



The ACRDC  
is here!

THE Briefing  
RESEARCH 2011



# OUR GOAL

## Research that improves policy decision making

I never cease to be amazed at the depth, breadth and quality of the policy research being undertaken by my colleagues in the Andrew Young School. This issue of

*The Briefing* provides only a sampling of their work, but a rich sample it is!

Sometimes these efforts take long and persistent work before coming to fruition. The Atlanta Census Research Data Center (ACRDC) is one such example. Professor Paula Stephan was part of an effort over a decade ago to bring a Census Research Data Center (CRDC) to Atlanta. While that original effort was viewed very positively, it was not approved for funding.

However, when the Census was ready to expand the CRDCs, Census personnel remembered the Andrew Young School proposal and invited a new submission. This time Professor Stephan, with Professor Barry Hirsch and Adjunct Professor Julie Hotchkiss, was successful in forming a consortium proposal that won the approval of the Census and funding from the National Science Foundation. This new resource, the ACRDC, has the potential to positively influence the quality of policy work in Atlanta and the region for decades to come.

In other cases the turnaround on policy research, to be useful, has to be much shorter. This issue of *The Briefing* offers reviews of faculty research on budget, tax, health, higher education and natural resource issues that are frequently headline news. And our students are heavily involved in research as well; the article on economics Ph.D. candidate Menna Bizuneh's work is just one example.

All of this work is driven by a common goal: to improve the quality of decision making by providing accurate information and the most rigorous and insightful analysis possible in these crucial policy arenas. We train our students to do the same.

More exciting news is that the Andrew Young School has expanded. As of July 2011, we are the new home of the university's School of Social Work and Department of Criminal Justice. These two academic units complement our existing academic units and research centers in very important ways, which you will hear more about in our next issue.

We hope you will enjoy reading this issue and gain new insights and a deeper appreciation of the research and graduate student training that takes place in the Andrew Young School of Policy Studies.

**Robert E. Moore**  
Associate Dean

Georgia State University  
Andrew Young School  
of Policy Studies  
*The Briefing*  
Research 2011

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Cover Photo: Julie Hotchkiss, Barry Hirsch and Paula Stephan, the AYS faculty behind the ACRDC's entry in Atlanta.



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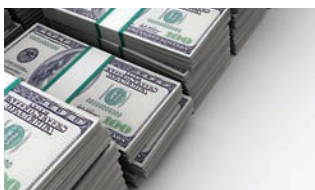
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# Nobel Laureate holds court *at the* **AYS**



*The Andrew Young School's Experimental Economics Center (ExCEN) and Department of Economics hosted Nobel Laureate Elinor Ostrom at an AYS faculty event on November 19, 2010.*

In Atlanta to speak at the Southern Economic Association's (SEA) annual conference, Ostrom led a conversation with AYS faculty titled "Using Experiments and Field Work to Answer Theoretical Questions."

Ostrom is the Arthur F. Bentley Professor of Political Science, senior research director of the Workshop in Political Theory and Policy Analysis, which she founded, and a professor at the School of Public and Environmental Affairs at Indiana University. In 2009 she became the first woman to receive the Nobel Prize in Economic Sciences, recognized by the organization "for her analysis of economic governance, especially the commons." ([www.nobelprize.org](http://www.nobelprize.org))

Addressing an audience that filled the room, Ostrom described some of the early challenges to experimental methods in the lab: "Others would argue that our experimental work was done with



*Top: Elinor Ostrom; other images: various attendees (professors, students and public alike) attending Dr. Ostrom's conversation*



## Cox is SEA president

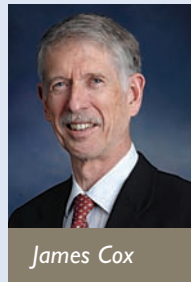
As the 2010 president-elect and program chair for the SEA, Cox invited Ostrom to speak at the SEA conference and AYS event.

At 1,500 members, the SEA is home to researchers with interests in all areas of economics, says Cox, who accepted the mantle of 2011 SEA president at its annual conference.

First held in Atlanta in 1928, the three-day SEA conference is a marathon of economic research presentations. This year, more than 500 research papers were presented and discussed. The topics, papers and presenters are listed at <http://www.etnpconferences.net/sea/sea2010/>.

"Researchers working in all parts of economics present frontier research, network and establish relationships that produce future collaborative research," says Cox. "The conference promotes research that has policy implications, may further economics as a discipline, and will lead to new applications."

Cox holds the Noah Langdale Jr. Chair in Economics at Georgia State University and is the only economist named a Georgia Research Alliance Eminent Scholar.



undergraduates, and students are WEIRD – Western, Educated, Industrialized, Rich and Democratic – so what do our results tell anyone about the world? We started a summer program to teach other faculty about institutional analysis and environmental change, faculty in engineering and other areas. Now we have data from people in more than 40 countries and findings very similar to those with the undergrads."

Ostrom described field experiments on reciprocity, cooperation and trust with communities in forested areas of Ethiopia and with Columbian women who were overfishing the waters off of Bogota, and how their feedback benefited those studied.

"What we're seeing from our field work and experiments is that this is really relevant for the world. NGOs use it," she said. What we're engaged in ... can be used in ways that are very important."

Ostrom then fielded questions about conditional cooperation, endogenous institutions and sustainability, collective actions, mathematical models, and multiple research methods.

"We must use and respect multiple methods," she said.

"Professor Ostrom's research has great relevance to central concerns of the faculty of a policy school, as is made clear by the Nobel Prize Committee's summary description of her contributions," says her co-author, ExCEN director and AYS Professor James C. Cox.

# Know what works

## AYS establishes first Center of Excellence in Evidence-based Policy and Performance Management

The Andrew Young School, ranked among the nation's top 20 programs in policy analysis by *U.S. News & World Report*, is mobilizing its strengths in impact evaluation and performance measurement to create a Center of Excellence in Evidence-based Policy and Performance Management.

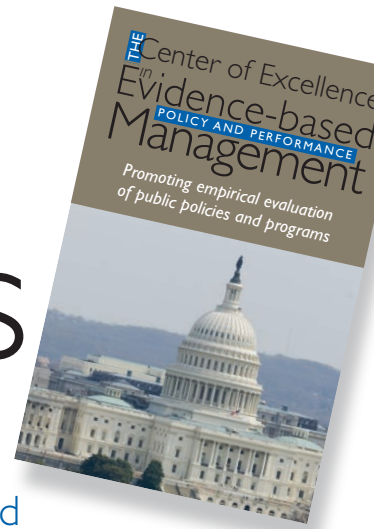
The center will be a one-stop shop for governments, non-profits and academic institutions seeking effective policy solutions. Building on the AYS's strong foundation in empirical analysis, it will be the nation's first research center to offer expert faculty and programming focused on both evidence-based policy and performance management research.

"Unique among policy schools, our school offers a full spectrum of theoretical and methodological expertise that will help the center quickly achieve international prominence in the area of evidence-based policy," says Professor Paul Ferraro, who with Professor John C. Thomas is spearheading its creation.

"Our new Center of Excellence will deliver high-quality, objective research that will improve policymaking at every level," he says.

Supported under Georgia State University's Second Century Initiative, the center will catalyze interdisciplinary research in science-based policy across the campus. It will offer state-of-the-art methodological counsel, high-profile colloquia and lecture series, international connections in policy research, working groups that focus on interdisciplinary topics, and a venue for policy research discussions.

Three new faculty members will be invited to join the Andrew Young School to help build international recognition for the center and broaden its methodological expertise. These experts will lead empirical research in the areas of performance measurement, educational policy and program evaluation, field experiments, and public economics.



# Nonprofit Policy Forum

## PROFESSOR LAUNCHES NEW SCHOLARLY JOURNAL

"A litany of major contemporary policy issues confront nations around the globe. They stem from economic recession, failures of financial systems, longer-term environmental, social and economic trends, and political tensions in various world regions," says Professor Dennis Young, the Bernard B. and Eugenia A. Ramsey Chair of Private Enterprise.

"A salient feature of these issues is the prominence of government and business as the principal protagonists in policy deliberations."

Yet the global community has increasingly recognized that solutions to serious social and economic problems will require more than government and business action alone, says Young, who also directs the Nonprofit Studies Program. He believes that the third sector – nonprofits – which he calls "a less visible, more diffuse presence" can be a significant factor in policy change.

Under his direction, the AYS has launched a new international, interdisciplinary journal, *Nonprofit Policy Forum*, which focuses on the critical work nonprofit organizations play in the issues and process of public policy. Designed to serve as an authoritative and accessible forum of scholarly research and information for nonprofit leaders, practitioners, scholars and policy-makers, its goal is to increase the policy contributions of nonprofits in the world today.

Young believes that nonprofit organizations have the ability to "extend the government's reach, engage grassroots energies, build cross-sector partnerships and reinvigorate democratic governance." They play an increasingly critical role in the development of national economies and societies worldwide and are shaping international affairs in fields as diverse as international trade and environmental conservation.

"Nonprofits need to be strategically engaged in the policy process at every level, effectively supported by public policy and in position to advocate for credible and sensible policy solutions," says Young. Recognizing that nonprofit thinkers and strategists needed a central forum where they can gather for dialogue, he created *Nonprofit Policy Forum* to fill that gap.

The journal contains original research-based articles and analyses addressing areas that intersect with nonprofit involvement: tax and regulatory policies, national security policy and civil liberties, advocacy and lobbying, government

funding, disaster relief, economic and community development, health care, social justice, the environment, education and the arts, and others.

It also examines areas of international concern, such as

comparative policies in different countries, transnational NGOs on global policy issues, the advancement of civil society and democratic governance, and security in light of global conflicts, including terrorism. Special features include interviews, book reviews, case studies and policy briefings of recent legislation and judicial proceedings, research reports, and other official documents.

The inaugural issue includes Editor-in-Chief Dennis Young's interview with Andrew Young and articles on nonprofit advocacy, philanthropic foundations and transformative change, public-private partnerships in Japan, and success tactics for a new hybrid of social enterprise called "social businesses."

Linda Serra is managing editor of the new journal, which is published quarterly in cooperation with the Nonprofit Studies Program. It is online at <http://www.bepress.com/npf/index.html>

"Nonprofits need to be strategically engaged in the policy process at every level, effectively supported by public policy and in position to advocate for credible and sensible policy solutions."

DENNIS YOUNG





# Premium data available here

**ATLANTA HAS JOINED** an exclusive number of U.S. cities in which select researchers can access important, highly confidential government data for their research projects. In September 2010, the Census Bureau announced the opening of the Atlanta Census Research Data Center (ACRDC) at the Federal Reserve Bank of Atlanta.

The RDC is the government's highest-level business, social and health statistical data warehouse. Its presence places the region among an exclusive number of locations where researchers can access this type of information.

"Researchers will be able to access confidential government data in the new Research Data Center for stronger, policy-relevant analysis not otherwise possible," according to Professor Barry Hirsch, the project's principal investigator and W.J. Usery Chair of the American Workplace.

Hirsch, Professor Paula Stephan and Adjunct Professor Julie Hotchkiss, a research economist at the Federal Reserve Bank of Atlanta, led the successful effort to bring the RDC to Atlanta. They partnered GSU with area institutions including the Federal

Reserve and the U.S. Centers for Disease Control and Prevention for the effort.

The National Science Foundation and other member institutions are funding the center's \$1.1 million start-up costs.

"Researchers from universities and other organizations with projects approved by the Census are allowed restricted access to economic, business, demographic and longitudinal employer-household data files not available to the public," says Hirsch.

"Increasingly, some of the best, most novel research relies on data from Census research centers," he continues. "Access to these data ratchets up the level of research quality in several fields of study."

The Atlanta RDC's governance board includes representatives from each of the consortium institutions: Georgia State University, Federal Reserve Bank, CDC, Emory University, Georgia Institute of Technology, University of Georgia and the University of Alabama at Birmingham. Hotchkiss is its executive director.

Robin Morris, Georgia State's former vice president for research, developed internal grants that will support GSU's use of the center. "The Andrew Young School has created a win-win situation for the several institutions that worked together to bring the Research Data Center to Atlanta. This center is very important, not just for the university, but also for the region. It will allow access to some of the very best data that the government collects," he says.

The Census Bureau's selection places Atlanta within an exclusive number of data center locations that include Boston, New York, Chicago and Washington, D.C., and universities including UCLA, UC-Berkeley, Michigan, Cornell and Duke.

"We see this center as a major tool in recruiting faculty and graduate students from leading universities," Hirsch says. "Now they can work with research center data in Atlanta. Its presence enhances the strength of our local research community across the spectrum of social, economic and health research."

Learn more about the ACRDC at <http://aysps.gsu.edu/acrdc>.





# Taxing the other smoke





# POLLUTION

**As Georgia faces a gaping budget shortfall of over \$1 billion, state lawmakers must find ways to raise revenue as well as cut expenses.**

*By Spencer Banzhaf and Paul Ferraro*

Nobody likes to pay taxes. Economists do not like taxes because they distort the economy. They make businesses less productive and give consumers less for their dollar. The math is simple: Taxing the good things the economy produces equals less of the good things in life.

That's why, when taxes are a necessary evil, it is better to tax bad things. Along these lines, lawmakers are currently debating an increase in the tobacco tax. We suggest taxing the other smoke as well: pollution. Georgia lawmakers should consider raising the tax on gasoline.

The United States has the lowest gasoline taxes in the industrialized world, and Georgia has one of the lowest state gas taxes rates in the U.S. Even a five-cent increase in the gas tax could raise about \$330 million per year, helping to close the short-run budget gap. In the long run, it could provide an opportunity to cut other taxes that fall on more productive parts of the economy.

Raising the gas tax would have other advantages. First, some of the revenue would come right from the pockets of

oil exporters, primarily OPEC nations, some of which support terrorism and other actions hostile to the U.S.

With a higher gas tax, people will have an incentive to drive less and drive more fuel-efficient cars. This will reduce the demand for foreign oil and further reduces the money going to OPEC. Even better, it can help insulate our economy from oil shocks, which are sure to come in the future just as they have in the past. In this way, the gas tax can actually make our economy more resilient and more efficient, not less efficient as other taxes do.

Second, when we burn less gasoline, we also produce less pollution. Whatever one's opinion of global warming, we all recognize the smog that plagues Atlanta and much of Georgia. This pollution causes asthma attacks and contributes to deaths from heart and lung disease. Reducing this pollution will improve health and the quality of life for Georgians.

Twenty-eight counties in Georgia have pollution levels that exceed federal air pollution standards. As a consequence, industrial development in these areas is limited. By helping these counties come back into compliance with federal standards, the gas tax creates opportunities for business expansion. Another win for our economy.

Finally, when we reduce driving and the number of cars on the road, we also reduce congestion and car accidents. The average Atlantan, for example,

spends 60 hours a year stuck in traffic. By helping reduce this congestion, the gas tax can help free up our time for more productive uses. Yet another win.

In a recent review of the benefits and costs of gasoline taxes published in a prestigious academic journal, economists calculated that to maximize economic efficiency, the U.S. gas tax should be \$1.01. Tweaking their model for Georgia implies an optimal tax of about 80 cents. Currently, combined federal and state taxes in Georgia are about 42 cents. That leaves room for raising the tax by 38 cents.

While we do not advocate a hike this big, these estimates underscore the fact that increasing the gas tax is a step in the right direction.

The late conservative William F. Buckley Jr. understood this fact when he called for a massive hike in the gas tax so Americans paid the full price of consumption. A few years later, Ronald Reagan increased the federal gas tax by five cents.

It's time to do it in Georgia, too.

*Banzhaf and Ferraro are associate professors of economics at the Andrew Young School. This commentary is reprinted from a guest column published in the Atlanta Journal-Constitution on March 17, 2010.*



# Public finance, coercion & social welfare

Fiscal policy scholars  
convene at annual  
ISP conference

*Nearly two dozen of the world's leading scholars and policymakers in public sector economics gathered at the invitation of the International Studies Program (ISP) in October 2010 to present and evaluate new research at its annual fiscal policy conference. Their research activity centered on the theme "Coercion and Social Welfare in Contemporary Public Finance."*

The conference was co-chaired by Regents Professor Jorge Martinez-Vazquez, director of the ISP, and Stanley Winer, professor and Canada Research Chair in Public Policy at Carleton University in Ontario. Global public finance experts joined economic faculty from major universities, and included:

- Robin Boadway, Queen's University
- Giorgio Brosio, University of Turin
- Saloua Sehili, World Bank
- Thomas Rutherford, Swiss Federal Institute of Technology Zurich
- Arno Riedl, Maastricht University, the Netherlands
- John Ledyard, California Institute of Technology
- John Wallis, University of Maryland
- Leonard Dudley, Université de Montréal
- George Tridimas, University of Ulster
- David Wildasin, University of Kentucky

Coercion as a tradition in public finance had basically fallen away, says Winer. "Jorge and I began to see a common element in the work we were doing that we thought would be interesting to explore." Their work led to the conference.

Winer describes the concepts of coercion and social welfare as similar to setting a thermostat in a crowded room. "Setting it means that, inevitably, some people are too hot and others are too cold. You have to live with the solution or leave the 'room.' The problem is inevitable as long as you want to make decisions collectively. It's not a technical matter. It's a deep social issue.

"People care about the relationship between what they pay [in taxes] and what they get, and how that difference is dealt with," he continues. "These matters ought to be formally reflected in the way in which public finance is studied."

Martinez-Vazquez says that a book about research presented at the conference will be published in 2011. "We have conducted a dozen international conferences that focus on important fiscal policy themes since 2001," he says. "The research presented has resulted in nine books and two special journal editions." Presentations and papers from these conferences are available on the ISP website at <http://aysps.gsu.edu/isp/conferences.html>.

"What public policymakers do when they're thinking of public finance issues is informed by the theory we produce," says Winer. "The research filters down, eventually, by affecting the way people think about these problems."





# CLOSING THE GAP

FRC report examines Georgia's structural budget deficit

**GEORGIA HAS MADE** significant strides in closing the gap between expenditures and the level of state spending that its revenue structure can support. Despite the hard choices made, the state faces a structural deficit of more than \$1.5 billion per year from FY 2010 onward, according to a Fiscal Research Center (FRC) report co-authored by AYS faculty Carolyn Bourdeaux and David L. Sjoquist.

"Estimating Georgia's Structural Budget Deficit," (FRC Report No. 209, July 2010), examines the actions the state has had to take over the last five budget years to balance its budget. It projects state revenues and expenditures to FY 2015, assuming no change in revenue policy or public service level from FY2011 and into the future.

It shows that Georgia made significant strides in closing the gap between expenditures and the level of spending that the current revenue structure can support in FY 2010 and FY 2011. However, revenues are not expected to grow sufficiently to support future expenditures given current service levels. For FY 2012, a \$1.8 billion to \$2 billion shortfall is projected, if there are no changes to the revenue or expenditure structures of state government. Given the FY 2011 base revenue structure and public service level, a shortfall of \$1.5 to \$2.1 billion is projected to persist well past FY 2015.

In their study, the co-authors find that the persistent structural deficit, combined with the fact that one-time funds such as reserves and

Federal stimulus funds have been used and thus are no longer available, suggests that Georgia must make systemic expenditure or revenue changes, or both, to close the budget gap.

Sjoquist, who holds the Dan E. Sweat Distinguished Scholar Chair in Educational and Community Policy and directs the FRC and Domestic Studies, served on the state's Special Council on Tax Reform and Fairness for Georgians. Bourdeaux is an associate professor who returned to the AYS after a 3-year leave of absence as director of the Georgia Senate Budget and Evaluation Office. The Fiscal Research Center regularly provides fiscal policy research to the Georgia Legislature.

Fiscal Research Center reports are online at <http://aysps.gsu.edu/frc/3177.html>.

Tax Reform Council reports, presentations, members and related information are posted online at <http://fiscalresearch.gsu.edu/taxcouncil/>.

## RELATED READING

Wheeler, L. (August 2010). *HB 480 – Eliminating the Motor Vehicle Property Tax: Estimating Procedure, Revenue Estimates, and Distributional Implications*. (FRC Report 210/FRC Brief 210). Atlanta, GA: Andrew Young School of Policy Studies, Georgia State University.

Sjoquist, D. (June 2010). *Revenue From a Regional Transportation Sales Tax*. (FRC Brief 208). Atlanta, GA: Andrew Young School of Policy Studies, Georgia State University.





# RETHINKING the property tax

*FRC study  
analyzes  
government's  
reliance on  
this revenue  
source*

A difficult economic period means decreased employment and property values, which in turn lowers government revenue collections. At the same time, constituents often expect government to maintain public services, creating an impossible situation for local governments.

In “Rethinking Local Government Reliance on the Property Tax,” authors James Alm, Robert Buschman and David Sjoquist explore how property taxes, the most significant source of revenue for local governments, have been affected by the current economic recession.

Sjoquist is the Dan E. Sweat Distinguished Chair in Educational and Community Policy and directs Domestic Programs and the Fiscal Research Center, where Buschman is senior research associate. Alm, a former GSU Regents Professor, chairs the economics department at Tulane.

Using 10 years of data from the Census Bureau and Georgia Department of Revenue, the authors find that the impact of the collapse of the housing market on property taxes across both

the United States and metropolitan areas to 2009, although negative, varies significantly by state and by locality.

Their results suggest that a substantial number of local governments seem to have avoided the significant and negative budgetary impacts felt keenly by state and federal governments, at least to date.

The authors focus on Georgia to explore how local governments have responded to the economic recession. Their empirical analyses indicates that several factors have caused changes in school district property tax revenues, the dominant factor being the changes in housing prices, with some significant lags.

“Even though market values of property may have decreased, there is a lag between the market value and government-assessed values,” says Sjoquist. “Therefore, some property values have not been updated to the current economic conditions.

“Additionally, when the government assesses property values, it often does not take into account foreclosures. Formerly seen as the exception, foreclosures are now becoming more prevalent. This policy is likely to change in upcoming fiscal years,” he says.

The authors note that “by increasing the millage rates, local governments have been able to maintain a fairly steady pattern of property tax collections.” Since property taxes are an inelastic tax, not sensitive to change, this policy has helped local governments avoid some of the

more severe consequences of the recent economic situation.

Although the property tax is unpopular, it provides a necessary source of consistent funding for governments, the authors conclude.

Sjoquist says that he is interested in studying property taxes again in the future, to see what happens after the lag period expires and foreclosures are factored in to the property value system.

The paper was presented at the joint Urban Institute-Brookings Institution Tax Policy Center and Lincoln Institute of Land Policy conference, Effects of the Housing Crisis on State and Local Governments, in Washington, D.C., in May 2010. It has been published in *Regional Science and Urban Economics* (March 2011).

## ADDITIONAL READING

Hawkins, R. (2009). *Household Tax Burden Effects from Replacing Ad Valorem Taxes with Additional Sales Tax Levies*. (FRC Brief 198). Atlanta, GA: Andrew Young School of Policy Studies, Georgia State University.

Matthews, J. (2009). *The Value of Homestead Exemptions in Georgia*. (FRC Brief 193). Atlanta, GA: Andrew Young School of Policy Studies, Georgia State University.



# Earmarked today, gone tomorrow

## *Study looks at state spending on higher education*

The collapse of America's housing market and corresponding banking crises and the "Great Recession," the longest in U.S. history, led to major reductions in state allocations for public colleges and universities in fiscal year 2009-2010.

Despite continued news reports about significant budget cuts to these institutions, total appropriations for higher education actually increased during the decade prior to 2009, according to Assistant Professor Rachana Bhatt, Jonathan Rork of Reed College and AYS Dean Mary Beth Walker.

Their report, "Earmarking and the Business Cycle: The Case of State Spending on Higher Education," examines trends in state higher education appropriations. Looking at education's four funding sources – federal and bond funds, as well as general funds and earmarks – it focuses on the relationship between general fund contributions and revenues earmarked for higher education.

"In particular, we wish to see if states pull back on general funds when earmarks are doing well, and vice versa," they write. The report, presented at a conference of the Urban Institute-Lincoln Institute of Land Policy in August 2010, and was published in *Regional Science and Urban Economics* (February 2011).

Higher education budgets appear to be an attractive target for state spending cuts. "Unlike programs like Medicaid and k-12 education, colleges and universities can offset state funding shortfalls with tuition and fee increases," says Bhatt. "We wanted the research to show whether higher education appropriations

were disproportionately hit in recessions versus expansions."

Their study asks whether higher education will see a more dramatic turndown in funding given the severity of the recent economic downturn and the shifting of Medicaid responsibilities

"In reality, these studies found that for every earmarked dollar added, there was only a 50 cent increase. The rest of the money went somewhere else."

Using empirical research, the authors found a similar result in higher education. "We estimated the real amount of



**"We wanted the research to show whether higher education appropriations were disproportionately hit in recessions versus expansions."**

*Rachana Bhatt*

to the state, or will earmarking help protect it from cyclical downturns?

"What we had initially thought – the reason for the study – was that if earmarks increased during times of recession, states would have the opportunity to decrease overall funding," says Bhatt. "We looked at recessions and expansions, up to 2008, and found there were no differences. States did not take the opportunity to drop funding any more during a recession than an expansion."

A deeper look at the data led to another finding.

Earlier studies on k-12 funding have found that people assume earmarks add more money to a stable funding base, says Bhatt. "Other research has found that in k-12 funding, the base adjusts and the earmark adds to this changed base, so the total increase is not as high as it is assumed to be.

higher education earmarks per enrolled student and their relationship to the real total higher education spending per enrolled student. We found that for every dollar increase in earmarked money for higher ed, spending increases by only 20 cents," she says.

"We, the public, may have a preconceived notion that if higher ed spending is set aside as earmarks, overall spending in higher education will increase. Our research shows that, in reality, even though higher education earmarks have increased, these earmarks give states the opportunity to reduce their funding for higher education from other sources."

### **ADDITIONAL READING**

Bhatt, R. & Koedel, C. (2010). A Non-Experimental Evaluation of Curricular Effectiveness in Math. Working paper.

# Experience shapes policy research



## Student presents work on uncertainty and monetary policy at SEA conference

Ph.D. candidate Menna Bizuneh was very busy during the Southern Economic Association's annual conference in Atlanta last November. Only midway through completing her dissertation, she was invited to serve as a chair, a discussant and a presenter at the conference.

"I have a wonderful advisor, Dr. (Nevin) Valev, who makes everything seem possible," she says. "When I told him I was selected to do all three, he encouraged me to do it."

Bizuneh presented a working paper, "Inflation Uncertainty and the Decision to Devalue," in which she examines exchange rate policies and suggests that a country's choice to use a fixed exchange rate versus a floating rate, given economic shocks and fluctuating business cycles, "does not agree with existing theory and needs explanation." The paper represents one of three essays that will inform her dissertation, "The Difficult Decision to Devalue."

"Theory predicts that a fixed exchange rate regime will be abandoned after a sizable economic shock, as currency devaluation serves to stimulate exports and output," she writes. "While that prediction is consistent with reality, it also appears that many emerging markets resist devaluation despite substantial economic hardship."

Bizuneh proposes that the reluctance of a country to devalue its currency, to move from a fixed or 'pegged' rate to a floating exchange rate,

*Menna Bizuneh in the Dean's offices at the Andrew Young School*



stems from uncertainty about being able to control inflation after devaluation.

“There have to be other reasons they hold onto the peg,” she says. “What if it is because people are unsure how bad things will be? Would they be willing to take the risk with a flexible exchange rate regime? My paper focuses on this ‘I don’t know’ idea.”

Ask Bizuneh why she chose to examine monetary policy for her dissertation, and she says she is interested in “the phenomenon of changing monetary regimes.” Dig a little deeper, though, and her interest in policy becomes a story of its own.

Bizuneh and her brother Musse, an economist at Cornerstone Research, grew up on the African continent. Their father, Bizuneh Fikru, advised several African governments as a chief power engineer for the African Development Bank. “Father’s job entailed assessing policies in energy programs. We saw policy in his work and experienced its effects in everyday life with electricity shortages.”

Two coup d’états – the first in Ethiopia in 1991, the second in 2003 in the Ivory Coast – forced her family to flee their home in Addis when Bizuneh was 10. They settled in Abidjan until the 2003 coup d’état sent their father to Tunis and her brother and mother to Ethiopia, where Musse completed his senior year in high school. Their mother and father settled in Tunis in 2004.

*“I believe that policy is where the most impact can be made. Most conflicts arise because of an underlying economic hardship. It doesn’t matter what policy you try to affect, if you can make the economic situations of individuals better, you have a better chance of improving society in general – one that is less war-driven and one that is less easily manipulated by politicians.”*

Menna Bizuneh



Bizuneh was at Emory University during the second coup, where she earned a bachelor’s degree in economics. She also holds a Bachelor’s of Science and Industrial Engineering from Georgia Tech and a Master’s of Science in Economics from the University of Illinois at Urbana-Champaign.

The policy orientation of the Andrew Young School brought her here for her Ph.D. “I am highly interested in policy, having grown up in it, having seen the struggles of the policy world,” she says.

“I believe that policy is where the most impact can be made. Most conflicts arise because of an underlying economic hardship.

It doesn’t matter what policy you try to affect, if you can make the economic situations of individuals better, you have a better chance of improving society in general – one that is less war-driven and one that is less easily manipulated by politicians.”

After presenting her research at the SEA conference, Bizuneh incorporated the feedback she received in her paper. She will soon send it to journals.

“My theoretical derivation seems to support the idea. It will be important to supplement the theoretical findings with empirical findings, which I’m working on now.”

# Buried under foreclosures?

*Focus on credit quality may mean better outcomes for neighborhoods*



**BEFORE THE UNITED STATES HOUSING MARKET BEGAN TO COLLAPSE,** terms like “predatory lending,” “credit pricing” and “credit access” described some mortgage lending practices that policymakers were attempting to address to increase home ownership.

In “Drive ‘Til You Qualify: Credit Quality and Household Location” Andrew Young School economists Andrew Hanson, Kurt Schnier and Geoffrey Turnbull (University of Central Florida) find that a stronger focus on “credit quality” can help prevent future mass foreclosures. Presented at November’s Southern Economic Association annual meeting by associate professor Schnier, it has since been published in *Regional Science and Urban Economics* (June 2011).

“Conventional household location theory holds that people choose an area based on income, family composition, education and amenities,” says Hanson, an assistant professor. “We wanted to see if there is a relationship between a person’s credit quality and where they choose to live, and whether their choice might potentially impact foreclosures in their neighborhood.”

Picking a central point – the tallest building – in 100 cities in the United States, Hanson and his team used federal mortgage data for 2004 to look at the characteristics of these loans and their patterns across cities.

“Our question was; are there peak areas where households with lower credit scores have located?” says Hanson. “Our analysis shows that there is a definite sorting by credit quality across different neighborhoods in cities, and that different cities show different patterns.”

Home owners may go through a credit-sorting process, meaning a credit score may have an impact that is similar to income on their choice of neighborhood. “Credit-constrained households follow a ‘drive-til-you-qualify’ behavior that leads to rising credit quality farther away from the CBD,” the authors write, “while unconstrained households exhibit declining credit quality the farther out they go.”

“This can help explain why foreclosures can be clustered; why you might see 20 foreclosures in a 3-block radius,” says Hanson. “The traditional explanation is price contagion, the effect that one foreclosure has on the value of nearby homes. But an additional factor is that most households in the cluster have similar bad credit histories.”

Policymakers who have focused only on stopping the foreclosures should focus on other aspects as well, says Hanson, because nearby households with similar credit risks are just as likely to fall to the same pressures.

“Policies designed to prevent a future mortgage meltdown should consider tightening lending standards rather than using taxpayer dollars to subsidize home ownership,” he says.

## **ADDITIONAL READING**

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# Locally grown

Professor tells why citizenship lessons should begin at home



Citizenship is often thought of as an affiliation between the individual and the national government. However, it is local governments – city and county – that provide the services that most directly affect the quality of our daily lives, says Professor Harvey Newman. “Yet we usually take these services for granted until we experience a broken sewer pipe or a pothole in the street or some other breakdown in our local services.”

Newman, who chairs the Department of Public Management and Policy, reinforces the local government/citizenship connection in a new book, “Citizenship, the Community and the Public Service,” (Kendall/Hunt, 2010) which encourages readers to take an interest in their local community, become involved and make a positive local impact.

Newman says he set out to edit this book as a resource for his AYS undergraduate course in public policy. The idea for it grew out of former research he conducted and his many years of experience.

His objective is to get people to think about citizenship from a local standpoint. “Citizenship education has a top-down approach. From a young age, students are taught the importance of state and national citizenship,” he says. “Students are required to pledge allegiance and attend U.S. history and U.S. government courses, which overlook the importance of local citizenship.

“One must understand how government works and who is accountable to be able to truly fix problems that occur. Most students haven’t learned the struc-

ture of the local government or how to fix local problems.”

After providing the reader an understanding of local government, Newman’s book suggests ways to participate and improve the community. “People can volunteer with or create options through a nonprofit organization, monitor the system through asking questions, relate to the government as a public policy advocate or even confront the system,” he suggests. “And don’t forget that voting on local issues and being involved in the overall voting process is key.”

Newman calls his book a work in progress; he would like to add a section on ethics in the next edition. In his own unique way of giving back, Newman is donating the proceeds from the sale of his book to the Georgia State University Foundation.

*Harvey Newman sitting on the steps of the state capitol*

# Policy over party

## New findings suggest how institutions impact economic growth

What factors contribute to an economy's growth? Increasingly, economists are looking beyond the impact of resources like labor productivity and into factors such as government policy and institutions. AYS faculty Paul Kagundu and Jorge Martinez-Vazquez contribute to this growing research in a paper Kagundu presented at the Southern Economic Association's 80th Annual Meetings. Martinez-Vazquez, a GSU Regents Professor, directs the International Studies Program.

In *Institutions and Economic Growth: A Panel Data Approach*, the authors state that the increasing focus on governance and institutions is based on the belief that, to a good degree, poor economic performance in less developed countries can be attributed to the lack of (or poorly functioning) political and economic institutions.

They "unbundle" economic and political institutions to assess the impact of each on GDP per capita growth rates. "What might be conventionally considered good political institutions may not necessarily lead to growth-enhancing economic institutions," they write. "Likewise, the absence of 'good' political institutions may not exclude the existence of growth-enhancing economic institutions."

Using panel data sets from the *Database of Political Institutions* and the *International Country Risk Guide*, Kagundu and Martinez-Vazquez look at 89 countries from the years 1984 to 2006. They use empirical evidence to provide a plausible explanation for the ambiguous relationship between political institutions and economic growth in the previous literature.

"This research shows that political institutions with effective checks and balances, stability and accountability enhance economic growth. Our findings suggest, in fact, that these institutions have a positive impact on economic performance even when we control for economic institutions," says Kagundu.

The research suggests that economic reforms should focus on both political and economic systems.

"Political institutions determine and sustain growth-enhancing economic institutions. Besides, we find a relatively stronger direct effect of political institutions on economic performance," the authors conclude. "This by itself is a good reason to emphasize political reforms in underdeveloped countries."

### ADDITIONAL READING

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## CRIME & VIOLENCE PREVENTION POLICY INITIATIVE

*Reducing crime and violence through research-driven policy*



Policies that effectively prevent violence and crime must be informed by high quality research, believe Volkan Topalli and Erdal Tekin. They have joined forces – and are assembling resources from Georgia State University and external partners – for a new Crime & Violence Prevention Policy Initiative.

Housed in the Department of Criminal Justice in collaboration with the economics department, the initiative has quickly become a focal point for research, data analysis and program evaluations that advance sound policy to prevent criminal acts and violence.

"Our goal is to establish GSU as a world-class resource and authority on the causes and prevention of interpersonal crime and violence," says Topalli, an associate professor of criminal justice and faculty associate for the Partnership for Urban Health Research. "There is no similar entity in Georgia. We see an opportunity to fill a gap."

Topalli and Tekin, an associate professor of economics, research associate at the National Bureau of Economic Research and research fellow at the Institute for the Study of Labor, co-chair the initiative. They have already made

a strong case for its evolution into a research center.

"Right now we have the capability to combine multiple data sets on crime – statewide, federal and local – with a robust archive of economic data," says Topalli. "The plan is to turn the Andrew Young School into the largest holder of criminal justice administrative data for the state of Georgia."

"If you can connect the data, you can determine relationships between welfare, probation and parole, employment and other items, and make connections," he says. "Then you can provide





# That's entertainment

*Study suggests policies to rebuild New Orleans' economy*

What will the “new” New Orleans be like? Still rebuilding after the devastating Hurricane Katrina in 2005, the city is redeveloping and growing on several economic fronts, but still has a long way to go.

Cathy Yang Liu, an assistant professor in the Department of Public Management and Policy, and her co-authors recently examined the city's historic strengths and development potential in the entertainment and creative industries. They suggest policies that will help rebuild the industries and the city in

analyses of items like sentencing terms, cost-benefit and expenditures that serve the state.” Current evaluation projects include prison drug treatment and crime victim bill of rights legislation.

The CVPPI co-hosted the Atlanta Summit on Youth Violence Prevention in October 2010 and the first annual Symposium on Economics and Crime in March. A university-wide Workshop on Social Network Analysis Methods and Research is planned for this summer.

The initiative is moving forward with the help of valuable GSU partners like the

Consortium on Negotiation and Conflict Resolution in the College of Law and Domestic Programs in the AYS, reports Tekin. External partners include the Criminal Justice Coordinating Council, with whom the CVPPI has a memorandum of understanding, Emory University's Center for Injury Control and The International Centre for Research on Forensic Psychology at the University of Portsmouth, United Kingdom.

For more information about the CVPPI, go to <http://aysps.gsu.edu/cj/index.html>.

“Re-Creating New Orleans: Driving Development through Creativity.”

Published in the *Economic Development Quarterly* (May 2010), the research was co-authored by AYS graduate students Ric Kolenda and Tim N. Todd, and Grady Fitzpatrick, a graduate student in the Robinson College of Business. The students initiated this research as a final project for an Economic Development Policy graduate-level course taught by Liu.

“In recent years, New Orleans and the state of Louisiana have started to leverage their artistic assets to attract businesses in the creative media industries, which include film, music, and digital media production,” the authors write. Their research looks at the city's capacity to grow this targeted cluster and remain competitive among southeastern cities – Atlanta, Austin and Wilmington – that have shown success in attracting these industries.

Entertainment is important to New Orleans because it has long been an economic driver in the region. “Past policies and investments have created a solid base of infrastructure and trained workers,” they write. “By maintaining and strengthening the existing industries, the greater New Orleans area can capitalize on an existing competitive advantage while expanding into new areas on the margins of existing industries.”

The article outlines possible strategies in four categories most likely to generate economic growth in these indus-

tries: a focus on key industrial clusters, a people-centered approach that attracts and retains young professionals, and targeted improvements to the quality of life and business climate.

“Despite the challenges it faces, New Orleans has the makings of a vital new economy and has unique advantages among its peers in the same region,” the authors conclude. Their research suggests that a pursuit of the strategies outlined in the article “could expand on current strengths and build on growing industries not well represented at this time.”

Liu and her team suggest that more research is needed to examine the effectiveness of incentive programs and the actual economic benefits that creative industries bring to the economy. However, they believe that “continued attention to these policy areas will continue to enhance New Orleans' return to being one of the great cities of the United States.”

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James Marton at Grady Memorial Hospital, Atlanta

# Does cost efficiency impact care?

## Kentucky study provides answers to states exploring Medicaid managed care

Health Maintenance Organizations (HMO) are more economically efficient than traditional forms of health care insurance, but why? Do HMOs save money by changing financial incentives and increasing coordination among providers, or is it simply because people who sign up for HMOs are healthier, requiring fewer services than those in traditional Fee-For-Service (FFS) plans?

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*The observation that managed care plans cost less than FFS plans could be explained by HMOs disproportionately enrolling healthier, lower-cost customers.*

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“This is a fundamental question in health economics literature,” says Associate Professor Jim Marton. “Many researchers have pointed out that simply comparing the health care utilization of HMO to FFS enrollees may not be useful due to their ability, in many circumstances, to choose their health plan. The observation that managed care plans cost less than FFS plans could be explained by HMOs disproportionately enrolling healthier, lower-cost customers.

“The question has practical policy implications. If a state is trying to decide whether to move to managed care within its Medicaid program, knowing what characteristics lead to a successful program is important. More states are looking at Medicaid managed care to help save money.”

In the working paper “A Tale of Two Cities? The Heterogeneous Impact of Medicaid Managed Care in Kentucky,” Marton and co-authors Aaron Yelowitz and Jeffery C. Talbert of the University of Kentucky shed new light on this policy issue.

Using a quasi-experimental approach to examine Medicaid managed care plans in two Kentucky metropolitan regions in the late 1990s, the study follows children enrolled for 30 consecutive months of Medicaid coverage. Medicaid children in each region were enrolled in a separate HMO and compared to children in neighboring counties that remained in a Medicaid FFS plan.

The study finds significant differences in each region’s success in reducing utilization that are likely driven by each plan’s design. “The region with the HMO plan (called Passport) that most resembled a traditional HMO reduced Medicaid utilization; within Passport, children received fewer services than if they were in the traditional Medicaid program,” Marton says.

Significantly, the study indicates that health outcomes were no worse with Passport.

“If Passport [HMO] is providing poorer care for a vulnerable population, such as asthmatic children, we would expect a higher hospitalization rate among these children after Passport is implemented,” the authors write. “Because we find that hospitalizations did not go up for asthmatic children, we take this as suggestive evidence that there were not detrimental health impacts associated with the Passport utilization reductions.”

Marton says the study will continue. “We have not found any detrimental health outcomes in this study, to date, but we need to investigate the topic further. This paper offers only preliminary evidence.”





# Insurance matters

## Older workers retire earlier when health care is covered

What effect do retiree health benefits have on retirement patterns? James Marton, an associate professor at AYS and faculty affiliate of the Georgia Health Policy Center and the W.J. Usery Workplace Research Group, believes the answer to this question is important because of the impact health care reform may have on the labor supply.

Many workers cannot purchase private insurance coverage and do not have access to retiree health benefits from their job. If they decide to retire early, they would lose health care coverage until they reach age 65 and qualify for Medicare.

“One goal of the reform is to make it easier to purchase private health insurance, which could possibly increase the incentive for some workers in their early 60s to retire,” Marton explains.

“Most of my research involves health insurance and we noticed that retiree health benefits typically receive less attention in the literature on fringe benefits than pensions.” He and Stephen Woodbury, a labor economist at Michigan State and the Upjohn Institute of Employment Research, applied methods that have been used to study pensions

to the study of retiree health benefits in their new research, “The Influence of Retiree Health Benefits on Retirement Patterns.” (*Upjohn Institute Working Paper 10-163*.)

“The trick to insurance is putting people together in groups. In the U.S., we do this through the job. If the link between health care and jobs is weakened, you need to find another way of pulling people together to buy insurance as a group. That’s why they have ‘exchanges’ in the new bill.” The health insurance exchange will allow small businesses and individuals to select from a range of insurance plans that must offer coverage for essential benefits.

Buying a private insurance plan might be easier to do after the insurance exchanges are up and running, Marton says. “The reform might weaken the link between your job and your insurance coverage. It would give people more flexibility.”

Using 12 years of data on older men, he and Woodbury found that for men in their 50s, retiree health benefits have little or no effect on retirement decisions. However, a substantial effect emerges for men in their early 60s.

“Workers within five years of Medicare eligibility, in their early 60s, who had retiree health benefits were substantially more likely to retire during the slack labor market of 2000–2002,” says Marton. “To the extent retiree health benefits have an effect on retirement behavior, then, the effects appear to be for men in their early 60s and during periods of slack labor markets.”

Such a shift in retirement patterns could have an impact on the supply of experienced workers in the labor market. “There might be unintended consequence in labor market,” he says. “Firms would lose some experienced workers, but they are costly, and replacement workers might be cheaper. However, for some firms, experience matters.”

### ADDITIONAL READING

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# NIH awards \$1.2 million for collaborative study

Economics professor James C. Cox, director of the Experimental Economics Center, and surgeon John F. Sweeney of the Emory University School of Medicine been awarded a \$1.2 million grant from the National Institutes of Health. The three-year grant from NIH's National Institute on Aging will be used for a joint research project to study discharge decisions at hospitals.

Their research focuses on hospital length of stay as a central factor in the increasingly important and complex interplay between quality of health care delivery and medical costs. Cox and Sweeney will experiment with alternative choices and new applications of information technology designed to increase physicians' effectiveness in identifying the optimal time to discharge a patient.

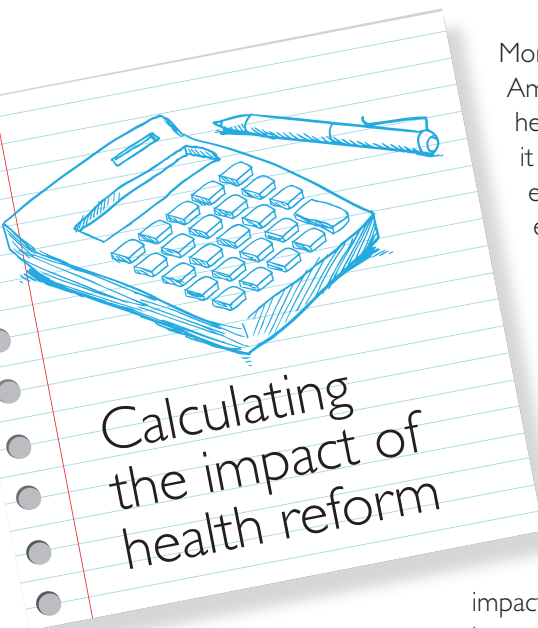
"We are excited about this opportunity to conduct research on ways to increase quality and lower costs of health care delivery," said Cox, who is a Georgia Research Alliance

Eminent Scholar.

"This research applies proven methods of experimental and behavioral economics to the objective of improving medical decision making."

Co-investigators in the study are AYS economists Kurt Schnier, associate professor, and Vjollca Sadiraj, assistant professor.

"Professor Schnier will lead the large-scale analysis of medical records data and will develop statistical models that predict optimal hospital length of stay," says Cox. "Professor Sadiraj will guide development of mathematical models of effective decision making that will be incorporated into the decision support computer software the research team will develop to aid the physicians making discharge decisions."



## Calculating the impact of health reform

**GHPC and partners develop online health reform calculator for small businesses**

More than 90 percent of Americans with private health insurance obtain it through their employers. This link between employment and health insurance is one of the key targets of the 2010 federal Affordable Care Act, commonly called "health reform."

So small business owners want to know, what are impacts and effects of this law on their companies?

Now these employers can turn to a policy brief and an interactive calculator, the 50-State Health Reform Calculator for Small Businesses®, that are part of a health

reform toolkit developed by the Georgia Health Policy Center, Center for Mississippi Health Policy and Florida Public Health Institute.

The calculator allows employers, including nonprofits, to crunch their numbers and see if they may be eligible for tax credits under the new law to cover part of the cost of the health insurance for their workers.

The first comprehensive health reform calculator to serve employers in any state, it is available at <http://aysps.gsu.edu/ghpc/3807.html>.

Faculty from GSU's Institute of Health Administration, William Custer and Patricia Ketsche, developed the calcu-

lator in collaboration with the GHPC and its partners. It is part of GHPC's ongoing initiative to help consumers, employers, providers and policymakers better understand health reform.

"This has been a great opportunity to not only partner across the university, but with other states, to bring relevant information about health reform to those who will be impacted by the law," says Karen Minyard, executive director of the GHPC. "Our group's goal from the beginning has been to interpret, share and apply what is learned to real-world situations."



# Company (WO)MAN

## Research reveals new explanation for changes in labor market participation

**IN THE LATE 1990s**, the steady increase of women's participation in the labor force came to an abrupt halt. Although media attention at the time focused on the choice of married, educated women to "opt out" of the labor force, new research suggests that single mothers were driving the overall decline in women's labor participation rates during this period.

In "Labor Force Exit Decisions of New Mothers" (*Review of Economics of the Household*, December 2010), authors Mary Beth Walker, dean of the Andrew Young School, and Federal Reserve Bank economists Julie Hotchkiss and M. Melinda Pitts seek to clarify this highly debated issue. Their research asks, "Could an increased tendency for working women to exit the labor market upon the birth of a child have contributed to the declining labor force participation rate? And, if so, has this behavior changed differently for married and educated women?" It quantifies whether the effects of education or marriage changed over the period from 1994 to 2000.

Using birth, employment and welfare data for Georgia, the authors investigate many possible contributors to changing labor market exit rates through the 1990s and early 2000s.

"We find that the impact of marriage and education on exit decisions did change through the 1990s, but not in the way that would be expected," says Walker. "As it turns out, the exit pattern

was driven by the changing behavior of single women, both high school- and college-educated."

If married, college-educated women were the driving force behind the changing labor force participation rates, the authors argue, the data would show increasing exit rates among these women at the same time women's labor force participation rates are declining. The authors find the opposite.

Exit rates among single women with new babies, particularly those with a high school education, dropped through the late 1990s, flattened out and then rose, matching (inversely) the changing pattern of labor force participation rates.

"Our results suggest that the attention surrounding whether women are 'opting out' of the labor market might more aptly be focused on single women, particularly high school-educated single women, who drove the changing labor force participation rates," says Hotchkiss, who adds that "the next obvious question is what drove the change in exit rates among these women."

Although an in-depth explanation is beyond the scope of their paper, the authors conjecture that there is a possible explanation in the timing of the rollout of Georgia's SCHIP (PeachCare) program. "The increased availability of welfare, as awareness increased and stigma declined through implementation of PeachCare, appears to have lowered



the opportunity cost of exiting the labor market for [single, high school-educated] women, thus increasing their exit rates," they conclude.

Walker says that knowledge of this research could help policymakers who evaluate family and/or maternity leave policies, giving them a better understanding of the factors that influence labor market participation among new mothers.

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# Soft science **SEEKS** hard truths

## *A case for revealing failure in organizational development efforts*

**“ORGANIZATIONAL CULTURES** are like individuals,” says William M. Kahnweiler, who built a successful practice as a human resources consultant before he joined the faculty at Georgia State University. “Each has its own personality.”

An associate professor in the Department of Public Management and Policy, Kahnweiler is an expert in the science of organizational development (OD), which he describes as planned change. A former editor and reviewer for the *Organization Development Journal*, and still a practicing consultant, he knows where the proverbial bones are buried.

“Planned change is a key core concept that defines, in part, what organizational development is,” he says. “This leads to knowing why failure is as important as knowing success. There is a positive bias among editors and publishers to try to shield the profession from looking bad.

“In the world of practice, failures happen all of the time. Procedures and interventions don’t always work,” he says. “Knowing what doesn’t work, and why, will help people determine whether they should take the medicine.”

So when the *Organizational Development Journal* sent the call out for stories about OD failures, Kahnweiler thought about several of his experiences and wrote “Organizational Development Success and Failure: A Case Analysis.” It was published in the Summer 2010 issue.

In the article, Kahnweiler discusses what constitutes success and failure in OD and describes the challenges inherent in determining OD successes and failures. He then presents a case study and analysis of a questionably successful OD intervention within a Fortune 50 multinational corporation and invites the reader to determine whether it was more failure or success.

“I cannot claim with any justification that the case intervention was a resounding success in any and all ways,” he says. Part of the problem, as outlined in the article, is the ability to clearly



William Kahnweiler

define and assess the concepts of “success” and “failure” within an OD context.

“Evaluation methods are being debated now,” he says. “OD is a very ‘soft’ science. It’s not like making widgets where you have easily measurable and sufficiently valid measures. It’s rather lofty and general and vague: how do you define it, what are right indicators, who’s to measure it, when, and how?”

“Ultimately OD is about people working with people, and no one yet knows a foolproof way to measure that.”

Kahnweiler ultimately lets his readers decide whether the OD he presents in the article is a success or failure. “I’m an educator. I like people to think and decide for themselves,” he says. “This might be useful for people who read it. If the result was obvious, it might not be a realistic case. In my experience, things are not always so clear cut. There are a lot of gray areas in evaluating OD that are still open to question.”

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# Look back to plan ahead

## Natural disasters continue to offer lessons in emergency management

The nation's attention was riveted on the Gulf Coast on August 29, 2005, as Hurricane Katrina, one of the most destructive natural disasters to hit the United States, made landfall on the Gulf Coast. The hurricane's winds and flooding destroyed an estimated 93,000 square miles and 300,000 homes, with damage estimates ranging from \$81 billion to \$150 billion. It also displaced approximately 770,000 people.

Lessons from Katrina and other large-scale disasters should guide emergency management planning, suggests AYS professor and emergency management expert William L. Waugh, Jr. He states how and who is responsible for this planning in his article, "Looking for the FEMA Guy, Mayor, Local Planning Guy, Governor, and Others," published in *Administration & Society* (2010).

"Could much of the damage wrought by Katrina have been mitigated beforehand?" he writes. "To some extent, yes." New Orleans and the surrounding coastline were known to be vulnerable. Mississippi River flooding had frequently demonstrated the levee system's limitations. The vulnerability of other coastal communities, although not as well understood, was known to exist.

The important question is who is responsible for mitigating the hazard, says Waugh. "The FEMA guy is responsible for updating floodplain maps and helping determine levels of risk, but it is local and/or state officials – mayors,

local planning officials, governors and legislators – who are responsible for land-use decisions and building codes and their enforcement.

"Emergency managers need to be strong advocates for appropriate building codes, safe construction practices and other measures that reduce vulnerabilities, but they are not the lead officials," he continues.

***"Finding ways to integrate public, private and nongovernmental efforts into one and to help communities become more resilient so that they need less help is the new mission."***

**WILLIAM L. WAUGH, JR.**

In the article, Waugh elaborates on the role of emergency management in dealing with hazards and compares the Katrina disaster responses and recoveries in Mississippi and Louisiana. He also acknowledges the difficulty in getting public support for mitigation and other emergency management strategies for infrequent natural disasters.

Lessons learned during Katrina include the importance of safeguarding vulnerable populations, such as the poor and children, who are affected far more by disaster, he says. "Emergency programs need to focus more on those least able to help themselves, and the measure of recovery should reflect how well those people are able to find permanent

housing, secure jobs, and reestablish social connections."

Waugh encourages policymakers to use the knowledge gained and tools at hand to plan for future disaster. "We have trouble wrapping our minds around impacts for which we have no reference points. Now we have reference points. We also know what catastrophic floods, earthquakes, and even nuclear explosions look like and, more and more, have the capabilities to create virtual disasters that will simulate those impacts in particular locales."

Why is it important to plan now?

"There is a national focus on catastrophic disasters," Waugh concludes.

"Finding ways to integrate public, private and nongovernmental efforts into one and to help communities become more resilient so that they need less help is the new mission."

### ADDITIONAL READING

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# .GOV Government online

## Study clarifies e-government's impact on public management



Greg Streib

Information technology began to saturate the field of public management in the 1990s, which quickly labeled its tools and practices “e-government.” By 2002 nearly 90 percent of state and local governments had web sites. In their attempts to make meaningful use of e-government applications, fewer governments are reporting positive results. As a result, negative appraisals of e-government progress have become common in the academic literature.

“Not so fast!” say Gregory Streib and Katherine Willoughby, professors in Public Management and Policy. They argue that the e-government focus has diminished because much of the arguments about its progress – or lack thereof – suffer from an absence of context in “E-Government as a Public Management Reform: The Experience in the United States.”

“E-government is essentially a new capacity,” they write. “The advantages and disadvantages produced by e-government are more visible when viewed within the broader context of public management reforms.” Their work is published in the third edition of the *Handbook of Public Information Systems* (CRC Press, 2010).

Willoughby and Streib use findings revealed by the 2008 Government Performance Project (GPP) study, which applied grades to the information management capacity of all 50 U.S. state governments, to identify key concepts that provide a foundation for evaluating e-government use in the states. Willoughby served as the grading team leader for the GPP’s budget and financial management area in 2005 and 2008.

In information technology, the GPP measured each state’s capacity to generate long-term state policy, collect information in support of the policy, and manage information and its access in ways that would advance decision-making and evaluate the results after implementing policy. The project found that the states that lead in IT management exhibit a strong ability to create and share information they then use to manage the state and support budget decisions.

The greatest success in information management in states is found in online services and information.

“These results portray technology as a catalyst for management success,” write Willoughby and Streib. “Overall high quality information management requires multi-level leadership, a consolidated approach, a strategic direction and sustained partnerships both internal and external to government, and ‘robust’ technology. Clearly, leadership in e-government today is not solely about the technology; rather, it is about how the technology is used and the results of such use.

“Studies that focus on e-government as a unique path to government excellence have made contributions, but focusing on e-government as a part of larger processes gives us a better understanding of e-government’s problems and potentials.”

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Paul Ferraro



Kwaw Andam

# Environmental rainmakers

*Authors use empirical study to show that protecting biodiversity reduces poverty*

**F**or years, conservation organizations led the charge to promote biological diversity while improving the socioeconomic state of people who live within or near these protected areas. However, they have had to work against the commonly held belief that ecosystem protection, which often limits agricultural development and access to natural resources, imposes large economic costs and exacerbates local poverty.

New research described in the article, “Protected areas reduced poverty in Costa Rica and Thailand,” disproves that hypothesis. This research shows that the net impact of ecosystem protection in developing countries can alleviate poverty.

Published in May in *Proceedings of the National Academy of Sciences of the United States of America*, the article was written by Professor Paul Ferraro, alumnus Kwaw Andam (M.A. in Economics '06, Ph.D. in Economics '08) of the World Bank, Katherine Sims of Amherst College, Andrew Healy of Loyola Marymount University and Margaret Holland of the University of Wisconsin.

“Many studies document high poverty levels and negative community events that are associated with the establishment of protected areas,” the authors write. “However, these studies do not clearly establish a causal link.” Protected areas, they continue, are frequently established in communities that already suffer from high poverty rates and low-quality agricultural land.

“The debate remains contentious because previous studies have failed to use direct measures of human welfare and empirical designs that estimate counterfactual outcomes: how would these communities have fared in the absence of protected areas?” they continue.

Using a quasi-experimental research design, the authors compare communities living in or near protected areas to those with similar characteristics that have no relationship

with protected areas. They chose Costa Rica and Thailand for their histories in biodiversity protection and reliable national statistics. That the countries have different institutional, economic and ecological histories was also important.

Protected areas reduce poverty, the authors find. They speculate that this protection does so by generating tourism business, significant capital investments and ecosystem services (such as water supply protection), and they suggest further research to understand these mechanisms.

Ferraro and his team’s research received global media attention. The story was picked up by UPI.com and generated placements in *Nature*, Yahoo!, *India News* and *Mother Jones*, among other media. It also generated scores of mentions in science blogs.

“This is an important study, which provides some much needed evidence in the area of conservation policy,” wrote *discover magazine.com* (<http://tiny.cc/tb31b>). “It’s also very encouraging.”

In conclusion, the authors encourage other nations to replicate their study. “Only through multination replications and extensions can we obtain a global picture of the impacts of protected areas on human welfare.”

The full article is available online at <http://tiny.cc/lw3d5>.

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# Governments & air pollution

## Study finds greater efficiencies in one-size-fits-all regulations

As the size and role of government is debated, the question that inevitably arises is: what level of government best provides the public goods or services to meet public needs – local, state or national?



Spencer Banzhaf

Each level's relative efficiency in providing these goods or services is a central question for environmental policy, says H. Spencer Banzhaf, associate professor of economics. He and student B. Andrew Chupp (Ph.D. in Economics) use empirical methods to examine the factors in play in the regulation of ambient air pollution in the paper, "Heterogeneous Harm vs. Spatial Spillovers: Environmental Federalism and US Air Pollution," which they have presented at the National Bureau of Economic Research and other conferences.

Using a large simulation model, Banzhaf and Chupp empirically explore the trade-offs between local versus federal regulations to reduce smog.

"On one hand, local governments are in a better position to understand local conditions, what is wanted or needed locally, and any costs associated with achieving the goal under local conditions," says Banzhaf. "However, these governments may not consider the effect of spillovers that impact more than one area, like ambient air pollution. The more important the spillovers become, the more likely it is that a higher level of government will outperform local governments.

"On the other hand, a higher layer of government is more likely to impose a one-size-fits-all policy and ignore local conditions. The implications of this are more severe if local conditions vary from location to location."

In their research, the authors identified a third factor that no one had considered before: the diminishing marginal returns from tighter regulations. "We found that

when industries go from no regulation to basic regulation, governments get a big bang for their pollution reduction policies. As the policies become more stringent, regulators get less and less responsiveness from the industry."

This finding supports the idea that any inefficiency in the federal government's one-size-fits all regulation would be smaller than the inefficiencies from local governments ignoring the spillovers of pollution to downwind neighbors. "This was very surprising to us, because the benefits and costs of air pollution reduction vary widely from state to state," he says.

Banzhaf and Chupp write that their results may be viewed as one more interpretation of the "so-called 'Precautionary Principle,'" which has played a leading role in environmental policy since 1992. This means, essentially, that given uncertainty about optimal air pollution regulation, over-abatement is preferable to under-abatement. "If the optimal policy is for some reason not available, resolving 'ties' in favor of the policy with higher pollution prices will raise economic efficiency," they conclude.

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# Messaging & water conservation



## Empirical study finds appeal that packs the most punch, for awhile

People were using powerful messages to direct consumption behaviors well before they were called “conservation-ists” or “environmentalists.”

Policymakers today also use norm-based messages and social comparisons to promote water conservation and manage water resources, says Professor Paul Ferraro, who sought evidence of this strategy’s effectiveness. “The availability of fresh water is among the most critical issues facing policymakers this century.”

Ferraro and Michael K. Price (University of Tennessee) partnered with a metropolitan water utility to conduct a natural field experiment that would examine the effect of such messages on residential water demand. Reported in the article, “Using non-Pecuniary Strategies to Influence Behavior: Evidence from a Large-Scale Field Experiment” (*Review of Economics and Statistics*, forthcoming), their study provides the first “apples-to-apples comparison of programs based on appeals to pro-social preferences with those augmented with social comparisons,” they write.

They analyze the impact of three commonly employed conservation strategies on more than 100,000 residential households. These strategies include the dissemination of information on behavioral and technical modifications, or the “how to” message; appeals to

pro-social preferences, or “why conservation is important”; and the provision of social comparisons to enhance appeals to pro-social preferences, or “why conservation is important to you and others of your social standing.”

The most effective strategy was the third. “Augmenting technical advice with an appeal to pro-social preferences and a social comparison generates a substantially larger reduction in water use,” they continue.

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### “Willful waste makes woeful want.”

1576 IDIOM

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High-consumption groups were the most effective target for the social comparison, pro-social messages, although their effectiveness waned over time. “This suggests an important caveat on the use of this type of conservation strategy – it is best reserved for situations when immediate but short-lived conservation efforts are desired,” says Ferraro.

Although their findings show that “policy-makers are better served targeting the ‘why’ of conservation efforts than the ‘how,’” Ferraro and White state that their research raises more questions than it answers. They believe future work that augments their approach should look at uncovering the underlying social

mechanisms that drove their results and the different effects on high-use and low-use households.

“Our study focuses on the use of normative messages to promote changes in the way households use water,” they write. “Yet, one can envision a similar program whereby normative appeals are used to encourage the adoption of new technologies that effect consumption through efficiency gains rather than adjustments in patterns of use.” For reasons they outline in the study, the question of which strategy would have greater impact on aggregate water use remains an open question.

“Studies that compare the relative impact of targeting technology adoption rather than end use would be a fruitful avenue for future work,” Ferraro and White conclude.

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# Minimum wage *in a* competitive labor market

A man with glasses and a light-colored patterned button-down shirt is standing in front of a fast-food restaurant. The background features a brick wall and a glass window with bright neon signs. One sign is red and says "HOT", and another is yellow and says "CHICK". Below these, a white sign with blue lettering says "LUNCH SPECIAL". The man is looking towards the camera with a slight smile.

Bruce Kaufman shot outside one of the many fast food restaurants that populate the downtown Atlanta area



# Research finds this labor policy can improve jobs and spending

Sixty percent of all wage and salary workers in the U.S. in 2005 received hourly wages, according to the U.S. Bureau of Labor Statistics. Of this number, 1.9 million – 2.5 percent of all hourly workers – were paid the prevailing minimum wage of \$5.15 or lower per hour.

Despite this group's relatively small size, any time the call is made to raise or abolish the minimum wage, policymakers draw a line in the sand and engage in very public battles in favor of their positions, pro or con. If these officials act like generals advancing the debate, then labor economists are their field advisors, armed with facts and theory to help hold their positions.

Economics professor Bruce E. Kaufman does not challenge their right to disagree, or even many of the points supporting either position. But in the article, "Institutional Economics and the Minimum Wage: Broadening the Theoretical and Policy Debate" (*Industrial and Labor Relations Review*, 2010), he provides evidence on behalf of the "pro" side and argues that those on the "con" side are looking at too small a map.

"[T]he theoretical and policy debate in labor economics over the pros and cons of minimum wage laws has become unduly narrow and, as a consequence, negatively biased against a minimum wage," writes Kaufman. "A more

balanced and inclusive theoretical analysis would lead to a more balanced and inclusive empirical investigation and policy conclusion."

Kaufman attempts to correct the bias by showing how the concepts and principles of institutional economics, as opposed to prevailing neo-classical economic thought, present a positive case for minimum wage legislation.

"The strongest criticism is that minimum wages reduce the number of jobs, but my article shows that this reduction – empirically estimated to be relatively small – can improve the overall efficiency of the labor market and social welfare by eliminating low-wage jobs that do not pay workers enough to maintain their physical and human capital," he says.

Although minimum wage laws, enacted in 1938, were born of the many problems of that era, including the collapse of labor market standards, many of the rationales Kaufman has developed continue to apply. "A higher minimum wage can help boost spending that helps create jobs. This is an idea that those against minimum wages have ignored or dismissed," he says.

Kaufman admits that a minimum wage can have some negative effects like higher prices for consumers or lower profits for firms. "There may be better methods to accomplish its purposes, such as earned income tax credit or

universal health insurance," he says, "but until these alternative policies are fully in place, the minimum wage has a useful role to play. Its positive effects, which its critics choose to downplay or ignore, can offset the negative effects."

Kaufman's study has led to a dissertation by economics Ph.D. candidate Tetyana Zelenska, "Channels of Adjustment in Labor Markets: The 2007-2009 Minimum Wage Increase." Using extensive new data collected from Georgia's fast food restaurants, her study finds that a three-step minimum wage increase had no statistically significant negative effect on employment and hours at these restaurants. The findings will soon be released in a research article authored by Zelenska with professors Barry Hirsch and Kaufman.

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60%

of all wage and salary workers in the U.S. in 2005 received hourly wages\*

"A higher minimum wage can help boost spending that helps create jobs. This is an idea that those against minimum wages have ignored or dismissed."

BRUCE KAUFMAN

2.5%

of all hourly workers were paid the prevailing minimum wage of \$5.15 or lower per hour\*

\*U.S. Bureau of Labor Statistics



## Professors use stakeholder surveys to gauge public agency's performance

Public/private, public/public and public/nonprofit agency working partnerships, increasingly the norm, have prompted growing research interest in how these collaborations function. Important new research in this area reveals that partners' perceptions of each other can provide useful measures of performance.

"Many public services are the joint products of collaborations of governmental and non-governmental actors, but few scholars have thought to ask how these partners perceive each other's performance," says Public Management and Policy professor John C. Thomas. "Yet the government agencies at the center of these collaborations could learn as much about their performance from their partners as they learn from citizen satisfaction surveys.

"A partner's perspectives may constitute important measures of agency effectiveness, especially when the public agency works in large-scale collaborations with many partners," he continues. "Incorporating these assessments into an agency's performance evaluations could help improve its performance."

Their article, "Customer, Partner, Principal: Local Government Perspectives on State Agency Performance in Georgia," was published in the *Journal of Public Administration Research and Theory* (2010), the top-ranked journal in the field of public administration. In the article, authors Thomas, Professor Theodore Poister and alumna Nevbahar Ertas (Ph.D. in Public Policy '07) examine the partnerships and perceptions between the Georgia Department of Transportation

(GDOT) and Georgia's local governments.

Local governments both benefit from and partner with the GDOT to implement its initiatives, allowing them the perspectives of partner, customer and overseer of GDOT projects. For its strategic plan, the GDOT commissioned Andrew Young faculty to conduct a 360-degree stakeholder audit that included two surveys of local government officials: top elected officials and appointed administrators. The audit was conducted by Poister, Thomas and AYS graduate students including Ertas. (See *The Briefing*, July 2007.)

The surveys reveal that both groups see themselves relating to the GDOT in multiple roles, as customers, partners and principals. "They mostly want to be treated like customers, they partner with GDOT in the many programs that require joint work by the Department and local governments, and they function as principals in monitoring GDOT's performance," the co-authors write. "From all three perspectives, elected and appointed local officials gave GDOT mostly positive assessments."

The authors believe the study holds implications for future research and practices. "Agencies and public administration scholars should consider conducting more partner assessments of performance," says Thomas. "If citizen satisfaction surveys provide value, measuring performance through the lenses of other stakeholders promises similar gains, particularly for a single government entity that works with a large population of subordinate governments or groups."

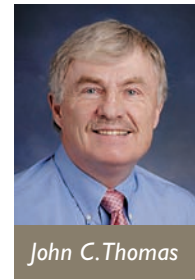
"Such 'stakeholder surveys' could enhance public performance in this era of increasingly collaborative and networked governance," the authors conclude.

Thomas, Poister and Research Associate Anita Berryman presented the latest product of their research, a paper titled "Reaching Out to Stakeholders: Lessons from a 360-Degree Organization Assessment," at the Public Management Research Conference in Syracuse last June.

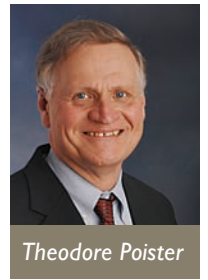
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John C. Thomas



Theodore Poister





# Child welfare

## *Is the design of subsidized childcare in the best interest of children?*

States use childcare subsidies to facilitate employment and reduce welfare use among economically disadvantaged families. Provided through the federal Child Care and Development Fund (CCDF), the subsidies – targeted at low-income parents – defray childcare costs and allow parents their choice of care provider.

However, the current design of child care subsidies may create unintended consequences that do not benefit the child. In Georgia, these consequences could impact the 54,700 children of families who receive the CCDF subsidy, according to the latest count by the U.S. Department of Health and Human Services Child Care Bureau.

“Previous researchers have paid little attention to the potential impact of the CCDF subsidy’s impact on children’s well-being. When parents go to work and choose a lower quality of care, children from low-income families may be worse off,” warns Erdal Tekin, an associate professor at the Andrew Young School. He and Chris Herbst of Arizona State University write about their findings in “Childcare subsidies and child wellbeing,” a column published

by VoxEU.org, a policy portal of the Centre for Economic Policy Research.

The co-authors developed a novel empirical strategy, using geo-coded distance measures to identify the impact of CCDF subsidy receipt by the distances that low-income families traveled between their homes and the nearest agency that administered the subsidy. They then developed and tested a theoretical model in which CCDF subsidies influence a child’s well-being indirectly through three channels: by encouraging maternal employment, increasing the use of non-parental childcare services, and increasing family income.

“Recent studies suggest that early maternal work is associated with small, negative effects on cognitive ability and increases in childhood obesity and adverse health outcomes,” says Tekin. “And non-parental child care services are shown to have conflicting effects on child well-being, as high-quality care can benefit disadvantaged children.”

Although these studies suggest a theoretically ambiguous impact, Tekin and Herbst found that by focusing almost exclusively on parental employment the CCDF may encourage parents to buy low-quality care.

“Childcare policy should neither explicitly promote nor inhibit employment,” says Tekin. “Instead, it should be refocused to

provide parents with strong incentives to choose high-quality care.”

Governments can do this, the co-authors suggest, by setting conditions on reimbursements to reflect the quality of care purchased, engaging in aggressive parent education campaigns about the benefits of high-quality care, and broadening CCDF funds to reach all new parents, not just those within the subsidy system.

“It is reasonable to assume that, once informed, parents will increase their demand for high-quality care, and childcare providers will be more likely to provide it,” they conclude.

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# Budgeting for results

Laws and office culture are shown to improve performance budgeting outcomes



Katherine Willoughby

**T**raditionally, governments would write budgets that identified only line-item expenses like salaries and benefits, supplies and equipment, and other items. With federal passage of the Government Performance and Results Act of 1993 and given passage of state laws that mandate performance-based budgeting, traditional budgeting has gone the way of the buggy whip.

According to Katherine Willoughby, most state governments now follow performance budgeting. They have adopted this approach to better inform resource allocation decisions, improve accountability and advance more effective and efficient service delivery.

Their next step is to integrate performance information with a results-oriented approach, one focused on outcomes rather than outputs. In “Modeling Performance Budgeting in the States: What Matters to the

Integration of Performance with Budgeting,” co-authors Willoughby and Yi Lu of the City University of New York examine the factors that influence this integration to find those that most effectively lead to desired results.

“While research shows that performance measures must be integrated into budgeting to realize results, very little empirical work has been done that would clearly show the factors that best relate to well-performing performance budgeting systems,” says Willoughby, a professor in the Department of Public Management and Policy.

Their model provides a conceptual framework with several variables that influence this integration in U.S. state governments, most notably the legal foundations (performance-based budgeting laws), performance measurement processes and characteristics, organizational culture, and political and economic factors.

“Early research has found that measurement density and maturity, leadership, staff experience and shared responsibility for measurement significantly benefit those budgeting, managing and communicating performance-based budgeting activities,” says Willoughby. Other key themes have emerged since: a range of specified performance-related activities; processes to orient, re-orient and change behaviors toward measuring and managing for results; and an interactive approach to measurement mirrored by a layered method of allocating stakeholder responsibility and garnering involvement.

Willoughby and Lu’s empirical findings confirm results that show performance-based budgeting laws make a difference. “State legislatures can strengthen a results-oriented focus by passing legislation that supports decision makers who use performance information in their budgeting decisions,” says Willoughby.

States with a results-oriented management culture are better at realizing performance budgeting. “It does little good to lay out the legal foundations, rules and protocols for a performance budgeting system if capacity building – staff training – is missing,” says Willoughby.

“Performance budgeting is an important way for states to focus on the outcomes of government services and programs,” she says. “It enhances accountability in resource allocation decisions.”

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# Government grants to nonprofits

Funding goes to more efficient organizations, with a caveat

Governments provide the nonprofit sector nearly a third of its revenues in the form of grants, contracts, fees for services, tax deductions and credits, and payments to individuals. Andrew Young School alumna Amanda Wilsker, (Ph.D. in Economics '11 and M.S. in Economics '04), a scholar in public finance and nonprofits, was concerned that this relationship – particularly in the area of government grants to nonprofits – had not garnered much attention. So she took a closer look.

“Despite the importance of this relationship, our understanding of the factors that influence government grants at the organizational level is limited. Adequate data is often unavailable,” says Wilsker, who recently joined the faculty at Georgia Gwinnett College. “However, it is important to know what types of nonprofit organizations receive public grants.”

In the working paper, “Why Government Gives: The Effects of Efficiency Proxies on Government Grants to NPOs,” Wilsker uses a detailed dataset and models to determine the factors or characteristics that may determine the amount of public grants awarded to nonprofits. She presented her research and findings at the annual conferences of ARNOVA and the Southeastern Economics Association in 2010.

“I looked at grants because they’re different from contracts, fees and other forms of payment,” she says. “I wanted to know whether the most effective organizations receive the grants. Do governments reward the best-performing nonprofits in the community?”

**“Although grant recipients are rewarded as their efficiency increases, the findings cast doubt as to whether the most efficient organizations in a community even apply for government funding.”**

AMANDA WILSKER

The first step of Wilsker’s analysis was to determine the efficiency of organizations, the second to determine who get the grants. An efficient nonprofit organization as measured by “financial proxies for efficiency” spends most of its income on providing services. The smaller the share spent on administration and fund raising, the more efficient the organization. Her research shows that among the nonprofits that receive government grants, the government appears to be giving more efficient organizations more money.

“Although grant recipients are rewarded as their efficiency increases, the findings

cast doubt as to whether the most efficient organizations in a community even apply for government funding,” she says.

Are the most efficient organizations in the sector applying for the government grants? Wilsker is not sure that they are. “What is it about the process that discourages them from applying? Is the bureaucracy involved costly?” she says, suggesting a future direction for her research.

Questions remain for both sectors. “Nonprofits can ask, what are those factors we can control that might attract more government grant money?” says Wilsker. “Even more important are the implications for governments. Although it’s good that they reward efficiency, they should also question why many of the most efficient organizations do not apply for their grants.”

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# Nonprofits and for-profits: *Competitive or complementary?*



**N**onprofit organizations have long lived in the same world as for-profit institutions, their role more complementary than competitive. Increasingly, trends suggest that nonprofits and for-profits have begun to compete more directly.

Sometime the competition comes in the form of for-profits entering traditionally nonprofit industries (i.e., hospitals, daycares). In the case of the YMCA, visiting faculty member Teresa Harrison thinks the general perception is that nonprofits are entering a for-profit industry.

“As nonprofits enter these markets, the perception is growing that the tax and other advantages nonprofits receive may be unfair. Also, policy makers are beginning to question, more often, whether the social benefits from the nonprofit tax exemption are large enough to warrant the tax revenue that is lost,” says Harrison, who teaches at the LeBow College of Business at Drexel University.

“Competition between nonprofits and for-profits for the same customer base has received little attention in research outside of the healthcare sector,” she says.

Harrison and Katja Seim of The Wharton School (University of Pennsylvania) take a closer look at this competition in their article, “Measuring the Degree of Competition Between Nonprofits and For-Profits: The Case of Fitness Centers.”

“For-profits argue that tax advantages allow nonprofits to be more competitive, but they are assuming that nonprofit and for-profit services can be substituted and that tax exemptions increase nonprofit entry into the market,” says Harrison.

Harrison and Seim analyzed data on the market structure of full-service fitness centers to provide insight into key questions they raised: Do these different ownership types serve different consumers – are they viewed as substitutes? And how much does a nonprofit’s tax advantages contribute to its decision to enter a market?

Data on 422 medium-sized, self-contained markets for for-profit and nonprofit fitness centers allowed the co-authors to clearly identify competing centers and the populations they serve. Then they built a structural model of entry that incorporated potential altruism by the nonprofits and the tax exemption they received.

“To our knowledge, this is the first model to simultaneously consider how both the nonprofit motive and tax exemptions affect a nonprofit’s market entry and the degree of competition between nonprofit and for-profit institutions,” Harrison says.

Preliminary results suggest that for-profits are more responsive to nonprofit entry decisions than the reverse. “Not surprisingly,” says Harrison, “population is a larger determinant of the entry decision than property taxes, although we do find evidence that higher property taxes decrease the likelihood of for-profits entering the market. There is also some indication that negative entry effect for for-profits provides positive incentives for nonprofits to enter the market.”

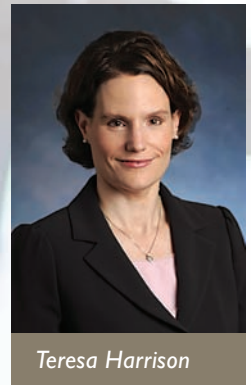
Harrison cautions that these findings are tentative, at best.

“We still have several issues to address,” she says. “In particular, we are considering other ways that nonprofits and for-profit compete, which can affect the response of one ownership type to the presence of the other type. We also need to more explicitly take into account the fact that YMCAs often generally provide daycare and after-school programs.”

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Teresa Harrison

# Nonprofit governance

## *Study suggests structuring boards to improve financial performance*

Publicly traded, for-profit corporations are thought to be more efficient than other corporate forms – including nonprofit – because there is a market for their ownership, says Professor Dennis Young, director of the Nonprofit Studies Program. Shareholders rate the company's performance by buying and selling shares in its stock. Board members often hold a stake in the company, giving them reason to help maximize its performance.

Members of nonprofit boards, on the other hand, are volunteers who have very little financial incentive to exert significant effort on behalf of the organization.

In "The Prospective Role of Economic Stakeholders in the Governance of Nonprofit Organizations" (forthcoming in *Voluntas*), Young, who also holds the Bernard B. and Eugenia A. Ramsey Chair of Private Enterprise, examines the governance of nonprofit organizations in the United States and offers alternatives for restructuring nonprofit governing boards to achieve greater effectiveness, especially in their financial performance.

"The present system of nonprofit governance gives appointed and even elected trustees too little stake in the organization's mission, resulting in free-riding and underdevelopment of the organization's potential resources and mission-related effectiveness," writes Young. "A system of resource-based stakeholder governance would introduce a new dynamic, increasing the incentives for board members to enhance various sources of organizational support to gain more control of the organization's agenda.

"Fund development has been cited in a recent survey of 121 community foundation executives as the most important role of a nonprofit board, yet another survey of nonprofit CEOs found less than a third who reported their boards were active in fundraising. Most rated their boards as only 'fair' or 'poor' in the fundraising area."

Nonprofit governing boards often fail to meet expectations in effort and effectiveness. "The ability of boards to sustain their organizations financially seems highly prob-

lematic in many instances," he says. These observations led Young to ask how the composition of nonprofit boards and their method of selecting members may influence their ability to tap into different sources of funds – fee income, charitable contributions, government funding, volunteer effort, etc.

"Different sources of nonprofit income are associated with various stakeholders or constituencies within the organization, which often fosters competition among these groups for control of its practices and policies," Young continues. "These observations lead us to ask how nonprofit governance might be modified to improve the organization's ability to generate more resources by exploiting this competition.

"Can some of the strengths of for-profit governance – particularly the much stronger connection between governance and resources – be adopted by nonprofits?

"Nonprofit governance boards could be dominated by consumer or client groups, donors or institutional funders, government or volunteers," says Young. "Introducing stakeholder governance to nonprofit boards would potentially unleash a wide variety of arrangements, ultimately leading to new knowledge of what kind of governing combinations are most effective within particular fields of nonprofit activity."

Young suggests further empirical research is needed.



"The idea of economic stakeholder governance suggests a new thrust of empirical research on current practices as well as testing of potential reforms to generally enhance the lackluster performance of many nonprofit boards," he writes.

### ADDITIONAL READING

Young, D. & Faulk, L. (2010). Franchises and Federations: The Economics of Multi-Site Nonprofit Organizations. In B. Seaman & D. Young (Eds.), *Handbook of Research on Nonprofit Economics and Management*. (pp. 220-37). Cheltenham, UK: Edward Elger Publishing.

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# How to build a better Third Sector LEADER

*Social entrepreneurs require the training of an M.B.A. and M.P.A.*

Leaders of nonprofit organizations are often characterized as “social entrepreneurs,” individuals who create new ventures and new ways of addressing social missions. “The concept is patterned after the conventional model of a business entrepreneur who creates and develops new commercial ventures, but there are limits to this comparison,” says Professor Dennis Young, director of the Andrew Young School’s Nonprofit Studies Program and holder of the Bernard B. and Eugenia A. Ramsey Chair of Private Enterprise.

In “Social Entrepreneurship and the Financing of Third Sector Organizations,” Young and alumna Mary Clark Grinsfelder (M.S. in Urban Policy Studies ’09) identify the skills required by both type of entrepreneurs to help

determine the type of education required by leaders in the nonprofit sector. They find that “taking too narrow a view of social entrepreneurship and social enterprise by confining it to the business model constrains the potential benefits of developing social entrepreneurship in the Third Sector.”

In the article, the authors review the literature on entrepreneurship and the skill sets required by those operating in various economic sectors, searching for the distinctions between entrepreneurship in business and nonprofit sectors, in particular. The article was published in the Winter 2010 issue of the *Journal of Public Affairs Education*.

“Business entrepreneurs are expected to have sharp business skills, be comfortable operating in the private market and generate profits. Social entrepreneurs, on the other hand, seem to require a different mix of skills, most often seeking support from non-market sources of revenue,” says Young. “While business acumen is important, these entrepreneurs may also require political skill, fund-raising expertise and

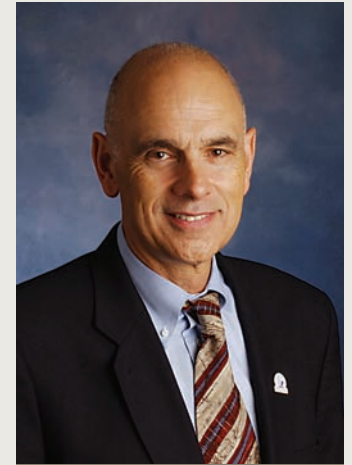
other abilities consistent with developing the support required to achieve a nonprofit’s social mission and sustain it financially.”

The view of social entrepreneurs as developers of ventures entirely dependent on business skills and market revenues would appear to be seriously limited and unproductive, Young and Grinsfelder find.

“The case studies we reviewed suggested a surprising result – that philanthropy, not earned income, may be the principal sustaining source for contemporary social enterprise ventures,” they write, “this despite the fact that philanthropy is generally less important than earned income or government support in the nonprofit sector as a whole.”

The authors caution readers not to put too much confidence into their observation. “A definitive, representative sampling and study of social enterprises has yet to be made,” they write. “Still, if the forgoing pattern is anywhere near the truth, it suggests some interesting explanations.”

Young believes that the implications of the research are strongest in the education of social entrepreneurs. “Would-be social entrepreneurs tend to study in business schools that offer M.B.A.s with an emphasis on commercial entrepreneurship, or in programs of nonprofit management. If our preliminary observations hold true, neither of these



Dennis Young

educational approaches appear to be sufficiently comprehensive,” he says.

“A more considered perspective would recognize that social enterprises are more complex than pure business ventures. They require the knowledge that can be brought to bear by combining both approaches.”

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