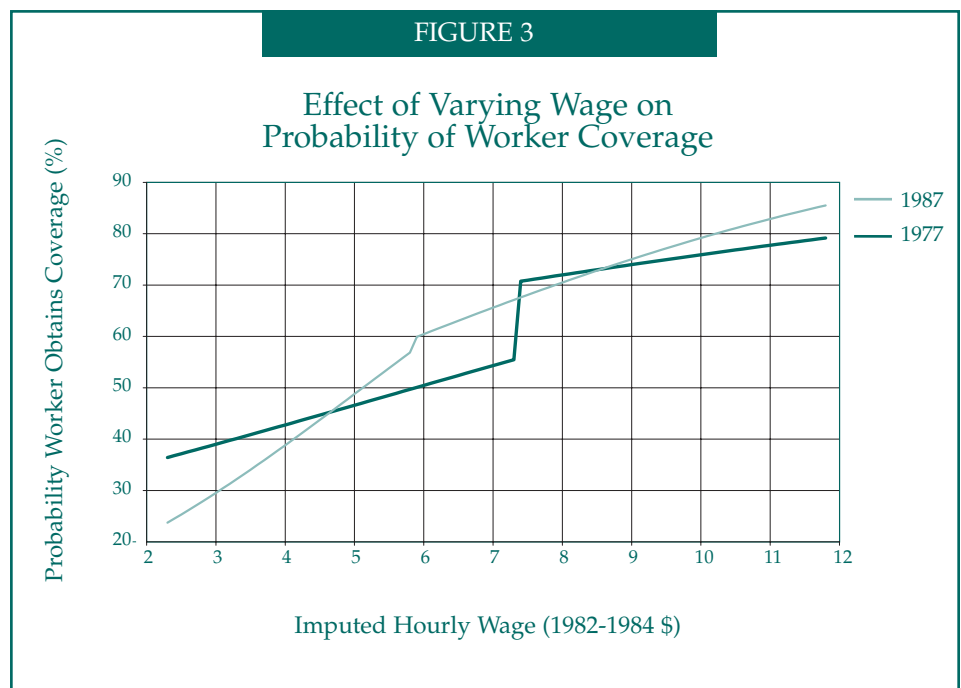
To get a better sense of the magnitude of the impact of health expenditures on probability of obtaining insurance, we conducted a simulation in which we varied the expected expenditure. All other variables were held constant at their actual value. We examined how changes in the imputed wage rate and imputed premiums affected the probability of obtaining coverage.

Our results are somewhat consistent with the hypothesis that the minimum wage is associated with a reduction in coverage. Figure 3 provides a picture of the expected effect of varying the wage and shows that the probability of a low-wage worker having coverage is far lower for those whose wage is near the minimum wage. (Nominal dollar amounts in 1977 and 1987 were inflation-adjusted to 1982-1984 levels with the medical Consumer Price Index.) In 1977 the probability increases from about 35 percent to 85 percent as the hourly wage increases from \$2 to \$12 (with a large discrete jump as the "low-wage" barrier is crossed). In 1987, the probability increases from about 25 percent to about 80 percent. Though there is not much of a discrete jump, the slope is steeper to the left of the barrier suggesting that increases in wage have larger impacts on probability of insurance for low-wage workers. It also illustrates that the simulated probability was lower in 1987 than 1977 when the minimum wage was

less binding. The minimum wage seems incapable of being the entire explanation behind lower coverage of low-wage workers in 1987.

Figure 4 demonstrates that, particularly for low-wage workers in 1987, increasing children's expected medical expenditures decreases the probability that a worker obtains health insurance (except for a slight increase for 1987 non-low-wage workers). For non-low-wage workers, the impact of increasing children's expenditures from \$0 to \$5000 is small (a slight decrease from about 75 percent to about 70 percent in 1977 and a slight increase from about 75 percent to about 80 percent in 1987). For low-wage workers in 1977, the decrease in probability over the same range is greater (from about 50 percent to about 35 percent), and is much greater in 1987 (from about 50 percent to about 10 percent).

Recall the two effects of children's expenditures on probability of insurance: it increases the demand for insurance (which should increase the probability), and increases the employer's cost of insurance (which should decrease the probability). Figure 4 displays the notion that for low-wage workers, the increased cost outweighs the greater need for insurance. Low-wage workers experience a steeper decline in probability of insurance as children's expenditures increase than do non-low-wage workers. The difference in slopes between wage groups is greater





in 1987 than in 1977, which suggests that the nondiscrimination rules did not succeed in equalizing coverage opportunities between wage groups.

Discussion

The probability of having employer-based health insurance was lower in 1987 than in 1977 among low-wage workers, especially those with high expected medical expenditures (i.e., families in which one or more members has poor or fair health, a limitation on physical activity, or mental illness). Low-wage workers with families who have high expected medical expenditures were less likely to have private employer-based coverage in 1987, after enactment of the nondiscrimination law, and this reduction in probability of such coverage is far greater than for otherwise similar families. The difference suggests that while many other factors changed, which may have also influenced the probability of firm-based coverage, over and above this, these particular families did not fare well.

Why might this be the case? According to the explanation offered earlier, the health insurance premium is a fixed cost, and when added to cash compensation it raises the cost of a low-wage worker more than that of a non-low-wage worker (the proportional increase in compensation is greater for the low-wage worker given firm-based coverage). A worker who has high expected medical expenditures, or

whose family has such expected expenditures, has the added disadvantage that firms hiring that individual may experience increased health insurance premiums for all workers in the firm (particularly in small firms). The minimum wage reduces the employer's ability to shift the added cost to the low-wage worker. We also expect that other employees in the firm will be unwilling to accept a cut in real wages to accommodate this potential increase in premiums. Firms would therefore be forced to cover the cost as an addition to their total costs were they to offer these workers coverage. Evidence suggests they are unwilling to do so.

Female employees with children are less likely to have coverage than their childless or male counterparts.

Before introduction of the nondiscrimination law, firms maximized profits by offering some workers coverage and not others; after enactment, the underlying economics did not change. Even though, in firms subject to the law, it was no

longer legally possible to offer only some full-time employees coverage for the firm to gain federal tax subsidies, firms seem to have found ways to continue to offer benefits in essentially the same pattern as prior to the enactment of the laws.

Are there alternative ways to accomplish the objective of increasing private employer-based coverage? One way might be to move to a sliding-scale contribution system, so that low-wage workers (or their employers) pay less for the insurance. The contribution might be a percentage of earnings up to a higher earnings level, at which the full cost would apply. General revenues or other specified taxes would be used to pay the difference. Another approach would be to make the tax advantage a tax credit rather a tax subsidy, with a cap on the maximum amount of the credit in order to make the change fiscally neutral.

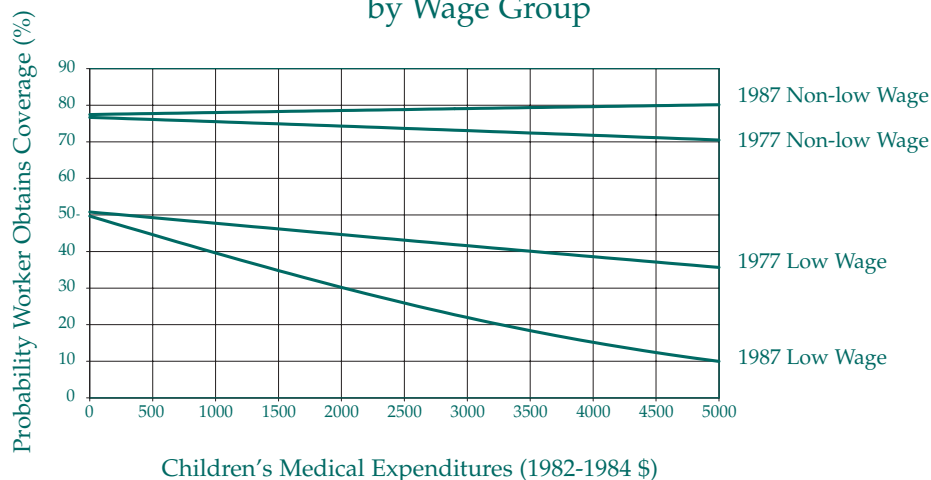
Employers could be given a subsidy toward the premium cost for low-wage workers. The cost of this subsidy could be raised by capping the maximum allowable premium that is not subject to taxation, or by the use of general revenues, including savings to programs that now cover some of the low-income population, or some combination of the two.

Regarding the group with high expected medical expenditures, a pool of funds could be created at the state level which would cover their above-average expenditures or cover these only for low-income families. Employees would get a standard package of coverage at a standard premium, but the additional expenditures would be pooled through a state-based fund similar to the high-risk pools in several states. This arrangement would be designed to provide the higher-risk pool of employees and families with the standard package, rather than more extensive benefits. All insurers and health care providers would be a possible source of funds for the pool. If the pool were limited to those in low-wage families, the resource requirements would be far smaller and less distorting than if this policy were adopted for all families.

Increasing the health insurance coverage of all families in the United States is a goal that would increase equality of utilization and potentially quality of health itself. The evidence presented here suggests that this goal has not been accomplished. ■

FIGURE 4

Effect of Varying Children's Medical Expenditures on Probability of Worker Coverage by Wage Group





continued from page 6

exceeds Mexico, and Indiana exceeds South Korea. Although international environmental policy does not give provinces and states a formal role in treaty negotiation, these governments are central players on any stage of implementation and in any serious efforts to reduce greenhouse gas emissions. Given the general trends toward decentralization in both nations, these 60 subnational units provide an important testing ground for the increasingly popular proposition that greater deference to state and provincial authorities encourages policy innovation.

Power to the Provinces and States: The Subnational Role in Climate Change

Support for decentralized approaches to combat climate change is evident in the international agreements reached during the 1990s. One premise of existing international agreements that address climate change embraces an expansive subnational role in policy development and implementation. The Agenda 21 principles, for example, an 800-page plan for implementing the goals of the 1992 Rio Declaration, provide direction on reducing greenhouse gas levels by emphasizing a bottom-up approach that calls for subnational experimentation and mechanisms for providing “decentralized feedback to national policies.” In turn, the Rio Declaration, which established the broad framework upon which the Kyoto protocol was based, declares that global warming is most likely to be addressed effectively through broad political participation at the lowest, most accessible, and policy-relevant level.

This approach coincides with an increasingly common theme in environmental policy analysis that endorses far-reaching decentralization. The conventional wisdom of the 1960s and 1970s anticipated severe collective action disincentives to decentralized environmental protection, given the inherent cross-boundary nature of many environmental problems and capacity of localized units to shirk responsibility. The overwhelming emphasis of more recent scholarship, however, has embraced state, provincial, local, and regional units as highly committed to innovative environmental protection. Subnational authorities are increasingly depicted as more capable and

innovative than their central-level counterparts. Indeed, in some areas of environmental policy analysis, including the growing body of scholarship on protection of such “common-pool resources” as water basins, forests, and ecosystems, subnational units are regularly depicted as capable of doing little wrong whereas their national counterparts are perceived as capable of doing little that is effective.

Such a focus appears to give Canada tremendous advantage over the United States in devising innovative, meaningful responses to the challenge of global climate change. Canada simply has none of the centrally directed, medium-based, command-and-control legislation that is a hallmark of American environmental policy. In air pollution policy, for example, Canada has never enacted a law that establishes national air quality standards, mandates specific pollution-reduction technologies, or creates a national mechanism for emissions trading across jurisdictional boundaries. Instead, Ottawa has set national “objectives” for air quality, but allows individual provinces to set air quality standards through their own environmental protection acts or specific air management legislation. This pattern is also evident in other areas of environmental policy, including water pollution and hazardous waste management, giving Canada one of the most decentralized environmental policy systems of any Western government.

The Canada-wide Accord on Environmental Harmonization reached between Ottawa and the provinces illustrates the decentralized environmental system well. Under this agreement, effective in January 1998, the federal government formally confines its environmental jurisdiction to “federal lands” whereas “the provinces will regulate everywhere else (although exceptions may be made in certain circumstances).” In addition, any future effort to establish uniform national standards in any medium or area of environmental concern could not be set by the federal government but would instead be possible only on a “consensus basis” involving all 13 provincial, territorial, and federal environment ministers.

In contrast, the American regulatory system is tilted toward federal control, perhaps most notably through the rigorous set of standards and compliance deadlines imposed under the 1990 Clean

Air Act Amendments. In many respects, these amendments are the antithesis of Canadian federal environmental legislation, with 314 pages of exacting detail and more than 200 decisions about making rules imposed on the EPA during the early years of implementation. This legislation does not specifically target most greenhouse gases, but many of its provisions, such as those designed to reduce sulfur dioxide emissions through emissions trading, will have a significant bearing on greenhouse gas emissions.

Such a federal presence imposes numerous responsibilities on states, which must file “state implementation plans” with the EPA and respond to a host of compliance challenges. Unlike their provincial counterparts, states have far less latitude to set their own standards or ignore federal requirements if they find them onerous. In theory, this gives them far less room to innovate and to tailor programs according to local challenges and needs. Indeed, organizations representing state and local agency officials responsible for air pollution and related problems, such as the State and Territorial Air Pollution Program Administrators, the Association of Local Air Pollution Control Officials, and the Environmental Council of the States, have regularly lamented their relative lack of freedom to devise innovative approaches to air pollution because of the constraints of federal air pollution controls.

One initiative of the mid-1990s has potentially far-reaching ramifications for federal-state relations in all relevant policy. In the absence of statutory approval, the Clinton administration launched a far-reaching set of initiatives designed to increase greater intergovernmental flexibility in environmental policy and allow states to respond creatively to their most pressing challenges and promising areas of opportunity. In 1995 the EPA established a National Environmental Performance Partnership System (NEPPS). Under this program, states may negotiate Performance Partnership Agreements with the EPA that are “intended to increase programmatic flexibility, provide states more input into establishing program evaluation criteria, and reduce the EPA’s oversight of state activities.” Alongside these agreements, states could also propose integration of multiple, often



medium-specific, federal grants into a single Performance Partnership Grant. When combined, these initiatives were intended to give states far more latitude to pursue innovative policies they have long contended federal rules precluded. Forty states had entered into these agreements by mid-1999, and it is quite feasible to use them to concentrate on greenhouse gas-related concerns.

Consequently, the American federal government both plays a more aggressive role in overseeing state activity and is a more active partner in providing grant funding and collaborative support. This is in striking contrast to the Canadian system in which provinces are largely left alone in most aspects of environmental policy development and implementation. This contrast in styles of federalism sets up a natural experiment for considering what type of intergovernmental relations best facilitate subnational innovation in responding to the challenge of climate change.

The State and Provincial Response to the Challenge of Climate Change

Although provincial and state efforts to reduce greenhouse gases have generally proven far less extensive and innovative than would be anticipated from the prevailing themes of the literature on environmental policy decentralization, several cases exist in which considerable policy innovation has occurred, particularly in some American states. Much of this innovation has been guided by the

relatively quiet actions of policy entrepreneurs working in public environmental or energy agencies, rather than by any upsurge of broad-based public support or pressure. The far more common pattern among provinces and states has been to do little or nothing aside from studying the likely effects of climate change or beginning to inventory gases. In a number of jurisdictions where interest group opposition to significant actions has emerged, legislatures have taken formal steps to preclude provincial or state efforts that would attempt to reduce greenhouse gases.

Amid this collective hostility to subnational action, a number of states and provinces have taken varying steps that analyze the potential threat posed by climate change and, in some instances, take innovative policy steps designed to reduce greenhouse gas releases. These jurisdictions cluster into distinct categories (see table 1). Four states (Minnesota, New Jersey, Oregon, and Wisconsin) have played very active roles in climate change policy analysis and policy formation. Their recent initiatives are models that may warrant emulation by other states or provinces, or possibly federal governments, as they represent formal commitments to reducing greenhouse gases significantly. These are also jurisdictions with active programs of pollution prevention and waste reduction that are not exclusively targeted at greenhouse gases but are likely to have significant effects on them.

Second, a larger group (three provinces and three states) has taken steps to

measure greenhouse gas emissions and, in some instances, has begun to analyze policy instruments for possible future adoption. A number of these jurisdictions have also pursued steps that might modestly reduce greenhouse gas levels, such as major tree planting or home energy efficiency initiatives. Two provinces (British Columbia and Ontario) fall somewhere between these two categories, having taken some steps toward measuring emission levels and developing limited, voluntary reduction programs. These efforts are not as extensive as those of the most active states but do go beyond those jurisdictions focused solely on analysis.

Third, three provinces (Manitoba, Newfoundland, and Prince Edward Island) have not taken any actions related to greenhouse gas emissions, but they have not officially opposed future agency initiatives.

Fourth, a group of three states and two provinces (Colorado, Michigan, Oklahoma, Alberta, and Quebec) have taken hostile stances toward any initiatives for reducing greenhouse gases. In some instances, this has involved formal state or provincial bans on agency initiatives that might constitute compliance with any aspect of Kyoto in advance of federal ratification and full participation by developing nations.

Low Agenda Status

Very few elected officials in either provinces or states have shown much interest in any aspect of climate change.

TABLE 1

State and Provincial Policy Responses to Global Climate Change

Policy Activists ^a	Policy Innovators ^b	Policy Analyzers ^c	Policy Neutral ^d	Policy Opponents ^e
Minnesota New Jersey Oregon Wisconsin	British Columbia Ontario	Alabama Illinois New Hampshire New Brunswick Nova Scotia Saskatchewan	Manitoba Newfoundland Prince Edward Island	Colorado Michigan Oklahoma Alberta Quebec

^a Active policy innovation process with one or more significant innovations approved and in operation

^b Some initial, albeit limited, policy innovation steps

^c Some analysis of greenhouse gas emissions and policy options

^d No active analysis of greenhouse gas emissions or policy options

^e Official opposition to policy analysis and innovation



“The Legislature and the Governor are only peripherally involved, although they haven’t told us to stop,” said one state environmental official who is a state leader on climate change issues. He continued, “It has really been a non-issue in the legislature so far; they don’t know much about what is going on in the state, assuming it is just a national issue.”

A small number of legislators in certain states have expressed concern over potential economic ramifications from reducing greenhouse gases, most evident in those jurisdictions that have attempted to block policy analysis and innovation. But a more common response is indifference. As one state environmental official noted, “We are busy fighting the tanks on the battlefield that are shooting at us right now. And there are a lot of issues out there with greater immediate visibility and perceived threat than climate change.” Canadian observers offered similar explanations of the low agenda status of climate change in most provinces. According to one prominent provincial official: “People don’t see this as much of an issue and don’t talk about it much, except maybe once in a while when we have had weather and they get linked.”

Consequently, climate change thus far deviates from the more conventional pattern of environmental policymaking, whereby highly visible triggering events launch a search for policy alternatives and clear the way for political agreement. In some jurisdictions, specific incidents, such as floods in New Jersey, have elevated public concern. But there is virtually no correlation in either provinces or states between severe weather episodes or future projections of climate change impact and degree of policy initiative on climate change. In fact, some of the most active jurisdictions have had little discernible warming or adverse weather episodes that could potentially be linked to global warming. One state environmental official in Minnesota explains: “Climate change is just different from other issues like acid rain, where you can easily test lakes and see the damage. Here, there is very little visible effect. So how do you get the locals fired up over this when they can’t see it or feel it or count it?”

In most jurisdictions, “the locals” (meaning the general citizenry and citizen-based environmental advocacy groups) have had a remarkably low profile on this issue.

Indeed, the preponderance of state and provincial policy innovation on climate change discussed below can in no way be directly linked to this sort of “bottom-up” pressure.

Public opinion surveys in the United States and Canada note a fairly high degree of public consensus that climate change is a significant environmental problem for which policy remedies may be warranted. These surveys, however, tend not to rank climate change as a particularly salient environmental issue or one for which individual citizens are prepared to accept major lifestyle changes or support major collective action initiatives. “We have a lot of very active environmental groups and environmentally concerned citizens in this state,” noted one retired legislator with a long history of involvement in environmental protection and energy issues, “but climate change is just not one of their priorities; in fact, it seems hard for them to focus on long-term priorities.”

It is simply impossible to isolate a select set of industries or toxic substances as the culprits and target intensive regulatory efforts at them.

Consequently, industry-led interest groups with a stake in climate change have also maintained a relatively low profile. They tend not to oppose emission inventory exercises or very modest initiatives to promote greater energy efficiency. But any more serious policy proposals attract attention from these interests, including electrical utilities, automobile manufacturers, and oil, gas, and coal industries. In Minnesota, for example, an active exploration of establishing dollar-specific, environmental degradation values for carbon dioxide and other emissions in electricity rate setting and planning triggered a ferocious lobbying response from various industries in Minnesota and neighboring states, like North Dakota, that export considerable amounts

of high-sulfur coal to Minnesota. As one Minnesota official noted, “Industry brought the A-Team of climate change skeptics from around the country to St. Paul to testify and try to overwhelm the case made by state officials.”

Toward Policy Innovation: The Role of Entrepreneurs

The relative low salience and lack of interest in climate change from traditional combatants over environmental policy has not, however, served to remove it from the political agenda or to preclude significant policy innovation. Particularly in certain American states, far-reaching climate change innovation has moved through the political process with a stealth-like quality, receiving remarkably little media attention or formal comment from respective interest groups.

Even an astute expert on American climate change policy like Eileen Claussen, a prominent player in all aspects of North American climate change policy through her roles in the U.S. State Department, National Security Council, and Pew Center on Global Climate Change, said in August 1998, “I did not know six months ago of the efforts of so many of the states to inventory their emissions and develop action plans to reduce emissions.”

Operating below the public radar screen on environmental issues in many states, policy entrepreneurs working within public environmental protection and energy agencies play an active role in idea-generation and policy formation. This process runs contrary to conventional models that depict agency officials as averse to change, eager to protect secure administrative turf, or shackled by the commands of elected principals. Indeed, in many instances of innovation, elected officials played little if any role, at least until the latter stages of policy development and coalition building. Moreover, this process has advanced far more commonly and extensively in American states than in Canadian provinces, which also seems contrary given the relatively greater latitude that Canadian provincial environmental officials have to pursue policy interpretation and innovation.

This entrepreneurship is generally manifest in a relatively small network of agency officials, usually centered on the one or two individuals in a state or provincial agency who are deemed most



expert on the climate change issue. Indeed, virtually every state and province appears to have someone referred to as “Mr. or Ms. Climate Change,” who is the central link in a network of agency and related allies. In some instances, these networks are very quiet and confined to gathering background data on greenhouse gas releases. They may pursue policy development, but move forward cautiously for fear of political backlash both within and outside the agency.

At the same time, entrepreneurs in several other jurisdictions have built more extensive networks and gained the latitude to initiate more active policy development and formation processes. “We’re finding people who were not engaged at all a few years ago who are starting to pay attention to climate change and policy options,” noted one federal official. “Climate change tends not to be at the governor’s level of top three or top ten kinds of issues, but it is a growing concern for a number of officials and some commissioners in a number of states.”

In each of the jurisdictions with active climate change policy innovation, a solid relationship has emerged between the staff with climate change expertise and the highest levels of the agency. Most of the state environmental commissioners providing the greatest support for innovative entrepreneurs within their agencies are also active figures on the national scene. Motivations for commissioner involvement on this type of issue may vary, but result in significant policymaking opportunities.

In one state, for example, the key climate change expert noted, “I have a direct line to the commissioner, even though my line status in the department would not normally get me anywhere close to a direct audience with him. But I know this issue and he wants to understand it. So I feed him information, which enables him to go to a higher level and play at the national cocktail circuit. It also puts him in line to go to Buenos Aires and be in the international limelight. In turn, I get some opportunities that people in other states don’t and I am generally protected from any challenge in the agency or legislature.”

In other jurisdictions, less tangible support from the highest levels does not necessarily preclude policy entrepreneurship within an agency. An official in a state energy agency explains such a situation: “A year or so ago, we got an angry letter

from a legislator who wanted to know why we were doing so much on climate change when he felt that there was nothing to the issue and no reason for the state to be involved. We respond by saying it is something else, like energy efficiency, and then showing how these programs can be good economically and environmentally.”

In cases such as this one, entrepreneurs try to advance ideas and build coalitions, but they recognize that they are on somewhat fragile ground. They tend to maintain low profiles and refrain from the credit-claiming practices common in many other areas of subnational governance. A change in commissioners, the emergence of opposing interest groups, or even a contracted report that “goes too far” beyond what is politically acceptable can send successful entrepreneurs into a bunker mentality or can even cost them their jobs. “I started to become pretty visible in recent years, and now the issue has become a bit more controversial here,” said one state entrepreneur. “I used to have cover from the commissioner. But now there is a new governor coming and a new commissioner. I don’t know what will happen to my position.”

The degree of innovation, however, varies markedly across cases. This pattern of innovation—and non-innovation—tends to defy some of the conventional predictors of policy formation, such as precipitating events. Innovation seems to be far more feasible in American states than in Canadian provinces, running counter to much of the conventional thinking on environmental federalism. There are at least three distinct reasons for the lack of innovation among the provinces.

First, the Canadian approach to environmental federalism tends not only to give provinces tremendous freedom to design their own programs and standards but it also provides none of the federal financial grant or technical assistance support so common in the more complex American federal system.

There simply has been no federal funding source to underwrite provincial innovation. In turn, virtually every state with an active role in climate change policy has relied heavily on federal grants, most notably for inventories, action plans, and demonstration projects. For example, the State and Local Climate Change Program of the U.S. EPA has worked with at least 33 states in this manner, in a number of

instances providing funding and technical assistance essential to innovation. As one veteran of state air programs who has moved into climate change policy in recent years noted, “someone noticed this federal grant program, decided to work on it, and got the grant. That got the whole ball rolling here.”

Second, Canadian provinces have generally proven resistant to environmental policy initiatives that might offend regulated industries. A growing theme in the comparative literature on Canadian and American environmental federalism underscores the considerable reluctance of provincial officials to keep pace with their state counterparts in such areas as pollution prevention and regulatory integration across medium boundaries. Consistent in this case, one finds budding climate change entrepreneurs in virtually every province, but they are fundamentally more modest in their expectations and more emphatic about intra-agency and outside political impediments to innovation than their American counterparts.

Third, any provincial capacity to launch innovative research and policy development programs in climate change has clearly been undermined in recent years by far-reaching budget cuts in environmental and natural resource expenditures. Ministries with primary jurisdiction for environmental protection in many provinces have faced budget cuts of 30 percent or more since 1995. Staffing cuts have fallen most heavily on newer programs, further reducing provincial incentive or capacity to take a lead role on climate change. In contrast, state environmental and natural resources spending has remained steady during the 1990s, although it constitutes a slightly smaller share of total state expenditures at the end of the decade than at the beginning.

Conclusion

The conventional wisdom on the perceived virtues of environmental regulatory decentralization is sorely tested by the recent experience of American states and Canadian provinces in relation to greenhouse gases and climate change. Consistent with recommendations of recent international agreements and scholarly literature, some very promising examples of subnational innovation are evident, particularly in select states. These types of initiatives could spread to other states or



provinces and contribute to promising regional and national strategies. The most significant instances of innovation, however, are exceptions to the general pattern and seem particularly dependent upon adept policy entrepreneurship that comes largely from within state environmental protection and energy agencies. In turn, federal government resources, in the form of grants and technical assistance, are crucial to this enterprise. Under such circumstances, it is possible to assemble broad coalitions to support major initiatives.

But amid these promising cases, there appears to be enormous resistance to significant efforts to address climate change, even through mechanisms that can address conventional pollutants alongside

greenhouse gases. Even in Canada, where federal interference with subnational innovation has been virtually eliminated, there is substantial indifference to this issue. Indeed, many core environmental protection functions, including air and water pollution control and hazardous waste management, appear to be minimally supported at the provincial level, much less new initiatives to reduce greenhouse gases. In turn, the majority of states included in this analysis have largely confined their climate change efforts to greenhouse gas inventories and reviews of very modest policy initiatives. They appear far less dynamic and eager to tackle future problems than current conventional wisdom might suggest.

Numerous decisions and interpretations regarding greenhouse gas emissions can occur at all governmental levels in North America in the years ahead. Perhaps future national or international efforts will more fully unleash the widely heralded subnational capacity to tailor effective responses to environmental problems. But the findings to date inject a cautionary note. Just as it was naïve to assume a generation ago that tragedies of the common were inevitable in the absence of aggressive policy initiatives from federal government authorities, we may have lurched too far in the opposite direction in assuming that decentralization is an elixir for much of what ails environmental protection efforts. ■

The La Follette Policy Report

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