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Policies to Make Work Pay for People With Disabilities

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The onset of a disability need not, and in the majority of cases does not, mean the end of work for people with disabilities (see Burkhauser and Daly 1996a, 1996b). The premise that most people with disabilities can work contradicts the image of people with disabilities as “victims.” Dedicated disability advocates have succeeded in getting an increasing share of young people with disabilities on the Supplemental Security Income (SSI) rolls. The question is, should this continue to be the primary policy goal of our disability system?

Previous chapters in this book have documented that changes in the business cycle and in policy variables account for more of the growth in Social Security Disability Insurance (DI) and SSI applications and awards over the past decade than does a nationwide decline in health. General economic conditions and the relative ease of access to and generosity of benefits encourage some people with disabilities to apply for benefits. Aarts, Burkhauser, and de Jong (1996) offer additional evidence that this is happening internationally. They compare disability transfer populations across countries and time periods and argue that these differences cannot be explained by differences in underlying health conditions alone. In 1994 the United States had about five working-age people on disability transfers for every one hundred workers, while in the Netherlands, which has an extremely generous and easily accessible disability transfer system, there were fifteen working-age people on disability transfers per one hundred workers. Policy matters.

But this does not imply that all persons with disabilities can work. There is great diversity within the population with disabilities both with respect to the severity of their disability and the skills they bring to the workforce. Those with disabilities who also have poor work skills are doubly disadvantaged in the labor market. Nevertheless,
while severe disabilities or poor work skills limit market opportunities, the previous chapters are heartening because they suggest that changes in policy could result in more employment for people with disabilities.

To date, efforts to encourage disability transfer recipients off the rolls via extending Medicaid benefits or lowering the implicit tax on SSI benefits have not been successful. This is not surprising, given Moffitt’s (1992) study of exits from AFDC and his more recent study (Hoynes and Moffitt 1996) of exits from disability transfer programs. Both papers suggest that people on government transfer rolls are not very sensitive to tax rate changes. In fact, Hoynes and Moffitt argue that making eligibility easier for those with disabilities who do work is likely to increase program participation rather than lower it, since a large share of people with disabilities who work might become eligible for benefits with a more relaxed work test. It appears doubtful that any of the back-to-work incentives now being tried will succeed.

Furthermore, Bound (1989) documents that the majority of those who go through the DI application process and are rejected do not return to work. Initially, these findings suggest that policy variables may not be important in the decision of people with disabilities to work, since few applicants to DI and SSI, rejected or successful, return to work.

But there is an alternative explanation. The timing of a work-based intervention may be as important as the intervention itself. By the time people with disabilities have gone through the long application and appeals process, in which not working is critical evidence of an “inability to perform substantial gainful activity,” most of their links to the labor market have been severed. Hence, interventions to return them to work are much less likely to succeed than those applied immediately following the onset of a disability to reduce the likelihood of their leaving work.

There is evidence that early intervention helps to keep people with disabilities in the workforce. Burkhauser, Butler, and Kim (1995) find that accommodation by employers extends tenure on the job following the onset of a disability. The average worker without accommodation stayed 2.2 years with his employer after onset. The average worker who was accommodated stayed 7.5 years with his employer after onset. To put this another way, 75 percent of those who were not accommodated were gone after three years. But it was nine years
before 75 percent of workers who were accommodated left their employer.

If the timing of an intervention is critical to its success, then there may also be more effective strategies to reduce the disability rolls and further increase work among people with disabilities than are currently being tried. Below I suggest four such possibilities.

**TAX-SUPPORTED SUBSIDIES TO KEEP EMPLOYEES WITH DISABILITIES ON THE JOB**

Employers are much more likely to accommodate workers who become disabled on the job than to take on new workers with disabilities. Most employers have made some investment in their employees and have better knowledge of their work capabilities than they do of potential employees. Hence, it is not surprising that they are more willing to maintain such workers on the job after the onset of a disability than they are to hire new workers with disabilities. But it is not obvious that the stick of the Americans with Disabilities Act of 1990 mandate is the appropriate mechanism for increasing accommodation. The carrot of tax-supported subsidies to pay for employer-provided accommodations would be more effective. Moreover, it would get us out of the habit of thinking that such accommodations, which we pay for in higher prices for the products we buy, are costless just because the costs do not show up on the federal budget.

**TAX SUBSIDIES FOR RELATIVELY LOW-PRODUCTIVITY WORKERS**

A larger share of people with disabilities work full time in Sweden and Germany than in the United States because Sweden, through direct job creation, and Germany, through explicit quotas, directly intervene in the labor market to make sure that people with disabilities are employed. Neither of these interventions into the labor market make political sense in the United States. But there is a uniquely American
alternative to such direct market interventions: the Earned Income Tax Credit (EITC).

The EITC, which currently uses the tax system to subsidize the work of low-income families with children, could substantially increase work by people with disabilities, especially those with low productivity. In 1993, the Clinton administration, with bipartisan support, dramatically increased the size and scope of this program. In 1996, workers with two children received 40 cents in benefits for every dollar of their labor earnings up to a maximum of $8,900. For a minimum-wage worker, for instance, this tax credit transforms a $5.15 per hour minimum wage into a wage of $7.21 per hour ($5.15 x 1.40 = $7.21).

A variation on this program would offer a Disabled Workers’ Tax Credit (DWTC) to subsidize the labor earnings of people with disabilities who live in low-income households. This would especially target the doubly disadvantaged, whose work skills yield them relatively low labor earnings in the private sector. For instance, a 40 percent tax credit on the wage earnings of those aged 18 to 25 with a disability would 1) encourage children with disabilities reaching the age of transition from school to work to choose work rather than SSI, and 2) offset, to a large degree, the effective tax rate on current SSI recipients who do work. The 1996 National Academy of Social Insurance’s Disability Policy Panel recommends such a credit for a broad range of people with disabilities who have serious disabilities, whether or not they are eligible for disability transfer benefits (Mashaw and Reno 1996). (For a broader discussion of the DWTC, see Burkhauser, Glenn, and Wittenburg 1997.)

A great public policy tragedy occurred in 1993 when the Assistant Secretary for Policy Evaluation, David Ellwood, convinced the administration to push for an extension of the EITC but no one in the administration or in the disability advocacy community seized that moment to extend the credit to people with disabilities. I understand why Ellwood didn’t do it. He, like most poverty policy experts, divides the population into two groups: those who are expected to work and those who are not expected to work. To him people with disabilities are not expected to work. But where were the disability advocates? Why didn’t they push the message behind the Americans with Disabilities Act of 1990 to its logical conclusion and fight to extend the EITC as a means
of further integrating the doubly disadvantaged into the labor market? I believe in 1993 there would have been a bipartisan majority ready to make that logical step if only someone had pointed the way. A bipartisan majority continues to support the EITC's role as the major federal program aimed at making work pay. And I believe the passage of a DWTC is possible. But to achieve this goal, policymakers need to be convinced that most people with disabilities can work and should therefore be expected to work. And, therefore, that people with disabilities should first be targeted for work-based programs, not transfer programs. But to win over policymakers, it is first necessary that the advocates of people with disabilities believe that work is possible.

ADMINISTRATIVE PROCESS

Previous chapters have documented how the Social Security Administration's outreach efforts, together with state efforts to shift welfare costs, increased applications for SSI. This is further evidence that the marching orders federal and state policymakers give to the frontline gatekeepers of our disability system influence the work versus transfer outcomes of people with disabilities. The Carter administration in 1978 sent word to state administrators that DI and SSI rolls were rising too fast and that the eligibility process needed tightening. This moral, or immoral suasion, depending on your point of view, greatly reduced acceptance rates with no formal change in the law.

Aarts, Burkhauser, and de Jong (1996) compare work and transfer aspects in the disability programs of several western industrial countries. Those countries in which gatekeepers are given a clear signal that return-to-work is the primary goal of disability policy—e.g., Sweden and Germany—are the countries that best achieve this goal.

While the supply of disability applicants is influenced by the individual incentives they perceive, the "demand" for applicants by gatekeepers, which can be evidenced both by explicit procedures as well as by attitudes, also matters. If the gatekeepers of our disability system are signaled that successful placements into rehabilitation, training, and jobs are their measure of administrative success, it is likely we will see more such placements. But, unlike many European countries, our
rehabilitation system is almost completely separate from our benefits transfer system, and it would be much harder to achieve coordination between the two.

TIME-LIMITED BENEFITS

To be eligible for permanent SSI or DI benefits, a person must be unable to perform “substantial gainful activity” for at least one year. I propose that those who meet this criterion but still may recover or be able to return to work after one year be given only a temporary SSI or DI benefit. After one year they would be fully reevaluated for permanent benefits. During this temporary benefit period, recipients would have an opportunity to receive training and/or rehabilitation necessary to put them back to work. This proposal is much more important now that DI and SSI are shifting from bridges to early retirement toward lifelong programs for younger workers.

CONCLUSION

For the majority of people with disabilities, onset of a disability occurs after they have entered employment. Most people continue to work for some time after the onset of a disability. The timing of policies to prolong workforce participation may prove to be as important as the implementation itself. Policymakers should begin to make work pay for people with disabilities through tax subsidies to employers, disability tax credits, the use of temporary benefits as a mechanism for trying rehabilitation before permanent transfers, and as a general signal to gatekeepers that return to work is the primary goal of social policy. The enactment of these pro-work reforms is likely to reduce the disability transfer population and increase the employment of people with disabilities.
References


