



Is Welfare Too Cushy?

By [Peter Coy](#) - September 11, 2013

A worker cleans tables at a McDonald's fast food restaurant on August 23 in Brooklyn, New York

Are generous welfare benefits keeping Americans from working for a living? The libertarian Cato Institute said so last month in a [white paper](#) that got [tons](#) of news coverage.

Authors Michael Tanner and Charles Hughes wrote:

The current welfare system provides such a high level of benefits that it acts as a disincentive for work. Welfare currently pays more than a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit, and in 13 states it pays more than \$15 per hour. If Congress and state legislatures are serious about reducing welfare dependence and rewarding work, they should consider strengthening welfare work requirements, removing exemptions, and narrowing the definition of work. Moreover, states should consider ways to shrink the gap between the value of welfare and work by reducing current benefit levels and tightening eligibility requirements.

The argument that welfare displaces work isn't new, of course. It was a favorite of President Ronald Reagan. Cato itself did a major study in 1995 making essentially the same point. Tanner and Hughes conclude that things haven't gotten much better since then despite the Clinton administration's celebrated 1996 welfare-to-work legislation. "Welfare benefits continue to outpace the income that most recipients can expect to earn from an entry-level job, and the balance between welfare and work may actually have grown worse in recent years," they write.

But the Cato analysis suffers from a conceptual flaw that skews its results. The authors compare a nonworking family that gets a full suite of benefits to a working family that gets no benefits and conclude, not surprisingly, that the nonworking family would be better off.

That's not the way the real world works. In the untidy world of poverty, many families without work don't receive a full suite of benefits. And because of reforms instituted over the past 20 years, families are able to retain some of their benefits even when an adult in the household gets a job. So the decrease in the amount of benefits that families get when a family member goes to work is smaller than Cato says, as is the disincentive against work.

"The way people read the study is that it's better to be on welfare than on work. In almost all circumstances, taking a low-wage job would improve the economic situation of the family," says Sharon

Parrott of the liberal Center on Budget & Policy Priorities. She and a colleague, LaDonna Pavetti, wrote a [rebuttal](#) to Cato's white paper.

The Cato authors acknowledge Parrott and Pavetti's argument in a follow-up [response](#) to unnamed critics. "This is a valid point and our paper discusses the issue at length," they write. Their defense is that their goal was to juxtapose the two extremes: all welfare and no work vs. all work and no welfare. They graciously allow that "A study that examines the impact of phasing-out various benefits as former recipients earn additional income might indeed be valuable in the future."

Cato is correct about one thing: It's unavoidable that phasing out welfare benefits at higher incomes will reduce the incentive to work and earn. An abrupt benefit phase-out discourages poor people from working in exactly the same way that a high income tax rate discourages rich people from working.

The question is how to make the phase-out climb less steep. The generous but costly approach is to allow the working poor to retain more of the benefits they got when they weren't working. That's what the Center on Budget & Policy Priorities favors. The cheaper but meaner approach is to remove benefits that go to nonworking families. That's what Cato argues for:

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The Urban Institute's Eugene Steuerle has been trying to find a third way. Steuerle, an institute fellow, agrees with Cato that welfare can discourage work but agrees with the Center on Budget & Policy Priorities that punishing the poor is not the answer. Current programs, he [testified](#) to Congress earlier this year, "are designed in piecemeal fashion, leading to various unfair, inefficient, and somewhat strange effects."

Steuerle argues that the government needs to put more emphasis on opportunity and mobility. That involves more education and training and incentives to save and work. That's a message that resonates with conservatives, but perhaps not with libertarians, because it says government can play a positive role in helping people make the transition from welfare to work—not just cut holes in the safety net and hope for the best.