Does collecting welfare beat working? Cato Institute thinks so

By Richard Wise

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"If your theory does not comport with reality, then you have a bad theory." So says every science teacher to just about every science student, from middle through graduate school.

If their latest publication, The Work versus Welfare Trade-off:2013 is any indication, some of the great minds at the Cato Institute skipped those science classes.

Their latest theory, put forth in a study by Michael Tanner and Charles Hughes, tries to show that in many states, a person can make more money by going on welfare than by working for a living.

That is a bad theory; it simply does not comport with objective reality. Yet when all their data were collected and analyzed, what do you think Messrs. Tanner and Hughes concluded?

From the study's Executive Summary: "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."

The authors unwittingly reveal their bias in that sentence: "The balance " may have grown worse." A more objective investigator might have written, "The balance may have changed "" But these authors are not objective. To Messrs. Tanner and Hughes, "worse" means "in favor of the recipient," that is, "worse" for the taxpayer.

The Executive Summary continues, "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."

The authors go on to point out that since most welfare benefits are tax-free, "their dollar value was greater than the amount of take-home income a worker would receive from an entry-level job."

And what are Messrs. Tanner and Hughes' suggestions for fixing this problem? "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." They also suggest that states "consider ways to shrink the gap between the value of welfare and work by reducing current benefit levels and tightening eligibility requirements."

Of course, that would be the Cato Institute's recommendation no matter how the study came out. The Cato Institute is a libertarian think tank, founded in 1974 by, among other people, Charles G. Koch, Chairman and CEO of Koch Industries, Inc.

It should come as no great surprise that the study fully supports the great conservative notion that everybody is doing just fine and we would all be doing even better if the government would just butt out of our lives and let us keep our money. Oh, and if all those government-enabled slackers and deadbeats would get off their duffs and start working for a living.

Trouble is, that theory does not comport with objective reality -- unless you bend objective reality to accommodate the theory. And that is what Messrs. Tanner and Hughes proceed to do.

Method

To carry out their study, Messrs. Tanner and Hughes created a hypothetical reference welfare family consisting of a single mother and two children, both under 5 years old (and thus eligible for the WIC program).

The authors assembled, state by state, a basket of seven welfare programs for which such a family would typically qualify. The basket included:

- Temporary Assistance for Needy Families (TANF, the less-generous successor to AFDC),

Supplemental Nutritional Assistance Program (SNAP, formerly food stamps),

- Medicaid,
- Housing Assistance (either public housing, Section 8 payments, or other rent subsidies),
- Utilities Assistance (including the federal Low Income Home Energy Assistance Program [LIHEAP]),
- Women, Infants, and Children Program (WIC), and
- The Emergency Food Assistance Program (TEFAP).

They computed the total value of these benefits by state for their profile family and compared them to median work-related incomes for each state.

One state's results - Connecticut

I was especially interested in the numbers for my home state of Connecticut. Connecticut's numbers appear in the table below (columns A and B only), extracted from the study's 50-state table. (Table 14, pp. 32-33)

TOTAL VALUE OF MONTHLY WELFARE BENEFITS - CONNECTICUT				
A	B	C	D	E
Program	CT amount	Discount factor	Discounted Total	Disc. Cash Amount
TANF	$ 567		$ 567	$ 567
SNAP	$ 526		$ 526	$ 526
Medicaid	$ 765		$ 765	
Housing	$ 1,187	68.1%	$ 379	$ 379
WIC	$ 104	39.0%	$ 64	$ 64
LIHEAP	$ 56	50.0%	$ 28	$ 28
TEFAP	$ 25		$ 25	$ 25
Monthly	$ 3,230		$ 2,353	$ 1,588
Annually	$ 38,762	73%	$ 28,236	$ 19,061

Using the study's own numbers, the profile family in Connecticut would receive $567 a month from TANF and $526 a month from SNAP. Just about everyone who qualifies for TANF also qualifies for SNAP.

The study imputes to the family a monthly cost of $765 for Medicaid costs. But those charges are paid directly to health care providers so the profile family never sees the money and is unable to manage its own health care costs. It's unlikely that a single mother and two reasonably healthy kids incurs anywhere near this much in health care costs each month, but other welfare recipients, including many elderly and disabled people who account for 2/3 of Medicare spending, might have monthly bills of this size.

The study imputes a monthly housing cost of $1,181 to the profile family. However, only 31.9% of welfare recipients receive any housing assistance at all. So the $1,181 figure must be discounted to yield an "expectancy" figure that is much lower - $379 a month. In many cases, the beneficiaries never actually handle this money so they are unable to manage the expense.

(Note: this discounting is necessary so that when you multiply the expected benefit by the number of benefit recipients in the state you get the total state expenditure for that benefit. Without discounting, the total expense would be vastly overstated.)

The profile family qualifies for payments under the WIC program of $104 a month. But only about 61% of those eligible take advantage of WIC so that number most be discounted as well. The expected value per profile family would be $64 a month.

The family qualifies for LIHEAP assistance in the amount of $56 a month. But since only about 50% of those eligible receive this benefit, we discount the number to an expected value of $28 a month.

The family also qualifies for commodities assistance under TEFAP. The amount this family would receive is $25 a month.

Messrs. Tanner and Hughes add up their numbers (column B) to produce a total monthly welfare benefit of $3,230, or $38,762 a year. That's too much money for doing next to nothing, they argue, and the welfare benefit amount should be drastically reduced.

But not so fast, gentlemen. After applying the discounts in column C (which is the proper way to handle hypothetical figures like these when not everyone receives each benefit), the monthly amount reduces to $2,353, or $28,236 a year (column D).

And on a strictly cash basis, that profile family would be expected to receive about $1,588 a month - $19,056 a year -- plus the ability to see a doctor when a family member is sick (column E). That assumes the family actually receives some amount of housing subsidy, which most families do not.

Of course, out of that $1,588 a month the family must pay rent -- at least $800 a month for a two-bedroom apartment in Connecticut. That would leave, at most, $741 after state sales taxes, or $185 a week. And out of that amount the family must pay for all its food, heat and electric utilities (expensive in New England), clothing (kids do grow, y'know), transportation costs, various personal and household consumables, the costs associated with job search or job training and, yes, even a telephone, a television, and a computer (which is how you apply for jobs these days).

Messrs. Tanner and Hughes may believe that such benefits are excessive. They may argue that the richest country in the history of the world cannot afford to support such lavish lifestyles, such arrant profligacy by people who are for the moment making essentially no economic contribution to society (as if working at the Cato Institute " oh, never mind).

On that point they and I vigorously disagree. As a society, we can and we should support these needy families. By the authors' own admission, "surveys of welfare recipients consistently show their desire for a job." (p. 2) People receiving public assistance are not, as a rule, slackers and deadbeats; the vast majority want to work and will take almost any job offered that they can afford to take. And in any case, none of them will be on public assistance forever (that's why it's called Temporary Assistance for Needy Families).

Comparison to Median Incomes

To compare their (improperly computed) figures to the monetary value of holding a job in each of the states, the authors compared the total value of the welfare benefits received to "median work-related income" by state.

This is where the study suffers a fatal breakdown. Table 4 (p. 10) shows the profile family's "pre-tax wage equivalent" and compares it to the state's "median salary."

The authors gross-up their bogus figures for the total value of welfare recipients' benefits to show that on a hypothetical pre-tax basis, the profile family's pre-tax income would be $44,370 (in Connecticut). They then compare that to a "median work-related income" of $41,330 and conclude that welfare pays 7.4% more than the median incomes of people who work.

Q.E.D., collecting welfare beats working for a living and any rational person should abandon the rat race and climb aboard the government gravy train as soon as possible.

But once again, not so fast, gentlemen. Unfortunately, the authors fail to report whose "median work-related income" they are taking about. Is it the whole state's? Is it the median per capita income? The median household income? The median income for a family of three? The median incomes for working single moms with two pre-school age kids? It's important to know because the whole comparative study hinges on the credibility of this table and, in its present form, the information is simply not credible.

The authors also fail to report whether their "median work-related income" figures include the cost of workers' employer-provided health care benefits. They should include those figures because they include the imputed value of Medicaid in the figures for welfare recipients. Otherwise, they are not making an "apples-to-apples" comparison.

At this point, it becomes clear that the study is too flawed and biased to have any credibility at all.

Reality? What Reality?

The authors have an intriguing way of acknowledging in passing the existence of an objective reality " and then simply ignoring it and pressing ahead unfazed. In their minds, it seems, their pre-conceived theory is always sound because objective reality is never allowed to strike more than a glancing blow.

Some examples:

"Contrary to stereotypes, there is no evidence that people on welfare are lazy or do not wish to work. Indeed, surveys of welfare recipients consistently show their desire for a job." (p. 2)

True enough. But what does recognition of that point do to the authors' theory that welfare benefits are so exceedingly generous that they provide a disincentive to work? Either the benefits are not so generous after all or some other factor provides an offsetting and greater incentive to work. Which is it?

"Attempts to mandate wage increases, such as increases in the minimum wage, primarily result in increased unemployment for the lowest-skilled workers." (p. 3)

This statement is simply factually incorrect. In the words of the great Yogi Berra, "In theory, there is no difference between theory and practice. In practice, there is." Although the theory seems so simple that it must be true, in practice, there are too many other ways to respond to a mandated wage increase to begin by cutting jobs. If a firm's response to a mandated wage increase is to cut jobs, they the firm wanted to cut jobs anyway. The wage increase is the excuse, not the reason.

On the FICA payroll tax: "The employer also must pay a payroll tax to these (FICA) programs equal to 7.65 percent of pay, and most economists believe that this employer's "share" is actually borne by the worker in the form of reduced wages." (p. 34)

Then "most economists" do not know what they were talking about. It's true that employers must match their employees' FICA contributions. But those employers do not think about their contributions as "worker-earned money," as though the workers' pay would increase if the employer's contribution ever were discontinued. If the employer's match were discontinued, employers would simply keep the money. Corporate profits would go up, not workers' pay. That's reality.

From the Conclusion: "Many welfare recipients, even those receiving the highest level of benefits, are doing everything they can to find employment and leave the welfare system."

Again I ask: so what does this fact do to your theory that welfare benefits are so generous that they provide a disincentive to work? Where's the disincentive? Are working people so blind or stupid as to not recognize a better deal when they see it?

"Still it is undeniable that for many recipients -- especially long-term dependents -- welfare pays more than the type of entry-level job that a typical welfare recipient can expect to find. As long as this is true, many recipients are likely to choose welfare over work." (p. 42)

But they are not choosing welfare over work. That is the reality the authors choose to ignore.

What's more, if that were true, then welfare rolls would grow even as the number of unfilled entry-level jobs grows. Thanks to the Great Recession, the number of people on welfare rolls has indeed grown. But the availability of vacant entry-level jobs that could be filled by those recipients has not grown.

And in any case, if entry-level jobs remained unfilled, then the free market should offer the ideal and most economically efficient solution: raise the pay for those entry-level jobs to the point where the incentives favor work, not welfare. That would reduce welfare rolls, boost the economy (because entry-level workers tend to spend all their money), and improve tax receipts. How could the august Cato Institute fail to acknowledge this fundamental principle of free markets?

Here's a suggestion for Messrs. Tanner and Hughes: knock off the number noodling and model muddling, and get out of the ivory tower for a couple weeks. Go meet some real, live people living on TANF, SNAP, etc. In fact, get to know a single mom with two active preschoolers. Try living like they do for just a week. Then come back and tell us all about how very good welfare recipients have it.

In fact, if you're nice to her, she may even give you a lift back to the office in her Cadillac.