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Is Social Welfare Stopping American Adults from Entering the Workforce?

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A recent survey shows that Americans think this is the best economy since the 1990s. Fifty-nine percent of Americans state that they are financially better off today compared to where they were a year ago. Nearly three-quarters of people predict that their financial situations will become even better one year from now. This survey is not an isolated case. Many other polls and surveys show that Americans have been more optimistic about their personal financial situation and the economy as a whole since the last presidential election. This overall optimism is important for the U.S. economy because it motivates consumer spending and business expansion.

Despite the optimism, the United States has a smaller share of adults who participate in the workforce compared to other developed countries. Statistics show that only eighty-three percent of American adults in their prime worker years (age 25 to 54) are participating in the workforce, which means they are currently working or actively looking for a job. The percentage has gone up since the past few years, but it is still below the levels of the late 1990s. It is also well below the percentages in other developed countries like Germany, Japan, France, Canada and the United Kingdom. Economists said that this held the nation back because the economy and wages could have grown faster if more people were working.

In the last few weeks, Federal Reserve Chair Jerome H. Powell responded to inquiries regarding this problem. When Sen. John Neely Kennedy, a Republican from Louisiana, asked whether "the richness of our social programs" makes people less willing to enter the workforce, Powell dismissed that idea. Powell stated that the amount of benefits people can get in real terms, adjusted for inflation, has actually declined during the period of declining labor force participation. "It isn't better or more comfortable to be poor and on public benefits now, it's actually worse than it was," Powell said.

The vast majority of economists across the political spectrum agree with Powell. Since the major effort to revamp welfare in 1996, it has been harder for people who do not participate in the workforce to receive benefits from the government. Instead, the government has been focusing on subsidizing people who go to work or at least actively look for a job since the 1990s. For example, the government expanded tax credits for people who at least have some income by working. The Earned Income Tax Credit (EITC) is mostly available after people start to have taxable employee compensation or earnings from self-employment. Passive income such as interest and dividends or benefits such as social security do not count.

Powell's statement is also supported by a 2018 analysis conducted by economists Hilary Hoyne (University of California at Berkeley) and Diane Whitmore Schanzenbach (Northwestern University). The analysis showed that spending on social safety net for children is no longer going to families at the very bottom. Almost all gains in spending has gone to families with earnings or with income above the poverty line.

Another research conducted by the Center on Budget and Policy Priorities indicated that labor force participation rate has increased in many European nations that have more generous safety nets during the same period. Therefore, being more generous to people does not necessarily lead to less willingness to participate in the workforce.

So what is actually preventing American adults from entering into the workforce? Powell said it could be a combination of many factors including the decreasing education attainment rate among the lower- and middle- income population and opioid crisis. More research and surveys should be done in order to look deeper into this problem.