The Biggest Fraud in Welfare

The government gives tens of thousands of dollars in benefits to the poor, which it doesn't count as income.

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Something is profoundly wrong with the U.S. welfare system—a problem that runs far deeper and is more dangerous than the shocking fraud in Minnesota that has been making headlines.

Across the past half-century, America has seen what in any other country would be considered a golden age, in which lower-income households have made incredible progress. Despite the end of our postwar economic dominance around 1975, the country's real per-capita gross domestic product grew by 142% from 1974 to 2024. More than two-thirds of U.S. households have inflation-adjusted incomes today that would have put them in the top one-fifth of households in 1967. Sixty-two percent of the children who grew up in the poorest fifth of all households in the '70s and '80s worked their way up to a higher income bracket as adults, some all the way to the top quintile.

Yet even as our economy has experienced broad-based growth, real **federal welfare spending** has soared by 765%, more than twice as fast as total federal spending, and **now costs $1.4 trillion annually.** Were that money simply doled out evenly to the 19.8 million families the government defines as poor, each household would receive more than $70,000 a year.

The source of this dramatic mismatch is a fraud built into how various programs determine welfare eligibility: The government doesn't count any refundable tax credits or benefits that aren't paid in cash as income to the recipients.

Some claim this is appropriate because the beneficiaries aren't free to spend noncash benefits on whatever they like. But that is a specious argument, because money is fungible. Receiving Medicaid, for example, frees up cash that would otherwise be spent on healthcare, allowing the recipients to spend the newly freed cash on other things. Noncash benefits aren't in the end that different from income—except that salaries are taxed while government benefits aren't. And individual welfare programs often don't even count benefits paid in cash as income for the purpose of gauging eligibility.

The government's failure to count its largess as recipients' income allows welfare households to blow past the income level above which a working family no longer qualifies for government help. ***<u>Take a single parent with two school-age children who earns $11,000 annually from part-time work.</u>*** **The government considers this household in poverty because its income is below $25,273. But this family would qualify for benefits worth $53,128. It would receive Treasury checks of $3,400 in refundable child tax credits and $4,400 in refundable earned-income tax credits. The family would also receive Food Stamp debit cards worth $9,216 a year, $9,476 in housing subsidies, $877 of government payments for utility bills, $16,033 to fund Medicaid, $3,102 in free meals at school and $6,624 in Temporary Assistance for Needy Families. All this puts the family's income at $64,128, or 254% of the poverty level.**

A hardworking family earning anything like $64,128 in salary wouldn't be eligible for any of these welfare benefits in four-fifths of the states. Meanwhile, the welfare family would be eligible for another 90 small federal benefits and sundry state and local welfare programs.

According to the Congressional Budget Office and other independent researchers, when all means-tested payments are counted as income, most welfare recipients have incomes that put them in the middle class, and the proportion of poor people in the U.S. falls from more than 10% to less than 1%.

This unjust system also penalizes work. **Unsurprisingly, the percentage of work-age persons in the bottom 20% of income who in fact work has in the last 50 years fallen from 68% to 36%.**

The budgetary effects of these inaccurate income calculations are enormous. Look at what government programs cost minus any dedicated revenue they collect and interest on the debt, which government is obligated to pay. Payroll taxes fund 87% of Social Security spending, requiring an additional $188 billion, or 4% of unobligated spending. Medicare is 45% funded by payroll taxes and uses $478 billion of unobligated spending, or 11%. Defense spending of $851 billion is 20% of unobligated spending. Means-tested welfare programs absorb $1.4 trillion, 34% of unobligated spending, and the rest of the federal government spends $1.3 trillion, or 30% of unobligated spending.

If the government simply gave every poor family in America enough money to raise its income above the official poverty level, it would cost only $240 billion. That would reduce the annual deficit by two-thirds.

In light of the mounting evidence of rampant benefits fraud, Congress should institute a comprehensive audit of all means-tested programs. But it should start with removing the largest fraud in welfare—the government's gross overstatement of poverty. President Trump should issue an executive order requiring the Census Bureau to count all welfare benefits received from the government as income to the recipients. Then Congress should codify the executive order and require that all means-tested programs use the corrected Census income definition to determine eligibility for welfare payments.

At a minimum, the resulting debate would inform the public about the bias in how the government measures income and how that bias has promoted welfare benefits that give recipients a standard of living that most middle-income families struggle to enjoy. The debate would force spending advocates to defend a wasteful and unjust system. Welfare reform would not only help the nation begin to deal with its budget problems, but could be a powerful issue in American politics headed into the 2026 elections for those willing to champion it.

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