

ECONOMIC BRIEF NO. 34

Helping the Poor Efficiently

This series of economic briefs explores fundamental concepts in economics and community and economic development.

Some economists are flatly opposed to intentional redistribution of income from the rich to the poor by government. Most, however, find helping some groups justified.

Once it is agreed that groups like the elderly, the disabled, or children should receive cash payments or services like health

After verification of age and years of participation in the system, a retiree receives a Social Security pension, a simple process. Qualifying for disability benefits, however, requires a complex screening system to verify the nature and extent of a disability.

Likewise, administering the Earned Income Credit benefit is fairly simple and straightforward. Eligibility is determined through information provided for income tax purposes. But Temporary Assistance for Needy Families, which replaced Aid to Families with

Dependent Children, housing vouchers, and food stamps, requires a complex eligibility verification process.

Efforts to avoid fraud drive up administrative costs. Unfortunately, if resources for detecting fraud are limited, it may be difficult to exclude the undeserving. But, some argue that the cost of monitoring to prevent fraud is greater than the cost saving.

If money isn't spent to root out fraud and abuse, then the rewards to living off the dole could be more attractive than engaging in productive work. A system that is vulnerable to

fraud will attract more cheaters, further increasing the cost of monitoring while decreasing system support.

The availability of public assistance and the likelihood of losing assistance when moving into paid employment may discourage recipients from taking jobs. Before welfare reform, aid recipients might calculate the cost of working, like child care and transportation, and the loss of benefits, concluding that entering the work force wouldn't increase their economic well-being.

Welfare reform has addressed this issue by providing support services and delaying loss of benefits to those taking jobs. Time limits on benefits and other penalties are also imposed on those not responding to work opportunities. The reforms have increased the monitoring cost of the system, but so far appear to have successfully reoriented the redistribution system toward a more limited target population.

In the long run, welfare reform could increase efficiency in all three senses—targeting aid to those who need it, reducing administrative overhead, and strengthening work incentives.

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care or food stamps, the challenge is to do it efficiently. Efficiency means targeting aid to the deserving, minimizing administrative costs, and providing incentives for the recipients to become productive members of society.

The Social Security system and the federal Earned Income Credit have successfully kept fraud low with little cost. Social Security enrollment is simple and automatic with no means test. The burden of getting revenue into the system with the accompanying documentation mostly falls on employers and the self-employed.