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## **Robbery and the Welfare State** **by George C. Leef**

[Stealing from Each Other: How the Welfare State Robs Americans of Money and Spirit](#) by Edgar K. Browning (Praeger, 2008); 226 pages.

In the Sherlock Holmes story “Silver Blaze,” the key to Holmes’s solution of the case rested on something that didn’t happen — the dog that didn’t bark in the night. Few people (such as Dr. Watson in the story) are inclined to think about the importance of things that do not happen, but we can make great mistakes if we fail to do so.

Edgar Browning, professor of economics at Texas A&M University, implores us, in his new book, *Stealing from Each Other*, to think as Holmes did and as economists do when they contemplate opportunity costs, namely, what we give up when we choose to do X rather than Y. Specifically, he wants us to consider the opportunity costs of our vast federal welfare system. What do we give up by the choice to have the federal government engage in widespread income redistribution?

Browning’s answer is: a great deal of output. He estimates that U.S. GDP would be at least 25 percent larger if it weren’t for the host of programs and taxes constituting the welfare system. He regards it as a bad tradeoff and makes a powerful case for abolishing federal income transfers and adopting a “just say no” policy toward any suggestions for more of them in the future. (Browning is fine with states’ running whatever welfare programs they want; he respects the Constitution’s federalist plan.) “A non-redistributive federal government,” he writes, “would permit more of the productive potential of the American people to be realized.” There’s the nonbarking dog he wants us to concentrate on.

How does the welfare system cause the economy to lose output? Browning counts the ways.

First, welfare recipients are strongly deterred from working by the high implicit tax rates they face on income they earn. Browning walks us through a typical case, a single mother with children who lives in Pennsylvania. She is eligible for welfare benefits under various programs

that amount to \$19,217. What if the woman finds a job and earns some money? Suppose she lands a part-time job and earns \$5,000 during the year. Is she \$5,000 better off? No — after factoring in the reductions in her benefits due to her earnings, she ends up with disposable income of \$18,253. The part-time job actually makes her worse off. Browning proceeds to show that she would need to get a job paying \$30,000 per year before she would end up financially better off than not working and living entirely at the expense of taxpayers. Even at that, her gain is less than \$700 for all the trouble of working.

It is no wonder that there has been little improvement in the living standards of the poor. They're essentially trapped in a barely tolerable existence of government handouts.

Is that just economic theory? Browning cites data showing that working among poor people has decreased as welfare has become more generous. "In 1960," he reports, "nearly two-thirds of households in the lowest income quintile were headed by someone who worked (at least part-time). At that time, welfare expenditures were under 1 percent of GDP. In 2005, when welfare had increased to about 5 percent of GDP, the proportion of workers in the lowest income quintile had fallen by half."

For people with poor labor-market skills, welfare has thus sawn off the bottom rungs on the ladder of success. It ensures that there is a more-or-less permanent class of idle, often resentful people. That circumstance is unhealthy, both economically and socially.

### **Wealth-destroying programs**

Social Security is another bad policy when you consider the hidden costs. What people see (and politicians make sure they do) are the checks flowing from the U.S. Treasury to help Grandpa pay his bills. What they don't consider is the fact that Grandpa would have most likely saved much more in the absence of Social Security. What if he had invested his taxes in stocks and bonds, thus providing more capital for the economy? Answer: he would enjoy a higher return than Social Security will pay and the economy would have grown faster. Browning estimates that Social Security has reduced GDP by 5 to 10 percent. Furthermore, the higher rate of return on private investments would easily cover the cost of health insurance, thus eliminating the "need" for another vast federal program, Medicare.

There are other villains, too. Unemployment-insurance taxes lower the paychecks of all workers to provide the funds that cover unemployment benefits for workers who lose their jobs. Since the standard duration of eligibility is 26 weeks, many workers wait until their benefits are exhausted to seriously look for new jobs. Moreover, there is a perverse redistributive effect; often it is lower-paid workers who have steady employment (retail cashiers, for example) and higher-paid workers who have frequent spells of unemployment (construction workers, for example). It's hardly equitable to tax the former for the benefit of the latter, but the state does. If there were no government unemployment-insurance system, workers would probably save money for the

possibility of a layoff. That money, again, productively invested and therefore contributing to economic growth, would be theirs — a nice nest egg for workers who go through their careers with little unemployment. On the other hand, unemployment taxes, such as Social Security taxes, do not accumulate wealth for the worker who pays them.

Browning's criticism of the minimum wage as a job destroyer is right on target. However, I think he goes astray in arguing that U.S. immigration policy is essentially an income-transfer program from low-paid native workers to the business owners who employ immigrants. He cites studies to the effect that immigration reduces the earnings of native low-wage workers by about 4 percent. I simply cannot see that a failure to prevent labor-market competition is the same as an income-transfer program. Immigrant workers no more steal from workers who are American citizens than imported goods steal sales from domestic manufacturers.

### **Politicizing the economy**

Otherwise, Browning's case is rock solid. America's 75-year dalliance with federal income redistribution has made it a poorer country than it would otherwise be. It has also made America a far more politicized and contentious one. He observes,

By their nature, transfer programs ensure that people have diametrically opposed interests, and opposing interests are often divisive. Social Security pits the young against the old, the federal income tax positions the wealthy against the middle class, affirmative action sets whites against minorities, and so on.

Political bickering and demagoguery flourish in the hothouse of redistributive politics. James Madison's counsel on the evils of faction comes readily to mind.

Furthermore, the redistributive state has the unhealthy (but again mostly unseen) consequence of encouraging rent-seeking and redistributive factionalism among society's nonpoor. People see welfare benefits flowing to the poor and think, "I pay a lot in taxes, so why shouldn't I get something too?" The result is that Washington, D.C., and the state capitals are overflowing with lobbyists grubbing political favors and subsidies for every imaginable trade association. Browning doesn't expressly make this point, but the existence of welfare for the poor provides the smoke-screen for welfare for the rich. Like a magician misdirecting the attention of his audience, politicians make a big spectacle of their proclaimed "compassion" for the poor while slyly slipping billions to well-heeled interest groups.

Browning reads the minds of egalitarians who might downplay the sacrifice involved here because having more "stuff" isn't really important. Of course, some of the increased output would be purchased by poorer people who would have higher incomes if the state abandoned welfare, but there is more to higher productivity than just cell phones and sneakers. Browning reminds

readers, “Invariably, higher incomes are associated with better health and longevity, greater artistic as well as scientific achievements — it’s not just about ‘things.’” Among the benefits of greater overall societal wealth are increased security and ability to respond to unforeseen events. Had the people living around New Orleans in August 2005 been wealthier, they could have coped better with Hurricane Katrina.

I must also commend Browning for not making his book exclusively about the *economics* of redistribution. He also questions its *morality*. He contends that when the state taxes Person A in order to transfer the money to Person B, it is stealing. The fact that it’s accomplished through democratic politics doesn’t change the morality at all. And to those who are inclined to view wealth accumulation by free-market activity as morally suspect, Browning replies that in the market, rewards correspond to a person’s contribution to the betterment of other people’s lives. Come up with a product that millions want very much and you earn a lot. If you do nothing, you earn nothing. Overall, that’s pretty fair.

It may be politically impossible to escape from the quicksand of the redistributive state, but Edgar Browning has made it clear that everyone would benefit if we could do so — everyone except for the interest groups that have an interest in maintaining the status quo. There’s the real problem.

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