

Forbes

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The Laffer Curve Applies To Poor People Just As Much As It Does To Rich Ones

Cato has a report out detailing quite how much someone can get in benefits in the United States. You can read the whole thing [here](#). The crucial point is this:

In 11 states, welfare pays more than the average pre-tax first year wage for a teacher. In 39 states it pays more than the starting wage for a secretary. And, in the 3 most generous states a person on welfare can take home more money than an entry-level computer programmer.

It should be said that Cato have slightly weighted their findings by making all their calculations on a family of a single mother with two children. A single individual with no children would not be making anything like these numbers. Another way or running the numbers is that in just under a third of states welfare pays around \$15 an hour based upon the normal working year.

Now maybe this is too much and maybe it's not enough. Which side you come down on there is really up to you. My point here is to try and point out that economists do not believe that the Laffer Curve only applies to rich people: they believe that it applies to all people at all points on the income distribution. Tax rates that are "too high" will discourage people from working. And I think we'd all agree that a tax rate of 100% or more

is going to be a disincentive to work. I'd certainly consider not working if going to work meant that I ended up with less money as a result of working.

This is the point that Cato is making though. In much of the US not working pays more than working does. That is, the tax rate for going out to work is over 100%. So, just as we think that with rich people high tax rates will discourage working so also do we believe that high tax rates on the poor will discourage working.

There are a number of possible solutions here but very few of them are politically palatable. One is simply to cut welfare so that going out to work always pays. The unpalatability here comes from the fact that it's not actually the children's fault that any of this is happening but they'll inevitably be the ones who suffer. It might be possible to make in work benefits (the EITC and so on) more generous so that work always pays: but that's going to be hard political sell.

My own suggestion would be a universal basic income and the abolition of welfare in its entirety. Because everyone would get that unconditional grant then work would always pay. The tax and benefit systems would not combine, as they currently do, to produce that marginal tax rate of over 100% at certain points along the income spectrum. But that seems even more difficult as a political suggestion.

Anyone got any other bright ideas? Tax rates of over 100% definitely discourage work: so how do we get the system to not have marginal tax and benefit withdrawal rates that high?