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Answers to Follow-Up Questions from June 19, 2013 hearing on “Encouraging Work Through the Social Security Disability Program,” House of Representatives, Committee on Ways and Means, Subcommittee on Social Security

1. Our analysis finds that a significant fraction of growth in the DI rolls since 1980 remains unexplained. Our review of the evidence suggests that changes in the operation of the program and the increase in the relative value of benefits for low-income workers have combined to make the program more valuable and easier to access. In 1984, Congress expanded the ways workers could qualify for DI benefits. The program’s eligibility criteria shifted from a list of specific impairments to a more general consideration of a person’s ability to work and medical condition, including pain and other symptoms. Consequently, the proportion of beneficiaries approved based on more subjective vocational or functional criteria grew from 24.6% in 1984 to 54.3% in 2010 (Social Security Advisory Board 2012). Additionally, over the past 20 years, the relative value of cash benefits has risen for low-wage workers. Autor and Duggan (2003) show that the combination of rising income inequality and the indexation of benefits by the average wage level increased the extent to which DI payments replaced wages for low-paid workers. The rising replacement rate has made DI benefits more attractive for low-wage workers and has probably amplified DI’s sensitivity to the business cycle. These two factors have increasingly made DI more like a long-term unemployment insurance program for marginally attached workers with impairments than a last-resort cash support program for individuals completely unable to work.
2. In a book with Richard Burkhauser, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change*, we argued that the DI program is in need of reform and that *all* of the actors in the disability program face incentives that are misaligned with the ADA goal of fully integrating people with disabilities into society. In our book we called for Social Security and the states to develop and test new initiatives designed to improve the incentives, support, and outcomes for people with disabilities. As a model of “testing” new initiatives before making them national policy we pointed to U.S. welfare reform where through years of waiver-based experimentation states had developed best practices that informed the formulation of TANF.

With this in mind, the Liebman and Smalligan proposal seems a very important beginning to developing effective reforms to DI. That said, it seems essential that experimentation include agents and agencies beyond the Social Security Administration both in developing the tests and in evaluating their effectiveness. A lesson from the literature on the DI program is that it interacts with many other Federal/State/private insurance and transfer programs. As such, crafting experiments that include and incentivize all agents seems crucial. Finally, a

challenge that the DI program will face relative to welfare reform is that states are not financially responsible for those who move onto DI. This means there will need to be some method of engaging states in these experimental programs—my own assessment is this method will need to have a financial reward/penalty to be effective.