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Why Does Anyone Work?

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As Americans celebrated the Labor Day weekend, nearly 94 million people of working age actually had nothing to celebrate. That's because they aren't in the labor force. They're not working and they're not looking for a job. The latest Bureau of Labor Statistics reports that the labor force participation rate is now 62.6 percent, a 38 year low.

Why is that? The generosity of welfare benefits must surely be one of the reasons. A 2013 Cato Institute study by Michael Tanner and Charles Hughes found that a mother with two children participating in seven common welfare programs would enjoy more income than what she would earn from a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit and Child Tax Credit. In Connecticut, Hawaii, Massachusetts, New Jersey, New York, Rhode Island, Vermont, and the District of Columbia, welfare pays more than a $20-an-hour job. In five additional states, it yields more than a $15-an-hour job.

These results are confirmed by other work. A Congressional Budget Office study, looking at Pennsylvania, found that the loss of benefits creates very high marginal tax rates, discouraging labor-force entry and work hours. The report found that an adult with one child faced a marginal tax rate of 47 percent for taking a job paying the minimum wage in 2012. They faced a marginal tax rate of 95 percent once their earnings disqualified them from Medicaid.

Turns out, the United States is not alone. Tanner and Hughes have now produced a similar analysis of European welfare states and discovered that they really are "welfare states." They write:

- Welfare benefits in nine EU countries exceed $18,200 a year; in six countries they exceed $24,300; and in Denmark the benefit package is valued at $38,558.

- In nine countries, welfare benefits exceed the minimum wage in that country.

- Benefits in 11 countries exceed half of the net income for someone earning the average wage.

- In Austria, Croatia, and Denmark, the effective marginal tax rate for someone leaving welfare for work is nearly 100 percent, meaning that a person would gain virtually no additional income from working.
- In another 16 countries, the effective marginal tax rate is in excess of 50 percent.

But here is a surprise. In general, Europe is not worse than we are. The authors write:

Benefits in the United States fit comfortably into the mainstream of welfare states. Excluding Medicaid, the United States would rank 10th among the EU nations analyzed, more generous than France and slightly less generous than Sweden. Thirty-five states offer a package more generous than the mean benefit package offered in the European countries analyzed.

Having a job is probably the single most important step in avoiding poverty:

In the United States, only 2.7 percent of full-time workers are poor. Even part-time work makes a significant difference. Only 15.8 percent of part-time workers are poor, compared with 23.2 percent of adults who do not work.

Given the enormous amount of attention paid to inequality these days, you would think that these two Cato studies would be required reading at *The New York Times* and in college classrooms thought out the land – but I'm not holding my breath.