Minimum Wage and Welfare: The Tradeoff

by Phyllis Sch/a.fly *January 7, 2014*

The Democrats have selected raising the minimum wage as THE issue to protect them from public opposition to the Obamacare fiasco which is dimming their prospects for retaining the Senate in the 2014 elections. But raising the minimum wage may actually be worth considering if it has the side benefit of cutting the gigantic total of our hidden welfare programs.

Yes, hidden. We call the welfare state "hidden" because most people have no idea that it has grown to nearly a trillion dollars a year. And most people think "welfare" goes all or mostly to the unemployed, whereas the truth is that most of it goes to working families whose income is below a government-designated poverty line.

The hidden welfare state has mushroomed into a massive complex of at least 79 means tested programs doled out by at least nine federal agencies, plus state funds. Included in this welfare total are food stamps (for which spending has doubled since 2007), TANF, the Earned Income Tax Credit, housing aid, energy assistance, child care, and Supplemental Security Income, not even counting the new subsidies in Obamacare.

Since the end of the Reagan Administration, our $937 billion in welfare handouts have grown beyond any relation to actual need. So-called welfare has grown faster than growth in our economy, our population increase, the rise in the poverty rate, and annual federal expenditures on defense, education, Social Security, or Medicare.

Seventeen years after Bill Clinton said "we are ending welfare as we know it," welfare spending as a percentage of our national output has nearly doubled, from 2.2 percent of GDP in 1989 to 4.3 percent in 2013. People who earn wages near the poverty level supplement their incomes with an array of federal benefits, including food stamps. Medicaid, child care, and cash wage subsidies, plus school lunch (and breakfast) for their kids.

All these programs and handouts are based on someone's income level. If raising the minimum wage raises the individual above the government-prescribed poverty level, raising the minimum wage could be a benefit for taxpayers.

Robert Rector of the Heritage Foundation, the country's expert on welfare statistics, has concluded that: "Since the beginning of the War on Poverty, government has spent $19.8 trillion (in inflation-adjusted 2011 dollars) on means-tested welfare. In comparison, the cost of all military wars in U.S. history from the Revolutionary War through the current war in Afghanistan has been $6.98 trillion (in inflation-adjusted 2011 dollars). The War on Poverty has cost three times as much as all other wars combined."

Rector says that 100 million Americans now receive benefits from at least one of the 79 programs. The bipartisan welfare reform of 1996 actually reformed only one of the 79 programs, and Barack Obama gutted the heart of that reform by illegally eliminating the "work" requirement.

The temptation to cheat is always present. The Census Bureau reported that one quarter of single moms receiving generous taxpayer cash and benefits actually have a partner living in the house whom she doesn't marry (and doesn't report) because marriage would reduce her government handouts.

The EITC (Earned Income Tax Credit) lifted 5.7 million wage earners above the poverty line in 2011, but the EITC is full of all sorts of fraud. The Treasury's inspector general reported that more than $110 billion in payments were given out during the past decade to people who were not qualified.

Welfare pays more than a minimum-wage job in 35 states, according to a Cato Institute study, and welfare in 13 states pays more than $15 an hour. Remember, welfare benefits are tax free, so their dollar value is even greater.

Legislation to raise the minimum wage would elevate many low-wage earners above the income threshold that qualifies them for benefits and should result in reduced welfare spending. That's a tradeoff Republicans could support.

A good example of how our so-called welfare program is subsidizing and incentivizing bad behavior was illustrated on Sean Hannity's May 11, 2013 TV interview with a young man who fathered 22 children with 14 different mothers. The U.S. taxpayers, of course, are supporting them all.

The man was proud of his achievement, didn't have a job, didn't pay child support, believes it is the duty of the taxpayers to support them all, and defiantly looks forward to creating more kids with more women. Our welfare system makes this travesty possible; it's much worse than the famous "welfare queen" who became notorious back in 1976.

In order to reduce our slide into massive dependence on government, Congress should restore effective work requirements, tighten eligibility requirements, aggressively go after fraud, and make large cuts in total spending on handouts. Raising the minimum wage might make it possible to legislate fair and sensible improvements.