

# BACKGROUND

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## Five Myths About Welfare and Child Poverty

Robert Rector and Rachel Sheffield

### Abstract

*Debates about child poverty and welfare are marked by five common assumptions: 1) the welfare state in the U.S. is small; 2) welfare benefits are meager and insufficient; 3) due to a lack of government support, poverty and deprivation are widespread; 4) welfare substantially penalizes work, trapping families in poverty; and 5) raising the minimum wage would be an effective strategy for reducing child poverty. These assumptions are false. The welfare system is quite massive, and many low-income families receive a generous welfare package. Furthermore, low-income working families remain eligible for a large amount of welfare benefits even quite far up the income scale. Raising the minimum wage is a poor way to address poverty; it is a poorly targeted policy and would limit job openings for the least advantaged workers. Dispelling these misconceptions is a prerequisite to forming rational welfare policy to help poor families.*

Child poverty is an issue that is often discussed both in the media and by policymakers. Unfortunately, the many faulty assumptions surrounding this issue lead to misdirected responses. These faulty assumptions include the following:

- The welfare state in the U.S. is small;
- Welfare benefits are meager and insufficient;
- Due to a lack of government support, poverty and deprivation are widespread;

### KEY POINTS

- The foundational principle of a sound welfare system is that benefits should complement and reinforce, not weaken or displace, self-support through work and marriage. A system that melds assistance with individual self-help is more efficient, is more humane, and confers greater dignity on beneficiaries.
- In general, a combination of full-time employment (even at low wages) and benefits will place a family income well above the official poverty level. Families with children that remain in poverty do so because the parents do not work or work for only a limited number of hours during the year.
- Efforts to reduce child poverty should focus on tightening work requirements in programs such as Temporary Assistance for Needy Families, food stamps, and the Earned Income Tax Credit and reducing penalties against marriage.
- Raising the minimum wage would merely push disadvantaged families with children deeper into poverty by eliminating the jobs that low-skill parents need to sustain their families.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3176>

**The Heritage Foundation**  
214 Massachusetts Avenue, NE  
Washington, DC 20002  
(202) 546-4400 | [heritage.org](http://heritage.org)

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- Welfare substantially penalizes work, trapping families in poverty; and
- Raising the minimum wage is an effective strategy for reducing child poverty.

### **Myth #1: The Welfare State in the U.S. Is Small.**

The first faulty conception about the means-tested welfare system is that it is small. One reason for this misconception is that welfare is often discussed one program at a time rather than as an entire system. Means-tested welfare programs are scattered across numerous government agencies, making it easy for the large size of the welfare system to be hidden. Nowhere in government budgets is welfare spending presented in total.

In reality, the U.S. welfare system is enormous. The federal government operates over 90 means-tested welfare programs that provide cash, food, housing, medical care, and targeted services to poor and lower-income Americans. In 2014, federal and state governments spent over \$1 trillion on these programs; 90 percent of this spending, or \$924 billion, went to cash, food, housing, and medical benefits. (Social Security and Medicare are not included in this count.)

Approximately 50 percent of means-tested welfare spending goes to low-income families with children. Cash, food, and housing spending alone on those families in 2014 came to \$222.8 billion. When medical care is added, the total came to \$402.2 billion.<sup>1</sup>

Most means-tested welfare spending is allocated among lower-income families, defined as those with pre-welfare incomes below 200 percent of the federal poverty level (FPL). For a family of four in 2015, 200 percent of the FPL equals \$48,072.<sup>2</sup>

In 2014, about 40 percent of all families with children, or 15.3 million families, had pre-wel-

fare incomes below 200 percent of the FPL.<sup>3</sup> If the \$223 billion in means-tested cash, food, and housing spending on families with children were spread evenly among these low-income families, the average benefits would come to \$14,575 per family.<sup>4</sup> If medical care were added, the average would be \$26,885 per family. Moreover, only a tiny portion of these families rely on welfare aid alone; most combine welfare with earnings or other sources of income.

**The Poverty Gap.** Another way to judge the size of the welfare state is to compare total spending to the pre-welfare poverty gap for families with children. The pre-welfare poverty gap is the total amount of money needed to raise every poor family's income up to the federal poverty threshold. In 2014, the pre-welfare poverty gap for families with children was \$86.3 billion. In other words, it would take \$86.3 billion to raise the income of every poor family with children up to the poverty level.

At \$222.8 billion, means-tested cash, food, and housing spending was two and a half times the amount needed to eliminate all poverty among families with children. At \$402.2 billion, cash, food, housing, and medical spending was almost four and a half times the amount needed to eliminate all poverty among children.

However, the U.S. Census Bureau informs us that in 2014, there were nearly 15 million children in America living in poverty.<sup>5</sup> How can government spend these enormous sums and still have 15 million children in poverty? The answer is simple: The Census counts a family as "poor" if its income falls below the official poverty income thresholds, but of the \$402.2 billion spent on cash, food, housing, and medical care for families with children, the Census counted only \$11.9 billion as "income" for purposes of measuring child poverty.<sup>6</sup> When the Census Bureau informs the public that 15 million U.S. children are poor, it is important to understand that nearly all of the welfare state is excluded from that calculation.

1. Calculations available upon request. Based on FY 2014 outlays adjusted to FY 2015 dollars.

2. The poverty threshold for a family of four with two children in 2015 was \$24,036. U.S. Census Bureau, "Data: Poverty Thresholds," <http://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html> (accessed November 23, 2016).

3. Calculations from U.S. Census Bureau, Current Population Survey for calendar year 2014.

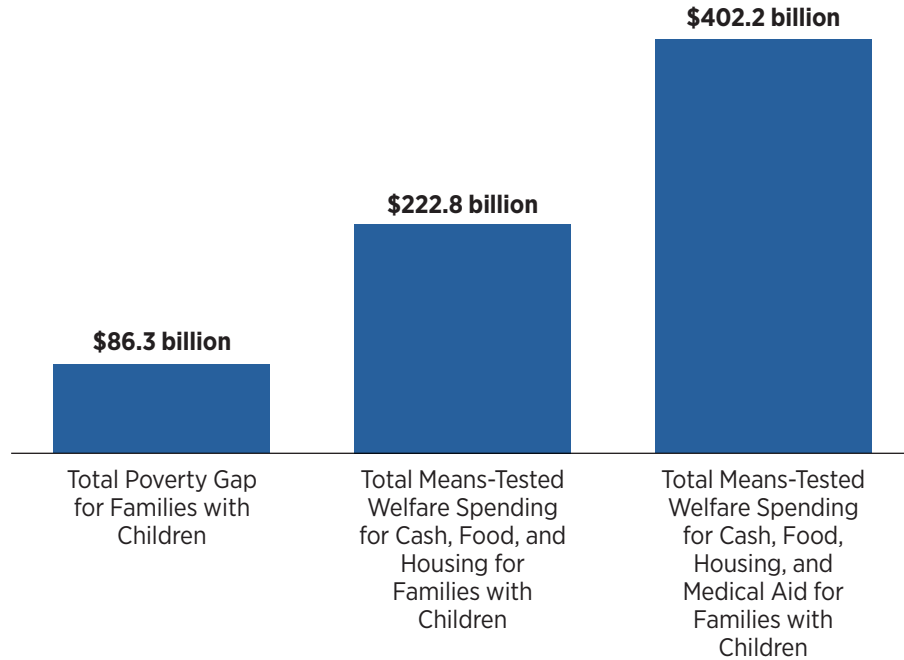
4. There were 59.2 million persons in the 15.3 million lower-income families, so the total spending per person comes to \$3,767 per person.

5. Carmen DeNavas-Walt and Bernadette D. Proctor, "Income and Poverty in the United States: 2014," U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, *Current Population Reports* No. P60-252, September 2015, Table 3, "People in Poverty by Selected Characteristics: 2013 and 2014," [http://www2.census.gov/programs-surveys/demo/tables/p60/252/pov\\_table3.pdf](http://www2.census.gov/programs-surveys/demo/tables/p60/252/pov_table3.pdf) (September 6, 2016).

6. Calculated from U.S. Census Bureau, Current Population Survey, March 2015.

CHART 1

## Welfare Spending More than Sufficient to Eliminate All Child Poverty



**NOTES:** The poverty gap is the amount of money needed to raise all families with children at least to the poverty level. Figures are for 2014.  
**SOURCE:** Heritage Foundation calculations based on Current Population Survey data and data from the Office of Management and Budget.

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**Does All the Money Go to Bureaucracy?** One conservative misconception about welfare is that the welfare state is large because of bureaucratic cost. According to this view, federal and state bureaucracies absorb most welfare spending, and very little reaches the poor. This is untrue. On average, administrative costs are less than 10 percent of means-tested cash, food, housing, and medical spending.<sup>7</sup> More than 90 percent of this spending reaches low-income families as benefits.

The welfare state is expensive not because bureaucracy swallows the funds but because the welfare system provides very generous benefits to tens of millions of families. The real problem in wel-

fare is not bureaucratic inefficiency but the “moral hazard” of existing welfare programs’ tendency to discourage self-support through work and marriage.

### Myth # 2: The Level of Welfare Benefits Is Meager.

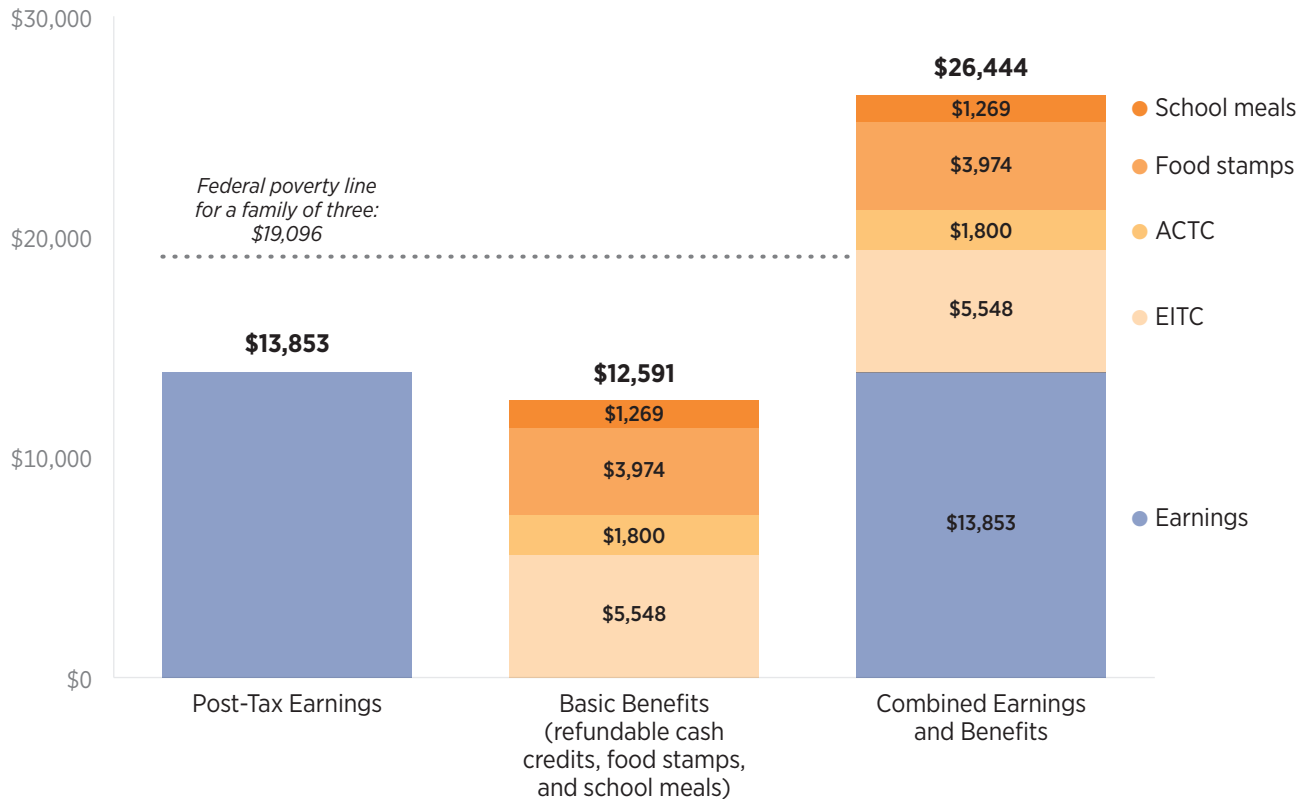
A second, related misconception is that the amount of welfare benefits that households receive is meager. Since the welfare system is much larger than most imagine, so too are the benefits that households receive.

Consider a single mother who has two school-age children and has worked full-time for 52 weeks in the year at the federal minimum wage of \$7.25 per

7. This estimation is based on the following programs: administrative costs for the EITC and ACTC programs equal about 1 percent of total program costs; administrative costs in the food stamp program equal about 10 percent of total program costs; in Medicaid, administrative costs are about 5 percent of total program costs; in SCHIP, about 9 percent of total program costs; in the national school lunch program, about 8 percent of total program costs; in the Women, Infants and Children (WIC) program, about 30 percent of total program costs; in HUD Section 8 and Public Housing programs, about 6 percent of total program costs; and in the Supplemental Security Income (SSI) program, about 6 percent of total program costs. These programs make up about 80 percent of total means-tested welfare spending. Sources available upon request.

CHART 2

## Single Mother with Two Children Earning Minimum Wage for Full Year, Receiving Basic Cash and Food Aid



NOTES: Figures are for 2015. In this scenario, the mother has two school-age children.

SOURCE: Heritage Foundation calculations based on data from U.S. Department of Agriculture, Food and Nutrition Service; and Internal Revenue Service.

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hour.<sup>8</sup> (The overwhelming majority of single parents actually work at a higher wage rate.) This mother would receive \$13,853 in annual post-tax earnings.<sup>9</sup> Based on earnings alone, this mother’s income is well below the official fiscal year (FY) 2015 poverty income threshold of \$19,096 for a family of three.<sup>10</sup>

But this mother would also be eligible for basic means-tested benefits including the Earned Income Tax Credit (EITC); the Additional Child Tax Credit

(ACTC); food stamps; school lunch; and (in some cases) school breakfast benefits. As Chart 2 shows, in addition to \$13,853 in post-tax earnings, the mother would receive \$5,548 in cash benefits through the EITC and \$1,800 cash benefits through the ACTC. The family would also get \$3,974 in food stamp benefits and \$1,269 in school lunch and school breakfast benefits.<sup>11</sup> The combined value of earnings, cash welfare, and food benefits would come to \$26,444,

8. The mother is not an illegal immigrant. She is a U.S.-born citizen or a legal immigrant who has resided in the country for over five years, making her eligible for all means-tested benefits.

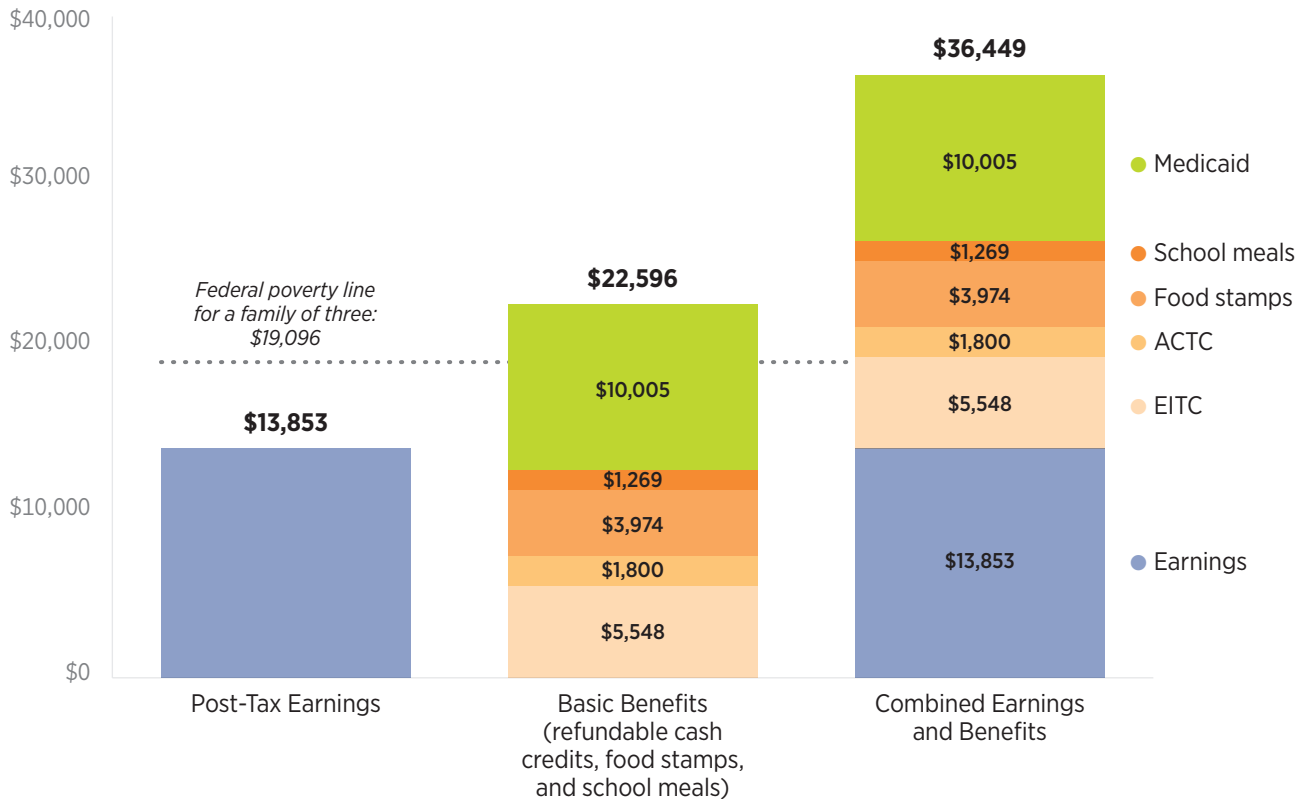
9. Calculations in the text are based on annual pre-tax earnings of \$15,000.

10. U.S. Census Bureau, “Data: Poverty Thresholds.”

11. Data on calculations available upon request.

CHART 3

## Single Mother with Two Children Earning Minimum Wage for Full Year, Receiving Basic Cash, Food, and Medical Benefits



**NOTES:** Figures are for 2015. In this scenario, the mother has two school-age children and lives in a Medicaid expansion state.  
**SOURCE:** Heritage Foundation calculations based on data from U.S. Department of Agriculture, Food and Nutrition Service; Internal Revenue Service; and Centers for Medicare and Medicaid Services.

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nearly 40 percent above the official poverty level.<sup>12</sup> Counting both earnings and benefits, the effective hourly wage rate would be \$12.71 per hour.<sup>13</sup>

Income would be even higher if the mother earned a more typical wage of, say, around \$9.00 per hour. Assuming the mother worked full-time through the year, post-tax earnings would come to \$17,547.<sup>14</sup> Cash and food benefits would raise combined income substantially to \$28,705, or 50 percent above the official

poverty level. The effective wage rate would be \$13.80 per hour.

**Adding Medical Benefits.** In a Medicaid non-expansion state, both children would be eligible for Medicaid. The average cost to the taxpayer of the medical benefits provided per child would be \$2,807.<sup>15</sup> On average, the combined cost of the two children would be \$5,614. When post-tax earnings of the minimum-wage worker, cash welfare, food aid,

12. For information on benefit calculations, see Appendix 1.

13. This calculation assumes that a full-time worker will work 2,080 hours per year or 40 hours per week for 52 weeks.

14. Calculations are based on annual pre-tax earnings of \$19,000.

15. 2013 data.

and medical benefits are combined, the sum would be \$32,057. The effective wage rate for benefits and wages combined would be about \$15.40 per hour.

In a Medicaid expansion state, both the children and the parent would be eligible for Medicaid. The average cost to the taxpayer of the medical benefits provided to the parent would be \$4,391. The combined average benefits for a parent and two children would be \$10,005.

As Chart 3 shows, when post-tax earnings of the minimum-wage worker, cash welfare, food aid, and medical benefits for the children and parent are combined, the sum would be \$36,449, which is nearly twice the official poverty level for the family. The effective wage rate would be more than \$17.50 per hour.

**Do Low-Wage Families Actually Access Basic Benefits?** Critics on the left might argue that the fact that the mother was eligible for these benefits does not necessarily mean she would apply for and receive them, but among families with children, the take-up rate of benefits is extremely high. (The take-up rate measures the ratio of the number of persons who receive benefits to the number who are theoretically eligible.) For example:

- The actual take-up rate of the EITC for adults claiming children appears to be over 100 percent. There appear to be more adults claiming the credit than there are families eligible for it.
- The food stamp take-up rate among single parents with children appears to be around 130 percent: The number of beneficiaries greatly exceeds the number of eligible families.

- The Medicaid take-up rate for low-income children is around 90 percent. There is a single enrollment process for Medicaid: If the children in a family are enrolled, the parent, if eligible, would be automatically enrolled as well.
- The take-up rate for free school lunches is also over 100 percent. On the other hand, only half of schools operate the school breakfast program; the benefits in the charts in this paper and the text have been prorated to reflect that fact.<sup>16</sup>

**Single-Parent Families with Housing Benefits.** The welfare benefits included in Chart 3 represent the basic welfare package in the U.S. As noted, nearly all low-wage working parents with school-age children will receive benefits from the six programs described above.<sup>17</sup>

However, many low-income families with children receive other benefits in addition to the basic package. The most important of these are rent subsidies provided by the U.S. Department of Housing and Urban Development (HUD). In 2015, some 1.6 million single-parent families received HUD rent subsidies.<sup>18</sup> This represents about one-quarter of poor and near-poor single parents.<sup>19</sup>

The most common type of subsidized housing is Section 8 benefits, which are generally distributed as vouchers. When Section 8 housing or other subsidized housing is added to the basic benefit package, the overall benefit stack becomes quite high. As Chart 4 shows, the combined earnings and benefits could reach \$47,385 per year.<sup>20</sup> The effective hourly wage rate is \$22.78 per hour.

16. For data on the take-up rate of welfare benefits, see Appendix 2.

17. If the parent has pre-school children, the family will not receive school nutrition benefits but is likely instead to receive WIC and child care food benefits.

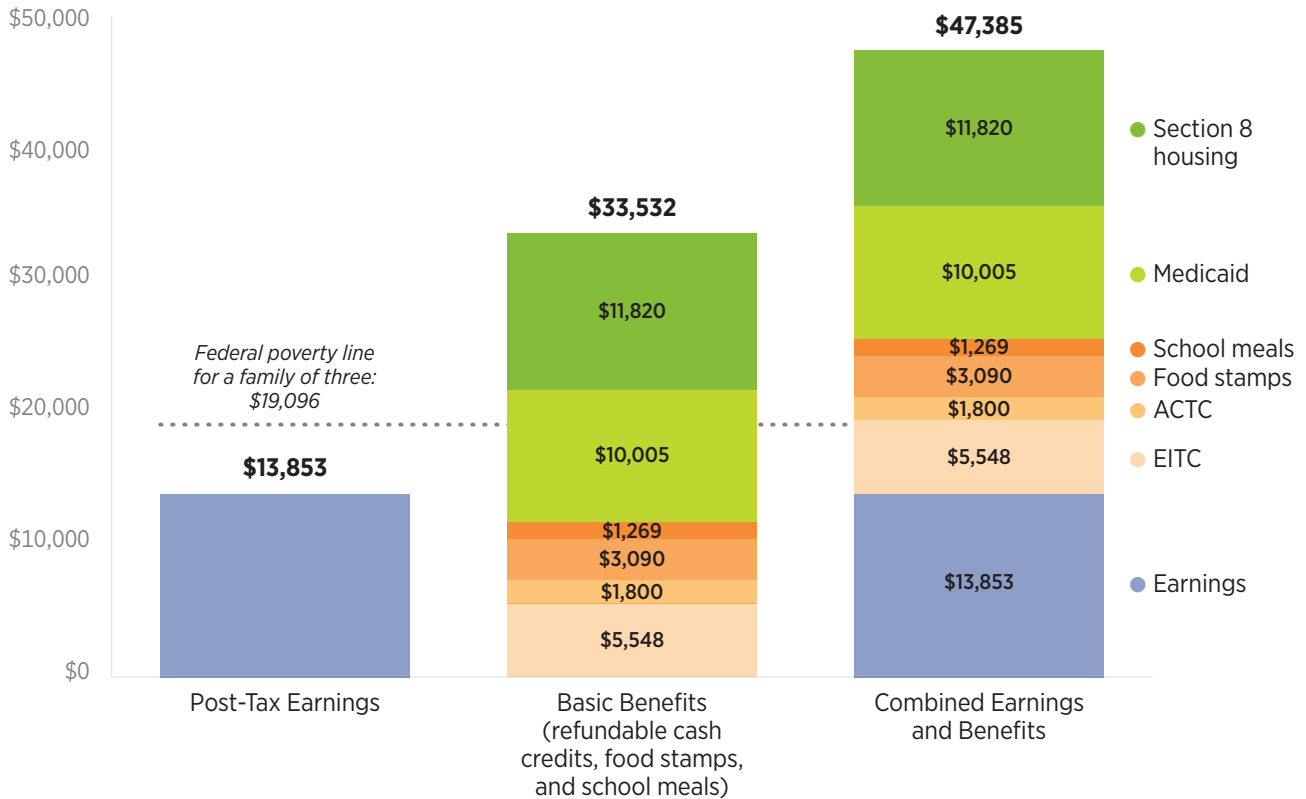
18. According to the HUD user website, there were 4.63 million occupied HUD-subsidized housing units in 2015. Of these subsidized households, 38 percent were families with children; 34 percent, or 1.57 million units, were single adults with children. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Picture of Subsidized Households," 2015, <https://www.huduser.gov/portal/datasets/picture/yearlydata.html> (accessed November 23, 2016).

19. As noted, some 1.57 million single-parent families received HUD rent subsidies in 2015. There were 5 million single-mother families with pre-welfare incomes below 125 percent of the FPL in 2014. It is likely that around one-quarter of poor and near-poor single-mother families receive housing benefits. See U.S. Census Bureau, Table POV-26, "Program Participation Status of Household-Poverty Status of People," 2014, <https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pov/pov-26.2014.html> (accessed December 8, 2016).

20. The estimate is for a three-bedroom unit. According to HUD Public Use Microdata, half of all three-member families in HUD-subsidized housing live in three-bedroom units. The national average payment allowance for Section 8 for a three-bedroom unit in 2014 is estimated at \$15,644. This sum equals the national average fair-market rent weighted by the number of section 8 units in each relevant area. Calculated from U.S. Department of Housing and Urban Development, Office of Policy Development and Research, "Fair Market Rents" dataset, <https://www.huduser.gov/portal/datasets/fmr.html> (accessed November 23, 2016). The figure in the text deducts for tenant rent payments based on earnings.

CHART 4

## Single Mother Earning Minimum Wage for Full Year, Receiving Basic Cash, Food, Medical, and Housing Benefits



**NOTES:** Figures are for 2015. In this scenario, the mother has two school-age children, lives in a Medicaid expansion state, and receives Section 8 vouchers for a three-bedroom apartment.

**SOURCE:** Heritage Foundation calculations based on data from U.S. Department of Agriculture, Food and Nutrition Service; Internal Revenue Service; Centers for Medicare and Medicaid Services; and HUDUser.

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### Myth #3: Due to a Lack of Government Support, Poverty and Deprivation Are Widespread.

Despite the massive spending and expensive benefits available to low-income families, the U.S. Census Bureau reports that in 2014, nearly 15 million children in America were living in poverty.<sup>21</sup> How can government spend enormous sums and still have 15 million children in poverty? As noted, the answer is simple: The Census counts a family as “poor” if its income falls below the official poverty income thresh-

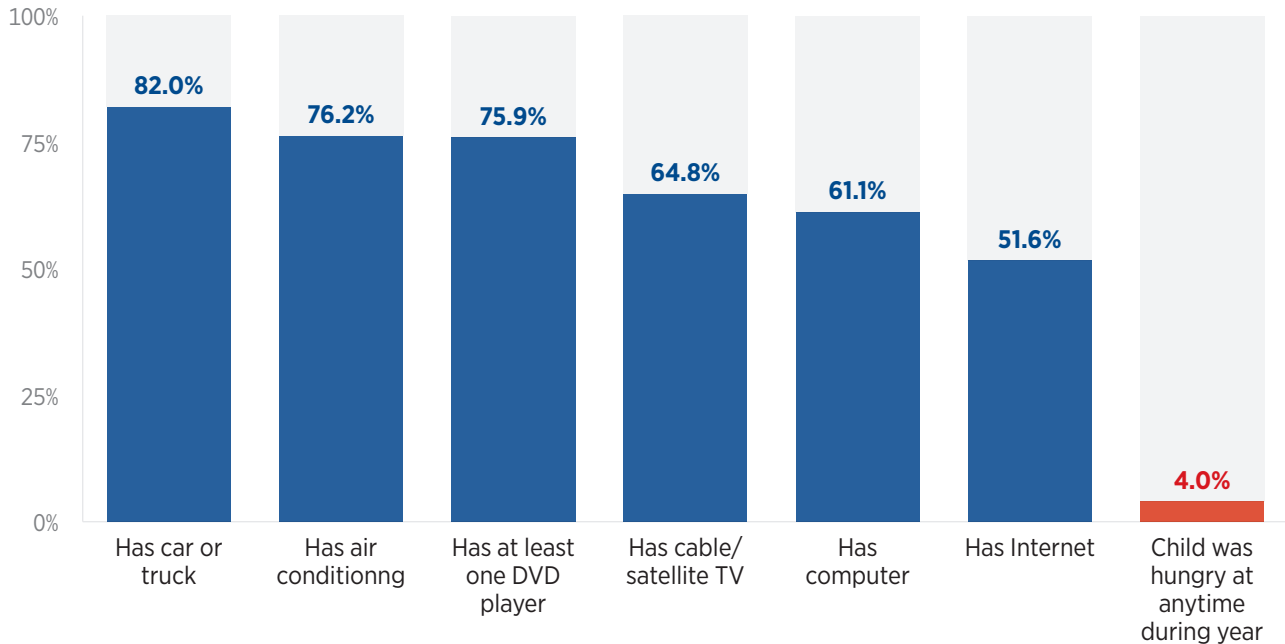
olds, but of the \$402 billion spent on cash, food, housing, and medical care for families with children, the Census counts only about \$11.9 billion, or 3 percent, as “income” for purposes of measuring child poverty.

Thus, the government’s poverty measure says very little about the actual material living conditions of the poor. Examining other government data provides a very different picture of poverty in the United States. For example, the average poor household in the United States has air conditioning, a car or truck, cable or satellite TV, a computer, a cell phone, and

21. DeNavas-Walt and Proctor, “Income and Poverty in the United States: 2014,” Table 3, “People in Poverty by Selected Characteristics: 2013 and 2014.”

CHART 5

## Living Conditions of Families with Children in Official Poverty



**SOURCES:** U.S. Energy Information Administration, Residential Energy Consumption Survey, 2009, <https://www.eia.gov/consumption/residential/data/2009/> (accessed December 5, 2016); U.S. Census Bureau, Current Population Survey, December 2008, <http://www.census.gov/programs-surveys/cps.html> (accessed December 5, 2016); U.S. Department of Agriculture, Food Security Supplement File, December 2009, <https://www.ers.usda.gov/data-products/food-security-in-the-united-states/> (accessed December 5, 2016); and U.S. Census Bureau, American Housing Survey, 2013, <http://www.census.gov/programs-surveys/ahs.html> (accessed December 5, 2016).

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(if the household has children) a video game system. They have enough to eat and are not undernourished. They live in comfortable housing that is in good repair and have more living space than the average non-poor person in Germany, France, Sweden, and the United Kingdom. The average poor household in the United States also reports that they have access to medical care when they need it.<sup>22</sup>

Chart 5 provides data on the actual living conditions of the nearly 7 million families with children

that the Census Bureau identifies as living in poverty. Over 80 percent have a car or truck, more than three-quarters have air conditioning, nearly two-thirds have cable or satellite TV, 61 percent have a computer, and half have Internet access in the home.<sup>23</sup> Some 96 percent of poor parents report that their children were never hungry during the previous year due to a lack of food resources; only 4 percent of poor parents report that their children had been hungry at some point during the previous 12 months.<sup>24</sup>

22. Robert Rector and Rachel Sheffield, "Understanding Poverty in the United States: Surprising Facts About America's Poor," Heritage Foundation *Backgrounder* No. 2607, September 13, 2011, <http://www.heritage.org/research/reports/2011/09/understanding-poverty-in-the-united-states-surprising-facts-about-americas-poor>.

23. The data on electronic devices are calculated from the microdata files of the 2009 Residential Energy Consumption Survey (RECS) conducted by the U.S. Department of Energy in 2009. More recent surveys are likely to show higher rates of ownership. See U.S. Department of Energy, U.S. Energy Information Administration, "2009 RECS Survey Data," <http://www.eia.gov/consumption/residential/data/2009/index.php?view=microdata> (accessed November 23, 2016).

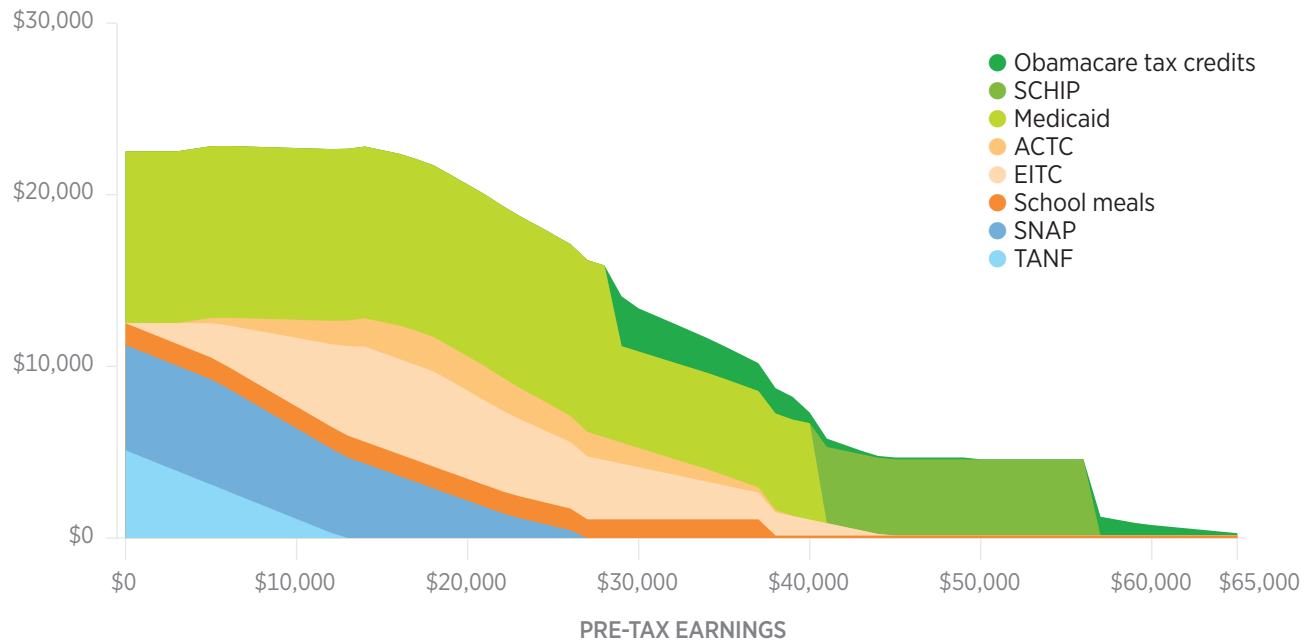
24. Calculation based on U.S. Department of Commerce, U.S. Census Bureau, *Current Population Survey, December 2008: Food Security Supplement File*.



CHART 6

## Decrease in Basic Welfare Benefits Package as Earnings Increase

### WELFARE BENEFITS



**NOTES:** Figures are for 2015. This scenario shows benefits for a single mother with two school-age children in a Medicaid expansion state.

**SOURCE:** Heritage Foundation calculations based on data from U.S. Department of Agriculture, Food and Nutrition Service; Internal Revenue Service; Centers for Medicare and Medicaid Services; HUDUser; U.S. Department of Health and Human Services, Office of Family Assistance; and Healthcare.gov.

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The large amount of money spent on government welfare programs helps to raise the material living conditions of low-income Americans, but because very little of this assistance is counted, the poverty measure continues to suggest that these individuals are “poor.” The misleading poverty measure thereby allows some policymakers to call for ever-larger amounts of government welfare spending.

### Myth #4: Welfare Substantially Penalizes Work, Trapping Families in Poverty.

There are two common misconceptions about work and welfare. The first is that individuals who receive welfare and do not work will have higher incomes than those who do work. For example, it is sometimes asserted that in most states, welfare benefits pay more than a minimum-wage job.<sup>25</sup> The apparent implica-

25. According to a study by the Cato Institute, “Welfare currently pays more than a minimum-wage job in 35 states, even after accounting for the Earned Income Tax Credit.” The study implies that this is the representative condition within the welfare system. See Michael D. Tanner and Charles Hughes, “The Work Versus Welfare Trade-Off: 2013: An Analysis of the Total Value of Welfare Benefits by State,” Cato Institute *White Paper*, August 19, 2013, p. 1, <http://www.cato.org/publications/white-paper/work-versus-welfare-trade> (accessed September 6, 2016). However, this study assumes that a single parent receives housing subsidies and TANF benefits in addition to food stamps, Medicaid, WIC, and energy aid. Only about 5 percent of poor and near-poor single mothers receive both TANF and housing aid. The number of families receiving TANF has gone down dramatically due to the work requirements established in the 1996 welfare reform, and the Cato study itself acknowledges that only 14.7 percent of the households receiving TANF also get housing aid. *Ibid.*, p. 25. The study also appears to assume that families will lose food stamp benefits when they begin work; this assumption is incorrect. In reality, the Cato study analyzes a theoretical maximum benefit package that infrequently occurs, not average welfare use. The situation where families receive housing aid in conjunction with other benefits is addressed below in the section on “piggybacking” of benefits.

tion is that welfare recipients therefore have no financial incentive to take a job.

This assertion would be true only if welfare aid were eliminated when a job was taken, but this is not the case. In fact, welfare benefits will continue at roughly the same level for a parent who takes a low-wage job. While Temporary Assistance for Needy Families (TANF) and food stamp benefits do decrease as earnings rise, EITC and ACTC benefits rise; the two effects largely offset each other. As Chart 6 shows, basic welfare benefits begin around \$22,000 when earnings are zero and remain at roughly that level as earnings rise to \$16,000 per year.<sup>26</sup> They decline slowly as earnings rise to \$22,000 per year.

This means that taking a job will generate a very substantial gain in family income. When parental earnings are zero, basic welfare benefits for a mother with two school-age children are around \$22,500. If a parent earns \$10,000 per year, combined welfare and earnings will rise to \$31,995. If parental earnings rise to \$20,000, combined welfare and earnings rise to \$39,000—twice the official poverty level.<sup>27</sup>

In general, in the U.S. welfare system, families with children that receive welfare but have no paren-

tal employment have incomes below the poverty level. However, in most cases, families with even modest levels of parental work will have combined incomes from work and welfare that rise well above poverty.

A second, related misconception is that many families are caught in a “poverty trap” because the welfare system phases their welfare benefits down quickly when a recipient takes a job. According to this view, low-skill parents have little incentive to work their way out of poverty because each additional hour of work produces very little net gain in income.<sup>28</sup> This is often referred to as the marginal tax rate (MTR) problem in welfare.

In fact, the problem is generated by the aggregate benefit reduction rates (BRR) in welfare programs rather than by taxes. A high BRR regime, for example, might mean that welfare benefits would be cut by 75 cents for every additional dollar of earnings. As a consequence, the recipient would gain little from his labor and would therefore have less incentive to escape from poverty.<sup>29</sup>

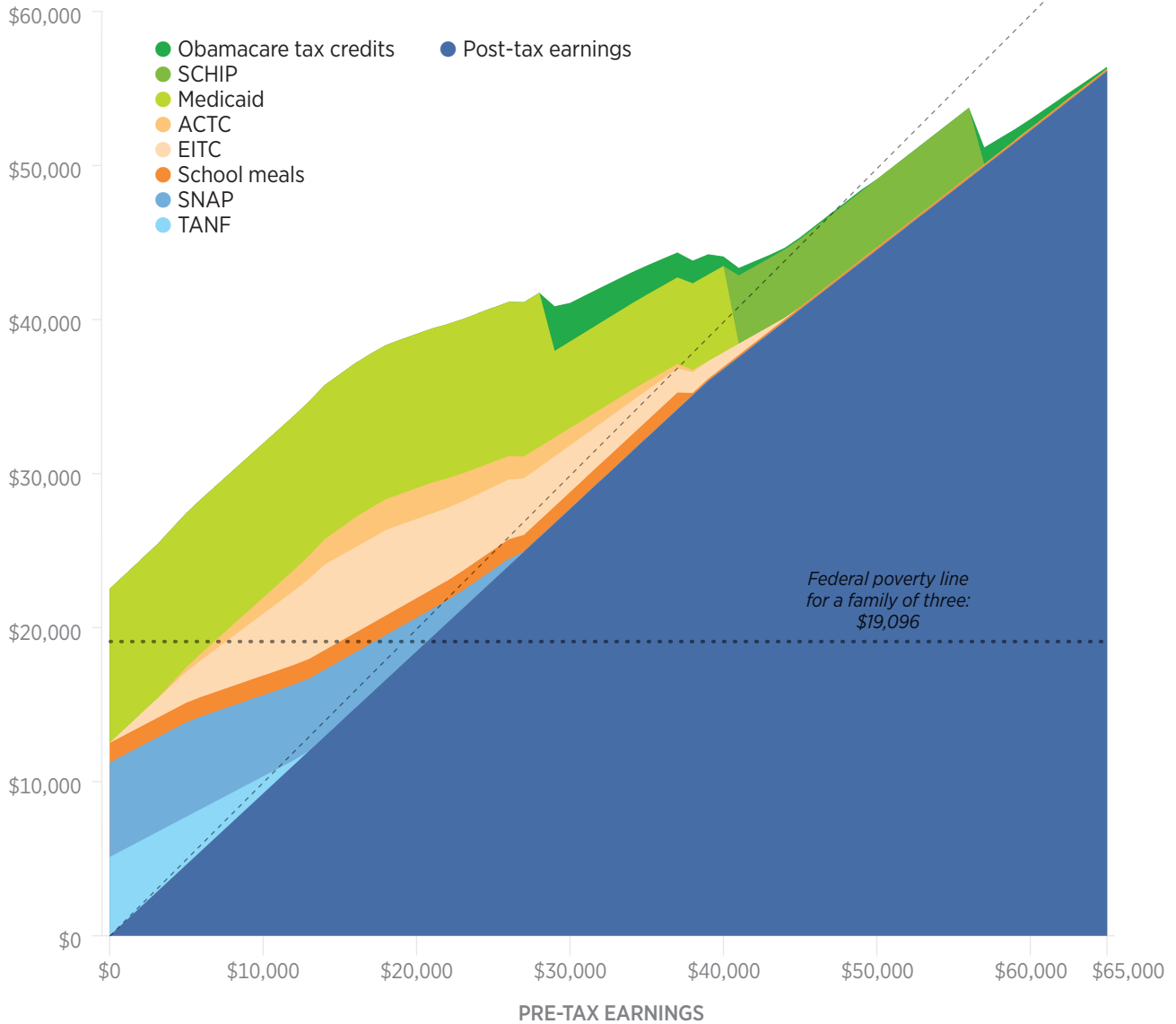
In reality, for parental earnings between zero and \$20,000 per year, the combined marginal rate of taxes and the welfare benefit reduction rate (MTR/BRR) is around 17 percent on average. For every dollar

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26. Chart 6 is based on a Medicaid expansion state. The pattern is similar in a non-expansion state, except that the parent will typically lose Medicaid eligibility at around \$10,000 and then become eligible for Obamacare subsidies at around \$20,000. Nonetheless, even in a non-expansion state, the single mother will still have substantially more combined income from welfare and earnings by holding a minimum-wage job than by relying only on welfare.
27. In the 19 Medicaid non-expansion states, the parent will lose Medicaid eligibility, on average, when earnings reach 50 percent of the FPL. This creates a small dip in combined earnings and welfare when earnings are between \$10,000 and \$14,000. Even in a non-expansion state, a parent working full-time at the minimum wage will almost always be substantially better off than a non-working parent relying only on welfare.
28. For example, writing in *National Review*, Orin Cass states, “The lowest-income households end up facing what in effect are extraordinarily high marginal tax rates, meaning they receive far too little additional take-home income for each dollar they earn and thus face relatively little incentive to earn any income at all.” Cass emphasizes the importance of entry-level employment and adds that “maintaining an income gap that favors work and encourages labor-force participation becomes more challenging and more important. Unfortunately, the current anti-poverty infrastructure makes it nearly impossible.” See Orin Cass, “The Height of the Net,” *National Review Online*, January 8 2014, <http://www.nationalreview.com/article/367805/height-net-oren-cass?target=author&tid=903292>, (accessed September 6, 2016). As generalizations about the welfare system, these statements are simply incorrect. Cass further argues that the key to reforming welfare is to give states more flexibility in spending federal money, ignoring the fact that the benefit reduction rate issues about which he is concerned are actually more common in state-controlled programs such as TANF, Medicaid, SCHIP, and child care than in the core federal system. He also ignores the simple fact that states have been given nearly carte blanche authority to spend TANF funds as they wish for 20 years. After some \$600 billion in TANF spending, examples of conservative innovation or even strong work programs in TANF are hard to find.
29. The notion of a welfare poverty trap is typically based on analyses using combinations of welfare benefits that rarely occur in the real world. For example, a widely read Congressional Budget Office report analyzing the marginal tax rates in the welfare system used an allegedly representative example of a single mother who received TANF, Section 8, food stamps, Medicaid and SCHIP, and the EITC and ACTC. See Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers*, November 2012, <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/11-15-2012-MarginalTaxRates.pdf> (accessed September 6, 2016). Because Section 8 housing vouchers and TANF both phase down over the same income range, the representative single mother was shown to experience very high marginal tax rates, which prevented her income from rising with employment. In reality, most single mothers do not receive housing aid, and the combined simultaneous receipt of TANF and Section 8 is extremely rare. Although depicted as a representation of the general welfare system, the CBO scenario was a misleading anomaly. Inferences from an anomaly will lead to an erroneous understanding of welfare.

CHART 7

## Combined Earnings and Benefits

WELFARE BENEFITS PLUS POST-TAX EARNINGS



**NOTES:** Figures are for 2015. This scenario shows combined post-tax earnings and benefits for a single mother with two school-age children in a Medicaid expansion state.

**SOURCE:** Heritage Foundation calculations based on data from U.S. Department of Agriculture, Food and Nutrition Service; Internal Revenue Service; Centers for Medicare and Medicaid Services; HUDUser; U.S. Department of Health and Human Services, Office of Family Assistance; and Healthcare.gov.

of earnings, the parent will have a net gain of around 83 cents. (This calculation is based on states with the Medicaid expansion. In a Medicaid non-expansion state, the MTR/BRR between zero and \$20,000 in earnings is 21 percent on average, although there is a temporary dip in combined earnings and benefits in the income range where the parent loses Medicaid but has not earned enough to qualify for Obamacare benefits.) The welfare benefit reduction rate is kept very low in the zero to \$20,000 earnings range precisely to ensure that low-wage parents will have a combined welfare and earnings package that rises well above the poverty level.<sup>30</sup>

Chart 7 shows how the combined value of post-tax earnings and welfare benefits increases as earnings increase. As in Chart 6, the figures represent a single mother with two school-age children in a Medicaid expansion state. The X-axis represents pre-tax earnings, and the Y-axis represents the combined value of basic welfare benefits and post-tax earnings.

The dotted diagonal line on the chart represents points where combined post-tax earnings and benefits equal pre-tax earnings. This could be called the break-even line. At points along this line, benefits received equal taxes paid; for points above the line, benefits received exceed taxes paid; for points below the line, taxes exceed benefits. On the chart, the break-even point where benefits equal taxes is around \$47,000 per year in pre-tax earnings. If earnings are less than that, benefits will exceed taxes.

When earnings rise above \$22,000 per year, benefits are phased down fairly rapidly, falling to around \$5,000 as earnings reach around \$45,000. The phasedown of benefits in Chart 7 is apparent as the slope of the value of combined earnings and benefits rises slowly as earnings on the X-axis rise from \$20,000 to \$45,000.<sup>31</sup> This effect is regrettable, but it occurs because it would be prohibitively expensive to extend welfare benefits farther up the income scale.

Thus, there are high benefit reduction rates in welfare, but they occur at the point where combined earnings and benefits are well above poverty. It is simply untrue that welfare benefit reduction rates in any sense trap families in poverty.<sup>32</sup> At the point where welfare benefits begin to phase out (around \$22,000 in earnings), families will typically have earnings above the poverty level and combined earnings and benefits that are nearly twice the poverty level.

It is inaccurate to claim that high welfare benefit reduction rates (or marginal tax rates) cause low-wage parents not to work or to work little. The more likely problem is that generous benefits may reduce the financial necessity of work or of full-time work.<sup>33</sup>

### **Myth # 5: Raising the Minimum Wage Is an Effective Strategy for Reducing Child Poverty.**

One prominent strategy for reducing child poverty is to increase the minimum wage. For example, Melissa Boteach, Rebecca Vallas, and Eliza Schultz of the

30. See also Elaine Maag, C. Eugene Steuerle, Ritadhi Chakravarti, and Caleb Quakenbush, "How Marginal Tax Rates Affect Families at Various Levels of Poverty," *National Tax Journal*, Vol. 65, No. 4 (December 2012), pp. 759-782, <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/412722-How-Marginal-Tax-Rates-Affect-Families-at-Various-Levels-of-Poverty.PDF> (accessed December 5, 2016). Maag et al. find that as single-parent earnings rise from zero to poverty level, the combined MTR and BRR range from negative 13.3 percent to positive 25.5 percent depending on the state. *Ibid.*, p. 769. A negative 13.3 percent MTR/BRR would mean that for every extra dollar of earnings, the parent gains \$1.13 in income. A positive MTR/BRR means of 25.5 percent means that the individual gains roughly 75 cents for every \$1.00 of earnings. This important article can be misinterpreted because the authors use the term "poverty" to refer to poverty measured by earnings alone. The data in the article show that when a single mother has earnings at the poverty level, she will typically have combined earnings and welfare at roughly twice the poverty level. For example, see the figure on Colorado in *ibid.*, p. 765.

31. Chart 7 is based on a Medicaid expansion state.

32. Maag, Steuerle, Chakravarti, and Quakenbush, "How Marginal Tax Rates Affect Families at Various Levels of Poverty."

33. Welfare benefits affect the labor supply of recipients through an income effect and through a substitution or net wage effect. The income effect means that as the overall economic resources of an individual increase, there is a tendency to increase leisure and reduce labor. The substitution effect pertains to the net income gain for each added hour of work. The higher the net gain, the greater the tendency to increase hours of work and reduce hours of leisure; a higher BRR reduces the net gain for each added hour of work and thereby reduces labor supply. See George J. Borjas, *Labor Economics*, 6th Ed. (Singapore: McGraw-Hill Irwin, 2013), pp. 33-43 and 54-63. Most conservative thought is preoccupied exclusively with welfare's substitution effect. Empirical experimentation with welfare programs indicates that the income effect may be far more important. A random-assignment controlled experiment conducted in the late 1970s found that increasing the maximum value of welfare benefits that an individual could receive significantly reduced employment and earnings. By contrast, raising or lowering the BRR had little impact. See SRI International, *Final Report of the Seattle-Denver Income Maintenance Experiment, Vol. 1: Design and Results* (Washington: SRI, May 1983).

Center for American Progress argue that “[d]ecades of wage stagnation have trapped millions of working families in poverty... At its current level, [the federal minimum wage] leaves a full-time worker with two children thousands of dollars below the poverty line.”<sup>34</sup>

Statements like this and nearly all discussions about the minimum wage ignore welfare benefits. A parent who sought to support a family with a minimum-wage job alone would indeed be poor, but under the current welfare system, no parent is expected to support a family solely on minimum-wage earnings.

The system generously allows parents to combine earnings and welfare. It ensures that all parents, even the small number working at the federal minimum wage of \$7.25 per hour, will have a combined income from earnings, welfare cash, and food aid that is well above the poverty level. When earnings, cash, food, and medical benefits are combined, the effective wage rate for a minimum-wage parent is typically \$17.50 per hour. Even a parent who earns only \$7,000 per year will typically have a combined income from wages, welfare cash, and food aid that is over the poverty line.

The high effective wage rate for earnings and welfare combined means that those families with children that are actually poor are poor because the parents work comparatively little during the year. For example, in the average family with children that is still poor after welfare benefits are counted, the parent or parents worked only around 640 hours per year.<sup>35</sup> That is about 12 hours per week. Because the number of hours worked is so low, simply raising the wage rates for these families would not be an effective anti-poverty strategy. For example, adding \$3.00 per hour to the wage earned by these parents would yield only \$1,920 in added earnings per year; nearly all would remain in poverty.<sup>36</sup>

Since these families can already earn at least \$15.40 per hour in combined wages, food, and cash benefits, the key to reducing child poverty is to increase the

amount of work the parents perform. This can be accomplished by increasing the work requirements attached to welfare benefits and by strengthening the economy to make more jobs available.

**Raising the Minimum Wage Would Hurt Poor Families.** Raising the minimum wage would actually push many families deeper into poverty by destroying the jobs they need to climb above the poverty level. When the government arbitrarily raises the wages of low-skill workers, businesses will hire fewer of those workers. The job-loss effects from an increase in the minimum wage will focus on the most vulnerable within the low-skill group.

For example, research by Joseph Sabia and Richard Burkhauser on increases in the minimum wage in the State of New York found that a 10 percent increase in the minimum wage resulted in a 7 percent job loss among workers ages 16 to 29 who lacked a high school degree.<sup>37</sup> Among individuals aged 20–24 without a high school degree, a 10 percent increase in the minimum wage resulted in an 8.4 percent job loss. By contrast, the increase had no negative effects among high school graduates of the same age. Analyses that measure the impact of increases in the minimum wage across broad population groups will generally miss the serious negative effects among truly disadvantaged workers.

Professor Sabia has authored another article examining the impact of federal and state increases in the minimum wage on single mothers from 1992 to 2005. He found that minimum wages were ineffective in reducing poverty in this group. Most working single mothers were not affected because they were already earning wages above the minimum wage. However, the increases had a significant negative effect on the most disadvantaged group: single mothers without a high school degree. Within this group, “a 10 percent increase in the minimum wage was associated with an 8.8 percent reduction in employment and an 11.8 percent reduction in annual hours worked.”<sup>38</sup>

34. Melissa Boteach, Rebecca Vallas, and Eliza Schultz, “A Progressive Agenda to Cut Poverty and Expand Opportunity,” Center for American Progress, June 6, 2016, pp. 5–6, <https://www.americanprogress.org/issues/poverty/report/2016/06/06/138765/a-progressive-agenda-to-cut-poverty-and-expand-opportunity/> (accessed September 6, 2016).

35. Calculated from U.S. Census Bureau, Current Population Survey for calendar year 2014.

36. The \$1,920 figure is \$3.00 per hour times 640 hours.

37. Joseph J. Sabia, Richard V. Burkhauser, and Benjamin Hansen, “Are the Effects of Minimum Wage Increases Always Small? New Evidence from a Case Study of New York State,” *Industrial and Labor Relations Review*, Vol. 65, No. 2 (April 2012), p. 362.

38. Joseph J. Sabia, “Minimum Wages and the Economic Well-being of Single Mothers,” *Journal of Policy Analysis and Management*, Vol 27, No. 5 (2008), p. 848.

These numbers imply that an increase in the federal minimum wage from \$7.25 to \$10 per hour could reduce employment of single mothers without a high school degree by one-third. Ironically, these are precisely the workers who should be the main target of any policy aimed at reducing child poverty. In reality, as a result of job loss, a minimum wage hike like this would result in a substantial increase in poverty for many of these mothers.

Of course, as this paper has shown, those low-skill single parents already have de facto, post-welfare wage rates well above the poverty level. What these parents need is more jobs, not wage rates that price them out of the labor market. A minimum wage hike is both unnecessary and counterproductive for reducing child poverty.

**Poor Targeting.** One final problem with raising the minimum wage as an anti-poverty policy is that very few minimum-wage workers are poor, even if welfare is not counted. Only 11 percent of the workers who would benefit from an increase in the minimum wage from \$7.25 to \$9.50 live in poor households.<sup>39</sup> (This figure excludes most welfare benefits in calculating poverty; the number would be even smaller if welfare were counted.) Nearly two-thirds of those who would benefit from this increase actually live in households with incomes that are more than twice the poverty threshold.

The cost of higher minimum wages is generally passed on to consumers. The fact that few minimum-wage workers are poor means that for every dollar in added consumer costs produced by a hike in the minimum wage, only about 10 cents goes to the poor.

## Six Strategies for Success

The goal of welfare policy should not be merely to reduce financial poverty by increasing cash incomes. Policy should also seek to enhance human dignity and psychological well-being and to promote upward

social mobility among children. Often, simply transferring income through the welfare system can undermine these latter objectives.

Incomes can be increased and poverty reduced through three mechanisms: increased welfare, increased work, and increased marriage. Policies that focus primarily on welfare transfers will be inefficient at best. In a sound welfare system, welfare aid would complement and encourage, rather than displace, self-support through work and marriage.

Moreover, work and marriage do not just reduce poverty; they directly enhance dignity, psychological well-being, and upward mobility. For example, marriage rates in a community are the strongest factor promoting upward social mobility among children.<sup>40</sup> A welfare system in which benefits complement and reinforce work and marriage not only will be more efficient in reducing poverty, but also will be far more effective in meeting deeper human needs.

Accordingly, policymakers should implement the following six strategies to reform the welfare system.

**1. Establish work requirements in welfare.** Traditional welfare programs such as food stamps and subsidized housing provide one-way handouts; they give aid to able-bodied non-elderly recipients without any requirement to work or engage in other constructive behavior in exchange. By offering income without labor, these programs encourage idleness and reduce the incentives to work. Ironically, while a combination of work and welfare will readily raise a family out of poverty, welfare alone will rarely do so. By encouraging idleness, these programs actually push families deeper into poverty.

Work requirements should be established or strengthened in welfare.<sup>41</sup> Specifically, work

39. Joseph J. Sabia and Richard V. Burkhauser, "Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor?" *Southern Economic Journal*, Vol. 76, No. 3 (January 2010), p. 602.

40. 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, January 2014, <http://www.nber.org/papers/w19843> (accessed September 6, 2016).

41. For those who are concerned with the "marginal tax rate" issue in welfare, work requirements offer a cost-effective solution. In traditional welfare programs, there is a trade-off between leisure and labor. In order to induce a welfare recipient to forgo leisure and undertake additional labor, the net gain for each hour of additional work needs to be reasonably high. High benefit reduction rates on welfare programs reduce the net gain per hour of added work. If the net gain is not sufficient, the recipient will be unwilling to undertake added work. A work requirement for welfare benefits alters this equation. With a work requirement in place, the recipient no longer faces a choice between leisure and work, but instead faces a choice between work and work. The recipient no longer receives benefits unconditionally but must perform community service or job preparation activities in exchange for the benefits he receives. This dramatically increases the incentives for taking a private-sector job even if relatively high BRRs are in place.

requirements in the Temporary Assistance for Needy Families program should be strengthened to require that two-thirds of non-employed recipients engage in training, perform community service, or at least search for a job under supervision in exchange for their benefits. For parents who cannot readily find a job, TANF should emphasize community service work. Food stamps should be similarly reformed. Able-bodied non-elderly parents who have received food stamp benefits for over three months and who are not currently employed should be required to undertake training, community service, or at least a supervised job search in exchange for benefits. Representatives Jim Jordan (R-OH) and Mark Meadows (R-NC), with leadership in the Senate from Senator Mike Lee (R-UT), have introduced the Welfare Reform and Upward Mobility Act (S. 3047; H.R. 5360), which embodies these principles.

**2. Reform the Earned Income Tax Credit.** The Earned Income Tax Credit and related Additional Child Tax Credit are superior to other welfare programs because recipients are required to work in order to receive benefits. Last year, however, some \$22 billion in fraudulent and erroneous cash payments were made under the EITC and ACTC welfare programs.<sup>42</sup> Much of this fraud involves activities to circumvent the programs' work provisions. Fortunately, nearly all of this waste can be eliminated by requiring that incomes and identities be verified before cash payments are made and by limiting eligibility to adults with legal custody of a child.

Another problem is that EITC work incentives are hampered because the value of the credit is not linked to actual hours worked. A parent who

works all year at \$10 per hour gets the same credit as a parent who works for half a year at \$20 per hour.

The EITC benefit scales should be adjusted so that their value increases as the number of hours worked increases while not increasing overall spending on the program. This approach would target resources more effectively toward low-wage families who need the most help.<sup>43</sup> It would also allow the maximum EITC benefit to be increased for low-wage parents without increasing overall program costs.

**3. Limit excessive piggybacking of means-tested benefits.** Benefits can become very high and benefit reduction rate issues intensify when additional welfare benefits are added on top of the widely available basic benefit package shown in Charts 2, 3, 6, and 7.<sup>44</sup> This is particularly true of housing rental benefits. In contrast to broadly available entitlement programs such as the EITC, food stamps, Medicaid, and school nutrition, subsidized housing is a rationed program that is available only to a limited number of families. Housing benefits are particularly expensive; as shown in Chart 4, receipt of housing aid can easily push a family's combined earnings and welfare income to more than \$47,000 per year.

As with other welfare programs, there should be a work requirement on able-bodied adults receiving housing aid. In addition, there should be a limit on the number of welfare benefits a family can stack on top of each other. In particular, families that receive housing aid should not also receive the EITC and ACTC.

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42. See U.S. Department of the Treasury, *Agency Financial Report: Fiscal Year 2015*, November 16, 2015, p. 196, [https://www.treasury.gov/about/budget-performance/annual-performance-plan/Documents/AFR\\_FINAL\\_2015.pdf](https://www.treasury.gov/about/budget-performance/annual-performance-plan/Documents/AFR_FINAL_2015.pdf) (accessed December 5, 2016), and U.S. Department of the Treasury, Treasury Inspector General for Tax Administration, "Assessment of Internal Revenue Service Compliance With the Improper Payment Reporting Requirements in Fiscal Year 2014," April 27, 2015, p. 11, <https://www.treasury.gov/tigta/auditreports/2015reports/201540044fr.pdf> (accessed November 23, 2016).

43. This approach also substantially reduces the labor disincentives in the phase-down range of the EITC. For example, if the EITC were no longer tied to annual earnings but converted into something like an hourly wage subsidy, many low-wage recipients would receive a net gain per hour of work that exceeded their actual hourly pay rate.

44. The core welfare system that is available to nearly all low-income families with children includes the EITC, the ACTC, food stamps, Medicaid, SCHIP, Obamacare exchange subsidies, school nutrition programs for older children, and WIC, and the Child Care Food program for younger children.

**4. Don't destroy jobs.** Over the past 20 years, the U.S. has moved tentatively toward a work-based welfare system. In that system, able-bodied parents are not expected to support their families by welfare alone. Welfare benefits by themselves rarely are sufficient to raise a family out of poverty. By contrast, a combination of steady work and welfare will readily lift even low-wage parents out of poverty. For a work-based system to be successful, ample jobs must be available to the lowest-skilled parents.

Seen in this light, raising the minimum wage is counterproductive. When welfare and earnings are combined, the effective wage rate for minimum-wage parents is already around \$17.50 per hour. To reduce child poverty effectively, what is needed is more parental work, not higher wages. Ironically, raising the minimum wage will reduce the number of jobs available to low-skill parents, thereby pushing many families deeper into poverty.

**5. Limit low-skill immigration.** Both legal and illegal immigration bring a disproportionate

number of less-skilled workers into the U.S. For example, half of illegal immigrants lack a high school degree. Overall, there are around 8 million illegal immigrant workers in the U.S. and about 17 million legal immigrant workers. About three-quarters (74 percent) of illegal immigrants between 25 and 64 years of age have a high school education or less, and about half (46 percent) of legal immigrants have a high school education or less.<sup>45</sup> These immigrant workers reduce wages for low-skill native workers.<sup>46</sup> Low-skill immigrant labor also displaces low-skill native workers, leading to unemployment and detachment from the labor force.<sup>47</sup>

The decline in employment of lower-skill black workers is particularly troubling. Between 1960 and 2000, the employment rate of black high school dropouts fell catastrophically from 72 percent to 42 percent.<sup>48</sup> A recent paper by prominent Harvard economist George Borjas and others found that an increase in lower-skill immigrant labor led to a substantial drop in wages and employment among similar skilled blacks and a noted increase in black incarceration.<sup>49</sup>

45. Jeffrey S. Passel and D'Vera Cohn, "A Portrait of Unauthorized Immigrants in the United States," *Pew Hispanic Center Report*, April 14, 2009, Figure 16, "Educational Attainment for Ages 25-64, by Status, 2008," and Table B3, "Detailed Occupations with High Shares of Unauthorized Immigrants, 2008," <http://www.pewhispanic.org/files/reports/107.pdf> (accessed September 6, 2016).

46. For example, Harvard professor George Borjas has estimated that the very large influx of immigrant workers between 1980 and 2000 lowered the wages of the average non-immigrant worker by 3.2 percent. In particular, the disproportionate influx of low-skill immigrants was estimated to reduce the wages of low-skill native workers by 8.9 percent. See George J. Borjas, "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics*, Vol. 118, No. 4 (November 2003), pp. 1335-1374. See also George J. Borjas, "The Wage Impact of the Marielitos: A Reappraisal," National Bureau of Economic Research *Working Paper* No. 21588, September 2015, <http://www.nber.org/papers/w21588> (accessed December 5, 2016), and National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington: National Academies Press, 1997), p. 151.

47. See George J. Borjas, Jeffrey Grogger, and Gordon H. Hanson, "Immigration and the Economic Status of Black Men," *Economica*, Vol. 77, No. 306 (April 2010), pp. 255-282; Hannes Johannsson, Stephan Weiler, and Steven Shulman, "Immigration and the Labor Force Participation of Low-Skill Native Workers," in *Worker Well-Being and Public Policy*, ed. Solomon W. Polachek (New York: Emerald Group Publishing Limited, 2003), pp. 291-308; Christopher L. Smith, "The Impact of Low-Skilled Immigration on the Youth Labor Market," *Journal of Labor Economics*, Vol. 30, No. 1 (January 2012), pp. 55-89; Kevin F. McCarthy and George Vernez, *Immigration in a Changing Economy: California's Experience—Questions and Answers* (Santa Monica, CA: RAND, 1997); and Edward S. Shihadeh and Raymond E. Barranco, "Latino Employment and Black Violence: The Unintended Consequence of U.S. Immigration Policy," *Social Forces*, Vol. 88, No. 3 (March 2010), pp. 1393-1420.

48. It is sometimes assumed that low levels of employment and labor force attachment among less-educated black males are due to the welfare benefits and high marginal tax rates on benefits among this group. In fact, single males are eligible only for food stamps and a small EITC payment. The maximum food stamp benefit they can receive is around \$200 per month. The EITC maximum is around \$500 per year. It is impossible to attribute the high unemployment and low labor force attachment among low-skill male workers to the welfare they receive, although welfare may have a strong indirect effect. The welfare benefits provided to single mothers make marriage less financially necessary. In response, males may become less inclined to view themselves as husbands and breadwinners. This, in turn, may lead to less interest in and commitment to steady employment.

49. George J. Borjas, Jeffrey Grogger, and Gordon H. Hanson, "Immigration and African-American Employment Opportunities: The Response of Wages, Employment, and Incarceration to Labor Supply Shocks," National Bureau of Economic Research *Working Paper* No. 12518, September 2006, <http://www.nber.org/papers/w12518> (accessed November 23, 2016).



Specifically, a 10 percent increase in immigrant labor within a particular skill group led to a 4.0 percentage point drop in wage rates, a 3.5 percentage point drop in employment, and a 0.8 percentage point increase in incarceration among blacks with similar skills.<sup>50</sup> Overall, the surge in low-skill immigration between 1980 and 2000 accounted for 40 percent of the large drop in low-skill black employment without a high school degree during that period.<sup>51</sup> Job loss and lower wages among male workers lead in turn to lower marriage rates, lower upward mobility, and higher child poverty.

Low-skill immigrants also impose heavy fiscal costs directly on U.S. taxpayers.<sup>52</sup> For example, legal immigrants without high school degrees have the highest level of welfare use of any group in the country. The average household headed by a legal immigrant without a high school degree receives nearly four dollars in government benefits for every dollar of taxes paid.<sup>53</sup> Each household, on average, imposes a net cost (total benefits received minus total taxes paid) of nearly \$37,000 per year on the taxpayer. To save taxpayer cost and to reduce child poverty in the U.S., the number of low-skill immigrants who enter the coun-

try, either legally or illegally, and compete with less skilled American workers should be strictly limited.

**6. Reduce marriage penalties.** Around 70 percent of child poverty occurs in single-parent families. Children in single-parent homes are about five times more likely to be poor than are children in married-couple homes.<sup>54</sup> Most non-married fathers are employed and typically have higher incomes than the children's mothers. If poor single mothers were married to the fathers of their children, about two-thirds would immediately be lifted out of poverty.<sup>55</sup>

Marriage provides benefits beyond mere finances. Research consistently demonstrates that married adults are physically and emotionally healthier than non-married adults.<sup>56</sup> A healthy marriage is one of the two most important factors contributing to personal happiness.<sup>57</sup> As noted, family structure is also the most important factor in predicting the upward social mobility of children; children with two parents do best.<sup>58</sup>

Unfortunately, the welfare system imposes substantial financial penalties on low-income parents

50. Ibid., p. 4.

51. Ibid., p. 39.

52. Robert Rector and Christine Kim, "The Fiscal Cost of Low-Skill Immigrants to the U.S. Taxpayer," Heritage Foundation *Special Report* No. 14, May 21, 2007, <http://www.heritage.org/research/reports/2007/05/the-fiscal-cost-of-low-skill-immigrants-to-the-us-taxpayer>.

53. Robert Rector, "The Fiscal Consequences of Executive Amnesty," testimony before the Committee on Oversight and Government Reform, U.S. House of Representatives, March 17, 2015, p. 10, <https://oversight.house.gov/wp-content/uploads/2015/03/Mr.-Rector-Testimony-Bio-TNT.pdf>.

54. Robert Rector, "Marriage: America's Greatest Weapon Against Child Poverty," Heritage Foundation *Special Report* No. 117, September 5, 2012, <http://www.heritage.org/research/reports/2012/09/marriage-americas-greatest-weapon-against-child-poverty>.

55. Robert E. Rector, Kirk A. Johnson, Patrick F. Fagan, and Lauren R. Noyes, "Increasing Marriage Would Dramatically Reduce Child Poverty," Heritage Foundation Center for Data Analysis Report No. CDA03-06, May 20, 2003, p. 13, <http://www.heritage.org/research/reports/2003/05/increasing-marriage-would-dramatically-reduce-child-poverty>.

56. Linda J. Waite and Maggie Gallagher, *The Case for Marriage: Why Married People Are Happier, Healthier and Better Off Financially* (New York: Doubleday, 2000).

57. Bruno S. Frey and Alois Stutzer, *Happiness and Economics: How the Economy and Institutions Affect Human Well-Being* (Princeton, NJ: Princeton University Press, 2002), 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](http://www.nber.org/papers/w9065.pdf) (accessed December 5, 2016); 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, <http://www.nber.org/papers/w7487> (accessed September 6, 2016).

58. Chetty, Hendren, Kline, and Saez, "Where Is the Land of Opportunity?"

who marry.<sup>59</sup> This in turn reduces the marriage rate. A recent study found that an anti-marriage penalty of \$1,000 in the EITC reduced the probability that low-income women would marry by 10 percent.<sup>60</sup> Marriage penalties should be eliminated in the EITC and reduced in other welfare programs.<sup>61</sup>

## Conclusion

The foundational principle of a sound welfare system is that benefits should complement and reinforce efforts toward self-support through work and marriage rather than weakening or displacing those efforts. A welfare system that melds assistance with an individual's self-help efforts is more efficient, is more humane, and confers greater dignity on the beneficiary.

Over the past two decades, the U.S has moved tentatively toward a work-based welfare system. Families with work and earnings are much better off than are families without work. In most cases, a combination of full-time employment (even at low wages) and benefits will place a family income well above the official poverty level. Families with children that remain in poverty do so because the parents either do

not work or work for only a limited number of hours during the year.

Efforts to reduce child poverty should focus on increasing parental work and marriage. This can be done by tightening work requirements in programs such as Temporary Assistance for Needy Families, food stamps, and the Earned Income Tax Credit. Stronger economic growth would increase employment opportunities, and limiting low-skill immigration, both legal and illegal, would make millions of jobs available to less-skilled American workers. In addition, penalties against marriage in the welfare system should be reduced. Finally, raising the minimum wage is a misguided policy that would push the many disadvantaged families with children deeper into poverty by eliminating the jobs that low-skill parents need to sustain their families.

—*Robert Rector is a Senior Research Fellow in the Institute for Family, Community, and Opportunity at The Heritage Foundation. Rachel Sheffield is a Policy Analyst in the Richard and Helen DeVos Center for Religion and Civil Society, of the Institute for Family, Community, and Opportunity, at The Heritage Foundation.*

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59. For an analysis of the overall penalties against marriage in the welfare system, see Douglas J. Besharov and Neil Gilbert, "Marriage Penalties in the Modern Social-Welfare State," *R Street Policy Study* No. 40, September 2015, pp. 1-16, <http://www.rstreet.org/wp-content/uploads/2015/08/RSTREET40.pdf> (accessed December 5, 2016). See also Elaine Maag and Gregory Acs, "The Financial Consequences of Marriage for Cohabiting Couples with Children," *Urban Institute Brief*, September 2015, <http://www.urban.org/research/publication/financial-consequences-marriage-cohabiting-couples-children> (accessed December 5, 2016).

60. Katherine Michelmore, "The Earned Income Tax Credit and Union Formation: The Impact of Expected Spouse Earnings," May 26, 2015, p. 26, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2610682](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2610682) (accessed September 6, 2016). The study analyzed SIPP longitudinal data for periods ranging from 36 to 60 months.

61. A substantial portion of the so-called marginal tax rate or benefit reduction rate issue for families earning between \$20,000 and \$40,000 is actually a marriage penalty issue for two-earner couples and can be addressed by reducing marriage penalties.

## Appendix I: Benefit Calculations

In the calculations presented in this paper, the family is assumed to receive only earned income and means-tested benefits. The family is assumed to have no income from interest, dividends, or other unearned income sources. It does not receive Social Security or other retirement or disability benefits.

The means-tested benefits are calculated as follows:

**TANF.** The analysis follows the rules of the State of Iowa, which uses the most common method but also has “standard of need” and payment standard values that are close to both the median and mean of all the states. In 2014, the monthly median payment standard for all states was \$428 for a family of three, and Iowa’s standard was \$426. In addition, Iowa’s standard of need for a family of three was \$849, which was virtually the median of states that utilized a standard of need. These numbers compare well to a report submitted to Congress that showed that the average monthly TANF cash benefit for a family of three with no other income was \$436 per month or \$5,232 per year in 2011.<sup>62</sup>

TANF benefit reduction rates also vary by state. The analysis in this paper assumes that the benefits phase out by deducting 50 percent of earned income, which is both the median and mode of the states that phase out benefits with a percentage reduction on the remainder of earned income after an earned income disregard is deduced.<sup>63</sup>

**Food Stamps.** The maximum food stamp allotment for a family of three in 2015 was \$511.<sup>64</sup> The value of the maximum food stamp allotment is reduced in response to earnings and TANF income according to standard rules. Food stamp recipi-

ents are assumed to have shelter costs equaling the higher of 50 percent of national fair market rent or 30 percent of pre-tax earnings and TANF benefits. When shelter costs exceeded 50 percent of countable income, costs in excess of 50 percent were deducted from net income.

**School Nutrition Benefits.** The \$498-per-child average cost of a free school lunch was calculated from the average cost per meal in school year 2015–2016 times the average utilization rate of 164.5 meals per year. Both school-age children were assumed to receive income-appropriate school lunch subsidies. The \$273-per-year average cost of free school breakfast subsidies was calculated from the average cost per meal in school year 2015–2016 times 167 meals per year. Only half of low-income school children receive school breakfast subsidies, so only one of the two children was assumed to receive the benefit. Children in families with incomes below 130 percent of the federal poverty level were assumed to receive free school meal subsidies; those with family incomes between 131 percent and 185 percent of poverty received reduced price meal subsidies, and those above 185 percent received lower paid meal subsidies.<sup>65</sup>

**Medicaid and SCHIP.** The national average costs of medical services per enrollee in 2013 were \$4,391 for each non-elderly, non-disabled adult and \$2,807 per child.<sup>66</sup> Nationwide, the average single mother with two children enrolled in Medicaid therefore received \$10,005. Charts 3, 4, 6, and 7 in the text are based on Medicaid expansion states. In Medicaid expansion states, parents are eligible for Medicaid until pre-tax earnings reach 137 percent of the FPL.

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62. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *Temporary Assistance for Needy Families Program (TANF): Tenth Report to Congress*, Figure 12-G, “Maximum Monthly Benefit for a Family of Three with No Income, 1996–2011 (July),” [http://www.acf.hhs.gov/sites/default/files/ofa/10th\\_tanf\\_report\\_congress.pdf](http://www.acf.hhs.gov/sites/default/files/ofa/10th_tanf_report_congress.pdf) (accessed September 6, 2016).
63. *Ibid.*, Figure 12-E, “Earned Income Disregards for Benefit Computation, July 2011.”
64. U.S. Department of Agriculture, Food and Nutrition Service, “Supplemental Nutrition Assistance Program (SNAP): Eligibility,” last published October 20, 2016, <http://www.fns.usda.gov/snap/eligibility> (accessed November 23, 2016).
65. See U.S. Department of Agriculture, Food and Nutrition Service, “National School Lunch, Special Milk, and School Breakfast Programs, National Average Payments/Maximum Reimbursement Rates (July 1, 2015–June 30, 2016),” last published August 9, 2016, <http://www.fns.usda.gov/school-meals/fr-071715b> (accessed November 23, 2016).
66. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, *2014 Actuarial Report on the Financial Outlook for Medicaid*, p. 17, “Table 2—2013 Estimated Enrollment, Expenditures, and Estimated Per Enrollee Expenditures, by Enrollment Group,” <https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/MedicaidReport2014.pdf> (accessed September 6, 2016).
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Based on average eligibility standards in these states, the two school-age children are eligible for Medicaid until family earnings reach 198 percent of the FPL. They are assumed to receive a national average of \$2,222 per child in State Children's Health Insurance Program (SCHIP) benefits when family earnings are between 199 percent of the FPL and 276 percent of the FPL.

**Obamacare Exchange Subsidies.** Both the health insurance premium tax credit and the out-of-pocket cost subsidy have been calculated. The procedures for calculating these subsidies are available upon request.

**Housing Subsidies.** The maximum housing payment equals the national average fair market rent for a three-bedroom unit weighted by the distribution of subsidized units. As countable income is increased, the rent paid by the household is increased and the

maximum subsidy is reduced. Countable income includes earnings; dividends; interest; Social Security; Supplemental Security Income (SSI) benefits; unemployment insurance; and TANF benefits. The EITC, ACTC, and food stamps are not counted as income. Allowable deductions are made from countable income. The actual rental subsidy equals the maximum payment minus 30 percent of countable income.

**EITC and ACTC.** The value of these two benefits allows straightforward calculation based on national rules.

**Federal Taxes.** Federal income tax and the employee share of Federal Insurance Contributions Act (FICA) taxes have been calculated. The single mother is assumed to file as head of household and to claim the standard deduction. State income taxes and state EITC benefits have not been included.

## Appendix 2: Analysis of Receipt of Benefits

This appendix examines the take-up rate of various means-tested programs. Benefits are calculated as follows:

**Receipt of EITC and ACTC.** A study that compared IRS tax records with Census demographic surveys concluded that 83 percent to 85 percent of families with children that are eligible for the EITC claim and receive the credit.<sup>67</sup> The study also found that the EITC take-up rate increased as the value of the EITC benefit increased; in general, individuals who were eligible to obtain a credit but did not do so were eligible only for a low level of benefits.

However, this study is seriously limited because it did not examine the large number of ineligible tax filers who routinely claim and receive the EITC. For example, 10 percent of EITC claims from claimants with children (2.8 million claims each year) involve residency errors, or benefits paid to individuals who do not reside with the child. Another 750,000 EITC claims for children involve filers who have no legal relationship to the child. In both cases, the lawful parent will have allowed someone else who can obtain higher EITC benefits to claim the child for purposes of maximizing EITC receipts. The higher EITC benefits presumably are split between the lawful parent and the erroneous filer. The number of ineligibles who receive the EITC for children exceeds the apparent number of eligible filers with children who do not receive the credit. The effective take-up rate for the EITC for children probably exceeds 100 percent.

The ACTC is obtained through the same tax return as the EITC. A single mother who earned the federal minimum wage would be eligible for both credits. If she received the EITC, she would also receive the ACTC.

**Receipt of Food Stamps.** A single mother with two children earning the minimum wage would also be eligible for food stamp aid. The odds that she would receive food stamps are around 100 percent. In fact, according to the U.S. Department of Agriculture (USDA), in 2014, 130 persons in single-adult families with children were receiving food stamps for every 100 such persons who were potentially eligible for benefits, based on Census surveys.<sup>68</sup> The disparity between the number of individuals receiving benefits and the number of eligible persons probably occurs because many households conceal adult members with earnings in order to obtain benefits unlawfully.

**Receipt of Medicaid and SCHIP.** In all states, children in families with incomes below 138 percent of poverty are eligible to enroll in Medicaid or SCHIP. Ninety percent of children who are apparently eligible for Medicaid or SCHIP and who reside in families with incomes below 138 percent of poverty are currently enrolled in these programs.<sup>69</sup> In half of the cases where a child is eligible for Medicaid/SCHIP but remains uninsured, the parent believes the child is eligible to receive aid under the program but has not bothered to enroll the child.<sup>70</sup>

Overall, in 2012, approximately 3.7 million children who were apparently eligible for Medicaid and SCHIP were not enrolled. However, a number of low-income children who appear to be eligible for Medicaid/SCHIP but are not enrolled may in fact be ineligible because they are illegal immigrants. There are over 700,000 illegal immigrant minors in the U.S.<sup>71</sup> The survey data conventionally used to determine participation rates do not distinguish between legal and illegal immigrants.

67. Maggie R. Jones, "Changes in EITC Eligibility and Participation, 2005-2009," U.S. Census Bureau, Center for Administrative Records Research and Applications *Working Paper* No. 2014-04, July 11, 2014, Table 7, "Changes in EITC Take-up by Demographic Characteristics, 2005-2009," <https://www.irs.gov/pub/irs-soi/13resconchangeeitc.pdf> (accessed December 5, 2016).

68. U.S. Department of Agriculture, Supplemental Nutrition Assistance Program, *Trends in Supplemental Nutrition Assistance Program Participation Rates: Fiscal Year 2010 to Fiscal Year 2014*, June 2016, p. 34, Table A.3, "Estimated Individual Participation Rates by Demographic Characteristics, FY 2014," <http://www.fns.usda.gov/sites/default/files/ops/Trends2010-2014.pdf> (accessed September 7, 2016). According to this table, 15.7 million persons in single adult households with children received food stamp benefits during the average month in FY 2014. By contrast, 12.1 million individuals in such households were eligible for benefits according to Census survey data.

69. Genevieve M. Kenney, Jennifer M. Haley, Nathaniel Anderson, and Victoria Lynch, "Children Eligible for Medicaid or CHIP: Who Remains Uninsured, and Why?" *American Pediatrics*, Vol. 15, Issue 3, Supplement (May-June 2015), p. S39.

70. *Ibid.*

71. Jeffrey S. Passel, D'Vera Cohn, Jens Manuel Krogstad, and Ana Gonzalez-Barrera, "As Growth Stalls, Unauthorized Immigrant Population Becomes More Settled," Pew Research Center *Hispanic Trends*, September 3, 2014, p. 19, <http://www.pewhispanic.org/2014/09/03/as-growth-stalls-unauthorized-immigrant-population-becomes-more-settled/> (accessed December 5, 2016).

In the 26 Medicaid expansion states, parents with incomes below 100 percent of the FPL are also eligible for Medicaid. There is a single enrollment process for parents and children; therefore, it is reasonable to conclude that if 90 percent of eligible children in expansion states are enrolled in Medicaid, then 90 percent of eligible parents in those states are also enrolled.

**Receipt of School Nutrition Benefits.** The take-up rate of free school lunch benefits appears to be over 100 percent. In FY 2014, 14.5 million U.S. school-age children (ages 5 to 17) came from homes with income low enough (below 130 percent of the poverty level) to qualify them for free school lunch.<sup>72</sup> However, far more students received free school meals during that year: 19.2 million.<sup>73</sup> Some of these students are likely preschool-age students, but not nearly enough to make up for the entire difference.

The number of students receiving free school breakfast equals 56 percent of the number of students receiving free school lunches. In the analysis, the dollar cost of free school breakfasts is cut in half to reflect the fact that roughly half of poor and near-poor children do not participate in the program.<sup>74</sup>

**HUD Rental Assistance.** Roughly one-quarter of poor and near-poor single mothers receive HUD rental subsidies such as public housing or Section 8 housing subsidies. HUD rental assistance programs provide disproportionately expensive aid to a small portion of low-income families with children. Most low-income working families do not receive housing benefits. In 2015, approximately 9 million families with children had non-welfare cash incomes below 125 percent of the FPL,<sup>75</sup> but only 1.8 million families with children (or one-fifth of these low-income families) received housing aid from HUD.<sup>76</sup> Housing aid programs generate a substantial problem of “horizontal inequity,” which means the unequal treatment of individuals with the same incomes.

HUD aid programs appear to discriminate heavily against married couples with children. Nine out of 10 families with children receiving housing benefits were headed by single parents in FY 2015.<sup>77</sup> Roughly one-quarter of poor and near-poor single mothers receive HUD rent subsidies, compared to only 6 percent of married couples with children at similar income levels.<sup>78</sup>

72. U.S. Department of Commerce, U.S. Census Bureau, Current Population Survey, Table POV-01, “Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race,” 2014, <http://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pov/pov-01.2014.html> (accessed December 9, 2016).

73. See U.S. Department of Agriculture, Table, “National School Lunch Program: Participation and Lunches Served (Data as of November 10, 2016),” <http://www.fns.usda.gov/sites/default/files/pd/slsummar.pdf> (accessed December 6, 2016); U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *Digest of Education Statistics*, Table 203.10, “Enrollment in Public Elementary and Secondary Schools, by Level and Grade: Selected Years, Fall 1980 Through Fall 2025,” [https://nces.ed.gov/programs/digest/d15/tables/dt15\\_203.10.asp?current=yes](https://nces.ed.gov/programs/digest/d15/tables/dt15_203.10.asp?current=yes) (accessed December 6, 2016); and U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *Digest of Education Statistics*, Table 205.10, “Private Elementary and Secondary School Enrollment and Private Enrollment as a Percentage of Total Enrollment in Public and Private Schools, by Region and Grade Level: Selected Years, Fall 1995 Through Fall 2013,” [https://nces.ed.gov/programs/digest/d15/tables/dt15\\_25.10.asp?current=yes](https://nces.ed.gov/programs/digest/d15/tables/dt15_25.10.asp?current=yes) (accessed December 6, 2016).

74. See U.S. Department of Agriculture, Food and Nutrition Service, Child Nutrition Tables, National Level Annual Summary Tables: FY 1969–2015, “National School Lunch: Participation and Meals Served (Data as of November 10, 2016)” and “School Breakfast Participation and Meals Served (Data as of November 10, 2016),” <http://www.fns.usda.gov/pd/child-nutrition-tables> (accessed December 6, 2016).

75. U.S. Department of Commerce, U.S. Census Bureau, Table POV-27, “Source of Income by Ratio of Poverty Threshold for Families and Unrelated Individuals: Poverty Status in 2014, Families with Related Children Under 18 Years,” [http://www.census.gov/hhes/www/cpstables/032015/pov/pov27\\_000.htm](http://www.census.gov/hhes/www/cpstables/032015/pov/pov27_000.htm) (accessed December 6, 2016).

76. See U.S. Department of Housing and Urban Development, Office of Policy Development and Research, “Picture of Subsidized Households,” 2015.

77. *Ibid.*

78. Some 1.57 million single-parent families received HUD rent subsidies in 2015. There were 5 million single-mother families below 125 percent of FPL in 2014. It is likely that around one-quarter of poor and near-poor single-mother families receive housing benefits. By contrast, only 190,000 families with children containing two or more adults received HUD rent aid in 2015; there were roughly 3 million married couples with children with money incomes below 125 percent of the FPL in the preceding year. See U.S. Department of Commerce, U.S. Census Bureau, Table POV-26, “Program Participation Status of Household–Poverty Status of People,” 2014.