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Welfare pays much too well

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Contrary to stereotypes, there is no evidence that people on welfare are lazy. Indeed, surveys of welfare recipients consistently show their desire for a job. But there is also evidence that many are reluctant to accept available employment opportunities. Despite work requirements included in the 1996 welfare reform, the U.S. Department of Health and Human Services says less than 42 percent of adult welfare recipients participate in work activities nationwide. Why the contradiction?

Perhaps it’s because, while poor people are not lazy, they are not stupid either. If you pay people more not to work than they can earn at a job, many won’t work.

A new study by the Cato Institute found that in many states, it does indeed pay better to be on welfare than it does to work.

Most reports on welfare focus only on the cash benefit program: Temporary Assistance for Needy Families. This leaves the misimpression that benefits provide a bare, subsistence-level income. In reality, the U.S. government funds 126 separate programs for low-income people, 72 of which provide either cash or in-kind benefits to individuals.

Because there are so many categories of welfare recipients and so many different types of benefits, it is extremely difficult to determine how many people get what combination of benefits. For the purposes of this study, we assumed a hypothetical family consisting of a mother with two children, ages 1 and 4, and calculated the combined total of seven benefits that family could receive in all 50 states.

If that mom received Temporary Assistance for Needy Families, it is almost certain that she would also receive food stamps and Medicaid as well. Roughly 87 percent of needy families do.

In Washington, D.C., and 10 particularly generous states — Hawaii, Vermont, Connecticut, Massachusetts, New York, New Jersey, Rhode Island, Maryland, New Hampshire and California — these seven programs provide a mother with two young children an annual benefit worth more than $35,000 a year.

That may sound low, but it’s important to remember that welfare benefits are not taxed, whereas wages are. So to put the welfare benefit package in perspective, we calculated the amount of money our recipient would have to earn in pretax income to bring home an equal amount of money if she took a 40-hour-per-week job.

After computing the federal income tax, the state income tax and payroll taxes, as well as taking into account federal and state earned income tax credits and the child tax credit, we came to the inescapable conclusion that welfare pays very well.

In Hawaii, Massachusetts, Connecticut, New York, New Jersey, Rhode Island, Vermont and Washington, D.C., welfare pays more than a $20-an-hour job, or more than 2.75 times the minimum wage.

By not working, welfare recipients may be responding rationally to the incentives our public policymakers have established.

As a result, 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 shrink the gap between the value of welfare and work by reducing current benefit levels and tightening eligibility requirements.

Michael D. Tanner is a senior fellow at the Cato Institute and the author of “The Poverty of Welfare: Helping Others in Civil Society.”