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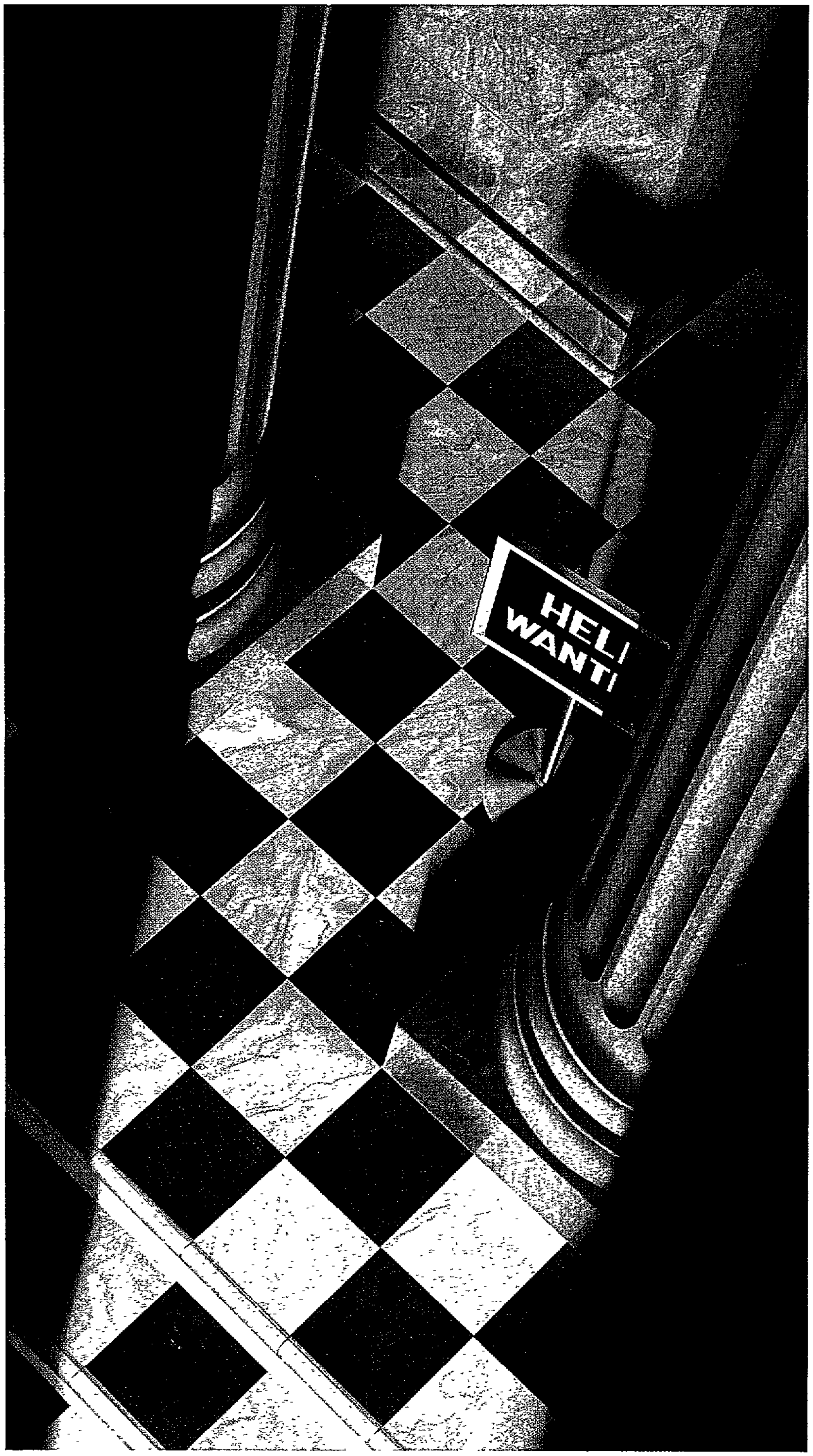

TALENT HUNT
Paul Volcker on the crisis in the public service

WHAT'S IN A LABEL?
Christopher Jencks, Lawrence M. Mead, and Isabel Sawhill on the underclass

HOUSING AND THE HOMELESS
New approaches to a growing problem

NUMBER 5 SPRING 1989

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C O N T E N T S

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THE GAO JOURNAL is published quarterly by the Office of Publishing and Communications, Rm. 4528, U.S. General Accounting Office, Washington, DC 20548. First class postage paid at Washington, D.C.

WRITERS whose work appears in The GAO Journal *speak for themselves only. Unless otherwise indicated, their views or opinions should not be construed as the policy or position of GAO or any other organization with which they may be affiliated.*

EDITORIAL CORRESPONDENCE: By mail to the above address. Letters to the editor are encouraged. Unsolicited manuscripts will be returned only if accompanied by a self-addressed, stamped envelope.

POSTMASTER: Send changes of address to the Office of Publishing and Communications, Rm. 4528, U.S. General Accounting Office, Washington, DC 20548.

FROM THE COMPTROLLER GENERAL

Regardless of its charge, and regardless of the laws and procedures under which it operates, the federal government functions only so well as the people who work for it. During recent times, however, the government has neglected the vital task of attracting, motivating, and retaining talent. We are already beginning to pay the price. If the quality of service to the public is allowed to decline any further, respect for government will decline along with it.

Elliot Richardson wrote recently that "As the baby boom gets grayer, competition for the best and brightest among the next, numerically smaller, generation will be keener. If government is to attract and hold its needed share of talent, the rewards and satisfactions of government service, which for more than a decade have lagged further and further behind other occupations, will have to be increased."

Mr. Richardson, by the way, is a member of the Board of Directors of the National Commission on the Public Service. As this issue of the *GAO Journal* goes to press, the commission has just issued its report on revitalizing the most important element of government: its work force.

The commission is chaired by former Chairman of the Federal Reserve Board Paul Volcker. Mr. Volcker recently visited with us to discuss the commission's work and to share his thoughts on the crisis in the public service. The issue is a broad one, he says, tied up in "personal and political perceptions—what people think of government and how they think of the civil service as a part of it."

Scotty Campbell, former Chairman of the Civil Service Commission, first Director of the Office of Personnel Management, and one of the primary architects of the Civil Service Reform Act of 1978 (CSRA), has much the same perception of the problem. In this issue's "Reflections on CSRA's First Decade," Mr. Campbell writes that "the government's personnel system exists in a larger environment that is not just political but economic and social." Both he and Mr. Volcker believe that the crisis in the public service requires the nation's leaders to work to restore respect both for the government and for the people who do the government's work.

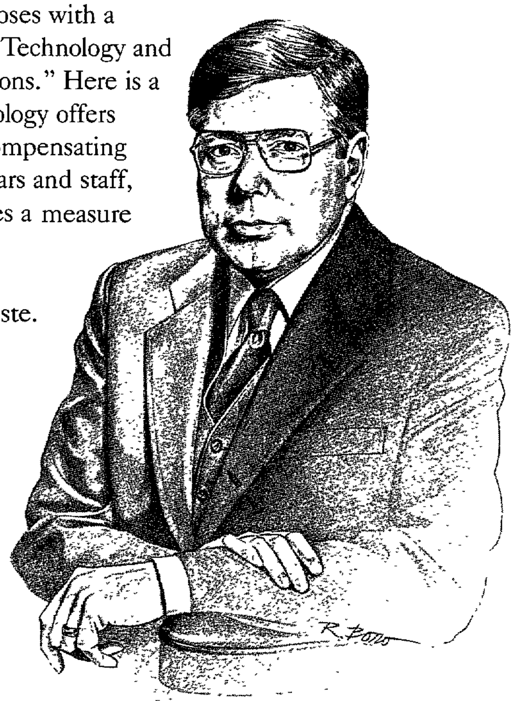
This issue of the *GAO Journal* also includes a three-article package on "Housing and the Homeless," focusing on the loss of affordable housing as it has contributed to the problem of homelessness, and pointing out some new and innovative approaches to its solution at all three levels of government and in the private sector.

A problem no less intractable than that of homelessness is that of illegal drugs. In "Toward a Realistic Anti-Drug Strategy," John L. Vialet and Ronald G. Viereck of GAO argue that previous federal anti-drug campaigns have shared a common flaw: "They have failed to make realistic choices, both about what the federal government can and should achieve and about where the nation's limited resources can be most effectively applied." What is needed, they say, are "well-defined goals that are realistically attainable with limited resources."

Recently, a lot of attention has been paid as well to "the underclass." We invited three leading social policy analysts—Christopher Jencks of Northwestern University, Lawrence M. Mead of New York University, and Isabel Sawhill of the Urban Institute—to discuss just what is meant by the term, and whether study of "the underclass" as such offers promise in the policy arena. Finding answers to deep-rooted social problems is never an easy task; merely to define and measure them can be challenge enough.

Our features section closes with a look at "Information Technology and Government Operations." Here is a story with a moral: New technology offers federal managers a means of compensating for the decline in available dollars and staff, but to fulfill its promise requires a measure of planning and clear thinking. Without the right approach, it's a promise that will go to waste.

With this issue, the *GAO Journal* begins its second year. Our thanks, as usual, to our contributors from within and outside the agency, and to our readers for their continuing interest.



Charles A. Bowsher

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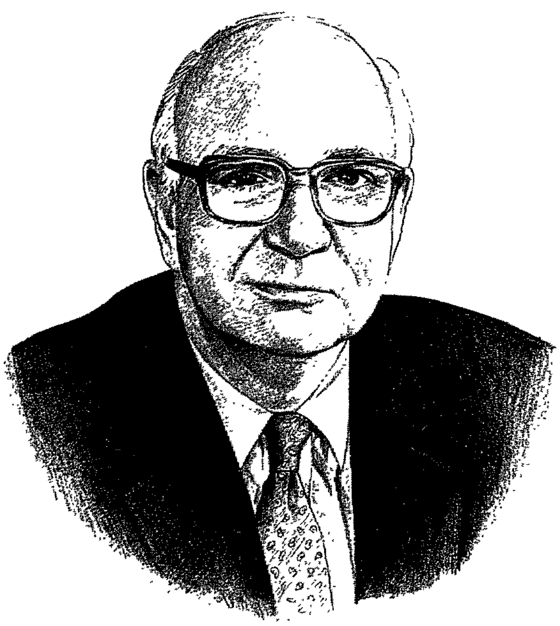
THE NOT-SO-QUIET CRISIS



Paul Volcker on the Public Service

IN SEPTEMBER 1987, Paul Volcker began work as voluntary Chairman of the National Commission on the Public Service, a privately funded, nonprofit organization "designed to strengthen the role of public service in enhancing the effectiveness of government." The prominence of the Commission's 37 members—who included former President Gerald Ford, former Vice President Walter Mondale, seven former cabinet members, three university presidents, and numerous other distinguished figures from the public and private sectors—reflected the urgency of the problems facing the civil service.

The Commission grew out of earlier work by the Brookings Institution and the American Enterprise Institute, which together sponsored the September 1987 symposium, "A National Public Service for the Year 2000."

A few days before the presidential inauguration, Comptroller General Charles A. Bowsher invited Mr. Volcker to discuss the work of the Commission, whose conclusions and recommendations were to be issued early this spring.

Mr. Volcker, who stepped down as Chairman of the Federal Reserve Board in 1987, is Chairman of James D. Wolfensohn, Inc., an investment banking firm.

BOWSHER—*I suppose it's no accident that the Commission hopes to issue its report early in the new administration.*

VOLCKER—No accident at all. When the Commission first came together, none of the members knew who the new President would be. But we knew that, whoever won, he'd have a real opportunity to breathe some new life into the issues surrounding the civil service.

The President sets the tone for the new administration. It's his job to provide the vision and to stir up popular support for what he wants to do. But whether he gets it done depends to a large extent on the corps of civil servants. Too often the importance of the bureaucracy is forgotten—which is why the crisis in the civil service is sometimes called "the quiet crisis."

BOWSHER—*So one of the purposes of the Commission has been to gain some recognition for the issue.*

VOLCKER—Sure. If nothing else, we wanted to convince people that all the bureaucrat-bashing of recent years is an empty, destructive exercise. If you're going to attract the best and brightest into government, you'd better let them know that you value the jobs that government people do.

BOWSHER—*Do you think that, across the board, the talent is not what it once was?*

VOLCKER—There is still, in key agencies, a remarkably high level of competence, experience, and dedication at senior levels. But the mass of evidence is that the talent's generally getting thinner. What's really troubling is that even the most likely candidates aren't entering government. A recent study of 365 seniors at Yale found just one who expressed an interest in a civil service career. At the John F. Kennedy School of Government, only 16 percent of those who completed the master's program in public policy over the past 10 years are in the federal bureaucracy.

BOWSHER—*It's also true that most senior civil servants wouldn't recommend a government career to their children. What accounts for this?*

VOLCKER—Pay is one thing, of course, especially at the highest levels. Senior civil servants are paid, in real terms, about 40 percent less than in 1969. The mechanism that was put in place to recommend compensation levels—the Quadrennial Commission—was supposed to help ensure comparability with the private sector. But the system never has really gotten a chance. Executive pay is tied to congressional pay, so it gets caught up in congressional politics. Members of Congress don't want bureaucrats to get higher salaries than they do, nor do they want to go on record as voting to increase their own salaries. Throw in the budgetary pressures we've been experiencing, and it's easy to forget about comparability. So executive salaries lag. The government ends up penny-wise and pound-foolish.

BOWSHER—*It's not easy to convince the public that senior civil servants are underpaid. Look at the public outcry at the Quadrennial Commission's latest recommendations.*

VOLCKER—Well, sure. But take a civil servant living in Washington, D.C. and working at the top of his profession—with enormous responsibility for spending public funds or for protecting the public's life or for dispensing justice—and then pay him precious little more than a fellow fresh out of one of the top law schools and entering a private Washington law firm. It's not right, and it's not smart. No private firm would pay the way the government does, and administer personnel the way the government does, and expect to stay in business.

BOWSHER—*Of course, the fact that government isn't business seems to be exactly what draws a lot of people to it. I've always been impressed that in government there are pockets of really dedicated people. Look at Rickover's submarine program in the Navy: There was tremendous loyalty at work. When a fellow left that program last year to work for a shipbuilder, it was the first time that had happened. Yet, you look at the rest of the Navy or the other services, it's just a totally different world.*

VOLCKER—That's a good point. The pay scale in the submarine program is the same as elsewhere in the Navy—right?—but it's leadership and mission that account for the spirit of the people who work there. An agency needs a sense of mission—the feeling that everyone's pulling together, working at something exciting. Federal workers can't be expected to identify with the entire government—it's too big. *Espirit de corps* is going to be an agency-by-agency thing, as it has been in the past with the Forest Service or the Park Service or the Foreign Service.

BOWSHER—*The agencies you've mentioned happen to be ones with strong careerist traditions.*

VOLCKER—There's probably no coincidence in that. Agencies with career ladders going right to the top, or even near the top, are pretty rare. Successive administrations have loaded the upper levels of the bureaucracy with political appointees—some 3,000 right now. Compare that with Germany, where 50 to 60 people change with the government; with the United Kingdom, where the number is roughly 150; with France, where it's maybe 400, and over half of those are drawn from the civil service. It's not surprising that, overseas, some of the best and most ambitious young men and women still vie for key spots in the civil service, and that senior civil servants are among the most respected professionals in the community.

BOWSHER—*Our problem isn't so much the sheer number of political appointees as the background and attitudes they bring to their jobs. New administrations have got to put a better focus on pulling in government professionals—people whose political leanings reflect the philosophy of the President, but who also value their professional integrity and the role of manager.*

VOLCKER—That's where the numbers cause problems. Can an incoming administration really be expected to make 3,000 top-notch personnel appointments in a few months?

BOWSHER—*You can be sure, though, that it would be hard to convince the White House that they'll have better luck getting their policies implemented if they make fewer political appointments.*

VOLCKER—It just goes against their instincts. Incoming administrations have traditionally been very suspicious of the civil service; they act on that suspicion by increasing the number of political appointees. Then the next administration comes in and adds even more. But you can argue that this great mass of appointees won't necessarily think alike, or even be uniformly in accord with the President. Some will bring in agendas that reflect their differing ideologies or particular career plans, and they sometimes have a constituency of their own. You're not going to see much follow-through on programs when the average stay in the job is less than two years, and you're certainly not going to see much attention paid to long-term management improvements. So you could certainly argue that all this diversity and turnover defeat the whole purpose of trying to fill the ranks with your own people.

BOWSHER—*Based on the general management reviews we've performed here at GAO, I think there's a major incentive for department heads to make better use of careerists: If you don't get the right folks in place—folks who know how to make the agency run properly—you'll spend your time putting out fires instead of implementing your policies and programs.*

VOLCKER—That's one lesson most political appointees have to learn on the job. Careerists can be of tremendous help. Time and again, we've heard agency heads say that they came in with a bad image of careerists and left with great respect for them. There have been examples of what happens when political appointees wall themselves off from career executives—or vice versa. But my own experiences have been a lot different. Part of the job of a senior civil servant is to remember—to warn the boss about where the potholes are, to let him know what's feasible and what's not, to report the facts without distortion. The typical career civil servant also wants to be responsive to strong and clear leadership, regardless of which party is in power. It's probably more than just an intellectual appreciation of the fact that the President and his appointees are politically responsible; there's a strong psychological satisfaction in playing on a team that has new ideas and a public mandate, that seems to know where it's going, and that is willing to look to the career staff for help.

Then again, when it's the political appointees who get all the prominent, decision-making jobs, after a while you've got to wonder where the career civil servants are going to find their incentives.

BOWSHER—*We've talked about fed-bashing and inequitable pay and the expanding number of political appointees. All these have contributed to the "quiet crisis." Are there other factors worth special attention?*

VOLCKER—Well, certainly. If the government's going to make the most of human resources, there's going to have to be more effort put into recruitment, more flexibility in promotion and firing, more decentralization, and improved educational and training programs. Right now there's too little being done in these areas; the bureaucracy is choking on bureaucracy.

More broadly, though, the issue is one of personal and political perceptions—what people think of government and how they think of the civil service as a part of it. Many Americans feel that the government isn't very efficient, that it just isn't doing things very well. Part of this stems from the fact that in the postwar period the government has tried to do so much more; the more you try to do, the less well you're going to do it.

BOWSHER—*There's also a difference between the attitude toward government today and that of the 1930s and 1940s. During the Depression and then during World War II, most people saw the government as a saving force. Now it seems they've reverted to the traditional American aversion to big government.*

VOLCKER—Well, big government's here to stay, and we all have a stake in seeing it work better. The people doing that work deserve respect. I think the public ought to confine most of its skepticism to the political world, where a dose of skepticism does the most good and where hard, healthy debate ultimately leads to decisions on public policy. But once the policy is in place—once the course is set—the government ought to be in a position to try and do it right. That's a pretty simple notion; a little respect would help get the job done. •

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Alan K. Campbell

REFLECTIONS ON CSRA'S FIRST DECADE

It's still too early to tell if the Civil Service Reform Act will live up to expectations.

MORE THAN TEN years have passed since the Congress enacted the Civil Service Reform Act of 1978 (CSRA). As one who helped craft the legislation and secure its passage, I am often asked what I think of its accomplishments. Has it succeeded in doing what we hoped it would do? My feeling is that, insofar as the act put the means in place to improve the federal personnel system, it worked. But whether CSRA's various provisions will be employed to the system's fullest advantage still remains to be seen.[1]

This has been a turbulent decade for federal employees. While the overall size of government—as measured by the number of employees—has not decreased,

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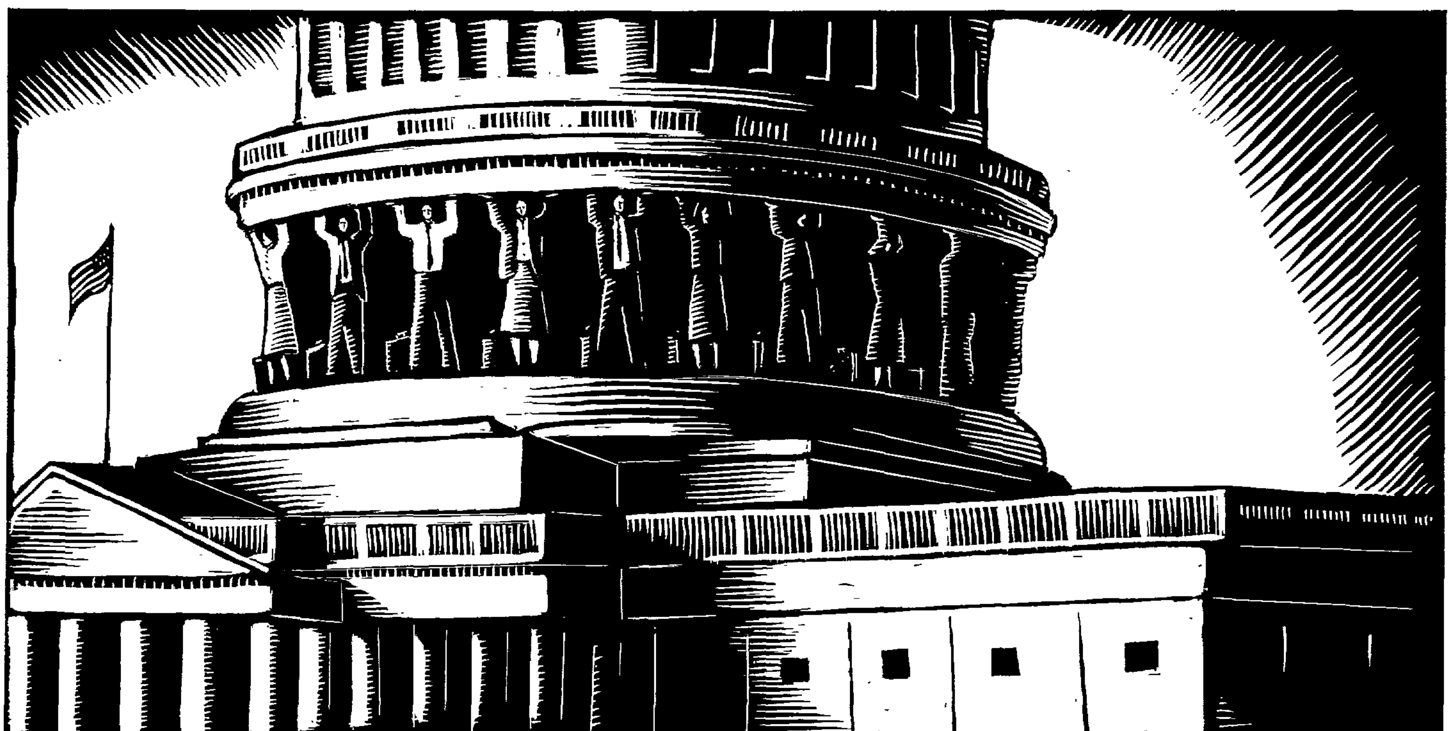
ALAN K. "SCOTTY" CAMPBELL, Chairman of the Civil Service Commission from 1977 to 1978, was the first Director of the Office of Personnel Management from 1979 to 1980. He is presently Vice Chairman and Executive Vice President of ARA Services, Inc.



the mix of government activities, and therefore the distribution of employment among the various agencies, has undergone substantial change, with the major shift being from domestic to defense agencies. These factors, in themselves, have made for upheaval in the system. But more disruptive to the civil service have been the continuing effects of bureaucrat-bashing, which created an atmosphere that could hardly have been less conducive to civil service reform.

Antigovernment rhetoric, of course, did not come out of nowhere. It was a spin-off of the disillusionment that took hold in the wake of the Great Society. In the 1960s and early 1970s, the federal government accepted the challenge of confronting a number of vast social problems for which solutions were unknown, and many of its efforts to solve these problems absorbed a lot of money, expanded the bureaucracy, and then did not work as well as was predicted. Eventually the public bought the notion that government—and by extension, those who worked for it—were not the solution, but the problem. The Louis Harris organization polled Americans in 1964 and asked, "Does the government waste a lot of money?" Forty-seven percent said yes. When the question was asked again in 1978, many more respondents—78 percent—said yes.

THE MOST DISRUPTIVE INFLUENCE ON THE CIVIL SERVICE HAS BEEN BUREAUCRAT-BASHING, WHICH HAS CREATED AN ATMOSPHERE THAT COULD HARDLY BE LESS CONDUCIVE TO CIVIL SERVICE REFORM.

Also contributing to the deteriorating attitude toward government was the slowdown in the growth of the nation's economy. Slower economic growth meant that any significant expansion in government programs would have to be paid for, not out of new income, but out of people's pockets. They resisted. Antitax initiatives such as California's Proposition 13 spread across the country. It seemed unfair, many argued, for taxpayers to pick up the tab for programs they did not believe were working. Americans generally believed in what their government was trying to do: 88 percent, according to the 1978 Harris Poll, supported Social Security; 76 percent supported health programs; 70 percent supported education programs; 68 percent supported law enforcement programs; 65 percent supported job programs for the unemployed. The problem was that far fewer people believed the government could make these programs succeed.

This was the climate in which President Jimmy Carter put the 1977 Personnel Management Project members to work studying and drafting legislation to reshape the civil service. President Carter said that "there is no inherent conflict between careful planning, tight management, and constant reassessment on the one hand and compassionate concern for the plight of the deprived and the afflicted on the other. Waste and inefficiency never fed a hungry child, provided a job for a hungry worker, or educated a deserving student." Here was recognition that the personnel function—involving a range of dry, if not altogether boring, issues such as classification, job analysis, productivity improvement, and training and development—has a great bearing on how well the government does its job.

Two large problems

Those of us engaged in the project discerned two overriding personnel problems in the civil service. First, we found that the federal government's personnel system had developed into a web of restraints designed primarily to prevent patronage, favoritism, and other abuses. In this sense it worked against itself: The same measures intended to prevent people from doing bad things can just as easily prevent them from doing good things. Second, we found that the layering of political appointees at the upper levels of federal agencies—assistant secretaries, deputy assistant secretaries, etc.—unduly limited the potential for career civil servants to fill high-level positions, and created serious tensions between career and noncareer personnel.

These two developments contributed to an environment in which no one felt a responsibility to make the system work: No one had a sense of *ownership*. Political appointees, serving for brief periods, sought to make their mark in some high-profile area, improve their resumes, and move on with their careers. Meanwhile, career federal employees, serving under a succession of political appointees, felt an obligation only to their jobs, not to the system of which they were a part. All this, it seemed to us, helped create a system that failed to emphasize either top-flight performance or the management tools necessary to ensure it. The primary purpose of personnel policies and practices is to encourage quality performance among all employees. Every policy and practice should be measured against this standard and performance should be measured against preestablished individual and organizational goals.

Reorganizing for change

One of our first recommendations was to bring responsiveness and flexibility to the personnel system by eliminating the Civil Service Commission. We felt the Commission had accumulated a set of mutually exclusive functions, and consequently was fulfilling none of them well. Although bipartisan in make-up, it was expected to work for the President, establishing personnel policies and advising and assisting executive branch agencies in achieving effective personnel management. At the same time, it was expected to stand aside from the fray and oversee the integrity of the merit system, protect employee rights, decide employee appeals, and perform a variety of other adjudicatory functions. The Commission's conflicting duties undermined both its performance and its credibility. So we split the agency and its roles. Under Reorganization Plan No. 2 of 1978, the Office of Personnel Management (OPM) became the President's personnel arm. The Merit Systems Protection Board became the merit system watchdog.

The creation of OPM was designed, in part, to put a more responsive personnel structure in place and thereby open the personnel system to change. One such change was in authority. The Civil Service Reform Act authorized OPM to delegate personnel authority to the departments and agencies; in fact, when I was OPM Director we delegated some 64 authorities. Why do so? Because when personnel authority is exercised from a distance, it serves merely as a control. When it is delegated to the department or agency—or even better, down to the manager of each operating unit—it becomes a tool for improving the performance of operations. I felt then—and continue to feel now—that day-to-day personnel decisions belong in the hands of the people charged with accomplishing the goals of the agency. The personnel staff should assist line managers, but authority must reside with the managers.

WHEN PERSONNEL AUTHORITY IS EXERCISED FROM A DISTANCE, IT SERVES MERELY AS A CONTROL. DAY-TO-DAY PERSONNEL DECISIONS BELONG IN THE HANDS OF THE PEOPLE CHARGED WITH ACCOMPLISHING THE GOALS OF THE AGENCIES.

The Senior Executive Service

Another major provision of CSRA was the creation of the Senior Executive Service (SES). The SES was intended to make it more feasible for career federal managers to fill high-level positions and to make the career-noncareer relationship more rational. In the SES, the designation "career" or "noncareer" became affixed to positions rather than individuals; it meant that a qualified career SES member could be called upon to fill a high-level "noncareer" post, yet retain his or her career status upon completion of the assignment. At the same time, we abolished the idea that rank—that is, pay and position in the hierarchy—was inherently a part of the position description, and established the principle of SES rank-in-person, so that an executive could be paid at a level commensurate with the personal rank he or she had earned.

EVEN IN GOVERNMENT, THERE IS NO PROGRAM IN WHICH MANAGERS WHO ARE ASSIGNED A SET OF GOALS CANNOT DEVELOP A MEANS OF DETERMINING HOW WELL THEY ARE BEING ACCOMPLISHED.

In addition, we set at 10 percent the maximum proportion of SES members who could be political appointees—the percentage that existed at the time CSRA was passed. (Despite a common perception that the number of political appointments to upper-level positions has increased in the 1980s, the 10 percent limit has not been violated. But it is also true, regrettably, that the number of career SES members moving into the upper-level positions does not seem to have risen.)

Better performance was our goal in arguing for the SES, as well as for other features of CSRA such as merit pay for middle managers. We hoped to get the most out of federal managers by establishing bonuses and merit pay, by making it somewhat easier to deal with inadequate performance, and by encouraging the adoption of performance appraisal systems.

Establishing workable measures of performance is a difficult task in government—more so than in the private sector. The obvious difference between a private company and a government agency is that the agency has no bottom line by which to measure its success. But, even in business, bottom-line considerations are not the only ones. In my own corporation, about 60 percent of each employee's bonus is based on the financial performance of his or her unit; the other 40 percent is based on nonfinancial measures, such as client satisfaction and retention, preparation of employees for new roles, and use of training programs. So it is possible to develop nonfinancial goals against which performance can be measured. I remain convinced that, even in government, there is no program in which managers who are assigned a set of responsibilities and goals cannot develop a means of determining how well these responsibilities and goals are being accomplished. Private-sector enterprises set up appraisal measures because they have to in order to survive. Federal employees face less risk of losing their jobs, but like all workers, they need a reliable measure of their performance to give them a sense of accomplishment and ownership of the organization of which they are a part.

Some agencies have done a very good job of developing measures of accomplishment, but I do not know of any governmentwide effort to try to understand what's working well, and where. Some still contend that OPM or the Office of Management and Budget should develop performance measures and impose them on the agencies. I believe, however, that the agencies would resist such a move—

and they should. And if such a system were imposed, the blame for its failures would fall on those who devised it, rather than on the managers responsible for making it work. I worry over the tendency in government, when there is a broad management problem, to assign the solution to a central agency rather than to the operating agencies. Even the role of oversight or coordination can very quickly become an authority role. The more useful function for a central agency is to offer technical assistance, review, and record keeping, and to help give visibility to innovative approaches and success stories from the agencies.

Public- versus private-sector techniques

There has been much talk about how the federal government ought to adopt private-sector management techniques. But one has to recognize that private-sector approaches have changed over time. Years ago, the organization of the federal government—its internal structure, its allocation of personnel—looked a lot like the private sector. Just as in government, the biggest firms had as many as 15 layers of management. And just as in government, there was a tremendous reliance on staff—personnel people, finance people, management types—versus line. American business has since learned that this sort of management approach, along with the accompanying staff overhead, makes it uncompetitive with its restructured domestic and international rivals. The government, though, with no direct competition to deal with—only a slowly building public resentment—has been less quick to learn the lesson and adopt the appropriate management and organizational changes. But that is why I think the CSRA laid the groundwork for eventual success: It allows agencies to innovate if and when they decide to do so.

CONSIDERING HOW UNRULY A DECADE THE 1980S HAVE BEEN FOR GOVERNMENT, THERE IS NO WAY OF KNOWING JUST HOW SUCCESSFUL THE REFORMS OF CSRA CAN BE. THE ACT *ALLOWS* THINGS TO HAPPEN; IT DOES NOT REQUIRE THEM.

The act did not prescribe solutions to the government's personnel problems. Instead, it enabled the federal personnel system to explore and implement its own solutions. Some argued at its passage, and continue to argue, that increased discretion at the agency level will create the potential for abuse of the system. This may well be true, but the old, more restrictive system is not the answer. I do not think, for example, that the sort of personnel abuses that took place early in this decade at the Environmental Protection Agency would have been prevented under the old system.

In a personnel system as enormous as the federal government's, there is no legislative solution to the eternal conflict between central control and autonomy. Eventually, it comes down to the luck of the draw—having leaders who make the most of the opportunities afforded them, and enjoying times in which the opportunities are there. Certainly, the administration that took office in 1981 had its own agenda, which to a considerable extent worked against the greater autonomy encouraged by CSRA. The delegation of personnel authorities by OPM came to a halt; in fact, many of the 64 delegations made by the previous administration were rescinded. But other factors also inhibited innovation: The kinds of experimental personnel projects encouraged by CSRA would probably have been more widespread if the times had not been marked by growing deficits and antigovernment sentiment.

So, in the sense that this has been an unruly decade for government, there is no way of knowing just how successful the reforms of CSRA can be. The act *allows* things to happen; it does not require them. In the last 18 months or so of the Reagan administration, for example, OPM began to reverse itself in many areas. And even where progress has not been what we might have hoped, some progress has been made. For instance, complaints are heard concerning the SES. The number of career SES personnel in high positions does not seem to have gone up. Training programs for SES members and opportunities for movement across agency lines have not met expectations. Yet the bonus system—a matter of great controversy during enactment of CSRA and in the days thereafter—seems well accepted now. And the fact that SES members carry rank-in-person rather than rank-in-position allows for easier movement of managers, if not from agency to agency, at least within agencies themselves. And regarding the degree to which talented career SES people are chosen for high posts, the fact that they have not been of late does not mean that they will not be in the future.

THE GOVERNMENT'S PERSONNEL SYSTEM EXISTS IN A LARGER ENVIRONMENT THAT IS NOT JUST POLITICAL BUT ECONOMIC AND SOCIAL. IT WILL TAKE A WHILE TO SEE WHETHER THE BEST USE IS MADE OF CSRA.

For federal employees, the tone has to be set by the President. This one has gotten off to an encouraging start. But the government's personnel system exists in a larger environment that is not just political but economic and social. It will take a while to see whether the best use is made of CSRA.

One additional note: An issue that civil service reform does not address is that of adequate pay for federal managers. The recent inability of the Congress to address this issue raises a serious challenge to the ability of the federal government to attract and retain its share of the nation's most talented managers. The public debate about pay focused almost exclusively on appropriate compensation for Members of Congress, when the greatest threat to effective government comes from inadequate pay for executive branch managers and members of the judiciary. Civil service reform, or, perhaps better said, effective personnel leadership, is invariably dependent on executive leadership. Without competitive pay—competitive with state and local governments, nonprofit organizations, and business—there is no way such leadership, either career or noncareer, can be retained or attracted. In the long run, effective implementation of civil service reform and, similarly, the overall quality of executive branch management rely on fairness in pay. Current executive pay does not meet this test. •

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1. For her help in preparing this essay, I would like to thank Nancy Kingsbury, Special Assistant to the Chairman of the Civil Service Commission during my tenure, and presently Director, Foreign Economic Assistance Issues, in GAO's National Security and International Affairs Division.

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THE ISSUE OF UNDERCLASS

Most GAO Journal *readers have become acquainted with the term "underclass" through the popular media. In February, GAO invited three leading social policy analysts to discuss the concept of underclass and portray both the possibilities and the difficulties surrounding its application.*

CHRISTOPHER JENCKS is author of Inequality *and* Who Gets Ahead? *He is Professor of Sociology at Northwestern University in Evanston, Illinois.*

LAWRENCE M. MEAD, Associate Professor of Politics at New York University, is the author of Beyond Entitlement.

ISABEL SAWHILL is Senior Fellow at the Urban Institute in Washington, D.C. She was editor of and contributor to Challenge to Leadership: Economic and Social Issues for the Next Decade.

Participating in the discussion and asking questions on behalf of the GAO Journal *were Comptroller General Charles A. Bowsher; Lawrence H. Thompson, Assistant Comptroller General, Human Resources Division; Frank Frazier, Director of Income Security Issues (Disability and Welfare), Human Resources Division; and Lowell Dodge, Director of GAO's Office of Affirmative Action Plans.*

GAO JOURNAL: The word "underclass" has gained a lot of currency over the past few years. Have you found the concept to be a useful one?

SAWHILL: We began with much the same question: Is there anything about the term "underclass" that differs significantly from "the poor," or is it just a new and perhaps pejorative label for poor people? We concluded that, indeed, there might be something in the concept that is distinctive and worth studying. While the definition of the term is still not at all settled—and I don't think there is any single, "correct" definition—what we've come up with is one that has a behavioral focus to it. We say that the underclass consists not simply of people who are poor, but rather of people who engage in various dysfunctional behaviors and who live in neighborhoods where these dysfunctional behaviors are commonplace. We're referring to such things as teenage childbearing, crime, male joblessness, welfare dependency, and dropping out of high school.

JENCKS: Most analysts agree that the definition ought to be behavioral; the argument is over what kinds of behavior ought to be included, as well as whether the definition ought to be tied to geography.

MEAD: Personally, I would prefer a definition that focuses on individual attributes—low income plus these dysfunctional behaviors—but that isn't tied to low-income areas, which in general means inner-city areas. For one thing, applying this sort of geographical standard yields too small a number of people relative to the overall poor population. In addition, many of those whom we could reasonably characterize as underclass live outside such areas. But, having said that, I don't think the dispute is fundamental. The real shift in the discourse has been from talking about poverty, which is strictly an economic measure, to focusing on the combination of poverty and dysfunctional behaviors.

JENCKS: Many people don't want to use the term at all. They consider it disparaging of the poor.

MEAD: I think their sensitivity is largely a matter of political scruples. Many people, particularly those to the left of center, would say that use of the term "underclass" is pejorative and is intended to undermine support for helping the poor. But to be squeamish about recognizing the existence of the underclass is to ignore a very real phenomenon. In fact, I think that this hesitation has undermined support for liberal measures.

JENCKS: By "underclass," we're talking about a group of people who are not only in poverty but who seem to be trapped in it. Defining the group, though, is important. How you define it determines how you will measure it, and the numbers you come up with will, in turn, determine how critical the overall problem appears.

SAWHILL: One dilemma we face is that any specific set of indicators you settle upon to distinguish "underclass" from "nonunderclass" is going to be somewhat arbitrary. It's analogous to the problems associated with using the official poverty line; people with incomes slightly below the line are only a little bit worse off than those with incomes just above it, yet the former are counted as poor and the latter are not. In the real world, of course, there's no such sudden break.

GAO JOURNAL: Why do some analysts find it so important, in defining the underclass, to take the idea of neighborhoods into account?

MEAD: It's attractive to them, I think, because it points to causes and, by extension, to solutions. It may be that in neighborhoods where dysfunctional behaviors are commonplace, there has been a breakdown of ordinary mores that reinforces these dysfunctional behaviors—a kind of contagion effect—and further isolates the inhabitants of these areas from ordinary mores. One can also make the case, as William Julius Wilson [author of *The Truly Disadvantaged: The Inner City, the Underclass and Public Policy*] and others do, that these neighborhoods are to some extent isolated from the economy—that people in the inner city somehow can't find employment due to where they live versus where the jobs are. Unfortunately, there isn't much evidence for that view.

SAWHILL: I find the geographical dimension useful for several reasons. One is that it helps identify people at risk, particularly children. The thesis is that children who grow up in these neighborhoods—even within working-class or non-poor families—face barriers to upward mobility. The contagion effect of living in an underclass neighborhood hasn't yet been proven, but just talking about the geographic dimension has put the hypothesis on the table.

Another reason to focus on geographic concentration, I think, is that it gives us a means of targeting policy. At the Urban Institute, for example, we are already getting requests from various states to identify their underclass areas so they can use the information in targeting new programs. There's a lot of interest now in geographic targeting, especially with enterprise zones coming back onto the policy agenda.

MEAD: I think the underclass concept has been shaped, to some extent, by the public's perception of the poor. There are a number of economists who would prefer to deal simply with the measurable, economic parameters of poverty rather than with the behavioral dimensions. But to the public, aberrant behavior is much more important than low income.

JENCKS: It goes back to an older notion, too. Sociologists used to write about the lower class—I remember Elliot Liebow's *Tally's Corner* and Oscar Lewis's *The Children of Sanchez*, for instance—and what they said about the lower class back then sounded a lot like what we say about the underclass today. The economists have had their 15- or 20-year turn at saying it's just a matter of low income; now we're getting back to a more encompassing view of the problem.

GAO JOURNAL: But does calling any group "the underclass" imply some kind of moral judgment?

JENCKS: I don't think the term itself is any more pejorative than the term "poor." On the other hand, by defining the members of the underclass as people who are engaged in dysfunctional behaviors, you certainly set them apart from those who are commonly viewed more sympathetically: the elderly or disabled poor and the working poor. The farm poor, as well, cannot be considered among the underclass.

MEAD: As I said, to a large extent we're reflecting public concerns. There is a lot of dysfunctional poverty in rural Appalachia, but that's not what the public means by "the poor." The public means the inner city. In fact, by "the poor," the public largely means homeless people and long-term welfare recipients.

JENCKS: That's where the question arises about the usefulness of talking about an underclass. Does it contribute to understanding the situation and designing programs to improve it? The term implies that different sorts of dysfunctional behavior go together. Often, they don't. I think we get a better idea of what is happening if we recognize that we have several different problems: a crime problem, a dropout problem, a teenage employment problem, a teenage childbearing problem, and so on. Some of these problems are getting worse, but some, like crime and dropping out of school, are getting better.

SAWHILL: Well, labels can be more useful or less useful. "The poor" is an awfully broad—and therefore misleading—label. The poor are a diverse group. One approach, by the way, to portraying their differences and the policy choices they imply is to divide the poor into three roughly equal groups. The first third consists of the elderly or disabled poor. Then there are the nonelderly, able-bodied who are temporarily poor—usually for a year or two, and usually because they've lost their jobs. This group includes the unemployed steel worker in Pittsburgh or the working-class woman who has gotten divorced. People such as these comprise maybe another third of the poverty population. Then comes the final third—the more persistently poor. Their poverty lasts six or eight years or more. They're nonelderly, able-bodied people. A lot of female-headed families fall into this last category.

Now, of this final third, a very small proportion live in the bad neighborhoods we call underclass areas.

In policy terms, you want to employ the traditional social insurance programs—Social Security, disability insurance, and the like—to help the first group. For the second group, there are existing safety net programs such as Aid to Families with Dependent Children, food stamps, and unemployment insurance. But the third group, of which the underclass is a subset, provides the biggest challenge. Income maintenance, although it's the compassionate thing to do, is not by itself going to solve this group's problems. I've estimated that the United States could eliminate the poverty—the *income* poverty—of the underclass by an expenditure of about $5 billion a year. But does anyone believe that providing income transfers of $5 billion a year to this group would solve its problems? It might help to ease their problems; it would not solve them.

MEAD: But we used to believe it would. Twenty years ago, there were people who seriously argued that merely raising the income of the dependent poor would have regenerative effects—that is, change their attitude toward life, get them on their feet. Many would have argued then that both poverty and dependency are transient, while today we recognize that perhaps half is transient, half not, and that a portion of the long-term poor and dependent constitute an enduring underclass.

JENCKS: I think we ought to get back to the issue of behavior. Just how useful is it to roll a lot of problems into one package, as opposed to sorting them out and treating them separately? For standard indicators of who is in the underclass, we've settled upon crime, dropping out of school, having children out of wedlock, and not holding a job. When you roll these together you get the idea that, at least in some places, *all* these problems are getting worse. But if you look at the position of black kids as compared with white kids, the school dropout rates have been going down, not up. Achievement scores for blacks, as a group, have gone up. Black crime rates are down. On the other hand, if you look at the out-of-wedlock births and joblessness rates, you've got a disaster on your hands. So I'm not sure it's entirely helpful, from the standpoint of analyzing the situation, to roll all these problems into one package.

MEAD: But people make connections, and they see the same members of the society involved in many of the same problems. The behaviors may well be distinguishable and they may have different trends, but the same individuals are often involved in these behaviors. And people, rightly or wrongly, imagine a common cause, see a common syndrome.

SAWHILL: One problem is that we don't have enough good data, so we tend to use the data for all blacks as a kind of substitute for the poor or the underclass. It is not a very satisfactory approach.

Using our definition of the underclass, we find that the size of the underclass roughly tripled between 1970 and 1980. We are now trying to find out why. One of the things we're looking at is the skills mismatch—the idea that this group doesn't have much education, while jobs in urban areas are increasingly the sort of white-collar or service-sector positions that require more education than the manufacturing jobs of the past. In our preliminary research, we've found that a variable that measures the skills mismatch is very strongly indicative of where the underclass is growing. So, even though the absolute educational levels of all blacks, or even all black youths, are going up, there is a bifurcation taking place: Some are advancing; others are being left behind. It may also be that while the educational levels are going up, they're still not keeping pace with the rising educational levels needed in the economy.

GAO JOURNAL: What has been the role of housing in all this—particularly the sort of public housing where thousands of the poor have been deliberately located in giant housing projects?

SAWHILL: I think there is a growing feeling that these projects were a mistake because they led to a clustering of these problems. One argument, in fact, for the housing voucher approach is that it would deconcentrate the underclass and, by allowing them to live in better neighborhoods, expose them to more opportunities and better influences.

JENCKS: That's a reaction to the idea of the contagion effect of bad neighborhoods. I think we've got fairly good evidence, for instance, that teenage childbearing is related to neighborhoods. We have some evidence that high school completion is also somewhat sensitive to neighborhoods. On the other hand, we've got pretty good evidence that neighborhoods don't affect the likelihood that those who graduate from high school will go on to college. All of this is beginning to get sorted out, although we are still a long way from the kind of evidence we'd really like.

SAWHILL: I should emphasize that serious research on the underclass—particularly, quantitatively oriented research—has been going on for perhaps two years, at most. So it would not be realistic to expect to have learned a lot in that short period of time.

JENCKS: There may be something else worth saying about that: Research on the underclass has been going on for a couple of years because the underclass has become a hot subject. If the past is any indicator of the future, it won't stay hot enough long enough for us to really learn much. The research money will dry up in three or four years, everyone will be bored with the subject, and we'll never find out what we need to know.

GAO JOURNAL: Is the underclass issue going to stay "hot enough long enough" to influence social policy?

MEAD: Well, if you look at last year's welfare reform legislation, you'll find that it was, at least in part, a reflection of the public's concern with the ways in which current policies may be affecting the problem. It's linked, of course, to the fear that welfare actually contributes to the creation or persistence of the underclass. The person whose name comes to mind, naturally, is Charles Murray [author of *Losing Ground: American Social Policy, 1950-1980*], who argues that welfare creates disincentives to working. But in spite of much research, I'm impressed at how unimportant simple disincentives appear to be. I find more reason to think the problem is a lack of serious requirements to work or otherwise function while on welfare.

I think there is a strong argument in favor of imposing an expectation of work or some other activity in return for welfare benefits. We need somehow to make the lives of welfare recipients—particularly in view of their role as parents—less defeated and pointless than they have been. The welfare reform legislation embodied the movement toward doing that. It's my view that building these social investments—the intensive job placement programs, child-care programs, special schooling, and other services—into a structure of expectations for parents is the way things are going to move.

JENCKS: There's a conflict, of course, between getting poor, unwed mothers involved in their children's development—teaching them to be better mothers, getting them involved in Head Start centers and welcoming case workers into their homes—and telling them to go out and earn a living.

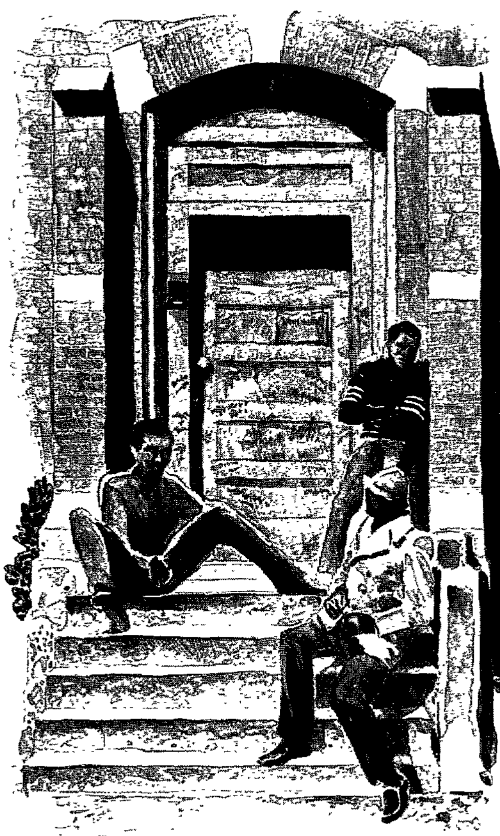
MEAD: This may be so, but their main problem is defeatism: their lack of hope in the future and their sense that they have so little control over what happens in their lives. The way to begin to deal with this is to involve them in activities outside the home, that is, to get them out of the private world of retreat and into the public world of action and interaction with people. Parents who become involved in the world, who begin to build hopes and make plans for their future, communicate to their children that they, too, can handle the world—that they can do well in school and eventually get a job and succeed there, too.

JENCKS: Defeatism can eventually create a counterculture. At some point, people who keep failing to achieve society's goals are likely to stop trying. Then they don't even take advantage of the limited opportunities that are really there.

MEAD: There is at least some measure of opportunity available that isn't taken—quite a bit, I would say, in the area of employment. I haven't yet seen any convincing evidence, for instance, for the "mismatch" theory referred to earlier—that the inner-city poor can't work because they are remote from jobs or unqualified for them.

In this area, at least, part of the problem is something I'd term "political resistance." A lot of low-skilled men don't say that jobs are lacking; instead, they say the jobs that are available aren't good enough and that they shouldn't have to take them. They're put off by the injustice of it all and so they're defeated before they begin.

JENCKS: And when you feel defeated, it seems to me, is when you respond least to economic incentives. You have to work toward eliminating the defeatism. It would help, too, to recognize where that defeatism comes from. It comes from experience. One of the classic findings in this area is that when you try to predict which kids will get into trouble with the law, it's not the ones who come from the worst backgrounds who do, but the ones who expect to end up in the worst places. These are kids who have done badly in school; they have failed to meet the expectations of every institution they have encountered up to the age of 16 or 18. It is not surprising that they are defeatists; it would be astonishing if they were anything but defeatists.



SAWHILL: I think we get into some really unknown territory here: the interactions between parents and children that lead children either to feel or not to feel they are worthwhile people who can meet the outside world successfully and control their own fates. A disadvantaged parent who has suffered continual setbacks may not be very good at communicating positive values to a child. We just don't know much about this area, and it's something we should be looking at. By the way, there is some evidence that preschool does more than prepare kids for later education; a child who gets extra lessons in arithmetic or reading—and therefore achieves some immediate success in the classroom—may be learning that effort pays off. This can produce a better self-concept as well.

GAO JOURNAL: The lack of research findings comes up again and again. Do we know enough about the underclass yet to prescribe policy approaches?

SAWHILL: No, I don't think so, although we can hazard some guesses and say this is what we would do if we had to decide right now. You can't ever wait until all the research is in before you make a decision. But that's different from saying we know exactly what to do.

I think the recent welfare reform legislation was a good first step. I like the idea of work requirements or requirements that welfare recipients be involved in training or some other kind of activity. The emphasis on child support is very important, too. It sends a strong signal to young men that if they father a child, they are going to have to assume some financial responsibility during the time that child is growing up. On the other hand, I think one of the shortcomings of welfare reform so far is that it focuses almost entirely on the female population; it doesn't do anything about males who don't have jobs. One possible approach would be to set up some kind of demonstration program under which males—both married and unmarried—with family responsibilities would be entitled to a subsidized job of some sort, either in the public or private sector. The debate has been about whether the problem is a lack of jobs or a lack of interest among inner-city males in taking the jobs that are available. By running a demonstration, we'd find out if they really want to work.

GAO JOURNAL: It's striking how many fundamental questions about the underclass are still open to investigation.

JENCKS: That's true, but they're still worth pursuing. I'd say that in the areas of crime and education, we've learned practically nothing from the underclass concept. On the other hand, I think it has helped focus attention on the potential linkages between employment and family structure.

MEAD: I would agree that we know little about the underclass, but I still think that our main problems in responding are political rather than intellectual. No matter how well we may come to understand the roots of dysfunction, it is no longer sufficient for government to expand opportunity for the poor—its traditional mission. The government must go beyond that to motivate poor adults to seize the opportunities that exist. It must, to some extent, tell them what to do. It must act in tutelary, paternalist ways. Both left and right find that extremely uncongenial. They would both like to assume what must, in fact, be created: a stronger urge on the part of the poor to be self-reliant and to get ahead.

SAWHILL: So far, what's come out of "the underclass" as an issue is a greater attention to the need for a social services/human resources investment strategy if we are to reach this group, as opposed to a focus on income transfers or other kinds of short-term assistance, as I mentioned earlier.

I also think the underclass discussion has led to a new emphasis on children and how we can prevent them from adopting these dysfunctional lifestyles. This has led to recommendations to do more in the areas of prenatal care, nutrition, preschool experiences, compensatory education at the elementary school level, job training for teenagers, dropout prevention, and the prevention of teenage childbearing.

In terms of politics, I think there is a lot of concern about the social costs of allowing the underclass to continue to grow, and this has revitalized the discussion about the nation's antipoverty policies.

But if you're asking if we know all the answers or if we have some sort of magic solution, the answer is no. •

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John L. Vialet & Ronald G. Viereck

TOWARD A REALISTIC ANTI-DRUG STRATEGY

What the war on drugs has lacked is a set of clear, attainable, well-defined goals.

SINCE 1973, the federal government has periodically published its anti-drug strategies. These documents have contributed to a greater understanding of the country's drug problem and the dimensions of U.S. anti-drug efforts. But they have all had a fundamental flaw: They have failed to make realistic choices, both about what the federal government can and should achieve and about where the nation's limited resources can be most effectively applied.

The current National Drug Control Strategy makes everything *a priority, and therefore provides no basis for deciding where scarce resources should be focused.*

The current National Drug Control Strategy has the same defect. In 1988, the National Drug Policy Board (which, until recently, had oversight authority for all aspects of federal anti-drug efforts) issued a report entitled "Toward a Drug-Free America: The National Drug Strategy and Implementation Plans." The report states that the "President's goals and the National Drug Strategy focus on stopping the supply of drugs and eliminating the demand" and that the overall aim of U.S. anti-drug policy is to have a "drug-free America."

The National Drug Strategy is broken down into nine specific strategies—five dealing with supply reduction, four geared toward demand reduction. These strategies are further broken down into a set of objectives, including: eliminating international drug trafficking cartels; increasing cooperation in global narcotics control; significantly reducing the flow of cocaine; seizing drugs shipped in containers, hidden in general cargo, secreted aboard commercial vessels, and carried by passengers and crews; assisting local law enforcement agencies; providing leadership to increase awareness of the drug threat; enlisting community leaders as role models; encouraging high-risk youth to assume greater responsibility for their own behavior; ensuring that drug treatment is readily available; and identifying drug users and encouraging them to enter treatment programs.

And this is only a partial list. The objectives set out in the strategy are sweeping—so sweeping, in fact, that it is unrealistic to expect that they can all be accomplished with the money now devoted to federal anti-drug efforts. In setting the goal of a "drug-free America," the strategy makes *everything* a priority, and therefore provides no basis for deciding where scarce resources should be focused.

Supply reduction

The federal budget for drug abuse control has grown dramatically in recent years. Spending increased from $1.1 billion in 1981 to $3.8 billion in 1988, and is expected to reach $4.6 billion in fiscal year 1989. The President's February 1989 budget proposes spending $5.5 billion for fiscal year 1990.[1]

Why, with all this additional money for anti-drug programs, has America's drug problem persisted? It may be that, besides scattering limited funds among too many objectives, these programs have been misguided in their basic thrust. Throughout the 1980s, the federal anti-drug strategy has emphasized efforts to reduce the illegal drug supply. Since 1987,

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there have been increases in federal funding for demand reduction, but supply reduction programs still account for most of the spending. In 1988, $900 million went to such demand reduction efforts as treatment of drug addicts, research into the causes and characteristics of drug abuse and addiction, and prevention of drug abuse through education. A greater amount, $2.9 billion, was spent on supply reduction—domestic investigations and prosecutions of drug traffickers, attempts to interdict drugs being smuggled into the country, and international drug control. The most expensive supply reduction program is drug interdiction, which tries to detect and apprehend drug smugglers and increasingly seal the nation's borders against imports of illegal drugs; drug interdiction accounted for about $1.1 billion of the total $3.8 billion anti-drug budget in fiscal year 1988.

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The federal anti-drug strategy hasn't worked. Drug production in foreign countries remains at high levels, with plentiful supplies available for export to the United States. Only a fraction of the drugs smuggled into the country are intercepted; it's still relatively easy to get drugs across the border and sell them to American customers. Furthermore, the enormous profits of drug trafficking continue to attract an endless stream of entrepreneurs who see opportunities far outweighing those offered by legitimate business.

Scarce resources

Perhaps a more fundamental obstacle to dealing effectively with America's drug problem is the overall scarcity of resources—not only in federal programs, but also in state and local criminal justice and public health systems. This difficulty has cropped up in a number of local attempts to crack down on drug abuse.

Good examples of the constraints that limited resources place on anti-drug efforts can be found in a recent GAO report[2] that we helped prepare. In doing field work, GAO staff visited six major U.S. cities and met with law enforcement and health officials. Some of the more interesting anti-drug initiatives involved intensified enforcement of drug laws in areas where drug users and sellers were particularly active. Quoting from the report:

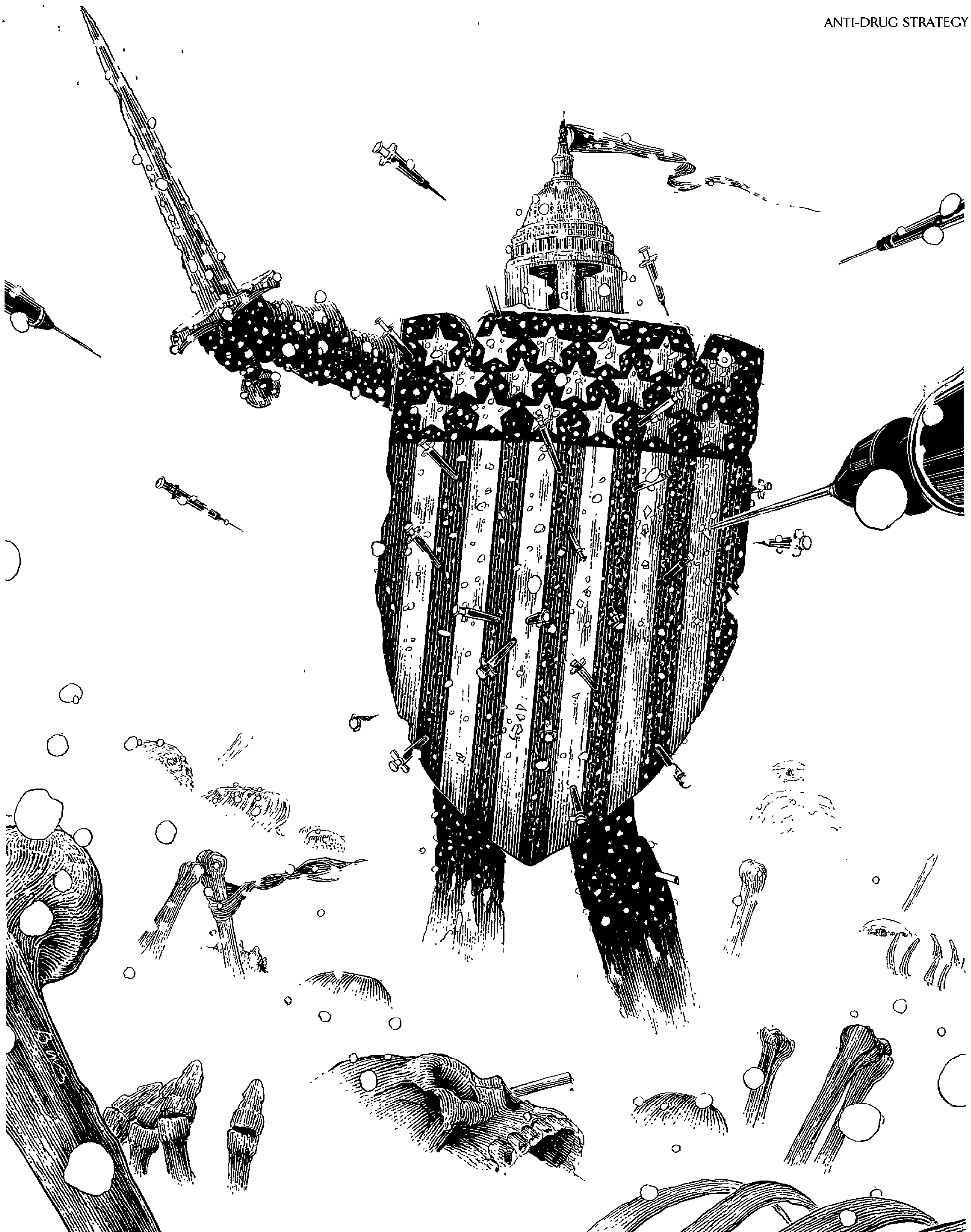
> "The New York Police Department (NYPD) reported tens of thousands of drug arrests from 1984 to 1986 in 'pressure point' operations designed to clear dealers out of targeted areas. NYPD officials said, however, that only a fraction of those arrested (a newspaper reported fewer than 500) actually received jail terms. . . . Police officials acknowledged that both police and the public get demoralized when drug violators arrested in such operations spend only an average of 18 hours in the court system, and fewer than 5 percent spend more than 30 days in jail. One police official, summing up his frustration, said that 'it is not hard to catch the criminals, just hard to put them away.' He also said it is not unusual to arrest the same person 30 to 40 times for selling drugs on the street, and he cited the case of one drug dealer who had been arrested 68 times."

> "Washington, D.C. police implemented Operation Clean Sweep in 1986. This round-up of drug users and sellers accounted for 13,000 drug arrests in a 5-month period. However, the operation overloaded the courts, prosecutors, jails, and drug treatment programs, and some cases were dropped. A local health official told us that the operation did little, and dealers were merely pushed from one neighborhood to another."

> "Intensive police 'reverse sting' operations targeting drug buyers in Dade County (in which the city of Miami is located) resulted in over 3,000 arrests in 1986. These operations placed a heavy burden on Miami's criminal justice and drug treatment systems, local officials told us. A local health official said as many as 60 percent of those arrested who were referred to treatment had to be dropped because criminal proceedings against them had been halted. Local police told us that many of those arrested did not serve any time in jail."

These examples illustrate the crucial importance of making hard choices about the allocation of scarce resources. In New York, Miami, and Washington, D.C., the lack of sufficient prosecutors, judges, courtrooms, jails, and treatment centers effectively negated the success of local police in making drug arrests. Without sufficient funds—to construct a new prison can cost $66,000 per bed[3]—promising programs such as Operation Clean Sweep have no chance of succeeding. Realistically, however, rechanneling federal resources to provide adequate funding for local clean sweep operations means withholding funds from other anti-drug efforts.

That's the problem with the National Drug Strategy—its objectives are too all-inclusive to be achieved with the money likely to be available. A "drug-free America" is such a broad, ill-defined term that, in today's world, it has become a rhetorical



device rather than a realistic goal. Its use implies that the country can "have it all"—that it's not necessary to make choices about which specific drug problems are most important and what strategies and resources should be employed to solve them.

The Anti-Drug Abuse Act of 1988

The Anti-Drug Abuse Act of 1988, passed in the final hours of the 100th Congress, incorporates a recommendation by GAO that may improve the planning and coordination of federal anti-drug efforts. The act established the Office of National Drug Control Policy, whose Director (better known as the "drug czar") will report directly to the President and will have unprecedented authority to plan, coordinate, and oversee a federal anti-drug strategy.

This strategy is to include "comprehensive, research-based, long-range goals for reducing drug abuse in the United States," as well as "short-term measurable objectives." The Director may also designate parts of the country as "high intensity drug trafficking areas" where substantially increased federal efforts and funds are needed.

The federal government should not abandon the hope of achieving a "drug-free America," but it cannot keep pretending that, despite the limits on available resources, it can do everything it wants to do.

Another of the Director's major responsibilities is to develop a consolidated budget proposal to implement the anti-drug strategy. The Director will review the drug control-related portions of the budget requests of the involved federal agencies and determine whether these budget requests are sufficient. Any agency's subsequent application to transfer more than $5 million of anti-drug-related funds to another part of its budget must be approved by the Director, whose disapproval can be appealed only to the President.

The Director's broad authority to lead the nation's anti-drug campaign offers hope that federal efforts will produce more concrete results than in the past. But if the strategy is to have substantial impact, the federal government must focus increased attention and resources on narrowly defined, realistic goals while searching for long-term answers. It is crucial to identify the most pressing drug problems, to develop strategies to solve them, and to provide adequate funding.

Possible approaches

In our opinion, a realistic anti-drug strategy will still need to involve both supply- and demand-reduction programs. There are many possible approaches. The choice of specific goals and approaches should be based on a conscious decision as to which drug problems are most important.

The Director of National Drug Control Policy may decide, for instance, that top priority should go to reducing the violence associated with drug-dealing in certain cities. For example, in Los Angeles there are an estimated 600 street gangs with 70,000 members. Many of the gangs are loosely affiliated into two large rival groups, known as the Crips and the Bloods. According to law enforcement officials, L.A. gang members are responsible for much street violence related to drug trafficking and use, including "drive-by shootings" in which rival gang members and innocent victims are killed. Some L.A. gang members have expanded their distribution of drugs to about 40 other cities across the country. The federal government could decide to concentrate on helping local authorities crack down on street-level drug sales and gang violence by providing financial assistance and other resources, such as federal agents and prosecutors. To make these efforts effective would require withdrawing federal resources from other drug control programs—unless federal anti-drug spending were substantially increased. (As this article went to press, the first act of the newly confirmed Director of National Drug Control Policy, William J. Bennett, was to announce plans for mobilizing federal resources to help the District of Columbia combat its drug problems.[4])

The Director could also determine that a problem requiring increased attention is high-level international drug trafficking organizations—such as Colombian cocaine cartels or Jamaican *posses*, or gangs. The Colombian groups are the primary importers of cocaine into the United States. The estimated 40 Jamaican *posses* in this country, which have about 10,000 members, have reportedly been instrumental in distributing the "crack" form of cocaine nationwide. Both groups are violent. Some 1,400 deaths in the United States have been attributed to the Jamaican *posses* since 1985. The federal government might decide to launch an all-out campaign against these or other organizations—again, with the full recognition that such an initiative could succeed only with a huge infusion of resources.

Another possible focus of federal anti-drug efforts could involve implementing more programs aimed at reducing the demand for drugs. This course has been advocated by an increasing number of law enforcement and public health officials, and it is the general approach that seems most fruitful to us as well. Exactly what it would entail, however, is not entirely clear, and we think it is important not to view demand reduction as the "magic bullet" that will immediately solve the drug problem.

It is imperative that the new Director of National Drug Control Policy focus on establishing goals that are attainable with limited resources. The new Administration seems to recognize that the time for such an approach has come.

There are a variety of demand reduction programs the Director of National Drug Control Policy might emphasize. He might decide, for instance, that it is of utmost importance to provide "treatment on demand" for drug abusers; this would require additional funding to eliminate the waiting lists for treatment programs. It could also be decided that the problem of AIDS among intravenous drug users must be tackled immediately through dramatically increased efforts to prevent the passing of infection by contaminated needles. Or the federal government might decide to concentrate on identifying and developing effective programs to discourage children and young people from using drugs. Right now, very little is known about preventing drug abuse; more research into what works and what doesn't needs to be done.

One controversial approach to demand reduction is to severely penalize drug users. This might involve a major expansion of employee drug testing and increased enforcement of laws against possession of small amounts of drugs. Both actions have drawbacks. Drug testing raises serious constitutional issues, and increased enforcement could further stress the already overloaded criminal justice system.

Realistic goals

As it focuses on specific supply- and demand-reduction objectives, the federal government should not abandon the hope of eventually achieving a "drug-free America," or at least substantially reducing drug abuse, and should continue to seek long-term solutions. Further study and experimentation could at some point uncover better ways to effectively attack the demand for illegal drugs—which is, after all, at the heart of the national drug problem. Likewise, it is conceivable that the United States could achieve diplomatic breakthroughs, convincing key foreign governments to cooperate more wholeheartedly in drug control activities.

But the federal government cannot keep pretending that, despite the limitations on available resources, it can do everything it wants to. For too long, federal drug policy has assumed that all things are possible, yet the federal government hasn't put its money where its mouth is. If the government were to try to pursue every objective outlined in the 1988 National Drug Control Strategy, its efforts would be doomed to perpetual failure.

It is imperative, then, that the new Director of National Drug Control Policy focus on establishing well-defined goals that are realistically attainable with limited resources. The new Administration seems to recognize that the time for such an approach has come. In an interview with reporters on January 25, 1989, President Bush said that "the elimination of drugs is . . . going to be successful only if our education is successful. The answer to the problem of drugs lies more on solving the demand side of the equation than it does on the supply side . . . I would like to think that we can funnel more money into it, but I also have this overriding problem of the deficit to contend with. . . . We're dealing with scarce resources in terms of federal money."[5] We believe that the President's remarks reflect a new and welcome realism about our nation's capabilities and limitations in the war on drugs. •

1. Anti-Drug Budget cross-cut tables, Office of Management and Budget, February 9, 1989.
2. *Controlling Drug Abuse: A Status Report* (GAO/GGD-88-39, Mar. 1, 1988).
3. *Sentencing Guidelines: Potential Impact on the Federal Criminal Justice System* (GAO/GGD-87-111, Sept. 10, 1987), p. 18.
4. "Bennett Gives D.C. Top Priority in Drug War," *Washington Post*, March 14, 1989, p. 1.
5. "Excerpts from Bush's Interview on Issues Ranging from Taxes to Drugs," *New York Times*, January 26, 1989, p. D22.

Robert A. Barbieri & Dennis W. Fricke

THE CRISIS IN AFFORDABLE HOUSING

The growing number of homeless people is evidence of a wider—and worsening—problem.

THE HOUSING ACT of 1949 committed the United States to providing "a decent home and a suitable living environment for every American family." Forty years later, the nation still has a long way to go toward meeting this goal. Even though the majority of Americans live in the finest housing in the world, one has only to glance down city streets or watch the nightly news to realize that not everyone is so fortunate. The number of homeless people in the United States is large and believed to be growing. Precise figures are impossible to come by, since many of the homeless live on the streets or in abandoned buildings, but estimates range from 250,000 to 3 million.

While the homeless are those for whom the 1949 legislation has most clearly failed to deliver its promise, millions of other Americans either carry excessive rent burdens or live in crowded or substandard housing. The nation's supply of rental property for the poor has shrunk as rents have escalated, low-rent properties have deteriorated, and low-income housing construction has dropped. The smaller this stock of affordable housing gets, the more Americans are at risk of homelessness.

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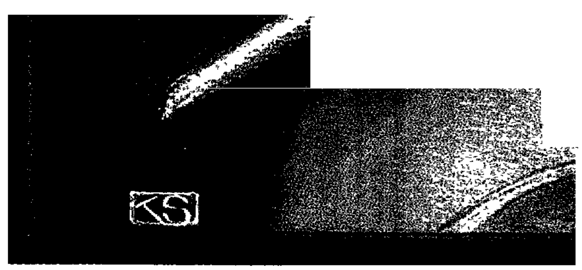


Homelessness and the decline in affordable housing are, therefore, closely intertwined, and are clearly the most critical housing issues the United States faces. The federal government acknowledged the severity of the homelessness problem when, in July 1987, it passed the Stewart B. McKinney Homeless Assistance Act. The act authorized more than $900 million for fiscal years 1987 and 1988 (much less than this was actually appropriated); and in November 1988 the act was reauthorized for two more years. Still, the McKinney Act was intended only as a temporary, emergency measure. Long-term approaches to the problems of homelessness and the lack of affordable housing will require more extensive measures and the involvement of many parties, at the federal, state, and local levels as well as from the private sector.

Defining the homeless

In the past, the typical homeless person was a single, jobless white male, often plagued with alcohol-related problems. But now the homeless include a wide range of people: young, old, middle-aged; disabled and healthy; single parents and couples with children; the jobless and the working poor; both sexes and all races.

The majority of Americans live in the finest housing in the world, but one has only to glance down city streets to realize that not everyone is so fortunate.

In New York City, an estimated one-third of all homeless persons are children. A larger share of the homeless are mentally ill than 10 or 15 years ago, and far more—the fastest-growing segment, in fact—are single parents with children. According to a United States Conference of Mayors' survey, during 1987 family homelessness increased by 32 percent.[1] The survey also found that in three northeastern cities families constitute more than 60 percent of the homeless population.

Although many of the homeless migrate to cities looking for employment, they can also be found in suburban and rural areas throughout the country. Homelessness in some suburbs around New York City, for example, has increased by more than 25 percent over the past 18 months.[2]

Just as the characteristics of the homeless vary, so do the reasons for homelessness. Among the causes that have been reported are:

- Unemployment within particular industries and in certain geographic areas;
- Deinstitutionalization of mentally ill patients and the lack of supportive community mental health facilities;
- Increases in drug and alcohol abuse, causing individuals to be unable to provide for themselves and their families;
- Stricter eligibility requirements for public assistance programs;
- Increases in personal crises, such as physical abuse from spouses and parents;
- Declines in the availability of low-income housing.

This last factor—the reduced availability of affordable housing—is increasingly important and in some areas is the primary cause for homelessness. In a nationwide survey that GAO conducted in 1988 of organizations that provide services to the homeless, the vast majority of respondents cited the lack of subsidized housing as a key cause for homelessness, along with the increased cost of nonsubsidized housing and unemployment.[3]

Growing demand, shrinking supply

Since the passage of the Housing Act of 1949, the federal government has invested billions of dollars in housing for the nation's poor. By 1988, more than 4 million low-income households had received housing assistance. Nevertheless, only

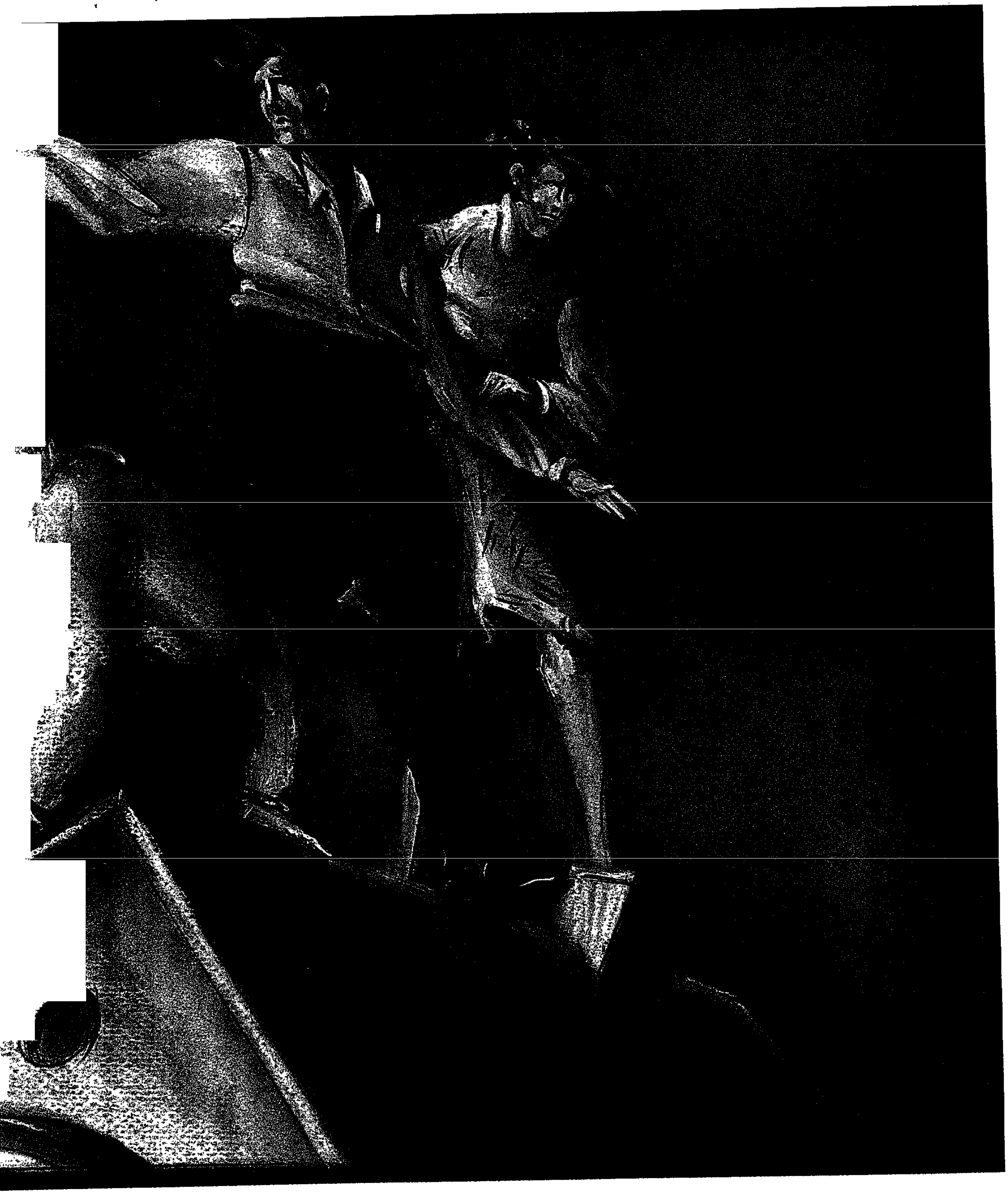
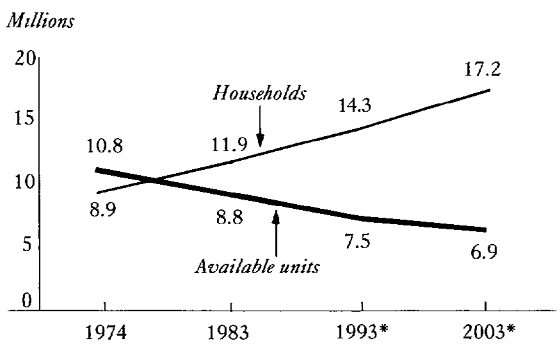


Figure 1

UNSUBSIDIZED LOW-RENT HOUSING UNITS AND HOUSEHOLDS REQUIRING SUCH UNITS



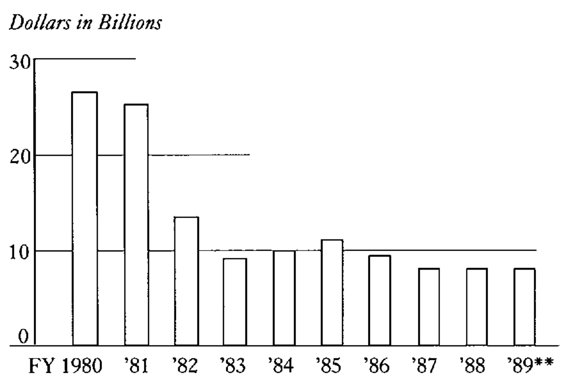
*Projected

Source: Neighborhood Reinvestment Corporation.

The stock of public housing—the nation's largest single source of low-income housing—is generally 20 to 40 years old and needs more than $20 billion in repairs.

Figure 2

FEDERAL FUNDS FOR ASSISTED HOUSING*



*"Assisted housing" refers to housing construction and rental subsidies for disadvantaged families.

**House-passed budget; not yet final.

Source: House Appropriations Committee.

about 30 percent of the low-income families in the United States who are eligible for housing assistance receive it—and the number of families in need continues to grow.

During the 1970s, the number of low-rent housing units was roughly equal to the number of very low-income rental households.[4] (See figure 1.) But between 1975 and 1983, the population of very low-income households increased by 3 million, while the number of rental units these households could afford decreased by 2 million.

The results of this growing demand and shrinking supply are not surprising. A 1985 GAO study found that among lower-income households, the number paying rents in excess of 30 percent of their incomes increased from 7.8 million in 1975 to 11.9 million in 1983—a rise of 4.1 million.[5] The number paying rents in excess of 50 percent of their incomes rose by about 2.6 million, from 3.7 million in 1975 to 6.3 million in 1983. Very low-income households suffered most severely: By 1983, nearly 50 percent of these households paid more than half their incomes for rent, whereas in 1975 only 38 percent had paid that much. Many households in this category could become homeless simply by missing one paycheck or because of illness or some other personal setback.

Foremost among the causes for the recent decline in availability of low-income housing have been the decline in federal spending on housing and changes in the housing market itself. Direct federal funding for housing has dropped substantially since 1980, in large part because the federal government phased out direct subsidies for the construction of low-income housing. (See figure 2.) These subsidies have been replaced with housing vouchers and certificates, which subsidize low-income households in existing privately owned housing by paying a portion of their rent. Such mechanisms can be effective in housing markets where there are enough rental units, but their utility diminishes in tight markets.

In addition to sharp declines in federal funds for housing, dynamics in the marketplace itself have changed so that low-income housing is more difficult to obtain. Because many low-income rental properties are aging, deteriorating physically, and yielding less profit, owners are frequently forced to obtain refinancing to meet the costs of upkeep and repair. This may cause increased rents, or units may be sold or converted to condominiums. In other instances, owners have simply abandoned unprofitable properties, allowing them to become dilapidated and uninhabitable. Whenever any of these actions is taken, the result is the same: Affordable housing is lost.

The McKinney Act

Passed in July 1987, the Stewart B. McKinney Homeless Assistance Act authorized funding for about 20 federal programs primarily directed at meeting the needs of the homeless. The bulk of the approximately $500 million in annual funding goes to the Department of Housing and Urban Development (HUD). Three existing programs were augmented by the act:

The McKinney Act, even while authorizing more than $900 million for the homeless for fiscal years 1987 and 1988, was intended only as a temporary measure.

- HUD's Emergency Shelter Grants Program, which was designed to help relieve the nation's shortage of shelter capacity;
- HUD's Supportive Housing Demonstration Program, which helps fund innovative programs to return homeless persons to independent living, and which was modified by the act to provide permanent housing for handicapped persons;
- The Federal Emergency Management Agency Emergency Food and Shelter Program, which provides funds to shelters and other service organizations for items such as food and rental assistance to households.

In addition, the act established two new programs, both within HUD:

- Supplemental Assistance for Facilities that Assist the Homeless, which provides comprehensive assistance for innovative programs to meet the needs of the homeless;
- HUD Section 8 Assistance for Single Room Occupancy Dwellings, which encourages renovation of single-room-occupancy units by providing rental assistance.

In November 1988, the McKinney Act was reauthorized through 1990, with new provisions aimed at preventing homelessness. Even with the new measures, however, it is important to reiterate that the McKinney Act was intended as crisis intervention, not as a long-term solution. And a long-term solution is what's needed: The homelessness problem could become even more serious in the years ahead as the nation's low-income housing supply becomes increasingly vulnerable.

Threats to low-income housing

First, over the next 15 years, more than half of the 1.9 million privately owned housing units built with government subsidies during the past 20 to 25 years could be withdrawn from the low-income market as restrictions limiting their use to low-income rental expire.[6] The sale or conversion of these units to market-rate rental housing or upscale condominiums or developments would have a grave impact on the supply of affordable housing.

Second, the stock of public housing—the nation's largest single source of low-income housing—is 20 to 40 years old and needs more than $20 billion in repairs. On its own, the federal government is unlikely to be able to afford the necessary modernization. Alternative funding must be found if these public housing units are to remain in the low-income housing inventory.

Third, the future of the supply of unsubsidized, private housing—in which the majority of low-income families live—is also in jeopardy. The

The homelessness problem could become even more severe in the years ahead as the nation's low-income housing supply becomes increasingly vulnerable.

availability and affordability of these units depend on the extent to which the overall environment encourages investing or reinvesting in rental housing. This environment, in turn, is heavily influenced by federal tax policies—specifically, the benefits offered to private developers building rental housing.

The Tax Reform Act of 1986 eliminated a number of long-standing tax incentives for rental housing and replaced them with a single tax credit to encourage new construction, rehabilitation, and preservation of low-income units. Although the impact of this and other tax revisions has yet to be fully assessed, HUD Secretary Jack Kemp has said that the tax revisions may have gone too far and could stunt the production of affordable housing.[7]

The Congress's response to the threatened loss of low-income housing has included passage of the Housing and Community Development Act of 1987, which established interim measures to minimize losses from the pool of federally subsidized, privately owned housing. These measures include incentives designed to increase owners' rates of return, restraints on prepayment of mortgages by owners (since prepayment frees them from restrictions on the use of their property), and provisions supporting the purchase of these privately owned housing projects by nonprofit or public agencies. In addition, during the last Congress legislation was considered that would have increased the tax incentives for investing in low-income housing. Such incentives can be an effective complement to direct housing programs in preserving the low-income rental stock.[8]

Collaborative solutions

While the McKinney Act and the various housing initiatives are important, it is increasingly clear that the problems of homelessness and the housing needs of the poor are beyond the resources of the federal government alone. The scale, complexity, and costs of these problems call for collaborative solutions—especially as the nation faces unprecedented budget and trade deficits. As pointed out in the accompanying articles by Langley C. Keyes and by James W. Rouse and F. Barton Harvey, III, state and local governments as well as nonprofit organizations and developers have begun to play a significant role in meeting the needs of the homeless and in constructing affordable housing. An increased commitment of federal funds, as recommended by such groups as the National Housing Task Force[9] and the U.S. Conference of Mayors,[10] could do much to assist the efforts of these other actors and help address the growing problem of homelessness. Equally important will be the federal government's effectiveness in guiding and coordinating the efforts of the many parties involved in helping the homeless. Direction at the national level is critical, given the significant differences in the dimensions and severity of the problems in communities throughout the country. •

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1. *The Continuing Growth of Hunger, Homelessness and Poverty in American Cities* (Washington, D.C.: U.S. Conference of Mayors, 1987).

2. Eric Schmitt, "Suburbs Wrestle with Steep Rise in the Homeless," *New York Times,* December 26, 1988, pp. 1, 36.

3. *Homelessness: HUD and FEMA Progress in Implementing the McKinney Act* (GAO-RCED/89-50, forthcoming).

4. Low-rent housing units are defined as those renting for $250 or less per month. Very low-income households are defined as those earning 50 percent or less of an area's median family income. Lower-income households, mentioned later in the text, are defined as those earning 80 percent or less of an area's median family income.

5. *Changes in Rent Burdens and Housing Conditions of Lower-Income Households* (GAO/RCED-85-108, Apr. 23, 1985).

6. *Rental Housing: Potential Reduction in the Privately Owned and Federally Assisted Inventory* (GAO/RCED-86-176 FS, June 16, 1986).

7. Gwen Ifill, "Kemp: Tax Law Stunted Affordable Housing," *Washington Post,* January 19, 1989, p. A23.

8. *Role of Tax Policy in Preserving the Stock of Low-Income Rental Housing* (GAO-T-RCED-88-22, Mar. 3, 1988).

9. *A Decent Place to Live: The Report of the National Housing Task Force* (Washington, D.C.: March 1988).

10. Gwen Ifill, "Mayors Urge Revival of Housing Aid," *Washington Post,* January 18, 1989, p. A3.

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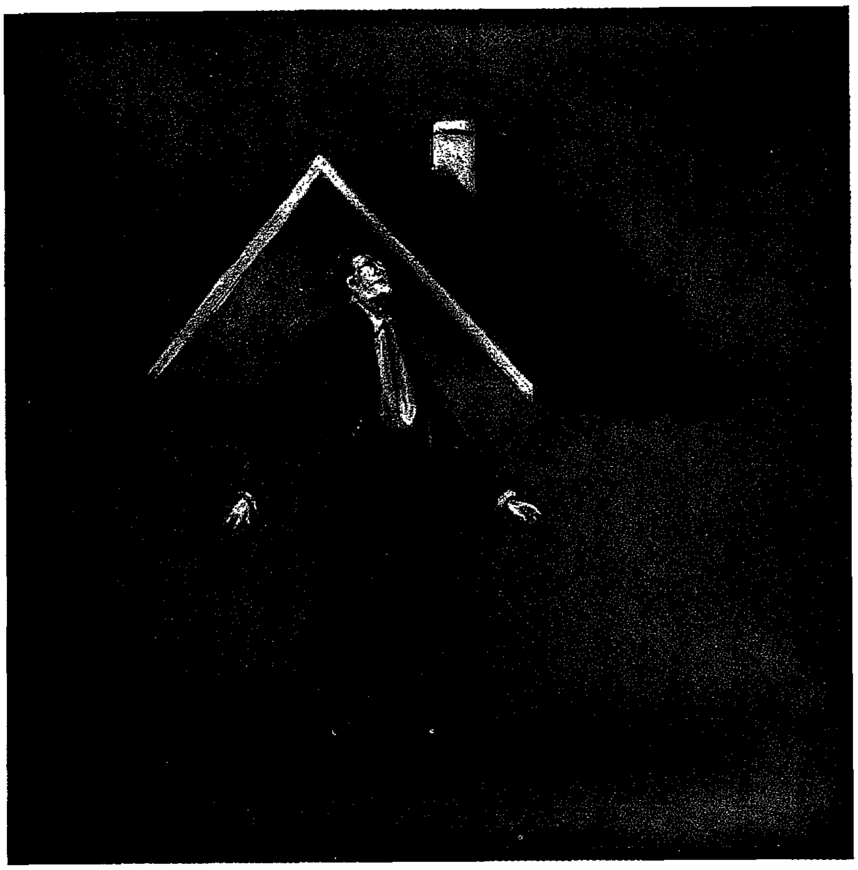
Langley C. Keyes

A BROADER VIEW OF SHELTER

Although the McKinney Act is a welcome first step in the fight against homelessness, it is not the whole solution.



BEFORE THE MCKINNEY Homeless Assistance Act was passed in July 1987, state and local governments' efforts to meet the needs of their homeless populations had received no sustained support from Washington. In fact, it seemed as though the federal government had spent the previous three years working to distance itself from the growing challenge homelessness presented. Passage of the McKinney Act affirmed that homelessness was an issue of national concern and that a public policy mechanism was needed to coordinate the strategies of federal, state, and local governments and nonprofit institutions.

Since passage of the McKinney Act, many of its limitations as a piece of legislation have become clear, and some appropriate revisions have been made. This is all to the good. Still, as significant as the McKinney Act is, few would argue that, given its basic thrust, it alone can deal with the many issues that fall under the rubric of homelessness. According to the National Coalition for the Homeless (one of the forces behind passage of the act),

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McKinney is "a modest start . . . [that] barely begins to address the enormity of the problem."[1]

The question, then, is whether the McKinney Act is the first step in a long-term, serious drive to house and serve the homeless, or a one-shot piece of legislation, a symbolic effort to appease those who have pressed for greater federal involvement. The answer will depend on what further steps, if any, Washington takes to alleviate the homelessness problem.

Serving a disparate group

If the federal government is indeed to move "beyond McKinney," it is important to understand both what that legislation can accomplish and what is beyond its scope. One can arrive more easily at that understanding with the help of a model, or matrix, of homelessness that takes into account the stages through which the homeless pass as well as the needs of different types of homeless people.[2]

There are three stages at which efforts can be made to minimize homelessness. But, whatever the stage, a key question is the extent to which permanent, affordable housing can "solve" the problem.

There are three stages at which efforts can be made to minimize homelessness. In the first stage, families or individuals are still housed, but for economic or other reasons they are at risk of losing their homes. The second stage is the period when people have lost their homes. During the third stage, these people have been rehoused; if their situation becomes unstable, however, they may once again fall into homelessness.

At all three stages, a key issue is the extent to which permanent, affordable housing "solves" the homelessness problem. In other words, what types of assistance, besides a roof over their heads, do households require in order to avoid homelessness in the first place, to move out of the shelter or off the street once they have become homeless, and to maintain a permanent residence once they have been rehoused? The answers to these questions—the services that these people need—provide the basis for three broad categories:

- The *economic homeless* are out on the street simply because they can't pay the rent. They are the victims of a tightening housing market; what they need is permanent, affordable housing.
- The *situational homeless* have suffered not only from economic strain but also from some conflict they can't manage—a traumatic situation, such as a violent spouse or abusive parents, or their own personal disorganization—that makes them incapable of maintaining or finding housing. Short on skills, long on hard times, these individuals require economic help *and* a supportive environment in which to sort out their lives and learn enough independence to survive on their own in the housing market.
- The *chronic homeless* are unable to care for themselves because of substance abuse or chronic mental illness. These include the vagrants and bag ladies—the disoriented individuals known as street people. Help with the rent alone won't solve their problems. They need, in addition, long-term supportive services, such as drug or alcohol treatment or mental health care.

In an ideal world, the resources allocated under the McKinney Act would reflect either the relative distribution of the nation's homeless population among these three categories or the impact that federal spending could have at the three different stages of homelessness. Policymakers would know how many of each type of homeless people there were in the nation's cities and rural areas, and they would have a clear sense of the impact that the act's programs would have on each stage.

But such careful allocation is not possible. For one thing, the homeless are extremely difficult to count and profile; and the homeless population varies so widely from place to place that its exact composition can be determined only on a local level. Moreover, those who have lobbied for certain elements in the act—both during its original passage and during the revision process—have agendas of their own as well as their own interpretations of the homelessness problem. Finally, those who framed the McKinney Act faced financial constraints and had to make difficult choices about allocating resources.

Coordinating government responses

Within these limitations, however, the McKinney Act has been a welcome first step in dealing with homelessness. The act acknowledges that, because the homeless population differs according to location, the configurations of public and private institutions serving the homeless must vary as well. Under the terms of the act, the federal government's role is essentially to "complement and enhance the available services."[3] The act presumes that states, localities, and nonprofit organizations are already working in various partnerships. Accordingly, McKinney is intended to give these actors the opportunity to devise appropriate local programs as well as additional federal funding to enable them to carry out these programs more effectively. Federal money is not meant to replace local and state money, but to supplement it.

So far, many observers have concluded that the McKinney Act has evoked a significant response both from the states and localities that were already deeply concerned with homelessness and from areas where, although homeless programs may have existed, the issue has not been consistent front-page news.

Yet there has been much to learn from the first year and a half under the McKinney Act. For one thing, many state and local administrators have been frustrated by the nitty-gritty details of tapping into the act's resources. For states with sophisticated systems of delivering services to the homeless, such as New York, New Jersey, and Massachusetts, the act has been too restrictive, failing to give states sufficient authority. On the other hand, for those states that lack institutional mechanisms for dealing with homelessness, the act has offered little incentive to develop such mechanisms and to learn how to jump the act's bureaucratic hurdles.

The homeless are difficult to count and profile, and the homeless population varies so widely from place to place that its exact makeup can be determined only on a local level.

Furthermore, the process of receiving funds for the act's housing and shelter programs—let alone its health, job, and education programs—has required multiple applications. Instead of allowing localities to determine what combinations of programs are most needed and how best to develop and leverage local funding for them, the housing section (Title IV) has had very strict stipulations regarding local matching of federal funds.

In some ways, then, the act has proved too complex and inflexible. Amendments to the act have recently been passed to address many of these problems. The extent to which these amendments will smooth out the bureaucratic obstacles remains to be seen, but the process by which the suggested changes were heard and incorporated into revisions to the original legislation was open and responsive.

Encouraging service networks

A critical omission of the McKinney Act as originally passed was its lack of serious attention to the prevention of homelessness: It had no measures designed to keep people at risk of becoming homeless from ending up on the street. But in November 1988, when the McKinney Act was reauthorized for two more years, new provisions were added that aim to prevent homelessness. These provisions include use of Emergency Shelter Grant funds for short-term rent subsidies, security deposits, landlord-tenant mediation services, and legal representation for indigent tenants in eviction proceedings.

Beyond these recent efforts to broaden the McKinney Act to cover households at risk of homelessness, attention at the federal level needs to be focused on the creative roles that welfare assistance might play in homelessness prevention. Welfare's Emergency Assistance fund (EA) is a flexible resource that, when aggressively administered at the local level, can help keep welfare families in their current housing units. States vary widely in their use of EA. How creatively it is employed at the local welfare office is a function of how aggressively the state pushes it, which in turn can be influenced by federal policy.

An additional administrative aspect of the welfare system is worth mentioning in connection with coordinating local efforts to prevent homelessness: the need for a positive and communicative relationship between the welfare department and local public housing authorities. When a household is evicted from public housing for failure to pay rent, something has gone awry in the homelessness prevention strategy. Often, the relationship between the housing authority and the welfare office is nonexistent or hostile.

The specific administrative and regulatory devices by which the federal government gets local housing authorities and welfare offices to better coordinate their activities—to create a better "early warning" system for potential homelessness among the public housing population—is an item that could be put on the agenda of an expanded version of the Interagency Council set up by the McKinney Act. That there are good models of cooperation at the local level is clear. Increased federal recognition of the importance of the connections among federally funded local entities could do much to encourage further cooperation in developing coordinated homelessness prevention strategies. Better utilization of the organizations, services, and financial resources already in the field is a critical step in evolving those strategies. In a world of limited federal resources, coordination of different institutional agendas ought to be at the center of any extended federal effort to prevent homelessness.

In a world of limited federal resources, coordination of different institutional agendas ought to be at the center of any extended federal effort to prevent homelessness.

Shelter and housing

Even assuming that the McKinney Act continues to be modified to make it more flexible and supportive of state-local partnerships, the questions remain: What else needs to be done? What happens beyond McKinney?

At the risk of simplifying the issue, I suggest that what is needed is an expansion of the federal role in affordable housing in critical market areas.

The McKinney Act takes a rather narrow view of what constitutes "shelter." Title I of the act states that "the nation faces an immediate and unprecedented crisis due to the lack of shelter for a growing number of individuals and families."[4] Given the act's concentration on emergency responses to homelessness, the word "shelter" as used here seems to have been interpreted to mean a temporary roof over the heads of individuals and families who have ended up on the street.

But although the Act's specific provisions reflect this narrow interpretation, its rhetoric lays the groundwork for a broader view. "Shelter" could be considered a permanent solution to the problem of homelessness. For those who are homeless partly because of mental illness, personal problems, or drug or alcohol abuse, this means providing appropriate services as well as permanent housing. For those on the street simply because they can no longer afford their own homes, it means a much greater federal commitment to low-income housing.

The absence of affordable housing is almost universally acknowledged as "the overarching gap creating homelessness."[5] While there are differing views as to how that gap should be closed—through demand-side subsidies, through supply-side subsidies, or simply through income transfers—there is widespread agreement that some form of help must come from the federal government if the nation's supply of affordable housing is to be increased or even maintained.

In states with low vacancy rates and a tight housing market, the dearth of low-income housing can seriously limit even the most innovative approaches to homelessness. Massachusetts and New York—and probably New Jersey and California—are cases in which the inexorable workings of the housing market will either overwhelm the existing system or keep it from resolving the housing problems of the economic and situational homeless unless the federal government increases housing subsidies or welfare benefits or both. While affordable housing is not the whole solution, a high vacancy rate, a soft market, and landlords eager for tenants create a context in which an innovative state can begin to deal with the social service aspects of the homeless agenda.

Ultimately, the crucial issue regarding the federal role in homelessness prevention and rehousing will be the amount of money Washington is prepared to allocate. Yet it is important to bear in mind that *how* the federal government puts out that money has a critical impact on the efficiency and equity of prevention and rehousing efforts. The degree to which the homeless tide is stemmed will depend on the careful crafting of local housing strategies that work synergistically with the federal resources available for the cause. •

1. "A Briefing Paper for Presidential Candidates," 1988, p. 1.
2. For a more detailed development of this model of homelessness, see my paper, "Housing the Homeless," in the MIT Housing Policy Project (Cambridge, Mass.: MIT Center for Real Estate Development, March 1988).
3. Stewart B. McKinney Homeless Assistance Act, Section 401 (b)(4).
4. McKinney Act, Section 102.
5. Martha R. Burt and Barbara Cohen, "State Activities and Programs for the Homeless: A review of six states" (Washington, D.C.: The Urban Institute, September 1988), p. 117.

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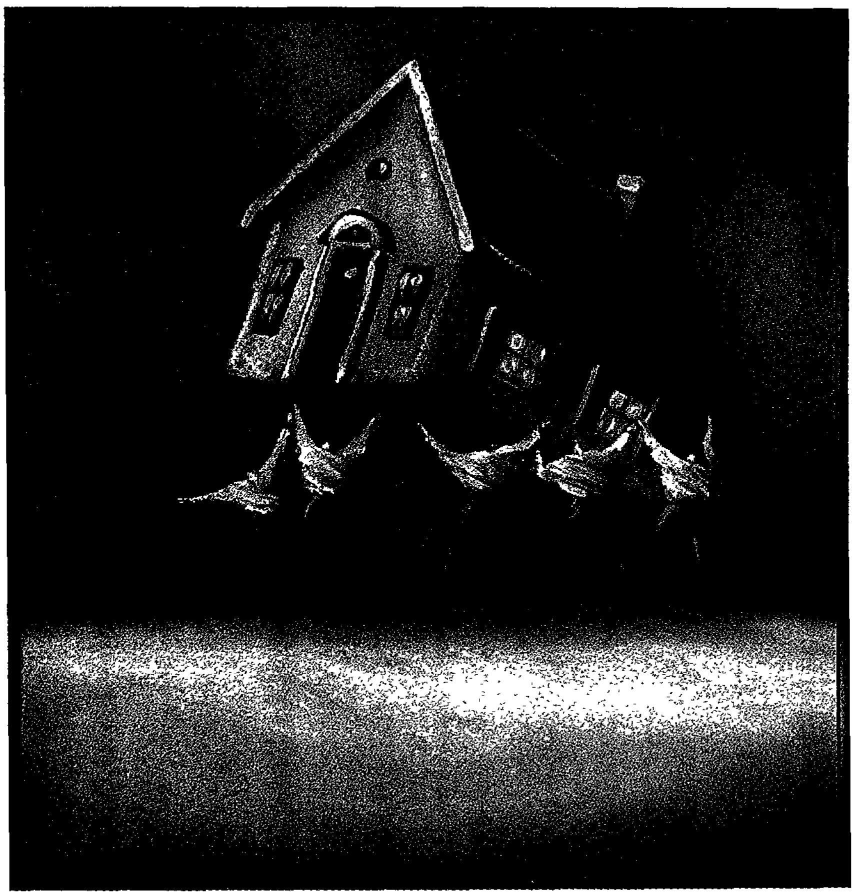
James W. Rouse & F. Barton Harvey, III

PUBLIC-PRIVATE PARTNERSHIPS

At the grass roots, new initiatives are spreading to fill the need for low-income housing.



THE UNITED STATES is one of the world's best-housed countries—as well as one of the worst. Until the 1980s, the nation experienced uninterrupted growth in its home-ownership rate, from 44 percent in 1938 to an all-time high of 65.6 percent in 1980. But America also has some of the worst housing conditions in the industrialized world. Not only do many individuals live in substandard housing, but an increasing number, many of them fully employed, cannot afford housing of any kind.

The largest group among those who have recently become homeless is not the mentally ill or substance abusers, but families or single people unable to find housing at rents they can pay. An even larger group is the "near homeless"—the millions who owe rent they cannot afford and have no cushion between themselves and the street, or who have already been forced to double up in other people's homes.

What many homeless individuals and families need is not temporary shelters or welfare hotels,

JAMES W. ROUSE, Chairman of the Enterprise Foundation, recently served as Chairman of the National Housing Task Force. F. BARTON HARVEY, III, is Deputy Chairman of the Enterprise Foundation.

but permanent, affordable housing in decent neighborhoods. The question is who should fund and supply that housing. In recent years, as federal spending in this area has declined, a number of other actors—state and local governments, private-sector groups, and nonprofit institutions—have stepped up their involvement. Although their resources aren't adequate to the task of sheltering all the homeless or housing all those priced out of the market, their work has suggested the kinds of public-private partnerships that might be most effective at creating more affordable housing in the future.

The loss of affordable housing

The most significant trend in affordable housing over the past decade has been the withdrawal of federal leadership and resources. The Department of Housing and Urban Development's (HUD) budget authority for new housing commitments has been cut by over 70 percent. And in the Tax Reform Act of 1986, tax incentives for constructing rental housing were severely restricted (except for a new low-income housing tax credit that hasn't yet compensated for the loss of other incentives).

At the same time, millions of units have been permanently removed from the rental stock. About 4.5 million units were lost through demolitions and conversions to condominiums or co-ops between 1973 and 1983. In addition, rising rents have made millions more units unaffordable to poor people.

Current production efforts offer little hope of relief. Between 1976 and 1982, more than a million new federally subsidized units of lower-income housing were added to the supply, most through private homebuilders. But in recent years, as federal tax incentives have been removed, construction of such units has dropped considerably. And over the next 15 years, up to a million privately owned, federally subsidized units could be withdrawn from the low-income rental market as restrictions on their use expire.

Without new state and federal programs and some changes in tax incentives, private for-profit developers and homebuilders will continue to be unable to operate in the low-income housing market.

State resources have also declined. According to the Council of State Housing Finance Agencies, in 1985 state housing finance agencies used tax-exempt bonds and various government subsidies to help private developers finance over 88,000 units of rental housing, about 40 percent of which was low-income. Only two years later, in 1987, that number had fallen to 35,000, about half of which was low-income.

Without new state and federal programs and some changes in tax incentives, private for-profit developers and homebuilders will continue to be unable to operate in the low-income housing market. The result will be a tightening squeeze on housing and an intensification of the forces that push low-income households into homelessness.

Community development corporations

Against this backdrop of declining government support for low-income housing, there have been some positive trends. One of the most encouraging has been the emergence, over the past decade, of a new generation of neighborhood-based, nonprofit housing organizations. These organizations enlist the participation of local residents and support from foundations, corporations, religious groups, and local governments. They work to revitalize neighborhoods through programs that deliver housing, jobs, and social services.

Across the country, there are perhaps 4,000 such nonprofit neighborhood organizations of varying strength and vitality. In many cities and towns, these groups are now the primary—in some instances, the only—producers of low-income housing. Their production totals may not be large, but their significance to poor communities is tremendous. They are willing to take on projects too small, unprofitable, or difficult for the for-profit sector and are willing to serve residents on a long-term basis. Moreover, they play a critical role in developing alternative behavior patterns and new leadership in troubled communities.

National nonprofit housing organizations

As the neighborhood-based groups have grown, so has their need for outside funding and technical assistance. Hence, the creation of national nonprofit housing organizations.

As nonprofit neighborhood-based groups have grown, so has their need for outside funding and technical assistance. This need has helped spur the creation of a number of national nonprofit housing organizations.

These groups work to enhance low-income housing initiatives by involving private businesses, providing "seed money," and marshalling public and private funding. They coordinate the work of different neighborhood-based groups so that projects can be tackled on a larger scale than would otherwise be possible. The Enterprise Foundation, the Neighborhood Reinvestment Corporation, the Local Initiatives Support Corporation, the Housing Assistance Council, and Habitat for Humanity are the largest of these national organizations. Each has a slightly different emphasis.

The Neighborhood Reinvestment Corporation is best known for its Neighborhood Housing Services, which focus on rehabilitating housing that has deteriorated. The Local Initiatives Support Corporation provides grants and loans to help community development corporations construct or rehabilitate affordable housing. The Housing Assistance Council works to provide housing to low-income rural households. Habitat for Humanity builds and sells homes at no profit, offering no-interest loans, in an effort to reduce substandard housing worldwide.

The Enterprise Foundation, whose work we know at first hand, has concentrated on housing and services for the neediest—those at or near the poverty line. Its Rehabilitation Work Group looks for ways to cut the costs of new construction or rehabilitation. Its Social Investment Corporation helps finance low-income housing through the use of tax credits and other available sources of funds. Enterprise Jobs establishes neighborhood job placement centers.

So far, Enterprise has raised over $44 million in grants from individuals, corporations, and foundations and secured an additional $80 million of direct corporate equity investment in low-income housing through the use of tax credits. The Foundation works with 100 nonprofit groups in 27 cities and the state of Maine, has assisted in over 7,500 units of housing for the very poor, and has placed over 12,000 people in jobs. Most importantly, in a number of cities Enterprise is trying to fashion public-private partnerships that can meet local housing needs and serve as a model for what others can do.

A new housing delivery system

These partnerships form the basis for a new housing delivery system in this country. Still in its early stages, this system has benefited from state and local governments' recognition of housing needs as a legitimate call on their resources. New sources of financing are being developed, and relationships are being established among the corporate, financial, public, and community sectors.

Each partner plays a role in planning, financing, building, and operating low-income housing projects. Cities provide land, tax-foreclosed buildings, and soft financing. Corporations invest by using federal low-income housing tax credits. Financial institutions supply mortgage financing. Foundations and other private interests provide community groups with grants to help them expand their activities. The Enterprise Foundation and the Local Initiatives Support Corporation (LISC) offer technical assistance, bridge loans, and supervision. And community nonprofit housing organizations develop or sponsor the projects, often in conjunction with for-profit developers.

Enterprise and LISC have helped forge new public-private partnerships in such cities as Boston, Chicago, Cleveland, Miami, and New York. Seven thousand or more low-income units have been developed by these partnerships over the past year. These units have stayed in their communities' control and are vital elements in neighborhood-based initiatives at self-revitalization.

Other cities are following suit. In Chattanooga, Tennessee, for example, the Enterprise Foundation was funded by the local civic organization, a private contractor, and a local foundation to design a program to make all housing occupied by very poor people fit and affordable within 10 years. More than 13,000 units needing repair or rehabilitation were identified, costs were estimated, and operational and financing plans were formulated. Chattanooga Neighborhood Enterprise, Inc., a nonprofit organization founded as part of this effort, has raised over $3 million in private funds for its first three years of staffing, and rehabilitation work has already begun on more than 400 units of housing.

Toward a new housing policy

Yet this is only a small beginning. There is no question that the number of low-income housing units being produced by neighborhood-based nonprofits falls far short of what is needed. In recent years, fewer than 25,000 new low-income units have been produced annually, a majority by or in conjunction with nonprofit groups. By contrast, between 1976 and 1982, more than a million federally subsidized units were produced—an average of about 150,000 per year.

Because units of government closest to the people can best identify and respond to their needs, Washington should not try to design local housing programs. Instead, federal money should be used to stimulate and support local initiatives.

What is missing today is the critical level of federal involvement. Federal budget authority for low-income housing has fallen from nearly 3 percent of the federal budget in 1981 to less than 1 percent in 1988. Housing assistance is at the lowest level of any period since the 1950s.

A renewal of the federal commitment is crucial, but it must occur in a way that takes account of what has been learned from past federal housing efforts and that builds on the foundation already laid by the new public-private partnerships. Because units of government closest to the people can best identify and respond to their needs, Washington should not try to design local housing programs. Instead, the federal government could serve as a vital funding source: Federal money would draw and leverage other money, from states, cities, and the private sector, in order to stimulate and support local initiatives and local public-private partnerships.[1]

States and localities could be given money directly, on both a formula and a matched basis. They would be required to submit comprehensive housing plans to HUD and would be responsible for achieving their stated goals. This kind of flexible funding would allow states and localities to address their most pressing housing needs, whether preservation, affordability, rehabilitation, or new construction. Such funding would also foster public-private partnerships.

To draw for-profit developers back into low-income housing efforts, Washington should use tax benefits, insurance and guarantees, and direct grants. Although the 1986 Tax Reform Act reduced the tax benefits of constructing multifamily housing, the low-income housing tax credit that the Act established could, with modifications, become more sensitive to differing local needs and a more effective overall tool of housing policy. The report of the Mitchell-Danforth Task Force has made excellent suggestions in this regard. Attractive tax incentives, as well as flexible federal funding, would enable localities to draw the private sector into their housing efforts more fully, thereby facilitating a larger scale of activity. At the same time, communities would retain long-term control of the housing produced.

Some aspects of the homelessness problem are best handled directly by the federal government. The homeless who are mentally ill or are substance abusers require federally guaranteed services, and the nation's public housing system desperately needs reform and revitalization. But affordable housing is one area in which states and localities should take the lead in planning and executing programs. Given the tightness of federal budgets, federal funds are, in this case, most effective as a catalyst for local action. •

1. For more detailed recommendations on the federal role in low-income housing, see *A Decent Place to Live: The Report of the National Housing Task Force* (Washington, D.C.: March 1988).

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Frank Reilly

INFORMATION TECHNOLOGY AND GOVERNMENT OPERATIONS

Computer systems offer forward-thinking federal managers the chance to do more with less.

THE FEDERAL GOVERNMENT'S use of information technology has come a long way since the turn of the century, when Herman Hollerith of the Census Bureau created the 80-column punch card. Today, the government spends nearly $20 billion per year on information technology equipment and services, making it the country's largest user of such technology. Applications range from the prosaic—payroll processing—to the exotic—navigational programs to direct probes of outer space.

The federal government is the country's largest user of information technology equipment and services, spending nearly $20 billion per year.

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Improving government operations through computer systems is particularly crucial at present, when the budget deficit has put a squeeze on all federal spending.

Improving government operations through efficient use of computer systems is, of course, an important undertaking at any time. But it's particularly crucial these days, when efforts to bring down the federal budget deficit are putting a squeeze on all federal spending. Computer information technology offers government agencies the opportunity to compensate for the scarcity of resources by getting more work done with less money and fewer workers. But if federal agencies don't improve upon their record in applying such technology, they will likely have greater and greater trouble simply providing the necessary services to the public as budget constraints become even tighter.

The promise of technology

Among the government services that benefit from the information handling capability of computer systems are:

- Controlling air traffic;
- Paying veterans,[1] the elderly,[2] the needy, federal employees, and all companies selling products and services to the government;
- Sending out bills and collecting taxes;
- Managing the records needed to file patents,[3] register copyrights, and catalogue and retrieve information in libraries;
- Enrolling laws and court decisions and maintaining archives that make up major parts of the U.S. legal system;
- Tracking business and labor activities to measure U.S. economic performance;
- Maintaining a current inventory of the vast quantities of equipment, supplies, weapons, and other resources the government manages.

Government scientists have been able to use computers to simulate natural events—with immense benefits to the public. For example, with the help of computers, earth scientists can make predictions about earthquakes by analyzing tectonic plate movement and identifying critical geological faults. Meteorologists are increasingly successful at using computers to forecast potentially damaging storms. Public health officials can prevent or at least mitigate the spread of some communicable diseases by computer-based epidemiological studies. And medical researchers using computerized data banks to study gene sequences are making progress in understanding genetically caused illnesses, such as certain forms of cancer.

The impressive achievements in information technology in some areas of government have been counterbalanced by numerous failures in others.

Information technology systems can help scientists and engineers with a broad variety of other tasks—for example, building highways and bridges, producing maps, designing and constructing defense hardware, and understanding air and water pollution and how to alleviate them.

A mixed record

Yet although computers have been successfully applied to science and engineering projects, which deal with relatively ordered information, the design and operation of data processing systems have been more problematic. Counterbalancing the impressive achievements of information technology in some areas are numerous government failures in others:

Federal agencies have so often mismanaged computer systems that a number of basic activities—tax collection, entitlement programs, statistical analysis—are in serious trouble.

- The Air Force has developed command and control systems that cannot be properly joined in a network because of cable connector plugs that are incompatible.[4]
- The Treasury Department has a payroll system that is not integrated with its existing personnel system, resulting in duplicate record-keeping and inaccurate payments based on erroneous data.
- The Commerce Department has a statistical system that cannot measure the economy's performance properly since the standard industrial classification code has not been revised to include the many service industry categories that now dominate the U.S. economy.

- The Internal Revenue Service's (IRS) regional offices are not joined by telecommunication lines to its massive computer files of tax returns; therefore computerized records have to be transported by plane, truck, or car, which vastly increases costs and slows down processing.

These are just a few examples. Federal agencies have so often mismanaged their computer systems that a number of basic government activities—such as tax collection, entitlement payments, and gathering and analyzing statistics—are in serious trouble.[5]

A syndrome of failure

The simplest information systems used by the federal government do standardized record-keeping—payroll, personnel, and appropriation accounting. After some rocky starts, many of these systems have helped boost efficiency. Still, a number of federal agencies have not yet developed even rudimentary record-keeping systems. The Treasury Department, for instance, after abortive attempts to revise its in-house payroll system, has finally agreed to have the Agriculture Department handle this information on its behalf.

Federal agencies have done even worse with more complicated administrative computer systems. These can be broken down into two broad categories: accounting, financial management, inventory, and other data systems that must be tailored to an agency's needs; and specialized agency systems that require data input from the public and response from the government—for example, those used in the IRS, the Social Security Administration (SSA), and the farm loan systems. Both these categories of systems generally utilize a great deal of highly complex technology, employ thousands of persons, and process huge amounts of information; they are used by many different offices, each of which has special needs, and which may jointly process millions of transactions per day.

Government computer systems have frequently taken a long time to develop, been expensive to design and operate, and proved inflexible in the face of changing conditions.

Because of poorly conceived planning and implementation, these systems have frequently taken a long time to develop, been expensive to design and operate, and proved inflexible in the face of changing conditions. For instance:

- Between 1982 and 1987 SSA spent over $400 million on computer equipment and a data communications network.[6] Yet this project wasn't guided by any agencywide plan for SSA's overall development; furthermore, SSA didn't even follow the technical strategy outlined in its own 1982 computer modernization plan. As a result, as much as $1 billion may ultimately be wasted on inappropriate computer hardware.
- The IRS began to redesign its tax processing system in 1982. By 1988 it had spent tens of millions of dollars and developed—and abandoned—three plans; currently it is on its fourth. The results of bad management also surfaced in 1985, when the IRS's lack of sufficient hardware capacity and poorly developed software caused delays in the processing of income tax refunds beyond the grace period provided in the law. This resulted in tens of millions of dollars in interest costs on late refund payments.
- In the 1970s, the Navy began planning an Integrated Disbursing and Accounting Financial Information Processing System—a system intended to improve the overall flow of financial data. The

at below-market interest rates—even though some agencies have a fondness for introducing computer systems to distract management and the public from the real issues.

Once officials have decided that a computer system *could* improve their agency's effectiveness, a feasibility analysis should be conducted. This would weigh the disruption caused by introducing major changes against the potential improvements in performance and cost. Currently, for example, a number of governments around the world are doing feasibility studies to test automated traffic control systems—electronic chips embedded in roadways to monitor and control traffic flow. It is possible that these studies will show that, given the costs of installation and operation, such systems wouldn't be the best means of alleviating highway congestion and improving highway safety and that alternatives should be investigated. This kind of realistic conclusion—rather than a hasty decision based on false premises—is exactly what feasibility studies are meant to encourage.

Computer systems require long-term investment in human and financial resources. Procurement and installation account for less than a fifth of the total cost of these systems.

Another major consideration for top management to keep in mind when planning computer systems is the necessary long-term investment in human and financial resources. Procurement and initial installation account for only 10 to 20 percent of the total cost. The remaining costs stem from operation and maintenance of the system, including hardware and software upgrades, and training and retraining workers. Because overall cost is so difficult to foresee, managers must exercise extreme patience as they consider the pros and cons of a particular plan. For political appointees, who on the average stay in federal jobs for less than two years, or military officers, who rotate jobs every three years, this is tough advice to follow.

But it needs to be followed: Agency officials must dramatically improve their planning strategies. If the federal government is to be effective in this period of scarce resources and tight budgets—if, for instance, it is to mail Social Security checks on time, make income tax refunds promptly, and ensure the safety of airline and highway travel—it must utilize information technology and computer systems in the most efficient way possible. To do any less would be a disservice to the American people—who are, after all, the federal government's reason for being. •

1. For further information, see this GAO report as well as those listed in subsequent footnotes: *ADP Systems: Department of Veterans Benefits Modernization Program* (GAO/IMTEC-88-3, Oct. 30, 1987).

2. *Data Base Systems: Observations on Social Security's Data Base Integration Program* (GAO/IMTEC-88-19, Jan. 11, 1988).

3. *Patent and Trademark Office Needs to Better Manage Automation of Its Trademark Operations* (GAO/IMTEC-85-8, Apr. 19, 1985); *ADP Acquisitions: Patent Automation Encountering Major Planning and Procurement Problems* (GAO/IMTEC-86-19, July 17, 1986); *ADP Systems: Patent Office's Contract Renegotiation Behind Schedule* (GAO/IMTEC-87-35, July 31, 1987); *Trademark ADP System: Patent Office Should Analyze Alternatives Before Contract Award* (GAO/IMTEC-87-44, Aug. 27, 1987).

4. *Attack Warning: NORAD's Communications System Segment Replacement Program Should Be Reassessed* (GAO/IMTEC-89-1, Nov. 30, 1988).

5. *Managing IRS: Actions Needed to Assure Quality Service in the Future* (GAO/GGD-88-1, Oct. 14, 1988); *Computer Capacity: IRS Must Better Estimate Its Computer Resource Needs* (GAO/IMTEC-87-5BR, Nov. 4, 1986); *Computer Support for Tax Processing Needs Continuing IRS Attention* (GAO/T-IMTEC-87-1, Feb. 6, 1987; GAO/T-IMTEC-88-1, Feb. 23, 1988); *ADP Modernization: IRS' Redesign of Its Tax Administration System* (GAO/IMTEC-88-5FS, Nov. 9, 1987); *ADP Modernization: IRS' Tax System Redesign Progress and Plans for the Future* (GAO/IMTEC-88-23BR, Apr. 27, 1988); *Computer Procurement: Decision Needed on Navy's Standard Automated Financial System* (GAO/IMTEC-88-47, Sept. 13, 1988); *Computer Systems: Navy Needs to Assess Less Costly Ways to Implement Its Stock Point System* (GAO/IMTEC-89-2, Dec. 14, 1988).

6. *ADP Systems: Status of SSA's Modernization Efforts* (GAO/IMTEC-88-56, Sept. 29, 1988).

7. *ADP Systems: SSA's Modernization Efforts Need Redirection* (GAO/IMTEC-87-16, Apr. 10, 1987); *Software Systems: SSA Encountering Significant Delays in Its Claims Modernization Project* (GAO/IMTEC-87-8, Dec. 22, 1986); *Computer Operations: Improvements Needed in Social Security's Capacity Management Program* (GAO/IMTEC-89-8, Jan. 18, 1989).

BOOK REVIEWS

PRODIGAL TIMES

Benjamin J. Friedman

DAY OF RECKONING: THE CONSEQUENCES OF AMERICAN ECONOMIC POLICY UNDER REAGAN AND BEYOND

New York: Random House, 1988. 323 pp.

By Harry S. Havens

The tone of Benjamin Friedman's book ranges from somber to angry, but it is appropriate to a topic and a message that provide so little occasion for joy. The federal government's fiscal policy has been deeply flawed and its consequences potentially devastating. The longer the nation waits to correct it, the more destructive its effects will be.

Friedman, a Harvard economist with experience in investment banking, argues that the budget deficit depleted an already modest flow of national savings. Competition for the remaining savings led to a rise in interest rates, one result of which was a low level of investment and a continuation of the slow growth of productivity. Productivity is the primary source of a rising standard of living. The American experience of economic progress, in which the U.S. standard of living doubled every generation for two centuries, has shaped the nation's self-image, its social structure, and its role in the world. To have disrupted this well-established pattern is profoundly threatening to the nation's future.

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The other result of the budget deficit and the ensuing higher interest rates was the influx of foreign capital. Foreign money mitigated the deficit's adverse effect on investments, but also produced three things: the overvalued dollar, the trade deficit, and the growing burden of foreign debt. During the 19th century, borrowing from abroad financed America's growing economy. Today, it merely finances a consumption binge.

Most mainstream economists would agree with Friedman's diagnosis, which is neither radical in its approach nor a great leap forward in macroeconomic theory. Nevertheless, the very readability of *Day of Reckoning* makes it an especially valuable contribution to the public dialogue. Friedman is a skilled economist and an able writer. Most economics writing consists of arcane equations interspersed among paragraphs of dense prose. Friedman, in contrast, has managed to make modern Keynesian economics accessible to the noneconomist.

Keynes's analytical framework and his principal thesis—that a nation's overall economic performance is not self-regulating, but should instead be managed by government—are as valid today as when *The General Theory of Employment, Interest, and Money* appeared in 1935. But the world has changed in half a century and, with it, the policy implications of Keynesian theory. Monetary policy, which Keynes found ineffective in stimulating an economy in depression, can have great impact on an economy near full employment. Policy decisions that affected only domestic employment and prices in the closed economies of the 1930s yield dramatically different results in today's global economy, where international trade is sizable, exchange rates are flexible, and capital is free to move across national boundaries. Friedman reflects on these changes as he explains the ways in which government's actions in the 1980s have affected both our domestic economy and our international economic relationships. If read widely—and it should be—his book will add to the public's understanding of matters vital to the national interest.

Friedman's other major contribution is his debunking of supply-side economics. Proponents of the Laffer Curve claimed that lower tax rates would cause people to work harder, earn more income, and pay more taxes. Tax reductions, according to this reasoning, would be self-financing. Moreover, lower tax rates would increase the return on investments, leading people to save more. Therefore, even if the Laffer Curve proved overoptimistic, the economic effects of the result-system was priced in 1983 at $91 million, then repriced in 1987 at $878 million. It's now scheduled to go into operation in 1992—nearly 20 years after its start. Its development has been rife with every planning mistake imaginable. Rather than fully assessing the tremendous size and requirements of the system before they began work on it, Navy officials launched into the development phase—and then endlessly revised the system as they went along.

The cause of the problem: Many federal managers have failed to plan adequately either for the implementation of new technology or for more long-range institutional goals.

Federal managers make public promises to improve their handling of information technology. But repeated schedule slippages and cost overruns indicate that these officials have yet to address the fundamental issue: their agencies' failure to plan adequately either for implementation of new technology or for more long-range institutional goals.

Planning

The essence of planning is organized common sense. Only with responsible, informed, long-range planning will federal agencies realize the benefits offered by information technology. Specifically, federal officials must analyze the activity being considered for automation, examine future trends in technology, and—most important—look at alternative ways of doing business before committing themselves to buying particular hardware or software.

One central element in planning—analyzing the activity for which automation is being considered—should always precede any decision to apply technology. The Census Bureau, the earliest user of information technology, realized decades ago that costs and staff limitations dictated that it switch from personal interviews to a wider use of mail for gathering information. Collecting statistics by mail rather than in person requires different kinds of computer systems to ensure that the data are complete and accurate. The Bureau studied these different requirements extensively before implementing a direct-mail approach; the results have been reasonably good and cost-effective. Yet the Census Bureau came to realize that in disadvantaged or new immigrant neighborhoods personal interviewing was needed to capture population data that escaped the direct-mail approach.

Computer systems should not be used simply as high-tech substitutes for the tools of the past—pencils, typewriters, and file cabinets—but to connect related data into meaningful and understandable patterns.

By contrast, during the 1960s the Veterans Administration ran into trouble with its veterans' benefit program when it centralized all payment files on a computer without fully planning how to keep addresses up to date. Such apparently simple matters can be a nightmare both for federal agencies and for the U.S. citizens who, because of agency errors, don't receive the services due to them.

Another critical aspect of systems planning is anticipating future trends in the evolution of technology. Computer systems should not be used simply as high-tech substitutes for the tools of the past—pencils, typewriters, and file cabinets—but rather to connect related data into meaningful and understandable patterns. The Federal Aviation Administration (FAA), for example, studied its present and future needs carefully before buying its multibillion-dollar revised Air Traffic Control System. But instead of utilizing the newer and more accurate and versatile satellite navigation system, the FAA chose to stick with older, ground-based navigation systems. For one thing, the FAA had trouble getting the cooperation of the military branches putting up the satellite system; moreover, out of an understandable concern for air safety, it chose to incorporate a system it fully understood. To ignore beneficial new technology because of its unfamiliarity, however, is to abandon the possibility of progress—something agencies can't afford to do in light of the current budget crunch.

The essence of planning is common sense. Only with responsible, informed, long-range planning will federal agencies realize the benefits offered by information technology.

A third element of systems planning is examining alternative ways a function might be performed *before* designing systems, writing programs, or buying equipment. As mentioned earlier, IRS, SSA, and the Navy spent millions of dollars on computer systems without first thoroughly analyzing their needs; therefore, each wasted funds and missed an opportunity to do a better job.[7] On the other hand, FAA studied its needs carefully before committing itself to equipment. (Unfortunately, it opted for outmoded technology: good intentions, poor follow-through.) And the Census Bureau, seeing the necessity for new ways to gather statistics, successfully planned and tested a direct-mail approach so that its new computer system would be effective.

If correct planning procedure seems so straightforward, why have agencies throughout the federal government kept making the same mistakes? In many cases the missing factor has been understanding and commitment on the part of top management. Those in charge of planning and designing computer systems tend simply to automate their agencies' present methods of doing their work, even if those methods are archaic or ill-suited to current operational systems or computer technology. A better approach is to come up with new ways of operation that can take full advantage of the efficiency of modern management techniques and of what computer systems have to offer. But this requires having the right people in charge—and all too often senior managers are unfamiliar not only with computer technology but also with their agencies' work, since many stay in one job only for periods ranging from 18 months to less than three years. (Political appointees and military officers seem to be the prime examples of this revolving-door problem.)

Management's responsibility

Still, proper planning must originate from the top. It should include a thoughtful analysis of how an agency can best serve the public, both in the short run and in the long run and under changing social and economic conditions. One key question managers must ask is whether or not a computer system will improve the agency's operations. For example, government programs such as the Farm Credit System or the Farmers Home Administration, which make loans to individuals who have chronic trouble managing their farms, will not necessarily benefit from better computer programs for managing agency finances or loan portfolios. Computers can't solve the problems caused by borrower defaults or loans made ing deficit would be offset by the higher level of personal savings.

In a carefully written chapter entitled "The Roots of Reaganomics," Friedman exposes the fallacies of this thinking. To most observers, these were demonstrated by the events of the past eight years, but Friedman shows they were obvious from the beginning. Studies in the 1970s had demonstrated the implausibility of the theory behind the Laffer Curve. The evidence is more ambiguous on savings—something economists have argued about for decades—but Friedman shows conclusively that lower taxes could not possibly stimulate enough savings to offset the deficit.

A third tenet of Reaganomics, one founded in ideology rather than economics, was the belief that by starving government of revenues, it could be made to shrink. Here was an article of faith that had never been tested before; it, too, proved false. Friedman agrees with David Stockman, the budgetary architect of Reaganomics, who concluded in *The Triumph of Politics* that the public wants the American welfare state and will not permit it to be dismantled.

In Friedman's view, popular acceptance of supply-side economics and the resulting deficits reflected either a willing suspension of disbelief or a deception cynically perpetrated upon the public by individuals pursuing an ideological agenda. He clearly suspects the latter, but acknowledges the absence of clear evidence. In any event, the result was the same. To enjoy a briefly higher level of consumption, the nation has sold, mortgaged, or consumed a birthright of capital that took generations to accumulate. We have eaten the seed corn of future economic growth.

Friedman's concluding thoughts should be etched in stone: "Without economic growth, American society will ultimately lose its vibrancy, its dynamic sense of progress, its capacity to accommodate the aims and objectives of diverse groups within the population, its ability to offer such remarkable social mobility and individual opportunity. Without a strong and competitive economy, America as a nation will watch others take its place in the world order. These are the real costs of our current fiscal policy, and for the most part they will not even be perceptible from one year to the next . . .

" . . . Adopting a different fiscal policy is not just an economic desideratum but a moral imperative. If we do not correct America's fiscal course, our children and our children's children will have the right to hold us responsible. The saddest outcome for all would be for America's decline to go on, but to go on so gradually that by the time the members of the next generation are old enough to begin asking who was responsible for their diminished circumstances, they will not even know what they have lost."

TRUTH IN RESEARCH

Richard P. Nathan

SOCIAL SCIENCE IN GOVERNMENT: USES AND MISUSES

New York: Basic Books, 1988. 224 pp.

By William Murrie Clevenger

For those interested in whether the government gets its money's worth, Richard P. Nathan's *Social Science in Government* provides challenging reading. The book focuses on the evaluation of domestic programs and policies, mainly in the fields of social services and employment. The principal question Nathan raises is how successfully systematic, disciplined analysis, of the type used in the social sciences, can determine the effectiveness of current or future government programs.

Nathan's experience equips him well to comment on policy and program evaluation. Currently Professor of Political Science at Princeton Univer-

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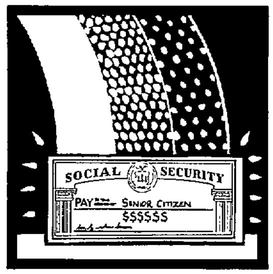
sity, he served in the Office of Management and Budget and the Department of Health, Education, and Welfare under President Richard Nixon and was a staff member of the Brookings Institution from 1972 to 1979. Since 1974 he has been a member of the Board of Directors of the Manpower Demonstration Research Corporation. In part, his book reads like a history of his own participation in public policy evaluation. This does not detract from its value, since Nathan scrupulously documents his own role and position in the events he describes, helping the reader to gain a clear overall picture.

Nathan rightly points out that the United States is uniquely optimistic about the ability of social science to serve the policymaking process. He traces trends, or perhaps fads, in social science's applications, starting with the attempt in the late 1960s under President Lyndon Johnson to apply Planning, Programming, and Budgeting (a system of identifying the costs of particular program objectives) to domestic programs, and proceeding to such uses as demonstration research and evaluation research. (Demonstration research is aimed at answering the question, "Will it work?" whereas evaluation research addresses the question, "Does it work?" The two approaches also use different methods of establishing controls.)

From his analysis, Nathan derives two major conclusions: that these social science techniques should be broadened to include the skills and insights of political scientists and psychologists in addition to economists, and that those performing these evaluations should recognize the techniques' limitations. In particular, he notes the predominance of economists in these evaluation processes and indicates his suspicion of cost-benefit analysis and of overreliance on quantifiable data. He calls for "truth in research," which he believes is often better found in the judgment of social scientists than in dubious number crunching. Furthermore, he observes that government programs often have impacts on institutions or attitudes, therefore requiring the sort of analysis that political scientists or psychologists can provide.

Members of the staff of GAO should be interested in this book for several reasons. For one thing, we are certainly in the business of applying systematic analysis to the evaluation of government programs. Moreover, even though GAO is making efforts to broaden its approach, political scientists and psychologists have not yet been added to our technical staffs. We might also consider Nathan's cautionary words about overreliance on quantifiable data and extend this advice to overdependence on easily verifiable "facts."

I have one quibble with Nathan's conclusions. Although the very structure of his book, based as it is on his experience, implies that it is possible to learn from the past, he omits historians from the list of those social scientists whose disciplines might contribute to program or policy evaluation. This shortcoming does not detract, however, from the value of this well-organized, well-documented, well-written book.



PEACE OF MIND?

Merton C. Bernstein
and Joan Brodshaug Bernstein

SOCIAL SECURITY: THE SYSTEM THAT WORKS

New York: Basic Books, 1988. 321 pp.

By Donald C. Snyder

Although the title of Joan and Merton Bernstein's book implies a focus exclusively on Social Security, the authors also present an impressive array of

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material on the two other most important programs supporting the elderly—private pensions and Medicare. The authors demonstrate considerable knowledge of the structure and operation of these programs, and because their book is for the most part well-referenced, it is a valuable research tool. It is not written for the lay audience, but a lay reader could learn much from it about how Social Security works or how private pensions don't. (The only impediment might be the authors' occasional overuse of technical economic terminology.)

The first subject the Bernsteins turn to is Social Security. The program's history, operation, and 1983 and 1986 reforms are covered in two chapters; a third chapter sketches the outlook for the program. The authors discuss in some detail the relationship among the Social Security trust fund, the federal budget deficit, and the U.S. economy. Considering that this is difficult ground to cover, they do a reasonably good job.

Still, their discussion does not adequately focus on certain key points. For one thing, they write about the trust fund as if a store of money, in the form of bonds, were being held at the Treasury Department. It would have been a service to the reader to have clarified that the trust fund money now being used to help finance the federal budget deficit will have to be paid back to the Social Security program sometime early in the next century, when, as the baby boomers retire, Social Security outlays will rise dramatically.

Other negative aspects of using Social Security tax receipts to lower the federal budget deficit are also treated in too sketchy a fashion. The authors do not sufficiently emphasize that the Social Security tax is a tax on labor, since capital is not taxed; that it is a regressive tax, since workers earning less than $48,000 a year pay more than 7.5 percent of their income, whereas those earning $200,000 pay less than 2 percent; and that the employer's share of the tax falls hardest on small businesses, since they are more labor-intensive than large businesses are.

The second major topic of the book is the private pension system. The authors cover the history of pension plans and discuss the abuses that exist in some pension systems, such as inadequate or nonexistent funding, as well as the public policy responses to these abuses, such as the Employee Retirement Income Security Act of 1974.

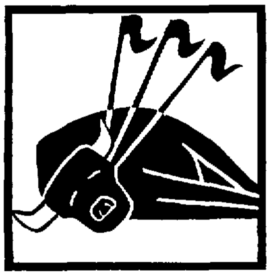
Despite such regulations, however, the private system develops new scams with amazing speed. The authors' appraisal of the system is scorching. They point out, for example, that in some cases beneficiaries have little chance of receiving any benefits at all after years of service supposedly covered by their pension plans. Because of tax breaks for pension funds, the American taxpayer ends up heavily subsidizing them—even though they primarily benefit companies' top-level, highly paid employees. Recently, some pension fund moneys have been invested in junk bonds financing corporate takeovers, which was certainly not the Congress's intent when it granted tax breaks to companies that sponsor pension plans.

Moreover, under current laws, highly paid executives can have up to four separate tax-deductible pension plans: a company-sponsored one; a 401(k) plan; an Individual Retirement Account; and, from self-employment on the side, a Keogh plan. Many of these tax-advantaged contributions are never used—or intended—for retirement. Instead, additional pension contributions are often made during peak earning years to reduce tax liabilities.

Medical care programs are discussed in the book's third major section. The authors provide a good overview, covering legislation, policy problems, and issues of cost. Since the book was written before the Medicare Catastrophic Coverage Act of 1988, however, this section is not as up to date as those on pension plans and Social Security.

Another issue the authors address, devoting a whole chapter to it, is the retirement age. By the year 2027, Social Security retirement ages will have been raised; the Bernsteins feel that the current retirement ages should be maintained. But their presentation is weak and unconvincing and ignores significant literature on Social Security reforms and retirement age.

In spite of the book's shortcomings, the authors are to be commended for putting together a volume that covers most issues relating to the income and welfare of the elderly. Their lack of faith in the ability of the private pension system to deliver significant income to a substantial number of retired persons is well-founded, as is their basic support of the Social Security system. Essentially, their position seems to be that we will keep the Social Security system in place because the American people want it, and that we will fix it on occasion because we must.



PERSPECTIVES ON THE CRASH

Tim Metz

BLACK MONDAY: THE CATASTROPHE OF OCTOBER 19, 1987 . . . AND BEYOND

New York: William Morrow, 1988. 264 pp.

By Patrick Dynes

Journalist Tim Metz has written a chronicle of the events of the stock market crash of October 1987. *Black Monday* touches on a great variety of topics including the extraordinary trading volume that overwhelmed computer systems at the New York Stock Exchange (NYSE), computer-assisted trading strategies, clearance and settlement functions, the response of the Federal Reserve System, and sales practice abuses in the options markets.

Metz tells the story of five participants—their problems and responses to the events of the crash. Two of these individuals had major roles at the center of the crisis: Gerald Corrigan at the Federal Reserve Bank of New York and John Phelan at the NYSE. Two others were traders: Donald Stone at the NYSE and Scott Serfling at the Chicago Mercantile Exchange (CME). The fifth is Paul Steiger, Deputy Managing Editor at *The Wall Street Journal.*

Gerald Corrigan's response to the crash was to ensure that the markets had the capital to stay in operation. At his direction, the Fed made large purchases of government securities from primary securities dealers, who then deposited the proceeds in their bank accounts. This created a mountain of new reserves at the commercial banks, enabling them to keep loans flowing to securities firms. Had cash run out and credit been cut off, numerous broker-dealers would have defaulted on their obligations as stock prices tumbled, and the crash would have been much, much worse. Corrigan also spoke with banking officials in New York City, assuring them of the Fed's commitment to keep money plentiful throughout the crisis and encouraging them to keep making loans.

At the NYSE, John Phelan had to mediate between his various constituencies—for example, investment banks (which cater to institutional investors) such as Salomon Brothers, wirehouses (which cater to individual investors) such as Merrill Lynch, and specialist firms (which match buyers and sellers on the floor of the NYSE) such as Speer Leeds & Kellogg—and to resist pressure from some members to close the exchange when there were too many sellers and not enough buyers. Under the unprecedented volume of trading, the NYSE's computer systems malfunctioned. Specialists faced massive trading imbalances and their capital ran low. By October 20, Phelan decided to impose limits on the use of the exchange's automated system in the hope of lessening computerized program selling pressure on specialists.

One such specialist is Don Stone, who does a profitable business as a market maker for stocks such as Coca-Cola and Johnson & Johnson. Specialists help keep trading orderly by selling from their inventories when there are few other sellers and purchasing stocks when there are few other buyers. But during the crash, it would have been suicide to continue to buy when almost everyone wanted to sell. Stone's experience demonstrated the billboard effect of the futures market in Chicago, where the lack of futures buyers at the CME sent negative signals to potential investors in New York, leaving Stone with thousands of shares of suddenly unsalable stock.

At the CME, Scott Serfling was experiencing his own brand of confusion. His group of traders on the floor of the CME usually watch what the big trading houses are doing and then do the same thing on a smaller scale. But what path were they to take on a day filled with wild discrepancies between futures and stock markets, with delayed openings and trading halts at the NYSE?

In a world in which news coverage shapes perceptions and, therefore, helps make news, Paul

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Steiger of *The Wall Street Journal* found himself atop the financial story of a lifetime. Steiger's day was frantic with editorial decisions, not the least of which was whether to call the crash a crash.

Tim Metz recounts the day's events very effectively, and does particularly well explaining the response of the Fed to the crash. But he also presents some simplistic and debatable analyses. He is liable, for instance, to attribute the crash to Ivan Boesky, or to computer-driven trading strategies, whereas the bull market that preceded the crash is better explained as a classic speculative bubble, and the crash itself as the inevitable pop. The momentum of the bull market was due in part to the explosion of investment capital; likewise, the momentum of the crash was due to rapid-fire sell-offs by pension funds and other institutional investors.

Metz's shakiest assertion is that there was a conspiracy, led by the heads of the NYSE and the CME, to save the stock market by rigging stock information and prices. This view is rejected by most market professionals on the grounds that it just couldn't be done.

Black Monday is a selective repackaging or synthesis of other accounts of the crash—including GAO's report—and rarely gets below the surface to the meaning of events. If the reader has time to read only a single book on the subject, I would recommend Martin Mayer's *Markets*. It provides a better explanation of how markets work and of the forces leading to the crash.

ESOTERICA WARS (Cont'd.)

Allan I. Mendelowitz opens his review of *The Moral Dimension* [*The GAO Journal,* Number 4, Winter 1988/89, p. 71] with: " . . . sociologist Amitai Etzioni claims that neoclassical economics and its models are all wrong . . . " Even those who read only the jacket of my book will find, in large print: "Etzioni does not advocate abandoning neoclassical economics, rather he emphasizes the necessity of including social considerations in this pursuit, and provides the framework for the integrating of economics into a more comprehensive, ethical, realistic view of human relations and society." My whole book is dedicated to a new synthesis.

Mendelowitz next argues that I applied the wrong criteria to evaluate neoclassical economics: the realism of its assumptions. What I should have done is realize that "a valid economic model is simply one that explains and predicts well." My thesis is that when models are highly unrealistic they lead to inadequate explanations and weak predictions. I cite several distinguished economists and philosophers of science and evidence in support of this position.

Mendelowitz closes his review with a prediction: "In any event, it is unlikely that large numbers of people will read *The Moral Dimension.*" The prediction is, typically, not sufficiently specified to be testable. However, in the first months since publication, *The Moral Dimension* first edition sold out, a rare occurrence for a book, which Mendelowitz correctly states uses a scholarly terminology.

Amitai Etzioni
Boston, Massachusetts

Mendelowitz replies:

I congratulate Amitai Etzioni on selling out the first edition of his book. However, with respect to the book's message, I would direct the reader to the text itself, rather than the dust cover. The reader will find Etzioni's position clearly stated on pages four and five of *The Moral Dimension:* "The neoclassical assumption that the market economy can be treated as a separate system, a system that is basically self-containing, and whose distinct attributes can be studied by the use of a perfect competition model, *is replaced here* with the assumption that the economy is a subsystem of a more encompassing society, polity, and culture. . . . the dynamics of the economy, including the extent to which it is competitive, *cannot be studied* without integrating social, political, and cultural factors into one's paradigm." (The italics are mine.) Readers can judge for themselves whether this is a rejection of neoclassical economics.

Regarding what makes a useful model, Etzioni states that "My thesis is that when models are highly unrealistic they lead to inadequate explanations and weak predictions." What separates the economics approach from Etzioni's is that each economic model is subjected to empirical testing. Those models that explain and predict well are retained; those that do not are abandoned. I believe that this represents a far more defensible approach to modeling than simply asserting the strength of one approach over another. •

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INDEX

Issues 1 - 4

Spring 1988 - Winter 1988/89

ARTICLES

Illustration credits—Pages 3 and 4: Rosanne Bono. Page 9: Randy Lyhus. Pages 15-22, 48-53: Todd Dawson. Page 25: Christopher Bing. Pages 28-41: Karen Stolper.

KLINE, Ray, "The Challenges for Tomorrow's Federal Manager" (part of the package, "Improving Government Operations"), Number 3, Fall 1988, p. 11.

KNIGHT, Gregory D., "Passing the Baton" (review of Frederick C. Mosher, W. David Clinton, and Daniel G. Lang, *Presidential Transitions and Foreign Affairs)*, Number 3, Fall 1988, p. 52.

KUSSEROW, Richard P., "The Social Security Wild Card" (part of the package, "The Federal Budget"), Number 4, Winter 1988/89, p. 22.

LAIRD, Melvin R., David Packard, and Robert C. Moot, "Ethics and the Defense Industry" (discussion), Number 1, Spring 1988, p. 4.

LAUTENBERG, Alexis P., "World Economic Developments: A View from Switzerland," Number 3, Fall 1988, p. 40.

LICHTBLAU, John H., "An Empty Pump Down the Road?" (part of the package, "The World Oil Market"), Number 2, Summer 1988, p. 47.

LOVINS, Amory B. and L. Hunter Lovins, "Oil-Risk Insurance: Choosing the Best Buy" (part of the package, "The World Oil Market"), Number 2, Summer 1988, p. 52.

LOVINS, L. Hunter and Amory B. Lovins, "Oil-Risk Insurance: Choosing the Best Buy" (part of the package, "The World Oil Market"), Number 2, Summer 1988, p. 52.

MCCOOL, Thomas J., Charles L. Vehorn, and Gerald R. Jantscher, "Revenue Estimating: A More Prominent Part of Tax Policy," Number 2, Summer 1988, p. 64.

MENDELOWITZ, Allan I. and Joseph J. Natalicchio, "The U.S. Trade Deficit and the Passing Illusion of Economic Sovereignty," Number 1, Spring 1988, p. 11.

MENDELOWITZ, Allan I., "Heavy Going" (review of Edward N. Luttwak, *Strategy: The Logic of War and Peace)*, Number 2, Summer 1988, p. 75.

MENDELOWITZ, Allan I., "Esoterica Wars" (review of Amitai Etzioni, *The Moral Dimension: Toward a New Economics)*, Number 4, Winter 1988/89, p. 71.

MOOT, Robert C., David Packard, and Melvin R. Laird, "Ethics and the Defense Industry" (discussion), Number 1, Spring 1988, p. 4.

NADEL, Mark V., "The Rise of 'Political' Science," Number 4, Winter 1988/89, p. 47.

NATALICCHIO, Joseph J. and Allan I. Mendelowitz, "The U.S. Trade Deficit and the Passing Illusion of Economic Sovereignty," Number 1, Spring 1988, p. 11.

PACKARD, David, Melvin R. Laird, and Robert C. Moot, "Ethics and the Defense Industry" (discussion), Number 1, Spring 1988, p. 4.

PETERSON, Peter G., "Rethinking Entitlements" (part of the package, "The Federal Budget"), Number 4, Winter 1988/89, p. 39.

PROSS, Mark A., "The National Aero-Space Plane," Number 4, Winter 1988/89, p. 54.

REGAN, Edward V., "Learning by New York's Example" (part of the package, "Improving Federal Financial Management"), Number 2, Summer 1988, p. 20.

ROHATYN, Felix G., "The Money Culture," Number 1, Spring 1988, p. 27.

SCHULTZ, John R. and Craig A. Simmons, "The Evolving Financial Services Industry," Number 1, Spring 1988, p. 19.

SCHUSTER, Carol and Jess Ford, "Bringing Accountability to Foreign Aid," Number 2, Summer 1988, p. 31.

SHAD, John S. R., "Private Enterprise, Public Responsibilities," Number 2, Summer 1988, p. 61.

SIMMONS, Craig A. and John R. Schultz, "The Evolving Financial Services Industry," Number 1, Spring 1988, p. 19.

SMYTHE, Sheila M., "Safeguarding Our Children's Health" (part of the package, "America's Children"), Number 3, Fall 1988, p. 26.

SPRATT, Representative John M., Jr., "Getting a Handle on Weapon Systems" (part of the package, "Improving Federal Financial Management"), Number 2, Summer 1988, p. 25.

VEHORN, Charles L., Thomas J. McCool, and Gerald R. Jantscher, "Revenue Estimating: A More Prominent Part of Tax Policy," Number 2, Summer 1988, p. 64.

WHITFIELD, Dennis E., Dorcas R. Hardy, and Terence C. Golden, "GMRs: Three Managers' Perspectives" (discussion, part of the package, "Improving Government Operations"), Number 3, Fall 1988, p. 21.

WOLF, Frederick D., "The Growing Need for Reform" (part of the package, "Improving Federal Financial Management"), Number 2, Summer 1988, p. 12.

BOOKS REVIEWED

(listed by author)

CALLAHAN, Daniel, *Setting Limits: Medical Goals in an Aging Society,* Number 1, Spring 1988, p. 62.

CHISMAN, Forrest and Alan Pifer, *Government for the People—The Federal Social Role: What It Is, What It Should Be,* Number 2, Summer 1988, p. 72.

CONGRESSIONAL QUARTERLY, *The Washington Lobby, Fifth Edition,* Number 3, Fall 1988, p. 53.

ETZIONI, Amitai, *The Moral Dimension: Toward a New Economics,* Number 4, Winter 1988/89, p. 71.

FORESTER, Tom, *High-Tech Society: The Story of the Information Technology Revolution,* Number 1, Spring 1988, p. 63.

GRAYSON, C. Jackson, Jr. and Carla O'Dell, *American Business: A Two-Minute Warning,* Number 3, Fall 1988, p. 51.

GREIDER, William, *Secrets of the Temple: How the Federal Reserve Runs the Country,* Number 2, Summer 1988, p. 73.

KONNER, Melvin, M.D., *Becoming a Doctor: A Journey of Initiation in Medical School,* Number 4, Winter 1988/89, p. 68.

KOTZ, Nick, *Wild Blue Yonder: Money, Politics, and the B1 Bomber,* Number 4, Winter 1988/89, p. 70.

LUTTWAK, Edward N., *Strategy: The Logic of War and Peace,* Number 2, Summer 1988, p. 75.

MOSHER, Frederick C., W. David Clinton, and Daniel G. Lang, *Presidential Transitions and Foreign Affairs,* Number 3, Fall 1988, p. 52.

OXFORD ANALYTICA, *America in Perspective,* Number 1, Spring 1988, p. 61.

PATTERSON, James T., *The Dread Disease: Cancer and Modern American Culture,* Number 3, Fall 1988, p. 55.

WILSON, William Julius, *The Truly Disadvantaged: The Inner City, The Underclass and Public Policy,* Number 1, Spring 1988, p. 60.

Our first year's index begins on page 54.

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