

Four Liberal Poverty Proposals That Would Harm the Poor

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KEY TAKEAWAYS

Liberal policymakers want to go beyond responding to the COVID-19 crisis and fundamentally alter the principles and foundations of America's welfare system.

These misguided policies would end up hurting low-income Americans by discouraging work and encouraging them to stay stuck in welfare programs.

There is a better path forward already passed by Congress for helping the poor and providing targeted relief—while getting more Americans back to work.

The arrival of COVID-19 in the U.S. at end of March led to one of the sharpest economic downturns in U.S. history. The unemployment rate peaked in April at 14.7 percent. This caused immediate and unprecedented financial ramifications for the millions of Americans who were suddenly unemployed—particularly low-income Americans. While there has been an uptick in the economy—10.6 million jobs were added between May and August, and the unemployment rate fell to 8.4 percent—many low-income Americans remain on the edges of the economic recovery.

During the past few months, prominent liberal policymakers have offered proposals that go beyond responding to the COVID crisis: Instead they would fundamentally alter the foundations of welfare support in the U.S. These approaches include permanently increasing safety-net benefits; erasing

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the expectation that low-income Americans work or prepare for work in exchange for temporary welfare benefits; guaranteeing a Universal Basic Income for all Americans, including middle- and high-income individuals; and doubling the federal minimum wage to \$15 an hour.

These proposals sharply contrast with the temporary and targeted solutions to respond to the coronavirus challenges that were passed by Congress with bipartisan support and signed into law in the first months of the pandemic in order to counter *immediate* fiscal effects Americans faced from the lockdowns. This *Issue Brief* will summarize these broader welfare-related policy proposals that go beyond the immediate problem, as well as their long-term effects on low-income Americans—and why they would ultimately harm the very people they are intended to help.

The Left's Goal: Permanent Welfare Increase

Congress took action to protect low-income Americans from the worst effects of a closed economy with temporary and targeted increases to the federal safety-net programs.¹

- First, they established an unprecedented \$600-per-week federal bonus on top of state Unemployment Insurance (UI) benefits. The benefit lasted until the end of July, when it was replaced by an Executive Order that provided a state option to continue the increased benefit at \$300/week.²
- In the food stamp program, Congress also increased the average five-person-family benefit from \$528 to \$768 per month for the duration of the public health emergency.
- Finally, in Medicaid, Congress provided all 50 states with a 6.2 percent increase in the federal matching rate until the end of the emergency period—and excluded the \$600 UI cash benefit from calculations of individuals' Medicaid eligibility, thereby considerably expanding Medicaid eligibility.

All of these increases were expressly tied to the COVID emergency.

Liberals in the U.S. House of Representatives, on the other hand, proposed permanent increases to both benefits and eligibility standards. The Democrat-controlled House passed the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act.³ This 1,800-page, \$3 trillion

package contains a liberal wish list of policies. This includes a 15 percent food stamp increase that would last beyond the public health emergency through September 2021. It would also extend the \$600-per-week UI increase through the end of 2020. (In subsequent negotiation, the liberals called for extended benefits through the first quarter of 2021.) In addition, the Congressional Progressive Caucus has also proposed complete forgiveness of rental and mortgage payments⁴ through the end of the pandemic.

A major reason that safety-net transfer benefits are limited is because research confirms that as safety-net benefits become more generous and eligibility expands up the income scale, individuals likewise become more likely to choose welfare over work.⁵ Higher benefits increase the likelihood that single-parent families will be drawn out of the labor force and onto the welfare rolls—as well as increasing the length of stay of those on welfare. For instance, when examining the now-expired \$600 benefit, the Congressional Budget Office concluded that extending the \$600 benefit into 2021 would reduce employment and output, creating a smaller economy for everyone—and particularly limiting job opportunities for lower income workers.⁶

The goal of the original “War on Poverty” was never to construct an economy in which people would be dependent on ever-increasing welfare benefits. The goal should be helping people gain independence by expanding the economy in ways that open doors and foster opportunities for everyone.

The Left’s Goal: Eliminate Work Expectations for the Work-Capable

Work is key to exiting poverty and overcoming government dependency. There are work expectations in a few key federal transfer programs, primarily the Supplemental Nutrition Assistance program (food stamps) and Temporary Assistance to Needy Families (TANF) program. Even in a strong economy, these work expectations are fairly limited: They ask individuals who are able to work or prepare for work for a minimum of 20 hours per week. Food stamp work requirements only apply to work-capable individuals, that is, adult beneficiaries who do not have any children or other dependents in the home. States are able to exempt single parents with children under 6 who do not have access to childcare from TANF work requirements, and most states do.

A strong economy lifts all boats—if low-income Americans have access to work. The end of 2019 saw employees of all kinds witnessing their incomes rise at the sharpest rate⁷ in a decade. The bottom 25 percent of workers in particular saw a 4.5 percent increase from a year earlier—and the largest

gains in real median income were for minority groups.⁸ While the COVID recession represents a setback for workers' progress, a strong economy can restore those gains.

When the economy dips, as in the current COVID downturn, the welfare system already automatically pauses these work requirements until the economy improves. However, liberals in the House are seeking to permanently prohibit the implementation of work requirements⁹ in the Supplemental Nutrition Assistance Program.

The primary reason for work requirements is simple: They decrease poverty by increasing work. After the bipartisan reform during the 1990s, the U.S. cash transfer safety net was revolutionized to require work when Congress replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families.

Before the 1996 welfare reform, nearly one in seven children were supported by AFDC. The replacement—TANF—created work expectations and set a five-year limit on benefit receipt. As summarized by the Council of Economic Advisers, “Between 1996 and 2000, TANF receipt by single mothers fell by 53 percent, their employment rate increased by 10 percent, and their poverty rate fell by 20 percent.”¹⁰ Other studies confirm the Council's findings.¹¹

In addition, programs with work expectations improve child outcomes.¹² Those who were formerly dependent on welfare became productive economic contributors to society, improving their lives and the lives of their families.

The Left's Goal: Universal Basic Income

The proposal to provide a Universal Basic Income (UBI) has become another popular liberal response¹³ to poverty in recent years, and the proposal gained more traction in the midst of the pandemic. House liberals introduced the Emergency Money for the People Act.¹⁴ This bill would immediately pay \$2,000 a month to every American over 16 who currently makes less than \$130,000 annually for a minimum of six months, without work expectations. This would amount to at least \$12,000 in welfare/transfer payments to typical households—including a household with \$260,000 in income from two earners.

This policy has all the hallmarks of policy failure. UBI intentionally moves away from requiring that an individual work or look for work, returning to the pre-1990s cash-benefit structure of handouts rather than offering a “hand-up,” taking vulnerable Americans off a work trajectory. UBI increases dependency by separating low-income families from work.

UBI is also an incredibly expensive policy proposal. Middle-income and moderately high-income families would get a check. By sending \$2,000 per month to most Americans, the policy intentionally directs resources away from the truly needy.

The anti-work effects of this type of program have been clearly demonstrated. For example, four controlled random assignment experiments have shown that this type of cash transfer program without work requirement significantly *reduces* employment and earnings among recipients.¹⁵ Ironically, the drop in labor and earnings are sizable enough to largely offset the added benefits received. Each \$1,000 in new welfare payments leads to a \$660 drop in earnings among recipients; in consequence, the programs are extremely inefficient at raising overall income.

The Left's Goal: Double the Federal Minimum Wage

Another prevalent liberal proposal has been to increase the federal minimum wage to \$15 an hour.¹⁶ Liberals promote this policy believing that increasing the minimum wage will lift low-income people above the federal poverty line.¹⁷ But, as the Congressional Budget Office reported in 2019,¹⁸ this policy would also cost 1.3 million working Americans their jobs. Unlike policies like the Earned Income Tax Credit (EITC)¹⁹ that target additional funds to low-income Americans who work, simply raising the minimum wage redistributes resources among low-wage households, creating winners and losers, while also permanently eliminating some low-wage jobs.²⁰

The very people who most need to be on a work trajectory are the first to be shown the door—or never hired—in the first place. According to research by Joseph Sabia and Richard Burkhauser, when the State of New York increased the minimum wage 10 percent, the result was 6.5 percent job loss among workers 16 to 29 without a high school degree, with the largest losses occurring among the youngest individuals with the least experience. Employment declined 8.9 percent among 16-to-19-year-olds.²¹ This is important because minimum wage jobs are stepping stones to higher-income jobs and careers (most people earn the minimum wage for less than a year), but excessive minimum wages make it hard for those with limited education to get a foot in the door to a higher-income job.

Multiple economic studies have concluded that the minimum wage is a poor tool for reducing poverty among single mothers, primarily because most earn well above the minimum wage or do not work. Moreover, the EITC already increases a \$7.25 minimum wage to \$10.15 for a single parent with two children. Minimum wage increases can hurt the least-educated

single mothers, however. According to a study by Joseph Sabia that examined minimum wage increases between 1992 and 2005, “a 10 percent increase in the minimum wage was associated with an 8.8 percent reduction in employment and an 11.8 percent reduction in annual hours worked” among single mothers without a high school education.²² It could be that when forced to compete with other minimum wage workers—such as teenagers still living at home with their parents—single parents are at a disadvantage because their family duties and constraints could affect their work availability. By creating survival-of-the-fittest labor markets among workers with little education and experience, higher minimum wages cut the bottom rung of the economic ladder off for the most vulnerable.²³

Conclusion

These liberal proposals would constitute a lasting restructuring of Americans’ safety net. While progressive proposals purport to aid low-income Americans during this time of crisis, they go far beyond the targeted and temporary support Congress provided as a bridge through the pandemic.²⁴

If implemented, these broader proposals would end up having the opposite effect. They would direct resources away from the truly needy; make it more likely that low-income Americans would depend on the safety net; and separate the most vulnerable from work, despite its being key to exiting poverty and dependency. At best, they would waste taxpayer funds—and at worst they would harm lower-income Americans by incentivizing long-term dependency.

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