

ISSUE BRIEF

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How to Get Welfare Spending Under Control

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Since the beginning of the War on Poverty, government has spent nearly \$20 trillion (adjusted for inflation) on means-tested welfare assistance for the poor. Means-tested programs provide cash, food, housing, medical care, and social services to poor and low-income Americans. Another name for these programs is assistance to the poor or anti-poverty spending.

Currently, total annual welfare spending costs taxpayers nearly \$1 trillion annually. The majority of welfare spending is funded by the federal government, making welfare spending a significant portion of the federal budget. Prior to the recession, one dollar in seven in total federal, state, and local government spending went to means-tested welfare. For every \$1.00 spent on Social Security and Medicare, government spends 76 cents on assistance to the poor

or means-tested welfare. President Obama has increased welfare spending by one-third since entering office.

President Obama's budget plan is unsustainable. It is crucial that Congress make it a priority to get welfare spending under control. To accomplish this, welfare spending should be returned to pre-recession levels once the economy recovers. Congress can do this by establishing a cap on future welfare spending, adjusted for inflation. Going forward, aggregate federal welfare spending should increase no faster than the rate of inflation. Over the next decade, this cap would save taxpayers \$2.7 trillion.

Means-Tested Welfare or Aid to the Poor. Means-tested welfare or aid to the poor consists of government programs that provide assistance exclusively to poor and lower-income individuals.¹ These programs are unique from non-welfare benefit programs for the general population—such as Social Security, Medicare, and Unemployment Insurance—in that they do not require recipients to make a prior fiscal contribution to be eligible for benefits. Today, the federal government operates approximately 80 such means-tested welfare programs to provide cash, food, housing, medical care, social services,

training, and targeted education aid to poor and low-income Americans.

Government spending on welfare programs amounts to nearly \$1 trillion annually. In fiscal year (FY) 2011, total federal welfare spending was \$717 billion, state contributions into federal welfare programs added another \$201 billion, and independent state programs cost about \$9 billion. Altogether, this amounts to \$927 billion.

Roughly 100 million persons, or one-third of the population, receive means-tested benefits each month. Dividing total welfare spending by the number of recipients yields a per-recipient cost of \$9,200, or nearly \$37,000 for a family of four. Although certain categories of individuals—namely the disabled and elderly—receive substantially higher assistance than other recipients,² the fact remains that the ratio of welfare outlays relative to the population served is very high.

History of Welfare Spending. Welfare spending has increased dramatically since President Lyndon B. Johnson launched his War on Poverty. Adjusting for inflation, welfare spending was 16 times greater in FY 2011 than in 1964.

Means-tested welfare spending was 1.2 percent of gross domestic

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product (GDP) at the beginning of the War on Poverty, had increased to around 3.5 percent of GDP by the 1980s, and in the early 2000s had jumped to slightly under 5 percent. By 2011, welfare spending had reached 6.1 percent of GDP. Under Obama's budget plan, welfare spending will not decline as the current recession ends but will remain at 6 percent of GDP for the next decade.

Welfare Is the Fastest Growing Part of Government Spending.

During the past two decades prior to the recession, means-tested welfare was the fastest growing part of government spending, outpacing Social Security, Medicare, public education, and national defense. While much of the growth is due to the increase in means-tested medical benefits, most other forms of welfare aid grew dramatically as well.

Over the 20-year period between FY 1989 and FY 2008, total means-tested spending increased by 292 percent. The increase in combined Social Security and Medicare spending was 213 percent over the same period.

Today, the U.S. now spends 50 percent more (adjusting for inflation and population growth) on means-tested

cash, food, and housing than it did in the 1990s. In fact, the welfare state has expanded dramatically since reform allegedly "ended welfare as we know it" in 1996.

Now, under President Obama's FY 2013 budget plans, means-tested welfare will continue to expand significantly over the next decade: total annual means-tested spending will be permanently increased from 5 percent of GDP to 6 percent. By 2022, combined annual federal and state spending will reach \$1.56 trillion. Overall, President Obama will spend \$12.7 trillion on means-tested welfare over the next decade. This will cost over \$130,000 for each taxpaying household in the U.S.

Congress Can Help. Congress should:

- Return total means-tested welfare spending to pre-recession levels, adjusted for inflation, when the current recession ends and
- Cap aggregate welfare spending increases in subsequent years to inflation. This type of spending cap would save the taxpayers over \$2.7 trillion during its first decade.

Holistic Reform. Sound policies to aid the poor should be developed holistically, with policymakers and the public fully aware of the magnitude of overall spending. Additionally, welfare should be reformed to ensure that it promotes self-sufficiency rather than government dependency by promoting provisions such as work requirements for able-bodied adults.

After decades of increasing welfare spending with poverty rates remaining unchanged, it is time to get spending under control and likewise important to reform the welfare system to promote self-sufficiency through work. As Senator Jeff Sessions (R-AL) noted in a February Senate committee hearing, "No longer can we measure compassion by how much we spend on poverty but how many people we help to lift out of poverty."

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1. The only exception is a small number of means-tested programs that provide aid to low-income communities rather than individuals.
2. The per-capita cost of medical care for elderly persons in nursing homes is particularly high; however, as such spending is less than one-tenth of overall means-tested spending, its exclusion would not greatly alter the figures in the text.