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The Nongrowth Cult

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Notable Gains But Gaps Remain

Compensating Victims of Crime:
Blunting the Blow

The Fed In Print

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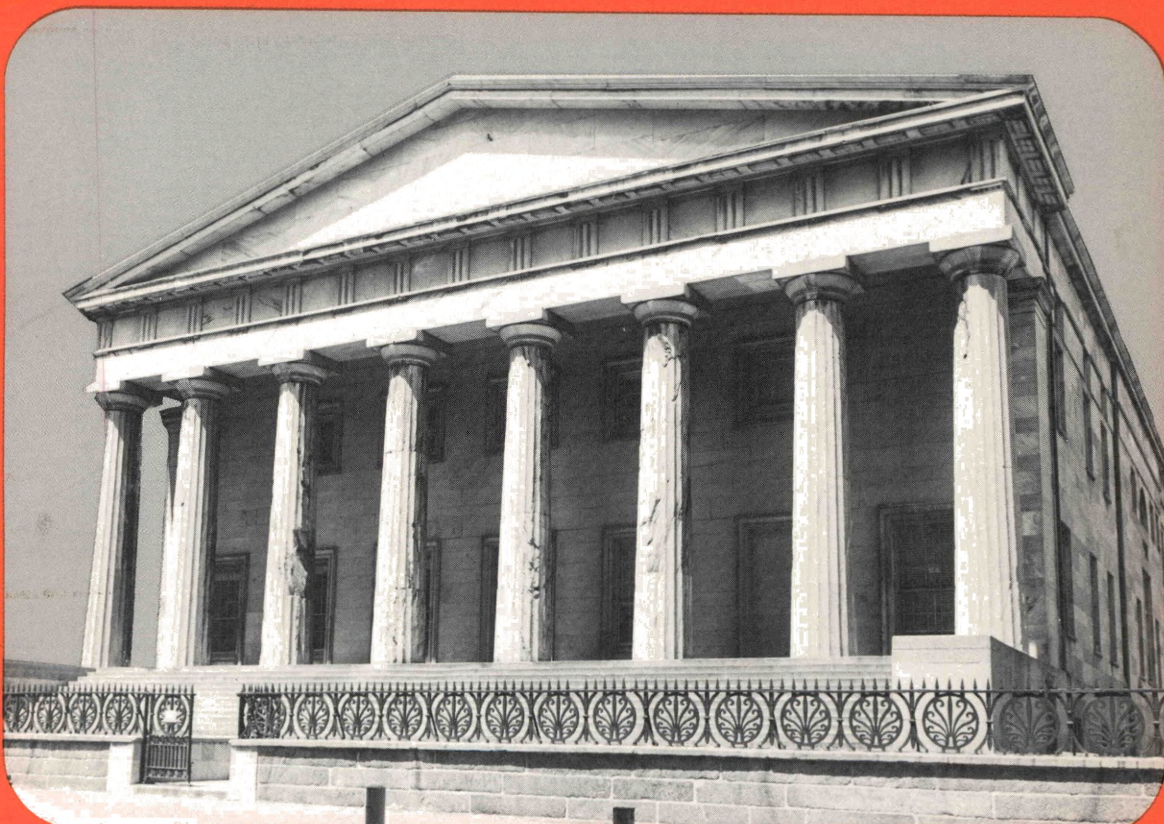
business review



1972

Financial Analysts and the Nongrowth Cult

. . . In a world worried about the consequences of growth, the analyst's job becomes considerably more difficult for he must factor the "costs" of growth into the profit potentials of corporations.

The Economic Situation of Blacks: Notable Gains But Gaps Remain

. . . Blacks and other minorities chalked up striking gains in income and employment during the '60s, but significant gaps still remain.

Compensating Victims of Crime: Blunting the Blow

. . . Crime, an everyday occurrence, is an everyday cost to its victims, and one way of softening the impact on the victimized is through compensation programs.

On our cover: On Chestnut Street between Fourth and Fifth streets in Philadelphia is this excellent specimen of Greek Revival architecture which housed the Second Bank of the United States from around 1825 until its demise in the late 1830s. In 1816 Congress chartered the Bank on much the same terms as the First Bank of the United States (whose charter had expired in 1811). The Second Bank was the center of a dramatic power struggle during the 1830s between President Andrew Jackson, who opposed the Bank, and Nicholas Biddle, its president. Although the Bank's Federal charter expired in 1836, Biddle received a charter from the state of Pennsylvania, which enabled the institution to continue in business until 1841.

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Financial Analysts and the Nongrowth Cult*

By David P. Eastburn, President Federal Reserve Bank of Philadelphia

During the 1950s and '60s, many Americans came to believe that continued economic growth and prosperity were here to stay. Immutable forces were at work which would boost GNP to record levels each year *ad infinitum*.

The strongest of these forces were Government policies which would keep the economy from slipping into the major depressions and recessions of the pre-Keynesian era. "Aggregate demand" became the byword. Washington had both the spending power and the inclination to wipe out any sag in aggregate demand that threatened to pull the economy down. At the same time, chronic inflation was seen as an expansive force. Inflation would keep expectations buoyant and would shift income from passive savers to active risk-takers.

In the financial field, "go-go" or "performance"-oriented portfolio management came into vogue. Stocks in a fund not only must go up, but they must go up faster than those in competing funds. The new Adam Smith put it succinctly:

> To the next generation the Depression was only a dim memory, and inflation was much more visible: The haircuts that once cost fifty cents cost seventy-five cents and then one dollar and then two. The next generation also arrived at positions of responsibility without the thirty-year apprenticeship that can bank the fires of the most ambitious. So that was the new generation, itching to shake up things because the old boys had been in the wrong game for twenty years . . . .
>
> And then one day there was a pool of money $400 billion strong accounting for half the business done on the New

* An address delivered before the annual meeting of the Institute of Chartered Financial Analysts held at the New York Hilton, New York City, May 22, 1972.

> York Stock Exchange, and run by a group of tigers who knew they were right just because the old boys had been so wrong. The stage was set for "performance." . . . Not only did the "performance" fund managers buy the growth stocks—they traded them. Trading was not for the Prudent Man, the short-term fluctuations in the market were not for him. The "performance" fund managers figured the safest way to preserve capital was to double it.[1]

In short, the name of the game was growth, and as the markets continued to rise the game was played for fun and profit, drawing new believers to the growth altar. In 1969, stock prices tumbled—over 30 percent on some indices. The slump put a crimp in the growth movement, but only for a time.

Now a new threat, and perhaps a more lasting one, faces the notion of continuous growth. Recently a number of scientists and concerned individuals have challenged the belief that growth *per se* is good. They see a continued emphasis on growth leading to a deterioration in the quality of life that cannot be balanced by the increased output of material goods. They see rising GNP and population in terms of more pollution, more congestion, and more human frustration. On top of that, they believe continued growth will, in the not-so-distant future, lead to the doom of mankind. In short, this nongrowth cult is asking for a halt in the hectic pace of change before it's too late.

I would like to examine some of the implications of the nongrowth cult for financial analysts. If a major part of the analyst's job is to ferret out situations where growth will produce favorable returns to investors, and if growth is socially bad, then is the analyst's function in jeopardy? As I see it, there are three possibilities:

1) The analyst is doomed. He might as well pack up his charts and P/E ratios and begin looking for a new profession.
2) The nongrowth cult is not to be taken seriously; it's just another passing fad. Thus for the analyst it will be business as usual.
3) The analyst still has a job to do but it will be considerably more difficult.

POSSIBILITY 1: THE DOOMSDAY PARADIGM

A small group of men of different nationalities and callings met in Rome a few years ago to ponder the causes and cures of worldwide chaos—poverty, unemployment, inflation, urban decay, environmental degradation, loss of faith in existing institutions, etc. Sponsored by this Club of Rome, a team of MIT specialists, including a systems analyst and a computer wizard, made a study in breadth—worldwide in scope.

The team ran the whole world and its 3.5 billion people through a computer and found that they are multiplying at a rate which would bring about a collapse of civilization in a hundred years, if not sooner.

So great is the world's complexity that everything is related to everything else. Consequently, the study called for not just one set of equations and one run through the computer, but about a hundred runs. Various assumptions were fed into the computer in the hope of finding a brighter future, but invariably the print-out was a disappointment. For example, what would happen if unrenewable resources were doubled as a result of new discoveries and new technologies? The answer: greater industrial output but only at the cost of intolerable levels of pollution. Or, feed the computer with "unlimited resources" and

[1] "Adam Smith," *The Money Game* (New York: Random House, 1967), pp. 210-211.

pollution held to a fourth of its present level, where do we come out? Answer: Food per capita sinks to the subsistence level, the death rate rises, and population growth grinds to a full stop.

If the MIT team did its homework properly, a limit on exponential growth is inevitable. Either we impose it, or nature imposes it for us. In either case the financial analyst faces doom. If nature drives us to a subsistence level, investor capital dries up. If we manage to ease ourselves into zero growth, investment funds will be available, but the prospects will not. How can an analyst ferret out situations where growth will produce profitable returns for investors when the lid is on growth? Self-defenestration may again be in vogue.

POSSIBILITY 2: NOTHING SERIOUS

The second possibility is that the nongrowth cult is not to be taken seriously. It's just another fad—like the tail fins on cars of a decade ago—or just a 175-year-old rerun of Parson Malthus' prediction dressed up with mathematical models. The Parson's forecast, you may recall, was put to rest by the phenomenal economic growth of the past two centuries.

Moreover, since Malthus' time the record is replete with nongrowth fads. Karl Marx saw the doom of capitalism. In 1844 Henry L. Ellsworth, Commissioner of Patents, concluded: "The advancement of the arts from year to year taxes our credulity and seems to presage the arrival of that period when human improvement must end." The depression of the 1930s gave birth to the thesis of chronic economic stagnation. Alvin Hansen was perhaps its outstanding proponent.

> . . . Looking at the census figures of the 1930's, Dr. Hansen found an alarming trend. The rate of population growth was slowing down . . . . This meant that the single greatest stimulus to investment could not henceforth be counted on . . . . It meant that in the future the stimulus of capitalism's investment would rest on the shoulders of technological progress *alone* . . . . The future might be equally as inventive as the past—perhaps even more so. But the *pace* of invention was likewise apt to be as sporadic and irregular. Unless the economy were bolstered *between* its periods of technological advance, it would surely develop a succession of depressions—deep depressions made all the more intractable by the lack of an undercurrent of steady human growth or the easy availability of new geographical markets.[2]

The chronic stagnation fad was buried by the baby boom of the 1940s and an astounding pace of technological development.

Thus, in view of the past record, the gloomy MIT report could be just another growth "scare." If so, it will fade away as did its predecessors. For the analyst it would be business as usual.

POSSIBILITY 3: HARD WORK FOR ANALYSTS

It seems to me that neither Possibility 1 nor 2 offers a realistic or viable alternative for society, much less financial analysts.

For one reason, a number of questions have been raised about the validity of the MIT model and its implications. Leonard Silk has pointed out in one of his columns in the *New York Times*, for example, that the model underestimates the ability of resources to expand.

> . . . The price system is the way mankind—and not merely economists—measures and regulates scarcity . . . .

[2] Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers* (New York: Simon and Schuster, 1953), pp. 290-292.

> Is there, then, evidence from price behavior that the world's resources are growing scarcer and may soon run out? The evidence, on the contrary, tends to go the other way. World resource prices have been soft; the resource-producing underdeveloped countries have been pressing the industrialized countries, especially in the United Nations, to support prices of their exports . . . . The MIT scholars may have underestimated the rate at which the pond [of resources] itself can be expected to expand.
>
> That was the basic error of their distinguished early nineteenth-century predecessor, the Rev. Thomas M. Malthus —the error of regarding resources as essentially a fixed pool rather than as a function of changing technology. Iron was not a resource at all before the Iron Age, nor coal before the Steam Age, nor uranium before the Nuclear Age.[3]

In addition to questions about the realism of the MIT model, there is the fundamental one of whether we really want to put a freeze on growth. I find it hard to see the average American sitting still while a slower-growing pie is being sliced up in a radically different way. It would seem more acceptable to most people to enlarge the size of the pie so everyone can have a bigger slice. Furthermore, economic growth is necessary to provide the technological equipment and methods and the income needed to attack the pollution we already have.

Moreover, to abandon economic growth is to abandon millions of people in Third World nations by locking them into poverty. Indeed, economic growth itself might help to slow, rather than speed up, population growth in these countries, as it has for much of Europe and the U.S. On a motor trip in Asia, Justice Douglas once had a conversation with his native chauffeur. Upon learning that his chauffeur had a wife and ten children, Justice Douglas commented that "it takes a lot of children to keep a man young."

> "Not on one hundred rupees (about twenty dollars) a month," said the chauffeur . . . .
>
> Justice Douglas asked him why he had so many children if he had always been so poor.
>
> After a long silence, the native chauffeur replied: "Sahib, you go home at night and what happens? You have magazines and books you can read. You have a radio. Maybe, Sahib, you have, what is it, television? And you can see. I go home and what do I have? Nothing but my wife. Night after night after night. Only my wife. That's why I have ten children."[4]

Yet, despite the need for growth the MIT report does bring one point home: Rapid economic growth has some undesirable effects which must be taken seriously by all. To limit these undesirable effects we will need to rely more on incentive, technology, and planning. Tax incentives, for example, can be used to channel growth away from activities particularly damaging to the environment. Technology, while much maligned, provides the best hope for a cleaner automobile engine, more effective sewage disposal, and ecologically sound productive processes. Finally, planning offers the means for avoiding many problems associated with rapid growth before they occur. For example, zoning plans for a region can be used to avoid future congestion or to limit further industrialization of an area threatened with ecological overload.

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[3] Leonard Silk, "Questions Must Be Raised about the Imminence of Disaster," *New York Times*, March 13, 1972, p. 35

[4] William O. Douglas, *Behind the High Himalayas* (New York: Doubleday and Company, 1952), p. 24.

What will these changes spell for the financial analyst? First, he must factor them into the profit potentialities of industries. In addition to homing in on Continental Conglomerates' five-year sales projections, he must assess the likelihood of several of its plants being closed from stiffer pollution controls. He must examine the ability of its management to seek out environmentally acceptable products and its willingness to plan for the company's survival in a world where the premium is on the quality of life rather than an increase in material goods and gadgets. In short, the analyst has the tough job of factoring into the profit picture of firms the "costs" of growth.

Second, the effort to limit the undesirable effects of growth may result in a slowing of overall economic growth. If so, the financial analyst's job becomes even tougher. When the economy is expanding by 8 or 9 percent, it is considerably easier to find profitable growth situations for investors than when it is moving at a sluggish 2 or 3 percent.

CONCLUSION

Possibility 3, I think, is the appropriate response. The nongrowth cult is reacting against the blind forces of economic growth. Its remedy, however, is to kill the goose that lays the golden egg. Economic growth is needed to deal with the multitude of social problems facing us.

But today's financial analyst cannot afford to ignore the nongrowth cult's warning. As the undesirable effects of growth pile up, increasing pressure will come to bear on business to change its ways. This pressure may even result in some slowing of economic growth. It will be government's job to provide the incentives for rechanneling growth to socially desirable ends. And, it will be the job of the analyst to pick for investors those firms that can adapt through technology and planning to a world worried about the consequences of growth. Analysts who are able to factor social demands into the profit potentials of corporations will be the "performance" leaders of the '70s and '80s.

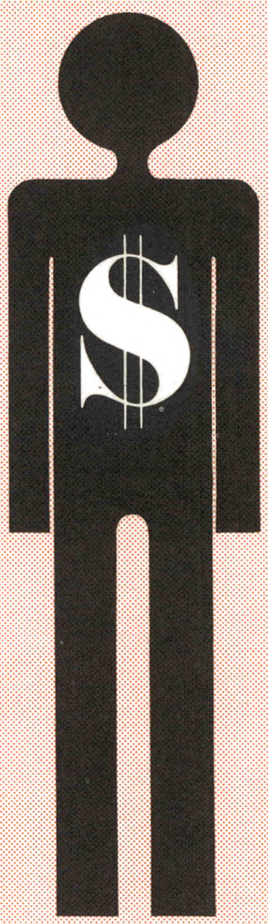
NOW AVAILABLE
BROCHURE AND FILM STRIP ON
TRUTH IN LENDING

Truth in Lending became the law of the land in 1969. Since then the law, requiring uniform and meaningful disclosure of the cost of consumer credit, has been hailed as a major breakthrough in consumer protection. But despite considerable publicity, the general public is not very familiar with the law.

A brochure, "What Truth in Lending Means to You," cogently spells out the essentials of the law. Copies in both English and Spanish are available upon request from the Department of Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

Available in English is a film strip on Regulation Z, Truth in Lending, for showing to consumer groups. This 20-minute presentation, developed by the Board of Governors of the Federal Reserve System, is designed for use with a Dukane project that uses 35mm film and plays a 33 RPM record synchronized with the film. Copies of the film strip can be purchased from the Board of Governors of the Federal Reserve System, Washington, D. C. 20551, for $10. It is available to groups in the Third Federal Reserve District without charge except for return postage.

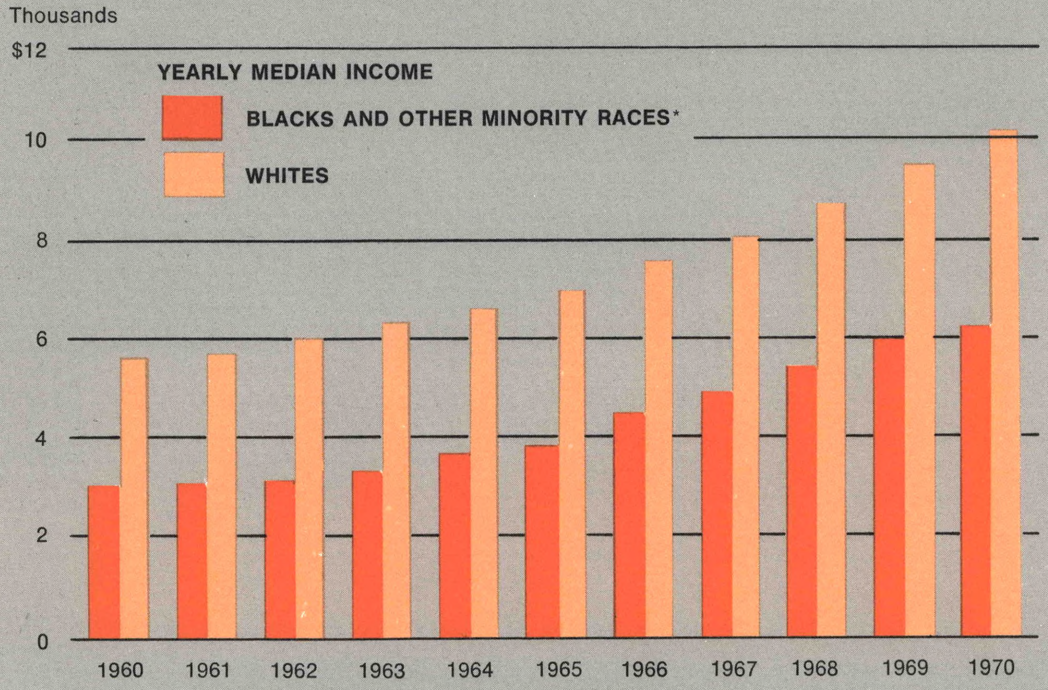
Persons in the Third District may direct requests for loan of the film to Truth in Lending, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101. Such requests should provide for several alternate presentation dates.



the economic situation of blacks: notable gains but gaps remain

by robert ritchie

CHART 1
DURING THE PAST DECADE BLACKS MADE IMPORTANT INCOME GAINS BUT DID NOT ATTAIN THE LEVELS OF THEIR WHITE COUNTERPARTS

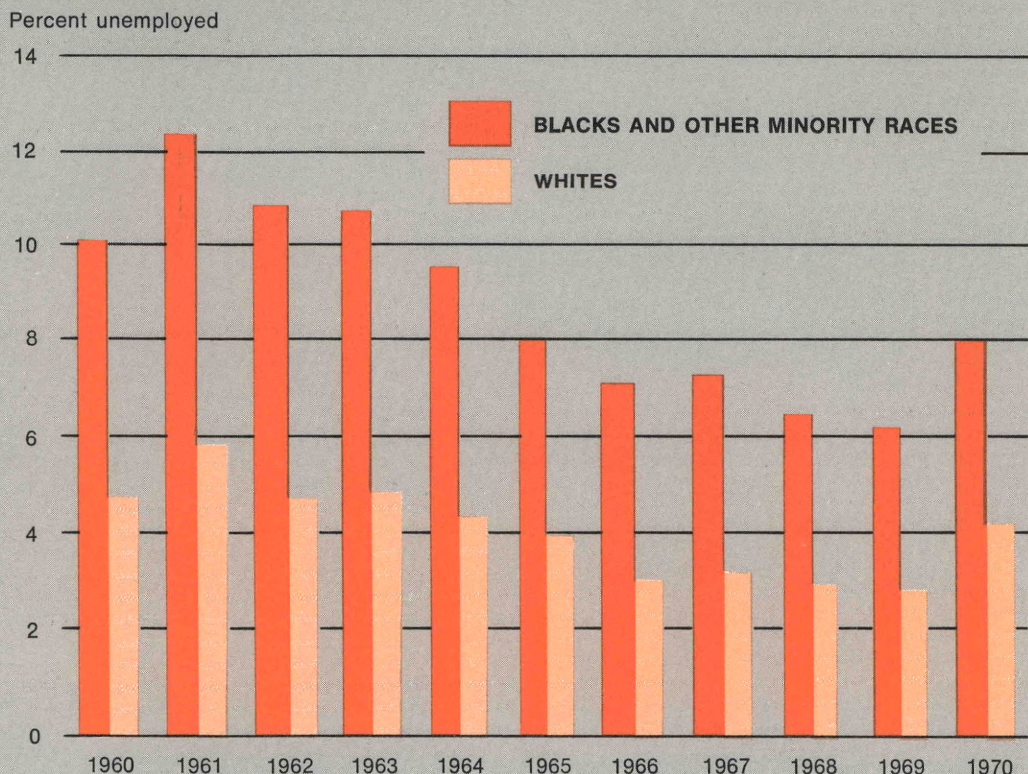


* Blacks constitute about 92 percent of all persons in this group. Other races included are American Indians and Orientals. Thus, this statistical series can be taken as an approximate measure of economic trends among blacks.

Source: U.S. Department of Commerce, Bureau of the Census.

CHART 2

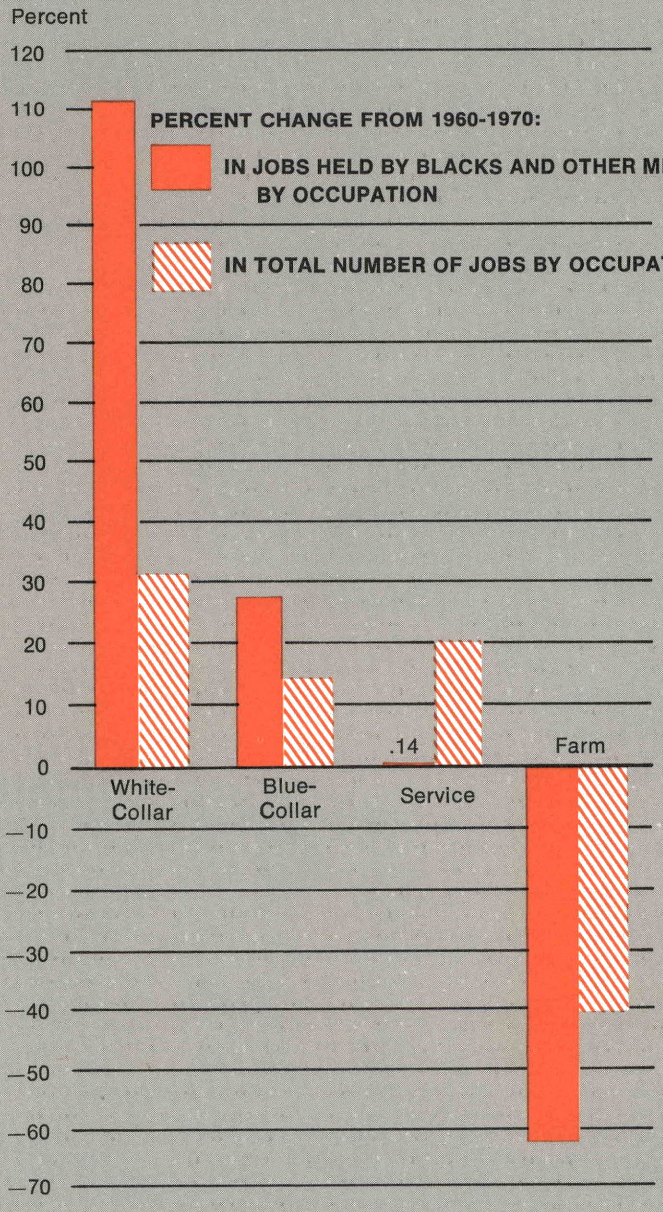
AND WHILE THE UNEMPLOYMENT RATE OF BLACKS AND WHITES DECLINED APPRECIABLY DURING THE '60s, THE BLACK UNEMPLOYMENT RATE REMAINED NEARLY TWICE THAT OF WHITES



Source: U.S. Department of Labor, Manpower Report of the President, April 1971;
U.S. Department of Labor, Bureau of Labor Statistics.

CHART 3

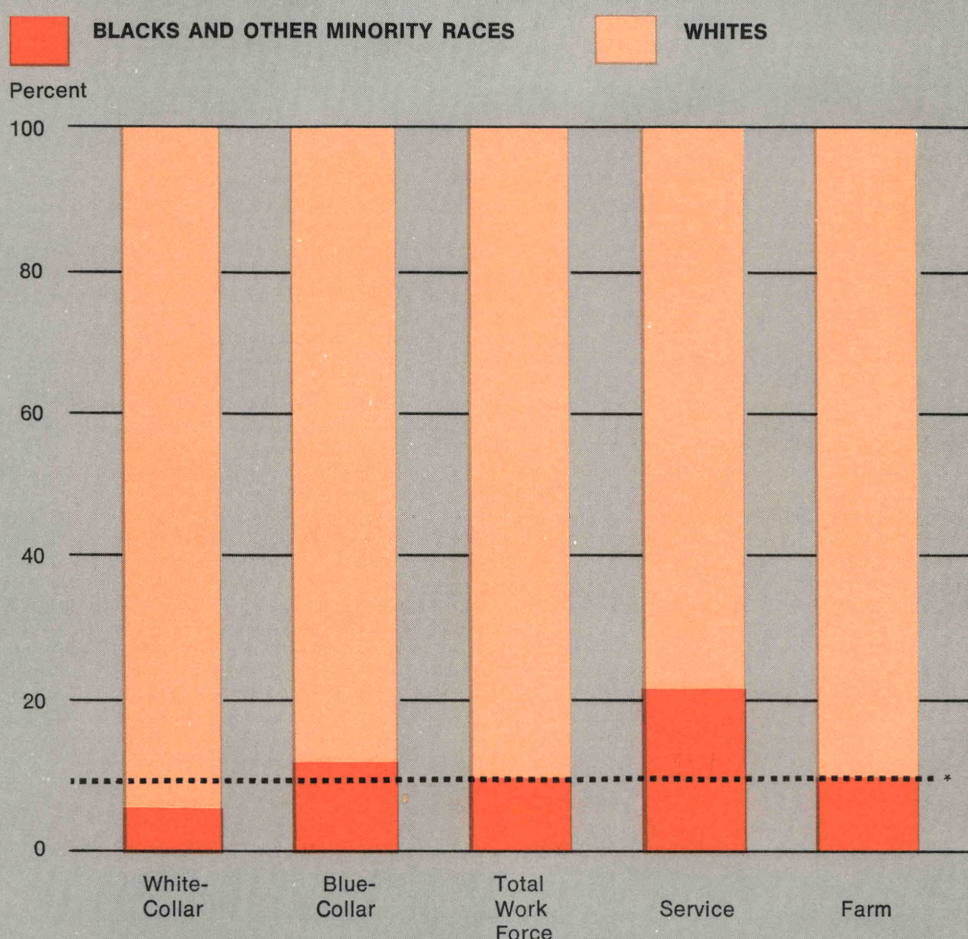
IN ADDITION, BLACKS POSTED SIGNIFICANT GAINS BY MOVING INTO HIGHER-PAYING OCCUPATIONS . . .



Source: U.S. Department of Labor, Bureau of Labor Statistics.

CHART 4

BUT BY 1970 THEIR SHARE OF HIGH-PAYING WHITE-COLLAR OCCUPATIONS STILL FELL SHORT OF THE PROPORTION OF BLACKS IN THE TOTAL WORK FORCE



* Proportion of Blacks and other minority races in total work force.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Compensating Victims of Crime: Blunting the Blow

By Duane G. Harris

Murder, forcible rape, robbery, and aggravated assault are crimes of violence. A glance at any large metropolitan newspaper promptly relates the extent to which such violence permeates the fabric of our society. A glance at local, state, and Federal budgets relates the dollars and cents of our seemingly futile efforts to control this violence.[1] And although we spend millions of dollars each year for crime prevention, those millions represent only a portion of the total cost of crime.

For every crime of violence there is a victim; for every victim there is personal loss. The value of lives and limbs lost, earnings foregone, the cost of hospitalization, rehabilitation, and mental and physical anguish are difficult to assess. Yet since crime remains an everyday occurrence, it is an everyday cost to its victims. Although we can bolster our dollar efforts in an attempt to reduce crime, it will never completely vanish. Therefore, can we in some way reduce the impact on those victimized by its cruelty? One program which is gaining popularity is governmental compensation to victims of crime.

Essentially, compensation programs involve a provision by government of insurance against the personal costs of victimization. Premiums are collected in the form of tax dollars and claims are paid to individuals who have been subjected to criminal attack. Mounting public pressure has led several states either to adopt or consider such plans. In addition, movement is underway to provide a national program for compensating victims of crime (see Box).

But before running headlong into the public provision of victim benefits, we should

[1] For example, from 1960 through 1969, expenditures (in real dollars) for police at the local, state, and Federal levels increased by nearly 60 percent while the rate of violent crime per 100,000 citizens increased by over 100 percent.

NEW EMPHASIS ON AN OLD IDEA

Although new in practice to the modern world, the concept of compensation to victims of crime dates back 4000 years to the Babylonian Code of Hammurabi. Under this code, a man who had been robbed made an itemized statement of his loss and was compensated by the city and governor in whose province and jurisdiction the robbery was committed. In Anglo-Saxon England, seventh-century laws included a list of payments for a variety of crimes from murder to adultery. Every part of the body had its value, from 50 shillings for an eye or foot to a sixpence for a toenail.

But by the middle of the tenth century, compensation for victims had been replaced largely by mutilation and death for the offender. The Christian concepts of sin were incorporated into law such that many crimes could no longer be settled by compensation. Murder, robbery, and rape were considered sins for which punishment was required.* For nearly a thousand years the principle of compensation remained dormant until New Zealand and Great Britain initiated programs in 1964.

These leaders in the modern crime compensation movement provided a basis for most subsequent compensation plans. As the program was initially designed in New Zealand, awards were only for a list of specific crimes and were either in the form of a lump sum or a periodic payment. Medical expenses were not an issue, since New Zealand has a social security system which provides free hospital care and meets a good portion of the costs of private medical care.

Great Britain devised a plan which is more flexible and less specific than New Zealand's. No payments are awarded for pain and suffering, but no limit is put on total payments for any one case. In addition, the program also helps those who are injured while trying to avert a crime or capture an offender. The main requirement for payment is that the circumstances of the crime must be the subject of criminal proceedings or the crime must have been reported to the police without delay.

In the United States, California and New York have been the forerunners in the victim compensation area. California maintains two programs: one for victims of violent crime, and another for those injured trying to prevent a crime or assisting in the apprehension of a criminal ("Good Samaritan" program). As in Great Britain, no payments are made for pain and suffering, but, unlike New Zealand and Great Britain, crime victims must establish need. Usually awards are made only to families with dependents, and payments are limited to a maximum of $5000. Most payments are periodic.

New York, incorporating aspects of both the British and California plans, makes no award for pain and suffering and requires that need be proved. No limit is placed on payments for medical expenses, but total reimbursement for lost earnings or loss of support may not exceed $15,000. Here too, payments are made at periodic intervals.

In addition, Maryland, Hawaii, Massachusetts, and Nevada have initiated some form of crime compensation legislation, although the programs vary in administration, qualifications for awards, and maximum compensation allowed. Almost all of the states make benefits available to dependents if the victim dies, and awards are generally reduced by any other additional compensation. The philosophy of victim reimbursement has spread, and bills for crime compensation have recently been introduced in Illinois, Ohio, Michigan, Arkansas, and New Jersey.

Reflecting this general trend in the country, crime compensation bills also have been introduced in Congress. In 1965, Senator Ralph Yarborough introduced the first victim compensation bill. Although the bill was not passed, other legislators have resubmitted crime compensation legislation: Senator Mike Mansfield introduced a bill to the Senate in 1970, and Representative William J. Green, Jr. introduced a companion bill to the House in 1971.

* For an interesting discussion of the historical predecessors to current victim compensation programs see Richard L. Worsnop, "Compensation for Victims of Crime," *Editorial Research Reports*, 22 September 1965, pp. 685-700.

carefully weigh the pros and cons of such action.[2] Does victim compensation appropriately qualify as a public good? Or does the private sector adequately achieve the wants of society? Although these issues are sticky, they must be settled if we are to best use our already strained public resources and at the same time meet the urgent needs of victims of crime.

VICTIM COMPENSATION: PUBLIC OR PRIVATE PROBLEM?

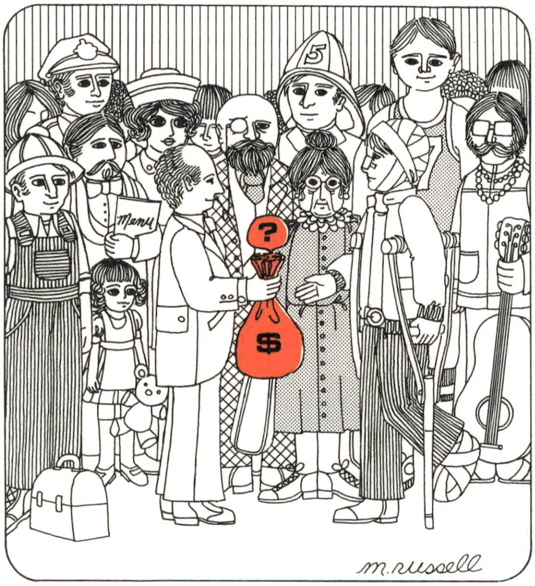
At a time when many taxpayers are already screaming about the burden of the public sector on their pocketbooks, public officials must take special pains to allocate tax dollars to those areas not adequately served by the private marketplace. For the most part, casting our economic votes in the private sector results in the production of those goods and services most desired by society. Yet, we know some situations arise in which the market cannot secure socially desired results. In these cases the public sector is called upon to achieve our wants.

Externalities? One such situation occurs when the private provision of a good or service involves substantial *externalities* or *neighborhood effects*. For example, in the crime prevention area, police protection is included in the public domain. For if I privately hire a policeman to guard my house, his very presence in my yard affords my neighbor some protection also. Yet I incur the total cost and my neighbor none. So where benefits cannot be isolated only for those who pay the cost, the public sector is often used to "split the bill." Everyone is required to *purchase* (through his tax dollar) some police protection since everyone receives some protection.

But is the case the same for victim compensation? Clearly the answer is no. Private remedies, including civil action and private insurance, do not involve these neighborhood effects. If I incur the cost of suing my attacker, any benefits forthcoming accrue to me and me only. Likewise if I purchase private life, medical, and disability insurance, claims are paid to me and not to my neighbor.

But why should I have to provide privately for society's failure to protect me? Since society has assumed the duty to protect its citizens, is it not liable when it fails? Until

[2] For a more extensive discussion of the issues surrounding victim compensation, see the articles cited in the selected bibliography on page 20.



Is society responsible for assisting victims of crime?

taxpayers vote enough dollars to provide everyone with a personal bodyguard, it seems clear that society elects to provide a general aura of safety rather than safety in every case. Thus, society does not assume the role of protecting each and every one of us, every minute, from every criminal act. Rather, it seeks to promote conditions whereby the *norm* will be one of personal safety. As such, all of us are susceptible to the probabilities of criminal violence.

Inadequate Private Remedies? So, if people must take chances when they walk the streets, can they rely on private remedies to meet restitution "needs"? Or do these remedies fail to provide the desired protection?

Individuals victimized by crime are normally entitled, under ordinary tort law, to sue their assailants for money damages. But the mere availability of legal procedures does not guarantee their effectiveness.[3] Many crimes of violence go unsolved so that the victim has no individual against whom to bring suit. And even if the criminal is apprehended, recovery of damages may be difficult if he is destitute. Finally, civil procedures are expensive at best and may be so distasteful that the victim is effectively prevented from pursuing that avenue of relief.

But if individuals regard the civil process as offering inadequate protection against the costs of victimization, they still have the option of privately insuring against such losses. Life insurance is available to cover the lost earnings or service potential of a victim, disability insurance to offer an income stream while the injured victim is out of work, and medical insurance to provide for the out-of-pocket expenses of hospitalization and rehabilitation. Although proponents of victim compensation argue that only a fraction of victimization costs are covered by life, disability, and medical insurance, that evidence alone is not enough to indict private insurance for failure. Rather, it may simply indicate that individuals have exercised their right of choice and decided not to pursue private protection. For example, as an individual decides how to divide his limited paycheck, he consciously or subconsciously assesses the probabilities and costs of becoming a victim of crime. If the probabilities and costs seem low enough, he may decide to spend more on food, housing, or transportation and less on insurance protection.

Merit and Equity? So, if private remedies are available and serious externalities do not exist in the private provision of victim compensation, is there some other cause for

[3] One study found that only 3 of 167 individuals—less than 2 percent—collected anything from their attackers. See Allen M. Linden, "Victims of Crime and Tort Law," *Canadian Bar Journal* 12(1969):17-33.

providing compensation out of the public purse? One basis is to determine that protection from the ravages of crime is a *merit* good. Even though individuals, for whatever reason, might otherwise choose to carry no insurance, society might wish to impose its "better" judgment and guarantee that "adequate" protection be provided. If indeed, victim compensation is deemed so important (has such *merit*) that we feel everyone should have claim to it, then we may wish to guarantee that compensation through the public sector.

But merit goods pose a knotty problem, because the public satisfaction of such considerations interferes with consumer preferences. Just how far should we go in designating various goods and services to have merit qualities? So far society has been unwilling to designate insurance in general to be a merit good. We have yet to compensate publicly death and injury resulting from auto and home accidents, or from other disasters such as fires, tornados, and floods. So should victim compensation occupy a place in the public pocketbook more special than these others?

For the majority of citizens who have the income to exercise their choice concerning private insurance against the consequences of criminal violence, there seems little argument in favor of providing public compensation for crime-related injuries. The difficulty arises with protection for the poor. Given that the poor have a severely limited budget, there simply may be too many other choices that take precedence over insurance protection. And evidence indicates that the poor are the very ones who face the highest probability of criminal injury.[4] So to give everyone access to some minimum level of protection, government may have to make special insurance provisions for low-income victims of crime.

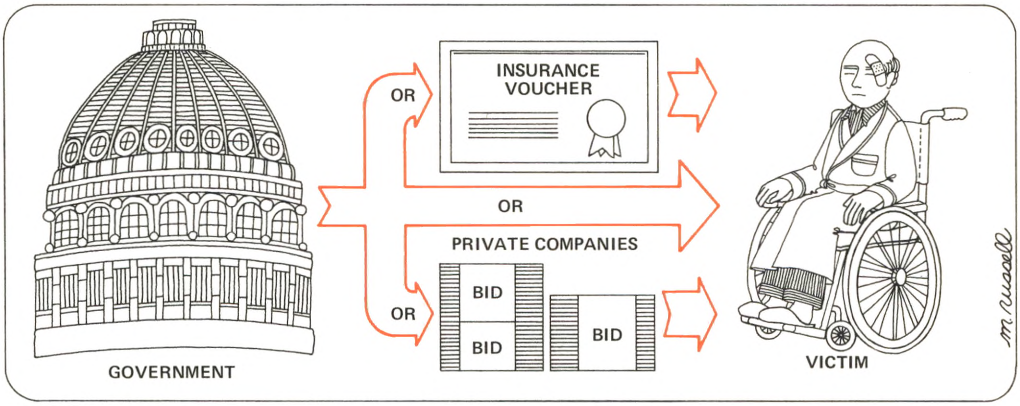
RESTITUTION FOR THE POOR

Thus, although victim compensation may not pass many of the standard tests to qualify for inclusion in the public sector, it may qualify on *equity* considerations. Society may simply determine that everyone should have access to protection against the costs of crime—regardless of income level. For that reason it may choose to provide such protection through the public till. But that is only part of the story. Although we may determine that protection be supplied free of direct charge to the poor, the problem of deciding how it is to be provided—through the private sector or through direct government management—still exists.

There are several ways to provide insurance protection through the private sector. One would be to give the poor an income supplement so that insurance protection becomes a realistic alternative in their income-budgeting process. With additional cold cash via income transfer, the individual could purchase insurance—or items such as food and housing which he valued more than insurance. Although an income supplement would not guarantee that the poor would be insured, it would give them the *choice* of being insured.

For those who value freedom of choice highly, the income-transfer approach seems to be a good solution to many problems facing the poor. But there are other persons who are concerned about poverty, yet are less willing to allow a recipient of public funds full reign on how these funds are to

[4] A 1967 study (Executive Office of the President, The President's Commission on Law Enforcement and Administration of Justice, *The Challenge of Crime in a Free Society* [Washington: Government Printing Office, 1967]) indicated that approximately 65 percent of total forcible rapes, robberies, and aggravated assaults were committed against victims with less than $6000 income. Over 30 percent were committed against individuals with incomes less than $3000. At the same time, families with incomes less than $6000 accounted for under 45 percent of total families.



Alternatives in public assistance to the victim.

be spent. If society can better determine what is "good" for the individual and those around him than the individual himself, then some type of "tied" provision is necessary.

One possibility would be an insurance voucher. Each year the poor could be issued a voucher which would be traded for insurance protection from a private insurance company. The insurance company would then collect from the government unit sponsoring the program. Another possibility would be for private companies to bid for the crime-victim insurance business funded by the government.

Government-managed compensation plans could take the form of any of the several already in existence. Certainly the track record of these existing plans will provide useful information for governmental units currently contemplating victim assistance of some kind.

In the end, that form of victim assistance offering the most benefit for the least cost should be chosen. Unfortunately, little information is available on the cost of these private and government alternatives. But regardless of the plan, it appears that if government is to make anything more than a token provision for victims of crime, it must be willing to spend tax dollars—and plenty of them.

THE DOLLAR DECISION

For example, in 1970 there were more than 700,000 victims of violent crimes in the U.S. For Pennsylvania and New Jersey the totals exceeded 25,000 and 20,000 respectively. Now, for a rough-and-ready cost estimate, suppose these victims of crime are compensated at the same average level as workers injured on the job (via workmen's compensation).[5] The average payment per case in Pennsylvania and New Jersey has been approximately $1500 over the past few years.[6] If we apply that figure to the victim totals above, we find that the cost of compensation at the national level in 1970 would have been over $1 billion.

[5] This assumes that the distribution of the severity of injuries from crime is the same as the distribution for on-the-job injuries. It also assumes the payments society deems appropriate for work-related injuries should apply to those related to crime.

[6] Cursory evidence indicates, however, that the $1500 figure may be somewhat less than the average cost of crimes of violence. One study estimated that the economic impact of crimes of violence in the U.S. for 1965 was in excess of $815 million. That works out to somewhat more than $2000 per violent offense. See *The Challenge of Crime in a Free Society*.

Pennsylvania's price tag would have exceeded $35 million, New Jersey's $30 million.

Even if we limited compensation only to the poor (defined as those with incomes under $3000) and paid victims the equivalent of workmen's compensation benefits, the total dollar tab likely would run in excess of $350 million at the national level, $12 million for Pennsylvania, and $10 million for New Jersey. It is likely that even these reduced figures will strike fear in the hearts of lawmakers who are already stretching national and state budgets to accommodate ever-increasing expenditure demands. But, nonetheless, they point up the commitment we are going to have to make if we are to alleviate some of the costs to victims of crimes of violence.

VICTIMS AND THE PUBLIC PURSE

So, in our attempt to meet the needs of crime victims and yet retain the public purse for those programs most clearly public in nature, we most likely will have to resort to complementary private and public programs. Our goal should be one of providing everyone with realistic *access* to protection against the costs of violent crime. For those individuals with sufficient income, access is already available through private insurance programs. For the poverty-stricken, the only avenue may be to provide protection through government-sponsored plans. Hopefully, a private and public partnership in victim compensation can go a long way toward blunting the blow of crimes of violence.

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The Fed In Print

Business Review Topics, First Quarter 1972, Selected by Doris Zimmermann

Articles appearing in the *Federal Reserve Bulletin* and in the business reviews of the Federal Reserve banks during the first quarter of 1972 are included in this compilation. A cumulation of these entries covering the years 1969 to date is available upon request. Write to the Publications Department, Federal Reserve Bank of Philadelphia.

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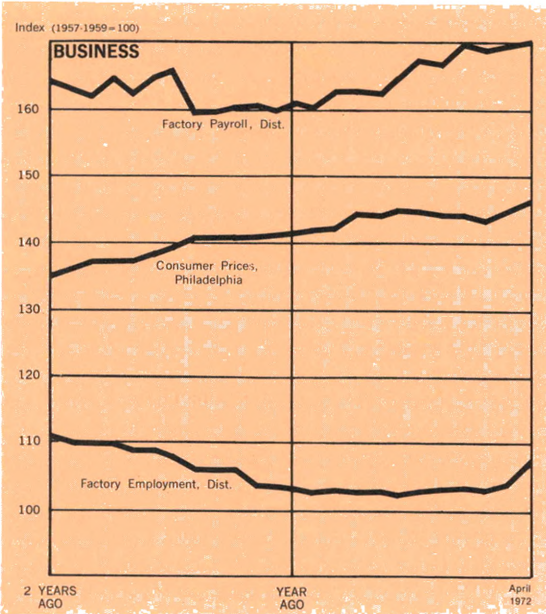

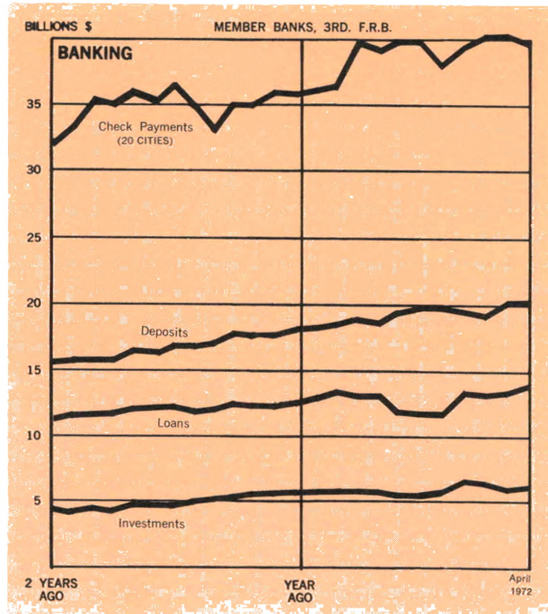

SUMMARY	Third Federal Reserve District — Percent change — March 1972 from mo. ago	March 1972 from year ago	3 mos. 1972 from year ago	United States — Percent change — March 1972 from mo. ago	March 1972 from year ago	3 mos. 1972 from year ago
MANUFACTURING						
Production	....	....	....	+ 2	+ 5	+ 4
Electric power consumed	+ 3	+ 2	+ 3	....	....	....
Man-hours, total*	+ 1	− 1	− 2	+ 1	+ 3	N/A
Employment, total	+ 1	− 2	− 3	+ 1	+ 1	N/A
Wage income*	+ 2	+ 6	+ 4	+ 2	+ 9	N/A
CONSTRUCTION**	+38	+ 2	+10	+30	+15	+20
COAL PRODUCTION	− 1	− 5	− 4	+ 9	− 5	− 7
BANKING (All member banks)						
Deposits	0	+10	+14	0	+ 7	+10
Loans	+ 2	+12	+11	+ 2	+12	+11
Investments	+ 2	+16	+17	+ 2	+10	+11
U.S. Govt. securities	0	+ 1	+ 3	+ 1	+ 1	+ 1
Other	+ 3	+25	+24	+ 2	+16	+17
Check payments***	− 4†	+ 7†	+13†	− 2	+10	+13
PRICES						
Wholesale	....	....	....	0	+ 4	+ 4
Consumer	0‡	+ 3‡	+ 3‡	0	+ 4	+ 4

*Production workers only
**Value of contracts
***Adjusted for seasonal variation

†15 SMSA's
‡Philadelphia

LOCAL CHANGES — Standard Metropolitan Statistical Areas*	Manufacturing — Employment — Percent change March 1972 from month ago	year ago	Manufacturing — Payrolls — Percent change March 1972 from month ago	year ago	Banking — Check Payments** — Percent change March 1972 from month ago	year ago	Banking — Total Deposits*** — Percent change March 1972 from month ago	year ago
Wilmington	+ 7	− 2	+ 8	− 1	−16	+ 8	+ 4	+ 4
Atlantic City	− 1	− 4	0	+10	− 7	+ 7	+ 1	+23
Bridgeton	− 1	− 3	—	—	—	—	—	—
Trenton	0	− 3	+ 2	+10	−21	−16	− 1	+10
Altoona	− 1	− 5	+ 1	+ 4	+11	+11	+ 2	+10
Harrisburg	0	− 1	+ 2	+ 7	− 4	+15	+ 2	+10
Johnstown	+ 2	− 5	+ 6	+ 6	+ 5	+29	+ 1	+ 7
Lancaster	+ 1	− 1	+ 5	+14	+ 1	− 1	0	+13
Lehigh Valley	+ 1	− 3	+ 2	+ 9	− 1	+ 7	+ 1	+14
Philadelphia	0	− 2	+ 1	+ 6	− 1	+ 8	− 1	+ 9
Reading	0	0	+ 2	+10	+ 1	+ 4	+ 1	+ 7
Scranton	+ 1	+ 5	+ 3	+ 9	+ 3	+ 6	+ 2	+15
Wilkes-Barre	+ 1	− 2	+ 3	+ 8	+ 2	+28	+ 1	+21
Williamsport	—	—	—	—	+ 4	0	—	—
York	0	+ 3	+ 1	+10	− 7	+32	+ 1	+12

*Not restricted to corporate limits of cities but covers areas of one or more counties.
**All commercial banks. Adjusted for seasonal variation.
***Member banks only. Last Wednesday of the month.