United States Senate Budget Committee

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The 'Welfare Cliff': How The Benefit Scale Discourages Work

Welfare spending is now the largest item in the budget—and will continue to grow every year. According to data from the Congressional Research Service, total spending on means-tested poverty programs in FY2011 was around $1 trillion, more than was spent on Social Security, Medicare, or defense. CRS data also reveals that spending on these programs is likely to increase by another 30 percent over the next four years.

The dramatic rise in welfare spending has created a "welfare cliff." As more people have become eligible for increasingly larger benefits, the "penalty" for working—lost benefits due to increased income—has steepened and been described by analysts as the "welfare cliff." This has been especially true for workers near the poverty line who are eligible for multiple programs (e.g., food stamps, Medicaid, the EITC, TANF, and subsidized public housing), as workers reach a point where every additional dollar earned can result in a more than 50 percent reduction in benefits.

A paper presented at the American Enterprise Institute by the Pennsylvania Secretary of Public Welfare found that because of the stacking of welfare benefits, many individuals receiving welfare stand to lose financially by increasing their income. In one example, the study demonstrated how a single parent with two children earning $29,000 would have a net income, including welfare benefits, of $57,000. Therefore, the individual would need annual earnings to jump from $29,000 to $69,000 (pre-tax) to maintain the same standard of living without welfare benefits.

The Congressional Budget Office (CBO) also recently published a report calculating the amount of increased taxes paid—and federal means-tested benefits lost—as earnings increase for low- and middle-income households. CBO found that, because these households are moving from a situation in which their financial means (welfare benefits) are not taxed to one where their income is, the additional taxation that occurs at the margin is significant.

For example, the CBO study found that households with incomes just above the poverty line—or between $23,000 and $29,000 for a family of four in 2012—stand to lose 60 cents of every additional dollar to either taxes or lost federal benefits. In the face of such a high penalty, many low-income people choose either not to work or, as CBO finds, "put in fewer hours or be less productive."

Federal policy seeks expanded welfare enrollment as an explicit goal—regardless of need. The federal government has been engaged in active promotional efforts to boost welfare enrollment regardless of need. For instance, in one Spanish-language "radio novela," an individual insists she has enough money to pay for her own food but is pressured to accept the benefit regardless. USDA provides recruitment workers with material on how to "overcome the word 'No'" and even gave one worker an award for overcoming "mountain pride" in order to boost registration. USDA claims one of the obstacles to recruitment is a “sense that benefits are not needed,” and laments that those who choose not to enroll are depriving their community: “Each $5 dollars in new SNAP benefits generates almost twice that amount in economic activity for the community… Everyone wins when eligible people take advantage of benefits to which they are entitled.”

The push for welfare expansion has included targeted outreach to immigrants in spite of legal restrictions. The Departments of State and Homeland Security have effectively waived legal requirements barring entry to immigrants likely to be welfare reliant. DHS even has a web page, WelcomeToUSA.gov, which has a section encouraging newly arrived immigrants to seek out welfare. Meanwhile, USDA has formally acknowledged an official partnership with the government of Mexico to increase food stamp enrollment among foreign nationals.

Eligibility standards have been loosened as benefits have increased. Over the last four years, federal means-tested programs have experienced both a loosening of eligibility standards and an increase in benefit size. For instance, the 2009 stimulus bill removed work requirements for food stamps (which remain suspended) and increased the size of the monthly benefit allotment. Additionally, the number of states that have effectively eliminated the asset test by using broad-based categorical eligibility for the Supplemental Nutrition Assistance Program (SNAP) has grown from 11 states in 2007 to 42 states in 2011 (including the District of Columbia, Guam, and the Virgin Islands). A GAO report confirmed that categorical eligibility has contributed to the recent increase in food stamp enrollment.

The size of other program benefits is growing far faster than inflation or wages. A paper published by the National Bureau of Economic Research (NBER) found that between 2007 and 2009, the value of means-tested benefits available to the average non-elderly unemployed worker grew from $10,000 to $15,000—or 50 percent. Another paper published by NBER calculated that, if spending on federal means-tested programs had increased proportionally to the number of underemployed workers, federal spending on these programs would have been $269 billion less than it otherwise was in 2009.

1996-modeled welfare reform would help those who need it the most. Growing welfare spending has failed in its goal of reducing poverty and improving economic mobility. Compassion necessitates reform to improve the operation of these programs, target resources to those in true need, and help millions of Americans seeking a better future.