

The Providence Journal

Michael D. Tanner: Work can pay less than welfare in R.I.

August 29, 2013 01:00 AM

BY MICHAEL TANNER

Most decisions in life are the result of a cost-benefit analysis. When residents in Rhode Island consider getting a job, they assume they would be better off having a job than not. They'd be wrong. Because in Rhode Island, it pays not to work.

Last week, the Cato Institute released a new study looking at the state-by-state value of welfare. Nationwide, the study found that the value of benefits for a typical recipient family ranged from a high of \$49,175 in Hawaii to a low of \$16,984 in Mississippi. In Rhode Island, a mother with two children participating in seven major welfare programs (Temporary Assistance for Needy Families, Medicaid, food stamps, WIC, housing assistance, utility assistance and free commodities) could receive a package of benefits worth \$38,632, the sixth highest in the nation. Only Hawaii, Massachusetts, Connecticut, New Jersey and the District of Columbia provided more generous benefits.

When it comes to gauging the value of welfare benefits, it is important to remember that they are not taxed, while wages are. In fact, in some ways, the highest marginal tax rates anywhere are not for millionaires, but for someone leaving welfare and taking a job.

Therefore, a mother with two children in Rhode Island would have to earn \$20.83 per hour for her family to be better off than they would be on welfare. That's more than the average entry-level salary for a teacher or secretary. In fact, it is almost 118 percent of Rhode Island's median salary.

Let's not forget the additional costs that come with going to work, such as child care, transportation and clothing. Even if the final income level remains unchanged, an individual moving from welfare to work will perceive some form of loss: a reduction in leisure as opposed to work.

That's not to say welfare recipients in Rhode Island are lazy — they aren't. But they're not stupid, either. Surveys of welfare recipients consistently show their desire for a job. There is also evidence, however, that many are reluctant to accept available employment opportunities. Despite the work requirements included in the 1996 welfare reform, only 18 percent of adult welfare recipients in Rhode Island are working in unsubsidized jobs, while roughly 29 percent are involved in the broader definition of work participation, which includes activities such as job search and training.

We shouldn't blame welfare recipients. By not working, they are simply responding rationally to the incentive systems our public policy-makers have established. Of course, not every welfare recipient meets the study's profile, and many who do don't receive all the benefits listed. (On the other hand, some receive even more.) Still, what is undeniable is that for many recipients — particularly "long-term" dependents — welfare pays substantially more than an entry-level job.

In a Rhode Island recipient's short-term cost-benefit analysis, choosing welfare over work makes perfect sense. But it may hurt over the long term because one of the most important steps toward avoiding or getting out of poverty is a job. Only 2.6 percent of full-time workers are poor, compared with 23.9 percent of adults who do not work. Even though many anti-poverty activists decry low-wage jobs, starting at a minimum-wage job can be a springboard out of poverty. And while it would be nice to raise the wages of entry-level service workers, government has no ability to do so. (Study after study shows that mandated wage increases result in a loss of jobs for the lowest-skilled workers).

If reducing welfare dependence and rewarding work is the goal, Rhode Island legislators should consider ways to shrink the gap between the value of welfare and work by reducing benefit levels and tightening eligibility requirements. For its part, Congress should consider strengthening welfare work requirements, removing exemptions and narrowing the definition of work.

Michael Tanner is a senior fellow at the Cato Institute, a libertarian think tank in Washington, D.C., and author of "Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution."