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Welfare Spendathon: House Stimulus Bill Will Cost Taxpayers $787 Billion in New Welfare Spending

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The recently passed U.S. House of Representatives stimulus bill contains $816 billion in new spending and tax cuts. Of this sum, $264 billion (32 percent) is new means-tested welfare spending. This represents about $6,700 in new welfare spending for every poor person in the U.S.

But this welfare spending is only the tip of the iceberg. The bill sets in motion another $523 billion in new welfare spending that is hidden by budgetary gimmicks. If the bill is enacted, the total 10-year extra welfare cost is likely to be $787 billion.

The claim that Congress is temporarily increasing welfare spending for Keynesian purposes (to spark the economy by boosting consumer spending) is a red herring. The real goal is to get "the camel's nose under the tent" for a massive permanent expansion of the welfare state.

In the first year after enactment of the stimulus bill, federal welfare spending will explode upward by more than 20 percent, rising from $491 billion in FY 2008 to $601 billion in FY 2009. This one-year explosion in welfare spending is, by far, the largest in U.S. history. But spending will continue to rise even further in future years. The stimulus bill is a welfare spendathon, a massive down payment on Obama's promise to "spread the wealth."

Once the hidden welfare spending in the bill is counted, the total 10-year fiscal burden (added to the national debt) will not be $816 billion, as claimed, but $1.34 trillion. This amounts to $17,400 for each household paying income tax in the U.S.

Even without the extra spending in the stimulus bill, means-tested welfare spending is already at a historic high and growing rapidly. In 2008, federal, state, and local means-tested spending hit $679 billion per year. Without any legislative expansions, given historic rates of growth in welfare programs, federal, state, and local means-tested welfare spending over the next decade will total $8.97 trillion. The House stimulus bill adds another $787 billion to this total, yielding a 10-year total of $9.8 trillion. The total 10-year cost of means-tested welfare will then amount to $127,000 for each household paying federal income tax.

The Current Welfare System. Means-tested welfare spending programs give cash, food, housing, medical care, and targeted social services to poor and low income persons. In a means-tested program, benefits are limited to persons below a specified income level. The cutoff income level varies from program to program but is typically less than 150 percent of poverty, or around $33,000 per year for a family of four.

For example, food stamps and public housing are means-tested (or limited to lower-income persons) while Social Security and postal service are

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not. Means-tested welfare also includes "refundable" tax credits. With a refundable credit program, the government gives cash grants to persons who owe no income tax. Like conventional means-tested programs, refundable credits give aid to poor and lower income persons. Federal welfare spending also includes targeted grants to schools with large numbers of poor students. (This is a relatively small portion of overall federal welfare spending.)

The federal government runs over 50 means-tested welfare programs, including Temporary Assistance to Needy Families; Medicaid, food stamps; the Earned Income Tax Credit (EITC); the Women, Infants, and Children food program; public housing; Section 8 housing; the Community Development Block Grant; the Social Services Block Grant; and Head Start.

New Welfare in the Stimulus Bill. The House stimulus bill overtly increases federal welfare spending by $264 billion. Most of this spending will occur in the first two years after passage. For example, if enacted, the House stimulus bill will spend an additional $88 billion in means-tested welfare aid in FY 2009, an increase of more than 20 percent above prior spending levels. Federal welfare spending (including small increases built into existing law) will rise from $491 billion in FY 2008 to $601 billion in FY 2009. This one-year spending explosion (by far the largest in U.S. history) will not be a byproduct of unemployment generated by the recession but the result of a deliberate expansion of welfare eligibility and benefits by President Obama and Congress.

Camel's Nose in the Tent. While $264 billion in new welfare spending may seem like a lot, it is only the tip of the iceberg. If the stimulus bill is enacted, the real long-term increase will be far higher. This is because the stimulus bill pretends that most of its welfare benefit increases will lapse after two years. In fact, both Congress and President Obama intend for most of these increases to become permanent.[1] The claim that Congress is temporarily increasing welfare spending for Keynesian purposes (to spark the economy by boosting consumer spending) is a red herring. The real goal is a permanent expansion of the welfare system.

The notion that Congress intends to temporarily increase Pell grants and EITC benefit levels for just two years and then allow benefits to fall back to their original status is out of touch with Washington reality. Any Congressman who, two years from now, suggests that the new welfare spending be allowed to lapse to pre-stimulus levels would be pilloried for slashing welfare.

"Spread the Wealth" Tax Credit. A major new welfare program in the stimulus bill is Obama's "Make Work Pay" refundable tax credit. This credit represents a fundamental shift in welfare policy. At a cost of around $23 billion per year, this credit will provide up to $500 in cash to low income adults who pay no income taxes. For the first time, the government will give significant cash to able-bodied adults without dependent children. Since most of these individuals have little apparent need for assistance, the new credit represents "spreading the wealth" for its own sake.

The lack of connection between this credit and "economic stimulus" is evident in the fact that the first payments under the program will not be made until April 2010.[2] This refundable credit is not included in the stimulus bill because of its "stimulus" effect. Instead, the inclusion of this new welfare program makes good on an Obama presidential campaign promise. While the stimulus bill claims this new credit will terminate after two years, President Obama and the congressional leadership clearly intend it to be a permanent part of a new, much larger welfare state.

Hidden Welfare Spending. There are another six welfare expansions in the stimulus bill that will

1. The one exception is the increase Federal Medical Assistance Percentage (FMAP) in the Medicaid. The House bill temporarily increases the FMAP which determines the share of Medicaid spending paid by the federal government, resulting in a cost of $88 billion to the federal government over two years. This expenditure represents a massive financial bailout of state governments. It is likely to result in some increase in aggregate Medicaid spending and some displacement of state Medicaid spending; the increase in FMAP is unlikely to become permanent.

2. The other refundable credits in the bill will also have little spending effect before 2010.

almost certainly become permanent if the bill is enacted. These include expansions to food stamps, the EITC, the refundable child credit, Medicaid eligibility standards, Pell grants, and Title I education grants. Added to the "Make Work Pay" refundable credit, the aggregate annual cost of these welfare expansions will be nearly $60 billion per year.

The claim that these welfare expansions in the stimulus bill will lapse after two years is a political gimmick designed to hide their true cost from the taxpayer. If these welfare expansions are made permanent—as history indicates they will—the welfare cost of the stimulus will rise another $523 billion over 10 years.[3] The total 10-year cost of welfare increases in the bill will not be $264 billion but $787 billion. The overall 10-year fiscal burden of the bill (added to the national debt) will not be $814 billion but $1.34 trillion.

Welfare Spending Already at Historic High. Even without the stimulus bill, means-tested welfare spending in the U.S. is already at a historic high and growing rapidly. In 2008, federal, state, and local means-tested spending hit $679 billion per year. This vast outlay was the result of a fairly steady growth in welfare spending over the last two decades and is not a temporary surge due to the recession.[4] Without any legislative expansions, given historic rates of growth in welfare programs, federal, state, and local means-tested welfare spending over the next decade will total $8.97 trillion.[5] The House stimulus bill will add another $787 billion to this total, yielding a 10-year total of $9.8 trillion. The total 10-year cost of means-tested welfare will amount to $127,000 for each household paying federal income tax.

A Trojan Horse. The welfare provisions in the Senate stimulus bill are very similar to those in the House bill. Both bills use the idea of economic stimulus as a Trojan horse to conceal massive, permanent increases in the U.S. welfare system. The goal of the bills is "spreading the wealth," not reviving the economy.

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3. Assumes a 4 percent annual increase in the outlays of these provisions.
4. Many conservatives have fooled themselves into thinking that the growth of the welfare state was ended by the "welfare reform" of 1996. In fact, welfare reform affected only one federal welfare program out of 50; the rest of the welfare state was unaffected.
5. Assumes a 5 percent annual growth in current outlays; this is less than the historic average.