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THE EVALUATION AND PLANNING OF SOCIAL PROGRAMS

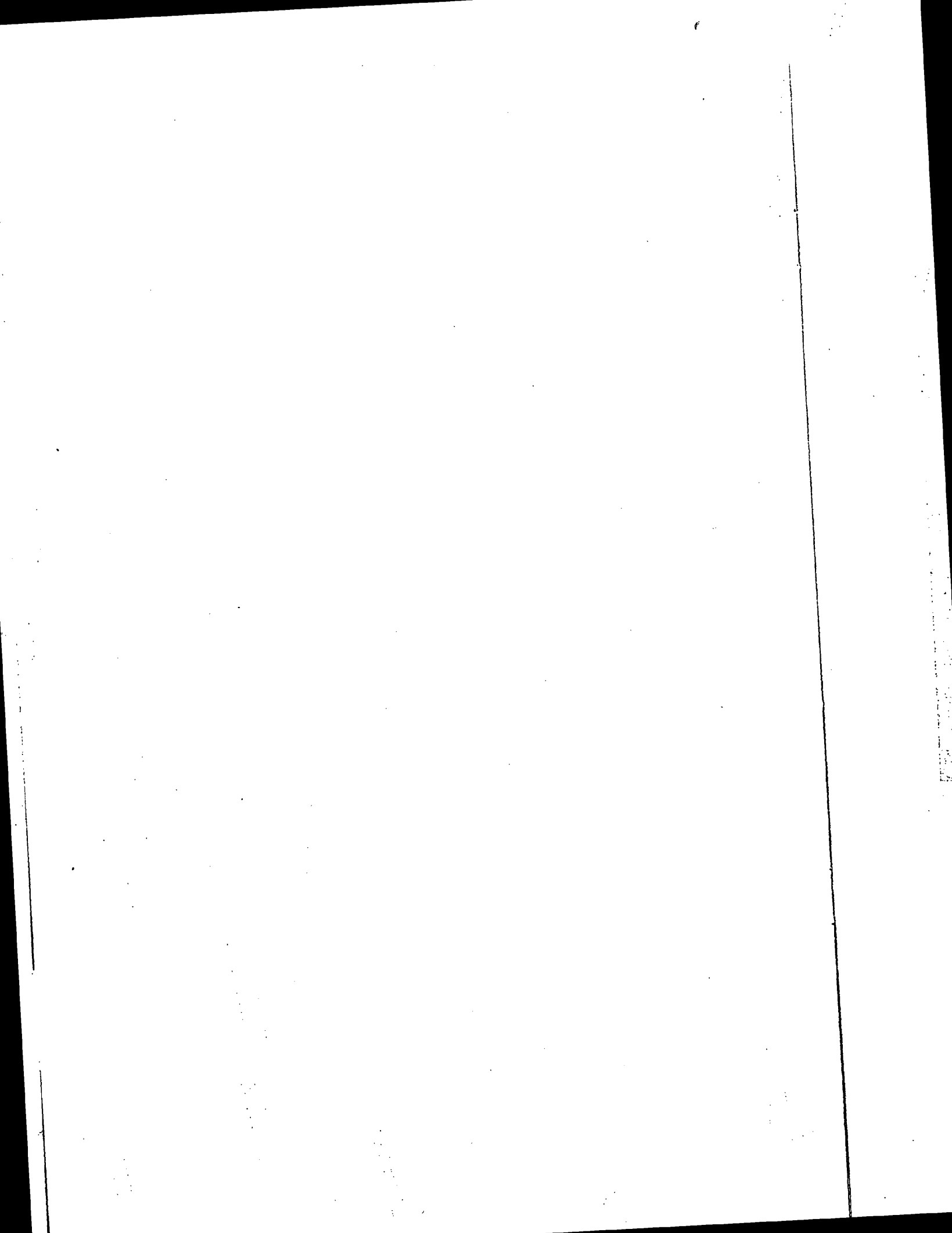
Testimony before the Special Subcommittee on the
Evaluation and Planning of Social Programs, Senate
Committee for Labor and Public Welfare, July 17, 1969.

John R. Meyer

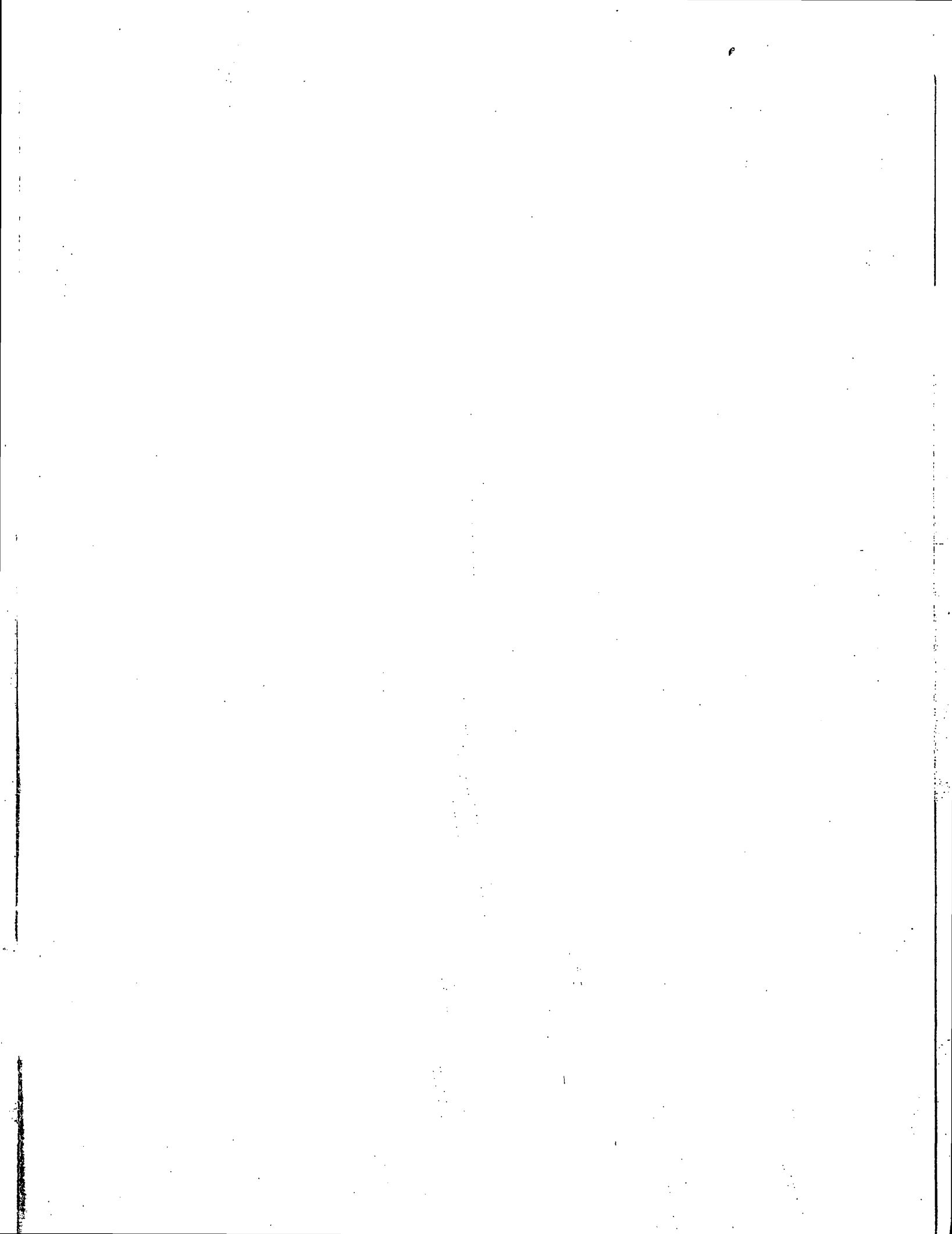
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THE EVALUATION AND PLANNING OF SOCIAL PROGRAMS

I very much appreciate your invitation to testify on the problems of obtaining better data and governmental mechanisms for dealing with the nation's social problems. The organization which I head, The National Bureau of Economic Research, Inc., played a leading role in developing many of the concepts and techniques employed in national income accounting. Concepts such as national income are invaluable in framing economic policy and they provide an important, if not unique, point of departure for obtaining better measures of social and economic performance as well.

Much of the concern about obtaining better social indicators stems, in fact, from a growing realization of the limitations — as well as the strengths — of national income measures, as conventionally defined by market transactions. These concepts, as developed in the 1920's and 1930's, clearly do not meet all of today's needs for public or private policy planning. Among other deficiencies, the evidence suggests that, as our economy grows ever more affluent, the proportion of economic activity in the so-called market sector is a decreasingly relative share of total economic activity. Examples of increasingly important nonmarket economic activities are numerous: for example, government services, do-it-yourself activities, and certain private philanthropic and nonprofit undertakings. Some of these nonmarket activities are totally excluded from the national income accounts, while others are only imperfectly reflected.

Illustrative of these problems is the present state of accounting for household work. It has always been one of the more obvious ironies or inconsistencies of national income accounts that the hired domestic servant's service is counted as part of national income, whereas the unpaid services of the housewife are not.

At the National Bureau of Economic Research, our concern about the inadequacies of existing national income measurements has led us to a number of initiatives. At the moment, for example, we are undertaking to improve our measures of unpaid economic activity conducted within the household, including an attempt to achieve better measures of the amount of capital, as represented by consumer durables, involved in these activities. We are also working on improved measures of the benefits and costs of such diverse activities as educa-

tional investments, medical services, court and judicial procedures, interregional migration, and several other sectors wherein direct market evaluations are either limited or lacking.

There is, moreover, one extremely important nonmarket sector about which economists have long been prone to talk but have done little to measure, namely, the so-called externalities. An externality, broadly speaking, is the economist's jargon for a benefit or cost that is a by-product or is incidental to some directly productive activity. A standard illustration of an external cost would be air or water pollution created by some industrial activities. A commonly cited example of an external benefit would be the possibility that educating an individual could not only make him more productive in an economic sense, but would also enhance his role as a citizen, for example, in political or civic processes.

The measurement of economic externalities clearly lies at the heart of much of the demand for improved social indicators. Air and water pollution, industrial and automotive safety, certain classes of mental and nervous illnesses, environmental squalor, inconsistent land-use planning, and community instability are all often cited as external costs of certain economic activities. Certainly they are representative of items of the agenda for improved social measurement. One could cite a similar list for external benefits.

Nevertheless, many identified needs for social indicators go well beyond any conventional or even broadly construed definition of external economic benefits or costs. For example, when we speak about enriching the cultural base of our society through better museums, or theater or concerts, we are usually well beyond the range of anything that can be directly identified as a by-product of any productive activity. Similarly, improved social mobility, lessened racial discrimination, greater public order or safety, better urban amenities or aesthetics, usually involve considerations beside those external to economic processes.

The distinction between social measurements aimed at reflecting economic externalities, and those of a more purely social or cultural aspect, is quite important. It provides much of the justification, for example, for the "Council of Social Advisers to the President" which would be created under your proposed "Full Opportunity Act." In particular, it justifies an adjunct to the President's Council of Economic Advisers.

This is not to say that economists will not have a contribution to make to improved social measurement. Indeed, it is quite striking how many economists served on the *Panel on Social Indicators*. However, the kind of economist who will contribute to improved social measurement is likely to be somewhat different from those traditionally involved in the activities of the Council of Economic Advisers. The President's economic advisers have been mainly preoccupied, quite properly, with problems of "macro" economic policy, fiscal and monetary. By contrast, the economists who have made and will make contributions to improved social measurement are likely to be more "micro" in their orientation. They are concerned with the specific problems of poverty, urban development, human capital, labor force participation, structural unemployment, and so forth. Clearly, a need exists for both contributions. Moreover, in the case of social measurement the economist's contribution is likely to be greatly enhanced if it is made in cooperation with other social scientists who are not economists.

But even with such cooperation, and under the best of auspices, one can easily expect too much of any Council of Social Advisers. The sad fact is that we know very little about the causal relationships between certain kinds of government policies or acts and their social consequences. By contrast, in the late 1940's, when the Council of Economic Advisers was brought into being, national income accounting and models relating the major components of national income to one another were largely in hand; these provided an intellectual base upon which fiscal and monetary policy recommendations could be developed. Nothing equivalent exists today in the field of social measurement.

I do not subscribe to the notion that improved social measurement — in the absence of better theory or models — will suffice. In particular, better social indicators alone will not give us all that is needed to properly evaluate and plan public programs and investments. Of course, better measurement, *ex post*, of external benefits or social or cultural achievement levels will surely help to evaluate certain public programs. But to proceed by depending upon *ex post* noncausally defined measurements to evaluate public programs is likely to be highly wasteful. In some cases, we shall find out after the fact that certain programs have actually been ineffectual or, even worse, counterproductive in social terms. Urban renewal is perhaps a striking example of such a possibility. As government becomes increasingly involved with social and urban programs, this kind of analytical inadequacy, or inability to relate cause and effect, can potentially be very uneconomic, distracting, and disillusioning.

To avoid this dilemma, we must develop a far better and richer understanding of the behavioral and causal relationships between government programs and their social consequences. Not only the directly observable consequences must be understood, but those that occur on the second, or third, or fourth round as well. To trace these larger or more indirect ramifications, far more complex models or theoretical concepts are needed than those we have now. Social scientists are only beginning to experiment with conceptual schemes that have anywhere near the complexity and detail required for evaluations of this type. In particular, I would observe that the models needed for these evaluations go well beyond the essentially static and highly partial concepts that are embedded in PPBS. Instead, we need models that are dynamic in character and that trace out the consequence of major new government programs or investments over time and in considerable social, economic, and geographic detail. For example, in analyzing urban problems, we should strive to understand the basic ecological patterns by which our urban areas develop and change over time.

All of this new knowledge will not, of course, be easy to develop. It will require the application of systems of analytical skills, large computers, and all sorts of other new techniques. But even before these skills can come into play, we must learn a great deal more about the "how" and "why" of the behavioral and causal relationships involved. To do this properly will involve systematic testing of various hypotheses about social and economic behavior. Obviously, this hypothesis testing can only go to the extent that data are available. Therefore, better social measurement is inextricably tied up with the development of better concepts or theories. The development of better theory and measurement,

in short, must proceed simultaneously. Moreover, these efforts are likely to be time-consuming and expensive. To be properly done, it will involve considerably more than the \$900,000 per year suggested as a basic salary budget for the proposed Council of Social Advisers.

I am quite aware, of course, that many social policy decisions must be made now or in the near future and that many of those decisions cannot wait for the completion, or even the early returns, on the kind of comprehensive research programs I have suggested. Some men of affairs may jump from this observation to the conclusion that long-run research is therefore useless, irrelevant, and unworthy of support. However, such an attitude would be self-defeating. The road to inferior social and urban policy has been largely paved with precipitous and ill-considered programs that recognized only the immediate — mainly physical — aspects of a project, and not the indirect or secondary effects on the community or environment. Accordingly, if it takes some time to develop a reasonably satisfactory factual basis for policies in this area, the sooner the effort is started, the sooner that knowledge will be available. Because now we can and must proceed with policy decisions based only on conjecture or guesswork is no reason to insist on perpetuating these inadequacies forever. We should at least begin to ask the right questions now, even if we cannot answer them immediately, rather than continue to ask only the restricted and quite incomplete set of questions that happen to be answerable within our present, limited state of knowledge.

In summary, the "Full Opportunity Act" launches several enterprises that are well worthwhile. Nevertheless, we should not be too optimistic about what can be immediately achieved. But that is no reason to shy away from the undertaking, as long as it is kept in perspective and does not prematurely discredit such efforts. Like the war on poverty to which it is so closely allied, the effort to achieve better social measurement and understanding is likely to be a lengthy, time-consuming, and arduous task.