

Congress Should Reject Efforts to Restore “Welfare as We Knew It” by Expanding Child Credits

Robert Rector and Jamie Bryan Hall

KEY TAKEAWAYS

Welfare needs reform, but expanding benefits and eliminating work requirements while allowing anti-marriage penalties will not truly help the poor.

President Biden’s plan for a massive increase in welfare cash aid while undoing work requirements could erase gains made since the 1996 welfare reform.

Advocates say the real goal is permanent change, and the plan is based on legislation that would create permanent new entitlements.

In 1992, Bill Clinton was elected President on the pledge to “end welfare as we know it.” At that time, the welfare state was clearly failing: One of every seven children in the U.S. was dependent on the Aid to Families with Dependent Children (AFDC) program. Work among recipients was very low, and the typical family received AFDC benefits for 14 years. Unwed childbearing had been rising for decades.

Within a few years, welfare reform was enacted. For the first time, recipients of cash aid were required to work or prepare for work as a condition of receiving benefits. In response, the welfare caseload experienced its first significant decline in a half-century. Within a few years, dependence had plummeted by 60 percent.¹ At the same time, employment of less skilled single parents surged.² Child poverty, which had been static for decades, fell at an unprecedented rate, especially among black children.³

This paper, in its entirety, can be found at <http://report.heritage.org/ib6054>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

But the radical Left never accepted welfare reform, consistently seeking instead to reverse it by eliminating welfare work requirements and maintaining or restoring welfare aid to non-working persons and families. The left's goal has always been, as Congresswoman Alexandria Ocasio-Cortez (AOC) recently put it, to provide "security for all who are... unwilling to work."⁴

Now President Biden is proposing a massive increase in welfare cash aid while at the same time eliminating work requirements in one of the largest cash welfare programs: the so-called refundable child credit. If enacted as permanent policy, the Biden plan would restore "welfare as we knew it."

The Biden plan would increase the refundable credits/cash grants from \$2,000 per child to \$3,000 for each child aged 6–17 and \$3,600 for children under six. Two-thirds of the new benefits provided (or \$78 billion per year) would be cash grants to families that owe no income tax.

Massive Welfare Expansion

If enacted permanently, the Biden cash grant increase would constitute the second-largest expansion of means-tested welfare entitlements in U.S. history. In constant dollars, its annual cost would dwarf the initial costs of the Medicaid, food stamp, and AFDC programs. Only Obamacare would be more expensive.

The Administration suggests that these changes would be limited to a single year to help families suffering under the COVID-19 recession. In fact, the Biden plan is based on legislation that would create permanent new entitlements.⁵ Reports indicate that the real goal is the permanent expansion of the welfare state.⁶

Advocates claim that this proposal would reduce child poverty⁷—an idea linked to the notion that the U.S. welfare system does not spend enough to protect children from poverty. But in 2018, before the COVID recession, the U.S. spent nearly \$500 billion on means-tested cash, food, housing, and medical care for poor and low-income families with children.⁸ That amount of spending is seven times the amount needed to eliminate all child poverty in the U.S.

How can America spend so much and still have a problem of deep and widespread child poverty? The answer is that the permanent government counts almost none of the \$500 billion per year in spending on means-tested benefits as income in its widely publicized measures of poverty or economic inequality. Ironically, the Biden proposal to add another \$78 billion in cash welfare on top of the nearly \$500 billion in current spending on benefits

for families with children would have *zero* impact on the official measure of child poverty because the new cash credits would also not be counted as income in normal government poverty reports.⁹

This Catch-22 has played out for half a century. The left has ceaselessly demanded more spending to reduce poverty but then hides that spending when poverty is measured. The game is rigged so that only the welfare industrial complex can win. By the game's rules, poverty can never be eliminated; there will always be unmet social needs to be funded, and the welfare state can never, ever be big enough.

Undermining Work

As noted, in addition to greatly expanding the welfare state, the Biden unconditional cash grant plan would dramatically reverse the emphasis on requiring and promoting work that was established in the 1996 welfare reform. The Biden plan would eliminate the current work requirement and work incentives for child cash grants under the refundable child credit. Non-working families would receive up to \$3,600 per child in cash. This aid would be on top of the roughly \$20,000 the typical non-working single-parent family already receives from such programs as food stamps, Medicaid, WIC (Special Supplemental Nutrition Program for Women, Infants, and Children), housing, or Temporary Assistance for Needy Families in which nominal work requirement are frequently not enforced.¹⁰

Eliminating the work rule would decrease work and self-support. For example, the effect on employment of unconditional cash grants without a work requirement was tested in a series of large-scale random assignment-controlled negative income tax (NIT) experiments in the 1970s. These experiments tested the behavioral effects of experimental cash assistance programs, which varied by maximum benefit and phase-down rates, and clearly showed that increasing the maximum welfare benefits led to substantial reductions in work and earnings among recipients.¹¹ In fact, each \$1,000 in added benefits was offset by a \$660 reduction in earnings.¹²

Even worse, although the NIT experiments lasted only three to five years, they had a negative effect on earnings of participants that persisted long after the programs ended. Each \$1.00 of higher benefits provided by the experimental programs led to a \$5.00 drop in the life-time earnings of recipients.¹³

The significant anti-work effects of the NIT experiments shifted policymakers' focus away from unconditional aid programs and toward alternatives such as the Earned Income Tax Credit, a program that has both a work requirement and pro-work incentives. This emphasis on programs that require and

encourage work was continued in the 1990s reform, which replaced AFDC with a new program called Temporary Assistance for Needy Families (TANF). The TANF program also has work requirements, albeit imperfect ones.

Advocates of unconditional cash grants argue that the lessons from the NIT experiments or from welfare reform in the 1990s are not applicable to the Biden plan. This is because the NIT, AFDC, and TANF programs were “means-tested;” i.e., the benefits were phased down as earnings rose. By contrast, benefits under the Biden plan would be “universal.” For most families, benefits would not phase down as earnings rose; the plan would provide a uniform \$3,000 or \$3,600 per child to all families with less than \$150,000 in annual income.¹⁴

According to advocates of universal and unconditional cash grants, the phase-down rates of typical welfare programs are the main or sole cause of any anti-work effects within the welfare system.¹⁵ If benefits do not shrink as earnings rise, they argue, there is no meaningful work or marriage disincentive.¹⁶

The NIT studies explicitly refute this contention.¹⁷ In fact, the NIT experiments found that slowing the phase-down rates of benefits had no effect on work rates.¹⁸ By contrast, the “income effect” (the response to receiving a large amount of free, unconditional cash) had a large negative impact on work.¹⁹ The higher the free benefits were, the less work was performed.

Similarly, within the AFDC and TANF programs, states have often reduced benefit phase-down rates with the aim of increasing work; these policies are called “earnings disregards.” Reduced phase-down rates (“disregards”) have not increased employment and may have expanded dependence.²⁰

Undermining Marriage

Marriage is critical to reducing poverty and improving personal and social well-being. A healthy marriage is one of the two most important factors contributing to personal happiness.²¹ Marriage is the strongest factor in promoting the upward mobility of children and is linked to nearly all aspects of child well-being.²² But since the beginning of the War on Poverty, marriage has been nearly wiped out in many low-income communities. Replacing husbands with welfare checks has degraded well-being for men, women, and children in low-income neighborhoods.

The collapse of marriage is a principal cause of official child poverty. Single-parent families with children are 33 percent of all families with children, but they are 72 percent of all families with children in official poverty.²³ (Recall that official poverty statistics do not include welfare aid, but these figures demonstrate the poverty-prone nature of single-parent families, the

difficulty they have supporting themselves without substantial government aid, and therefore the need for subsidies).

A rational welfare system would seek to strongly encourage and support marriage. The current system does the opposite. Welfare undermines marriage in a number of ways. First, most welfare programs actively penalize low-income parents who marry.²⁴ When a couple marry, their joint income rises, and in most cases, welfare benefits will be cut.

Equally important, large subsidies to single parents tend to make low-wage fathers economically superfluous; this in turn makes it less likely that marital commitment will emerge and persist. Creating robust subsidized financial alternatives to marriage will tend to make marriage decline. Overall, subsidies to families with children that do not work or work little (whether non-married or married) erode marriage.

The Biden proposal continues and intensifies the anti-marriage aspects of the current welfare system. The plan does nothing to reduce the current anti-marriage penalties embedded in the current system. Even worse, the Biden plan would greatly increase benefits to non-working single parents.²⁵

Historically, such an approach has been linked to declines in marriage and increases in non-marital childbearing. Studies show that welfare has a substantial effect in eroding marriage. For example, the NIT evaluations showed that receiving benefits from the program led to a 40 percent increase in marital dissolution among white and black families.²⁶ As in the case of work reductions, the phase-down rates were not responsible for this outcome.²⁷

Most studies of the AFDC system before welfare reform reached similar conclusions. States with higher monthly AFDC benefits had higher levels of out-of-wedlock births as a share of all births within the state.²⁸ For example, former Congressional Budget Office Director June O'Neill found that a 50 percent increase in the monthly value of AFDC and food stamp benefits led to a 43 percent increase in non-marital births.²⁹

Some might argue that the fact that the Biden plan provides increased cash aid to all non-working families with children, both married and non-married, might reduce its anti-marriage effects. However, the AFDC program also had a component for married couples called Aid to Families with Dependent Children-Unemployed Parent (AFDC-UP). The benefits provided to non-working married couples by AFDC-UP did not encourage the emergence or maintenance of married-couple families.³⁰

Rather than moving in the direction of the Biden proposal, policymakers should reduce marriage penalties in welfare programs.

Conclusion

The principle of work requirements in welfare is based on common sense. It has nearly universal public support. The public supports aid to those who need it, but they do not want welfare to be a one-way handout. The key is reciprocity. If aid is given to able-bodied individuals, they should be required to take positive steps toward self-support in exchange for the assistance given. Polls show that close to 90 percent of Americans agree that “able-bodied adults that receive cash, food, housing, and medical assistance should be required to work or prepare for work as a condition of receiving those government benefits.”³¹

The current welfare system is very far from perfect, but it would not be improved by massive expansions of cash grants and the elimination of work requirements. The Biden plan would reduce work, increase dependence, and undermine marriage. It is anti-reform.

True reform of the welfare system should be based on five principles:

- The welfare state should become transparent; the public and policy-makers should be given accurate information about total government spending³² and the full range of benefits actually received by low-income individuals and families.³³
- Work requirements within the welfare system should be strengthened, not weakened.
- Financial penalties against marriage embedded in the welfare system should be greatly reduced or eliminated.³⁴
- Welfare programs designed to improve skills or behaviors should be funded on a payment-for-outcome basis rather than continuing endless spending on ineffective services.³⁵
- Government policy should ensure that jobs are readily available for low-skill and disadvantaged U.S. workers,³⁶ particularly those who have difficulty finding employment, such as former prison inmates.³⁷

Such reforms would truly benefit the poor and society as a whole.

Robert Rector is a Senior Research Fellow in, and Jamie Bryan Hall is a Research Fellow in Quantitative Analysis in, Domestic Policy Studies, of the Institute for Family, Community, and Opportunity, at The Heritage Foundation.

Endnotes

1. Robert Rector and Patrick F. Fagan, "The Continuing Good News About Welfare Reform," Heritage Foundation *Backgrounders* No. 1620, February 6, 2003, http://thf_media.s3.amazonaws.com/2003/pdf/bg_1620.pdf.
2. AEI/Brookings Working Group on Poverty and Opportunity, *Opportunity, Responsibility, and Security: A Consensus Plan for Reducing Poverty and Restoring the American Dream*, American Enterprise Institute for Public Policy Research and Brookings Institution, 2015, p. 24, <https://www.brookings.edu/wp-content/uploads/2015/12/full-report.pdf> (accessed February 17, 2021). For an analysis of changes in employment in the mid-1990s, see Henrik Kleven, "The EITC and the Extensive Margin: A Reappraisal," National Bureau of Economic Research *Working Paper* No. 26405, revised February 2020, https://www.nber.org/system/files/working_papers/w26405/w26405.pdf (accessed February 17, 2021). For an analysis of the impact of workfare programs on TANF caseloads, see Robert E. Rector and Sarah E. Youssef, "The Determinants of Welfare Caseload Decline," Heritage Foundation *Center for Data Analysis Report* No. CDA99-04, May 11, 1999, <https://www.heritage.org/welfare/report/the-determinants-welfare-caseload-decline>.
3. Rector and Fagan, "The Continuing Good News About Welfare Reform," pp. 3–4.
4. Jeff Cox, "Ocasio-Cortez's Green New Deal Offers 'Economic Security' for Those 'Unwilling to Work,'" CNBC, February 7, 2019, <https://www.cnbc.com/2019/02/07/ocasio-cortezs-green-new-deal-offers-economic-security-for-those-unwilling-to-work.html> (accessed February 17, 2021). AOC later attempted to walk this back. See Michelle Mark, "Alexandria Ocasio-Cortez and Team Attempt Damage Control After a Fumbled Green New Deal Rollout that Included a Line About Paying Americans 'Unwilling to Work,'" *Business Insider*, February 9, 2019, <https://www.businessinsider.com/ocasio-cortez-aoc-green-new-deal-controversy-unwilling-to-work-line-faq-2019-2> (accessed February 17, 2021).
5. H.R. 1560, American Family Act of 2019, 116th Cong., introduced March 6, 2019, <https://www.congress.gov/bill/116th-congress/house-bill/1560> (accessed February 18, 2021), and S. 690, American Family Act of 2019, 116th Cong., introduced March 6, 2019, <https://www.congress.gov/bill/116th-congress/senate-bill/690> (accessed February 18, 2021).
6. Jeff Stein, "Senior Democrats Drafting Plan to Give Parents at Least \$3,000 Per Child in Biden's Stimulus," *The Washington Post*, January 22, 2021, <https://www.washingtonpost.com/us-policy/2021/01/22/biden-childtaxcredit-stimulus/> (accessed February 17, 2021).
7. *Ibid.*
8. Robert Rector and Vijay Menon, "Understanding the Hidden \$1.1 Trillion Welfare System and How to Reform It," Heritage Foundation *Backgrounders* No. 3294, April 5, 2018, <https://www.heritage.org/welfare/report/understanding-the-hidden-11-trillion-welfare-system-and-how-reform-it>.
9. The official Census poverty reports calculate poverty based on "money income," but money income excludes nearly the entire means-tested welfare state: the EITC, the refundable child credit, food stamps, WIC, public housing and other housing subsidies, and medical care funded by Medicaid and CHIP. The report also significantly undercounts benefits in the small number of programs that are reported such as TANF and Supplemental Security Income (SSI). See Jessica Semega, Melissa Kollar, Emily A. Shrider, and John F. Creamer, "Income and Poverty in the United States: 2019," U.S. Department of Commerce, U.S. Census Bureau, *Current Population Reports* No. P60-270, issued September 2020, p. 23, <https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-270.pdf> (accessed February 17, 2021).
10. Nearly all non-working families with children will receive food stamps, child nutrition aid, and Medicaid; a majority will probably receive benefits from Unemployment Insurance, TANF, or housing programs, but not from all three programs simultaneously. Many non-working single parents may also receive current refundable credits indirectly from an employed absent parent or cohabiting parent who would fulfill the work requirement.
11. Gary Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence," in *Lessons from the Income Maintenance Experiments: Proceedings of a Conference Held at Melvin Village, New Hampshire, September 1986*, Federal Reserve Bank of Boston *Conference Series* No. 30, ed. Alicia Munnell, September 1987, pp. 26–28.
12. *Ibid.*, p. 28. These specific figures represent the impact in the largest NIT experiment: the Seattle–Denver Income Maintenance Experiment (SIME/DIME).
13. David J. Price and Jae Song, "The Long-Term Effects of Cash Assistance," Princeton University, Department of Economics, Industrial Relations Section, *Working Paper* No. 621, June 30, 2018, p. 16, <https://dataspace.princeton.edu/bitstream/88435/dsp01ng451m210/3/621.pdf> (accessed February 17, 2021). This paper finds that the discounted lifetime earnings loss for SIME/DIME adult recipients was \$3.04 for each added \$1.00 in benefits provided by the experiments. The non-discounted value would be roughly \$5.00.
14. For lower-income families who owe no income tax, the benefit would be a cash grant. Moving up the income scale toward families with income tax liability, the benefit would be less a cash grant and more income tax relief. Two-thirds of the Biden proposed increase in new benefits would be cash grants to families who owe no income tax.
15. Samuel Hammond, "The Pro-work Case for Universal Basic Income," Niskanen Center *Commentary*, January 4, 2017, <https://www.niskanencenter.org/ubi-pro-work/> (accessed February 17, 2021).
16. Ed Dolan, "A Universal Basic Income and Work Incentives. Part I: Theory," *TheStreet EconoMonitor*, August 18, 2014, <https://www.thestreet.com/economonitor/emerging-markets/a-universal-basic-income-and-work-incentives-part-i-theory> (accessed February 17, 2021).
17. SRI International, *Final Report of the Seattle/Denver Income Maintenance Experiment, Volume 1, Design and Results*, May 1983, p. 128, <https://babel.hathitrust.org/cgi/pt?id=mdp.39015011328542&view=1up&seq=3> (accessed February 17, 2021).

18. Mathematica Policy Research, *Gary Income Maintenance Experiment: Final Report*, 1980, p. 105. For the New Jersey NIT experiment, see Peter H. Rossi and Katherine C. Lyall, *Reforming Public Welfare: A Critique of the Negative Income Tax Experiment* (New York: Russell Sage Foundation, 1976), p. 118.
19. SRI International, *Final Report of the Seattle/Denver Income Maintenance Experiment, Volume 1, Design and Results*, pp. 127 and 128.
20. Jordan D. Matsudaira and Rebecca M. Blank, "The Impact of Earnings Disregards on the Behavior of Low Income Families," National Bureau of Economic Research *Working Paper* No. 14038, May 2008, <http://www.nber.org/papers/w14038> (accessed February 17, 2021).
21. Bruno S. Frey and Alois Stutzer, *Happiness and Economics: How the Economy and Institutions Affect Human Well-Being* (Princeton, NJ: Princeton University Press, 2001), p. 57; John F. Helliwell, "How's Life? Combining Individual and National Variables to Explain Subjective Well-Being," National Bureau of Economic Research *Working Paper* No. 9065, July 2002, www.nber.org/papers/w9065.pdf (accessed February 18, 2021); David Myers, "Close Relationships and Quality of Life," in *Well-Being: The Foundations of Hedonic Psychology*, ed. Daniel Kahneman, Ed Diener, and Norbert Schwarz (New York: Russell Sage Foundation, 1999), pp. 374–391; and David G. Blanchflower and Andrew J. Oswald, "Well-Being Over Time in Britain and the USA," National Bureau of Economic Research *Working Paper* No. 7487, January 2000, www.nber.org/papers/w7487.pdf (accessed February 18, 2021).
22. Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez, "Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States," National Bureau of Economic Research *Working Paper* No. 19843, revised June 2014, <http://www.nber.org/papers/w19843> (accessed February 17, 2021).
23. Table 4, "Poverty Status of Families by Type of Family, Presence of Related Children, Race, and Hispanic Origin, 1959 to 2019," in U.S. Department of Commerce, U.S. Census Bureau, "Historical Poverty Tables: People and Families—1959 to 2019," last revised September 2, 2020, <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html> (accessed February 18, 2021).
24. Marriage penalties are embedded in nearly all means-tested welfare programs. Marriage penalties occur because benefits are based on the joint income in a family. If a single parent marries a working spouse, the spouse's earnings are counted as part of family income and welfare benefits are cut. These marriage penalties can be eliminated by increasing the income level where benefit phase-downs begin for married couples relative to single parents. By contrast, seeking to strengthen marriage by removing means-tested phase-down entirely would be prohibitively expensive.
25. The Biden plan provides a greater increase in benefits to a non-working family than to a working family. The typical working family would receive an extra \$1,000 in cash for each as the credit is raised from \$2,000 to \$3,000 per child. However, under current law, a non-working family is not eligible for any credit; removing the work requirement would provide a full \$3,000 per child in added cash. Under the Biden plan, a working family with two children would receive \$2,000 per year in added cash, while a non-working family would receive \$6,000.
26. SRI International, *Final Report of the Seattle/Denver Income Maintenance Experiment, Volume 1, Design and Results*, p. 287. The report states that "providing improved financial alternatives to marriage...tends to destabilize marriages. Ibid., p. 325.
27. Ibid. The report states that "there is no apparent pattern in the effect of the tax rates [on marital dissolution]." Ibid., p. 295. "Tax rates" are the phase-down rates of the benefits. The NIT experiment did show that when the NIT benefits induced a work reduction by husbands, the reduction placed stress on the family and led to increased marital dissolution. However, when the NIT benefits reduced employment by wives, the reduction led to increased marital stability. Ibid. p. 324.
28. This effect was due primarily to a decline in marriage rather than to an increase in fertility. See Robert E. Rector and Patrick F. Fagan, "How Welfare Harms Kids," Heritage Foundation *Backgrounder* No.1084, June 5, 1996, http://thf_media.s3.amazonaws.com/1996/pdf/bg1084.pdf. This paper summarizes 14 different studies that demonstrated the link between higher AFDC and food stamps benefit guarantees in a state and the increase in the share of births which occur outside of marriage.
29. M. Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants*, City University of New York, Baruch College, Center for the Study of Business and Government, February 1992.
30. Anne E. Winkler, "Does AFDC-UP Encourage Two-Parent Families?" *Journal of Policy Analysis and Management*, Vol. 14, No. 1 (Winter 1995), pp. 4–24.
31. Elizabeth Fender, "Poll: Vast Majority Support Four Simple Fixes to Welfare System," Heritage Foundation American Perceptions Initiative, December 2017, <https://www.heritage.org/public-opinion/report/poll-vast-majority-support-four-simple-fixes-welfare-system>.
32. Robert Rector and Vijay Menon, "Understanding the Hidden \$1.1 Trillion Welfare System and How to Reform It," Heritage Foundation *Backgrounder* No. 3294, April 5, 2018, <https://www.heritage.org/welfare/report/understanding-the-hidden-11-trillion-welfare-system-and-how-reform-it>.
33. Robert Rector and Jamie Bryan Hall, "How Poor, Really, Are American's Poor?" The Daily Signal, March 5, 2020, <https://www.heritage.org/poverty-and-inequality/commentary/how-poor-really-are-americas-poor>.
34. Robert Rector and Jamie Bryan Hall, "Reforming the Earned Income Tax Credit and Additional Child Tax Credit to End Waste, Fraud, and Abuse and Strengthen Marriage," Heritage Foundation *Backgrounder* No. 3162, November 16, 2016, <https://www.heritage.org/sites/default/files/2018-04/BG3162.pdf>.
35. Leslie Ford and Robert Rector, "Pay-for-Outcomes: Transforming Federal Social Programs to Expand Individual Well-Being," Heritage Foundation *Backgrounder* No. 3550, November 5, 2020, <https://www.heritage.org/sites/default/files/2020-11/BG3550.pdf>.

36. Primarily by avoiding job-eliminating minimum wage increases. See, for example, Rachel Greszler, “Is a \$15 Minimum Wage Worth the Costs?” Heritage Foundation *Commentary*, February 8, 2021, <https://www.heritage.org/jobs-and-labor/commentary/15-minimum-wage-worth-the-costs>. Other reforms could target spending to the vulnerable. See Robert Rector, Jamie Bryan Hall, and Noah Peterson, “The Earned Income Tax Credit for Childless Workers Largely Fails to Increase Employment or Earnings: Better Alternatives Needed,” Heritage Foundation *Backgrounders* No. 3558, December 3, 2020, <https://www.heritage.org/welfare/report/the-earned-income-tax-credit-childless-workers-largely-fails-increase-employment-or>.
37. Rector et al., “The Earned Income Tax Credit for Childless Workers Largely Fails to Increase Employment or Earnings: Better Alternatives Needed.”