It is a pleasure and honor to contribute to a volume that celebrates and honors the career of Eugene Smolensky. He was a vital part of the intellectual life of the Institute for Research on Poverty (IRP) when I began my career there in 1970. Unlike most IRP scholars who focused on empirics, Gene always brought the discussion back to theory. He was both fast and funny. It is also a delight to comment on Janet Curry’s paper, “The Take-up of Social Benefits”. Like her original empirical work, this literature review addresses an important issue, in an interesting, rigorous, and thoughtful manner.

The paper reviews both theory and a large empirical literature (much of which Curry herself has authored) to argue convincingly that neither stigma nor lack of knowledge are the major deterrents to the take-up of social benefits. Transactions costs are the major culprit. Take up is maximized when participation is the default position.

My comments focus on the how the take-up issue fits into the broader social policy issue of the optimal design of social benefits. In particular, I concentrate on the debate about whether benefits should be limited to the poor or provided more universally to all income classes. Traditional advocates of universalism had three major arguments against income testing: 1) it stigmatized beneficiaries, 2) it undermined social cohesion, and 3) it weakened political support (Garfinkel, 1982). Because stigma is hard to document, advocates pointed to the low take up rates of income-tested programs as evidence of stigma. Curry’s paper provides strong evidence that stigma is not likely to be the prime villain in low take up. Does this weaken the case for universal programs? Not much.

The benefits and costs of income testing depend critically upon the economic incentives and disincentives that arise from income tested as compared to universal programs. Is it efficient and equitable to place the highest marginal tax rates on the poorest part of the population—which is what income tested programs do. Or, is it more efficient and equitable to provide the benefit universally to all income groups and place higher tax rates on upper middle and upper income families?

A number of papers show that conventional economic theory cannot resolve the debate. (Kesselman and Garfinkel, 1978; Sadke, Garfinkel, and Moreland, 1982; Besley, 1990; Besley and Kanbur, 1993. (See, also Akerlof (1978) for the pioneering, related treatment of targeting.) Which structure of benefits is more efficient is an empirical matter. In terms of labor supply, theory is ambiguous because though the rich earn more per hour than the poor, the labor supply of the poor is more elastic. A few economists have examined empirically the efficiency effects of income
testing in terms of labor supply. (Kesselman and Garfinkel, 1978; Betson, Greenberg, and Kasten, 1982; Sadke, Garfinkel, and Moreland, 1982). The results are mixed, with the efficiency losses either way not being very large. (Gramlich, 1982) No one has examined the effects on either savings or marriage.

The equity effects are quite clear theoretically. The over-reliance of the United States on income testing for a broad array of programs including not just TANF, but Medicaid, housing, food stamps, and early childhood education disproportionately encourages the poor to avoid legitimate work, savings, and marriage—the surest routes to upward mobility. More research on the magnitude of these effects would be useful. In the meantime, we know that the poor work less, save less and marry less than other Americans. In the absence of research investigating the extent to which our welfare state institutions induce these behaviors and thereby violate widespread norms of equality of opportunity, we castigate the poor for being lazy, improvident, and immoral. It is not a pretty sight. A century and a half ago, there was a great debate in the northern American states about whether to provide elementary and secondary education on a universal or means tested basis. Fortunately, the universalists won the debate. A century and a half from now, Americans will look back and wonder why in the late 20th century, we became so infatuated with income testing.
BIBLIOGRAPHY


