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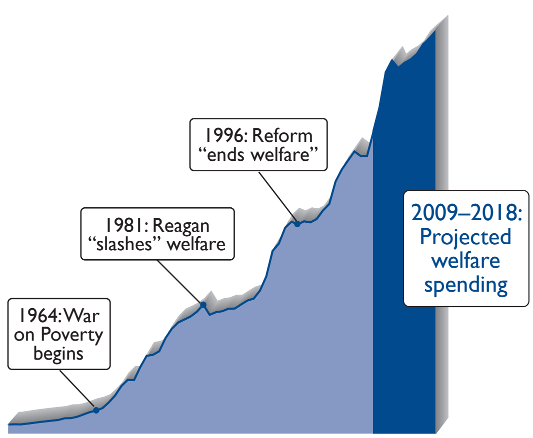
# *Obama to Spend* **$10.3 Trillion** *on* **Welfare**

## *Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor*

*By Robert Rector, Katherine Bradley, and Rachel Sheffield*




Means-Tested Welfare Spending, 1950–2018, in Constant 2008 Dollars

**Domestic Policy Studies Department**

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This paper, in its entirety, can be found at:
*www.heritage.org/Research/Welfare/sr0067.cfm*

# Executive Summary

Since the beginning of the War on Poverty, government has spent vast sums on welfare or aid to the poor; however, the aggregate cost of this assistance is largely unknown because the spending is fragmented into myriad programs.

As this report shows, means-tested welfare or aid to poor and low-income persons is now the third most expensive government function. Its cost ranks below support for the elderly through Social Security and Medicare and below government expenditures on education, but above spending on national defense. Prior to the current recession, one dollar in seven in total federal, state, and local government spending went to means-tested welfare.

Means-tested welfare spending or aid to the poor consists of government programs that provide assistance deliberately and exclusively to poor and lower-income people. By contrast, non-welfare programs provide benefits and services for the general population. For example, food stamps, public housing, Medicaid, and Temporary Assistance for Needy Families are means-tested aid programs that provide benefits only to poor and lower-income persons. On the other hand, Social Security, Medicare, police protection, and public education are not means-tested; they provide services and benefits to persons at all income levels.

In fiscal year (FY) 2008, total government spending on means-tested welfare or aid to the poor amounted to $714 billion. This high level of welfare spending was the result of steady permanent growth in welfare spending over several decades rather than a short-term response to temporary economic conditions.

Of the $714 billion in welfare spending, $522 billion (73 percent) was federal expenditures, and $192 billion (27 percent) was state government funds. Nearly all state government welfare expenditures are required matching contributions to federal welfare programs. These contributions could be considered a "welfare tax" that the federal government imposes on the states. Ignoring these matching state payments into the federal welfare system results in a serious underestimation of spending on behalf of the poor.

Of total means-tested spending in FY 2008, 52 percent was spent on medical care for poor and lower-income persons, and 37 percent was spent on cash, food, and housing aid. The remaining 11 percent was spent on social services, training, child development, targeted federal education aid, and community development for lower-income persons and communities. Roughly half of means-tested spending goes to disabled or elderly persons. The other half goes to lower-income families with children, most of which are headed by single parents.

Total means-tested welfare spending in FY 2008 amounted to around $16,800 for each poor person in the U.S.; however, some welfare spending goes to individuals who have low incomes but are not below the official poverty line (about $22,200 per year for a family of four). Typically, welfare benefits are received not just by the poor, but also by persons who have incomes below 200 percent of the federal poverty level ($44,400 per year for a family of four). Around one-third of the U.S. population falls within this lower income range. On average, welfare spending amounts to around $7,000 per year for each individual who is poor or who has an income below 200 percent of the poverty level. This comes to $28,000 per year for each lower-income family of four.

Welfare spending has grown enormously since President Lyndon B. Johnson launched the War on Poverty. Welfare spending was 13 times greater in FY 2008, after adjusting for inflation, than it was when the War on Poverty started in 1964. Means-tested welfare spending was 1.2 percent of the gross domestic product (GDP) when President Johnson began the War on Poverty. In 2008, it reached 5 percent of GDP.

Annual means-tested welfare spending is more than sufficient to eliminate poverty in the United States. The U.S. Census Bureau, which is in charge of measuring poverty and inequality in the nation, defines a family as poor if its annual income falls below official poverty income thresholds. If total means-tested welfare spending were simply converted into cash benefits, the sum would be nearly four times the amount needed to raise the income of all poor families above the official poverty line.

One may reasonably ask how government can spend so much on welfare and still have great inequality and so many people living in apparent poverty. The answer is that the Census ignores nearly the entire welfare system in its measurements. In its conventional reports, the Census counts only 4 percent of total welfare spending as income. Most government discussions of poverty and inequality do not account for the massive transfers of the welfare state.

Since the beginning of the War on Poverty, government has spent $15.9 trillion (in inflation-adjusted 2008 dollars) on means-tested welfare. In comparison, the cost of all other wars in U.S. history was $6.4 trillion (in inflation-adjusted 2008 dollars).

In his first two years in office, President Barack Obama will increase annual federal welfare spending by one-third from $522 billion to $697 billion. The combined two-year increase will equal almost $263 billion ($88.2 billion in FY 2009 plus $174.6 billion in FY 2010). After adjusting for inflation, this increase is two and a half times greater than any previous increase in federal welfare spending in U.S. history. As a share of the economy, annual federal welfare spending will rise by roughly 1.2 percent of GDP.

Under President Obama, government will spend more on welfare in a single year than President George W. Bush spent on the war in Iraq during his entire presidency. According to the Congressional Research Service, the cost of the Iraq war through the end of the Bush Administration was around $622 billion. By contrast, annual federal and state means-tested welfare spending will reach $888 billion in FY 2010. Federal welfare spending alone will equal $697 billion in that year.

While campaigning for the presidency, Obama lamented that "the war in Iraq is costing each household about $100 per month." Applying the same standard to means-tested welfare spending reveals that welfare will cost each household $560 per month in 2009 and $638 per month in 2010.

Most of Obama's increases in welfare spending are permanent expansions of the welfare state, not temporary increases in response to the current recession. According to the long-term spending plans set forth in Obama's FY 2010 budget, combined federal and state spending will not drop significantly after the recession ends. In fact, by 2014, welfare spending is likely to equal $1 trillion per year.

According to President Obama's budget projections, federal and state welfare spending will total $10.3 trillion over the next 10 years (FY 2009 to FY 2018). This spending will equal $250,000 for each person currently living in poverty in the U.S., or $1 million for a poor family of four.

Over the next decade, federal spending will equal $7.5 trillion, while state spending will reach $2.8 trillion. These figures do not include any of the increases in health care expenditure currently being debated in Congress.

In the years ahead, average annual welfare spending will be roughly twice the spending levels under President Bill Clinton after adjusting for inflation. Total means-tested spending is likely to average roughly 6 percent of GDP for the next decade.

# Obama to Spend $10.3 Trillion on Welfare: Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor

*Robert Rector, Katherine Bradley, and Rachel Sheffield*

Since the beginning of the War on Poverty, government has spent vast sums on welfare or aid to the poor; however, the aggregate cost of this assistance is largely unknown because the spending is fragmented into myriad programs.

Whereas Social Security and Medicare appear as two succinct line items in the federal budget[1] and defense spending appears on one line, federal welfare spending is spread through 13 government departments and agencies, 17 budget functions, and 71 separate programs. Spending levels for many programs can be discovered only by data mining the annual 1,300-page budget appendix produced by the Office of Management and Budget (OMB).[2] Means-tested welfare also includes billions of dollars in mandatory state government contributions to federal welfare programs. This spending never appears in any federal budget document. Because of this, the large cost of aid to the poor is largely invisible to the press, decision makers, and the public.

However, as this report shows, welfare or aid to poor and low-income persons is now the third most expensive government function. Its cost ranks below support for the elderly through Social Security and Medicare and below the government expenditures on education, but above spending on national defense.

Oddly, only one little-known government report totals the cost of means-tested welfare or aid to poor and low-income persons. This report, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data," is issued infrequently by the Congressional Research Service (CRS). The latest version was issued in 2006 and covers spending through fiscal year (FY) 2004.[3] Regrettably, CRS reports on aid to poor and low-income persons receive little or no attention.

This paper closely follows the outlines of the CRS report on aid to persons with limited income. The list of means-tested welfare programs covered here is nearly identical to those included in the CRS reports.[4] However, unlike the CRS report, the current paper covers means-tested welfare spending from FY 1950 through FY 2010.

For purposes of this report, all federal spending figures have been taken from the annual budget documents prepared by the Office of Management and Budget or, for early years, from other federal government documents. State welfare spending levels have been estimated using the state matching rates required by federal law and from data provided in earlier CRS reports. The present report also projects future welfare spending for FY 2011 through FY 2018 based on projected spending levels presented in the President's FY 2010 budget.

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1. Social Security is presented in the federal budget as a single separate function code (651); Medicare is also a single function code (571).
2. U.S. Office of Management and Budget, *Appendix*, *Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office, 2009), at *http://www.whitehouse.gov/omb/budget/fy2010/assets/appendix.pdf* (August 31, 2009).
3. Karen Spar, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data FY2002–FY2004," Congressional Research Service *Report for Congress*, March 27, 2006, at *http://wikileaks.org/leak/crs/RL33340.pdf* (August 27, 2009). Summaries of the CRS reports have been included in the 2008 versions of the Green Book, which is published by the House Ways and Means Committee. See Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on the Programs Within the Jurisdiction of the Committee on Ways and Means*, 2008 ed., at *http://waysandmeans.house.gov/Documents.asp?section=2168* (August 27, 2009).
4. The Heritage Foundation list of means-tested programs is extremely similar to the CRS list. The Heritage list excludes some veterans programs that are included in the CRS tally. Heritage also excludes the Stafford student loan program. Although it is technically a means-tested program, its income eligibility levels are high enough that most of the middle class is eligible. On the other hand, Heritage includes several community development programs that are not on the CRS list.

## What Is Welfare or Aid to the Poor?

Webster's dictionary defines "welfare" as "aid in the form of money or necessities for those in need."[5] Replacing the phrase "those in need" with "those with low income," we obtain a rough but reasonable definition of government welfare programs: aid in the form of money or necessities for those with low income.

Government welfare programs differ from most other government activities. While most government programs provide benefits and services across all citizens irrespective of economic class, welfare programs provide benefits exclusively to persons with lower incomes. Government welfare programs provide assistance to less-affluent persons that is not available to the general populace because lower-income persons have greater difficulty supporting themselves.

The U.S. welfare system, then, may be defined as the total set of federal and state government programs that are designed specifically to assist poor and low-income Americans. Accordingly, a government program is a "welfare" program if it provides assistance or benefits exclusively and deliberately to poor and low-income persons. (A very small number of programs provide assistance targeted to low-income communities rather than individuals.)

Some may prefer to use the term "aid to the poor" rather than "welfare" to describe these programs. Whichever name is used, the concept of programs explicitly designed to help less-affluent individuals who have difficulty supporting themselves is clear and distinct.

## Means-Tested Aid

Nearly all welfare programs are *individually means-tested*. Means-tested programs restrict eligibility for benefits and services to persons with non-welfare income below a certain level. Individuals with non-welfare income above the specified cutoff level may not receive aid.[6] Thus, food stamps, Temporary Assistance for Needy Families (TANF), and public housing are means-tested aid programs, while Social Security, Medicare, public school education, and police and fire protection are not.

A second, far smaller group of welfare programs is *community means-tested*. These federal programs target community development and education aid at low-income communities rather than individuals. Community means-tested programs comprise around 3 percent of total means-tested welfare spending.

Means-tested welfare programs serve two purposes. First, the programs provide various forms of material support, transferring resources to help individuals to obtain goods and services that they cannot purchase on their own. In this respect, means-tested programs provide cash assistance, food assistance, free or subsidized housing, and medical care. Welfare programs may also pay for social services that the poor cannot purchase on their own, such as day care.

The second purpose of welfare programs is to enhance the earning capacity of poor persons or otherwise change behavior in a beneficial direction. Typical of the means-tested programs that serve this purpose are development programs for poor children such as Head Start and job training programs for adults such as Job Corps. (For further discussion of the definition of welfare or aid to the poor and the delineation of the means-tested welfare system, see Appendix A.)

## Cost of the Means-Tested Welfare System

As noted, for purposes of this paper, the U.S. welfare system is defined as the total set of federal and state means-tested programs that are designed explicitly to assist poor and low-income Americans. The welfare system consists of both individually means-tested programs and a much smaller number of community means-tested programs.

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5. *Merriam-Webster Unabridged Collegiate Dictionary*, online ed., s.v. "welfare."
6. A few government spending programs are technically means-tested but have upper-income eligibility limits that are so high that much of the middle class is eligible. Such programs are not included in this paper.

The federal government funds over 70 interrelated means-tested programs through four independent agencies[7] and nine departments: Health and Human Services, Agriculture, Housing and Urban Development, Labor, Treasury, Commerce, Energy, Interior, and Education. Altogether, these programs provide cash, food, housing, medical care, social services, job training, community development funds, and targeted education aid to low-income persons and communities. A list of all means-tested welfare programs and the spending on each program in FY 2008 is provided in Appendix C.

State governments also fund welfare. Although some state governments finance small independent welfare programs, most means-tested spending by state governments takes the form of fiscal contributions (matching funds) to federal welfare programs. For the most part, these state contributions are required by federal law. State matching funds are an important adjunct to the federal welfare system. Since state governments contribute fiscally to federal welfare programs and in many cases actually administer those programs, it is necessary to examine federal and state spending and operations together in order to understand the size and scope of the overall welfare system.

Total federal and state spending on means-tested aid was $653.4 billion in FY 2007. This record level of spending was the result of a steady growth in welfare benefits over preceding decades rather than a temporary surge in expenditures due to short-term economic conditions. In FY 2008 (the last full year of the Bush Administration), total federal and state means-tested spending rose to an estimated $714.1 billion. In FY 2009, spending will rise to $780.7 billion.

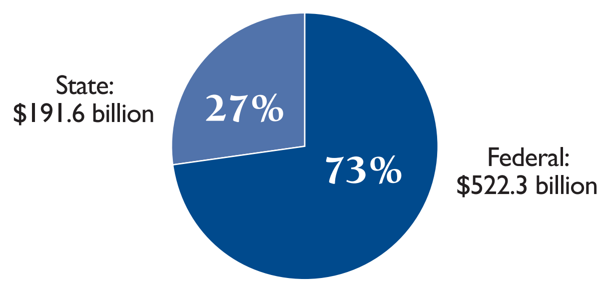
## Federal and State Welfare Spending

The federal government has played the predominant role in designing and financing government-provided welfare since the 1930s. Of the $714.1 billion spent in FY 2008, $522.3 billion (73 percent) was federal expenditures, and $191.6 billion (27 percent) was state expenditures. Most state spending ($150.7 billion) occurs in a single program, Medicaid. If Medicaid is excluded from the spending count, nearly nine-tenths of the remaining means-tested expenditures comes from federal funds.

Moreover, as noted, nearly all state welfare expenditures are matching contributions to federal programs. These state fiscal contributions to federal programs could be considered a "welfare tax" that the federal government imposes on the states.

**Federal and State Shares of Total Means-Tested Welfare Spending**

For Fiscal Year 2008




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 1 • SR 67 heritage.org

## Nine Types of Assistance

The means-tested welfare system provides nine different categories of assistance to poor and low-income persons: cash, food, housing, medical care, social services, child development and child care, jobs and job training, community development, and targeted federal education programs. In each category of assistance, government provides assistance to poor and lower-income persons that it does not provide to the general population.

Combined federal and state spending levels for each category of assistance in FY 2008 were as follows:

7. The Federal Communications Commission, Legal Services Corporation, Appalachian Regional Commission, and Corporation for National and Community Service.

- **Medical assistance.** This type of means-tested assistance cost taxpayers $372.1 billion in FY 2008 and comprised 52.1 percent of total means-tested aid. Major means-tested medical programs included Medicaid and the Maternal and Child Health Block Grant.
- **Cash aid.** This type of means-tested assistance cost taxpayers $153.8 billion in FY 2008 and comprised 21.5 percent of total means-tested aid. Major means-tested cash programs include TANF cash grants, Supplemental Security Income (SSI), the earned income tax credit (EITC), and the additional child tax credit (ACTC).

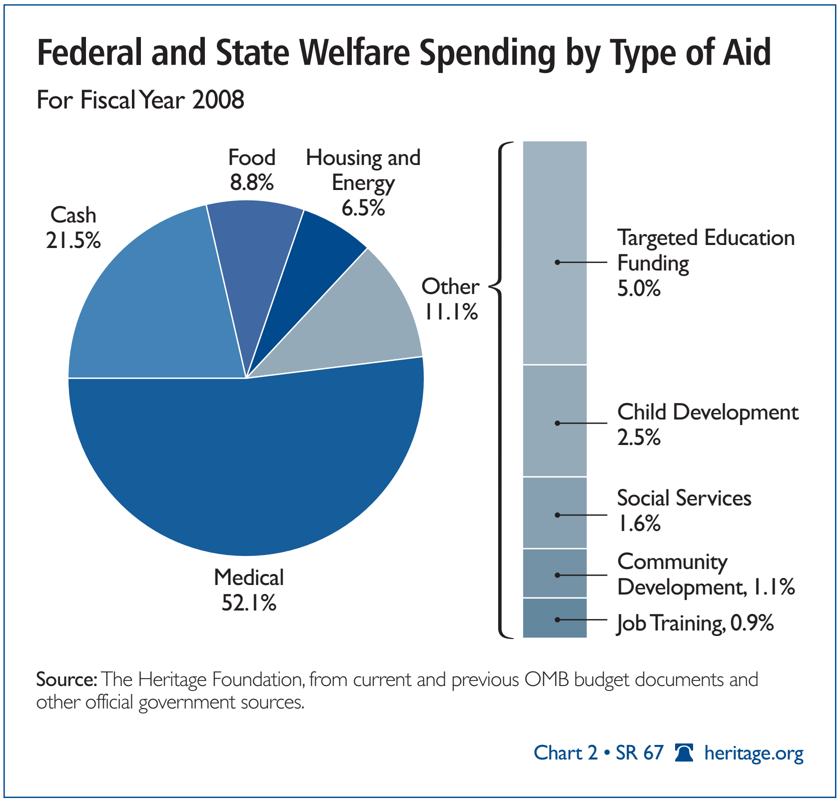
  One increasingly important type of means-tested cash aid is the refundable tax credit. With a refundable credit, government gives a cash grant to a low-income family that owes no income tax. Some like to argue that both refundable and non-refundable tax credits should be regarded as tax relief, but in fact, the two differ fundamentally. A normal non-refundable tax credit allows a family to keep more of the income it has earned by reducing the taxes it pays to government. By contrast, with a refundable tax credit, one family is taxed, and the money is transferred in the form of a cash grant to another family that has not earned it. A refundable credit is a classic example of means-tested welfare aid.

  The most prominent tax credit is the EITC, which has both refundable and non-refundable components. For purposes of this paper, only the refundable portions of the EITC and other tax credits are defined as welfare aid and counted in the spending totals.
- **Food aid.** This type of means-tested assistance cost taxpayers $62.8 billion in FY 2008 and comprised 8.8 percent of total means-tested aid. Major means-tested food assistance programs include food stamps, the Women Infants and Children (WIC) food program, the school lunch and breakfast programs for children under 185 percent of poverty, and The Emergency Food Assistance Program (TEFAP).
- **Housing, energy, and utilities assistance.** This type of means-tested assistance cost taxpayers $45.1 billion in FY 2008 and comprised 6.5 percent of total means-tested aid. Major means-tested housing and energy programs include public housing, Section 8 housing, and the Low Income Home Energy Assistance Program (LIHEAP).
- **Social services.** This type of means-tested assistance cost taxpayers $11.6 billion in FY 2008 and comprised 1.6 percent of means-tested aid. Major programs that fund social services include the Social Service Block Grant (SSBG), TANF, and Community Services Block Grant (CSBG).
- **Child development and child care.** This type of means-tested assistance cost taxpayers at least $17.7 billion in FY 2008 and comprised 2.5 percent of total means-tested aid. Major means-tested child development programs include Head Start and the Child Care Development Block Grant (CCDBG).[8]
- **Jobs and job training.** This type of means-tested assistance cost taxpayers $6.3 billion in FY 2008 and comprised 0.9 percent of total means-tested aid. Major means-tested programs that provide funding for training include the Workforce Investment Act (WIA) program for adults, Workforce Investment Act Opportunity Grants for Youth, TANF, and the Job Corps.
- **Community development.** This type of community means-tested assistance cost taxpayers $8.2 billion in FY 2008 and comprised 1.1 percent of total means-tested aid. Most means-tested community development spending occurs through the Community Development Block Grant (CDBG). The goal of this spending is to assist low-income communities that are having difficulty raising tax revenues on their own and to increase employment opportunities in poor communities by improving public infrastructure.
- **Targeted education spending for low-income persons and communities.** This type of assistance cost taxpayers $35.5 billion in FY 2008 and comprised 5.0 percent of total means-tested spending. Major

8. Total means-tested spending on child care certainly exceeded $17.7 billion in FY 2008 because substantial but unknown portions of TANF and SSBG funding were spent on day care. However, since the exact amounts are not known, this unspecified day-care spending is included under social services rather than child care spending in this paper.

programs include Pell Grants for low-income individuals and Title I education grants targeted to low-income communities.

These figures are summarized in Chart 2. A list of spending in each of the 71 federal means-tested programs and three independent state spending categories is provided in Appendix C.




As Chart 2 shows, while means-tested programs are diverse, the bulk of spending occurs in four categories: cash, food, housing, and medical care. In FY 2008, medical care absorbed over half (52 percent) of total means-tested spending, while cash, food, and housing comprised 37 percent. Cash, food, housing, and medical care together comprised nearly nine-tenths of total welfare costs.

The goal of these four types of program is to raise the economic and material conditions of lower-income persons by providing them with goods and services that they ostensibly cannot earn or purchase with their own resources. These programs are intended to redistribute income: Upper-income families are taxed, and economic resources are transferred to raise the living standards of the less affluent.

The remaining five means-tested spending categories—job training, social services, child development and child care, targeted education, and community development—take up only 11 percent of total means-tested spending. These programs have a greater emphasis on capacity building and behavior change among the poor. They seek to increase ability and reduce the behavioral problems that lead to poverty and dependence. For example, child development, targeted education, and job training programs seek to raise the cognitive and vocational skills of less advantaged persons and thereby increase their earnings and capacity for self-support. Community development programs have a goal of increasing employment opportunities in low-income communities through public infrastructure spending.[9]

## The Long-Term Growth of Welfare Spending

Means-tested welfare spending has grown rapidly since Lyndon Johnson launched the War on Poverty in 1964. In that year, federal and state means-tested spending was $8.2 billion. By 2008, before the start of the current recession, it had risen almost 90-fold to $714 billion.

Obviously much of this increase was due to inflation. Adjusted for inflation, welfare spending in 1964 was $54.6 billion in constant 2008 dollars.[10] Thus, even with inflation adjustment, total means-tested welfare spending has increased 13-fold since the start of the War on Poverty, rising from $54.6 billion in 1964 to $714 billion in 2008.

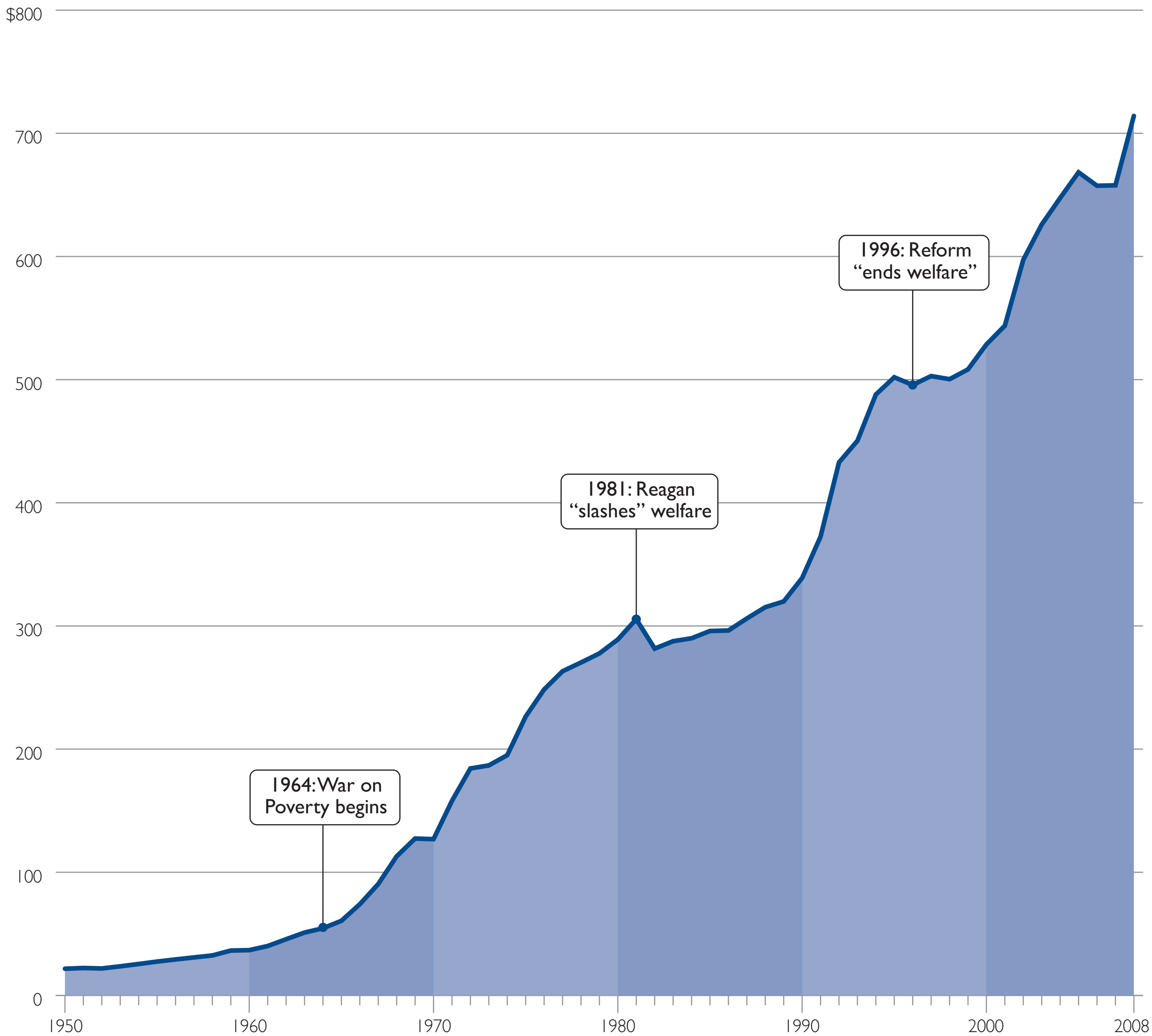
9. On the other hand, to a degree, these programs also provide for free routine services, such as birth control and day care, which the middle class purchases with its own resources.

10. In this paper, whenever historical means-tested expenditures were adjusted for inflation, separate inflationary adjustments were made for medical assistance, food assistance, and housing assistance according to the appropriate price index for each. All adjustments use the

Some might argue that much of this increase was due to growth in the population, but the U.S. population grew by only 50 percent during this period. Total inflation-adjusted welfare spending per person increased more than eightfold over the period, rising from $284 per person in 1964 to $2,349 per person in 2008.

## History of Total Welfare Spending

Spending in Billions of 2008 Dollars



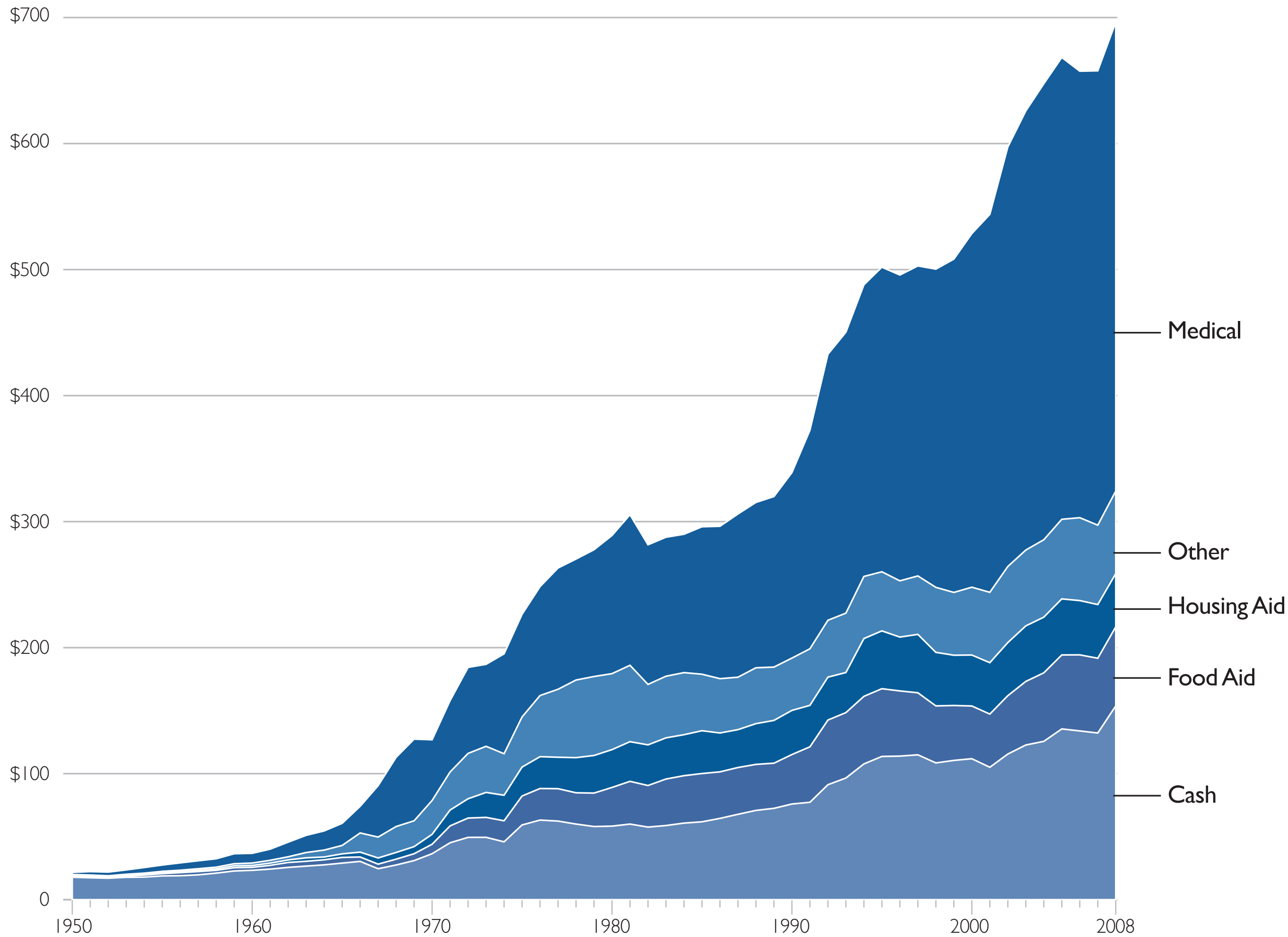

**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 3 • SR 67 heritage.org

personal consumption expenditure price indices provided in the National Income and Product Accounts of the Bureau of Economic Analysis. Means-tested expenditures on medical care were adjusted by the personal consumption expenditure price index for medical care. Means-tested expenditures for food assistance were adjusted by the personal consumption expenditure price index for food. Means-tested expenditures for housing aid were adjusted by the personal consumption expenditure price index for housing. All other means-tested expenditures were adjusted by the personal consumption expenditure price index for all goods and services.

## Welfare Spending by Program Type

Spending in Billions of 2008 Dollars




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 4 • SR 67 heritage.org

Means-tested expenditures on medical care showed the greatest increase over this period. In 1964, governmental medical assistance to the poor was very limited: only about $15 billion per year in today's dollars. Adjusted specifically for the rise in medical prices, means-tested medical spending increased almost 24-fold over this period. By 2008, over 50 million low-income persons received care under Medicaid and other means-tested medical programs at a cost of $372.1 billion per year.

Other welfare spending also grew rapidly. After adjusting for inflation, means-tested spending on cash, food, and housing programs rose eightfold over the period, from $33.9 billion in 1964 to $262.7 billion in 2008. In constant 2008 dollars, per-person spending on cash, food, and housing more than quadrupled from $178 in 1964 to $864 per person in 2008.

Contrary to perceptions that welfare spending resembles a roller coaster, rising during recessions and declining during periods of economic growth, Chart 3 and Chart 4 show that welfare spending more closely resembles a mountain slope. In some years, spending rises rapidly; in others, it rises less rapidly. But the overall trend is steadily upward. In the four and a half decades since the beginning of the War on Poverty, inflation-adjusted welfare spending has increased in 39 years and declined in only five.

## Welfare Spending as a Share of GDP

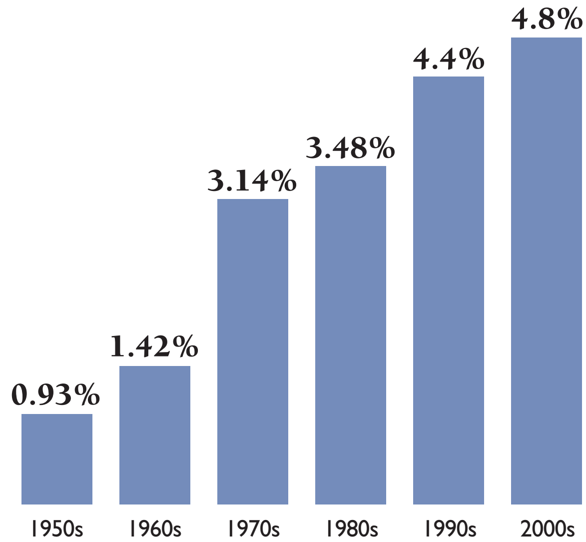
Means-tested welfare has grown not only in absolute terms, but also as a share of the total U.S. economy. Chart 5 shows annual welfare spending as a percentage of gross domestic product (GDP) over the past half-century.

At the end of World War II, means-tested government welfare stood at 0.5 percent of GDP. Two decades later, as Lyndon Johnson inaugurated the War on Poverty in 1964, spending was only slightly higher at 1.2 percent of GDP.[11] Over the next decade and a half, spending exploded, reaching around 3.5 percent of GDP by the late 1970s. Spending remained relatively flat in the Reagan era of the 1980s, averaging 3.5 percent of GDP. After Ronald Reagan left office, spending began to climb rapidly again.

Although there was much ado about "ending welfare as we know it" in the 1990s, welfare reform (enacted in 1996) resulted in only a slight pause in spending growth. By 2008, means-tested welfare had risen to 5.0 percent of GDP. On average, means-tested spending as a share of GDP has increased between one-half and a full percentage point per decade since the beginning of the War on Poverty. All indications are that it will remain around 6 percent of GDP in the decade ahead.

**Means-Tested Welfare or Aid to the Poor**

Average Percent of GDP During Decade




**Note:** Each percentage represents the decade average. For example, the 1950s figure of 0.93 percent is the average for 1950–1959.

**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 5 • SR 67 heritage.org

## Comparison of Welfare Spending to Other Major Government Expenditures

One way to gauge the magnitude of government welfare spending is to compare it to other types of government expenditure. Chart 6 shows federal, state, and local spending for major government functions in FY 2006, the most recent year for which complete data are available.

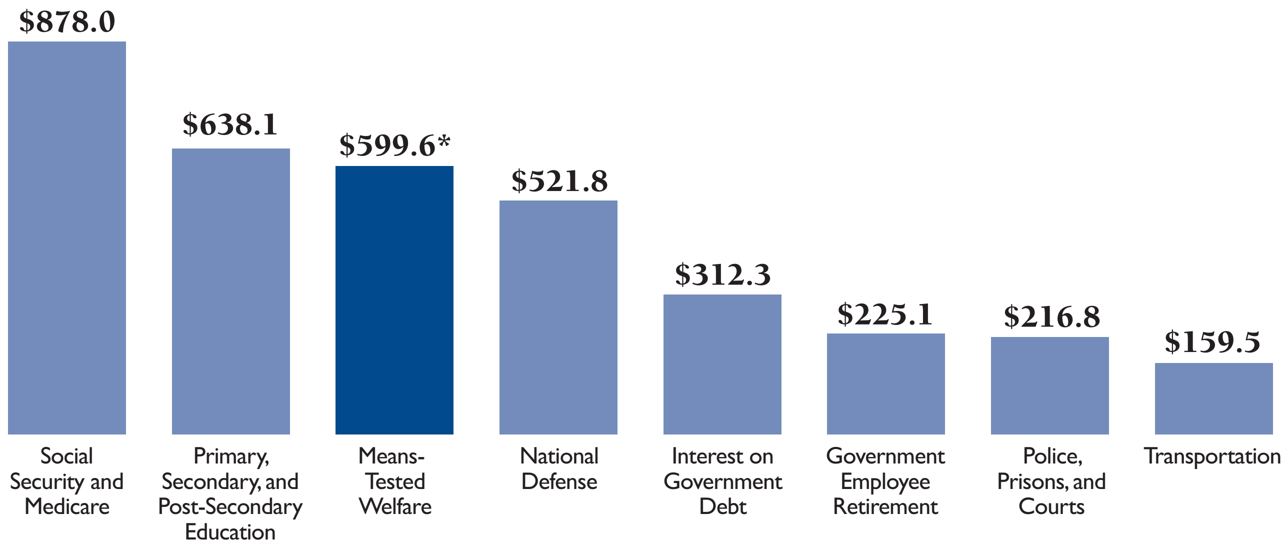
The largest single category of spending was the combined cost of supporting retired and disabled persons through Social Security and Medicare. These programs cost the taxpayers $878 billion in FY 2006. The second largest category was federal, state, and local government spending on primary, secondary, and post-secondary education, which totaled $683.1 billion.[12]

Aid to the poor or means-tested welfare spending (less means-tested education expenditures) was the third largest spending category, costing $599.6 billion. The cost of means-tested welfare exceeded spending on national defense ($521.8 billion); interest on the federal, state, and local government debt ($312.3 billion); government employee retirement ($255.1 billion); police, prisons, and the courts ($216.8 billion); and roads and other transportation ($159.5 billion).[13]

11. Welfare spending in 1964 was 1.2 percent of GDP. This is slightly different from the decade average of 1.4 percent, which is shown in Chart 5.
12. To avoid double counting, in Chart 2, some $31 billion in means-tested federal education spending was removed from the welfare-spending total and included in the education total.
13. Figures for state and local government spending in 2006 were taken from U.S. Census Bureau, "State and Local Government Finances by Level of Government and by State: 2005–06," revised July 1, 2008, at *http://www.census.gov/govs/estimate/0600ussl_1.html* (August 27, 2009). Where applicable, federal grants in aid and user charges were subtracted from the state and local spending totals.

## Government Spending on Major Functions

Combined Federal and State Spending, in Billions of Dollars




* Excludes means-tested education spending.

**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 6 • SR 67 heritage.org

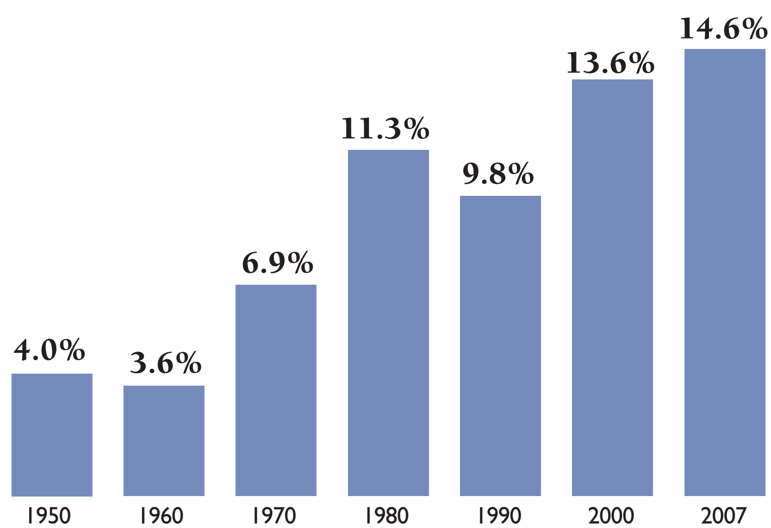
## Welfare as a Percentage of Total Government Spending Over Time

Means-tested welfare comprises a significant and rising share of total government spending. In FY 2006 (the most recent year for which full data are available), about one dollar in seven (14.6 percent) of total federal, state, and local government spending was devoted to some form of means-tested government aid.[14]

As Chart 7 shows, means-tested welfare spending as a share of federal, state, and local government expenditures has increased sharply over time. In 1950, welfare spending was 4 percent (one dollar in 25) of total government spending. By the beginning of the War on Poverty in 1964, the figure was still around 4 percent.

Within a few years, the welfare share of government spending nearly doubled, reaching 6.9 percent by 1970. Ten years later, the number had risen still farther to 11.3 percent: One dollar

### Welfare Spending as a Percent of Total Federal, State, and Local Government Spending




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 7 • SR 67 heritage.org

in nine was spent on welfare. During the Reagan era, the figure shrank slightly, but this restraint did not last. In the 1990s and later, the number continued its rise.

## Welfare Spending: The Fastest-Growing Component of Government Spending

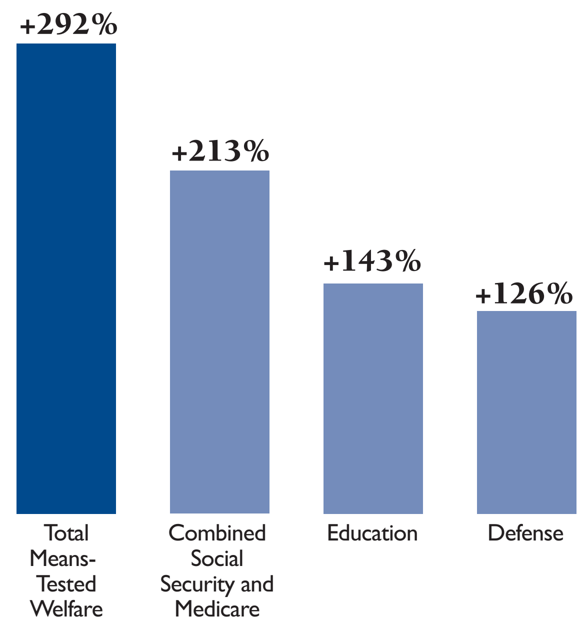
For the past two decades, means-tested welfare or aid to the poor has been the fastest growing component of government spending, outstripping the combined growth of Medicare and Social Security spending, as well as the growth in education and defense spending.

Chart 8 shows the increase in various types of government spending over the 20-year period between FY 1989 and FY 2008. As the chart shows, total means-tested spending increased by 292 percent over the period. The increase in combined Social Security and Medicare spending was 213 percent over the same period.

Means-tested spending on cash, food, and housing increased more rapidly (196 percent) than Social Security (174 percent). The growth in means-tested medical spending (448 percent) exceeded the growth in Medicare (376 percent).[15] The growth in means-tested aid greatly exceeded the growth in government spending on education (143 percent) and defense (126 percent). Aid to the poor is likely to continue to grow rapidly for the foreseeable future.

**Welfare: The Fastest-Growing Part of Government Spending**

Percentage Increase in Annual Spending Between FY 1989 and FY 2008




**Note:** A 100 percent spending increase means spending doubled. A 200 percent spending increase means spending tripled. Figures were calculated in current dollars.

**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 8 • SR 67 heritage.org

## Total Cost of the War on Poverty

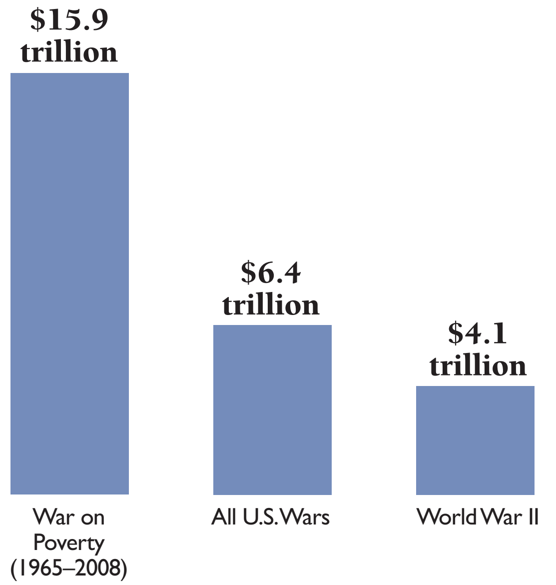
The financial cost of the War on Poverty has been enormous. Between 1965 and 2008, total means-tested welfare spending by federal and state governments cost taxpayers $15.92 trillion in constant 2008 dollars. By contrast, the military cost to the U.S. government for all military wars from the American Revolution to the present is $6.39 trillion in 2008 dollars.[16]

The War on Poverty has cost the taxpayers more than twice the combined cost of all military wars in U.S. history. The most expensive military war in U.S. history was World War II, but its cost was only $4.1 trillion in 2008 dollars,

14. Total federal, state, and local spending equaled $4,375 billion in 2007. State and local spending was calculated from U.S. Census Bureau, "State and Local Government Finances," at *http://www.census.gov/govs/www/estimate.html* (August 27, 2009). To avoid double counting, federal grants in aid to state governments were subtracted from state spending totals. In accordance with federal accounting principles, services funded by user fees and charges were excluded from state and local spending. More than one dollar in six (17.1 percent) of total federal spending goes to means-tested welfare benefits and services. At the state and local levels, means-tested assistance takes a lower share of government spending: Roughly one dollar in nine (11.2 percent) of total spending goes to means-tested aid.
15. Some have attributed the rapid growth in means-tested medical spending to inflation in medical prices. Medical prices only doubled during the period. The rest of the increase was due to expansions in the number of recipients and services provided.
16. Stephen Daggett, "Costs of Major U.S. Wars," Congressional Research Service *Report to Congress*, July 24, 2008, at *http://www.fas.org/sgp/crs/natsec/RS22926.pdf* (August 27, 2009).

## The Costs of the War on Poverty Compared to All U.S. Military Wars

Figures are in Constant 2008 Dollars

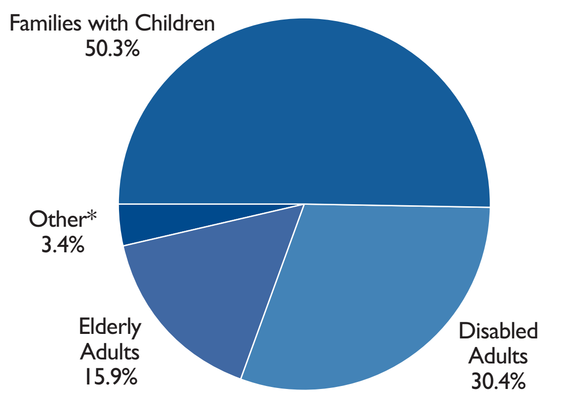



**Source:** Welfare spending from The Heritage Foundation. Military spending from Stephen Daggett, "Costs of Major U.S. Wars," Congressional Research Service *Report to Congress*, July 24, 2008, at *http://www.fas.org/sgp/crs/natsec/RS22926.pdf* (August 27, 2009).

Chart 9 • SR 67 heritage.org

## Welfare Spending by Recipient Categories

For Fiscal Year 2008




* Non-elderly, non-disabled adults without children

**Note:** Percentages equal the share of total means-tested spending received by each group.

**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 10 • SR 67 heritage.org

a little more than one-fourth of the ongoing cost of the War on Poverty.

## Recipients of Welfare Spending

Chart 10 breaks out welfare spending in FY 2008 by type of recipient. Total welfare spending equaled $714 billion. Families with children received $360 billion in welfare aid, slightly more than half (50.3 percent) of the total. The other half went to households without children. Of this, $217 billion (30 percent) went to disabled adults, $113 billion (16 percent) went to the elderly, and $24 billion (3.4 percent) went to able-bodied individuals who were neither parents nor elderly.

## Means-Tested Welfare Spending on Lower-Income Persons

With more than 70 overlapping means-tested programs serving different low-income populations, it is difficult to determine the average level of benefits received by low-income persons. Figures showing average means-tested spending per capita across the whole population are useful for judging changes in the level of resources over time, but they do not represent average benefits per recipient since most Americans do not receive any means-tested aid.

One way of estimating average welfare benefits per recipient would be to divide total means-tested spending by the total number of poor persons in the United States. The government counts an individual as poor if the cash income of his family falls below official federal poverty levels. (In 2008, official federal poverty levels were $11,200 for a one-person household, $14,400 for a two-person family, $16,800 for a three-person family, and $22,200 for a four-person family.)

According to the Census Bureau, there were 37.3 million poor persons in the U.S. in 2007, the most recent year for which data are available. An additional 1.5 million persons lived in nursing homes. These individuals, though mostly poor, are not included in the annual Census poverty and population survey. Total means-tested spending in 2007 was $653.4 billion. If this sum is divided by 38.8 million poor persons (including residents in nursing homes), the result is $16,840 in means-tested spending for each poor American.[17]

However, this simple calculation is somewhat misleading because many persons with income above the official poverty levels receive some form of means-tested aid. Many find this perplexing. Why should persons with incomes above the poverty level receive welfare? The explanation is that means-tested welfare programs usually have graduated scales of benefits: The level of aid slowly phases down as a family's earnings or non-welfare income rise.

For example, a typical means-tested welfare program pays maximum benefits to a family with no earned income and gradually reduces benefits as earnings rise. Benefits are usually phased down gradually with the aim of ensuring that a family experiences an increase in net income (earnings plus welfare) as earnings rise.[18] Given the graduated scale of benefits, families with earnings above the poverty level usually receive lower-value benefits per family than families with non-welfare income below the poverty level.

Each means-tested welfare program that incrementally phases down benefit amounts as family earnings rise has an upper earnings level at which benefits fall to zero.[19] This is called the upper-income eligibility limit of the program. Families with non-welfare income above this level will not receive benefits.

Welfare programs typically have upper-income eligibility limits between 150 percent and 200 percent of the federal poverty level. Only a small amount of means-tested aid goes to families with non-welfare income above 200 percent of the federal poverty level (around $44,400 for a family of four). Thus, the whole population with incomes below 200 percent of poverty could be viewed as the potential pool of means-tested welfare recipients. It follows that one way to gauge the magnitude of welfare resources available to poor and lower-income persons would be to divide total means-tested welfare spending by the number of persons living in households with non-welfare incomes below 200 percent of poverty.

In 2007, total federal and state means-tested expenditures were $653.4 billion. The total number of persons with incomes below 200 percent of poverty was 92.5 million,[20] about one-third of the U.S. population. Welfare spending was thus $7,060 per lower-income person ($653.4 billion divided by 92.5 million persons). Average spending for a lower-income family of four would be around $28,000 per year.

This figure represents a reasonable measure of the welfare resources that government provides to lower-income persons. However, it should not be interpreted as a representative welfare benefit. Actual welfare benefits provided to lower-income persons vary widely depending on the type of recipient, state of residence, family size, earnings

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17. Some might think that welfare spending per poor person is high because the welfare spending itself dramatically reduces the number of persons living in poverty, but this is not the case. The Census Bureau identifies a family as poor if its "income" falls below specified limits; however, when measuring income to determine whether a family is poor, the Census ignores nearly all of the means-tested aid discussed in this paper. Only a portion of cash aid from TANF, SSI, and general assistance is counted as income. Because the Census excludes nearly all welfare aid from its assessment of income, its count of the number of people who are poor before receipt of welfare and its count of the number of persons who are poor after receipt of welfare are nearly identical.
18. Means-tested aid is provided to lower-income but non-poor households for two reasons. First, there is a perception that these households, although non-poor, still need some economic support. Second, an abrupt termination of all welfare aid at the official poverty income levels could create significant disincentives to work. For example, a hypothetical means-tested program could provide $10,000 in cash to all families with non-welfare incomes below the poverty level and zero benefits to families with incomes above the federal poverty level. Under such a program, a family of four with earnings $50 below the poverty level ($22,150) would receive $10,000 in welfare. The combined income of the family would then be $32,150 ($22,150 from earnings and $10,000 from welfare). However, if the family raised its earnings to $50 above the federal poverty level ($22,250), it would lose all of its welfare aid. In this hypothetical program, an increase of $100 in earnings would result in a net loss of $9,900 in family income. Obviously, a welfare program structured in this manner could create large disincentives for families to earn their way out of poverty. To avoid this problem, welfare benefits are typically phased down gradually so that a family will experience an increase in net income as earnings rise.
19. The phase-down rate of a program is the rate at which benefits are reduced for each added dollar of earned income. In a program with a phase-down rate of 50 percent, benefits are cut by $50 for each added $100 of earnings. Some advocate reducing the phase-down rates of welfare programs as a means of increasing incentives to work. Evidence suggests this is not an effective strategy. A more effective strategy is to place strict work requirements on the receipt of benefits. In addition, decreasing the phase-down rates of means-tested programs is very expensive since it greatly increases the number of households receiving aid. A simple equation explains this. The upper income level at which benefits reach zero is equal to the maximum benefit divided by the phase-down rate. Thus, a welfare system that provides maximum benefits of $20,000 per family with a phase-down rate of 50 percent would provide welfare to families with earned incomes up to $40,000 per year. The same system with a phase-down rate of 25 percent would offer aid to families with incomes up to $80,000 per year.
20. This figure includes 1.5 million nursing home residents who are not included in the annual Census population and poverty counts.

levels, and the number of programs in which an individual participates. Moreover, many persons with incomes below 200 percent of the federal poverty level receive no welfare aid.

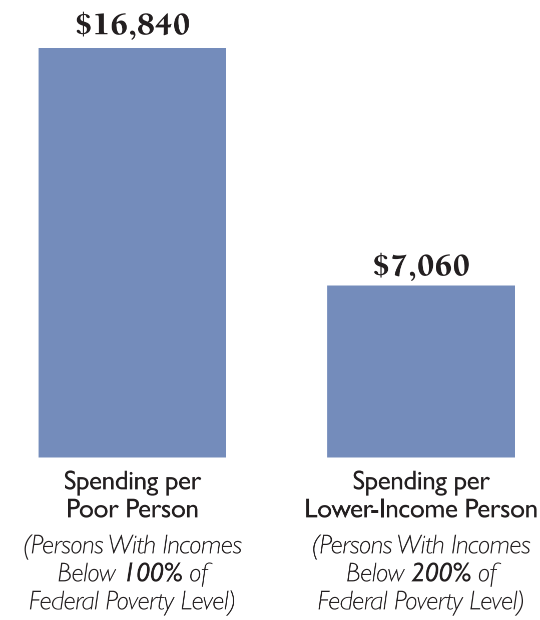
Nonetheless, the magnitude of welfare spending relative to the number of potential recipients is quite high. At around $7,000 for each person in the lowest-income third of the population, the welfare system is far larger and more expensive than most imagine.

Another way of examining spending levels is to look at welfare spending on families with children. In FY 2007, total means-tested spending was $653.4 billion, and about half of this spending ($326 billion) went to families with children. In the same year, around 14.2 million families with children had incomes less than 200 percent of the poverty level.

If the $326 billion in welfare spending is divided equally among these families, the result is an average benefit level of roughly $23,000 per family. Around one-third of this spending goes to medical care. In addition, most of these lower-income families have earned income. Average earnings within the whole group are about $16,000 per family.

**Welfare Spending per "Poor Person" and per "Lower-Income Person"**

Federal and State Means-Tested Welfare, 2007 Data, in Current Dollars




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 11 • SR 67 heritage.org

Overall, the economic resources available to these families through a combination of welfare and earnings are far greater than generally understood. If average welfare aid and average earnings are combined, the total comes to around $39,000 for each lower-income family. It is very difficult to reconcile this level of spending with conventional claims that millions of lower-income families are chronically hungry, malnourished, or ill-housed.

One typical explanation of apparent disparity between high welfare spending and allegedly impoverished living standards is the claim that a very large share of welfare expenditures is diverted to defray bureaucratic or administrative costs. In general, this assertion is not true: The administrative costs for most welfare programs run at 10 percent to 15 percent of total spending. The real story is simpler: The U.S. provides a very high level of aid per low-income person.

## Means-Tested Welfare and the Poverty Gap

The pre-welfare poverty gap equals the amount of money needed to raise the income of all currently poor households up to the federal poverty level ($22,200 for a family of four). To calculate the pre-welfare poverty gap for each household, the poor household's non-welfare cash income is counted and compared to the poverty income threshold for a family of that size. The difference between the poor family's non-welfare income and the appropriate poverty threshold equals the pre-welfare poverty gap for that family.

According to Census figures, the aggregate pre-welfare poverty gap in 2007 (the most recent year for which data are available) was around $148 billion.[21] Means-tested welfare spending in that year was $653 billion. However, this sum includes $101 billion in Medicaid expenditures for persons in nursing homes, who are not included in the poverty count.

Excluding Medicaid expenditures for nursing home residents, means-tested welfare spending came to around $550 billion in 2007. This sum is nearly four times the total pre-welfare poverty gap in that year. Thus, if means-tested welfare spending were simply converted into cash, the sum would be nearly four times the amount needed to eliminate poverty by raising the income of each poor family above the official poverty income thresholds.

## Most Means-Tested Welfare Is Ignored in the Measurement of Poverty and Inequality

Readers may reasonably ask how government can spend so much on welfare while so many people still apparently live in poverty. As noted, the U.S. Census Bureau identifies a household as poor if its income falls below the specified federal poverty level.

Yet in counting a family's income, the Census Bureau ignores nearly all means-tested welfare. In particular, food stamps and other food aid, housing subsidies, health care benefits, the EITC, and other refundable credits are not counted as income. In 2007, the Census Bureau counted only $24 billion (4 percent) of a total of $653 billion in means-tested expenditures as income.

Similarly, the Census measures income equality each year. U.S. households are ranked by income and then divided into fifths or quintiles. The share of income received by each fifth is determined. Yet in measuring income for this purpose, the Census again ignores almost the entire welfare state. Means-tested welfare has risen from 1.2 percent of GDP in 1964 to 5.0 percent today. Nearly all of this spending assists persons in the lowest two quintiles, but when measuring economic inequality, almost none of this transfer is computed. When welfare received by the poor and taxes paid by the rich are included in the assessment, inequality in the U.S. is far less than conventional Census figures suggest.[22]

## The Growth in Welfare Is Not Due to Falling Wages

One explanation for the growth in welfare is falling wage rates. According to this theory, the real problem is that wage rates for less-skilled workers have declined since the early 1970s and the growth of welfare spending has merely backfilled for this wage loss.

The difficulty with this view is that the real (inflation-adjusted) wage rates among the lowest-paid workers have not declined. While wage growth has slowed for most workers since 1973 and the wages of less-skilled workers have grown less than the average, the real hourly wage rates of the lowest-paid fifth of workers are still some 5 percent to 10 percent higher than in the early 1970s.[23] The expansion of welfare has been built on top of slowly growing, not declining, wages.

What has declined dramatically is marriage in low-income communities. When the War on Poverty started, 7 percent of children in the U.S. were born out of wedlock. Today, the number is 39 percent. Non-marital births occur predominantly among the least-educated, most poverty-prone women. As husbands leave the home, both poverty and welfare dependence increase substantially.

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21. U.S. Census Bureau, "Income, Poverty and Health Insurance Coverage in the United States: 2007," Current Population Reports, August 2008, at *http://www.census.gov/prod/2008pubs/p60-235.pdf* (August 27, 2009). Table 5 on page 18 shows a post-welfare poverty gap of $122 billion in 2007. The Census counted some $26 billion in means-tested cash assistance from SSI and public assistance as income. Assuming that nearly all of that $26 billion was received by poor persons, the total pre-welfare poverty gap would be around $148 billion in 2007.
22. Robert Rector and Rea Hederman, Jr., "Two Americas: One Rich, One Poor? Understanding Income Inequality in the United States," Heritage Foundation *Backgrounder* No. 1791, August 24, 2004, at *http://www.heritage.org/Research/Taxes/bg1791.cfm*.
23. Lawrence Mishel, Jared Bernstein, and Sylvia Allegrettor, *The State of Working America 2006/2007* (Ithaca, N.Y.: Cornell University Press, 2007), pp. 121 and 126.

## Welfare Spending During the Bush Presidency

The Bush presidency is often depicted as a period in which taxes on the rich were cut and military spending soared while domestic spending stagnated or was cut. With respect to welfare spending, this depiction is radically inaccurate. Federal and state means-tested welfare spending grew very rapidly throughout the Bush presidency.

During the eight years that President George W. Bush was in office, annual welfare spending rose in current dollars by 67 percent, from $426.3 billion in FY 2000 (the last full year under President Bill Clinton) to $714 billion in FY 2008 (President Bush's last full year in office). Part of this increase can be attributed to inflation, but even after adjusting for inflation, combined federal and state welfare aid was one-third higher in FY 2008 than in FY 2000. After adjusting for inflation and population growth, welfare spending still rose by one-fourth under President Bush.

Defense spending increased dramatically in response to 9/11, the war on terrorism, and the wars in Iraq and Afghanistan, but despite this increase, defense spending remained lower than total means-tested welfare spending throughout the period. Total defense spending between FY 2001 and FY 2008 equaled $4.16 trillion in current dollars. By contrast, federal and state means-tested spending during the same period was $4.72 trillion.

Even in FY 2008, the last year of the Bush Administration, annual welfare spending continued to outstrip annual defense expenditures. In that year, defense spending equaled $612 billion, but welfare spending amounted to $714 billion ($523 billion in federal spending and $191 billion in state spending).[24]

## Welfare Spending Under President Obama

In his first two years in office, President Barack Obama will increase federal welfare spending by $263 billion. After adjusting for inflation, this increase is two and a half times greater than any previous increase in federal welfare spending in U.S. history. As a share of the economy, annual federal welfare spending will rise by roughly 1.2 percent of GDP.

Chart 12 shows Obama's proposed welfare spending levels for his first two years in office (FY 2009 and FY 2010).[25] All figures were taken from the President's own budget documents.

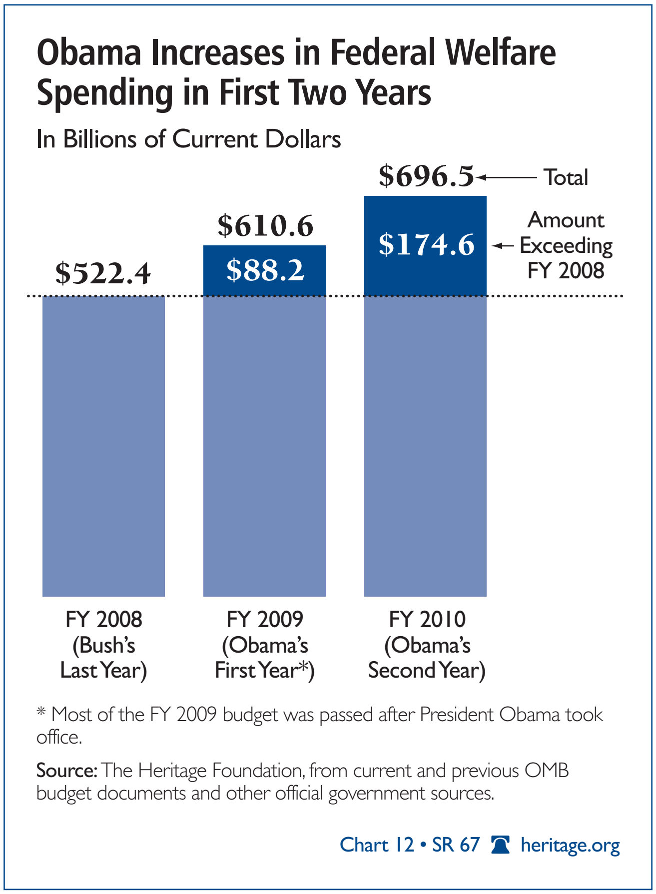
As the chart shows, federal means-tested welfare spending in FY 2008 was $522.4 billion. In his first year in office, Obama will increase annual federal means-tested welfare expenditures by $88.2 billion to a total of $610.6 billion. This is not merely the largest single-year increase in federal welfare spending in U.S. history; it is twice as large as any prior one-year increase, even after adjusting for inflation.

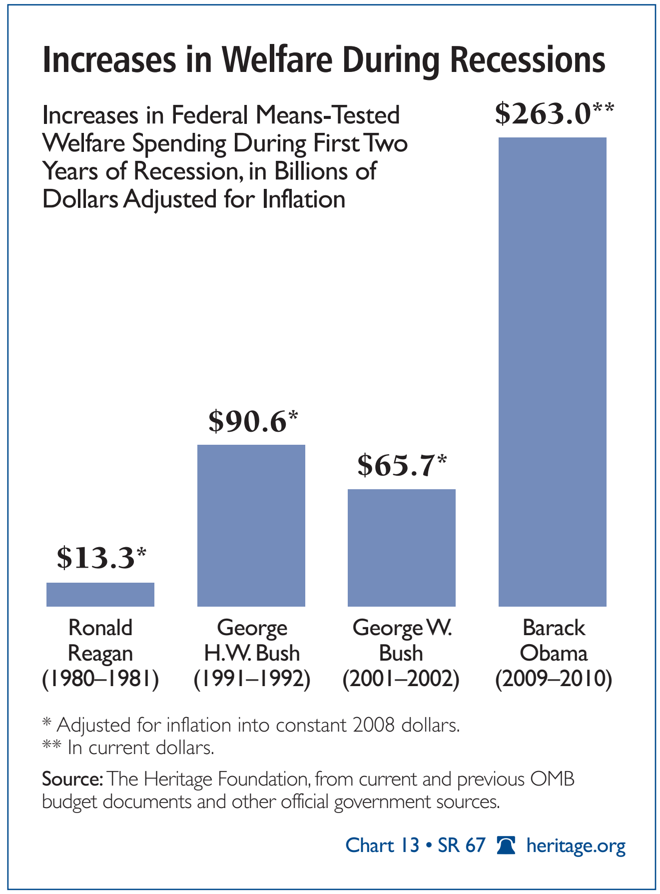
That is not all. In his FY 2010 budget, President Obama proposes raising federal annual welfare spending by an additional $86 billion, above the record high FY 2009 levels. As a result, federal annual welfare spending will jump by one-third over two years, from $522.4 billion in FY 2008 to $697 billion in FY 2010. By FY 2010, federal means-tested welfare spending will be twice the average annual federal welfare spending under President Clinton after adjusting for inflation.

When the $88.2 billion in new spending in FY 2009 is added to the $174.6 billion increase in FY 2010, the combined two-year spending increase will equal around $263 billion. As Chart 13 shows, after adjusting for inflation, this two-year hike in federal welfare spending is two and a half times greater than any other increase in U.S. history. It is equivalent to an extra $3,400 in spending for each taxpaying household in the U.S.

24. Some might object to comparing federal defense spending to combined federal and state welfare spending, but under the U.S. governmental system, national defense is exclusively the responsibility of the federal government, whereas aid to the poor is at best a joint federal–state function. (Many would argue the responsibility should lie primarily with state and local government or even in the private sector.) Therefore, in weighing the relative commitment that government makes to defending the nation and to aiding the poor, it is important that both federal and state contributions be measured. Moreover, as noted previously, much state welfare spending is actually mandated by the federal government.

25. Except for the defense appropriations bill, the FY 2009 budget was passed after President Obama took office. See Omnibus Appropriations Act, 2009, Public Law 111–8.




## Combined Federal and State Spending in FY 2009 and FY 2010

The federal budget provides concrete figures for federal welfare outlays in FY 2009 and FY 2010, but estimating state welfare spending in those years is more difficult. In normal years, estimating state expenditures is relatively straightforward because state means-tested spending as a percentage of federal means-tested spending is relatively constant. However, the federal stimulus bill—the American Recovery and Reinvestment Act of 2009[26]—contained provisions intended to allow states to slow the growth of state-funded welfare expenditures over the next two years.

Specifically, the act temporarily increased the federal share of total Medicaid spending known as the Federal Medical Assistance Percentage (FMAP). This provision was intended to relieve general pressure on state budgets by permitting the states to spend proportionately less on Medicaid while the federal government spends more. The stimulus bill allocated $77 billion to raising the FMAP in FY 2009 and FY 2010.[27] Assuming that states use the full $77 billion in the FMAP increase to replace state Medicaid spending that otherwise would have occurred, state Medicaid spending over the two-year period is likely to remain flat or decline. (For a further explanation of estimates of Medicaid spending during this period, see Appendix B.)

Chart 14 shows the increase in combined federal and state welfare spending, assuming that states use the entire FMAP increase to offset state Medicaid funding. Total state welfare spending was $192 billion in FY 2008. It will likely decline to $170 billion in FY 2009 and will probably rebound to around $193 billion in FY 2010.

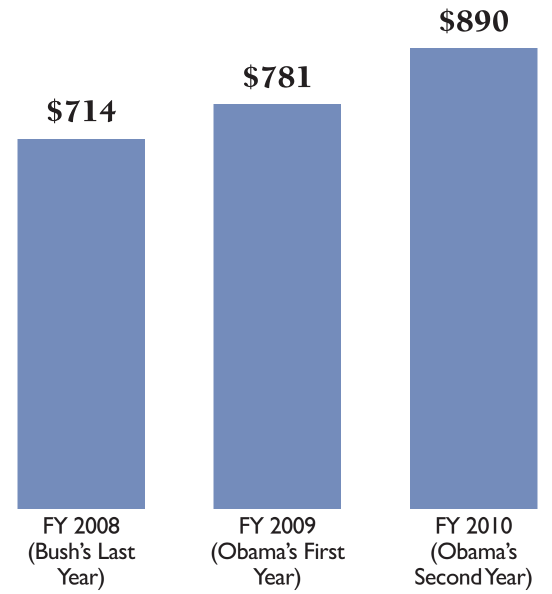
Despite the flatness in state spending, the increase in federal spending will be so great that combined federal and state spending will still increase dramatically. Combined federal and state means-tested spending will reach $890 billion in FY 2010, up from $714 billion in FY 2008. The increase of $176 billion in annual spending is nearly twice

26. Public Law 111–5.

27. The act allocates roughly another $10 billion to maintaining an increased FMAP in the first quarter of FY 2011.

**Federal and State Welfare During Obama's First Two Years**

Combined Federal and State Means-Tested Welfare Expenditures, in Billions of Current Dollars

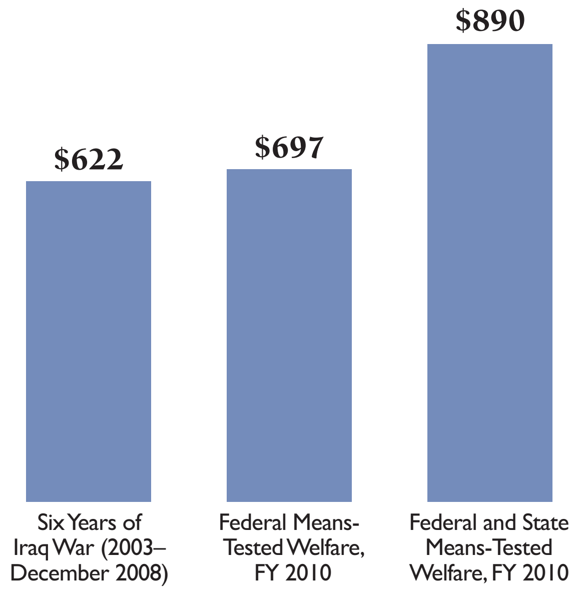



**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 14 • SR 67 heritage.org

**Obama Will Spend More on Welfare in One Year Than Bush Spent on Iraq War During His Entire Presidency**

Spending in Billions of Current Dollars




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 15 • SR 67 heritage.org

that of any previous increase after adjusting for inflation. The increase in combined annual spending equals roughly 1.1 percent of GDP.

## Obama's Welfare Spending Compared to the Cost of the Iraq War

Liberals habitually lament the unsustainable cost of the Iraq war, but under President Obama, government will spend more on welfare in a single year than President Bush spent on the Iraq war during his entire presidency. According to the Congressional Research Service, the cost of the Iraq war through the end of the Bush Administration was around $622 billion.[28] By contrast, annual federal and state means-tested welfare spending will reach $890 billion in FY 2010. Federal welfare spending alone will equal $697 billion in that year.

This is an important point because, while campaigning for the presidency, Obama asserted that the cost of the war in Iraq had taken a "toll" on "our economy," undermining our prosperity, ballooning "our national debt," and thereby placing "an unfair burden on our children and grandchildren who will have to pay for it." Obama further claimed that "the war in Iraq is costing each household about $100 per month."[29]

28. According to the Congressional Research Service, spending on the Iraq war through the end of FY 2008 was $590.5 billion. FY 2008 ended on September 30, 2008. Additional spending during the last three months of 2008 and January 2009 was around $31 billion. Thus, total spending through the end of the Bush presidency would have been $621.5 billion. Total spending through the end of FY 2009 will be $684 billion. See Amy Belasco, "The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11," Congressional Research Service *Report for Congress*, May 15, 2009, p. 9, Table 2, at *http://assets.opencrs.com/rpts/RL33110_20090515.pdf* (August 27, 2009).

29. Barack Obama, "Obama's Speech on the Cost of War," speech in Charleston, West Virginia, March 20, 2008, at *http://www.cfr.org/publication/15782* (August 27, 2009).

Applying the same calculation to federal and state means-tested welfare spending reveals that welfare will cost each household $560 per month in 2009 and $638 per month in 2010.[30] If the cost of the Iraq war undermined "our economy" and placed "an unfair burden on our children" as Obama claimed, what are we to conclude about the far greater spending on the welfare state?

## Obama's Plan for Long-Term Welfare Spending

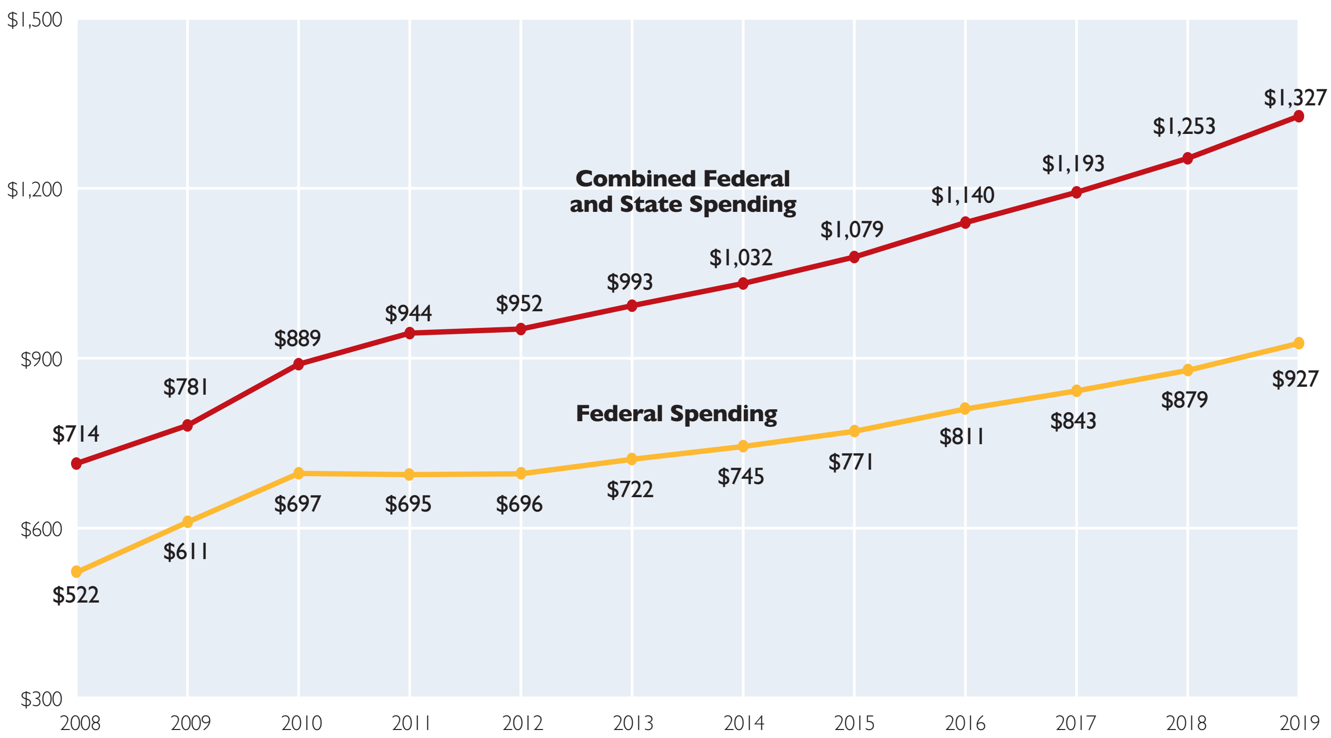
Some might assume that the extremely high welfare spending levels in FY 2009 and FY 2010 are intended to be a temporary response to the current recession and that, after the downturn ends, spending will fall back to pre-recession levels. President Obama's budget shows otherwise. Most of the spending increases sought by Obama are permanent. True, the enhanced federal matching rate in Medicaid will expire in 2011, but while federal Medicaid spending drops, spending in other programs will rise.

As a result, total federal means-tested spending will not fall significantly after 2010. Moreover, as the federal share of Medicaid spending falls in 2011, state spending must increase substantially.

As Chart 16 shows, combined federal and state welfare spending will increase steadily each year after 2010. By 2014, welfare spending will exceed $1 trillion per year.[31] By the end of the decade, in 2018, annual spending will

## Projected Means-Tested Welfare Spending

In Billions of Current Dollars




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 16 • SR 67 heritage.org

30. The figures assume that there are 116 million U.S. households. Both the Obama estimate of $100 per month per household on the Iraq war and the similar estimates on welfare are useful in illustrating spending levels. However, these figures, which are derived by dividing total spending by total households, do not reflect the actual taxes paid by the average household on these functions because a heavily disproportionate share of all taxes is paid by higher-income households.

hit $1.3 trillion. Total federal and state means-tested welfare spending over the next decade (2009 to 2018) will equal $10.3 trillion. Federal spending will come to $7.5 trillion, and state spending will add another $2.8 trillion. The sum of $10.3 trillion is equal to $250,000 for each person currently living in poverty in the U.S.

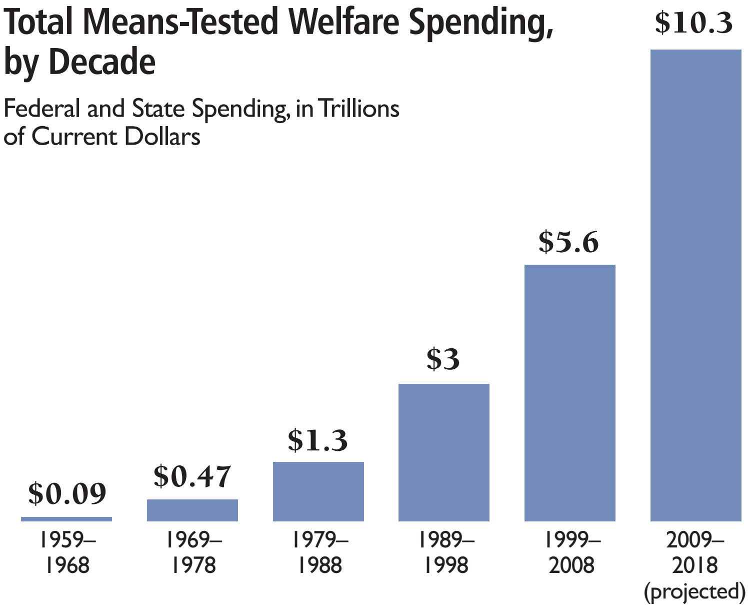
Most of the spending figures used in this estimation of future spending were taken directly from White House budget documents.[32] The future spending figures do not include any costs of the health care reform currently being debated in Congress. Projected spending for each federal means-tested program is presented in Appendix D. State spending was calculated as a percentage of federal spending based on current funding formulae and historic norms. Details on the estimation procedures are presented in Appendix B.

Chart 17 shows combined federal and state means-tested welfare spending by decade. As noted, under Obama's plans, welfare spending will equal $10.3 trillion over the next decade (2009 to 2018). This sum is $4.8 trillion higher that total spending in the previous decade (1999 to 2008). Obama's planned welfare spending in the next decade will be $7 trillion more than spending in the decade 1989–1998 when George H. W. Bush and Bill Clinton were in the Oval Office. It will be $9 trillion higher than the period when Reagan was President.

Of course, part of this increase can be explained by inflation. Chart 18 shows total welfare spending by decade with all figures adjusted for inflation into constant 2008 dollars. Measured in constant 2008 dollars, welfare spending in the coming decade will still be $8.8 trillion. This is 42 percent more or $2.6 trillion

**Total Means-Tested Welfare Spending, by Decade**

Federal and State Spending, in Trillions of Current Dollars

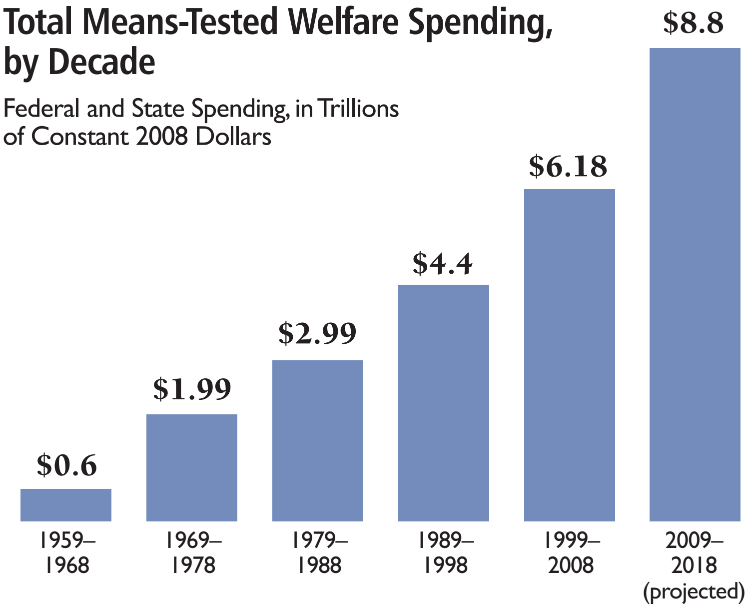



**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 17 • SR 67 heritage.org

**Total Means-Tested Welfare Spending, by Decade**

Federal and State Spending, in Trillions of Constant 2008 Dollars




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 18 • SR 67 heritage.org

31. Most state welfare spending is set at a fixed percentage of federal spending on specific programs. This allows state welfare spending to be estimated based on the federal budget for welfare programs.

32. Out-year spending figures were taken from U.S. Office of Management and Budget, *Analytical Perspectives: Budget of the U.S. Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office, 2008), CD-ROM, Table 24-14, at *http://www.whitehouse.gov/omb/budget/Analytical_Perspectives* (August 27, 2009).

higher than spending in the previous decade. Adjusting for inflation, total welfare spending in the next decade will be twice the spending in the decade when George H. W. Bush and Bill Clinton were in the Oval Office (1989 to 1998).

A large portion of the $10.3 trillion in means-tested spending over the next decade will come from increases in government borrowing and expansions of the national debt. Obama's budget plans call for regular federal deficits in excess of $500 billion per year even after the end of the current recession.

Obama proposes to add some $9 trillion to the national debt over the next decade, raising the debt from 37 percent of GDP in 2008 to a shocking 60 percent of GDP in 2018.[33] The bottom line is that Obama's strategy to expand welfare and "spread the wealth" today will be financed by placing an ever-larger debt burden on future generations.

## Future Welfare Spending Compared to Social Security and Medicare

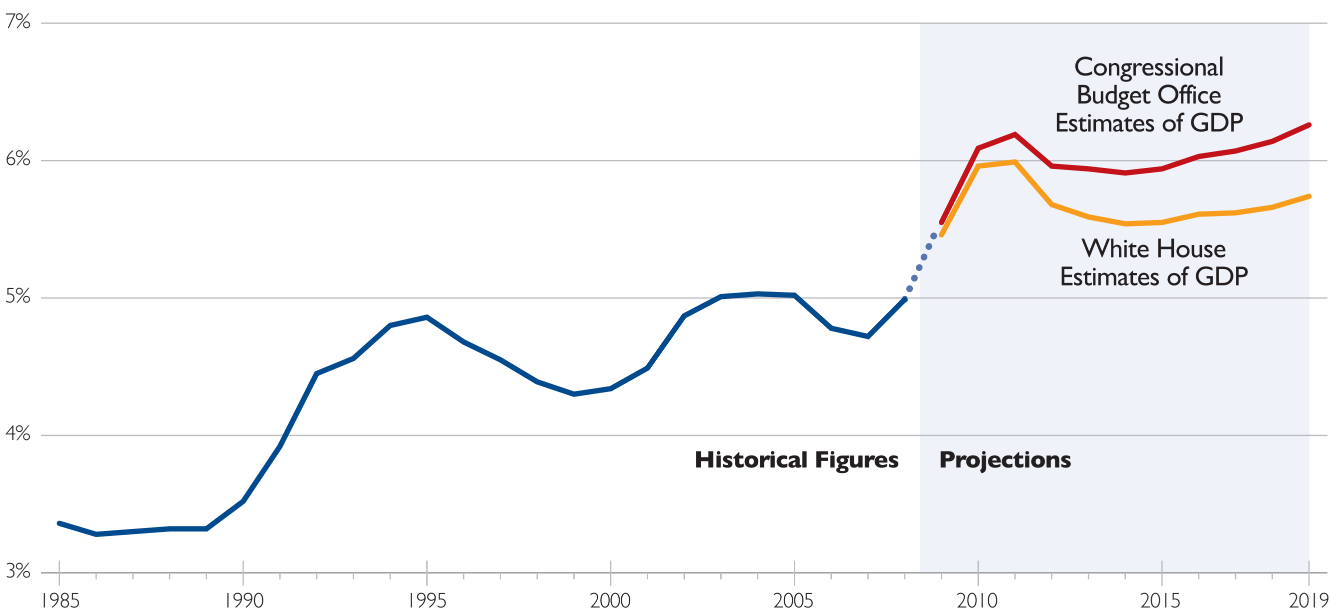
Although the public is aware that Social Security and Medicare spending will rise rapidly in the next decade, few realize that means-tested welfare or aid to the poor will rise almost as rapidly.[34] Federal and state means-tested welfare spending was 71 percent of combined Social Security and Medicare expenditures in 2008 and will be 68 percent in 2018. Federal means-tested welfare spending was 52 percent of combined Social Security and Medicare spending in 2008 and will be 47 percent in 2018.

## Future Welfare Spending as a Share of GDP

Chart 19 shows projected welfare spending as a percentage of GDP. This chart underscores the fact that Obama is proposing a massive permanent increase in the welfare state, not a temporary boost in welfare spending in

### Welfare Spending as a Percentage of Gross Domestic Product

Historical and Projected




**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 19 • SR 67 heritage.org

33. U.S. Office of Management and Budget, *Updated Summary Tables: Budget of the U.S. Government, Fiscal Year 2010*, (Washington, D.C.: U.S. Government Printing Office, 2009), p. 3, Table S-1. The debt figures are for the federal debt net of financial assets.

response to the present recession. When Ronald Reagan left office 20 years ago, welfare spending was 3.3 percent of GDP. By the time George W. Bush was elected President, welfare spending had risen to 4.3 percent of GDP; when he left office, it was 5.0 percent.

President Obama's welfare spending plans would ratchet this percentage upward permanently. Based on projected GDP figures issued by the Congressional Budget Office (CBO), means-tested welfare would remain near or above 6 percent of GDP over the next decade. Even based on the White House GDP estimates for the next 10 years (which are generally regarded as optimistic), total welfare spending would remain about 5.75 percent of GDP for the next decade.[35]

To be fair, President Obama clearly did not create a $10.3 trillion welfare state from scratch. He inherited a very large welfare system that had been growing rapidly for decades. Prior to the Obama Administration, welfare spending was already at record levels. Simply extending the spending level from Bush's last year (FY 2008) for 10 years would cost around $7 trillion. Adjusting benefits for inflation would cost another $1 billion over 10 years, and automatic expansions in welfare entitlements such as Medicaid would push spending even higher.

Nonetheless, having inherited a vast and rapidly growing welfare system, Obama has not sought to slow spending growth. Facing massive federal deficits stretching far into the future, Obama has instead quickly piled on new layers of spending. In a mere six months, Obama has authorized or requested some $637 billion in new means-tested spending. This includes $220 billion in the stimulus bill, $66 billion to expand the State Children's Health Insurance Program (SCHIP), and another $387 billion in new spending in his proposed FY 2010 budget.[36]

Moreover, these projected spending figures do not include the massive increases in health care spending currently being debated in Congress, which could add $500 billion or more in new means-tested spending. The spending projections presented in this paper also assume that President Obama and Congress will not enact any additional increases in welfare programs over the next 10 years. This seems highly improbable. In reality, welfare spending or aid to the poor over the next decade is likely to be considerably more than $10.3 trillion.

## "Slashing" Spending on the Poor: The Perpetual Myth

Since the beginning of the War on Poverty, spending on the poor has increased 13-fold after adjusting for inflation. Yet throughout the steady 40-year climb in welfare spending, the Left has perpetually and shrilly claimed the opposite: that spending on the poor has been "slashed." A typical example of this occurred during the most recent presidential election cycle when candidate Barack Obama angrily proclaimed that "George Bush spent the last six years slashing programs to combat poverty."[37]

This charge was remarkable given that total annual means-tested spending actually increased by 68 percent under President Bush. Not only did total spending increase, but virtually every category of welfare aid increased dramatically: Cash spending grew by 67 percent, medical spending by 72 percent, food spending by 89 percent, housing by 34 percent, energy by 76 percent, targeted education by 50 percent, child development by 52 percent, and community development by 50 percent.[38] Of the nine categories of means-tested spending, eight increased dramatically. Only job training spending, which comprises 1 percent of total welfare, did not increase.

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34. From the beginning of the War on Poverty to the present, means-tested welfare spending has grown more rapidly than the combined cost of Social Security and Medicare. However, in the next decade, this situation is likely to reverse: Social Security and Medicare may grow slightly faster than welfare.
35. CBO and White House GDP projections were taken from U.S. Office of Management and Budget, *Updated Summary Tables*, p. 30, Table S-13.
36. All figures are 10-year totals.
37. Barack Obama, "Changing the Odds for Urban America," speech in Washington, D.C., July 18, 2007, at *http://www.barackobama.com/2007/07/18/remarks_of_senator_barack_obam_19.php* (August 27, 2009).
38. All figures refer to combined federal and state spending between FY 2000 and FY 2008 in current dollars. Since candidate Obama was speaking in 2007, one might infer that he was commenting on FY 2006 spending levels. Perhaps spending was dramatically lower in 2006. Examining spending changes between 2000 and 2006 reveals a pattern nearly the same as the pattern presented in the main text: Overall spending increased by half, and every sub-category of spending except training and community development increased substantially faster than inflation.

After adjusting for inflation, total means-tested spending increased by 35 percent under President Bush. Cash, food, and housing grew by one-third. Although Obama's remarks were demonstrably false, he was never challenged by the press.[39]

Obama's charges of "slashing" spending on the poor are symptomatic of the historic debate over welfare. Throughout the 40-year history of the War on Poverty, the Left has routinely charged that spending on the poor was being cut when, in reality, expenditures were climbing steadily to record levels. One oft-repeated ploy is to find one small program where spending has been recently trimmed and then to denounce the cuts as evidence that overall spending on the poor is going down while conveniently ignoring the fact that spending in the other 70 means-tested programs is growing rapidly. The mainstream press generally amplifies this type of charge without challenge.

Throughout the War on Poverty, the mainstream press has treated spending on the poor as privileged and largely immune to criticism. Proposals to shave a minute fraction of spending growth off of a single program, such as school lunch subsidies, have been met with a firestorm of media attention, but massive ongoing expansions in welfare overall are seldom, if ever, reported. As a result, means-tested aid has risen from 1.2 percent of GDP to 5.0 percent with virtually no public awareness or debate.

## The Budgetary Jigsaw Puzzle

Nearly all policymakers are aware that Social Security and Medicare are very large, expensive programs that have grown rapidly for decades. Very few policymakers are aware that these expenditure behemoths have a "junior cousin" that costs around one-fourth less than they do.

That junior cousin is means-tested welfare or aid to the poor. Virtually no one is aware that means-tested welfare, allegedly the victim of innumerable budgetary cutbacks, has grown more rapidly than the combined cost of Social Security and Medicare.[40]

The high costs of Social Security and Medicare are well known, in part because government budget documents always present them as two major and unavoidable spending line items.[41] On the other hand, the means-tested welfare system is largely invisible, appearing as 71 different programs scattered within 17 budget functions in hundreds of pages of budgetary fine print, and state matching spending on federal programs is completely omitted.

From a budgetary perspective, accounting for means-tested welfare is like trying to complete a 71-piece jigsaw puzzle with most of the pieces hidden throughout the house and some missing altogether. Typical discussions of anti-poverty policy examine one or two pieces in detail while ignoring the other 69. As long as one looks at only one piece of the puzzle at a time, it is easy to conclude that spending is meager and needs are unmet. However, if all of the pieces are assembled, a different picture may emerge.

Advocates of a larger welfare state are usually critical of assembling the jigsaw puzzle: counting the real aggregate cost of welfare. To some extent, they have a point: Different programs have different purposes. A hungry parent cannot eat a Medicaid benefit. On the other hand, cash, food, and housing benefits are largely fungible. Moreover, from a broader budgetary perspective, all spending decisions involve trade-offs. Money spent on expanding health care for the near poor cannot be spent on job training.

In fairness, advocates should at least acknowledge that anti-poverty spending is growing very rapidly in one area before lambasting "shortfalls" in another. Ultimately, opposition to discussing the aggregate cost of aid to the poor is a matter of political expediency. As long as current spending is largely hidden, it becomes easier to make the perpetual pitch for spending more.

39. In the same speech, Obama made the remarkable charge that "one in every eight Americans now lives in poverty, a rate that has nearly doubled since 1980." In fact, 13 percent of Americans were poor in 1980. In 2007, the figure was 12.5 percent. In 1980, 29.2 million Americans were poor. In 2007, the number was 37.2 million.

40. Since the mid-1960s, means-tested cash, food, and housing have grown faster than Social Security, and means-tested medical care has grown as fast as Medicare.

41. Social Security is presented in the federal budget as a single separate function code (651). Medicare is also a single function code (571).

Recognizing the current high cost of government welfare does not mean that government should never create new anti-poverty programs. This is especially true since the current programs do not work very well. It does mean that there must be an effort to set priorities, limit waste, improve efficiency, reduce dependence, and slow the growth of future spending.

## The War on Poverty in Historical Context

When Lyndon Johnson launched the War on Poverty, he declared that his war would strike "at the causes, not just the consequences of poverty."[42] He added, "Our aim is not only to relieve the symptoms of poverty, but to cure it and, above all, to prevent it."[43]

Thus, President Johnson was not proposing a massive system of ever-increasing welfare handouts distributed to an ever-enlarging population of beneficiaries. Instead, Johnson was seeking to increase prosperous self-sufficiency among the poor. His ostensible goal was not a massive new government dole system, but an increase in self-sufficiency: a new generation capable of supporting themselves out of poverty without government handouts.

The U.S. has spent $15.9 trillion on welfare since President Johnson launched the War on Poverty. Over time, the material living conditions of the poor have improved. It would be impossible to spend nearly $16 trillion without any positive impact on living conditions. However, in terms of reducing the causes rather than the consequences of poverty, the War on Poverty has failed utterly. The situation has gotten worse. A significant portion of the population is now less capable of prosperous self-sufficiency than it was when the War on Poverty began.

A major element in the declining capacity for self-support is the collapse of marriage in low-income communities. As the War on Poverty expanded benefits, welfare began to serve as a substitute for a husband in the home, and low-income marriage began to disappear. As noted earlier, when Johnson launched the War on Poverty, 7 percent of American children were born out of wedlock. Today, the number is 39 percent. As husbands left the home, the need for more welfare to support single mothers increased. The War on Poverty created a destructive feedback loop: Welfare promoted the decline of marriage, which generated a need for more welfare.

Today, out-of-wedlock childbearing (and the resulting growth of single-parent homes) is the single most important cause of child poverty. (Out-of-wedlock childbearing is not the same thing as teen pregnancy. The overwhelming majority of non-marital births occur to young adult women in their early twenties, not to teenagers in high school.) If poor women who give birth outside of marriage were married to the fathers of their children, two-thirds would immediately be lifted out of poverty.[44] Roughly 80 percent of all long-term poverty occurs in single-parent homes.[45]

Despite the dominant role of the decline of marriage in child poverty, it is taboo to raise the issue in most anti-poverty discussions. Out-of-wedlock childbearing is rarely mentioned in the press. Far from seeking to reduce the main cause of child poverty, the welfare state cannot even acknowledge its existence.

The second major cause of child poverty is lack of parental work. Even in good economic times, the average poor family with children has only 800 hours of parental work per year. This is the equivalent of one adult working 16 hours per week. The math is fairly simple: Little work equals little income, which equals poverty. If the amount of work performed in poor families with children was increased to the equivalent of one adult working full-time through the year, the poverty rate among these families would drop by two-thirds.[46]

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42. Lyndon B. Johnson, "Proposal for a Nationwide War on the Sources of Poverty," March 16, 1964, at *http://www.fordham.edu/halsall/mod/1964johnson-warpoverty.html* (August 27, 2009).
43. Lyndon B. Johnson, "Annual Message to the Congress on the State of the Union," January 8, 1964, at *http://www.presidency.ucsb.edu/ws/index.php?pid=26787* (August 27, 2009).
44. 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, at *http://www.heritage.org/Research/Family/cda0306.cfm*.
45. Patrick Fagan, Robert Rector, Kirk Johnson, and America Peterson, "The Positive Effects of Marriage: A Book of Charts," The Heritage Foundation, April 2002, at *http://www.heritage.org/research/features/marriage/upload/48119_1.pdf*.

Welfare reform in the mid-1990s focused attention, very briefly, on work. Federal work requirements were established in the Temporary Assistance for Needy Families program, which replaced the old Aid to Families with Dependent Children (AFDC) program. The new rules required a portion of able-bodied TANF recipients to work or prepare for work and strongly encouraged a decrease in welfare caseloads. In response, caseloads plummeted, employment of single mothers surged, and child poverty dropped substantially for the first time in decades. The growth of overall welfare spending slowed a bit.

However, welfare reform was always more limited than is generally understood. Work requirements were established in only one of 70 means-tested programs, and even in the TANF program, many recipients were unaffected. Moreover, due to technicalities in the construction of the law, the federal work standards that had driven the caseload reduction lost force by around 2000.

For the next few years, liberals in the Senate tenaciously blocked the reinstatement of federal work standards. In the absence of external pressure, most state welfare bureaucracies lapsed into their traditional role as check-writing agencies. Always limited, welfare reform is quite dead today, and Congress is busy nailing down the coffin lid. Even discussion of the eroded work ethic and its role in poverty has largely ended.

The War on Poverty has become detached from reality. Current political discourse refuses to recognize or even mention the principal causes of poverty: the lack of work and the decline of marriage.[47] To acknowledge those issues would be to "blame the victim." Instead, political correctness insists that the principal cause of poverty is the unwillingness of taxpayers to increase welfare and education spending. Despite massive increases in government spending in these fields for decades, no sum is ever adequate. Spending must always be increased with no end in sight.

The original goal of the War on Poverty, as stated by President Johnson, was to reduce both poverty and dependence on government. That goal has now been abandoned. The new goal is simply to "spread the wealth" for its own sake. The mechanism to accomplish this is a substantial ongoing expansion of means-tested welfare.

To spread the wealth, the array of welfare benefits and the number of recipients must steadily increase, and welfare as a share of the economy must rise. Occasional lip service will still be paid to reducing government dependence, but, ironically, this concept almost always appears as a justification for new government spending. The War on Poverty has now become a system of permanent income redistribution, which will only increase over time.

## Controlling Future Welfare Costs

Taxpayer resources are limited. The desire to increase any type of government spending must be weighed against other spending priorities, the health of the economy, and the right of taxpayers to benefit from the income that they have produced through work and investment.

Proposed future increases in means-tested welfare spending should begin with an honest and accurate accounting of current government spending on behalf of poor and lower-income persons. Such an accounting is completely absent in current political discourse. As this paper has shown, means-tested welfare spending is far greater than most imagine and is projected to grow rapidly.

With projected spending in excess of $10 trillion, decision makers should explore ways to slow the growth of future spending. At a minimum, government should take the following nine steps:

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46. Robert E. Rector and Rea S. Hederman, Jr., "The Role of Parental Work in Child Poverty," Heritage Foundation *Center for Data Analysis Report* No. CDA 03–01, January 29, 2003, at *http://www.heritage.org/Research/Family/cda-03-01.cfm*.

47. For an example of the aversion to even discussing the role of work and marriage in poverty, see hearing, *Leave No Family Behind: How Can We Reduce the Rising Number of American Families Living in Poverty?* Joint Economic Committee, U.S. Congress, 110th Cong., 2nd Sess., September 25, 2008, at *http://www.jec.senate.gov/index.cfm?FuseAction=Hearings.HearingsCalendar&ContentRecord_id=963f5a18-d753-62b1-c690-0ad3cae36db9* (August 27, 2009).

### Step #1: Provide accurate information on means-tested spending in the annual budget.

Government budgeting involves making choices among competing priorities. It is impossible to make rational decisions concerning spending on behalf of the poor without readily available information on current spending levels. Such information is not currently available.

Congress should require the President to include supplemental information in the Administration's annual budget submissions, detailing current and future aggregate federal means-tested spending. The budget should also provide estimates of state contributions to federal welfare programs.

### Step #2: Avoid unnecessary expansions of the welfare state.

President Obama's budget proposals include creating the Making Work Pay tax credit, a permanent new refundable tax credit. The refundable portion of this credit, which will provide $400 in cash aid per adult to individuals who owe no income tax, will cost $20 billion per year. The 10-year cost will be around $200 billion.

This new refundable tax credit marks a unique and dramatic expansion of the welfare state. For the first time, the federal government will give substantial cash aid to able-bodied adults without dependent children. Lacking dependents, these individuals have no particular need for welfare assistance. The credit represents an exercise in "spreading the wealth" for its own sake. It seems particularly unwise to burden future generations with increased debt in order to expand the welfare state in this manner. This permanent refundable credit should not be created.

### Step #3: Reduce low-skill immigration.

High and disproportionate numbers of both legal and illegal immigrants have low levels of education. For example, one-third of current immigrants lack a high school degree.[48] Around 15 percent ($100 billion per year) of total means-tested welfare spending goes to households headed by immigrants with a high school degree or less.[49] Assuming that this ratio remains similar in the future, lower-skill immigrants will receive around $1.5 trillion in welfare benefits in the next decade.

The United States offers enormous economic opportunities and societal benefits. Hundreds of millions more people would immigrate into the United States if they had the opportunity. Given this context, the U.S. must be selective in its immigration policy. Policymakers must ensure that the interaction of welfare and other financial transfer programs with immigration does not expand the fiscally dependent population, thereby imposing large costs on American society.

Current immigration policies with respect to both legal and illegal immigration encourage the entry of a disproportionate number of poorly educated immigrants into the U.S. As these low-skill immigrants (both legal and illegal) take up residence, they impose a substantial tax burden on U.S. taxpayers. In general, government policy should limit immigration to those who will be net fiscal contributors, avoiding those who will increase poverty and impose new costs on already overburdened U.S. taxpayers.[50]

Low-skill immigration is problematic in a society with a modern welfare state. As the education level of native-born U.S. citizens gradually rises, there is a tendency, *ceteris paribus*, for welfare dependence to decline. However, massive low-skill immigration works in the opposite direction, replenishing welfare rolls and adding to costs. In addition, high levels of low-skill immigration tend to suppress the wages of less-skilled American workers, thereby adding to welfare costs within that group.

Some might argue that low-skill immigrants pay taxes that offset their welfare costs. In reality, the aggregate government benefits received by these individuals greatly exceed the total taxes they pay.[51] Similarly, some might argue

48. Robert Rector, "Importing Poverty: Immigration and Poverty in the United States: A Book of Charts," Heritage Foundation *Special Report* No. 9, October 25, 2006, at *http://www.heritage.org/Research/Immigration/SR9.cfm*.
49. This is based on receipt of means-tested benefits as reported in the Census Current Population Survey. This survey contains a large amount of data on receipt of means-tested aid that are not presented in conventional Census reports on poverty and inequality.
50. Robert E. Rector and Christine Kim, "The Fiscal Cost of Low-Skill Immigrants to the U.S. Taxpayer," Heritage Foundation *Special Report* No. 14, May 22, 2007, p. 22, at *http://www.heritage.org/Research/Immigration/sr14.cfm*.

that the net taxes paid by higher-skill immigrants are sufficient to pay for the fiscal costs of lower-skill immigrants and, therefore, that lower-skill immigration is justifiable because immigration as a whole imposes no net cost to taxpayers. Even if this accounting were true, it does not necessarily provide a logical case for promoting massive low-skill immigration. In the absence of low-skill immigrants, the net taxes paid by higher-skill immigrants could be used for other important social purposes, such as increasing solvency in Social Security, reducing the national debt, or strengthening national defense.

Finally, some might argue that the proper response would be to restrict immigrant access to welfare. This approach to controlling costs has been shown to be impractical. In the mid-1990s, Congress limited the eligibility of lawful immigrants for most welfare programs during the first five years that they resided in the U.S., but this had little effect on overall immigrant receipt of welfare. Delaying the eligibility of immigrants has little overall fiscal impact because welfare use is usually spread over a lifetime, and children born in the U.S. to legal or illegal immigrants are deemed U.S. citizens and are therefore automatically eligible for the full range of welfare programs. Overall, the prospect of importing vast numbers of low-skill immigrants into the U.S.—who would live perpetually near or below the poverty level but be ineligible for welfare—is politically untenable.

Curtailing the inflow of lower-skill immigrants into the U.S. through both legal and illegal channels is critical to slowing the growth of future welfare spending. Current immigration practices, both legal and illegal, operate like a system of transnational welfare outreach, bringing millions of fiscally dependent individuals to the U.S. This policy needs to be changed. U.S. immigration policy should encourage high-skill immigration and limit low-skill immigration. In general, government policy should limit immigration to those who will be net fiscal contributors, avoiding those who will increase poverty and impose new costs on overburdened U.S. taxpayers.[52]

Most lawful low-skill immigrants gain permanent residence through kinship preferences within the legal immigration law. In particular, the visa lottery and visa preferences for adult brothers, sisters, and parents tend to bring a high proportion of low-skill immigrants into the U.S., creating a fiscal burden for U.S. taxpayers. The visa lottery and all preferences for brothers, sisters, parents, and relatives other than spouses and minor children should be eliminated.[53]

Illegal immigration, which is overwhelmingly low-skill, should be curtailed by enforcing the law against hiring illegal immigrants. This law, which has been on the books for over 20 years, has never been enforced. The government should enforce it by moving toward requiring all employers to check employees through the E-Verify system.[54]

### Step #4: Do not grant amnesty to illegal immigrants.

An estimated 11 million to 12 million illegal immigrants reside in the United States. Except for medical care provided in emergency rooms, these individuals are not eligible for federal welfare benefits. Amnesty proposals, however, would offer permanent residence and citizenship to illegal immigrants, thereby opening the entire welfare system to them. Once an immigrant becomes a citizen, it is unconstitutional to deny him eligibility to receive government benefits that are available to all other citizens.

Given that 50 percent to 60 percent of illegal immigrants lack a high school degree, the long-term cost of providing means-tested welfare to this group would be enormous. Amnesty proposals may delay some of these costs by imposing waiting periods before the amnesty recipient can become eligible for welfare benefits or become a citizen, but welfare use is typically spread over a lifetime, so such delays would not greatly reduce total welfare costs. In addition, upon becoming citizens, these former illegal immigrants would have the right to bring their parents to the U.S. as lawful immigrants. Once here, their parents would likely receive large amounts of welfare aid.

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51. *Ibid.*
52. *Ibid.*, p. 22.
53. *Ibid.*
54. Robert Rector, "Reducing Illegal Immigration Through Employment Verification, Enforcement, and Protection," Heritage Foundation *Backgrounder* No. 2192, October 7, 2008, at *http://www.heritage.org/Research/Immigration/bg2192.cfm*.

Finally, all amnesty proposals provide illegal immigrants with full access to Social Security and Medicare benefits, which would greatly expand future costs in these two non-welfare programs. Providing amnesty would result in some $2.6 trillion in extra spending in Social Security and Medicare alone.[55]

### Step #5: Require able-bodied, non-elderly welfare recipients to work or to prepare for work as a condition of receiving aid.

The welfare reform law of 1996 replaced the Aid to Families with Dependent Children program with Temporary Assistance for Needy Families. At the heart of this reform were federal work rules that required state welfare bureaucracies to reduce TANF caseloads or place a certain portion of TANF recipients into work-related activities. In the first three or four years after the reform was enacted, these rules promoted a sharp increase in employment, a dramatic drop in TANF caseloads, and a historic decline in child poverty. In addition, TANF expenditures did not increase automatically under the reform law as they had with AFDC, but instead were fixed at the 1996 level.

While welfare reform was initially successful, it was always far more limited than generally understood. As noted previously, out of some 70 federal means-tested aid programs, only AFDC was really altered. The other programs remained virtually unchanged. Moreover, even in the new TANF program, the reform principle of requiring work and reducing welfare caseloads has been almost completely abandoned.

The driving motor behind reform was the federal work standards. Regrettably, due to technicalities in the crafting of the law, these standards lost force over time. Liberals in Congress and outside pressure groups blocked their restoration. In the absence of federal pressure, most state bureaucracies abandoned the challenge of requiring work and reverted to old-style check-writing operations.

Work requirements should be restored in TANF, and similar provisions should be added to various other aid programs, such as food stamps and public housing. Such changes would have a positive impact in increasing employment. They could also have a marginal impact in reducing the growth of overall welfare spending.

### Step #6: Strengthen marriage, especially in low-income communities.

The decline in marriage and the growth of out-of-wedlock childbearing have played a predominant role in the level of child poverty and the growth of welfare spending over the past half-century. Most welfare spending for children goes to single-parent families. In 2008, single parents with children received about $280 billion, or 40 percent of overall means-tested aid.

Regrettably, despite the predominant role of out-of-wedlock childbirth in child poverty and welfare dependence, it has been largely taboo for decades even to mention the phenomenon in anti-poverty discussions, much less to develop serious policies to reduce it. Ironically, low-income single mothers are not hostile to marriage, but they no longer regard it as important to be married or in a committed relationship before having a child.

To strengthen marriage, new policies should offer young women with a high potential for non-marital childbearing opportunities to engage in voluntary education programs involving relationships and life-goals planning and reduce the penalties against marriage that are embedded in most means-tested programs.[56]

### Step #7: Limit Medicaid and SCHIP spending by prohibiting crowding out.

Crowding out occurs when an individual who has the option of receiving employer-provided health insurance instead chooses to enroll in Medicaid or SCHIP. Such individuals may choose government health care over private coverage because of lower co-payments or broader coverage. Obviously, crowding out leads to greater costs for the taxpayer.

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55. Robert Rector, "Amnesty Will Cost U.S. Taxpayers at Least $2.6 Trillion," Heritage Foundation *WebMemo* No. 1490, June 6, 2007, at *http://www.heritage.org/Research/Immigration/wm1490.cfm*.
56. Robert Rector, "Reducing Poverty by Revitalizing Marriage in Low-Income Communities: A Memo to President-Elect Obama," Heritage Foundation *Special Report* No. 45, January 13, 2009, at *http://www.heritage.org/Research/Family/sr0045.cfm*.

Federal law should be changed to prohibit such crowding out. Individuals who have the option of receiving employer-provided health insurance for themselves or their children should not be permitted to enroll in Medicaid or SCHIP.

### Step #8: Replace Medicaid for families with children with a medical voucher system.

Medicaid and State Children's Health Insurance Program spending on families with children equals roughly $10,000 for each such family with an income below 200 percent of poverty. Medicaid is an extremely inefficient program that provides limited access to care at very high cost to taxpayers. Neither beneficiaries nor state governments have strong incentives to use federal Medicaid funds wisely.

Medicaid for families with children, SCHIP, and the Disproportionate Share Hospital (DSH) program should be replaced with a medical voucher system for families with children with incomes below 200 percent of poverty who do not have private coverage. The voucher would have a graduated value that decreases as family income increases. Families could use the voucher to purchase private health insurance from any provider, including all of those that participate in the Federal Employees Health Benefits Program (FEHBP).

Converting Medicaid to vouchers in this manner would enable the government to provide better-quality care to more low-income families at a lower cost. Families would benefit from continuity of care, increased access to providers, and portability.

### Step #9: Cap federal Medicaid expenditures on long-term care and emphasize home-based services.

Medicaid spends over $100 billion per year on long-term care for poor persons. Most of this funding goes for care in nursing homes. The fact that state expenditures for long-term care are matched by federal funds decreases state incentives for financial efficiency in this field.

State government should be given primary responsibility for long-term care for the poor, and open-ended federal entitlement funding for these services should be ended. Future federal Medicaid funding for long-term care should be fixed at current levels plus an increase for inflation. This would create a stronger incentive for states to shift to more cost-effective and consumer-directed forms of care, especially home-based services.

Long-term care should be viewed not only as health care, but also as a fundamental issue of personal dignity and liberty. Proper community supports will help individuals achieve their goals of independence and securing employment.

## Conclusion

Government spends considerable sums on means-tested welfare or aid to the poor. In FY 2008, federal and state governments spent $714 billion providing cash, food, housing, medical care, and various social services to poor and lower-income Americans. One dollar in seven in total government spending is now devoted to welfare assistance. Means-tested welfare aid has increased steadily over time. When the War on Poverty began in the mid-1960s, 1.2 percent of GDP was devoted to welfare. Today, the figure is 5 percent.

Means-tested welfare spending nearly rivals the combined cost of Social Security and Medicare. For every dollar spent on those two programs, 70 cents is spent on means-tested welfare.

Since the beginning of the War on Poverty, welfare spending has grown more rapidly than Social Security and Medicare. While the large costs associated with those two programs are widely recognized, the cost of means-tested welfare is poorly understood. In part, this is because Social Security and Medicare appear as two simple line items or budget functions in every federal budget document. By contrast, means-tested welfare spending is spread through 13 government departments and agencies, 17 budget functions, and 71 separate programs. In addition, a large chunk of welfare spending consists of required state contributions to federal welfare programs, and this state spending never appears in any federal budget document.

President Obama inherited a welfare system in which spending was already at record levels and growing rapidly. Obama's response has been to continue the permanent enlargement of the system. According to the President's budget plans, means-tested welfare is likely to equal or exceed $10.3 trillion over the next decade. Much of this spending will be financed by massive government deficits.

President Obama's budget plans call for adding some $9 trillion to the national debt over the next decade. His goal of spreading the wealth today will be financed by placing larger and larger financial burdens on future generations.

# Appendix A
# What Is Welfare or Aid to the Poor?

Webster's dictionary defines "welfare" as "aid in the form of money or necessities for those in need."[57] Replacing the phrase "those in need" with "those with low income," we obtain a rough but reasonable definition of government welfare programs: aid in the form of money or necessities for those with low income.

Government welfare programs differ from most other government activities. While most government programs provide benefits and services across all citizens irrespective of economic class, welfare programs provide benefits exclusively to persons with lower incomes. Government welfare programs provide assistance to less-affluent persons that is not available to the general populace because lower-income persons have greater difficulty supporting themselves.

Therefore, the U.S. welfare system may be defined as the total set of federal and state government programs that are designed specifically to assist poor and low-income Americans. Accordingly, a government program is a "welfare" program if it provides assistance or benefits exclusively and deliberately to poor and low-income persons. A very small number of programs provide assistance targeted to low-income communities rather than individuals.

Some may prefer to use the term "aid to the poor" rather than "welfare" to describe these programs. Whichever name is used, the concept of programs explicitly designed to help less-affluent individuals who have difficulty supporting themselves is clear and distinct.

## Distinguishing Between Means-Tested Welfare and Other Safety Net Programs

Means-tested welfare programs can be considered part of a larger government safety net that includes five components:

- Means-tested welfare benefits;
- Retirement benefits and medical care for the elderly through Social Security and Medicare;
- Benefits for disabled workers through Social Security Disability Insurance and Medicare;
- Temporary income for unemployed workers through unemployment insurance; and
- Income and medical benefits for workers injured on the job, which are provided through the workers' compensation program.

The last four components of the safety net differ sharply from means-tested welfare. It is true that unemployment insurance, Social Security Disability Insurance, and workers' compensation resemble means-tested programs in one respect: Because they are intended to replace wages lost through injury or involuntary unemployment, they are available only to persons with limited earned incomes. However, these safety net programs have other characteristics that clearly distinguish them from typical means-tested welfare programs.

Unlike means-tested welfare programs, the other safety net programs, including Social Security retirement and Medicare, are based on earned eligibility; require financial contributions from potential beneficiaries; have no limitations on assets, property income, or the income of other family members; generally provide higher benefits to higher-income workers; are not need-based; and offer almost universal eligibility to the working population and their dependents.

**Welfare programs do not have earned eligibility.** Social Security, Medicare, Disability Insurance, unemployment insurance, and workers' compensation are all based on earned eligibility. To become eligible for benefits, individuals must have maintained employment for an extended period. By contrast, with means-tested programs, there is no expectation that the beneficiary is to earn eligibility for the program.

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57. *Merriam-Webster Unabridged Collegiate Dictionary*, s.v. "welfare."

Although many recipients of means-tested welfare do work, means-tested programs do not require that individuals have an extended work history in order to qualify for benefits.[58] Many individuals receive benefits from means-tested programs such as Supplemental Security Income or Medicaid precisely because they have not earned eligibility for broader safety net programs such as Social Security or Medicare.

**Welfare programs do not require financial contributions.** To become eligible for benefits in non-means-tested programs, individuals must not only maintain employment for an extended period, but also pay financial contributions into the program. In most cases, recipients are regarded as earning the right to benefits by prior financial contributions to the system, although the value of the contributions paid will often be less than the benefits received.

In the unemployment insurance and workers' compensation systems, benefits are financed by fees paid by employers, but those fees in turn are partly financed by reducing wages for workers. By contrast, with means-tested programs, there is no expectation that the beneficiary will have earned eligibility or made any payments to finance the program. Instead, means-tested programs are overwhelmingly financed by the taxes paid by higher-income families that are unlikely to receive benefits.

**Welfare programs restrict eligibility according to assets, property income, or income of other family members.** Most means-tested welfare programs limit eligibility to households without significant assets or property income. In addition, eligibility is usually based on the family's entire income, so high earnings by one family member will generally preclude the others from receiving welfare benefits.

By contrast, non-means-tested safety net programs generally do not restrict eligibility because of assets, property income, or the income of other family members. For example, the ongoing wages of one spouse would not prevent the other spouse from receiving unemployment insurance if the second spouse lost a job. Limits on assets and property income generally preclude middle-class families from receiving means-tested welfare aid even when the family experiences a sharp, temporary drop in earnings. The absence of such limits in non-means-tested safety net programs means that nearly all upper-middle-class and wealthy individuals are potentially eligible to participate in them.

The practical effect of asset limits can be seen in the differences between unemployment insurance and food stamps. Families receiving food stamps cannot have more than $2,000 in liquid assets, but there are no asset limits for eligibility for unemployment insurance. When the main wage earner in a lower-income family loses a job, the family will typically receive both unemployment insurance and food stamps. However, when the same event happens in an upper-middle-class family, the asset rule will generally block the family from receiving food stamps. An upper-middle-class family with an unemployed wage earner will therefore typically receive unemployment insurance, but not food stamps.

**Welfare programs do not provide higher benefits to higher-wage workers.** Social Security, unemployment insurance, and workers' compensation are all earned-eligibility programs funded by employee and employer contributions. In Social Security, higher-wage workers pay higher taxes to support the program and subsequently receive somewhat higher benefits as retirees. In the unemployment insurance and workers' compensation programs, it is unclear that higher fees are paid by employers for higher-wage workers; nonetheless, higher-wage workers do receive higher benefits. This is the exact opposite of means-tested welfare programs in which the poorest family generally receives the highest benefits.[59]

**Welfare programs do not have nearly universal eligibility.** Well over 90 percent of all workers are potentially covered by Social Security, Medicare, unemployment insurance, and workers' compensation. As noted, these individuals pay fees or tax contributions to support the programs (or their employers pay fees and taxes on their behalf). The absence of asset and property income limits on eligibility means that nearly all workers who make tax contributions to these programs (including wealthy workers) eventually become eligible as beneficiaries.

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58. One means-tested program, the earned income tax credit, requires employment in the current year.

59. The exception to this is the EITC, which provides higher benefits as annual earnings rise to around $8,000 per year but reduces benefits as earnings rise above roughly $14,000.

## Characteristics of Safety Net Programs

| | Earned eligibility | Required financial contributions | No limits on earned income | No limits on other income | Zero limits on assets | Higher benefits to higher-wage workers | Nearly universal potential participation |
|---|---|---|---|---|---|---|---|
| Means-tested welfare | No | No | No | No | No | No | No |
| Social Security and Medicare benefits for retirees and survivors | Yes | Yes | Yes* | Yes* | Yes | Yes | Yes |
| Social Security disability benefits and Medicare | Yes | Yes | No | Yes | Yes | Yes | Yes |
| Unemployment insurance | Yes | Yes (through employer) | No | Yes | Yes | Yes | Yes |
| Workers' compensation | Yes | Yes (through employer) | No | Yes | Yes | Yes | Yes |

* If income exceeds $25,000, Social Security benefits are subject to income tax.

**Source:** The Heritage Foundation, from current and previous presidential budget and OMB documents, and other historical data from official government agency Web sites and resources.

Table A-1 • SR 67 heritage.org

Thus, nearly all of the normal working population in the U.S. and their dependents are potential beneficiaries of these programs. This is in distinct contrast to means-tested aid programs, which typically subsidize only the one-fourth or one-third of the population with the lowest incomes.

### Are Education, Development, and Training Programs Really Welfare?

Some object to counting capacity-building programs such as Job Corps, Head Start, and Pell Grants as welfare. They regard welfare as pertaining to programs for persons who do not work; therefore, they see education, development, and training programs designed to increase employment and earnings as the opposite of welfare.

On the other hand, these programs are clearly designed to aid the poor. They are means-tested. Through them, government provides benefits and assistance to lower-income persons that it does not provide (or provides less generously) to higher-income persons. It would be hard to argue that such programs are not "aid to the poor" in a broad sense of that term. Interestingly, child development, job training, and targeted educational assistance all played critical roles in the early stages of the War on Poverty.

If the objective is to count all taxpayer funds deliberately spent on behalf of poor and lower-income persons, then means-tested services—such as job training, child development, community aid, social services, and targeted education aid—clearly must be counted. However, in the final analysis, it does not matter much whether capacity-building programs such as Job Corps, Head Start, and Pell Grants are counted as welfare because spending on this type of means-tested aid is limited.

As noted, almost nine-tenths of means-tested spending falls under the four core functions of cash, food, housing, and medical care. The remaining five functions—job training, child development, community aid, social services, and targeted education aid—comprise only 11 percent of total welfare spending. Thus, inclusion or exclusion of these five types of means-tested aid from the definition of welfare has only a marginal impact on any of the total spending figures presented in this paper.

## Should the Term "Welfare" Refer Only to Cash Programs?

More extreme advocates argue that only means-tested cash aid programs should be counted as welfare.[60] This excludes almost 80 percent of the benefits and assistance that taxpayers provide to low-income persons and communities. The "cash only" definition of welfare ignores nearly all of the aid to the poor that is actually provided by the government. It is easy in this manner to become trapped in the faulty circular "logic" of trying to prove that the government spends little on the poor by not counting most of what is actually spent.[61]

Means-tested programs that provide cash, food, housing, and medical care differ in their external forms, but underneath, they share common fundamental characteristics:

1. All of the programs serve similar overlapping populations that generally fall within the one-third of the U.S. population with the lowest incomes.
2. All of the programs have one common purpose: They seek to improve the material living conditions and physical well-being of lower-income persons by increasing the *de facto* purchasing power or economic resources of those individuals, thereby enabling them to purchase or obtain goods or services that they cannot obtain on their own.
3. Each program seeks to increase the *de facto* purchasing power or economic resources of individuals by one of three mechanisms:
    a. Providing cash that can be used to purchase goods and services (e.g., TANF, EITC, and Supplemental Security Income);
    b. Providing vouchers that can be used to purchase specified goods and services (e.g., food stamps, WIC coupons, and housing vouchers); or
    c. Directly subsidizing the providers of benefits or services, thereby enabling the beneficiary to obtain them at little or no cost (e.g., Medicaid services, public housing, and the school lunch program).
4. All of the programs are deliberately redistributive: Economic resources are taken from the upper middle class and reallocated with the goal of raising the living standards of the less affluent.

Seen in this light, it does not particularly matter whether a program provides cash, food, housing, or medical care. All of the programs have a common purpose. It matters little if a program offers a poor person cash, coupons, or a debit card to buy food. Similarly, it makes little difference whether the government gives a needy individual cash to pay rent or provides subsidies to public housing authorities, which are used to reduce the rental payments required of low-income tenants. From the perspective of the taxpayer and governmental budgets, what matters is the cost of providing a benefit to the poor, not the specific mode that the benefit takes.

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60. Some place an even more restricted definition on welfare, insisting that the term be used only for a single program: AFDC and its successor, TANF.
61. An interesting aspect of the "only cash is welfare" argument is that most of the increased spending initiated by the War on Poverty involved not cash, but food, housing, medical care, and targeted social services for the poor. The War on Poverty focused on the creation of new non-cash programs for the poor, such as Medicaid, food stamps, federal housing aid, Head Start, and Job Corps. By excluding such programs from the concept of welfare, one is left with the odd conclusion that the War on Poverty did little to expand welfare.

# Appendix B
# Methodology

## Data Sources

A wide variety of government documents were used in compiling the spending figures in this paper. These information sources include:

- Committee on Ways and Means, U.S. House of Representatives, *1994 Green Book: Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, 1994.
- Karen Spar, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data FY2002–FY2004," Congressional Research Service *Report for Congress,* March 27, 2006, at *http://wikileaks.org/leak/crs/RL33340.pdf* (August 27, 2009), and earlier editions, 1976 to present.
- U.S. Office of Management and Budget, *Budget of the United States Government* (Washington, D.C.: U.S. Government Printing Office, various years).
- U.S. Office of Management and Budget, *Historical Tables*: *Budget of the United States Government* (Washington, D.C.: U.S. Government Printing Office, various years).
- Executive Office of the President, Office of Policy Development, *Up from Dependency: A New National Public Policy Assistance Strategy* (Washington, D.C.: U.S. Government Printing Office, September 1987).
- Ida C. Merriam and Alfred M. Skolnik, *Social Welfare Expenditures Under Public Programs in the United States, 1929–66*, Social Security Administration, Office of Research and Statistics *Research Report* No. 25, 1968.
- Social Security Administration, *Social Security Bulletin,* various issues.

## Inflation Adjustments for Means-Tested Expenditures Prior to FY 2008

In the present paper, means-tested expenditures in prior periods are often compared to current spending levels. To make these comparisons more meaningful, historic spending amounts are generally adjusted for inflation into constant 2008 dollars.

However, means-tested welfare is disproportionately composed of medical spending, and medical costs have risen more rapidly than other consumer prices. Because of this, adjusting for inflation for total welfare expenditures with a broad price index, such as the Consumer Price Index (CPI), would tend to understate the role of inflation in welfare costs and overstate the real growth of welfare spending.

To correct for this problem, whenever historical means-tested expenditures are adjusted for inflation in this paper, separate inflationary adjustments have been made for medical assistance, food assistance, and housing assistance using the appropriate price index for each spending category. Unless otherwise noted, all inflation adjustments of historical welfare spending figures used the personal consumption expenditure price indices provided in the National Income and Product Accounts of the Bureau of Economic Analysis at the U.S. Department of Commerce.

- Means-tested expenditures on medical care were adjusted by the personal consumption expenditure price index for medical care.
- Means-tested expenditures for food assistance were adjusted by the personal consumption expenditure price index for food.
- Means-tested expenditures for housing aid were adjusted by the personal consumption expenditure price index for housing.

- All other means-tested expenditures were adjusted by the personal consumption expenditure price index for all goods and services.

## Projected Federal Spending, FY 2011–FY 2018

Charts 16 through 19 in the main text and Appendix D provide projected welfare spending levels for FY 2011 through FY 2018. Wherever possible, future federal spending figures were taken from the President's FY 2010 budget. Future outlay figures are presented in Table 24-14 on the CD-ROM accompanying the printed versions of *Analytical Perspectives: Budget of the U.S. Government, Fiscal Year 2010.*[62]

Outlay figures taken from the President's budget are marked "OMB budget" under source of data in Appendix D.

Federal Medicaid spending figures were also taken from Table 24-14 of *Analytical Perspectives*. These figures are current services baseline figures and do not include the hypothetical savings provided elsewhere in the President's budget. The President's proposed Medicaid savings were not included because the President's budget explicitly provides that the proposed savings will be used to finance extra medical outlays. For purposes of the estimates in this paper, neither the hypothetical savings nor any new spending to be financed by these savings has been included.

The OMB did not provide separate spending figures for Pell Grants or the TANF contingency fund. Estimated future spending for these two programs was taken from March CBO figures. Some 90.5 percent of future estimated federal welfare spending came directly from these OMB and CBO sources.

The OMB does not provide separate spending estimates beyond FY 2010 for a number of smaller discretionary spending programs. Spending for these programs for each year between FY 2011 and FY 2018 was estimated by multiplying the FY 2010 spending level for the program (provided by the OMB) by the cumulative projected inflation rate for each year after FY 2010. The assumed inflation rate for each year was taken from the President's budget.[63] These projected inflation figures are provided in Appendix D. Programs with future spending that was estimated in this manner are identified with the label "inflation adjustment" in Appendix D. Overall, spending on these smaller discretionary programs comprised 9.5 percent of estimated future federal welfare spending.

## Estimates of State Medicaid Spending, FY 2009–FY 2011

State Medicaid spending is fixed relative to federal spending according to specific matching formulae. In a normal year, state Medicaid spending will be around 75 percent of federal Medicaid spending. Thus, once future federal Medicaid spending is estimated, it is easy to estimate future state Medicaid spending.

However, the American Recovery and Reinvestment Act of 2009 (also called the stimulus bill) increased the federal Medicaid matching rate or Federal Medical Assistance Percentage (FMAP) in FY 2009, FY 2010, and FY 2011 with the deliberate goal of allowing states to reduce their Medicaid expenditures in those years. The stimulus bill allocated $86 billion in federal funds for this purpose over nine fiscal quarters (four in FY 2009, four in FY 2010, and one in FY 2011).

The estimates presented in this paper assume that one-ninth of the $86 billion in enhanced federal FMAP spending will be spent in each of the nine quarters. This paper further assumes that state Medicaid spending will be reduced by the full amount of the enhanced federal FMAP spending in each quarter in which it is provided.

The following steps were taken to estimate the remaining state Medicaid spending in FY 2009–FY 2011. First, a base level of federal spending was calculated for each year. This equaled the OMB federal Medicaid outlay total minus the increased federal spending due to the enhanced FMAP. Second, a base level of state spend-

62. U.S. Office of Management and Budget, *Analytical Perspectives*, Table 24-14. This table can also be found online at *http://www.whitehouse.gov/omb/budget/fy2010/assets/24_14.pdf.*

63. U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise*, 2009, p. 132, Table S-8, at *http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf* (August 27, 2009).

ing was estimated for each year. This equaled 74.8 percent of the federal base level. Third, federal spending due to the FMAP increase was deducted from the base level of state spending to produce the final estimate of state Medicaid spending.

Overall, the formula for calculating state Medicaid expenditures in FY 2009, FY 2010, and FY 2011 was:

STATEMED = ((FEDMED – FMAPINC) * 0.748) – FMAPINC

where STATEMED is state Medicaid spending in the fiscal year, FEDMED is federal Medicaid spending in the fiscal year, and FMAPINC is increased federal Medicaid spending in the fiscal year as a result of FMAP increases provided in the stimulus bill.

## Estimates of State Medicaid Spending, FY 2012–FY 2018

For FY 2012 to FY 2018, state Medicaid spending was estimated to be 74.8 percent of federal Medicaid spending for that year according to OMB figures.

## Estimates of State Non-Medicaid Spending, FY 2009–FY 2018

Excluding Medicaid, state means-tested spending for each year was assumed to equal 12.8 percent of federal means-tested spending, excluding federal Medicaid spending. This is a rough but fairly reliable assumption given historical patterns and the required state matching rates in various federal programs.

## Inflation Adjustments, FY 2009–FY 2018

Chart 18 in the paper and the accompanying text compare projected means-tested expenditures in FY 2009–FY 2018 with expenditures in prior decades. For comparison, all spending figures were converted into constant 2008 dollars. Spending figures for FY 2009–FY 2018 were adjusted into constant 2008 dollars in the following manner: Medical spending was adjusted with an assumed medical inflation rate of 3.4 percent per year—the average rate of medical inflation over the prior decade. All non-medical means-tested spending was adjusted based on the assumed consumer price inflation rate presented in the President's budget. These inflation figures, which average around 2 percent per year, are listed in Appendix D.

# Welfare Spending, FY 2008, in Millions of Dollars

| Categories | | Budget Code | Federal Spending | State Spending | Total Spending |
|---|---|---|---|---|---|
| **Cash** | | | | | |
| 01 | SSI/Old-Age Assistance | 75-0406-0-1-609; 28-0406-0-1-609 | 43,872.00 | 5,146.00 | 49,018.00 |
| 02 | Earned Income Tax Credit (refundable portion) | 20-0906-0-1-609 | 40,600.00 | | 40,600.00 |
| 03 | Child Credit (refundable portion) | 20-0922-0-1-999; 20-0922-0-1-609 | 34,019.00 | | 34,019.00 |
| 04 | AFDC/TANF | 75-1501-0-1-609; 75-1552-0-1-609 | 7,889.40 | 7,582.00 | 15,471.40 |
| 05 | Foster Care Title IV-E | 75-1545-0-1-506; 75-1545-0-1-609/.01 | 4,525.00 | 4,040.00 | 8,565.00 |
| 06 | Adoption Assistance Title IV-E | 75-1545-0-1-506/.04 | 2,038.00 | 1,316.00 | 3,354.00 |
| 07 | General Assistance Cash | None | | 2,625.00 | 2,625.00 |
| 10 | General Assistance to Indians | 14-2100-0-1-452; 14-2100-0-1-999 | 118.00 | | 118.00 |
| 11 | Assets for Independence | 75-1536-0-1-506/3.06 | 24.00 | | 24.00 |
| **Cash Total** | | | **133,085.40** | **20,709.00** | **153,794.40** |
| **Medical** | | | | | |
| 01 | Medicaid | 75-0512-0-1-551 | 201,426.00 | 150,666.65 | 352,092.65 |
| 02 | SCHIP State Supplemental Health Insurance Program | 75-0515-0-1-551 | 6,900.00 | 2,021.00 | 8,921.00 |
| 03 | Medical General Assistance | None | | 4,900.00 | 4,900.00 |
| 04 | Indian Health Services | 75-0390-0-1-551 | 2,925.00 | | 2,925.00 |
| 05 | Consolidated Health Centers/Community Health Centers | 75-0350-0-1-550/.10 | 2,021.00 | | 2,021.00 |
| 06 | Maternal and Child Health | 75-0350-0-1-550.18 | 666.00 | 499.50 | 1,165.50 |
| 06 | Healthy Start | 75-0350-0-1-550/.19 | 100.00 | | 100.00 |
| **Medical Total** | | | **214,038.00** | **158,087.15** | **372,125.15** |
| **Food** | | | | | |
| 01 | Food Stamps | 12-3505-0-1-605 | 39,319.00 | 3,482.00 | 42,801.00 |
| 02 | School Lunch | 12-3539-0-1-605/.91 | 7,863.00 | | 7,863.00 |
| 03 | WIC—Women, Infant and Children Food Program | 12-3510-0-1-605 | 6,170.00 | | 6,170.00 |
| 04 | School Breakfast | 12-3539-0-1-6050/1.91 | 2,307.00 | | 2,307.00 |
| 05 | Child Care Food Program | 12-3539-0-1-605/2.91 | 2,029.00 | | 2,029.00 |
| 06 | Nutrition Program for the Elderly, Nutrition Service Incentives | 12-3503-0-1-605; 75-0142-0-1-506/1.07 | 756.00 | 105.84 | 861.84 |
| 07 | Summer Program | 12-3539-0-1-605/3.01 | 312.00 | | 312.00 |
| 08 | Commodity Supplemental Food Program | 12-3512-0-1-605; 12-3507-0-1-605/.91 | 141.00 | | 141.00 |
| 09 | TEFAP—The Emergency Food Assistance Program | 12-3635-0-1-351; 12-3507-0-1-605/2.01; 12-4336-0-3-999 | 190.00 | | 190.00 |
| 10 | Needy Families | 12-3505-0-1-605.06 | 54.00 | | 54.00 |
| 11 | Farmers' Market Nutrition Program | 12-3507-0-1-605/4.01 | 20.00 | | 20.00 |
| 11 | Special Milk Program | 12-3502-0-1-605/3.02 | 15.00 | | 15.00 |
| **Food Total** | | | **59,176.00** | **3,587.84** | **62,763.84** |

Table C-1 • SR 67 heritage.org

# Welfare Spending, FY 2008, in Millions of Dollars (cont.)

| Categories | | Budget Code | Federal Spending | State Spending | Total Spending |
|---|---|---|---|---|---|
| **Housing** | | | | | |
| 01 | Section 8 Housing (HUD) | 86-0302-0-1-604 | 24,467.00 | | 24,467.00 |
| 02 | Public Housing (HUD) | 86-0304-0-1-604 | 7,526.00 | | 7,526.00 |
| 03 | State Housing Expenditures | None | | 2,085.00 | 2,085.00 |
| 04 | Home Investment Partnership Program (HUD) | 86-0205-0-1-999; 86-0205-0-1-604/.01 | 1,969.00 | | 1,969.00 |
| 05 | Homeless Assistance Grants (HUD) | 86-0192-0-1-604/.01 | 1,440.00 | | 1,440.00 |
| 06 | Rural Housing Insurance Fund (Agriculture) | 12-2081-0-1-371 | 1,312.00 | | 1,312.00 |
| 07 | Rural Housing Service (Agriculture) | 12-0137-0-1-604 | 926.00 | | 926.00 |
| 08 | Housing for the Elderly (HUD) | 86-0320-0-1-604 | 1,008.00 | | 1,008.00 |
| 09 | Native American Housing Block Grants (HUD) | 86-0313-0-1-604 | 572.00 | | 572.00 |
| 10 | Other Assisted Housing Programs (HUD) | 86-0206-0-1-999 | 584.00 | | 584.00 |
| 11 | Housing for Persons with Disabilities (HUD) | 86-0237-0-1-604 | 320.00 | | 320.00 |
| **Housing Total** | | | **40,124.00** | **2,085.00** | **42,209.00** |
| **Energy and Utilities** | | | | | |
| 01 | LIHEAP Low Income Home Energy Assistance | 75-1502-0-1-609/.01 | 2,663.00 | | 2,663.00 |
| 02 | Universal Service Fund—Susidized Phone Service for Low-Income Persons | 27-5183-0-2-376 | 819.00 | | 819.00 |
| 02 | Weatherization | 89-0215-0-1-999; 89-0215-0-1-272; 89-0224-0-1-999; 89-0321-0-1-270/.12 | 291.00 | 159.30 | 450.30 |
| **Energy and Utilities Total** | | | **3,773.00** | **159.30** | **3,932.30** |
| **Education** | | | | | |
| 01 | Pell Grants | 91-0200-0-1-502/1.01 | 18,000.00 | | 18,000.00 |
| 02 | Title One Grants to Local Education Authorities | 91-0900-0-1-501 | 14,872.00 | | 14,872.00 |
| 03 | Special Programs for Disadvantaged (TRIO) | 91-0201-0-1-502/2.01 | 885.00 | | 885.00 |
| 04 | Supplemental Education Opportunity Grants | 91-0200-0-1-502/2.01 | 759.00 | | 759.00 |
| 05 | Migrant Education | 91-0900-0-1-501/.13 | 425.00 | | 425.00 |
| 06 | Gear-Up | 91-0201-0-1-502/2.02 | 303.00 | | 303.00 |
| 07 | Education for Homeless Children and Youth | 91-1000-0-1-501/.09 | 64.00 | | 64.00 |
| 06 | LEAP, formerly State Student Incentive Grant Program (SSIG) | 91-0200-0-1-502 | 64.00 | 64.00 | 128.00 |
| 07 | Even Start | 91-0900-0-1-501/.08 | 66.00 | | 66.00 |
| **Education Total** | | | **35,438.00** | **64.00** | **35,502.00** |

Table C-1 • SR 67 heritage.org

## Welfare Spending, FY 2008, in Millions of Dollars (cont.)

| Categories | | Budget Code | Federal Spending | State Spending | Total Spending |
|---|---|---|---|---|---|
| **Training** | | | | | |
| 01 | TANF Work Activities and Training | 75-1552-0-1-609 | 1,963.58 | 540.00 | 2,503.58 |
| 02 | Job Corps | 16-0174-0-1-1504/.18 | 763.00 | | 763.00 |
| 03 | WIA Youth Opportunity Grants (formerly Summer Youth Employment) | 16-0174-0-1-504 | 984.00 | | 984.00 |
| 04 | WIA Adult Employment and Training (formerly JTPA IIA Training for Disadvantaged Adults & Youth) | 16-0174-0-1-504/.01 | 827.00 | | 827.00 |
| 05 | Senior Community Service Employment | 16-0175-0-1-504 | 483.00 | 53.13 | 536.13 |
| 06 | Food Stamp Employment and Training Program | 12-3505-0-1-605/.03 | 351.00 | 166.00 | 517.00 |
| 07 | Migrant Training | 16-0174-0-1-504/.11 | 83.00 | | 83.00 |
| 08 | YouthBuild | 16-0174-0-1-504/.24 | 60.00 | | 60.00 |
| 08 | Native American Training | 16-0174-0-1-504/.10 | 53.00 | | 53.00 |
| **Training Total** | | | **5,567.58** | **759.13** | **6,326.71** |
| **Services** | | | | | |
| 01 | TANF Block Grant Services | 75-1552-0-1-609 | 5,704.09 | 1,383.00 | 7,087.09 |
| 02 | Title XX Social Services Block Grant | 75-1534-0-1-506 | 1,843.00 | | 1,843.00 |
| 03 | Community Service Block Grant | 75-1536-0-1-506/3.01 | 654.00 | | 654.00 |
| 03B | Social Services for Refugees Asylees and Humanitarian Cases | 75-1503-0-1-609/.01 | 592.00 | | 592.00 |
| 04 | Title III Aging Americans Act | 75-0142-0-1-506 | 351.00 | | 351.00 |
| 05 | Legal Services Block Grant | 75-0142-0-1-506 | 346.00 | | 346.00 |
| 06 | Family Planning | 75-0350-0-1-550/.32 | 300.00 | | 300.00 |
| 07 | Emergency Food and Shelter Program | 58-0103-0-1-605; 70-0707-0-1-605/1.01 | 154.00 | | 154.00 |
| 08 | Healthy Marriage and Responsible Fatherhood Grants | 75-1552-0-1-609/.09 | 150.00 | | 150.00 |
| 09 | Americorps/Volunteers in Service to America | 95-2728-0-1-506/.04 | 93.00 | | 93.00 |
| **Services Total** | | | **10,187.09** | **1,383.00** | **11,570.09** |
| **Child Care and Child Development** | | | | | |
| 01 | Headstart | 75-1536-0-1-506/1.01 | 6,877.00 | 1,719.25 | 8,596.25 |
| 02 | Childcare and Child Development Block Grant | 75-1515-0-1-609/.01 | 4,164.00 | 2,176.00 | 6,340.00 |
| 03 | TANF Block Grant Child Care | 75-1552-0-1-609 | 1,735.67 | 1,045.00 | 2,780.67 |
| **Child Care and Child Development** | | | **12,776.67** | **4,940.25** | **17,716.92** |
| **Community Development** | | | | | |
| 01 | Community Development Block Grant | 86-0162-0-1-451 | 7,849.00 | | 7,849.00 |
| 02 | Economic Development Administration (Commerce) | 13-2050-0-1-452 | 238.00 | | 238.00 |
| 03 | Appalachian Regional Development | 46-0200-0-1-452 | 74.00 | | 74.00 |
| 04 | Empowerment Zones, Enterprise Communities, Renewal Communities | 86-0315-0-1-451 | 17.00 | | 17.00 |
| 05 | UDAG—Urban Development Action Grant | 86-0170-0-1-451 | 3.00 | | 3.00 |
| **Community Development Total** | | | **8,181.00** | **0.00** | **8,181.00** |
| **2008 Total** | | | **522,346.74** | **191,615.37** | **714,121.41** |

**Source:** The Heritage Foundation, from current and previous presidential budget and OMB documents, and other historical data from official government agency Web sites and resources.

Table C-1 • SR 67 heritage.org

# Means-Tested Welfare Programs, Projected Outlays, FY 2009–FY 2018

Figures are in Billions of Dollars

| Program Name | Data Source | Fiscal Year 2008* | 2009* | 2010* | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Discretionary Spending** | | | | | | | | | | | | |
| Food | | | | | | | | | | | | |
| WIC | OMB budget | 6.16 | 6.97 | 7.50 | 7.64 | 7.70 | 7.77 | 7.85 | 8.00 | 8.22 | 8.40 | 8.60 |
| Commodity Supplemental Food Program | Inflation adjustment | 0.14 | 0.16 | 0.16 | 0.16 | 0.17 | 0.17 | 0.17 | 0.18 | 0.18 | 0.18 | 0.19 |
| Senior Nutrition Programs—Administration on Aging | Inflation adjustment | 0.76 | 0.81 | 0.81 | 0.82 | 0.84 | 0.86 | 0.88 | 0.90 | 0.91 | 0.93 | 0.95 |
| Emergency Food Assistance Program—TEFAP | Inflation adjustment | 0.05 | 0.02 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.09 | 0.09 |
| Farmers' market nutrition program | Inflation adjustment | 0.02 | 0.18 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.09 | 0.09 |
| School lunch program | Inflation adjustment | 7.86 | 8.53 | 9.24 | 9.41 | 9.59 | 9.80 | 10.00 | 10.21 | 10.43 | 10.65 | 10.87 |
| School breakfast program | Inflation adjustment | 2.31 | 2.54 | 2.76 | 2.81 | 2.87 | 2.93 | 2.99 | 3.05 | 3.11 | 3.18 | 3.25 |
| Child and adult care food program | Inflation adjustment | 2.03 | 2.27 | 2.43 | 2.47 | 2.52 | 2.58 | 2.63 | 2.69 | 2.74 | 2.80 | 2.86 |
| Summer food program | Inflation adjustment | 0.31 | 0.36 | 0.38 | 0.39 | 0.39 | 0.40 | 0.41 | 0.42 | 0.43 | 0.44 | 0.45 |
| Special milk program | Inflation adjustment | 0.02 | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Energy | | | | | | | | | | | | |
| LIHEAP | OMB budget | 2.66 | 4.34 | 3.40 | 3.42 | 3.50 | 3.50 | 3.55 | 3.60 | 3.65 | 3.71 | 3.77 |
| Weatherization assistance program | Inflation adjustment | 0.29 | 0.52 | 0.30 | 0.31 | 0.31 | 0.32 | 0.33 | 0.33 | 0.34 | 0.35 | 0.35 |
| Subsidized phone service for low-income persons | Inflation adjustment | 0.82 | 0.82 | 0.83 | 0.85 | 0.87 | 0.88 | 0.90 | 0.92 | 0.94 | 0.96 | 0.98 |
| Education | | | | | | | | | | | | |
| Education for the disadvantaged, Title I | OMB budget | 14.90 | 15.80 | 21.90 | 22.04 | 17.05 | 16.72 | 16.88 | 17.18 | 17.56 | 17.98 | 18.41 |
| Even Start | Inflation adjustment | 0.07 | 0.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Education for Homeless Children and Youth | Inflation adjustment | 0.06 | 0.14 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.08 |
| TRIO | Inflation adjustment | 0.89 | 0.91 | 0.91 | 0.92 | 0.94 | 0.96 | 0.98 | 1.00 | 1.02 | 1.04 | 1.06 |
| GEAR Up | Inflation adjustment | 0.30 | 0.31 | 0.31 | 0.32 | 0.33 | 0.33 | 0.34 | 0.35 | 0.35 | 0.36 | 0.37 |
| Migrant education special programs | Inflation adjustment | 0.03 | 0.03 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 |
| Head Start | Inflation adjustment | 6.87 | 8.50 | 7.24 | 7.37 | 7.52 | 7.68 | 7.84 | 8.00 | 8.17 | 8.34 | 8.52 |
| Supplemental Educucational Opportunty Grants (SEOG) | Inflation adjustment | 0.76 | 0.76 | 0.76 | 0.77 | 0.79 | 0.80 | 0.82 | 0.84 | 0.85 | 0.87 | 0.89 |
| Leveraging Educational Assistance Partnerships (LEAP) | Inflation adjustment | 0.06 | 0.06 | 0.06 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.08 |
| Training/Labor | | | | | | | | | | | | |
| Adult training | Inflation adjustment | 0.83 | 0.86 | 0.86 | 0.88 | 0.89 | 0.91 | 0.93 | 0.95 | 0.97 | 0.99 | 1.01 |
| Youth training | Inflation adjustment | 0.98 | 0.94 | 1.02 | 1.04 | 1.06 | 1.08 | 1.10 | 1.13 | 1.15 | 1.18 | 1.20 |
| Migrant training | Inflation adjustment | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 |
| Native American training | Inflation adjustment | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |
| Job Corps | OMB budget | 0.76 | 1.66 | 1.80 | 1.70 | 1.69 | 1.68 | 1.68 | 1.68 | 1.69 | 1.70 | 1.70 |
| Community service for older Americans | Inflation adjustment | 0.48 | 0.55 | 0.66 | 0.68 | 0.69 | 0.70 | 0.72 | 0.73 | 0.75 | 0.76 | 0.78 |
| Youth Build | Inflation adjustment | 0.06 | 0.07 | 0.11 | 0.12 | 0.12 | 0.12 | 0.12 | 0.13 | 0.13 | 0.13 | 0.13 |

* All federal figures for these years are from the Office of Management and Budget.

Table D-1 • SR 67 heritage.org

# Means-Tested Welfare Programs, Projected Outlays, FY 2009–FY 2018 (cont.)

Figures are in Billions of Dollars

| Program Name | Data Source | Fiscal Year 2008* | 2009* | 2010* | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Housing** | | | | | | | | | | | | |
| Public housing capital fund | OMB budget | 2.89 | 3.04 | 4.25 | 4.34 | 3.90 | 2.57 | 2.23 | 2.30 | 2.34 | 2.38 | 2.43 |
| Public housing operating fund | OMB budget | 4.11 | 4.39 | 4.56 | 4.60 | 4.60 | 4.60 | 4.60 | 4.65 | 4.70 | 4.77 | 4.84 |
| Section 8—Project based rental assistance | Inflation adjustment | 6.08 | 7.50 | 8.15 | 8.30 | 8.46 | 8.64 | 8.82 | 9.01 | 9.20 | 9.39 | 9.59 |
| Section 8—Tenant based rental assistance | Inflation adjustment | 15.74 | 16.15 | 17.76 | 18.08 | 18.44 | 18.83 | 19.22 | 19.63 | 20.04 | 20.46 | 20.89 |
| Housing Certificate Fund | Inflation adjustment | 2.65 | 1.54 | 1.22 | 1.24 | 1.27 | 1.29 | 1.32 | 1.35 | 1.38 | 1.41 | 1.44 |
| HOPE VI | Inflation adjustment | 0.53 | 0.43 | 0.28 | 0.28 | 0.29 | 0.29 | 0.30 | 0.31 | 0.31 | 0.32 | 0.33 |
| Other assisted housing programs | Inflation adjustment | 0.58 | 0.59 | 0.60 | 0.61 | 0.62 | 0.64 | 0.65 | 0.66 | 0.68 | 0.69 | 0.70 |
| Homeless assistance grants | OMB budget | 1.44 | 1.55 | 2.42 | 1.98 | 1.67 | 1.63 | 1.77 | 1.83 | 1.85 | 1.88 | 1.92 |
| HOME investment partnerships | OMB budget | 1.96 | 2.24 | 2.93 | 2.20 | 2.30 | 1.78 | 1.80 | 1.77 | 1.77 | 1.78 | 1.80 |
| Housing for the elderly | Inflation adjustment | 1.00 | 0.97 | 0.75 | 0.76 | 0.77 | 0.79 | 0.81 | 0.82 | 0.84 | 0.86 | 0.88 |
| Housing for the disabled | Inflation adjustment | 0.32 | 0.29 | 0.23 | 0.23 | 0.23 | 0.24 | 0.24 | 0.25 | 0.25 | 0.26 | 0.26 |
| Native American Housing Block Grant | Inflation adjustment | 0.57 | 0.68 | 0.79 | 0.80 | 0.82 | 0.83 | 0.85 | 0.87 | 0.89 | 0.90 | 0.92 |
| Rural Housing Insurance Fund | Inflation adjustment | 0.86 | 1.04 | 0.70 | 0.72 | 0.73 | 0.75 | 0.76 | 0.78 | 0.79 | 0.81 | 0.83 |
| Rural Housing Insurance Fund, direct loan | Inflation adjustment | 0.46 | 1.87 | 0.81 | 0.82 | 0.84 | 0.86 | 0.88 | 0.89 | 0.91 | 0.93 | 0.95 |
| Rural Rental Assistance Program, 521 | Inflation adjustment | 0.93 | 1.07 | 1.15 | 1.17 | 1.19 | 1.22 | 1.24 | 1.27 | 1.29 | 1.32 | 1.35 |
| **Medical** | | | | | | | | | | | | |
| Community Health Centers | Inflation adjustment | 2.02 | 2.15 | 2.15 | 2.18 | 2.23 | 2.28 | 2.32 | 2.37 | 2.42 | 2.47 | 2.52 |
| SAMHSA, Grants to States for Homeless | Inflation adjustment | 0.05 | 0.06 | 0.07 | 0.07 | 0.07 | 0.07 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 |
| Maternal and Child Health Block Grant | Inflation adjustment | 0.66 | 0.66 | 0.66 | 0.67 | 0.69 | 0.70 | 0.71 | 0.73 | 0.74 | 0.76 | 0.78 |
| Healthy Start | Inflation adjustment | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.11 | 0.11 | 0.11 | 0.11 | 0.12 | 0.12 |
| Indian Health Services | OMB budget | 2.90 | 3.50 | 3.76 | 4.26 | 4.53 | 4.72 | 5.00 | 5.33 | 5.68 | 6.06 | 6.44 |
| Title X, Family Planning | Inflation adjustment | 0.30 | 0.31 | 0.32 | 0.32 | 0.33 | 0.34 | 0.34 | 0.35 | 0.36 | 0.37 | 0.37 |
| **Services** | | | | | | | | | | | | |
| Child care, discretionary spending | OMB budget | 2.07 | 2.89 | 3.29 | 3.00 | 3.26 | 3.34 | 3.46 | 3.50 | 3.64 | 3.78 | 3.85 |
| Community Services Block Grant | | 0.65 | 0.70 | 0.70 | 0.71 | 0.73 | 0.74 | 0.76 | 0.77 | 0.79 | 0.81 | 0.82 |
| Social Services Block Grant | OMB budget | 1.84 | 1.90 | 2.01 | 1.84 | 1.77 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 |
| Assets for Independence Act (IDAs) | Inflation adjustment | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Legal Services Corporation | Inflation adjustment | 0.35 | 0.39 | 0.44 | 0.44 | 0.45 | 0.46 | 0.47 | 0.48 | 0.49 | 0.50 | 0.51 |
| Americorps/Volunteers in Service to America | Inflation adjustment | 0.09 | 0.09 | 0.10 | 0.10 | 0.10 | 0.11 | 0.11 | 0.11 | 0.11 | 0.12 | 0.12 |
| Healthy Marriage and Responsible Fatherhood | Inflation adjustment | 0.15 | 0.15 | 0.15 | 0.15 | 0.16 | 0.16 | 0.16 | 0.17 | 0.17 | 0.17 | 0.18 |
| **Cash** | | | | | | | | | | | | |
| Refugee and Entrant Assistance | | 0.59 | 0.62 | 0.69 | 0.70 | 0.72 | 0.73 | 0.75 | 0.76 | 0.78 | 0.79 | 0.81 |
| **Economic Development** | | | | | | | | | | | | |
| Rural Empowerment Zones and ECs | Inflation adjustment | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Community Development Block Grant | OMB budget | 7.84 | –0.33 | 8.31 | 8.44 | 7.45 | 6.38 | 5.48 | 5.25 | 4.75 | 4.84 | 4.90 |
| Economic Development Administration | Inflation adjustment | 0.24 | 0.37 | 0.46 | 0.47 | 0.48 | 0.49 | 0.50 | 0.51 | 0.52 | 0.53 | 0.54 |
| Appalachian Regional Commission | Inflation adjustment | 0.07 | 0.07 | 0.07 | 0.07 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.09 |
| **Discretionary spending sub-total** | | **110.68** | **115.32** | **133.73** | **136.14** | **138.86** | **141.78** | **144.75** | **147.79** | **150.90** | **154.07** | **157.30** |

* All federal figures for these years are from the Office of Management and Budget.

# Means-Tested Welfare Programs, Projected Outlays, FY 2009–FY 2018 (cont.)

Figures are in Billions of Dollars

| Program Name | Data Source | 2008* | 2009* | 2010* | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Entitlement Spending** | | | | | | | | | | | | |
| Supplemental Nutrition Assistance Program | OMB budget | 39.32 | 56.10 | 64.20 | 67.35 | 64.94 | 61.33 | 58.13 | 57.61 | 58.29 | 59.10 | 59.89 |
| Pell Grant | CBO | 18.10 | 25.32 | 28.61 | 25.77 | 20.51 | 20.55 | 20.68 | 20.88 | 21.15 | 21.48 | 21.81 |
| Medicaid | OMB budget | 201.40 | 262.40 | 289.80 | 275.00 | 284.00 | 303.90 | 326.00 | 352.59 | 379.00 | 407.00 | 438.00 |
| SCHIP | OMB budget | 6.90 | 8.46 | 9.90 | 11.50 | 12.70 | 14.00 | 9.40 | 5.98 | 6.06 | 5.96 | 5.98 |
| Child care—mandatory spending | OMB budget | 2.91 | 2.93 | 2.94 | 2.9 | 2.90 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| TANF block grant to states | OMB budget | 17.50 | 18.60 | 18.00 | 18.7 | 17.60 | 16.80 | 16.70 | 16.70 | 17.33 | 17.30 | 17.20 |
| TANF contingency fund (stimulus) | CBO | 0.35 | 1.66 | 1.40 | 2.60 | | | | | | | |
| Foster care/adoption assistance | OMB budget | 6.57 | 7.03 | 7.14 | 7.06 | 7.10 | 7.30 | 7.50 | 7.66 | 7.80 | 8.06 | 8.28 |
| Supplemental Security Income (SSI) | OMB budget | 43.90 | 47.80 | 50.20 | 53.00 | 47.20 | 53.10 | 54.90 | 56.60 | 62.00 | 59.10 | 56.37 |
| EITC | OMB budget | 40.60 | 41.50 | 45.80 | 44.96 | 41.30 | 40.48 | 40.50 | 40.77 | 41.60 | 42.40 | 44.00 |
| Child tax credit | OMB budget | 34.02 | 23.20 | 25.57 | 25.1 | 16.00 | 15.80 | 15.70 | 15.80 | 16.00 | 16.00 | 16.00 |
| Making Work Pay Credit (stimulus) | OMB budget | 0.00 | 0.66 | 19.70 | 19.93 | 0.00 | | | | | | |
| **Entitlement spending sub-total** | | **411.57** | **495.66** | **563.26** | **553.87** | **514.25** | **536.16** | **552.41** | **577.49** | **612.13** | **639.30** | **670.43** |
| **Presidential Proposed Initiatives in FY 2010 Budget** | | | | | | | | | | | | |
| Promise Neighborhoods (new) | OMB budget | | | 0.01 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Choice Neighborhood Initiative (new) | OMB budget | | | 0.25 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Home Visitation for the Poor (new) | OMB budget | | | 0.09 | 0.21 | 0.36 | 0.53 | 0.71 | 0.90 | 1.11 | 1.33 | 1.56 |
| Strengthening Communities Fund (new) | OMB budget | | | 0.05 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Make Work Pay Credit (permanent) | OMB budget | | | | 0.70 | 20.75 | 20.44 | 20.20 | 20.20 | 20.30 | 20.20 | 20.20 |
| EITC (expand and permanent) | OMB budget | | | –0.13 | –0.08 | 2.52 | 2.45 | 2.42 | 2.46 | 2.50 | 2.55 | 2.60 |
| Child Care Credit (expand and permanent) | OMB budget | | | | 0.00 | 8.82 | 8.70 | 8.67 | 8.76 | 8.86 | 8.94 | 9.03 |
| Pell Grants (inflation and more base) | OMB budget | | | | 2.58 | 9.75 | 10.86 | 14.35 | 12.85 | 14.19 | 15.57 | 17.05 |
| TANF Supplemental Grants (permanent) | OMB budget | | | | 0.26 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 |
| LIHEAP (new trigger) | OMB budget | | | | 0.41 | 0.44 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 |
| HOPE for Homeowners (expand) | OMB budget | | | | 0.67 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Affordable Housing Trust Fund (newly funded) | OMB budget | | | | 0.14 | 0.25 | 0.25 | 0.24 | 0.10 | 0.00 | 0.00 | 0.00 |
| Transitional medical assistance | OMB budget | | | | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| SSI—President's proposal | OMB budget | 0.00 | 0.00 | –0.08 | –1.2 | –1.49 | –1.78 | –1.96 | –2.09 | –1.34 | –1.03 | –1.04 |
| SCHIP—President's proposal | OMB budget | 0.00 | 0.00 | 0.00 | –1.00 | –1.00 | –2.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Medicaid—President's proposal | OMB budget | 0.00 | 0.00 | –0.10 | –0.26 | –0.37 | –0.45 | –0.54 | –0.49 | –0.35 | –0.33 | –0.39 |
| **Presidential budget initiatives sub-totals** | | | | | **4.89** | **43.21** | **44.00** | **47.36** | **46.04** | **47.73** | **49.36** | **51.21** |

**Note:** Spending estimates for programs marked "Inflation adjustment"; FY 2010 spending from OMB was adjusted upward for yearly inflation based on CPI-UX price increases shown below.

* All federal figures for these years are from the Office of Management and Budget.

Table D-1 • SR 67 heritage.org

# Means-Tested Welfare Programs, Projected Outlays, FY 2009–FY 2018 (cont.)

Figures are in Billions of Dollars

| | Fiscal Year 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Spending** | | | | | | | | | | | |
| Total federal spending, discretionary, entitlement, and proposed Presidential initiatives | 522.25 | 610.98 | 696.99 | 694.90 | 696.32 | 721.93 | 744.52 | 771.33 | 810.76 | 842.73 | 878.94 |
| Total federal spending, FY 2009–FY 2018 | | | | | | | | | | | 7,469.40 |
| Total state means-tested spending, current dollars | 191.77 | 170.4 | 192.5 | 249.4 | 255.2 | 270.8 | 287.4 | 307.3 | 328.8 | 350.2 | 374.1 |
| Total state means-tested spending, current dollars, FY 2009–FY 2018 | | | | | | | | | | | 2,786.17 |
| Federal and state combined total, current dollars | 714.02 | 781.38 | 889.49 | 944.35 | 951.52 | 992.76 | 1,031.94 | 1,078.66 | 1,139.51 | 1,192.94 | 1,253.00 |
| Federal and state combined total, current dollars, FY 2009–FY 2018 | | | | | | | | | | | 10,255.56 |
| **Spending Projections: Analytic Section** | | | | | | | | | | | |
| CBO projection of nominal GDP, from President's budget, March 2009 | 14,257.00 | 14,047.00 | 14,576.00 | 15,233.00 | 15,950.00 | 16,684.00 | 17,421.00 | 18,138.00 | 18,873.00 | 19,624.00 | 20,381.00 |
| Ratio, federal welfare as percentage of GDP, based on CBO GDP estimates | 3.66% | 4.35% | 4.78% | 4.56% | 4.37% | 4.33% | 4.27% | 4.25% | 4.30% | 4.29% | 4.31% |
| Ratio, federal and state combined welfare as percentage of GDP, based on CBO GDP estimates | 5.01% | 5.56% | 6.10% | 6.20% | 5.97% | 5.95% | 5.92% | 5.95% | 6.04% | 6.08% | 6.15% |
| White House projections of nominal GDP, from President's budget | 14,281.00 | 14,291.00 | 14,902.00 | 15,728.00 | 16,731.00 | 17,739.00 | 18,588.00 | 19,415.00 | 20,279.00 | 21,181.00 | 22,124.00 |
| Ratio, federal welfare as percentage of GDP, based on White House GDP estimates | 3.66% | 4.28% | 4.68% | 4.42% | 4.16% | 4.07% | 4.01% | 3.97% | 4.00% | 3.98% | 3.97% |
| Ratio, federal and state combined welfare as percentage of GDP, based on White House GDP estimates | 5.00% | 5.47% | 5.97% | 6.00% | 5.69% | 5.60% | 5.55% | 5.56% | 5.62% | 5.63% | 5.66% |
| State spending on Medicaid in current dollars (0.748 of federal Medicaid expenditures) | 150.6 | 128.6 | 149 | 195.7 | 202.4 | 217.3 | 233.8 | 253.7 | 273.5 | 294.4 | 317.6 |
| Other state means-tested spending, current dollars (0.128 of federal non-Medicaid) | 41.17 | 41.8 | 43.5 | 53.7 | 52.8 | 53.5 | 53.6 | 53.6 | 55.3 | 55.8 | 56.4 |
| Consumer Price Index projected inflation from OMB budget | 3.8% | –0.6% | 1.6% | 1.8% | 2.0% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% | 2.1% |
| Assumed rate of medical inflation | | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% |
| Federal means-tested total spending, constant 2008 dollars | 522.25 | 604.20 | 673.86 | 656.67 | 641.01 | 646.84 | 648.78 | 653.25 | 667.88 | 674.57 | 683.41 |
| State medicaid spending, constant 2008 dollars | | | | 177.02 | 177.09 | 183.86 | 191.34 | 200.79 | 209.31 | 217.92 | 227.36 |
| State spending other, constant 2008 dollars | | | | 48.62 | 46.17 | 45.27 | 43.83 | 42.41 | 42.29 | 41.28 | 40.40 |
| State spending total, constant 2008 dollars | 191.77 | 166.42 | 180.05 | 225.64 | 223.26 | 229.13 | 235.18 | 243.20 | 251.60 | 259.20 | 267.76 |
| **Federal and state combined spending, constant 2008 dollars** | **714.02** | **770.62** | **853.91** | **882.31** | **864.27** | **875.97** | **883.95** | **896.46** | **919.48** | **933.77** | **951.17** |
| **Federal and state combined spending, constant 2008 dollars, FY 2009–FY 2018** | | | | | | | | | | | **8,831.91** |

**Source:** The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

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## Leadership *for* America Ten Transformational Initiatives

This paper is part of the **Entitlements Initiative** and the **Family and Religion Initiative**, two of 10 Transformational Initiatives making up The Heritage Foundation's Leadership for America campaign. For more products and information related to these Initiatives or to learn more about the Leadership for American campaign, please visit *heritage.org*.

American Leadership

Education

Energy & Environment

Enterprise & Free Markets

Entitlements

Family & Religion

First Principles

Health Care

Protect America

Rule of Law

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