



## How the Welfare State Traps the Poor in Dependency, the British Version

By: Daniel J. Mitchell - January 3, 2013

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Back in 2011, I linked to a simple chart that illustrated how handouts and subsidies create very high implicit marginal tax rates for low-income people and explained how “generosity” from the government leads to a tar-paper effect that limits upward mobility.

Earlier this year, I shared an amazing chart that specifically measured how the welfare state imposes these high implicit tax rates. Unbelievably, some people would be better off earning \$29,000 rather than \$69,000.

Simply stated, the multitude of redistribution programs are worth a lot of money, but you begin to lose those goodies if you begin to live a productive and independent life.

And since we know that rich people respond to high tax rates by declaring less income to the government, we shouldn't be surprised that poor people also respond to incentives.

We also shouldn't be surprised to learn that other nations have these same perverse policies. Here are some excerpts from a powerful piece for the UK-based Spectator.

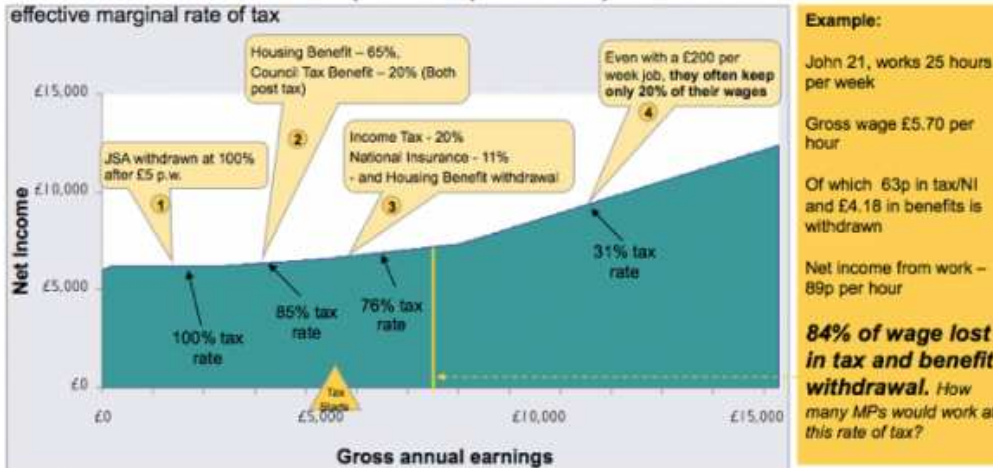
...today's Sunday Times magazine has a long piece asking whether there is a “fundamental difference in our attitudes to work”. It's still one of the most important questions in Britain today: what's the use of economic growth if it doesn't shorten British dole queues? And should we blame these industrious immigrants; aren't the Brits just lazy? ...The quality of the British debate is so poor that we almost never look at this from the point of view of the low-wage worker. Every budget, the IFS will dutifully work out if it has been “fair” – ie, gives the most to the poorest. The LibDems will judge a budget by this metric. That's a nice, easy, simple graph. But what about destroying the work incentive? Each budget and each change to tax should be judged on how many people are then ensnared in the welfare trap. I adapted the below (nasty, complex) graphs from an internal government presentation, which still make the case powerfully. The bottom axis is money earned from employer and the side axis is income retained. The graphs are complex but worth studying, if only to get a feel for the horrific system confronting millions of the lowest-paid in Britain today.

Here are the two charts. the author is correct. They are quite complex. But they show that there's no much incentive to work harder, whether you're a young person or a single parent.

### The British welfare trap, example 1: NEETs

Ever wondered why, if jobs figures are so strong, UK youth unemployment rate is so high?

**Income from work & benefits** (Under 25 – private rented). "Tax rate" refers to the effective marginal rate of tax

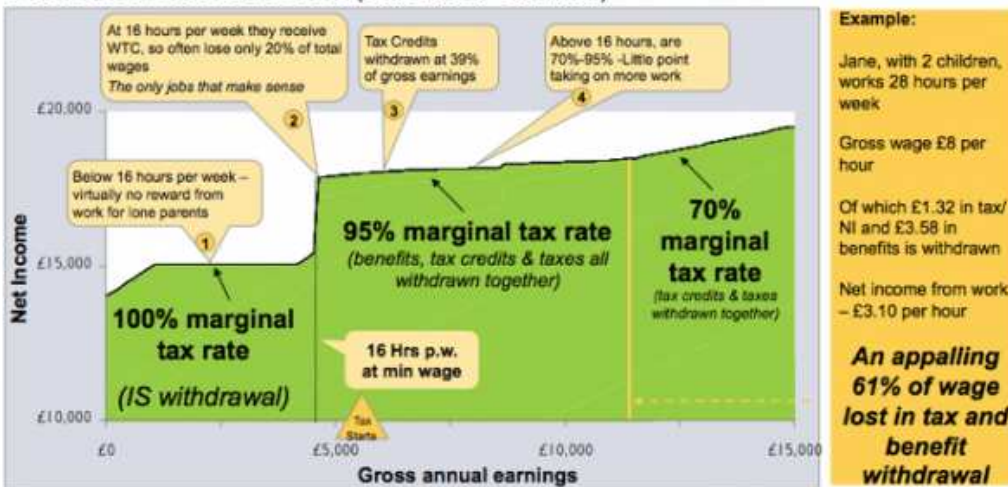


► Why do those most in need of encouragement have the greatest penalty?

### The British welfare trap, example 2: lone parents

Would you work at a 95pc effective tax rate?

**Income from work & benefits** (Lone Parent – 2 children)



► Why reward a 16 hour job, but not a 10-hour job?

After showing these amazing charts, the author makes some very powerful additional observations.

...if I was in a position of a British single mother I have not the slightest doubt that I would choose welfare. Why break your back on the minimum wage for longer than you have to, if it doesn't pay? Some people do have the resolve to do it. I know I wouldn't. ...So let's not talk about "lazy" Brits. The problem is a cruel and purblind welfare system which still, to this day, strengthens the welfare trap with budgets passed without the slightest regard for its effect on the work incentives on the poorest. ...Meanwhile, the cash-strapped British government is still creating still the most expensive poverty in the world.

The final sentence in the excerpt really sums it up, noting that the government is "creating the most expensive poverty in the world." Sort of like a turbo-charged version of Mitchell's Law. The politicians create a few redistribution programs. Poverty begins to get worse. So then they add a few more handouts to address the problems caused by the first set of programs. Lather, rinse, repeat.

In other words, this poster applies in all nations.

P.S. If you want some real-world examples of the horrible impact of the British welfare state, you can see how the welfare state destroys lives, creates perverse incentives, and turns people into despicable moochers.

P.P.S. We have the same problems in America, and even leftists are beginning to admit this is bad for poor people. Heck, just look at this chart showing that the poverty rate was falling until the War on Poverty began.