

“Welfare: Back to the Drawing Board”

by Milton Friedman

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I have long supported and worked for the general principles of the welfare-reform bill that is now making its way through Congress. Yet I would vote against the bill in the form in which it passed the House; I have testified to that effect before the House Ways and Means Committee, and I applaud the Senate Finance Committee’s recent suspension of hearings on the bill until Secretary Finch submits a new version. The bill in its present form is a striking example of how to spoil a good idea.

The key idea of the proposed reform is to give people on welfare both the opportunity and the incentive to become self-supporting. As outlined by President Nixon in his TV talk of Aug. 8, 1969, this was to be done primarily by making certain that a family on relief would always gain by working. To this end, he proposed that a family of four with no other income receive \$1,600 a year from the Federal government; that the first \$60 of earnings a month not affect the amount received, and that each additional dollar earned reduce the amount received by 50 cents. The Federal payment would become zero when the family had earnings of \$3,920 a year.

The trouble is that the bill proposed by the Administration and passed by the House does not conform to this design. On the contrary, it gives most persons on relief even less incentive than they have under the existing system of welfare.

This is the unintended result of the way that other programs are linked with the basic Family Assistance Plan. The chief culprits are food stamps and state supplements.

Food Stamps

Initially, the Family Assistance Plan was to replace food stamps. Under political pressure, the Administration added food stamps to the basic plan, recommending that as income rose, the food-stamp subsidy be reduced by 30 per cent of additional income. This means that the family would have only 70 cents instead of \$1 available to spend out of each of the first \$60 of earnings a month; and only 35 cents instead of 50 cents out of every dollar beyond that.

Under present law, persons on relief may earn \$30 a month without a reduction in benefits and keep one-third of additional earnings. So just food stamps alone reduce incentives under the House bill to roughly their present level.

State Supplements

In eight states, the proposed Federal family allowance exceeds the amount that is now paid by the state. For these states, the Family Assistance Plan would replace the state program entirely. For the other 42 states, the House bill requires that the state supplement Federal payments to maintain present maximum levels of benefits. It permits a state to phase out its supplement as the other income of the family rises. As drafted, this provision reduces still further, and sometimes

drastically, the extra amount that a family has available to spend for each additional dollar it earns.

Indeed, if account is taken of still other quirks in the drafted bill, and also of Federal income and social-security taxes, state and local income taxes, and Federal programs like public housing and Medicaid, many families would be better off to earn less than to earn more.

The accompanying table illustrates the effect of some of these items. If the illustrative family increased its earnings from \$2,280 a year to \$5,003 a year, or by \$2,723, it would end up with only \$357 extra available to spend! It could raise its extra spendable income to \$401 by keeping its earnings down to \$3,920! How absurd can you get?

This is a travesty on the original intention. A negative income tax—which is what the Family Assistance Plan is—makes sense only if it replaces at least some of our present rag bag of programs. It makes no sense if it is simply piled on other programs.

WHAT'S WRONG WITH THE HOUSE WELFARE BILL

The welfare bill in its current form would lower the work incentive of most persons on relief. This is how it would affect a family of four in a typical state.*

ANNUAL INCOME	\$0	\$720	\$2,280	\$3,600	\$3,920	\$5,003
Receipts from						
Family assistance plan	1,600	1,600	820	160	0	0
State supplement	1,400	1,400	1,140	920	867	0
Food stamps	372	156	0	0	0	0
Earnings	0	720	2,280	3,600	3,920	5,003
TOTAL	\$3,372	\$3,876	\$4,240	\$4,680	\$4,787	\$5,003
Minus						
Social security tax	0	35	109	173	188	240
Federal income tax	0	0	0	0	67	275
SPENDABLE INCOME	\$3,372	\$3,841	\$4,131	\$4,507	\$4,532	\$4,488
Amount left out of extra dollar		65.2¢	18.5¢	28.5¢	7.5¢	−4.1¢

*The state is assumed for this illustration to be giving maximum benefits now of \$3,000 a year for such a family. Eighteen states, including the most populous, now give about that amount or more. The income levels shown are those at which various benefits cease or start phasing out.

The minimum changes in the House bill required to give a real incentive for work instead of welfare are:

1. The food-stamp plan should be abolished. It is defended in the name of preventing hunger. But that is a smoke screen. The right way to help the poor is to give them real money to spend on food, not funny money in the form of stamps. The political pressure for food stamps comes from the well-fed farm bloc, not from hungry welfare recipients. The farm bloc senses that the public's willingness to shell out billions a year to keep up the price of foodstuffs is running thin and it sees food stamps as a new gadget to keep the subsidies flowing.

2. The method of phasing out state supplements must be modified to keep the maximum marginal rate to 50 per cent. This means that states should not be permitted to reduce their supplements until the Federal payments end, and then by not more than 50 per cent of additional earnings. To ease the problem for the states, they should be permitted to lower the maximum levels of assistance to which they are now committed.

It is long past time that we reversed the relentless climb of the welfare rolls, that we gave the unfortunate people on welfare a chance to work themselves off welfare and to become independent and responsible citizens. It will be a tragedy if the present opportunity is wasted by either administrative incompetence or political log-rolling.

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Compiled by Robert Leeson and Charles Palm as part of their "Collected Works of Milton Friedman" project.

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