

There's A New Study That Says Welfare Pays Better Than Work — Here's Why It's Total Nonsense

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The Cato Institute is out with [an update](#) to their 1995 study which purports to show that, in most states, welfare pays better than work.

They add up benefits available through eight programs to a low-income woman with two children, and find total benefit values well in excess of full-time minimum wage work, or even, in some states, middle-skill work.

The study is called "The Welfare-Versus-Work Tradeoff," and it's meant to show why people don't get off welfare. And it's B.S., for three reasons.

1. Very few people actually qualify for all eight of the programs Cato looks at. Particularly, Temporary Assistance to Needy Families (cash welfare) and housing assistance can provide some very expensive benefits. But fewer than two million households get TANF and only about four million get housing assistance. It is much more typical for a welfare beneficiary to be getting SNAP (food stamps) and [Medicaid](#) (health insurance), but no assistance with housing or cash. So, the typical welfare benefit is much lower than Cato makes out, making staying on welfare less appealing.

2. Welfare benefits for single adults are much less generous than those for women with children.

3. Not all benefits are lost when a welfare recipient starts working. SNAP benefits phase out gradually with rising income. People who go back to work don't necessarily lose health benefits, either. Some get new health benefits through work.

The children of low-income [uninsured](#) workers qualify for the Children's Health Insurance Program in most states. In some states, low-income working adults even qualify for Medicaid. So, going back to work doesn't mean nearly the loss of benefits that Cato implies.

That said, poverty traps are real. This is the phenomenon of people losing benefits as they earn more income of their own. It's a problem that welfare programs need to be designed around, and there are two ways of mitigating it.

One is to make benefits more generous by extending their phaseout ranges, so people don't lose as many benefits as they earn more income. That costs money. The other is to reduce benefits. That reduces the standard of living for the most vulnerable people in America.

It's easier to make an argument for the latter approach when you have an economy that creates broad prosperity and makes it easy for people to find living-wage jobs if they are willing to work.

We don't have that economy.

This is the problem that conservatives and libertarians refuse to grapple with: If you're unwilling to support policies that promote macroeconomic stability, such as counter-cyclical [fiscal](#) and monetary policies, you're only making a more generous welfare state more morally necessary.

Meanwhile, Democrats have implemented a reform that actually does help to address the poverty trap issue. The [Affordable Care Act](#), when it's implemented next year, will make it possible for people on Medicaid to go back to work without fearing loss of health insurance. It will turn what benefit cliffs exist in the Medicaid program into a gradual slope, so nobody will have to fear that an extra dollar of income will make them uninsured.

That is, the Affordable Care Act will do this except in Republican-led states that are rejecting the Medicaid expansion. In those states, the welfare-versus-work tradeoff will be more tilted toward welfare, and a cliff in Medicaid benefits will still be providing a disincentive to take a job.

That's because conservatives and libertarians don't really care about the poverty trap, much as they may talk about it — they just hate spending money on the poor.