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ADMINISTRATIVE SAVINGS FROM SYNCHRONIZING SOCIAL WELFARE PROGRAMS AND TAX PROVISIONS[1]

by Jonathan Barry Forman[2]

Introduction

The federal government operates a multibillion dollar social welfare system of enormous complexity. Dozens of federal programs provide social welfare assistance to individuals for retirement, disability, health, education, housing, public assistance, employment, and other needs. Indeed, some 75 programs provide such assistance just to low-income individuals.[3] Still other programs, like Social Security and Medicare, provide assistance to virtually all individuals.

The federal government also provides social welfare benefits to individuals through a panoply of special income tax deductions, exclusions, and credits known

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3 Coordinating Federal Assistance Programs for the Economically Disadvantaged: Recommendations and Background Materials ix, 3 (National Commission for Employment Policy Special Report No. 31, 1991) [hereinafter National Commission for Employment Policy]. *See also* Domestic Policy Council, Low Income Opportunity Working Group, Up From Dependency, A New National Public Assistance Strategy: Report to the President by the Domestic Policy Council (1986) [hereinafter Domestic Policy Council] (59 programs); Needs-Based Programs -- Eligibility and Benefit Factors (U.S. General Accounting Office Report No. HRD-86-107FS, 1986) (95 assistance programs for needy people) [hereinafter Needs-Based Programs].

as "tax expenditures."[4] For example, the deduction for home mortgage interest helps individuals buy houses. Similarly, the dependent care credit helps workers pay for employment-related child care.

Unfortunately, the current system developed with relatively little consideration ever given to coordination among the various social welfare programs and tax expenditures. This lack of coordination has made the current system inequitable, inefficient, overly complicated, and expensive to administer. First, the current system is inequitable, for example, because similarly situated families often receive widely differing benefits. Second, the current system is inefficient, for example, because many beneficiaries face work and marriage disincentives as a result of cumulative tax rates on earnings of 80 or 90%. Third, the current system is overly complicated, for example, because of the thousands of pages of governing statutes and regulations. Finally, the current system has unnecessarily high administrative costs, for example, because of the overlap and duplication among the various social welfare programs and tax expenditures.

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[4] In a very real sense, tax expenditures are also "programs," but this article will generally use the term "program" to refer to positive expenditure programs and the term "tax expenditure" to refer to those tax provisions that provide similar benefits.

Academics have complained about this lack of coordination for years.[5] Recently, both Congress[6] and the Executive Branch[7] have also begun to take this

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[5] *See, e.g.*, Income Redistribution (Colin D. Campbell ed., 1977); Income-Tested Transfer Programs: The Case For and Against (Irwin Garfinkel ed., 1982) [hereinafter Income-Tested Transfer Programs]; Gordon H. Lewis & Richard J. Morrison, Interactions Among Social Welfare Programs (University of Wisconsin Institute for Research on Poverty Discussion Paper No. 866-88, 1988); Integrating Income Maintenance Programs (Irene Lurie ed., 1975); James R. Storey, *Public Income Transfer Programs: The Incidence of Multiple Benefits and Issues Raised by Their Receipt*, in Subcomm. on Fiscal Policy, Joint Economic Committee, Studies in Public Welfare (1972); and Peter Gottschalk, *Principles of Tax Transfer Integration and Carter's Welfare Reform Proposal*, 13 J. Hum. Resources 332 (1978).

[6] *See, e.g.*, *Continuing Efforts to Coordinate and Simplify Major Federal Assistance Programs: Hearing Before the Domestic Task Force of the House Select Committee on Hunger*, 100th Cong., 1st Sess. (Comm. Print 1988) [hereinafter Hearing Before the Domestic Task Force]; Needs-Based Programs, *supra* note 1; Welfare Simplification -- Projects to Coordinate Services for Low-Income Families (U.S. General Accounting Office Report No. HRD-86-124FS, 1986); Welfare Simplification -- Thirty-Two States' Views on Coordinating Services for Low-Income Families (U.S. General Accounting Office Report No. HRD-87-6FS, 1986); Welfare Simplification -- States' Views on Coordinating Services for Low-Income Families (U.S. General Accounting Office Report No. HRD-87-110FS, 1987).

[7] *See, e.g.*, National Commission for Employment Policy, *supra* note 1. The National Commission for Employment Policy is currently compiling a book of materials on national, state, and local coordination issues. *Id.* at ii.

Also, the newly-created Welfare Simplification and Coordination Advisory Committee is holding hearings on the interactions among public assistance programs and is to issue its final report by July 1, 1993. *See, e.g.*, Food and Nutrition Serv., Dep't of Agriculture, Welfare Simplification and Coordination Advisory Committee Meeting, 57 Fed. Reg. 31,349 (July 15, 1992).

Finally, *See also* Domestic Policy Council, *supra* note 1, in which President Reagan's Low Income Opportunity Working Group described the problem as follows:

Thinking about these programs (AFDC, food stamps, and Medicaid, for example) as separate entities, however, does not help us understand how they work in the real world. In that world, and especially from the point of view of the welfare recipient, all of these programs combine to operate as a single complex and bewildering *system*. Even matter seriously. Indeed, even a casual observer can recognize that there appears to be a lack of comprehensive thought behind the "crazy quilt" of overlapping federal social welfare programs and tax expenditures.

The purpose of this article is to explain some of the problems of the current system and to suggest how to provide for better coordination among the federal government's social welfare programs and tax expenditures. Part I of this article describes the major social welfare programs and tax expenditures, and Part II of this article discusses the administrative costs associated with them. Part III of this article then looks at how better synchronization among the various social welfare programs and tax expenditures could reduce administrative costs.

Finally, Part IV of this article considers how combining the major social welfare programs and tax expenditures into a rational, integrated system could achieve even greater administrative savings. In that regard, the author offers a proposal to replace most of the current social welfare system with a comprehensive system of refundable tax credits and related programs. First, refundable per capita tax credits of, say, \$1,200 per year would provide a minimal safety net. Second, additional refundable tax credits would be available to certain individuals based upon determinations of employability and need made by a single agency at the local level. In addition, a comprehensive federal health plan would ensure that nobody

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though each program was designed to meet some specific need, together they interact to produce a system of conflicting rules and benefits. *Id.* at 27.

would lose health coverage by working. Finally, education, training, and other services would be provided at the local level through a single agency.

I. OVERVIEW OF THE FEDERAL SOCIAL WELFARE SYSTEM

Dozens of federal social welfare programs and tax expenditures provide assistance to individuals for retirement, disability, health, education, housing, public assistance, employment, and other needs. The vast majority of these social welfare programs transfer cash or in-kind benefits (e.g., food or medical care) directly to individuals, and the vast majority of these social welfare tax expenditures transfer benefits indirectly to individuals, via reduced taxes. This Part of the article explains the major social welfare transfer programs and the major tax provisions related to social welfare.[8]

A. THE MAJOR TRANSFER PROGRAMS IN THE FEDERAL SOCIAL WELFARE SYSTEM

Social welfare policy analysts generally differentiate between transfer programs that are "means-tested" and transfer programs that are not. For means-

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[8] Social welfare assistance that is not transferred to individuals *per se* (*i.e.*, education grants to schools) and transfers to individuals that are not directly related to social welfare (*i.e.*, farm subsidies) are beyond the scope of this article.

Also, except where otherwise expressly noted, the source for most of the facts and figures in the text is the so-called "Green Book." Staff of the House Comm. on Ways and Means, 102d Cong., 2d Sess., Overview of Entitlement Programs: 1992 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Comm. Print 1992) [hereinafter Green Book].

tested programs (i.e., Medicaid, food stamps, AFDC, and SSI), eligibility and benefits depend upon an individual's need, as measured by the individual's income and assets. For non-means-tested programs (e.g., social "insurance" programs like Social Security and Medicare), eligibility is based on other criteria such as age and work history.

1. Means-Tested Programs

a. Medicaid

Medicaid is a federal-state matching entitlement program which provides medical assistance for needy persons who are aged, blind, disabled, members of families with dependent children, and certain other pregnant women and children. States design and administer their programs within federal guidelines, and the federal government reimburses them for 50 to 83% of their costs. In fiscal year 1990, the Medicaid program served 25.3 million people at a total cost of $72.5 billion (of which, the federal government paid $41.1 billion). The average expenditure per person was $2,700.

b. Food assistance

A number of federal programs provide food assistance to needy households. The largest of these, the food stamp program, is administered by the states, but it is 100% federally-financed. In general, food stamp benefits are issued in the form of booklets of coupons, which participating households use to buy food items for home preparation and consumption. Food stamp benefits are a function of a household's size, its counted monthly income, and a maximum monthly benefit level. In fiscal year 1991, the federal government spent about $20 billion to provide food stamps to 24 million individuals. Monthly food stamp benefits averaged $64 per person and $170 per household.

The Special Supplemental Food Program for Women, Infants, and Children (WIC) provides food assistance and nutritional screening to needy pregnant and postpartum women and their infants, as well as to needy children up to age 5. This program is federally funded, but it is administered by the States. WIC has categorical, income, and nutritional risk requirements for eligibility, and it does not serve all who are eligible. In fiscal year 1991, the federal government spent about $2.1 billion to assist some 4.5 million women, infants, and children. The average monthly cost of a WIC food package was $31.67 per participant.

Also, the National School Lunch Program and the School Breakfast Program provide subsidized meals to children at participating public and private schools and nonprofit residential institutions. Free and reduced-price meals are targeted to help children who live in needy households. For fiscal year 1991, the federal government spent about $4.8 billion on these two programs.

c. Supplemental Security Income (SSI)

Supplemental Security Income (SSI) is a federal program that provides cash benefits to needy persons who satisfy the program criteria for age, blindness, or disability. In 1992, the maximum federal benefit for an individual is $422 per month, and the maximum federal benefit for couples is $633 per month; however, some states provide small additional supplements. In 1991 some 5.1 million SSI recipients received a total of $18.5 billion in benefits ($14.8 billion from the federal government)

d. Aid to Families with Dependent Children (AFDC)

Aid to Families with Dependent Children (AFDC) provides cash assistance (through states) to needy families with dependent children and helps those families become self-sufficient. AFDC provides cash welfare payments for: 1) needy children who have been deprived of parental support or care because their father or mother is absent from the home continuously, incapacitated, deceased, or unemployed; and 2) certain others in the household of such child. States define "need," set their own benefit levels, establish (within federal limitations) income and resource limits, and administer the program or supervise its administration. The federal government pays 50 to 80% of AFDC costs. In fiscal year 1991, almost 4.4 million households (12.6 million people) received total benefits of $20.3 billion. The average payment per household was $388 per month.

e. Low-income home energy assistance program (LIHEAP)

The Low-Income Home Energy Assistance Program (LIHEAP) helps low-income families meet their energy-related expenses. For fiscal year 1991, the federal government allotted $1.6 billion to the states for distribution to eligible low-income households to pay their heating or cooling bills, for low-cost weatherization, and to assist households during energy-related emergencies. Some 5.8 million households received these heating assistance benefits.

f. Federal housing assistance

A number of federal programs administered by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA) provide housing assistance for low-income households. Most housing assistance is provided in the form of traditional rental assistance or traditional homeowners' assistance. Traditional rental assistance is provided through two basic approaches: 1) project-based aid, like the public housing program and the section 8 new construction and substantial rehabilitation program; and 2) household-based subsidies, like section 8 rental certificates and vouchers. Traditional homeowners' assistance is provided in the form of mortgage-interest subsidies.

Federal housing assistance has never been provided as an entitlement to all eligible low-income households. In fiscal year 1992, the federal government spent $18.6 billion to provide housing assistance to some 5.5 million households. The average subsidy per participating household was $4,120.

2. Non-Means-Tested Programs

a. Social Security

The Old-Age and Survivors Insurance (OASI) program provides monthly cash benefits to retired workers and their dependents and to survivors of insured workers. The Disability Insurance (DI) program provides monthly cash benefits for disabled workers under age 65 and their dependents. A worker builds protection under these programs by working in employment that is covered by the Social Security system and paying the applicable payroll taxes. At present, roughly 96 percent of the workforce is in covered employment.

At retirement, disability, or death, monthly Social Security benefits are paid to insured workers and to their eligible dependents and survivors. In general, OASI and DI benefits are related to the earnings history of the insured worker. In December of 1991, there were 40.6 million beneficiaries in the OASI and DI programs. The average payment to a retired worker was $629 per month, and the average payment to a disabled worker was $609 per month, plus additional amounts paid in the case of dependents.

b. Medicare

Medicare is a federal health care program for the aged and certain disabled persons. It consists of two parts: the Hospital Insurance (HI; or part A) program; and the supplementary medical insurance (part B) program. Persons age 65 and older are automatically entitled to protection under part A (i.e., hospital care) if they are "fully insured" under Social Security. Part B is voluntary program: paying a premium of $31.80 per month (as of January 1, 1992) provides insurance coverage for physician and certain other medical services. People under age 65 who are receiving monthly Social Security disability benefits are also eligible for Medicare after a two-year wait.

In fiscal year 1993, some 31.5 million aged and 3.5 million disabled will be covered by Medicare part A, and 30.9 million aged and 3.2 million disabled will be covered under part B. The program costs are projected to grow from $116.7 billion in fiscal year 1991 to $145.6 billion in fiscal year 1993. Some 55% of Medicare financing comes from payroll taxes, 26.3% from general revenues, and the rest comes from premiums, interest, and other income.

c. Unemployment compensation

Unemployment compensation is a joint federal-state program that provides cash benefits to individuals who have recently become unemployed. States administer their programs within federal guidelines. Some 98% of all wage and salary workers and 91% of all employed persons are covered by unemployment compensation, about 106 million individuals in all.

Benefits are financed through Federal Unemployment Tax Act (FUTA) taxes, a gross tax of 6.2% on the first $7,000 paid annually by covered employers to each employee. States set the benefit amounts as a fraction of the individual's weekly wage up to some State-determined maximum. Unemployed persons usually receive unemployment benefits for 26 weeks; however, the federal-state extended benefits program provides for up to another 13 additional weeks. In fiscal year

1991, the national average weekly benefit amount was $169 and the average duration was 14.8 weeks, making the average total benefits $2,501.

3. Cost of the Major Federal Social Welfare Transfer Programs

Table 1 summarizes the federal government's projected outlays for the major federal social welfare transfer programs in fiscal years 1992 and, as available, 1993. Of note, the overwhelming majority of federal transfer payments are not means-tested. Indeed, in fiscal year 1993, Social Security and Medicare benefits alone are projected to cost $443.3 billion, more than half of what the federal government will spend on all entitlements and other mandatory spending categories ($750.6 billion). On the other hand, the aggregate of all means-tested entitlement programs are projected to cost just $161.6 billion in fiscal year 1993.[9]

[9] Using a somewhat different approach, the Bureau of the Census estimated that the aggregate amount of federal and state transfers to individuals in 1990 was $391.3 billion. Allen D. Manvel, *Fiscal Facts & Figures: The Effects of Transfers and Taxes on Income*, Tax Notes 465-68 (January 27, 1992), summarizing Bureau of the Census, U.S. Dep't of Commerce, Measuring the Effects of Benefits and Taxes on Income and Poverty: 1990 (1991). Non-means tested transfers again accounted for most of the transfers ($323.1 billion): mainly Social Security ($249.7 billion), and Medicare ($73.4 billion). Means-tested transfers accounted for just $68.2 billion: cash benefits – mostly AFDC ($31.0 billion), Medicaid ($14.9 billion), other in-kind transfers ($22.3 billion).

Table 1. The Federal Government's Projected Outlays in Fiscal Year 1992 and 1993 for Major Social Welfare Transfer Programs.

[Billions of dollars]

Program	1992	1993
Means-tested programs		
Medicaid	68.4	79.6
Food stamps	23.2	22.9
WIC	2.9	*
Supplemental security income	17.0	18.4
AFDC and child support enforcement	15.7	16.5
LIHEAP	1.7	*
Housing assistance	21.8	*
Non-means-tested programs		
Social Security	284.5	300.6
Medicare	128.3	142.7
Unemployment compensation	34.9	26.3

* *not presented in available tables.*

SOURCE: Staff of the House Comm. on Ways and Means, 102d Cong., 2d Sess., Overview of Entitlement Programs: 1992 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means 1775-78 (Comm. Print 1992).

B. THE MAJOR FEDERAL TAX PROVISIONS RELATED TO SOCIAL WELFARE

Of the $1.173 trillion that the federal government expects to raise in fiscal year 1993, $513 billion is expected to come from individual income taxes and $449 billion from social insurance (i.e., payroll) taxes.[10] These are discussed in turn.

1. The Individual Income Tax

A significant portion of the federal budget consists of direct payments (expenditures) to individuals for retirement, health, public assistance, employment,

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[10] Green Book, *supra* note 6, at 1768. Only $110 billion was expected to come from corporate income taxes and even less was expected to come from excise taxes, estate and gift taxes, customs duties, and other categories.

and disability benefits provided pursuant to entitlement programs. One may also view the federal government as providing indirect payments to individuals, by means of special income tax deductions, exclusions, and credits related to health and other social policy objectives. These so-called "tax expenditures" are the focus of this Section.

a. Overview of the Individual Income Tax

The individual income tax is imposed on a taxpayer's taxable income. In general, a taxpayer's taxable income is equal to the taxpayer's gross income less allowable deductions. In that regard, most taxpayers simply claim a standard deduction and personal exemptions. Many taxpayers, however, claim certain itemized deductions in lieu of the standard deduction. Also, certain other deductions are allowed without regard to whether the taxpayer chooses to itemize.

A taxpayer's tentative tax liability (if any) is determined by applying 15, 28, and 31% rates to taxable income. The amount that the taxpayer must actually pay with his or her tax return or, alternatively, will receive as a refund is equal to the taxpayer's tentative tax liability minus allowable credits.

b. Standard deductions and personal exemptions

For 1992, the basic standard deduction amounts are $6,000 for married couples filing jointly and surviving spouses, $5,250 for heads of households, $3,600 for unmarried individuals, and $3,000 for married individuals filing separately. Aged or blind taxpayers generally are entitled to claim an additional standard deduction amount of $700, except that aged or blind single individuals can instead claim an additional standard deduction amount of $900. The personal exemption amount for 1992 is $2,300.

c. Income tax rates

For 1992, the 15% marginal tax rate extends to all taxable incomes up to $35,800 for married couples filing jointly and surviving spouses; $28,750 for heads of households; $21,450 for unmarried individuals; and $17,900 for married individuals filing separately. For taxable incomes above those amounts, marginal tax rates of 28% and 31% are applicable.

d. The earned income credit

The earned income credit is a refundable credit available to working taxpayers who maintain a home for at least one child.[11] For 1992, the maximum basic earned income credit for a family with one qualifying child is $1,324 (17.6% of the first $7,520 of earned income), and the maximum basic earned income credit for a family with two or more qualifying children is $1,384 (18.4% of the first $7,520 of earned income). Also, a taxpayer who pays health insurance premiums on a policy that includes at least one qualifying child may claim an additional

[11] Because it is refundable, the earned income credit is often numbered as one of the many direct transfer programs operated by the federal government. Because the earned income credit is first and foremost a tax provision, however, discussion of it has been included here with the author's discussion of tax expenditure (indirect subsidy) provisions.

health care earned income credit of up to $451 (6% of the first $7,520 of earned income), and a taxpayer with a child under age 1 may elect to claim a supplemental young child earned income credit of up to $376 (5% of the first $7,520 of earned income). A taxpayer's total earned income credit begins phasing out at $11,840 of adjusted gross income (or, if greater, earned income) and will be entirely phased out at $22,370 of adjusted gross income (or, if greater, earned income).

In 1992, some 13.3 million families are expected to claim $10.7 billion in earned income credits, and the average credit per family is expected to be $804.[12]

e. The dependent care credit

The dependent care credit is a non refundable credit for up to 30% of employment-related dependent care expenses incurred by an individual who maintains a household that includes one or more qualifying individuals. A qualifying individual is a dependent under age 13 or a physically or mentally incapacitated dependent or spouse. The maximum 30% credit rate is reduced, but not below 20%, by 1 percentage point for each $2,000 (or fraction thereof) of adjusted gross income above $10,000. Eligible employment-related expenses are 46

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[12] Of note, the Omnibus Budget Reconciliation Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388 (1990) provided for substantial increases in the maximum *basic* earned income credit amounts to be phased in over a period of years. When the transition is completed in 1995, the maximum basic earned income credit for a family with one qualifying child is projected to be $1,934 (23% of the first $8,410 of earned income), and the maximum basic earned income credit for a family with two or more qualifying children is projected to be $2,103 (25% of the first $8,410 of earned income). Staff of the House Comm. on Ways and Means, 102d Cong., 1st Sess., Overview of Entitlement Programs: 1991 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means 897-905 (Comm. Print 1991).

limited to $2,400 if there is one qualifying individual (maximum credit $720 = 30% x $2,400), or $4,800 if there are two or more qualifying individuals (maximum credit $1,440 = 30% x $4,800).

In 1992, some 6.4 million families are expected to claim $2.8 billion in dependent care credits, and the average credit per family is expected to be $431. Because the dependent care credit is not refundable, low-income families generally do not claim the credit, and the overwhelming portion of the benefits are received by middle- and upper-income families.[13]

f. The income tax treatment of social welfare benefits

By long-standing administrative policy, public assistance payments are excluded from gross income. Consequently, the values of AFDC, SSI, food stamps, Medicaid, and housing assistance benefits are not subject to income taxation. The value of Medicare is also excluded from gross income, and workers' compensation benefits and the special benefits for disabled coal miners are excluded by statute. On the other hand, unemployment compensation is subject to income taxation, and as much as half of the Social Security and railroad retirement benefits received by individuals with income over $25,000 and couples with income over $32,000 may be subject to income taxation.

[13] Green Book, *supra* note 6, at 1026-30.

g. Other tax expenditures

Other tax expenditures that have a significant impact on social welfare include: the net exclusion of private retirement plan contributions and earnings; the exclusion of employer contributions for medical insurance premiums and medical care; the deduction for medical expenses; the exclusion for employer-provided dependent care; and the tax credit for the elderly and disabled. There are also a number of tax expenditures related to housing (i.e., the deduction for mortgage interest; the deduction for property tax on owner-occupied housing, the deferral of capital gain on sale of principal residence, and the exclusion of capital gain on sale of residence of persons 55 and over).

h. Estimates of the revenue losses attributable to the income tax expenditures related to retirement, health, poverty, employment, and disability

Table 2 provides estimates of the revenue losses attributable to most of the above-described income tax expenditures in fiscal year 1993.[14] The consolidated revenue loss attributable to all the tax expenditures related to retirement, health, poverty, employment, and disability was estimated to be $176.6 billion.

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[14] No revenue-loss estimates are available for the basic standard deduction, personal exemption deductions, or the exclusion of public assistance payments, as the federal government's revenue estimators consider these to be "normal" features of an income tax, not tax expenditures.

Table 2. Estimates of the Revenue Loss in Fiscal Year 1993 Attributable to the Tax Expenditures Related to Retirement, Health, Poverty, Employment, and Disability.

[Billions of dollars]

Item	Amount
Tax expenditures related to retirement:	
☒ Net exclusion of private retirement plan contributions and earnings	66.3
☒ Exclusion of Social Security and railroad retirement benefits	24.5
Tax expenditures related to health:	
☒ Exclusions of employer contributions for medical insurance premiums and medical care	46.4
☒ Exclusion of Medicare Benefits	12.0
☒ Deductibility of medical expenses	3.1
Tax expenditures related to poverty:	
☒ Earned income tax credit	10.9
☒ Credit for child medical insurance premiums	.7
☒ Exclusion of public assistance and SSI payments	.4
Tax expenditures related to employment	
☒ Dependent care credit	2.8
☒ Exclusion of employer-provided dependent care	.4
☒ Exclusion for benefits provided under cafeteria plans	2.9
☒ Other	1.0
Tax expenditures related to elderly and disabled:	
☒ Exclusion of workers' compensation and special benefits for disabled coal miners	3.3
☒ Additional standard deduction for elderly and blind	1.8
☒ Tax credit for the elderly and disabled	.1
Tax expenditures related to housing:	
☒ Deductibility of mortgage interest	44.2
☒ Deductibility of property tax on owner-occupied housing	13.3
☒ Deferral of capital gains on sale of principal residence	13.2
☒ Exclusion of capital gains on sale of residence of persons 55 and over	4.6
☒ Other	5.4

SOURCE: Staff of the House Comm. on Ways and Means, 102d Cong., 2d Sess., Overview of Entitlement Programs: 1992 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means 984-85 (Comm. Print 1992).

2. Social Insurance Taxes

Social insurance taxes are important to the present discussion primarily because they are used to finance Social Security and many other social welfare benefits.[15] Moreover, social insurance taxes are regressive; that is, they take a greater percentage of the income of low-income taxpayers than of high-income taxpayers.[16] Indeed, many, if not most, American families pay more in social insurance taxes than they do in individual income taxes.[17]

a. Social Security payroll taxes

The Old-Age and Survivors Insurance (OASI) program, the Disability Insurance (DI) program, and the Hospital Insurance (HI, or Medicare part A) program are each funded through separate trust funds. Persons build protection under these "insurance" programs by working in employment or self-employment that is "covered" by the Social Security system and by making the required payroll

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15 Those interested in the more secondary issue of tax expenditures in the social insurance taxes are encouraged to *see* Jonathan B. Forman, *Would a Social Security Tax Expenditure Budget Make Sense?*, 5 Public Budgeting and Financial Management ___ (forthcoming Summer 1993).

16 First, social insurance taxes are imposed on earnings, a much narrower and more regressive tax base than income. Second, unlike the income tax which has standard deductions and personal exemptions, social insurance taxes are imposed from the very first dollar of earnings. Third, unlike the income tax which has a progressive tax rate structure, social insurance taxes are imposed at flat rates, and no social insurance taxes are collected on earnings in excess of certain earnings caps (*e.g.*, $55,500 for Social Security's Old Age and Survivors Insurance program).

17 *See, e.g.*, Staff of the House Comm. on Ways and Means, 101st Cong., 1st Sess., Tax Progressivity and Income Distribution 11, 33 (Comm. Print 1990).

tax "contributions" to those trust funds. For 1992, employees and employers each pay a Social Security payroll tax of 7.65% of the first $55,500 of covered wages and 1.45% of covered wages from $55,500 to $130,200.[18] Similarly, self-employed individuals are required to pay Social Security taxes at a rate that equal to the combined employee-employer rate of 15.3% on the first $55,500 of net earnings from covered self-employment and 2.9% on net earnings from covered self-employment from $55,500 to $130,200.

b. Other payroll taxes

Payroll-based taxes are also used to finance the unemployment compensation program, the railroad retirement and unemployment programs, and state workers' compensation programs.

C. OVERSIGHT AND ADMINISTRATION OF SOCIAL WELFARE TRANSFER PROGRAMS AND TAX PROVISIONS

Numerous congressional committees and Executive Branch agencies ARE currently responsible for various pieces of the current social welfare system. For example, as shown in Table 3, nine different congressional committees exercise oversight and authorization responsibilities for just the most broad-based federal

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[18] Most economists believe that the burden of both the employee's and the employer's portion of social security taxes falls on the employee. *See, e.g.*, Joseph A. Pechman, Federal Tax Policy 223-25 (5th ed. 1987).

public assistance programs.[19] In addition, the Senate and House budget and appropriations committees determine funding for these programs.[20] Similarly, as shown in Table 4, eight different agencies administer the most broad-based federal public assistance programs.[21] Still more congressional committees and Executive Branch agencies are involved in the remaining social welfare programs and tax provisions.

Table 3. Congressional Oversight of Broad-based Federal Public Assistance Programs.

Program	Senate Committee	House Committee
Medicaid	Finance	Energy and Commerce Ways and Means
Aid to Families with Dependent Children (AFDC)	Finance	Ways and Means
Earned Income Tax Credit	Finance	Ways and Means
Food Stamps	Agriculture, Nutrition, and Forestry	Agriculture
School Breakfast	Agriculture, Nutrition and Lunch Programs	Education and Labor and Forestry
Supplemental	Agriculture, Nutrition, Food Program for Women, Infants, and Children (WIC)	Education and Labor and Forestry
Housing Assistance Payments (Section 8)	Banking, Housing, Urban Affairs	Banking, Finance, and Urban Affairs
Head Start	Labor and Human Resources	Education and Labor
Job Training Partnership Act Programs	Labor and Human Resources	Education and Labor
Social Services Block Grant	Finance	Ways and Means

Source: Coordinating Federal Assistance Programs for the Economically Disadvantaged: Recommendations and Background Materials 10 (National Commission for Employment Policy, Special Report No. 31, 1991).

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19 Still other committees review assistance programs that are more targeted on particular groups like Indians or veterans.

20 Each of the principal non-means-tested social welfare programs (Social Security, unemployment compensation, and Medicare) are also subject to review by numerous committee.

21 Additional programs targeted at specific groups of beneficiaries are operated by the Departments of Education, Housing and Urban Development, Interior, and Veterans Affairs.

Table 4. Executive Branch Management of Broad-based Federal Public Assistance Programs.

Department	**Agency**	**Program**
Agriculture	Food and Nutrition Service	Food Stamps School Breakfast and School Lunch Programs Supplemental Food Program for Women, Women, Infants, and Children (WIC)
Health and Human Services	Family Support Administration	Aid to Families with Dependent Children (AFDC)
	Health Care Financing Administration	Medicaid
	Office of Human Development	Head Start Social Services Block Grant
	Social Security Administration	Supplemental Security Income (SSI)
Housing and Urban Development	Office of Public and Indian Housing Services	Housing Assistance Payments (Section 8)
Labor	Employment and Training Administration	Job Training Partnership Act Programs
Treasury	Internal Revenue Service	Earned Income Tax Credit

Source: Coordinating Federal Assistance Programs for the Economically Disadvantaged: Recommendations and Background Materials 11 (National Commission for Employment Policy, Special Report No. 31, 1991).

D. AN OVERVIEW OF THE PROBLEMS WITH CURRENT SYSTEM OF SOCIAL WELFARE TRANSFER PROGRAMS AND TAX EXPENDITURES

The current social welfare system developed largely as the result of piecemeal social welfare policy making. Consequently, there is little coordination among the mishmash of social welfare programs and tax expenditures. Four of the most frequently cited problems resulting from this lack of coordination are that the current system is inequitable, inefficient, overly complicated, and expensive to administer.[22] These are discussed in turn.

1. The Current System is Inequitable

The current system often results in inequitable or even capricious allocations of benefits across families in similar circumstances. In particular, some families receive multiple benefits,[23] while other, similarly-situated families receive virtually no benefits. Also, programs often work at cross-purposes.

There are also numerous gaps in coverage. For example, even though the unemployment compensation system covers some 91% of all employed persons, on average only 42% of unemployed persons were receiving unemployment

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22 *See, e.g.*, Gary Burtless, *The Economist's Lament: Public Assistance in America*, 4 J. Econ. Persp. 57 (1990).

23 Indeed, multiple recipiency is probably the rule. For example, for most food stamp recipients, food stamps are a second or even a third form of government payment: fewer than 20% of food stamp households rely solely on nongovernmental sources for their cash income. Similarly, of the 4.051 million households receiving AFDC in the first quarter of 1991, 84.6% also received food stamps, and 31.5% also receive public or subsidized housing. Also, of the 3.593 million households receiving SSI, 44.3% also received food stamps, 24.9% also received public or subsidized rental housing, and almost all received Medicaid.

compensation benefits in 1991. Similarly, while low-income couples with children are eligible for the earned income credit, low-income childless couples and individuals are not.

While there are glimmers of coordination in the web of social welfare programs and tax expenditures, the general approach is disjointed. For example, food stamps are generally distributed by the same state and local agencies that distribute AFDC benefits. Consequently, joint applications and interview procedures for food stamps and AFDC programs are the general rule. On the other hand, because the SSI program is instead administered by the Social Security Administration, only limited intake services for food stamps are provided to SSI recipients. Also, few social welfare programs provide any intake services for the earned income credit or the dependent care credit.

2. The Current System is Inefficient

One common complaint is that the current system is not well-targeted to help the needy. In that regard, the overwhelming portion of federal transfer payments go to people who are decidedly not poor. For example, most Social Security, Medicare, and dependent care credit benefits go to families who are not poor.

By the same token, because of arcane eligibility rules many poor families cannot qualify for means-tested benefits. Moreover, heavy caseloads, arduous application procedures, and intense pressure from the federal government to reduce welfare eligibility error rates have created a virtual obstacle course for the poor so that many who might qualify are denied benefits because of flawed and incomplete applications. All in all, only about 60% of the poor participate in the food stamp program; only about 60% of poor children are covered by AFDC; and only about 60% of the elderly poor participate in SSI. Consequently, many believe that we are spending hundreds of billions of dollars to buy less poverty reduction than we could.[24]

Uncoordinated program interactions also frequently result in families facing cumulative tax rates on earnings in excess of 80 or 90%. Such high cumulative tax rates pose perverse disincentives for work and for marriage.[25] For example, for an AFDC beneficiary trying to leave welfare to work at a minimum wage job (about $8,500 a year), one study found that the effective tax rate -- defined as the percent of total earnings taken away by decreased welfare benefits, increased taxes, and additional costs of working -- is a confiscatory 93%.[26] Indeed, certain

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24 *See, e.g.*, Robert Haveman, Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty 25 (1988).

25 For recent reviews, *see* Robert Moffitt, *Incentive Effects of the U.S. Welfare System: A Review*, 30 J. Econ. Literature 1 (1992); and Burtless, *supra* note 20. *See also* Judith M. Gueron, *Work and Welfare: Lessons on Employment Programs*, 4 J. Econ. Persp. 79 (1990).

26 C. Eugene Steuerle & Jason Juffras, *Correcting Distortions in the Tax-Transfer System for Families with Children* (Urban Institute Policy Bites No. 6, 1991); *see also* Appendix H: Disposible Income, Benefit Levels, and Marriage Penalties for Families with Children, in Green Book, *supra* note 6, at 1189-1231.

beneficiaries can lose more in benefits by working than they can gain in income. This can occur, for example, when an AFDC recipient ultimately loses both AFDC and Medicaid coverage as the result of a slight increase in earnings.[27]

3. The Current System is Overly Complicated

All in all, the current system is an incomprehensible maze of programs. Public assistance programs, in particular, have baffling eligibility criteria, detailed documentation requirements, and complex procedures. In that regard, a 1986 report by President Ronald Reagan's Low Income Opportunity Working Group identified 59 major public assistance programs which were the subject to more than 6,000 pages of Federal laws and regulations, managed by 8 federal departments,

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Nor is the problem of high cumulative tax rates confined to the realm of traditional public assistance programs. For example, consider the situation of elderly workers. Monthly Social Security retirement (OASI) benefits are paid as a matter of right to any covered individual who retires at age 62 or older. If such individual continues to work, however, the individual's Social Security retirement benefits may be reduced by operation of the social security retirement earnings test. Moreover, an individual who continues to work must continue to pay Social Security and income taxes on those subsequent earnings, and may also have to pay income tax on as much as one-half of the individual's Social Security retirement benefits. Together, the social security retirement earnings test and these tax provisions combine to subject some beneficiaries to astronomical marginal tax rates on earned income.

27 The average per capita value of Medicaid insurance coverage in 1990 was $2,568. Green Book, *supra* note 6, at 1663. In general, when families lose AFDC eligibility, categorical Medicaid eligibility also frequently ends. Since April 1, 1990, however, States are required to extend Medicaid coverage for 12 months to families who leave AFDC due to earnings. *Id.* at 626-27.

and overseen by a score of congressional committees.[28] State and federal manuals for these programs can take up a full shelf of office space.

Not surprisingly, coupling this mind-boggling complexity with the poorly-trained caseworkers in many welfare departments has resulted in high error rates. This complexity also invariably confuses eligible beneficiaries and leads to low participation rates. For example, certifying someone for eligibility in the Medicaid program can take 38 forms.[29] No wonder many welfare applicants are denied benefits because of flawed and incomplete applications. Overall, easily 10% of eligible beneficiaries fail to claim their welfare benefits.[30] In particular, only about half of homeless families and 15% of homeless individuals receive food stamps, yet virtually all are eligible.[31]

4. The Current System Is Expensive to Administer

The current system of overlapping social welfare transfer programs and tax expenditures administered by more than a dozen federal agencies and more than a hundred state agencies serving "an assortment of needy groups is not one in which

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28 Domestic Policy Council, *supra* note 1.

29 *The Medicaid Backlog: What's Needed is a Change of Attitude About the Poor*, Charlotte (NC) Observer, Mar. 1, 1988, *reprinted at* 137 Cong. Rec. S15,292, at S15,294-S15,295 (daily ed. Oct. 28, 1991) (statement of Sen. Hollings).

30 Hearing Before the Domestic Task Force, *supra* note 4, at 27 (statement of Rep. Laurie).

31 Green Book, *supra* note 6, at 1187. Similarly, a study of food stamp recipiency in Minnesota found 26,000 eligible Minnesotans unserved out of over 100,000. 137 Cong. Rec. H5810, H5811 (daily ed. July 24, 1991) (statement of Rep. Penny).

administrative efficiency is likely to be prominent."[32] Duplicative administrative costs are incurred at all stages of the process, from determining eligibility to distributing benefits. Moreover, jurisdictional squabbles often overshadow the original purpose of delivering services to needy people. All in all, the current system is expensive to administer. The next Part of this article is devoted to a more detailed consideration of this problem.

II. ADMINISTRATIVE COSTS OF THE CURRENT SYSTEM: WHAT DO WE KNOW?

Subpart A of this Part of the article provides a brief survey of the administrative costs associated with various social welfare transfer programs and with the major tax provisions related to social welfare. Subpart B of this Part then outlines some key conclusions about administrative costs.

A. A SURVEY OF ADMINISTRATIVE COSTS

1. Costs of Administering the Social Welfare Transfer Programs

a. Means-tested programs

In general, the administrative structure of most means-tested programs consumes upwards of 10% or more of the potential benefits.[33] For example,

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32 Burtless, *supra* note 20, at 59.

33 Howard J. Karger & David Stoesz, *Options in Social Welfare Policy*, in Reconstructing the American Welfare State 132 (David Stoesz & Howard J. Karger eds., 1992); Haveman, *supra* note 22, at 136.

consider the Aid to Families with Dependent Children (AFDC) program. In fiscal year 1991, the AFDC program distributed $20.3 billion in benefits to some 4.4 million families (12.6 million people). Federal and state administrative costs totaled $2.6 billion (roughly 13% of benefits), and the average administrative cost per family was $592 per year.

Similarly, in 1991 the Supplemental Security Income (SSI) program distributed roughly $18.5 billion in benefits to some 5.1 million recipients, and the cost of administrating the program was about $1.8 billion (roughly 10% of benefits).[34] Also, in fiscal year 1991, some $18.2 billion in food stamp benefits were paid out, and federal and state administrative expenses came to $2.7 billion (roughly 15% of benefits).[35] Administrative costs associated with the Special Supplemental Food Program for Women, Infants, and Children (WIC) were even higher: while the average monthly cost of a WIC food package was $31.67 per participant, the average monthly per participant administrative cost was $9.74 (31% of benefits).[36]

b. Non-means-tested programs

Traditionally, the costs of administering the Social Security retirement (OASI) and disability (DI) programs are low, comprising between 1 and 2% of

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[34] Green Book, *supra* note 6, at 779, 823-24.

[35] Green Book, *supra* note 6, at 1616. Federal administrative expenses were $1.5 billion, and state administrative expenses were some $1.2 billion.

[36] *Id.* at 1687.

annual benefit payments.[37] For example, in fiscal year 1991, administrative costs associated with these programs came to $2.5 billion, roughly 1.0% of benefits distributed.[38] Of note, however, the cost of administering the OASI program was just .7% of benefits, while the cost of administering the disability program was 2.9% of benefits. Similarly, the costs of administering Medicare in 1991 were about approximately 2.5% of program outlays.[39]

2. Costs of Administering the Income Tax

The costs of administering the income tax are low, on the order of 1% of revenues raised.[40] Of course, certain tax provisions are more expensive to administer than others. For example, the complexity of the current earned income credit has made it somewhat of an accounting nightmare: roughly 25% of those

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[37] *See, e.g.*, Haveman, *supra* note 22, at 136, and sources cited therein.

[38] Green Book, *supra* note 6, at 83, 135.

[39] *Id.* at 145.

[40] Internal Revenue Service: Opportunities to Reduce Taxpayer Burden Through Return-Free Filing (U.S. General Accounting Office Report No. GGD-92-88BR, 1992). In that regard, it cost the Internal Revenue Service about $628 million to process the 1991 individual income tax returns. *Id.* at 37. *See also* Marsha Blumenthal & Joel Slemrod, *The Compliance Cost of the U.S. Individual Income Tax System: A Second Look After Tax Reform*, 45 Nat'l Tax J. 185-202 (1992); Jonathan R. Kesselman, *Taxpayer Behavior and the Design of a Credit Income Tax*, in Income-Tested Transfer Programs, *supra* note 3, at 250; Haveman, *supra* note 22, at 136.

On the other hand, the costs borne by citizens in complying with the income tax are significant, on the order of 6% of revenues raised. Indeed, estimates of the time and cost it takes U.S. taxpayers to prepare their individual returns are as high as 3 billion hours and $30 billion annually. Internal Revenue Service: Opportunities to Reduce Taxpayer Burden Through Return-Free Filing, *supra* at 1. Thus, it costs about $7 in administrative and compliance costs per $100 of collected income tax revenue.

eligible for the credit do not file for it, and many of those who do file for it are technically ineligible.[41]

B. SOME KEY CONCLUSIONS ABOUT ADMINISTRATIVE COSTS

This Subpart sets forth a number of conclusions about the administrative costs of the social welfare system.

1. Means-Tested Programs Are More Expensive to Administer than Non-Means-Tested Programs

Eligibility and benefit determinations take time and effort and so relate directly to program administrative costs. Consequently, multiple and subjective eligibility criteria, complicated benefit formulae, and detailed verification requirements can only add to a program's administrative costs. Such complicated determinations also increase the chance of errors leading to appeals, reconsiderations, and litigation. All in all, the more complicated a program's eligibility and benefit determinations are, the higher are its administrative costs.

In that regard, the administrative costs of the Old-Age and Survivors Insurance (OASI) are relatively low (.7% of benefits) because eligibility is based upon an applicant's earnings record and work status which are easy to verify and

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41 *See* James R. Storey, The Earned Income Tax Credit: A Growing Form of Aid to Children Library of Congress, (Congressional Research Service Report No. 91-402 EPW, 1991); Holtzblatt, Janet, *Administering Refundable Tax Credits: Lessons from the EITC Experience*, in Nat'l Tax Ass'n Proc. of the Eighty-Fourth Ann. Conf. 180 (1992); John K. Scholz, The Participation Rate of the Earned Income Tax Credit (University of Wisconsin Institute for Research on Poverty Discussion Paper No. 928-90, 1990); and *see* Jonathan B. Forman, *A 'Simpler' Way to Help Children and Low-income Families*, 52 Tax Notes 601 (1991).

benefit computations are straightforward. The administrative costs of the Disability Insurance (DI) program are a good deal higher (2.9% of benefits), presumably because the eligibility determinations can also involve physical and mental examinations and reexaminations, subjective judgments, appeals, and even litigation.

The administrative costs associated with programs that have means-testing are even higher, on the order of 10% of benefits. Application forms must be longer to accommodate questions about income, work, and resources. Caseworkers must spend more time on the Procrustean tasks of interviewing claimants, verifying the applications, making eligibility determinations, and computing benefits. Hence, one can conclude that means-tested programs are generally more expensive to administer than are non-means-tested programs.

2. <u>Categorical Programs Are More Expensive to Administer than Universal Programs</u>

Most social welfare programs and tax expenditures have categorical eligibility requirements; that is, in order to qualify for benefits one must fall within a narrow category like suitably unemployed (unemployment compensation), totally disabled (SSI and DI), family with dependent children (AFDC), or taxpayer who maintains a household for a child under age 13 (dependent care credit). Categorical programs are popular because they seem to restrict eligibility to those claimants who are not in a position to provide for themselves -- the so-called "worthy" or "deserving" poor. Unfortunately, like means-testing, categorical testing takes time and effort and so translates into increased program administrative costs. Administrative costs will be especially high if a multiplicity of programs is involved and claimants must make multiple, separate applications before fitting into a benefit category.[42]

4. Administrative costs are lower in so-called "universal" programs that avoid such difficult and often subjective categorical eligibility determinations. For example, since virtually everyone age 65 and over may claim Social Security (OASI) and Medicare benefits, eligibility determinations are straightforward and administrative costs are low. The personal exemption deduction is another example of a universal benefit with relatively low administrative costs. Hence, one can conclude that categorical programs are generally more expensive to administer than universal programs.

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[42] On the other hand, categorization is not necessarily synonymous with a multiplicity of programs. A single program with universal coverage could divide the population into categories and subject each category to different eligibility criteria and benefit structures. The advantages of different treatments could be retained; however, by avoiding gaps and overlaps in coverage, high administrative costs would be avoided. Irene Lurie, *Integrating Income Maintenance Programs: Problems and Solutions*, in Integrating Income Maintenance Programs, *supra* note 3, at 1, 16.

3. Smaller Programs Are Relatively More Expensive to Administer than Larger Programs

While nobody likes big bureaucracies, it does seem that there are economies of scale in drafting application forms, manuals, and regulations; maintaining and keeping records; training staff; and delivering benefits. Empirical and anecdotal evidence seems to bear this out -- the elephantine Social Security Administration has relatively lower administrative costs and just seems to be more efficient than any state welfare department. Accordingly, as a general proposition, one can conclude that smaller programs are relatively more expensive to administer than larger programs.

4. More Programs Means Higher Administrative Costs

Under the current system, dozens of different social welfare transfer programs and tax expenditures distribute a variety of cash and in-kind benefits to individuals. It seems likely that duplicative administrative expenses could be reduced and economies of scale could be realized if benefits were instead distributed by a few large programs. Consequently, one can conclude that for any given amount of benefits, the more programs involved in distributing those benefits, the higher the total administrative costs will be.

5. In-Kind Benefits Are More Expensive to Distribute than Cash Benefits

While most social welfare benefits are distributed in the form of cash, billions of dollars of benefits are distributed in the form of food, housing, or medical aid. Indeed, over the past 20 years real cash benefits have declined substantially, while new in-kind benefits (such as food stamps and Medicaid) have increased dramatically. Economists have complained for years about the efficiency losses associated with giving people in-kind benefits rather than cash.[43]

There are also significant administrative expenses associated with distributing in-kind benefits. For example, unlike checks, food stamps are physically handled by over a dozen different entities in the production, printing, issuance, redemption, clearance, and destruction of the stamps.[44] In that regard, in 1989 an estimated $367 million in food stamps were diverted from their intended use as the stamps wound their way through the system, and another $67 million were lost or stolen.[45] Not surprisingly, food stamp program administrative expenses run about 15% of total benefits. Of note, however, a recent demonstration project in San Diego found that providing eligible food stamp beneficiaries with

[43] *See, e.g.*, Milton Friedman, Capitalism and Freedom 174-75 (1962).

[44] Fin. Management Serv., U.S. Dep't of Treasury, Electronic Benefit Transfer: A Strategy for the Future 2 (1990).

[45] *Id.*

cash instead of food stamps resulted in significant administrative savings.[46] All in all, one can conclude that in-kind benefits are more expensive to distribute than cash benefits.

6. A Complicated System Is More Expensive to Administer than a Simple System

A more complicated social welfare system will result in more paperwork, increased training of staff, and higher error rates than a simple system. Consequently, a complicated social welfare system is surely more expensive to administer than a simple system. Moreover, a simple system has the advantage of being understandable, both to potential beneficiaries and to the taxpayers who foot the bill.

7. There Is Often a Trade-Off Between Administrative Costs and Benefit Costs

Because eligibility tests and benefit computations cost money, administrative costs clearly can be saved by coordinating programs and reducing the number of eligibility and benefit determinations. On the other hand, to the extent that coordinating programs increases the number of people eligible for multiple benefits, total benefit costs will rise. If total benefit costs are, instead, held constant, then some beneficiaries will see benefit-reductions in order to offset the costs of

46 *See, e.g.*, *Food Stamp Program on Its Way Out*, San Diego Union, Aug. 28, 1990, at A1, A10.

covering additional beneficiaries. Hence, there is often a trade-off between administrative costs and benefit costs.

For example, a recent demonstration project in Illinois found that integrating food stamps with AFDC through a simplified application process resulted in administrative savings of $3 million a year.[47] Unfortunately, benefit costs increased $19 million a year, primarily because a "hold-harmless" condition of the demonstration project required that average food stamp benefits remain as high as they would have been under conventional procedures. Without the hold-harmless condition, administrative costs could have decreased without the accompanying increase in total benefit costs, but many beneficiaries would have seen their benefits reduced.

III. SYNCHRONIZATION: WHAT CAN BE DONE?

This part outlines a number of recent recommendations to synchronize and coordinate the current system of social welfare transfer programs and tax expenditures.[48]

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47 Testimony of Joseph F. Delfico, Senior Associate Director, Human Resources Division, U.S. General Accounting Office, in Hearing Before the Domestic Task Force, *supra* note 4, at 28-29.

48 *See* especially National Commission for Employment Policy, *supra* note 1. In Hearing Before the Domestic Task Force, *supra* note 4, *see* the testimony and accompanying materials of Joseph F. Delfico, Senior Associate Director, Human Resources Division, U.S. General Accounting Office; the testimony of Sandra Gardebring, Minnesota Department of Human Services on behalf of the National Council of State Human Service Administrators and the America Public Welfare Association; and Comparison of Food Stamp and AFDC Program Requirements: with Recommendations for Change (Nat'l Council of State Human Serv. Adm'rs 1986), *id.* at 21, 69, 89; 31; and 102 respectively. *See also* the minutes of the

A. SYNCHRONIZE PROGRAM ELIGIBILITY CRITERIA

Although frequently struggling to achieve similar goals, virtually every current social welfare program utilizes different criteria to determine eligibility for benefits. If different programs instead had synchronized eligibility criteria, then administrative savings could be achieved by having: 1) an applicant's financial situation gathered and recorded in an identical manner for all programs, thereby reducing the need for multiple forms; 2) a single verification by one program that should suffice for others; and 3) a centralized determination of financial eligibility for all programs.[49] In particular, standard definitions of income, resources, poverty, and eligibility unit are needed. These are discussed in turn.

1. <u>Standardize the Definition of Income</u>

The major means-tested social welfare programs have complicated and widely differing definitions of income.[50] For AFDC eligibility and benefits, all

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Meetings of the Welfare Simplification and Coordination Advisory Committee (April 30 and May 1, 1992; and August 20-22, 1992) (available from the Committee).

[49] National Commission for Employment Policy, *supra* note 1, at 23. *See also* S. 1883, 102d Cong., 1st Sess. (1991) (calling for a joint report by the Secretary of Health and Human Services and the Secretary of Agriculture on eligibility barriers across AFDC, Medicaid, and Food Stamps), 137 Cong. Rec. S15,292-S15,296 (daily ed. Oct. 28, 1991) (statements of Sens. Hollings, Rockefeller, Thurmond, and Sanford); and National Commission on Children, Beyond Rhetoric: A New American Agenda for Children and Families (1991) (calling for uniform eligibility criteria across the major federal programs for pregnant women and children).

[50] Moreover, none of those definitions of income matches is used for federal tax purposes. Of note, gifts and interest on state and local bonds are excluded from gross income, and a variety of different rules govern the treatment of social welfare benefits: unemployment compensation benefits are fully taxable; up to one-half of Social Security

income received by an AFDC family is counted against an eligible family's AFDC grant unless specifically excluded. Unearned income like gifts, tax-exempt interest, and child support payments in excess of $50 per month are counted. On the other hand, the first $90 per month of earned income is disregarded (standard work expense deduction); another $30 of earned income is disregarded for the first 12 months after starting work; one-third of the rest is disregarded for the first four months after starting work; and reasonable employment-related child care expenses are also disregarded.

SSI eligibility and benefits are based upon countable income. The first $20 of monthly income from virtually any source is excluded from countable income. In addition, the first $65 of earned income plus one-half of remaining earnings are excluded, and the work expenses of certain recipients are disregarded. The value of certain in-kind assistance is counted as income.

Food stamp eligibility and benefits are generally based on "counted monthly income." First, a household determines its basic monthly income as all of the household's cash income less a variety of arcane exclusions. Counted monthly

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benefits may be taxable; and welfare benefits and worker's compensation benefits are generally not taxable. Also, unlike most social welfare programs which use monthly accounting, federal income taxes are based on an annual accounting period. *See generally* William A. Klein, *The Definition of "Income" Under a Negative Income Tax*, 2 Fla. St. U. L. Rev. 449 (1974); William D. Popkin, *Administration of a Negative Income Tax*, 78 Yale L.J. 388 (1969).

Adding to the complexity of federal taxation, Social Security taxes are generally based on compensation (*i.e.*, wages and self-employment income), rather than income.

income generally equals basic monthly income less a standard deduction ($122 a month in fiscal year 1992), 20% of any earned income (in recognition of taxes and work expenses), and up to $160 a month per dependent for employment-related child care expenses. Adding to the complexity, different rules apply for households without an elderly or disabled member than for those with one.

Social Security benefits are not means-tested with respect to income; however, the so-called earnings tests reduce benefits of recipients who have "earned income" after initial eligibility. For example, in 1992 retired beneficiaries ages 62 through 64 lose $1 in OASI benefits for each $2 of earned income over $7,440 per year, retired beneficiaries ages 65 through 69 lose $1 in OASI benefits for each $3 of earned income over $10,200 per year. Also, up to one-half of Social Security benefits are subject to federal income taxation for individuals with incomes over $25,000 and couples with incomes over $32,000.

Ideally, different programs should have the same definition of income. At the very least, different programs should coordinate their treatment of particular income items such as: student grants, scholarships, and loans; child support; work expenses (including child care); training allowances; lump sum payments; earned income of minors in school; self-employment income; and income from state-funded complementary programs.

2. ' andardize the Definition of Resources

Different means-tested social welfare programs also have widely differing definitions of resources. For example, AFDC eligibility is restricted to qualified persons with less than $1,000 of countable resources per family not counting the home; basic items essential to day-to-day living, such as clothing and furniture; an automobile (with an equity limit of up to $1,500); and certain burial plots for the individual and immediate family.

On the other hand, SSI eligibility is restricted to qualified persons with less than $2,000 of countable resources ($3,000 for married couples). Countable resources do not include the individual's home, and, within reasonable limits certain household goods, personal effects, an automobile (with a value of up to $4,500), and burial plots.

Moreover, food stamp households must generally have counted "liquid" assets that do not exceed $2,000 ($3,000 for households with an elderly member). Counted liquid assets include cash, savings, stocks and bonds, certain retirement funds, and the equity in an automobile in excess of $4,500.

Ideally, different programs should have the same definition of resources. At the very least, different programs should coordinate their treatment of various assets such as vehicles and life insurance. Different programs should also coordinate their resource limits and transfer-of-asset policies.

3. Utilize a Standard Poverty Income Level

a. Poverty income measures

Different social welfare programs also use widely differing poverty income measures to determine eligibility for benefits. Perhaps the best known is the Department of Health and Human Services' poverty income guidelines.[51] The 1992 poverty income guidelines for all states (except Alaska and Hawaii) and the District of Columbia are as follows:

Size of family unit	Poverty income guideline
1	$ 6,810
2	9,190
3	11,570
4	13,950
5	16,330
6	18,710
7	21,090
8	23,470

For family units with more than 8 members, $2,380 is added for each additional member.

These poverty income guidelines are used as eligibility criteria by a number of social welfare programs. Unfortunately, many social welfare programs use alternative measures to determine eligibility for benefits. For example, the Low Income Opportunity Group's 1986 study of 59 social welfare programs found that 27 of the programs used the applicable poverty income guideline or a percentage multiple of the guidelines to determine eligibility; however, the remaining programs used alternative poverty income measures such as the median income of a state or county, a state-determined eligibility level, or still other measures.[52]

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51 *See, e.g.*, Office of the Secretary, U.S. Dep't of Health and Human Serv., Annual Update of the Poverty Income Guidelines, 57 Fed. Reg. 5455 (1992). The poverty income guidelines are a simplified version of the federal government's statistical poverty thresholds used by the Bureau of the Census, U.S. Department of Commerce, to prepare statistical estimates of the number of persons and families in poverty.

52 National Commission for Employment Policy, *supra* note 1, at 22, citing Domestic Policy Council, *supra* note 1.

The federal income tax system, too, uses still other "poverty" measures to determine entry-level liability for the income tax, the earned income credit amount, and the dependent care credit amount. For example, in 1992, a family of four consisting of a husband and wife filing a joint tax return and two dependent children would be entitled to a $6,000 standard deduction and four $2,300 personal exemptions. Consequently, the family would not have to pay any income tax until it had gross income in excess of a $15,200 "income tax threshold." On the other hand, an eligible family's earned income credit would begin to phase out once it had adjusted gross income (or, if greater, earned income) in excess of $11,413, and an eligible family's dependent care credit would begin to decrease once it had adjusted gross income in excess of $10,000.

A standard measure of poverty for all programs would be a significant step forward.[53] The Department of Health and Human Services' poverty income guidelines may be the appropriate measure for that job. On the other hand, it might make more sense to come up with a poverty measure that takes into account regional differences in the United States. Of note, the Lower Living Standard Income Level (LLSIL) used by the Job Training Partnership Act (JTPA) is an existing poverty measures that does take regional differences into account. More

53 The Joint Economic Committee held an as yet unpublished hearing on this issue in 1990.

generally, some have suggested setting the poverty line at 40% of median family income for each region, and adjusting social welfare benefits accordingly.[54]

b. Poverty income eligibility levels

Even if different programs use the same poverty income measure to determine eligibility, different programs frequently use different poverty income levels to determine eligibility. For example, AFDC and Medicaid recipients must generally have incomes that are below 185% of the Department of Health and Human Services' poverty income guidelines, but food stamp recipients must generally have incomes below 130% of those guidelines.

Recently, many programs have tried to simplify this eligibility determination by using categorical eligibility standards. For example, households in which all members receive benefits from AFDC or SSI are categorically eligible for food stamps. Categorical eligibility has helped reduce eligibility testing, but multiple testing is still a problem. In that regard, it would make more sense for different programs to all use the same poverty income level.

4. Standardize the Eligibility Unit Rules

Different programs also have widely differing eligibility unit rules. AFDC uses a "family" definition, that generally includes only dependent children, their siblings, and their parents or other caretakers. On the other hand, the definition of

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[54] Karger & Stoesz, *supra* note 31, at 135-39.

"household" eligible for food stamps generally encompasses all household members that prepare and eat meals together. Federal income taxes are, instead, collected from such filing units as married couples filing jointly and surviving spouses, heads of households, unmarried individuals, and married individuals filing separately.[55] Adding to the complexity, Social Security taxes are collected from individual workers in covered employment or self-employment, but Social Security benefits are paid to those workers, their dependents, and their survivors, as these terms are uniquely defined in the Social Security Act.

Ideally, different programs should use the same eligibility unit rules. At the very least, it would make sense if different programs used the same definitions for such critical terms as dependent, spouse, and survivor.

5. Related Recommendations

Different social welfare programs should also standardize other eligibility factors, definitions, and terminology.[56] For example, different programs should strive to have the same policies towards aliens and strikers. Also, different

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[55] Moreover, within the income tax, still other eligibility unit rules can apply. For example, to claim the dependent care credit, taxpayers must generally maintain a household which includes a child under age 13. On the other hand, to claim the basic earned income credit, most any child under age 19 will do; while, only children under age 1 count for the supplemental young child earned income credit.

[56] To help facilitate the synchronization process, the National Commission for Employment Policy recommended that the federal government provide grants to enable states to modernize their assistance programs through the development of expert-systems eligibility software for program coordination.

programs should have the same work registration exemptions and the same disqualification periods and good cause rules.

B. SYNCHRONIZE PROGRAM BENEFIT STRUCTURES

Unfortunately, uniform eligibility criteria and procedures would only solve about half of the coordination problem because each program also has its own unique benefit computation mechanism. Thus, even if a beneficiary of one program is categorically eligible for participation in a second program, the second program must make its own separate benefit computation based on its own different criteria.[57]

There are a variety of mechanisms for coordinating the benefits received under multiple transfer programs.[58] For example, under full benefit offset, each dollar of benefits from one program reduces the benefits to be received from the second program by one dollar. An alternative coordination mechanism is to simply prohibit recipients from collecting benefits from more than one program at a time. Still another alternative is to sequence benefits so that an increase in a recipient's income first phases out the benefits under one program and only then begins to phase out the benefits from a second program. The choice of which

[57] For example, if a household consists entirely of members who are eligible for AFDC, the household is categorically eligible for food stamps. Nevertheless, separate benefit computations are needed for the two programs.

[58] *See especially* Thad W. Mirer, *Alternative Approaches to Integrating Transfer Programs*, in Integrating Income Maintenance Programs, *supra* note 3, at 147.

coordination mechanism should be used to connect different programs depends on a variety of factors. Whatever mechanism is chosen, however, one goal must be to try to avoid high cumulative tax rates which can discourage work or marriage. Simplicity, equity, and efficiency are also be important considerations.[59]

C. COORDINATE PROGRAM ADMINISTRATION AND OPERATIONS

1. Consolidate Programs with Similar Objectives

Some of the greatest gains can come from consolidating programs with similar missions.[60] Combining such programs can reduce duplication, improve program management and administration, and reduce administrative costs.[61] In that spirit, for example, the National Commission for Employment Policy recently recommended that the Department of Agriculture's Food Stamps Employment and Training program, the Department of Labor's Job Training Partnership Act program, the Department of Health and Human Services' Job Opportunities and

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59 In that regard, it is hard to imagine achieving simplicity as long as there are a multiplicity of different programs involved. For example, as of January 1, 1991, the amount of a beneficiary's earned income credit generally may not to be taken into account as income or as a resource for determining the eligibility or amount of benefits for AFDC, Medicaid, SSI, food stamps, or low-income housing programs; yet even this rather straightforward rule is subject to a variety of qualifications and exceptions. Thus, even when different programs are expressly synchronized, it is difficult to avoid complexity.

60 In that regard, some consolidations can be brought about under the President's reorganization authority, but most programs are based in statute and so require congressional action.

61 For example, a reorganization in the 1980's consolidated six programs that directly assisted families (AFDC, Child Support Enforcement (CSE), Community Services Block Grants, Low-Income Home Energy Assistance; the Work Incentive Program for AFDC, and Refugee Settlement) into the Department of Health and Human Services' Family Support Administration.

Basic Skills (JOBS) program, and other relevant job training programs be consolidated into one agency.[62] Proposals calling for an Administrative Law Judge Corps are similar in approach.[63] On a broader scale, it might make sense to combine AFDC and Food Stamps, Medicare and Medicaid, or Social Security and SSI.

2. Coordinate Operations of Separate Programs

Where consolidating different programs is not possible, it would make sense to at least coordinate the operations of different programs. In that regard, a study by the General Accounting Office found substantial integration at the state level among AFDC, Medicaid, food stamps, and the state-run Emergency Assistance to Needy Families with Children programs.[64] This section discusses some of the coordination approaches that have worked so far.

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[62] National Commission for Employment Policy, *supra* note 1, at viii. The Commission also recommended that the President expand the authority of the Economic Empowerment Task Force (EETF), the successor to the Low Income Opportunity Working Group, to resolve problems that affect the design and implementation of federal public assistance programs. Specifically, the Commission recommended that an expanded EETF should be authorized to systematically review and coordinate all public assistance programs; to grant broad waivers from Federal rules that establish State procedures for implementing public assistance programs; and to develop mechanisms to track and share information about the outcomes of state-level public assistance innovations. *Id.* at vii.

[63] *See, e.g., Administrative Law Judge Corps Act: Hearing Before the Subcomm. on Courts and Administrative Practice of the Senate Comm. on the Judiciary*, 101st Cong., 1st Sess. (1990).

[64] LIHEAP energy assistance and Section 8 housing assistance were integrated only to a lesser extent. Hearing Before the Domestic Task Force, *supra* note 22, at 22 (testimony of Joseph F. Delfico, Senior Associate Director, Human Resources Division, U.S. General Accounting Office), citing Needs-Based Programs, *supra* note 1.

a. Collocation of services

To receive benefits under more than one program (and most families do), a family may have to go to different agencies in its home county, meet different eligibility standards, and abide by different and often conflicting rules and regulations. The states have made great strides in recent years to develop one-stopping and one-stop eligibility determination for services needed by families and individuals. Indeed, at the state level AFDC and food stamps are almost always housed in the same operation, and the same persons do the eligibility determination.

Still, because some programs are federally-administered (i.e., Social Security) while others are state-administered (i.e., food stamps) and because there are just so many different programs, one-stop shopping cannot become the rule without a number of statutory program changes.

b. Coapplication and coeligibility determination

Ideally, different programs should have the same application requirements and procedures. A single multi-purpose application form could provide an applicant with the opportunity to record sufficient data on one form to permit the determination of his or her eligibility for several programs. Together with joint processing of applications, such multi-purposes applications could make it easier for individuals to access services. This approach can lead to shorter application time, less paperwork, and reduced administrative costs.

c. Integrated case management

Ideally, each beneficiary should deal with a single case manager. Such integrated case management can reduce administrative caseloads and error rates and improve services to beneficiaries.

d. Integrated payment systems

Coordinating the delivery of benefits from multiple programs into a single monthly payment can also result in significant administrative savings. In that regard, both federal and state governments are experimenting with streamlining the delivery of welfare benefits by using electronic benefits transfers (EBT) rather than food stamps and welfare checks.[65] EBT systems issue and redeem benefits through the use of electronic funds transfers using automated teller machines (ATMs) and point-of-sale (POS) terminals.[66]

For example, in a typical food stamp program application, a recipient's monthly benefits are posted to a computer file, and the recipient is issued a plastic EBT access card (like a commercial credit card or an ATM debit card).[67] To buy

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[65] *See generally* Fin. Management Serv., Dep't of Treasury, *supra* note 42; Office of Analysis and Evaluation, Food and Nutrition Serv., U.S. Dep't of Agriculture, Electronic Benefit Transfer in the Food Stamp Program: The First Decade (1992).

[66] In many ways EBT systems operate like direct deposit arrangements for beneficiaries with bank accounts. Ultimately, EBT systems should be able to provide similar services and protections for the 28 million benefit recipients who do not have bank accounts and who currently pay as much as $25 just to cash a single benefit check.

[67] Indeed, EBT systems can be integrated into existing commercial credit and debit card ATM and POS systems.

groceries, the recipient uses the EBT card with a secret personal identification number (PIN) at special check-out counter terminals in each store which obtain authorization from the EBT computer system. The dollar value is electronically subtracted from the recipient's benefit balance and credited to the store's bank account.

While still in the experimental stages, EBT shows promise of reducing administrative costs and recipient fraud.[68] Recipients benefit from the increased convenience, elimination of check cashing fees, speedy replacement of lost or stolen funds, and elimination of the stigma attached to using food stamp coupons. Retailers and banks with EBT experience are also enthusiastic about savings and convenience. All in all, even greater savings and convenience should result from combining food stamps, AFDC, SSI, general assistance, and other social welfare benefits into a single, integrated EBT payment system.

3. Standardize Administrative Procedures

Ideally, different programs should have the same procedures for conducting so-called "fair hearings" and appeals; the same verification requirements at application, recertification, and redetermination; the same verifications associated with monthly reporting; the same recipient notice

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68 For example, it costs the federal government $0.30 to issue a check compared to $0.04 for electronic payments. Similarly, it cost one Eastern state about $2.50 to print and mail every benefit check. Moreover, EBT systems can reduce welfare check and food stamp coupon losses, diversions, and thefts. All in all, hundreds of millions of dollars could be saved if all state and federal benefits could be routed electronically and accessed by each recipient using a single plastic card for all of his or her benefits.

requirements; the same recertification and redetermination requirements; and the same quality control program. Also, different programs should coordinate various planning and operating timetables, performance and quality control measures, and operating procedures for processing clients and for contracting.

4. Standardize Reporting Requirements

Ideally, different programs should have the same monthly reporting requirements, the same change of circumstance reporting requirements, and the same kinds of penalties for failure to report earned income.

D. CONSOLIDATE SOCIAL WELFARE POLICY FORMULATION

1. Policy Coordination in the Executive Branch

The sheer number of Executive Branch agencies involved in administering social welfare transfer programs and tax expenditures makes policy coordination extremely difficult.[69] It would make sense to coordinate social welfare policy formulation in a single agency. The Office of Management and Budget, the President's Economic Empowerment Task Force (successor to, the Low Income Opportunity Working Group), or the Department of Health and Human Services are likely candidates.

69 This same problem occurs at the state level; however, while most states have integrated the operations of various social welfare programs, only a few have tried to coordinate social welfare policy making.

On a lesser scale, there have been occasional interagency agreements, interagency work groups, and coordinated regulation-writing.[70] Unfortunately, most of the major differences between programs are rooted in statute. What is needed is a key Executive Branch voice calling for synchronizing legislation.[71]

2. Policy Coordination in Congress

Similarly, many analysts have recommended that Congress assign responsibility for legislation and oversight of all public assistance programs to a single Committee on Public Assistance in both the House and the Senate.[72] These committees should have the responsibility for legislation and oversight over all food and nutrition, job training, housing, health, and income security programs targeted at low-income families. Also, these committees should work with the Executive Branch agencies to streamline eligibility requirements, formulate standard definitions and poverty measures, and ease administrative and documentation requirements.[73]

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70 *See, e.g.*, Food and Nutrition Serv., Dep't of Agriculture & Family Support Admin., Dep't of Health and Human Serv., Consistency for Food Stamp Program, Aid to Families with Dependent Children (AFDC) Program and Adult Assistance Program, 52 Fed. Reg. 36,546 (Sept. 29, 1987).

71 In that regard, neither the National Commission for Employment Policy nor the Welfare Simplification and Coordination Advisory Committee will have sufficient political clout to secure such legislation.

72 *See, e.g.*, National Commission for Employment Policy, *supra* note 1, at xi.

73 The National Commission for Employment Policy also suggested that these public assistance committees should enact legislation to establish human resource councils at the state level to foster coordinated program approached in such key functions as planning, operations, and oversight; and they should require that an economic, fiscal, and institutional

3. <u>Consider Programs as an Integrated Whole</u>

The current social welfare system "is composed of perhaps a dozen quantitatively important programs, and another 200 or so minor programs that interact and overlap in ways so bewildering that no one has ever been able to put together a coherent overview the whole system."[74] Accordingly, it would make sense for the federal government to develop schedules that show how all the current social welfare programs and tax provisions intereact.[75] These schedules would be an extremely useful source of information for policymakers. For example, efforts could then be made to eliminate high cumulative tax rates that result when multiple programs interact in an uncoordinated way. Similarly, efforts could be made to fill in the gaps in coverage left by the current mishmash of programs.

E. COORDINATE PROGRAM FINANCING METHODS

Different programs also have a variety of differing financing mechanisms. Some programs are financed entirely by the federal government (e.g., SSI), while

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analysis be conducted for each congressionally authored institutional reform or adjustment in federal assistance programs. *Id.*

[74] Edgar K. Browning, *Commentaries [on papers in a section entitled, Where Do We Go From Here?]*, in Income Redistribution, *supra* note 3, 207-10, at 208.

[75] This suggestion comes from, *inter alia*, Eugene Steuerle, *Uses of the NIT Framework*, Focus (a Newsletter of the University of Wisconsin Institute for Research on Poverty, Madison, Wis.), Spring 1990, at 30. For an example of such a schedule, *see* Lewis & Morrison, *supra* note 3. Also, the Green Book has begun to develop such schedules with its new Appendix H -- Disposible Income, Benefit Levels, and Marriage Penalties for Families with Children. Green Book, *supra* note 6, 1189-1231.

others are jointly financed with the states (e.g., Medicaid). Also, some programs are financed with earmarked taxes held in trust funds (e.g., Social Security), while others are simply financed out of general revenues (e.g., SSI). It might make sense to develop a single financing mechanism for all the social welfare transfer programs. For example, the income and payroll taxes could be integrated into a single comprehensive income tax.[76]

IV. BEYOND SYNCHRONIZATION: WHY NOT TOTAL INTEGRATION?

Unfortunately, as long as we follow a piecemeal approach to social welfare reform of "trying to patch up each one of the innumerable and uncountable programs, we are unlikely to move towards any obviously more sensible type of transfer system."[77] What is needed is a comprehensive approach to social welfare reform. In that regard, after looking at the current social welfare system comprehensively, many analysts have come to the conclusion that social welfare reform should proceed by integrating as many social welfare transfer programs and tax provisions as possible into a single rational and unified program. Such an integrated social welfare program would achieve significant administrative savings

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[76] For a discussion of some total and partial integration alternatives, *see, e.g.*, Jonathan B. Forman, *Promoting Fairness in the Social Security Retirement Program: Partial Integration and a Credit for Dual-earner Couples*, 45 Tax Lawyer 915 (1992).

[77] Browning, *supra* note 72, at 209.

by eliminating much of the complexity and duplication in the current social welfare system.[78] This Part of the article discusses two approaches to integration.

A. THE TEXTBOOK APPROACH -- A NEGATIVE INCOME TAX

The classic way to integrate social welfare transfer programs and tax expenditures is to replace them all with a negative income tax.[79] Basically, a negative income tax is a system of cash transfers to families in which the amount of a family's cash transfer varies inversely with its income: the lower a family's pretransfer income, the greater the amount of the government's net transfer to it.[80]

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78 An income transfer program is a system that provides cash benefits to the poor. An income transfer program can be said to be "comprehensive" if it replaces or incorporates other programs.

79 *See, e.g.*, Robert J. Lampman, *Approaches to the Reduction of Poverty*, 55 Am. Econ. Rev. 521 (1965); Christopher Green, & Robert J. Lampman, *Schemes for Transferring Income to the Poor*, 6 Indus. Rel. 121 (1967); James Tobin et al., *Is a Negative Income Tax Practical?*, 77 Yale L. J. 1 (1967); Comment, *A Model Negative Income Tax Statute*, 78 Yale L. J. 269 (1968).

80 Generally, two policy variables can define a simple negative income tax. The target or breakeven income level is the income level at which a family becomes ineligible for benefits and the government subsidy equals zero. The benefit-reduction rate (sometimes called the marginal tax rate) determines the rate of reduction of a family's subsidy as the family's pretransfer income increases. In a simple negative income tax, the family's subsidy is the product of the benefit-reduction rate and the excess of the breakeven income level over the family's pretransfer income. The maximum subsidy (sometimes called the guarantee) is received by a family with no other income. A household's net (*i.e.*, posttransfer) income for the year is the sum of its actual income plus the amount of the subsidy it receives.

In some ways, the present food stamp program operates like a negative income tax, since food stamp benefits go down as income goes up, but benefits are in the form of food stamps, not cash. President Nixon's proposed Family Assistance Plan was also a form of negative income tax. Address to the Nation on Domestic Programs, Pub. Papers 637 (Aug. 8, 1969); *see also* Special Message to Congress on Welfare Reform, Pub. Papers 647 (Aug. 11, 1969).

For example, a negative income tax could be designed to guarantee every family an income at least equal to its poverty income guideline. Table 5 illustrates how such a negative income tax would work for a family of four (1992 poverty income guideline roughly equal to $14,000). Setting the break-even level at $28,000 and using a 50 percent benefit-reduction rate would result in a maximum subsidy of $14,000 for families with no other income. Families with higher pretransfer incomes would receive smaller subsidies.

Table 5. A Negative Income Tax (NIT) for a Family of Four (1992 poverty income guideline equals roughly $14,000)

PRETRANSFER INCOME	NIT SUBSIDY	NET ANNUAL INCOME
$0	$14,000	$14,000
4,000	12,000	16,000
8,000	10,000	18,000
12,000	8,000	20,000
16,000	6,000	22,000
20,000	4,000	24,000
24,000	2,000	26,000
28,000	0	28,000

Replacing the current social welfare system with a negative income tax would decrease administrative costs by reducing program complexity and duplication.[81] Unfortunately, a negative income tax would still have the significant administrative costs associated with means-testing. Consequently, although the administrative costs for a negative income tax would be lower than those of the current social welfare system, they would still be fairly high, with estimates ranging from 3 to 10% of benefits distributed.[82]

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81 In addition, a negative income tax would be more efficient than the current system and would result in greater equity in the distribution of benefits than the current system.

82 *See, e.g.*, Kesselman, *supra* note 38, at 254. Estimates varied depending upon such factors as the complexity of the negative income tax and the number of households covered.

On the other hand, benefit costs would unequivocally increase if such a generous negative income tax were adopted. A generous negative income tax would surely cover more beneficiaries and so have greater total benefit costs than the current social welfare system. For that matter, even a negative income tax that provided somewhat less generous benefits to beneficiaries of the current social welfare system could nevertheless have greater total benefit costs than the current social welfare system, depending upon the number and amount of benefits provided to additional beneficiaries.

Even more troubling, many of the additional beneficiaries brought in by a negative income tax would be people that the public generally expects to work; whereas, any offsetting benefit-reductions would likely be faced by those most in need of public assistance. For all of its faults, the current categorical system at least tries to differentiate between those who are expected to work (able-bodied individuals) and those who are not (the elderly, the disabled, children, and, perhaps, mothers with small children). This distinction between those who are expected to work and those who are not is an important one, rooted in basic American values toward labor force participation.[83]

Worse still, a generous negative income tax could discourage work by those able-bodied individuals expected to work. All means-tested welfare programs

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[83] *Cf.*, Gueron, *supra* note 23.

discourage work, since the more you work, the less benefits you get. Because a negative income tax extends means-tested welfare benefits to more people, it multiplies those work disincentives. Moreover, the high-benefit reduction rates needed to keep the total benefit costs of a negative income tax under control only magnify the problem of work disincentives. Again, for all of its faults, the current categorical system at least tries to restrict generous means-tested welfare benefits to those who are not expected to work and thereby concentrates the adverse work incentives on the population least likely to be affected by them.[84]

With all of these problems, it is hardly surprising that negative income taxes have not been given serious political consideration for years.[85]

B. TOWARD AN ALTERNATIVE THAT PROMOTES SELF-SUFFICIENCY

In this Subpart the author outlines a proposal that would combine most social welfare transfer programs and tax expenditures into a rational, integrated system of refundable tax credits and related programs. The general idea is to replace as much of the current social welfare system as possible with a unified system of refundable tax credits.

Two types of tax credits would be provided. First, refundable per capita tax credits of, say, $1,200 per year would provide a minimal safety net. Second,

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84 Burtless, *supra* note 20, at 65.

85 According to economist Gary Burtless, "it is safe to say that the negative income tax has had only one major constituency -- economists." Burtless, *supra* note 20, at 64.

additional refundable tax credits would be available to certain individuals based upon determinations of employability and need made by a single agency at the local level. In addition, a comprehensive federal health plan would ensure that nobody would lose health coverage by working. Finally, education, training, and other services would be provided at the local level through a single agency.

1. A Comprehensive System of Refundable Tax Credits

The idea of replacing most of the social welfare system with a comprehensive system of refundable tax credits is not a new one, but it has not been given serious consideration for at least 20 years.[86] The phenomenal growth of the social welfare system in that time has only exacerbated the system's problems to the point where it is simply out of control. A comprehensive system of tax credits would avoid most of those problems, so it makes sense to reconsider replacing the current social welfare system with tax credits.

a. Refundable per capita tax credits would provide a minimal safety net

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86 *See e.g.*, Harvey E. Brazer, *The Federal Income Tax and the Poor*, 57 Cal. L. Rev. 422 (1969); Sheldon S. Cohen, *Administrative Aspects of a Negative Income Tax*, 117 U. Pa. L. Rev. 678 (1969); Donald J. Curran, *Taxation and the Relief of Poverty*, 25 Rev. Soc. Econ. 107 (1967); Earl R. Rolph, *The Case for a Negative Income Tax Device*, 6 Indus. Rel. 155 (1967); Stanley S. Surrey, *Income Maintenance Programs*, 24 Tax L. Rev. 305 (1969).

At the core of the author's proposed system of refundable tax credits would be a universal demogrant, integrated with the income and payroll taxes.[87] Basically, a demogrant is a cash transfer paid to every individual without regard to income-level. At the outset, these demogrants should take the form of refundable per capita tax credits of, say, $1,200 a year.

Individuals would claim these per capita tax credits annually by filing an income tax return. Alternatively, individuals could elect to receive monthly distribution of these tax credits through reduced withholding, direct deposit, electronic benefits transfer, or through a local social welfare agency.[88] Thus, these per capita tax credits would provide a minimal safety net: a family of four who had nothing else could get $400 per month from the government.

This country has been trying for years to avoid the costs of a universal demogrant by restricting most transfer payments to individuals who are not expected to work.[89] Unfortunately, the current categorical social welfare system has run into the formidable problems of inequity, inefficiency, complexity, and high administrative expense. Demogrants could avoid these problems.

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[87] *See e.g.*, Benjamin A. Okner, *The Role of Demogrants as an Income Maintenance Alternative*, in Integrating Income Maintenance Programs, *supra* note 3, at 79; James Tobin, *Considerations Regarding Taxation and Equity*, in Income Redistribution, *supra* note 3, at 127-33.

[88] Alternatively the Social Security Administration to distribute benefits. It already deals with poor SSI recipients, and its offices are more decentralized than those of the Internal Revenue Service. *Cf.*, Popkin, *supra* note 48, at 428-29.

[89] This point was made by James Tobin decades ago, and it seems even more true now. *Cf.*, Tobin, *supra* note 85, at 133. *See also* Gueron, *supra* note 23.

First, demogrants would be inherently fair in that they would be universally available. Second, demogrants would be efficient. In particular, working would not subject individuals to the high cumulative tax rates of current means-tested programs, and the relatively low-level demogrant proposed here would leave individuals with virtually every incentive to work to supplement their incomes.[90] Third, demogrants would be simple to understand and distribute. Finally, demogrants would result in tremendous administrative savings as they would not require means-testing and they would replace numerous overlapping and duplicative programs.

While it would be premature to say that a consensus is forming in favor of demogrants, a number of recent welfare reform proposals have incorporated similar or even more generous demogrants as key components. For example, Professor Robert Haveman proposed a demogrant to ensure that every family had income of at least one-half to two-thirds of the poverty income guideline.[91] Also, Professor

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[90] In that regard, the author believes that the generosity of former Senator George S. McGovern's demogrant proposal cut against the grain of the American work ethic and so hurt his already beleaguered 1972 Presidential campaign. Under McGovern's proposal, every American would have been given $1,000 a year from the federal government -- a lot of money in 1972. The demogrants would have been taxable income, and higher proposed tax rates would have recovered much of the benefits provided to those with moderate and high incomes. *See, e.g.*, 143 Cong. Rec. 11,799-801 (1972)(statement of Sen. McGovern).

[91] Haveman, *supra* note 22, at 149-71. The other principal components of Haveman's reform proposal are: a standard benefit retirement program, along with tax-favored annuities; a universal child support system; employment subsidies for disadvantaged workers (both an employer-based tax credit for hiring disadvantaged workers and an employee-based wage subsidy credit focused on the disadvantaged workers; and a universal

Sheldon Danziger recently suggested replacing personal exemptions with a per capita refundable tax credit.[92] Along similar lines, the National Commission on Children recently proposed a $1,000 refundable tax credit for every child.[93]

b. Additional tax credits tied to employability

Per capita tax credits alone cannot meet all of the important goals set for the nation's social welfare system. Consequently, additional refundable tax credits would be needed. In that regard, the current earned income credit should be

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personal capital account for youths [Upon turning 18, each person could draw up to $20,000 for approved purchases of education and training]).

Also, Professors Howard J. Karger and David Stoesz would use cash assistance to ensure that most families would end up with income greater than or equal to 40% of the median family income in each region. Karger & Stoesz, *supra* note 31, at 119. Basically, Karger and Stoesz would collapse AFDC, SSI, the earned income tax credit, and the income support components of all other social welfare programs (including Food Stamps, WIC, LIHEAP, and Section 8) into a single income-maintenance program -- the Stable Incomes Program--which would be under one administrative unit. Each beneficiary would receive a single benefit package developed with the assistance of a case manager. Money would go from the Internal Revenue Service to the appropriate welfare agency and on to the beneficiary. *Id.* at 140.

92 Sheldon Danziger, Tax Reform, Poverty and Inequality (University of Wisconsin Institute for Research on Poverty Discussion Paper No. 829-87, 1987) (His proposal would also make the dependent care credit refundable.). *See also* Irwin Garfinkel & Robert Haveman, *Income Transfer Policy in the United States*, Handbook of Social Intervention 479 (Edward Seidman ed., 1983) (replace personal exemption deductions and Food Stamps with a per capita refundable tax credit); Robert I. Lerman, *Separating Income Support from Income Supplementation*, 10 J. Inst. for Socio-economic Studies 101 (1985) (replace personal exemption deduction with a $600 refundable tax credit).

93 National Commission on Children, *supra* note 47. *See also* C. Eugene Steuerle & Jason Juffras, A $1,000 Tax Credit for Every Child: A Base of Reform for the National's Tax, Welfare, and Health Systems (Urban Institute Changing Domestic Priorities Policy Paper 1991); Jonathan B. Forman, *A Modest Proposal for Refundable Children's Allowance Tax Credits*, 47 Tax Notes 853 (1990).

retained as an earnings supplement for low-income workers,[94] and the current dependent care credit should be expanded and made refundable so that it also helps low-income families with children.[95]

In addition, new credits should be developed in lieu of the important social welfare programs that should be merged into the comprehensive system of tax credits. For example, eligible elderly and totally disabled individuals should receive new supplemental tax credits for the elderly and disabled instead of SSI benefits. Similarly, low-income families with young children should receive children's allowance tax credits instead of AFDC benefits.[96] Still more tax credits would be needed to bring unemployment compensation and possibly workers' compensation benefits into the system.

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[94] The current earned income credit should be modified in several ways. First, the supplemental earned income credit for families with two or more children would be stripped out and included as its purpose would be served by the per capita tax credit. Second, the supplemental health care earned income credit would be stripped out and integrated with a comprehensive federal health plan. Third, the supplemental young child earned income credit would be stripped out and added to a children's allowance tax credit. Finally, some thought should be given to restructuring the credit as a more efficient wage subsidy credit rather than an earnings subsidy credit. *See* Jonathan B. Forman, *Improving the Earned Income Credit: Transition to a Wage Subsidy Credit for the Working Poor*, 16 Fla. St. U. L. Rev. 41 (1988); and *see also* Haveman, *supra* note 22, at 165-68 (suggesting both an employer-based tax credit for hiring disadvantaged workers and a wage subsidy credit for those workers).

[95] *See, e.g.*, Jonathan B. Forman, *Beyond President Bush's Child Tax Credit Proposal: Towards a Comprehensive System of Tax Credits to Help Low-income Families with Children*, 38 Emory L. J. 661 (1989).

[96] *See* sources cited in note 91, *supra*.

Eligibility for many of these additional credits should be tied to a determination of employability made by a single caseworker in a local social welfare agency.[97] Caseworkers would classify beneficiaries into a variety of employability categories and subcategories and develop a coherent tax credit program for them. Employability categories should include: 1) the elderly; 2) the totally disabled; 3) the partially disabled;[98] 4) single parents with young children; 5) and unemployed individuals.

The local social welfare agency would notify the Internal Revenue Service of its employability determination and tax credit determinations, and the additional credits would be distributed to eligible beneficiaries along with their per capita tax credits. Consequently, instead of receiving multiple benefits from multiple different sources, every eligible beneficiary could receive a single monthly payment of all appropriate tax credits.

Incorporating categorical credits into the system of refundable tax credits would increase administrative costs because of the need to assess an individual's eligibility. On the whole, however, a comprehensive system of refundable tax credits would eliminate the duplicative administrative expenses in the current social welfare system and so result in significant cost savings: a comprehensive system of

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97 The approach presented here is somewhat similar to that suggested by Karger & Stoesz, *supra* note 31.

98 Disability ratings could be based on presumed reductions in earnings capacities caused by the disability and range from 10% to 100% in 10% intervals as is done with veterans' compensation. Green Book, *supra* note 6, at 1704.

refundable tax credits could have a single multipurpose application form, a single eligibility determination, a single payment system, and standardized administrative procedures. Moreover, having a single program with universal coverage would avoid the inequities that result from the gaps and overlaps in coverage endemic to the current social welfare system.

c. Financing the credits

The general idea here is to replace as many of the current social welfare programs and tax expenditures as possible with a system of refundable tax credits. Accordingly, the above-described tax credits should replace the current personal exemption deductions, the additional standard deduction for the blind and elderly, and many other tax expenditures. In addition, these tax credits should replace AFDC, SSI, food stamps, energy assistance, housing assistance, the transfer component of Social Security,[99] unemployment compensation, workers' compensation, and possibly even benefits for veterans, Indians, and other special groups.

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[99] Many analysts view Social Security as a lifetime compulsory savings program with two components: 1) an earnings-related component like an annuity; and 2) a transfer component like a means-tested welfare program. *See* Forman, *supra* note 74.

Under the author's proposed comprehensive system of tax credits, the transfer component would be distributed through the per capita tax credits and additional credits for the elderly and disabled. The annuity component could continue on as an actuarially fair savings program. *Cf.*, Haveman, *supra* note 22, at 158-63.

Indeed, much of the financing for these tax credits would come from cashing out many of the existing social welfare transfer programs and tax expenditures. In that regard, the money generated as a result of administrative savings from integrating current social welfare programs and tax expenditures into the proposed system of refundable tax credits should also be used for financing.

Admittedly, it is politically difficult to actually replace programs. In the short term, an alternative approach with virtually identical consequences would be to adopt the proposed refundable tax credit system but require individuals to choose between participating in the current social welfare system or the proposed refundable tax credit system. This approach has the disadvantage of initially higher duplicative costs; however, as the refundable tax credit system grew, the current social welfare system would shrink, as would its duplicative administrative costs.[100]

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100 This same result could be accomplished by what is called full benefit offset method. *Cf.*, Mirer, *supra* note 56, at 155-56. Under the full benefit offset method, everyone could claim their refundable credits; however, the amount of those refundable credits would be subtracted from their benefits under other programs. Consequently, large enough refundable tax credits would then eclipse the benefits available under other programs, and people would stop applying for them.

For example, if a refundable tax credits had to be subtracted from unemployment compensation benefits, and a worker's unemployment compensation benefits were less than the worker's refundable tax credits, then the worker would not even bother to apply for unemployment compensation benefits. In that regard, as family size is not relevant for unemployment compensation benefits, the unemployment compensation benefits of workers in larger families would simply be eclipsed by the refundable tax credits.

Such an approach might be critical to finessing the integration of the transfer component of Social Security benefits into the proposed system of refundable tax credits. Requiring that the new refundable tax credits be fully offset against a recipient's Social Security benefits would have the same effect as shifting the transfer component of

2. Related Programs

Tax credits alone are not enough for an effective social welfare system. In addition, a comprehensive federal health care plan should ensure that nobody would lose health coverage by working. Finally, education, training, job-search, and other social welfare services should be provided at the local level through a single agency.

a. A comprehensive health care plan

The federal government is heavily involved in providing health care assistance through Medicare, Medicaid, veterans benefits, the exclusion for employer-provided health insurance premiums, the deduction of health care costs, the supplemental health care earned income tax credit, federal employee benefits, and other mechanisms. Indeed, in 1990, the federal government accounted for over 30% ($177 billion) of all personal health spending.[101] Also, health care are costs are growing fast, both as a percentage of the gross domestic product and as a percentage of the federal budget. Moreover, some 35 million Americans lack adequate health care coverage. These factors are pushing the federal government towards developing some type of cost-effective comprehensive health care plan.

Social Security to the new system of refundable tax credits, but it would not cause the same political uproar that would invariably result from actually "raiding" the trust funds or otherwise "messing with" Social Security.

101 Green Book, *supra* note 6, at 286.

Although the design of such a comprehensive federal health care plan is beyond the scope of this paper, a few points can be made. First, simply cashing out the value of federal health assistance programs via refundable tax credits seems like a poor idea: given the choice between health care protection and other consumption goods, people tend to under invest in health care protection. Tying refundable tax credits to specific health care investments would ensure that health care investments were made; however, it is by no means obvious that such tax credits would be the most effective way to meet health care needs.

Second, whatever comprehensive health care plan the federal government develops should ensure that no one will lose health care coverage because of work. Despite recent changes, the current categorical nature of Medicaid poses work disincentives. Whatever comprehensive health care plan that the federal government develops should ensure that individuals are not forced to choose between working or having adequate health care coverage for themselves or their dependents.

Finally, it is worth noting that consolidating some of the existing federal health care programs and tax expenditures should yield significant administrative savings. At the very least, better coordination of administration and payment mechanisms would reduce administrative costs. Indeed, standardizing payment mechanisms could also result in significant private sector administrative savings.

b. Education, training, and other social welfare services

In addition, an effective social welfare system will invariably need to provide a broad range of services to beneficiaries. Education, training, job-search and placement, counseling, and child support collection are but a few that come to mind. To the extent possible these services should be provided at the local level through a single social welfare agency. This approach would both reduce administrative costs and increase beneficiary utilization of these services.

CONCLUSION

Admittedly, there are tremendous obstacles to achieving coordination, let alone integration, among current social welfare programs and tax provisions. At present, at least, the sheer number of agencies, organizations, and congressional committees involved in administering and overseeing the social welfare and tax systems makes even simple coordination efforts difficult. At best, improving coordination within the current social welfare system is a time-consuming process. Moreover, there are few rewards for such efforts: the benefits of successful coordination may be realized in the future or, worse still, by some other agency.

Synchronization and integration efforts seem likely to fare even worse. Most such efforts require both Executive Branch leadership and congressional action, and "the goal of simplicity has been singularly without appeal to the framers of our tax and welfare laws."[102] Instead, protecting one's turf and power and catering to organized special interests often seems more important than improving the delivery of services to constituents.

In short, politics will generally work against coordination, synchronization, and integration efforts, and such efforts, at times, seem almost quixotic. Still, as Will Rogers of the author's adopted state, Oklahoma, once said, "This country has gotten where it is in spite of politics, not by the aid of it."[103] Hopefully, coordination and simplification of the social welfare system can go forward in spite of politics.

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[102] Henry Aaron, *Discussion [following a paper entitled, A Simulation Analysis of the Economic Efficiency and Distributional Effects of Alternative Program Structures: Negative Income Tax Versus the Credit Income Tax]*, in Income-Tested Transfer Programs, *supra* note, at 212-14, at 214.

[103] Will Rogers Says... (Reba N. Collins ed., 1988) at 9 (quote date Nov. 1, 1932).

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The Office of Personnel Management (OPM) will re-open the Administrative Law Judge Examination. They are mounting an aggressive recruitment effort, especially targeted at qualified women, minorities and the disabled.

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Mr. John D. Kraft
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4) Title (ALJ, Hearing Officer, etc.): ______________________

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6) Business Address: ______________________________
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____appointed for indefinite term ____competitive civil service

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11) My Position Is: _____full time _____part time _____per diem

12) Year Service Began:

13) Brief Description Of Job Duties:______________________________

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14) Academic Degrees & Years Awarded: ______________________________

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17) _____I am now a member of this association. (I previously joined NAALJ or its predecessor, NAAHO.)

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