



---

Upjohn Institute Press

---

# Policy Changes to Improve Market Outcomes

Carolyn L. Weaver  
*American Enterprise Institute*



Chapter 11-improve (pp. 351-356) in:  
**The Economics of the Great Depression**  
Mark Wheeler, ed.  
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1998  
DOI: 10.17848/9780880995665.ch11-improve

Copyright ©1998. W.E. Upjohn Institute for Employment Research. All rights reserved.

# Policy Changes to Improve Market Outcomes

Carolyn L. Weaver  
*American Enterprise Institute*

I appreciate having the opportunity to participate in this conference and discuss the very important issues surrounding the rapid growth of the social security disability programs. This conference really is a first, as far as I know, in terms of bringing a significant analytical effort to bear on this problem and trying to bridge the gap between the research and the public policy worlds. This effort is important and long overdue. I hope it turns out to be the first of other such efforts that might broaden the base of our knowledge about disability and about the ways the government can and cannot reasonably be expected to improve the lives of people with disabilities.

Having said this, I will begin with a conclusion: The research presented by David Stapleton and others confirms what we have known for a very long time—disability is not an all-or-none condition, the presence or absence of which can be readily discerned in some systematic and reliable way. Disability is a complex and changing phenomenon; it exists on a continuum; and its presence (or absence) and severity are extremely difficult to quantify or assess with precision. There is not only a problem of assessing the medical severity of individuals' physical or mental impairments, but also a problem of assessing the impact of these impairments on work ability or on labor market or other outcomes. Moreover, the severity of work disabilities for people with any particular impairment can be affected mightily by the economic incentives and constraints they face.

Superimposed on these problems are all of the problems attendant to decentralized, public decision making. Disability determinations are made by literally tens of thousands of people in various bureaucratic, political, and judicial roles—as well as medical and vocational roles—who are subject to constantly changing rules and regulations and bud-

getary and political pressures. *Findings* of disability, in other words, can be affected mightily by incentives and constraints—in this case, the ones facing decision makers (Weaver 1986).

One implication of all of this is that the federal government's largest cash benefit programs for people with disabilities, Social Security Disability Insurance (DI) and Supplemental Security Income (SSI) can grow—and shrink—rapidly and serve populations whose compositions change dramatically, for reasons that are quite independent of underlying trends in public health or in federal legislation. While this may not be news to program administrators or to researchers, it is nevertheless cause for deep concern. The federal government makes a very large commitment of tax dollars to the social security disability programs—close to \$70 billion this year (\$100 billion including Medicare and Medicaid), nearly double the level just five years ago (U.S. Government 1995; Committee on Ways and Means 1994; Board of Trustees 1995). Ensuring that these dollars flow to the people the programs were intended to serve would seem to be the first test of their effectiveness. Social policies cannot be deemed effective, and certainly not cost-effective, simply because a lot of money has been thrown at a problem and some of it seems to have stuck in the right place.

This brings me to a question: Who are the social security disability programs intended to serve? It is easy enough to give a definitional answer—the programs are intended to serve people so severely impaired that they cannot engage in *any* substantial gainful activity *anywhere* in the national economy (it says so right in the law!). But in a world with modern technologies, therapies, and medical and vocational interventions and techniques, this defines a small segment of the working-age population with mental or physical impairments. Indeed, a fundamental tenet of the Americans with Disabilities Act (ADA) is that even people with severe disabilities can, if provided the right environment, work and make lives for themselves and their families. One need only consider the example of a person who is, say, blind or deaf—and thus categorically “disabled” under social security law regardless of educational or professional attainment—to appreciate the fact that the social security programs provide ongoing cash support to a broader population than implied by the general definition of disability.

The research findings presented at this conference bring into sharp focus the extent to which the disability programs are not what they

once were and do not serve who they once did. Gone are the days when DI, for example, served people with physical disabilities who found themselves out of work (or quitting work) late in life. Increasingly, DI serves prime-age men and women with mental illnesses of some sort, most of whom never leave the benefit rolls. Despite dramatic improvements in science and medicine, in technology and information, and in the educational opportunities of young people with disabilities, which have improved the quality of life of people with disabilities as well as the job opportunities open to them, the number of people on the disability rolls has never been higher (Weaver 1992; Koitz, Kollman, and Neisner 1994).

This has many important public policy implications, not the least of which is that the idea that DI is an “early retirement” program may die hard, but die it must. The beneficiary population is getting younger and the opportunities for rehabilitation, recovery, and return to work are getting better. Work is the key determinant of economic well-being in our society and a widely shared goal of working-aged Americans, disabled and nondisabled alike. Pursuit of this goal is undermined by the government only at great fiscal and social cost.

In the spirit of some of the welfare reform proposals now under discussion, there may be merit to reorienting the social security disability programs toward transitional aid for people whose conditions are not permanently disabling. The presumption underlying federal policy should, in the main, be that people who are disabled *can* gain the skills necessary to work; people who become disabled *will* recover and go back to work. A practical change in current policy that might help bring about such a reorientation would be to place a time limit on benefits. For example, benefits might be granted for a period of three years. Individuals could reapply for benefits, and, if found unable to work, be granted benefits for another fixed period, but the presumption would be that work would follow. (This is not inconsistent with the suggestion made by Stapleton, Coleman, and Dietrich [1995; and Chapter 2, this volume] regarding the payment of temporary benefits during economic recessions.)

More direct “work incentive” provisions, which have been added to the programs over the years, have been largely ineffective (Muller 1992; Hennessey and Muller 1994). While the reasons, no doubt, are many and varied, two stand out: first, work incentives and other poli-

cies designed to promote work have typically been superimposed on the back end of the disability process—after the individual has left the labor force or made the transition from school to unemployment and has begun drawing cash benefits; second, they have built a more and more complex system atop the central (contradictory) policy—the definition of disability—which requires that the individual be unable to work. Individuals who, in order to work, overcome the severe impairments that qualify them for benefits and take advantage of the work incentive provisions ultimately find themselves ineligible for cash benefits and without the security of Medicare coverage.

Clearly, reforms intended to improve labor market outcomes for people with disabilities must focus on the front end of the disability process, keeping people at work or on the path to work so that—to the extent possible—they never enter the system in the first place, a system described by some disabled people themselves as a “trap.” Research suggests, for example, that employees who become disabled have better labor market outcomes, in terms of duration of employment, when their employers work with them from the onset of the disability, maintaining the continuity of the employee-employer relationship throughout the period of hospitalization and rehabilitation, and accommodating the workers’ changing abilities and circumstances at the workplace (Burkhauser, Butler, and Kim 1995). The employer is critical to work recovery efforts.

The same message is echoed by rehabilitation counselors. Early intervention—ideally before the individual has ever lost his or her job—is critical to success.

More generally, reforms must address the employer side of the work equation, which is now largely ignored by policymakers. Consider the reasonable accommodation requirement in the Americans with Disabilities Act. This amounts to a mandated benefits program, the cost of which is imposed on employers. Or consider the DI tax. Employers who make accommodations and go the extra mile to hire or retain people with disabilities—thus sparing the social security system of at least a portion of the potentially large cost of supporting these people for life—must pay the same tax as all other employers. Or consider increases in minimum wage laws and other mandated benefits programs. These policies increase the cost of hiring low-skilled workers, discouraging the employment of precisely the kind of people who

dominate the SSI rolls, people with poor educations and few job skills. Enhancing the employment of these people—aptly described by Burkhauser (1992) as the “doubly disabled”—will clearly require more than work incentives and civil rights; it will require basic measures to enhance the skills these people bring to the labor market, to reduce the barriers to part-time or low-wage work, or to subsidize employer’s adjustment costs (Weaver 1991).

In the longer term, serious consideration should be given to privatizing the supply of disability insurance—not for all risks faced by all workers, but for the routine risks faced by workers who are not yet disabled. While private insurers do not, by any means, have the answers to all or even most of the problems besetting the social security disability programs, they do have the ability to respond quickly to changes in knowledge and to new circumstances and opportunities—and the incentives to do so are strong (Weaver 1986, 1992).

If private insurers were to cover the routine risks faced by the typical worker, the federal government could turn to the question of how best to target resources on, and to provide more adequately for, people with special needs: people born with severe congenital abnormalities, unemployed people who become disabled, people with terminal illnesses, people with catastrophic health expenses. DI provides the same coverage for everyone and, as a result, cannot meet the needs of any particular group particularly well. Some of the substantial resources being devoted to providing income support to prime-age men and women with substantial work histories could then be redirected to other worthy causes—including meeting the needs of children and adults with disabilities that leave them little hope of one day competing in the job market, with or without civil rights protections.

To date, Congress has managed to side-step the issue of the very rapid growth of the DI program—and obscure a very large (50 percent) increase in the DI tax rate—by a so-called “tax reallocation” between the social security retirement and disability programs (Board of Trustees 1995). Since both programs are in long-range deficit, this was a stop-gap measure at best and, in my view, not well advised. The social security disability programs cannot retain broad public support without effective control over the beneficiary rolls, and effective control is unlikely to be achieved until policymakers confront directly the financial, economic, and social causes and consequences of rapid growth.

Perhaps the next fiscal crisis will focus the attention of policymakers and provide the impetus for considering revamping two programs that provide much needed support to some and one-way tickets out of the labor market for many others.

## References

- Board of Trustees. 1995. *1995 Annual Report*. Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. Washington, D.C.: Government Printing Office.
- Burkhauser, R.V. 1992. "Beyond Stereotypes: Public Policy and the Doubly Disabled." *American Enterprise* (September-October): 60-70.
- . J.S. Butler, and Y.W. Kim. 1995. "The Importance of Employer Accommodation on the Job Duration of Workers with Disabilities." *Labour Economics* 3(1): 1-22.
- Committee on Ways and Means, U.S. House of Representatives. 1994. *1994 Greenbook: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*. Washington, D.C.: Government Printing Office, Committee Print 103-27, July.
- Hennessey, J.C., and L.S. Muller. 1994. "Work Efforts of Disabled-Worker Beneficiaries: Preliminary Findings from the New Beneficiary Survey." *Social Security Bulletin* 57(3): 42-51.
- Koitz, D., G. Kollman, and J. Neisner. 1994. "Status of the Disability Programs of the Social Security Administration, 1994." *Congressional Research Service, Report for Congress*, June 6.
- Muller, L.S. 1992. "Disability Beneficiaries Who Work and Their Experience under Program Work Incentives." *Social Security Bulletin* 55(2): 2-19.
- Stapleton, D.C., K.A. Coleman, and K. Dietrich. 1995. "Demographic and Economic Determinants of Recent Application and Award Growth for SSA's Disability Programs." Conference paper, Lewin-VHI, July.
- U.S. Government. 1995. *Fiscal Year 1996 Budget of the U.S. Government: Historical Tables*. Washington, D.C.: Government Printing Office.
- Weaver, C.L., 1986. "Federal Disability Policy in the 1980s and Beyond." In *Disability and the Labor Market: Economic Problems, Policies, and Programs*, M. Berkowitz and M.A. Hill, eds. Ithaca, New York: ILR Press.
- . ed., 1991. *Disability and Work: Incentives, Rights, and Opportunities*. Washington, D.C.: AEI Press.
- . ed., 1992. "Reassessing Federal Disability Insurance." *Public Interest* 106: 108-121.