

Statement of

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On

Marginal Tax Rates and 21st Century Social Welfare Reform

Joint Hearing of the
Subcommittee on Human Resources
Committee on Ways and Means

And

Subcommittee on Nutrition
Committee on Agriculture

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C. Eugene Steuerle is the Richard B. Fischer chair and an Institute Fellow at the Urban Institute. Portions of this testimony are taken from other work by the author, particularly for *Tax Notes Magazine*, *The Future of Children*, and a previous testimony. Gene is indebted particularly to Adam Carasso, Linda Giannarelli, Elaine Maag, Caleb Quakenbush, Stephanie Rennane, Ellen Steele, and Katherine Toran for both past and current work with him on marginal tax rates and children's programs. All opinions expressed herein are solely the author's and should not be attributed to any of these individuals or organizations with which he is associated.

Chairpersons Boustany & Walorski; Ranking Members Doggett and McGovern, & Members of the Subcommittees on Human Resources and Nutrition:

Thank you for the opportunity to testify before you again today.

Despite the rhetoric about living in an age of austerity, we live in a time of extraordinary opportunity. On a per-household basis, our incomes are roughly five times higher than at the beginning of the 20th century, 60 percent higher than when Ronald Reagan was elected President in 1980, and 4 percent higher than right before the Great Recession. Total federal, state, and local government spending on social welfare alone, including health and retirement, has grown even faster, and now surpasses \$35,000 per household.

Social welfare reform can be quite contentious, but it turns out that we don't need to agree on the successes and failures of past social welfare policy (which, in truth, has had both) to agree on future improvements in those policies. The most important long-term question is how to direct the new resources that economic growth makes available. I don't think anyone here, when projecting out a few decades hence, thinks that as the economy doubles in size, we should simply expand existing programs proportionately, or that the best options for the future have been determined by needs and parameters established decades ago in a very different economy. Two examples enlighten us as to how bipartisan support led to important forward-looking shifts from past policies. We didn't have to agree on the past success or failure of either Aid to Families with Dependent Children (AFDC, now Temporary Assistance to Needy Families or TANF) or the Earned Income Tax Credit (EITC) to favor a future relative shift from AFDC to the EITC. Ditto for moving from public housing toward housing vouchers. Both relative shifts have been supported and deemed as successful by many conservatives and liberals, Democratic and Republican members of Congress, and Democratic and Republican presidents alike.

I sense that both the American public and you, their elected representatives, are united in wanting to create a 21st century social welfare budget that is not simply more of the same. That 21st century focus, I firmly believe, will increasingly place greater relative focus on opportunity, mobility, work, and investment in human, real, and financial capital. However, outside of education, we've never really had a social welfare budget that has focused on mobility and opportunity. We've also never placed primary attention on work, in part because the entry of baby boomers and women into the work force for decades led to higher adult employment rates, not the recently declining rates that now threaten what level of social welfare programs can be supported.

Shifting priorities, however, has become extremely hard for reasons not well understood. As I show in *Dead Men Ruling*, you hold office at a unique time in our entire nation's history, a time when the politically unattractive option of renege on promises to the public has been turned into a requirement. Simple math tells us that to reach budget sustainability, Congress and the President must—I repeat, must—renege on past promises to the public to maintain automatic benefit growth rates and not raise taxes. But even that is not enough. If future budget reform aims at mere sustainability under some current law, and we're far from reaching even that target, this still leaves no leeway to do anything new. It's not that economic growth, even if modest, fails to provide new

opportunities; it's just they've already been pre-determined largely by dead and retired elected officials (largely men) who continue to rule.

Projections by CBO and others imply that government is scheduled to increase spending and tax subsidies by well in excess of \$1 trillion annually by 2025, including interest on the debt, and those commitments more than absorb the future additional revenues that traditionally provided flexibility in budget making. Every time you read an article about the inability of Congress to compromise, please understand how much this historically extraordinary set of constraints drives that dynamic.

Now let's turn to an important component of future social welfare reform: the combined marginal tax rates imposed mainly on lower-income households and their potential negative effects on work, wealth accumulation, and marriage.

For households with children, those combined marginal tax rates from universally available programs like EITC, SNAP (food stamps), and government-provided or subsidized health insurance, can easily reach about 60 percent when moving toward full-time work or a second job in the household. These high marginal rates apply mainly when households move from about poverty level income to twice- or even three times poverty level income, something Linda Giannarelli and I have labeled the twice-poverty trap.¹ In this range of income marriage penalties also become particularly high for a couple with two earners. For those getting housing or other assistance, the rate can easily jump to 75 percent or more.

We're not done yet. Add in transportation and child-care expenses, consumption taxes, health exchange rate penalties on employers—when paid indirectly by employees—and the gains from work fall even more. Sometimes there are no gains at all. Similarly, for some on unemployment or disability insurance, returning to work can also lead to few gains, as when one month of work can result in the loss of months or years of benefits.

While there is widespread disagreement in the literature on the aggregate economic effect of these high tax rates and marriage penalties, there is little doubt that they act as disincentives to many households. More importantly, whatever the size of these disincentives, I believe we can create policies that would shift future increased resources more toward work, education, wealth accumulation, and marriage.

How? Several approaches could make a significant difference. An opportunity budget would focus on early childhood, quality teachers, work subsidies in lieu of higher subsidies for consumption, decent neighborhood environments, and similar items. Combined tax rates could be made more explicit rather than hidden in all sorts of phase outs, and a maximum rate could be established. Work can be made a stronger requirement for receipt of various benefits. Letting child benefits go with the child and wage subsidies go with low-income workers, rather than combining the two, could remove many marriage penalties and reduce error rates in the EITC.

Design details matter greatly. For instance, many Democrats and Republicans have favored an expansion of the EITC to cover those individual workers currently left out of the system. Some suggest

¹ Linda Giannarelli and C. Eugene Steuerle, 1995, "The Twice-Poverty Trap: Tax Rates Faced by AFDC Recipients," Washington, DC: Urban Institute.

merely expanding the existing subsidy to “childless” individuals, but Elaine Maag and I have suggested an alternative approach that would avoid the tendency of the “childless” EITC to raise marriage penalties. Childless individuals aren’t the only low earners excluded from a wage subsidy; so also are those many low-wage workers who marry into a low-income family.²

Thoughtful design might also increase compliance. Some of my colleagues have shown, for instance, how integration of program data might be used to reduce error rates in the EITC.³

What Causes High Marginal Tax Rates for Low and Moderate Income Households?⁴

Congress enacted Social Security, AFDC, and various housing programs in 1935; the Food Stamp Act in 1964; Medicare and Medicaid in 1965; the EITC in 1975 (and subsequent expansions of the credit in 1987, 1990, 1993, and 2001, among others); the Child Care Development Block Grant in 1990; welfare reform in 1996 (which replaced AFDC with TANF); the State Children’s Health Insurance Program (SCHIP) in 1997; and health exchange rate subsidies (the Affordable Care Act) in 2010. The list could go on.

Each program, as well as subsequent amendments to it, was the product of unique social forces and was designed to address a specific social need. Had they all been enacted as one comprehensive program, lawmakers might have been more inclined to coordinate and focus on the combined tax rates, combined subsidy rate, marriage penalties and subsidies, combined incentive effects, enforcement and administration. They would have likely built a four-tiered health subsidy system that subsidized almost all Americans but in very uneven ways.⁵ They unlikely would have phased out so many items that the nation’s true tax system remains largely hidden.

The effective or real tax system faced by households includes the combined effect of direct taxes and the many phase-outs that take away benefits as each additional dollar is earned, in much the same way as an income tax. When the phase-outs occur in spending programs, I refer to them as “expenditure taxes” in parallel with the spending-like subsidies in the tax code which we call tax expenditures.

² See Adam Carasso, Harry Holzer, Elaine Maag, and C. Eugene Steuerle, 2008, “The Next Stage for Social Policy: Encouraging Work and Family Formation among Low-Income Men,” Washington, DC: Urban Institute; and Elaine Maag, 2015, “Investing in Work by Reforming the Earned Income Tax Credit,” Washington, DC: Urban-Brookings Tax Policy Center.

³ Michael R. Pergamit, Elaine Maag, Devlin Hanson, Caroline Ratcliffe, Sara Edelstein, and Sarah Minton, 2015, “Pilot Project to Assess Validation of EITC Eligibility with State Data,” Washington, DC: Urban Institute.

⁴ Interested parties may find the Net Income Change Calculator (NICC) to be of interest. The Urban-Brookings Tax Policy Center and the Income and Benefits Policy Center have collaborated with government and foundations to produce this tool, which can be found at <http://nicc.urban.org/netincomeCalculator/>. The 2012 update will soon be available. It allows individuals to generate a state by state analysis of tax and transfer benefits available to individuals and families as income, weekly hours, wage levels, and program participation varies.

⁵ C. Eugene Steuerle, 2010, “Fixing the Nation’s Four-Tranche Universal Health System,” <http://blog.governmentwedeserve.org/2010/10/28/fixing-the-nations-four-tranche-universal-health-system/>

Means testing particularly represents a classic liberal-conservative compromise. Conservatives sometimes favor these hidden expenditure taxes because, relative to a direct tax, they make expenditure programs appear smaller and avoid raising the top rate of income tax (the rate often of most concern to supply side economists partly because other rates are less likely to apply at the margin). Liberals often favor expenditure taxes because they allow benefits to be concentrated more on those who are measured as being poorer. Programs with lower expenditure tax rates often extend net benefits to higher levels of income and are less progressive.

Often both conservatives and liberals support their stances by arguing that high tax rates on benefit recipients have little effect on behavior. While this may or may not be true, as discussed below, one really wonders why as a society we worry about 40 percent tax rates on the rich if 50 or 100 percent tax rates on poor and moderate income households have little or no effect. Are the poor really that different?

Note that we are quite inconsistent in how we decide when to means test or not. Public education, Social Security, and Medicare are more universal. Social Security, tax subsidies for employer-provided insurance, higher education benefits, and farm subsidies tend to be larger for those with higher incomes than those with lower incomes, though Social Security also applies a type of lifetime income test that tends to restore some progressivity. Head Start, TANF, and housing vouchers are concentrated on low income and are means tested at moderate levels. Child credits do not phase out until higher income levels. Medicaid provides a cliff effect: earn one more dollar and consequently lose a health insurance package that one dollar before was free. The new health exchange subsidies avoid that cliff and start phasing out at modest income levels but then stretch fairly high into the income distribution. The earned income tax credit phases in and then out.

How Does It All Add Up to Create the Real Tax System?

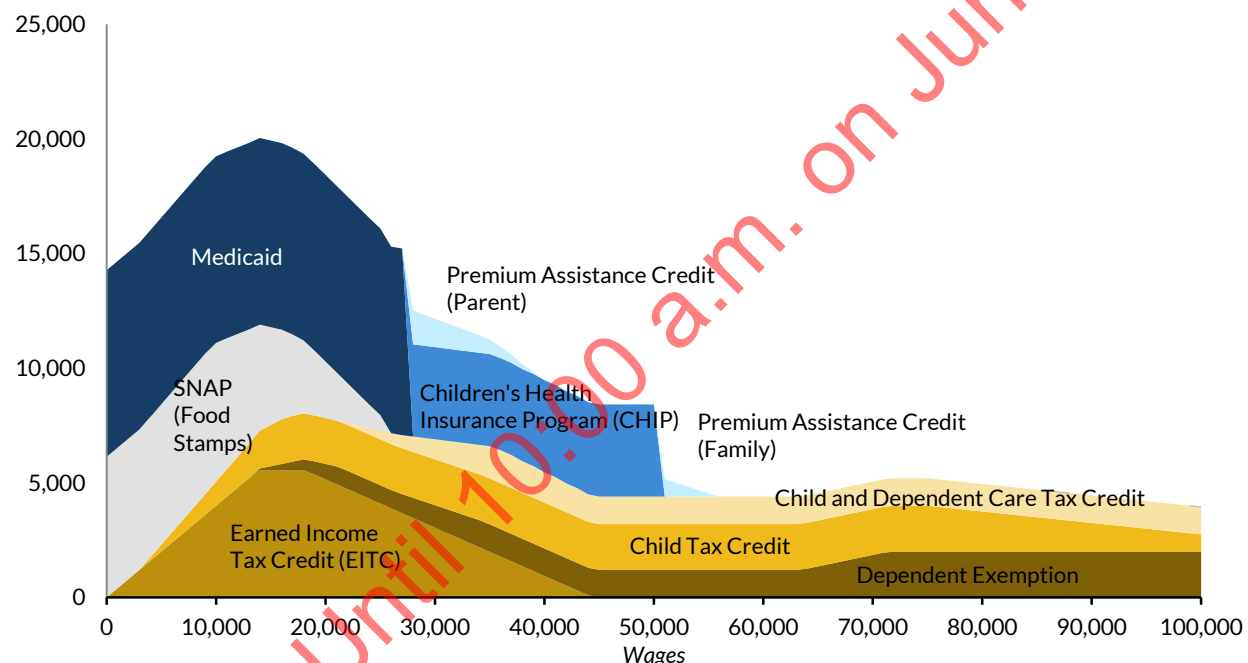
At the Urban-Brookings Tax Policy Center and the Urban Institute's Income and Benefits Policy Center we have done perhaps the most extensive work anywhere on the size of these combined tax rates.

Let's begin by displaying two hypothetical cases for a more-or-less "universal benefit" and then an "expanded benefit" system for households with children. Case 1 (Figure 1a) considers a single parent household with children—the type of household most affected by these high tax rates—and estimates federal income taxes, employer and employee portions of the Social Security tax, dependent exemptions, child credits and dependent care credits, the earned income tax credit, SNAP, Medicaid, SCHIP, and the new health exchange subsidy for 2015. A focus on this set of programs is important because, in theory every household with children is eligible for these programs if its income is low enough. The benefits are generally not restricted by waiting lists and are universally available as long as recipients meet certain eligibility criteria, mainly income level, which can vary by state. In a sense, then, the tax rates levied by these programs apply to all households with children, though they may have moved out of the very high tax rate part of this regime when their annual earned incomes start to exceed \$55,000 or higher and they have moved beyond the income cutoffs for several of the transfer programs. Put in terms of Figure 1a, these latter households have moved to the right along the horizontal axis beyond, first the high-benefit and low- or negative-tax rate regime (which applies to earnings of roughly \$0 to \$15,000), and then, the high-tax-rate regime (which applies to incomes of roughly \$15,000 to \$55,000).

Case 2 (Figure 1b) includes the same programs as Case 1 but also assumes the single parent with two children is receiving welfare cash assistance (TANF) and housing assistance. Please keep in mind that this is an extreme case, since only a small minority of low-income families receives all these benefits.⁶ As a general rule, these additional programs are not universal, in contrast to those in Case 1. Rather, they are parceled out either through time limits for years of eligibility or through queues as to who may participate. Households are much less likely to benefit from the programs in Case 2 than those in Case 1. In Case 1, the family receives the most benefits at about \$10,000 to \$15,000 of earnings—a range where the EITC is fully phased in and most other benefits are not yet phasing out. In Case 2, where the household is on TANF and receives housing, maximum benefits are still available when earnings are closer to zero. Benefits drop off steeply as earnings start to grow.

FIGURE 1A
Tax and Transfer Benefits for Universally Available Programs

Single adult with two children, 2015



Source: Eugene Steuerle and Caleb Quakenbush, 2015. Washington, DC: Urban Institute.

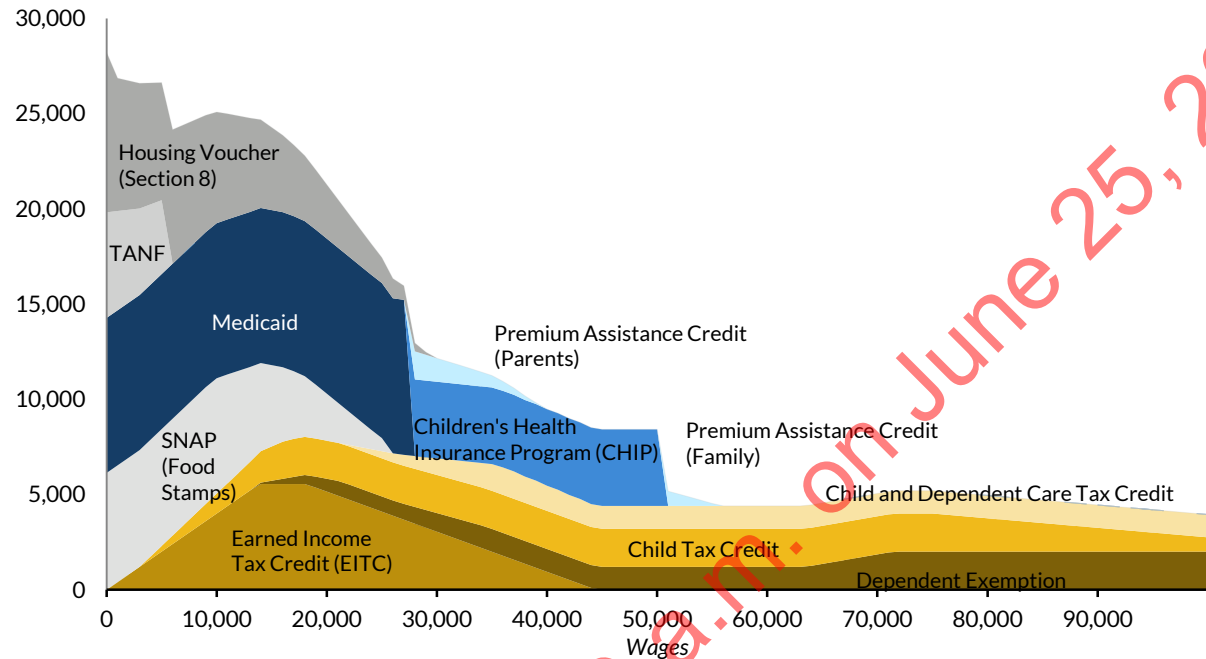
Notes: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

⁶ Congressional Budget Office, 2012, "Effective Marginal Tax Rates for Low- and Moderate-Income Workers," Washington, DC: Congressional Budget Office.

FIGURE 1B

Tax and Transfer Benefits for Universally Available and Additional Programs

Single adult with two children, 2015



Source: Eugene Steuerle and Caleb Quakenbush, 2014. Washington, DC: Urban Institute.

Notes: Estimated value of tax and transfer benefits for a single parent with two children living in Colorado. Premium assistance credit excludes the value of penalties paid by employers on the beneficiaries' behalf and the value of additional cost-sharing subsidies. Health coverage and quality of services provided varies by source: Medicaid and CHIP benefits are more comprehensive and have less cost-sharing than those in the exchange. Medicaid and CHIP also pay providers for services at lower rates than private insurers.

Figure 2 then shows the effective marginal tax rate that derives from the combination of income, Social Security, and state taxes, combined with the phase out of the various benefits shown in Figures 1a and 1b. As can be seen, tax rates bounce around but often reach fairly high rates.

A short summary of what is seen in Figure 2 appears in Figure 3, which measures the effective average marginal tax rate when this household increases its income from \$15,000 to \$55,000. That is, how much of the additional \$40,000 of earnings is lost to government through direct taxes or loss of benefits? The average marginal tax rate in the first bar of Figure 3 equals 26.2 percent, based simply on federal and state direct taxes and payroll taxes, excluding the value of federal tax credits. The rate rises appreciably as the family claims federal tax credits and enrolls in additional transfer programs. For a family enrolled in all the more universal non-waitlisted programs like SNAP, Medicaid, and SCHIP, the average effective marginal tax rate could be 66.2 percent. Enrolling the family in additional waitlisted programs, like housing assistance and TANF, ratchets the rate up above 75 percent.

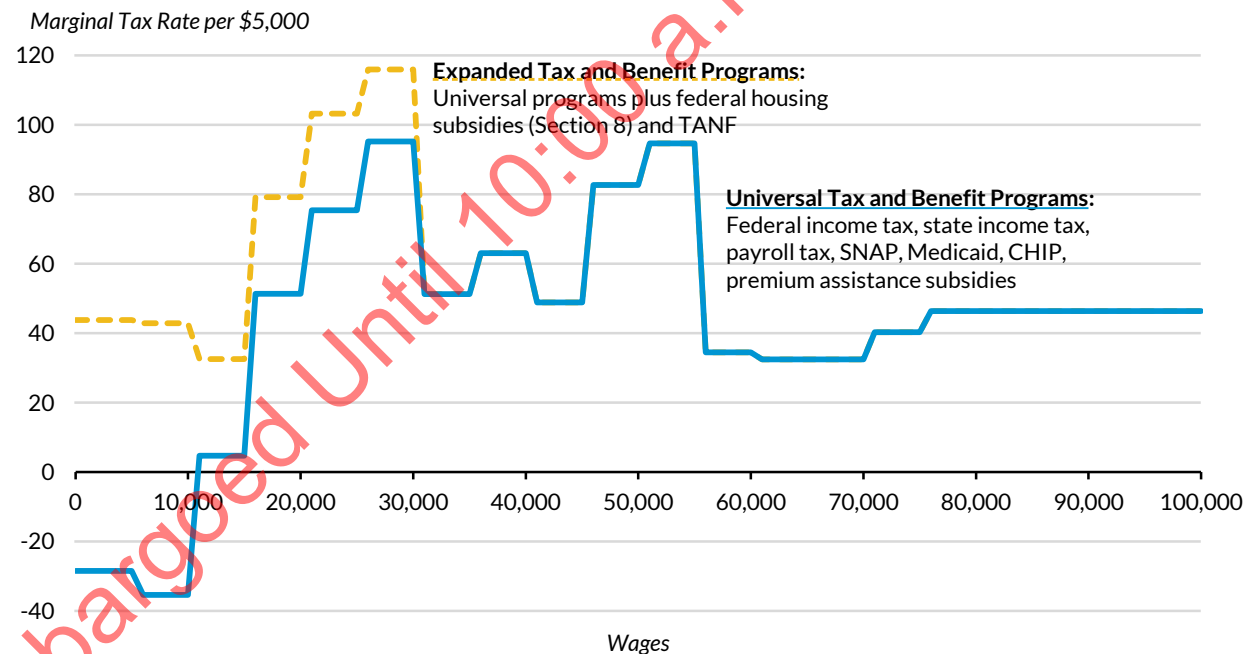
Put another way, while we might think of the income tax rate schedule as showing rates of 0, 10, 15, and 25 percent respectively at low and moderate income levels, the true rate schedule faced by these families includes rates ranging from minus 40 percent (from the initial phase-in of the EITC) to plus 50 and 75 percent.

The high tax rates especially affect the choice of a household with children to work full-time year round (if at a low wage) or to marry or stay married. I will return to these issues below. However, for those in the universal system, the structure does encourage at least some labor force participation, and those in TANF also face a variety of incentives to keep or take a job.

Several caveats are in order. A number of eligible households do not apply for benefits, such as the food subsidies for which they are eligible. Average rates across households will be lower than what you see in the figure because of less than full participation in the programs. Remember also that those who are childless are excluded from many of these programs. Also, child care grants and, for that matter, availability of free public education, can significantly reduce the cost of work.

On the flip side, we have not included a number of other items. Effective tax rates from work would be higher still if we included consumption taxes, transportation and additional clothing expenses, and, particularly, the out-of-pocket costs of child care. For many on unemployment insurance or disability insurance, benefits may be higher than the returns from a job, particularly if the new job pays less than the old one. Here also, taking a job for one month can result in the loss of months or years of benefits. Add these factors in, and the rate can exceed 100 percent.

FIGURE 2
Effective Marginal Tax Rates
 Single adult with two children, 2015



Source: C. Eugene Steuerle and Caleb Quakenbush. Urban Institute. 2015.

Notes: Average effective marginal tax rates facing a single parent with two children living in Colorado. The effective marginal rate is the marginal tax rate is calculated using changes in net income after taxes and transfers given changes in total compensation, which includes employee wages and the employer share of payroll taxes. The tax rate is then smoothed in \$5,000 increments.

FIGURE 3

Average Marginal Tax Rates Moving from \$15,000 to \$55,000 under Various “Systems”
Single adult with two children, 2015



Source: C. Eugene Steuerle and Caleb Quakenbush. Urban Institute. 2015.

Notes: Tax rates calculated using changes in net income after taxes and transfers given changes in total compensation, which includes employee wages and the employer share of payroll taxes. The tax system includes federal and state (Colorado) income taxes and federal payroll taxes (employer and employee shares). Tax credits include the federal EITC, child and dependent care tax credit, and child tax credit. Universally available programs include SNAP (food stamps), Medicaid, the Children’s Health Insurance Program, and premium assistance credits under the Affordable Care Act. Wait-listed programs include TANF and housing vouchers (Section 8).

The Effect on Work

Economic theory tells us that distortions in behavior increase disproportionately with the marginal tax rate. However, these distortions can take different forms: less work, more work, and other behavioral shifts such as avoidance of marriage. Many empirical studies have attempted to isolate the net effect of these rates on work, and the results are mixed. Generally speaking, programs like the EITC and various work-related experiments show that those programs tend to encourage labor force participation. But they tend to discourage work at higher income levels, such as taking a second job in the family. This, of course, is what we might expect, since in a phase-in range the EITC increases rewards from work while providing no income to those who don’t work (in economic terms, the substitution effect is positive and there is no income effect). By the time one reaches the phase-out rate, income is higher as well as marginal tax rates, and other programs are also phasing out. Therefore, disincentives are fairly high at this level.

Welfare reform in the mid- to late 1990s also attempted to cut the Gordian knot by making benefits conditional upon work. Generally speaking, work did increase after reform, although there is some dispute on how much was due to recently increased earned income tax credits, welfare reform, or the better economy. My own view is that they often combine in tandem and move some individuals beyond some hurdle level below which it may be better to work off the books or spend time negotiating with family, friends, or partners for monetary or housing support. Additionally, I believe

that one major reason for the increased work effort was that governors started telling their welfare administrators that they were going to be judged by how many people they got off welfare, rather than how many clients they served. Perhaps one of the most important conclusions is that a program that requires work will indeed encourage work more than one that does not. EITC and welfare reform have done better on the work front than did AFDC before them.

Design matters greatly. For instance, Medicaid will discourage work among the disabled more than a subsidy system such as adopted in recent health reform; on the other hand, health reform will probably encourage more people not now on Medicaid to retire early. I believe those numbers are reflected, though indirectly, in CBO's estimates of the effect of recent health reform on the budget and employment. Many workers face discrete choices to work or not work or try to take another job; it is often not easy to vary hours on any one job.

In my view, few of these empirical studies do a good job at telling us the long-term effect on behavior. Looking at the data over time, I conclude that the "income" effect—the consequence of having higher income—often is more important than the tax "rate" effect, which at times can encourage people to work more to make up the difference.

Some evidence on work disincentives comes from other programs. For instance, the availability of Social Security has almost certainly led to retirements of more than a decade longer than when benefits were first paid. No doubt there is a herd or group effect here, which is very hard to tease out by comparing people at a point in time. There are also psychological factors we are only beginning to assess. For instance, once on disability and sometimes unemployment, people develop different life patterns that become more habitual; for some, being out of work for a long time can also add to depression, which then rebounds on ability to work. As already noted, the disabled traditionally were reluctant to give up Medicaid. The signals that government shares with its people can be powerful, such as whether work is of intrinsic value to society; at the same time, government choices may reflect rather than develop such societal values.

Finally, asking whether government benefit programs provide disincentives to work may be the wrong question. Yes, they often do. Any such effects must be contrasted with the good they may do so as to form a judgment of their merit. Here, I think the more important question for the future is how we can create a better social welfare structure that still provides a safety net but with fewer distortions and unintended or undesired consequences. We have done a moderately good job at reducing hunger and poverty, but a mediocre job at promoting mobility, as well as providing opportunity and investment, rather than just adequacy and higher levels of consumption.

Other Consequences

Marriage Penalties. These high tax rates have also created hundreds of billions of marriage penalties for low and middle income households.

Essentially, when moderate-income couples marry, their marginal tax rate moves up from, say, 25 percent, to the 50 and 75 percent ranges shown above. For instance, a moderate income male marrying a working mother with children can easily cause her to lose EITC, SNAP, Medicaid, and other benefits as well.

Marriage penalties arise because of the combination of variable U.S. tax rates and joint, rather than individual, filing by married couples for benefits and taxes. If graduated taxes were accompanied by individual filing or if all income and transfers were taxed at a flat rate, there would be no marriage penalties. The EITC, by the way, can provide both subsidies and penalties, and Social Security generally provides very large marriage bonuses.

Someone looking at our system from Mars would conclude that we don't want moderate income families with children to marry, since we penalize them, but we do want older households (at ages when children are likely to be gone) to marry, since we subsidize them.

Games Encouraged by Means Testing. One thing we have learned in public finance is that taxes have significant effects on portfolio behavior even if there is less certain effect on work and saving. Not getting married is the major tax shelter for low- and moderate-income households with children. In many low-income communities around the nation, marriage is now the exception rather than the rule.

Marriage penalties or subsidies are assessed primarily for taking wedding vows, not for living together with another adult. Those who do not feel morally compelled to swear fidelity in religious or public ceremonies for the most part do not suffer the penalties. Similarly, someone with low earnings can gain all the benefits of living with another, be it parent or friend or lover, as long as there is no marriage. Our tax and welfare system essentially favors those who consider marriage an option—to be avoided when there are penalties and engaged when there are bonuses. The losers tend to be those who consider marriage vows to be sacred.

The games encouraged by high marginal tax rates extend well beyond the marriage patterns of low-income families. Divorced couples allocate child support so as to maximize future college aid. Some couples avoid remarriage to avoid losing Social Security or pension benefits. As noted, the disabled sometimes avoid work so as to keep Medicaid, while some of the unemployed delay going back to work. Both the justice and integrity of our tax and social welfare systems become threatened when such behavior becomes extensive.

Options for Reform

Perhaps the best way to think about social welfare reform is to think ahead a few decades. Even if economic growth slows, we likely will be much richer and have an expanded social welfare system regardless of whether that system occupies a larger or smaller part of that overall economy. What do we want that future system to look like?

I believe we are at a major fiscal turning point in our history. At one level, it is forced on us by an unsustainable budget, but at another level it gives us the opportunity to reconsider broader changes to our tax and social welfare structure. In that regard, I believe all of the following deserve strong consideration:

1. **Integrating social welfare programs.** An integrated approach to reform would stop adopting all these tax systems one at a time, with little consideration of how they fit together.
2. **Emphasizing opportunity and education more and adequacy and consumption less.** Long-term reform could also put more emphasis on opportunity, education and work and less on adequacy and increasing consumption levels.
3. **Putting more tax rates directly into the tax code.** A transparent system would replace some implicit taxes with explicit ones, forcing a more explicit recognition of the tax system we have developed. Just as eliminating tax expenditures appears to increase the size of government when it does not, substituting direct for expenditure taxes appears to raise taxes when it may not actually raise them.
4. **Getting health cost growth under control.** Much of the higher tax rates, both direct and through phase-outs, are generated by the ever growing share of the economy and the government budget devoted to health care.
5. **Making work an even stronger requirement for receipt of other types of benefits.** This type of approach need not reduce benefits overall, since some or all of any additional saving could be applied to those who do work.
6. **Adopting a maximum marginal tax rate.** A partial approach at integration would attempt to create some maximum tax rate for several or many programs.
7. **Letting child benefits go with child, work subsidies go with low-wage workers.** The EITC provides wage subsidies to low-income workers raising children, but then leaves out other low-wage workers and usually creates high tax rates when two earners marry. Reform could separate out the subsidy for children from that from low-income workers.
8. **Reducing marriage penalties through various mechanisms.** Allow for individual subsidies to accompany low-income workers even if they marry someone else with earnings; flatten the tax rates for some programs; and in the EITC separate some of child-related benefit from the benefit for additional work. In this regard, there are better ways to provide benefits to those excluded from the current EITC, essentially by providing an individually based worker credit rather than a “childless” worker credit that would penalize low earners who marry.

Innovative approaches need to be tried. Pilot projects could enhance the ability of local officials to combine together existing subsidies and allow them to be spent on other items, e.g., education or even moving closer to a job. A person might qualify for help, but the exact nature would depend on agreement between the case manager and client, allowing them together to reallocate resources for which the client is eligible. That reallocation would likely increase labor force participation, as it would be largely aimed at improving opportunity and addressing issues that cause the poverty in the first place.

Conclusion

In summary, we don't need to answer that perennial debate over size of government relative to the economy to come to some agreement that we can create a more robust social welfare policy, one that promotes better both individual and economic growth. With some exception, 20th century social welfare policy has entailed a liberal-conservative compromise that has never had a primary focus on mobility and opportunity, upon work and the gains that come about when individuals or households unite in marriage and other joint efforts. It has also failed for the most part to integrate programs efficiently and equitably, leading to high combined marginal tax rates, a weakened ability to adjust to individual circumstances, a lack of coordination among programs serving the same people, an inadequate targeting of benefits to those who qualify, and—relative to a focus on human capital and work—a lower growth rate for the economy as a whole.

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