

**Comments on, “The Take-Up of Social Benefits,” by Janet Currie
Sheldon Danziger¹**

Janet Currie has written an insightful, comprehensive review of the economics literature on the extent to which eligible individuals apply for and receive government income maintenance benefits. The key empirical finding is that many eligible individuals do not “take up” the benefits to which they are entitled. Currie concludes that while “it is generally agreed that people do not take up benefits if the costs outweigh the benefits,” economists “still have relatively little insight into precisely what types of costs matter most, and what types of measure are more likely to reduce them.”

Most of the literature review focuses on the decision of eligible individuals to participate and analyzes several factors that might explain why the costs of program participation exceed the benefits—the “stigma” or loss of independence associated with being a recipient, lack of information about eligibility and other program rules, and transactions costs associated with the application process and with maintaining eligibility. Currie concludes that high transactions costs are the most important impediment to raising take-up rates.

My reading of the review leads me to suggest that economists have focused too little attention on the motivation and behavior of governments. Economists tend to assume that the government’s problem is one of optimal targeting of benefits under conditions of imperfect information about the “true eligibility” of potential participants. Currie describes the government’s income maintenance goal as one

¹ Sheldon Danziger is Henry J. Meyer Collegiate Professor of Public Policy and Co-Director of the National Poverty Center at the Gerald R. Ford School of Public Policy, University of Michigan.

that will “maintain a minimum level of income for all individuals, at a reasonable cost to government.”

To reach this goal, government tries to target benefits efficiently so that ineligibles do not receive them.

My view is that the government’s goal in the U.S. might better be conceptualized as one in which the top priority is to limit government spending. One way that governments accomplish this is by implementing programs whose application procedures impose high transaction costs. As a result, not all of the eligibles will take up benefits and government spends less. A more direct way to hold down spending is to provide a “capped” entitlement, as is the case for many housing and child care subsidy programs. In this case, the government in advance is stating that it will not serve all eligible beneficiaries because of budget constraints. In both cases, many eligibles will not receive benefits.

As Currie notes, government will never obtain perfect information about the “true” eligibility of potential beneficiaries. I hypothesize that it weights the loss associated with “wrongly” providing benefits to an ineligible citizen as much greater than the loss associated with “wrongly” keeping an eligible one from taking up the benefit. Most economic models treat the utility losses associated with such Type I and Type II errors as equivalent. Yet, consistent with my hypothesis, there is an extensive literature focused on the extent to which ineligibles reduce their labor supply in order to become eligible for income-tested transfers, but little research focused on how government might change program rules and procedures to increase take-up rates.

Simple rule changes can increase take-up rates. For example, Currie cites a study of employee participation in a retirement plan which found that participation was higher when workers were automatically enrolled in the plan compared to when they had to formally apply for the same benefit. She also cites some evidence from income maintenance programs which are consistent with this finding.

Women who receive cash welfare are automatically enrolled in Medicaid, whereas other Medicaid-eligible women have to apply. Currie and her coauthor conclude that Medicaid take up is not higher even though some states have tried to simplify the Medicaid application process because these efforts were either “insufficient” or “ineffective.” She also cites a successful California program that paid community organizations each time an eligible family was enrolled in Medicaid.

These results suggest that current program rules and application policies place more of a transactions cost/information cost burden on eligibles than would be the case if governments valued increasing take-up rates as highly as they value preventing the enrollment of ineligibles. The more frequently a program requires a beneficiary to come to the agency for recertification of eligibility, the greater is the probability that participation will be reduced. The goal of recertification is to purge the rolls of participants who had been eligible for benefits at the time of their application, but whose incomes subsequently rose enough or whose circumstances changed so as to make them ineligible.

Recertification is an excellent way to reduce payments to ineligibles. However, more frequent and more onerous recertification procedures terminate some eligible beneficiaries who fail to understand or to comply with the requirements. For example, eligible participants are often required to see a caseworker during a fixed time period at an agency that is only open during normal business hours. Some eligible beneficiaries, unable to miss work to complete such a recertification interview, will be dropped from the program .

In recent years, there has been a move toward shorter recertification periods in programs such as Food Stamps, resulting in falling take-up rates. These recertification practices are consistent with the view that the budgetary gains from reducing payments to ineligibles are valued more highly in

government's objective function than are the utility losses that result from terminating the benefits of eligibles.

Let me suggest how the government could reduce the transactions cost burden on beneficiaries and increase take-up rates, if it were willing to pay for both resulting increased benefits and administrative costs. I use a hypothetical change in the Earned Income Tax Credit (EITC) as an example, even though it currently has a relatively-high take-up rate. As Currie points out, commercial tax-preparers have responded to the increased size of the EITC by aggressively recruiting low-income families to use their services. The firms guarantee that they can help clients get "cash back," which is basically the EITC less the fee charged. Thus, transactions costs are borne by many EITC applicants and another 15 percent of eligibles do not receive the credit.

A feasible alternative could raise take up, increasing the cost of the credit and government administrative costs. For example, the EITC accounting period could be reduced from the calendar year to a quarter, since firms are required to report quarterly earnings to the unemployment insurance system. If the firms were also required to report the number of dependents claimed by the worker, the Internal Revenue Service (IRS) could compute the EITC based on quarterly earnings and automatically issue a check. As the research cited by Currie suggests, such automatic enrollment would increase participation.

Such a change would impose additional administrative costs on the government; and the government would undoubtedly provide some funds to ineligible workers. For example, if both the husband and wife were low earners, then the process I suggest would result in overpayments which the IRS would have to "claw back" when the annual tax return was filed. And, the likely result would be

that the IRS might not get back all of the benefits it had paid out.

This example demonstrates that under the current system where individual families must apply for the EITC on their own at the end of the year, the take-up rate is less than 100 percent because the transactions and information costs are borne by the low-income families. And, the EITC is paid by the IRS in a lump-sum at the end of the tax year, minimizing a family's ability to smooth income/consumption fluctuations over the year. However, the government now spends less than it would under a system of presumptive eligibility for low-wage workers with children and its own administrative costs are well-below what they would be under such a system.

I suspect that if governments placed an equal value on Type I and Type II errors, there would be more consideration of administrative changes that would automatically enroll those who were "probably eligible" in the EITC, Medicaid, Food Stamps, child care and other income maintenance programs. Given government's current objective function, Currie is correct to conclude that, if take-up rates are to be increased, more attention should be given to various ways to expand program outreach and reduce the transactions costs now borne by eligible non-participants.