

POVERTY AND WELFARE

Congress should

- consolidate current welfare and anti-poverty programs;
- transition from in-kind benefits to cash grants;
- reform the earned income tax credit;
- shift programs to states with as few strings as possible; and
- emphasize metrics of success, rather than funding or enrollment.

Although the exact number fluctuates from year to year, the federal government funds more than 100 separate anti-poverty programs. Some 70 of them provide cash or in-kind benefits to individuals, while the remainder target specific groups or disadvantaged neighborhoods or communities.

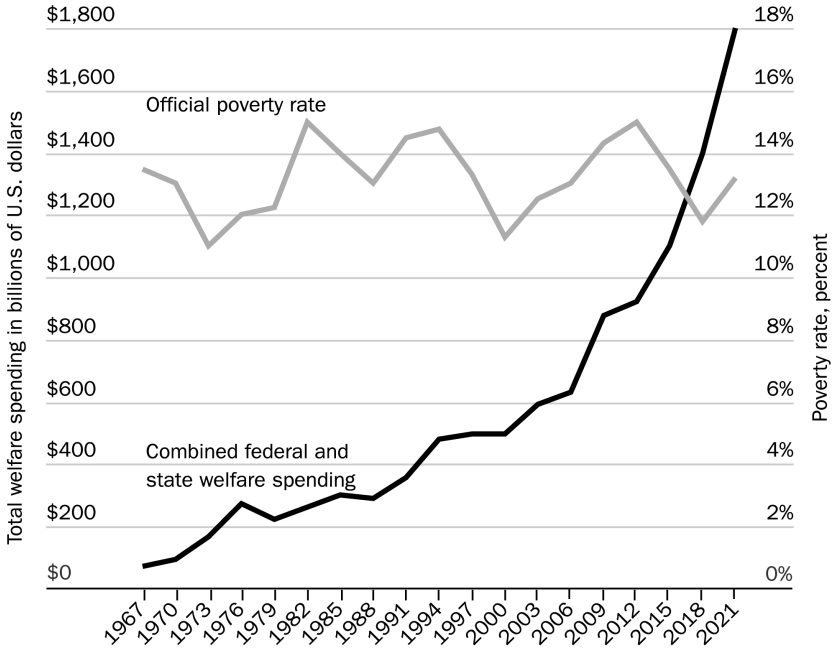
There are eight different health care programs administered by five separate agencies within the Department of Health and Human Services. Six cabinet departments and five independent agencies oversee 27 cash or general-assistance programs. Altogether, seven different cabinet agencies and six independent agencies administer at least one anti-poverty program. And those are just the programs specifically aimed at poverty. That doesn't include more universal social welfare programs or social insurance programs, such as unemployment insurance, Medicare, or Social Security.

Altogether, the federal government spends more than \$1.1 trillion a year on 134 welfare programs. State and local governments add about \$744 billion more. Thus, government at all levels is spending roughly \$1.8 trillion per year to fight poverty (Figure 1). Stretching back to 1965, when President Lyndon Johnson first declared a "war on poverty," anti-poverty spending has totaled more than \$30 trillion.

In relation to material deprivation, welfare payments have reduced poverty. In fact, a 2018 study by John Early for the Cato Institute suggests that if all benefits and other factors are fully accounted for, the true poverty rate may be under 3 percent. (The Census Bureau calculates the official poverty measure by comparing pretax monetary income to the cost of a minimum food diet.

Figure 1

Welfare spending versus poverty rate, 1967–2021

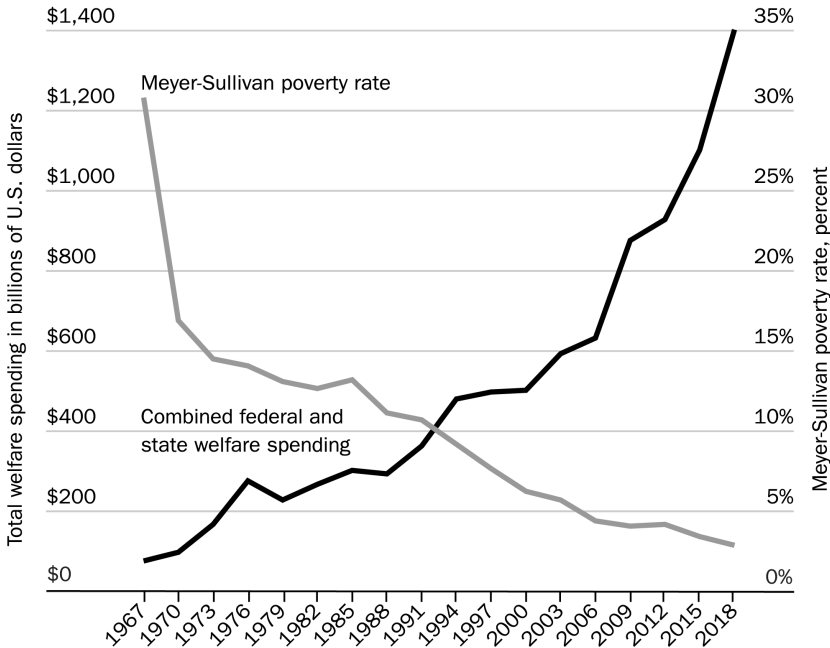


Sources: U.S. Census Bureau, Number in Poverty and Poverty Rate: 1959 to 2020 § (2021); Michael D. Tanner, “What’s Missing in the War on Poverty?,” Commentary, Cato Institute, January 23, 2019; Rachel Sheffield and Robert Rector, “The War on Poverty after 50 Years,” Poverty and Inequality, Heritage Foundation, September 15, 2014; “Budget Digest: CBO Report on Federal Spending for Anti-poverty Programs,” Budget Digests, House Budget Committee, June 24, 2019; and “Public Welfare Expenditures,” State and Local Backgrounders, Urban Institute, March 20, 2022.

The poverty rate does not take noncash benefits into account.) Other studies are more cautious but still suggest that welfare programs reduce poverty rates by half or more. Then again, those studies also suggest that most of the gains took place in the early years of those programs and that the marginal gains of additional spending in recent years have been minimal (Figure 2).

More importantly, our current welfare system is far less successful when it comes to helping people get out and stay out of poverty. Most of our efforts have been focused on making poverty less miserable, by making sure that people who are poor have food, shelter, medical care, and other necessities. This approach hardly represents a sufficient anti-poverty policy. Perhaps *The Economist* expressed it best, stating: “If reducing poverty amounts to just ushering Americans to a somewhat less meagre existence, it may be a worthwhile endeavour but it is hardly satisfying. The objective, of course, should be a system that encourages people to work their way out of penury.”

Figure 2

Welfare spending versus Meyer-Sullivan poverty rate, 1967–2018

Sources: U.S. Census Bureau, *Number in Poverty and Poverty Rate: 1959 to 2020* § (2021); Bruce D. Meyer and James X. Sullivan, “Winning the War: Poverty from the Great Society to the Great Recession,” no. w18718, National Bureau of Economic Research, 2013; and Bruce D. Meyer and James X. Sullivan, “Annual Report on U.S. Consumption Poverty: 2018,” American Enterprise Institute, October 18, 2019.

Much of the debate over poverty remains remarkably sterile and frozen in time. Arguing over whether we should increase or decrease spending on some program by another billion dollars will do little to change the underlying dynamics of a failed system.

Many of the changes that would be most effective in reducing poverty will have to take place outside the welfare system, and many require state governments to take the lead. They include reforming the criminal justice and school systems and repealing exclusionary zoning laws, as well as reducing taxes and regulations to increase the availability of jobs. Those reforms are discussed elsewhere in this volume. Still, there are several steps that Congress can take to reform our welfare system.

Simplify and Consolidate

The magnitude of the current welfare system, with its multitude of overlapping programs—often with contradictory eligibility requirements, differing rules, mixed oversight, and divided management—is a bureaucratic nightmare.

The complexity and lack of transparency make it difficult to measure whether programs are accomplishing their goals. Many existing programs have become little more than fiefs for special interests, providing a bureaucratic roadblock to reform. And while the overhead and administrative costs for most programs are modest—generally less than 5 percent—the costs do add up.

Moreover, the sheer number of programs works to suck more people into the welfare system, increasing both cost and enrollment (dependency) without necessarily targeting those efforts to the people most in need. As a result, many of the people receiving benefits are not necessarily poor, while many people who are legitimately poor do not receive assistance.

Some households in or near poverty that do receive assistance and participate in multiple programs can face marginal effective tax rates that are counterproductive: they are so high that they can act as poverty traps, deterring work effort or putting a low ceiling on how much those families can increase their standard of living. In those cases, the majority of each additional dollar earned is clawed back through higher taxes or reduced benefits.

Participants in the current welfare system can find it both demeaning and difficult to navigate. Those applying for benefits must deal with multiple forms, often-conflicting eligibility standards, and intrusive program administrators. Andrea Louise Campbell described the struggles of her disabled sister-in-law in her book *Trapped in America's Safety Net: One Family's Struggle*. Campbell notes that she, a professor at the Massachusetts Institute of Technology, found the welfare maze “incredibly complex and confusing.” For more typical applicants with far less education and fewer coping skills, the process must be daunting indeed.

Receipt of benefits, therefore, often becomes a question not of need but of ability to game the system. Those groups and constituencies best able to maneuver through the bureaucracy are most likely to collect benefits—often multiple benefits; similarly situated individuals (or even those with greater need) who lack such skills are often left out.

There is no legitimate reason to continue to fund multiple programs that essentially do the same thing. Therefore, Congress should consolidate programs with similar functions, such as nutrition, health care, education, and so on.

Provide Cash, Not In-Kind Benefits

The vast majority of welfare benefits today are provided not in cash but rather as “in-kind” benefits. Indeed, direct cash assistance programs, including refundable tax credits, made up 22 percent of federal assistance in 2020, down from roughly 29 percent two decades ago. In-kind programs—such as food stamps, housing assistance, and Medicaid—provide people with assistance, but

only for specific purposes. In most cases, the payments are made directly to providers. The person being helped never even sees the money.

The emphasis on in-kind benefits effectively infantilizes people who are poor. These people are not expected to budget or choose among competing priorities the way people who are not on welfare are expected to. Rather, in-kind benefits substitute the government's choices, values, and priorities for those of the people.

Virtually all programs go even further in limiting the use of benefits to government-approved purchases. For example, the Special Supplemental Nutrition Program for Women, Infants, and Children (often called WIC) can only be used to purchase certain foods determined by government regulation. Food stamp use is being restricted to stores that stock a certain level of healthy food products, often eliminating the eligibility of small neighborhood stores. Even with cash programs like Temporary Assistance for Needy Families, state lawmakers have enacted a host of restrictions around things like the locations where electronic benefit transfer cards may be used to access ATMs.

While it is reasonable for taxpayers, who are ultimately paying for these benefits, to seek accountability for how the funds are used, this paternalism may be both unnecessary and, worse, self-defeating. Shouldn't people decide for themselves how much of their income should be allocated to rent or food or education or transportation? Perhaps they may even choose to save more or invest in learning new skills that will help them earn more in the future. You can't expect people to behave responsibly if they are never given any responsibility.

Some might argue that people who are poor can't be trusted with money. We are told they will blow it on booze, drugs, or whatever. But that attitude is too often based on erroneous and racially biased stereotypes. There is little evidence to suggest that these people misuse their resources. For example, studies from states that drug-test welfare recipients suggest that the use of drugs is no higher among welfare recipients than among the general population. In fact, numerous studies have shown that even when welfare recipients are given totally unrestricted cash, they do not increase their expenditure on "temptation goods" like tobacco or alcohol.

Giving people responsibility for managing their own lives means giving them more choices and opportunities. That, in turn, would help break up geographic concentrations of poverty that can isolate people who are poor from the rest of society and reinforce the worst aspects of the poverty culture. The current welfare system not only stigmatizes these people, increasing their isolation, but pushes them into narrowly concentrated neighborhoods clustered around subsidized housing because the system relies on providers who are willing to accept government benefits (e.g., landlords willing to take Section 8 vouchers).

Those neighborhoods often offer poor schools, few jobs, high crime rates, and a lack of role models. Cash would allow people to escape those neighborhoods the same way vouchers and tax credits allow children to escape bad schools.

And by taking the money away from the special interests that support the welfare industry, it would break up the coalitions that inevitably push for greater spending. (For example, increased food stamp spending is inevitably backed by a coalition of Democrats and farm state Republicans.)

Having consolidated welfare programs as suggested earlier, Congress should therefore transform as many of those programs as possible to cash grants provided directly to people who are poor.

Reform the Earned Income Tax Credit

One program that does provide cash directly to people who are poor is the earned income tax credit (EITC). Moreover, the EITC is specifically designed as a wage supplement. The EITC is tied directly to work, and it offsets the high marginal tax rate that many people encounter when they leave welfare for work. The evidence suggests that the EITC increases work effort. In particular, single mothers have seen significant labor force gains due to the EITC.

Studies also suggest that the EITC has been more successful than other welfare programs in actually reducing poverty. The Census Bureau suggests that the poverty rate would be 2.5 percent higher in the absence of the EITC and other refundable tax credits. In fact, as measured by the additional outlays needed to lift one million people out of poverty (using the supplemental poverty measure), refundable tax credits such as the EITC are clearly more cost-effective than other types of welfare programs.

However, as the EITC has grown, problems with the program have become more apparent. First, because the EITC focuses on families, the benefit level for childless workers is small and phases out quickly. The maximum credit available to a childless worker was only \$1,502 in 2021, and all benefits phase out before earned income hits \$21,430 (for comparison, the maximum credit for a single parent with one child was \$3,618). Childless workers under age 25 are not allowed to claim the EITC at all. As a result, childless adults accounted for only 3 percent of all EITC funding.

Second, as the Tax Policy Center notes: “The EITC imposes significant marriage penalties on some families. If a single parent receiving the EITC marries, the addition of the spouse’s income may reduce or eliminate the credit.” In some cases, if a single mother eligible for the EITC marries someone with enough earnings to bring them just above the eligibility threshold, then the entire household will no longer receive anything from the EITC; if the

couple decided to cohabitate and remain unmarried, they could continue to receive some credit.

Because the credit is mostly determined by the number of children in a family, the maximum credit is the same for a single parent as it is for a married couple with the same number of children. For example, for a married couple with two children, the maximum credit is \$5,980—the same as for a single filer with two children.

It is also useful to look at the breakeven points, the earned income level at which EITC benefits are exhausted. For the same two-child household, the breakeven point for a single parent is \$47,915, and for married parents it is only a little higher at \$53,665. In essence, the single parent can continue to receive benefits at higher income levels relative to the poverty level than can married couples, and the credit is more generous since the benefits are being distributed among the three people, rather than four, in the household.

Third, as a refundable tax credit, the EITC is paid annually, in the manner of a tax refund. While such a lump-sum payment can certainly help many low-income families, it still leaves those families relying on low wages throughout much of the year. That is, in its current form, the EITC represents an income supplement, not a wage supplement.

Therefore, Congress should reform the EITC to turn it into a pure wage supplement. Benefits should be available to childless adults and should not rise with the number of children in a family. Payments should arrive monthly rather than in an annual lump sum. Any additional cost due to expansion should be paid for by reductions in other welfare programs.

Use the Laboratories of Democracy

Given the failure of more than 50 years of federal welfare policy to significantly reduce poverty or increase economic mobility, it should be apparent that the federal government does not know best. Nor have we demonstrated that we know enough about exactly how to reduce poverty to impose a one-size-fits-all policy everywhere in the country. Five decades of failure should have taught us to be modest.

Wherever possible, therefore, Congress should shift both the funding and the operational authority for welfare and other anti-poverty programs to the 50 states. The “laboratories of democracy,” as Justice Louis Brandeis described them, should be the primary focus of anti-poverty efforts, not an afterthought. That means more than simply giving states the authority to tinker with programs as they exist today. It means that federal funding, even in block grant form, should not be accompanied by a large number of federal strings. Instead, states should be given control over broad categories of funding, with the

ability to shift funds freely between programs—at their discretion but within a framework in which their efforts are rigorously evaluated and they are held accountable for achieving results. Some states, for instance, may wish to emphasize job training or public service jobs. Others may feel that education provides the biggest bang for the buck. In some states, housing may be a priority; in others, the need for nutrition assistance may be greater. Some states may wish to impose strict eligibility requirements, whereas others may choose to experiment with unconditional benefits, even a universal basic income.

Moreover, states that have successfully reduced poverty while also reducing the number of people on the welfare rolls, for instance, should be allowed to shift funds to other priorities entirely, such as education or transportation. Success should be rewarded. At the same time, states that fail to achieve results, after the federal government accounts for factors beyond their control, should have their funding reduced, with any shortfall made up from state funds. Failure should not be subsidized.

In 2016, Sen. Marco Rubio of Florida introduced a proposal that would have replaced most current federal welfare programs with a single state-run “Flex Fund,” under which states could provide benefits the way they want. Rubio’s proposal specifically urged states to replace in-kind programs with cash benefits, although he would have left the final decision up to the states. In fact, the Rubio proposal imposed few mandates on how the states used the money. For example, while Rubio noted the importance of work requirements as a condition for receiving assistance, he would have allowed states to decide whether or not to impose such restrictions. Reviving that proposal would be a good starting point for debate.

Create Standards and Metrics of Success

The lack of federal strings should not mean a lack of accountability. Too often, the federal government defines success in anti-poverty programs by looking at the inputs, such as how many people are enrolled or how much is spent, instead of measuring the effectiveness of the programs and whether they actually help the participants in their pursuit of the American dream. Anecdotes and good intentions are no substitute for evidence. Therefore, designing better outcome measures is central to the goal of making the welfare system more effective in helping people transition out of the programs and avoid becoming mired in long-term poverty.

In some programs, states have been able to use exemptions, credits, and other maneuvers to dilute the effectiveness of work requirements; those states end up putting fewer people on the path toward the meaningful work they need to provide for their families. In the applicable programs, shifting from a

focus on caseloads to outcome measures that focus on job placements and job retention would incentivize states to help participants move into work and get to the point where they no longer need those programs.

Another aspect of refining the metrics used to evaluate implementation and administration in the states is to improve the enforcement mechanisms and better align incentives between states and the federal government. Because of the financing structure of some programs, states have an incentive to shift people to programs that are federally funded and have little incentive to improve program performance for jointly funded programs in which financing is based on caseload. Congress should establish a framework that rewards states for effectively helping people transition out of the programs and penalizes them when they fall short of established program goals. Such a framework would encourage states to improve performance and reduce inefficiencies, which would save resources and better serve program recipients.

The tangled web of ineffective programs that make up the current system fails everyone involved: the programs are a waste of taxpayer dollars, and they impose real human costs on participants in the form of material hardship, unrealized potential, and dreams deferred. Without mechanisms in place to better determine whether programs are meeting their goals, more money will be channeled to efforts that could end up being unsuccessful or even counter-productive.

This problem is not confined to welfare programs. One report from the Government Accountability Office found that fewer than two-fifths of managers throughout the federal government reported that their programs had been evaluated in the past five years. Thoroughly evaluating these programs would help policymakers and researchers determine which programs are effectively meeting their goals. With that information, finite funding could flow to higher-quality programs while those that do not have a meaningful impact could be deemphasized. Evaluations would also help policymakers better understand the unintended adverse consequences that the current structure of the welfare system can sometimes create, such as trapping participant families in poverty.

Using rigorous evaluation and research to guide policy would allow the welfare system to adopt best practices and phase out ineffective programs. Programs that fail to deliver results would no longer continue to be funded year after year without regard for outcomes. In a framework in which states have more flexibility to innovate and tailor their anti-poverty programs to their specific populations, understanding which programs have seen positive results would be even more important.

To date, the war on poverty has placed intentions above results, and the people most harmed by its failures are the programs' intended beneficiaries. Reforming the welfare system to better align incentives for different levels of

government and the participants involved, establishing clearly defined outcome measures that ensure that these programs help put people on the path to self-sufficient prosperity, and shifting to a more evidence-based approach will lead to a more effective, responsive system.

Suggested Readings

Early, John. “Reassessing the Facts about Inequality, Poverty, and Redistribution.” Cato Institute Policy Analysis no. 839, April 24, 2018.

Harvey, Phil, and Lisa Conyers. *The Human Cost of Welfare: How the System Hurts the People It’s Supposed to Help*. Santa Barbara, CA: Praeger, 2016.

Tanner, Michael. Cato’s Project on Poverty and Inequality in California: Final Report. Washington: Cato Institute, 2021.

———. *The Inclusive Economy: Bringing Wealth to America’s Poor*. Washington: Cato Institute, 2018.

———. “The Pros and Cons of a Guaranteed National Income.” Cato Institute Policy Analysis no. 773, May 12, 2015.

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