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Stimulus Bill Abolishes Welfare Reform and Adds New Welfare Spending

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A major public policy success, welfare reform in the mid-1990s led to a dramatic reduction in welfare dependency and child poverty. This successful reform, however is now in jeopardy: Little-noted provisions in the U.S. House of Representatives and U.S. Senate stimulus bills actually abolish this historic reform. In addition, the stimulus bills will add nearly $800 billion in new means-tested welfare spending over the next decade. This new spending amounts to around $22,500 for every poor person in the U.S. The cost of the new welfare spending amounts, on average, to over $10,000 for each family paying income tax.

Ending Welfare Reform. The welfare reform of 1996 replaced the old Aid to Families with Dependent Children (AFDC) with a new program named Temporary Assistance to Needy Families (TANF). The key to welfare reform's reduction in dependency was the change in the funding structure of AFDC.[1]

Under the old AFDC program, states were given more federal funds if their welfare caseloads were increased, and funds were cut whenever the state caseload fell. This structure created a strong incentive for states to swell the welfare rolls. Prior to reform, one child in seven was receiving AFDC benefits.

When welfare reform replaced the old AFDC system with TANF, this perverse financial incentive to increase dependence was eliminated. Each state was given a flat funding level that did not vary whether the state increased or decreased its caseload. In addition, states were given the goal of reducing welfare dependence (or at least of requiring welfare recipients to prepare for employment).

The House and Senate stimulus bills will overturn the fiscal foundation of welfare reform and restore an AFDC-style funding system. For the first time since 1996, the federal government would begin paying states bonuses to increase their welfare caseloads. Indeed, the new welfare system created by the stimulus bills is actually worse than the old AFDC program because it rewards the states more heavily to increase their caseloads. Under the stimulus bills, the federal government will pay 80 percent of cost for each new family that a state enrolls in welfare; this matching rate is far higher than it was under AFDC.

It is clear that—in both the House and Senate stimulus bills—the original goal of helping families move to employment and self-sufficiency and off long-term dependence on government assistance has instead been replaced with the perverse incentive of adding more families to the welfare rolls. The House bill provides $4 billion per year to reward states to increase their TANF caseloads; the Senate bill follows the same policy but allocates less money.

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Unnecessary Changes. Proponents of the stimulus plan might argue that these changes are necessary to help TANF weather the current recession. This is not true. Under existing TANF law, the federal government operates a TANF "contingency fund" with nearly $2 billion in funding that can be quickly funneled to states that have rising unemployment. It should be noted that the existing contingency fund ties increased financial support to states to the objective external factor of unemployment; it specifically avoids a policy of funding states for increased welfare caseloads, recognizing the perverse incentives this could entail.

If the authors of the stimulus bills merely wanted to provide states with more TANF funds in the current recession, they could have increased funding in the existing contingency fund. But they deliberately did not do this. Instead, they completely overturned the fiscal and policy foundations of welfare reform.[2]

Writing in *Slate*, liberal commentator Mickey Kaus criticizes the stimulus bill welfare provisions as a "liberal conspiracy to expand the welfare rolls."[3] He laments, "Why use the aid specifically to encourage expansion of *welfare*?… At the very least the extra aid to the states shouldn't be triggered by *caseload expansion*. (You could, for example, give states aid in proportion to their local unemployment rate.)"[4] These are reasonable suggestions; the authors of the stimulus bills pursued a different policy precisely because they wish to overturn welfare reform and increase dependence on government.

Welfare Spendathon. But overturning welfare reform is just the beginning. In his recent press conference, President Obama explained that the stimulus bill would provide "tax relief" and "direct investment" in infrastructure. He neglected to mention that of the $816 billion in new spending and tax cuts in the House stimulus bill—32 percent or $264 billion—is new means-tested welfare spending, providing cash, food, housing, and medical care to poor and low income Americans.[5] (The figure in the Senate bill is about 15 percent lower.)

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 would be, 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."

Hidden Welfare Spending. 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. The claim that Congress is temporarily

1. Although much emphasis has been placed on the time limits on assistance in the new TANF program, in reality, the time limits were full of loopholes and largely symbolic.
2. Under the bills, the new TANF funding structure will ostensibly last only two years; in reality, the fundamental changes to TANF provided in the bill are intended to be permanent.
3. Mickey Kaus, "The Money Liberal Conspiracy at Work," *Slate*, February 10, 2009, at *http://www.slate.com/blogs/blogs/kausfiles/archive/2009/02/10/the-money-liberal-conspiracy-at-work.aspx* (February 11, 2009).
4. Mickey Kaus, "Hello? GOPs? Your Favorite Wedge Issue Is Coming Back," *Slate*, February 7, 2009, at *http://www.slate.com/blogs/blogs/kausfiles/archive/2009/02/07/hello-gops-your-favorite-wedge-issue-is-coming-back.aspx* (February 11, 2009).
5. Welfare programs are programs specifically designed to aid poor and low income persons. Most are means-tested aid programs giving 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. For example, food stamps and public housing are means-tested (or limited to lower income persons) while Social Security and the postal service are 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.)

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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 House and Senate bills contain a half dozen or more new welfare entitlements or expansions to benefits in existing programs.[6] The pretense that these welfare expansions 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.[7]

Once the hidden welfare spending in the bill is counted, the total 10-year cost of welfare increases will not be $264 billion but $787 billion. This new spending will amount to around $22,500 for every poor person in the U.S. The cost amounts, on average, to over $10,000 for each family paying income tax in the U.S.

The overall 10-year fiscal burden of the bill (added to the national debt) will not be $814 billion but $1.34 trillion. To this figure must be added the interest on the debt issues to finance this spending deluge.

A Trojan Horse. Both the Senate and House stimulus bills are Trojan horses that deliberately exploit anxiety about the current recession to conceal their destruction of the foundation of welfare reform and a massive expansion of the welfare system. Since its enactment in the mid-1990s, such reform has proven to be a very successful policy that dramatically reduced welfare dependency and child poverty. The fact that the stimulus proponents seek to conceal the bill's massive permanent changes in welfare is a clear indication that they understand how unpopular these changes would be if the public became aware of them. Far from an exercise in "unprecedented transparency"—as President Obama claims—the stimulus bills are an example of unprecedented deception.

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6. There are seven welfare expansions in the House Stimulus bill that will 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. The bill also creates a new "Make Work Pay" refundable credit. The aggregate annual cost of these welfare expansions will be nearly $60 billion per year. The Senate bill contains all of these programmatic welfare increases except the expansion of Medicaid eligibility.
7. Assumes a 4 percent annual increase in the outlays of these provisions.