

## TAX CREDITS AND ENTITLEMENTS GONE AWRY

January 25, 2025

“As the snow flies; on a cold and gray Chicago mornin’ a poor little baby child is born . . . in the ghetto . . . and his mama cries; cause if there’s one thing that she don’t need it another hungry mouth to feed . . .” So begins “In the Ghetto” by Elvis Presley. By the song’s end, things don’t turn out well for the child—he is killed. Per the end of the song, the cycle repeats.

This article is designed to explain how the current system of tax credits and entitlements with respect to low to middle income persons in the U.S. supports what Elvis sung about. It will also note some presumably undesirable consequences, including disincentive to earn more money for some and discouragement of marriage in most cases.

In the 1990s, the U.S. welfare system was reformed and “welfare as we know it” (per then President Bill Clinton) came to an end. But it was largely replaced with a tax credits and entitlements system that placed people in virtually the same place, except with a clear requirement that they work some, go to school some, or do something productive, some.

An analysis of how our tax credits and entitlements systems with respect to low to middle income persons shows it currently does the following: (a) incentivizes single parenthood; (c) incentivizes single moms to have more kids; and (c) discourages many from earning more money while tailoring their earnings downward to come out ahead; and (d) generally discourages marriage.

When welfare was reformed in the 1990s, Congress did something it rarely does: It placed in the amending statute a list of the objectives it was trying to achieve. 42 U.S.C. § 601(a) provides:

The purpose of this part is to increase the flexibility of States in operating a program designed to-

- (1) provide assistance to needy families so that children may be cared for in their homes or in homes of relatives;
- (2) end the dependence of needy parents on government benefits by promoting job preparation, work and marriage;
- (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (4) encourage the formation and maintenance of two-parent families.

As will be shown below, although welfare has been greatly reduced, the expansion of tax credits and entitlements—in the way they have been expanded—has effectively nullified any progress due to welfare reduction or elimination with respect to most of these objectives.

## **Major Low to Moderate Income Tax Credits and Entitlements**

*Tax Credits.* The three main tax credits available to low to moderate income taxpayers and households are the earned income credit (Code § 32), the child tax credit (Code § 24) and the dependent care credit (Code § 21). In addition, for those not receiving Medicaid health coverage or other government-based health coverage, the Obamacare health credit (Code § 36B) is available for employed persons if minimal essential health coverage (as defined in Code § 5000A(f)) that is affordable (as defined in Code § 36B) isn't available.

The "welfare to work" attitude is found in the way the tax credits and entitlements are structured. The tax credits necessitate wages or other compensation to trigger their benefits, without demanding any specified level of activity. In contrast, the entitlements are mixed bag, with some (e.g., SNAP—food stamps) requiring work activities or other productive activities in order for benefits to be payable.

The earned income credit (EIC) is a refundable credit. The general credit is 34 percent of the income earned for taxpayers with one child. For two children, the general credit is 40 percent of earned income. For three or more children, the general credit percent is 45. Earned income is limited to the earned income amount. For 2023, it was \$11,750 for one child and \$16,510 for two or more children. The credit percent is phased down (and eventually out) as adjusted gross income (or, if greater, earned income) increases over the phaseout amount. For 2023, the phaseout amount for single taxpayers was \$21,560. The 2023 married filing jointly phaseout amount was \$28,120. Under subsection (l) of § 32, the EIC paid by the IRS is not considered income for purposes of various other benefits, including Section 8 housing and SNAP benefits (discussed below). So, as children increase, the credit generally increases, and as income increases, the credit generally decreases. Standing alone, the credit incentivizes keeping income low and having more kids. According to the Congressional Research Service, *The Earned Income Tax Credit (EITC): How it Works and Who Receives It*, Nov. 14, 2023, the EIC is "the largest need-tested antipoverty program that provides cash benefits." \$72 billion of benefits were paid in 2023.

The child tax credit is potentially partially refundable; otherwise, it reduces tax liability. In terms of amount, it is not as significant as the EIC for lower income households. The maximum credit for 2023 was \$2,000 per child. However, it is available to many more households because the income limitations are much less stringent. For 2023, the credit was available in full to married persons filing jointly until modified adjusted gross income (MAGI) exceeded \$400,000. For all other taxpayers, it's available in full as long as MAGI doesn't exceed \$200,000. Above these amounts, the credit phases out at a rate of \$50 per each \$1,000 or fraction thereof above the threshold. The per child credit is generally refundable to the extent of 15 percent of earned income in excess of \$2,500, but not to exceed \$1,400 as indexed for inflation (\$1,600 for 2023). The child must be under age 17 as of the end of the tax year. So, like the earned income credit, the more children, the greater the credit. It is the federal government's largest direct outlay on kids; \$121 billion of benefits were paid in 2023.

The dependent care credit is not refundable. The rate starts at 35 percent, and quickly works its way down to 20 percent, as income increases. The reduction is at the rate of one percentage point for every \$2,000 (or fraction thereof) of AGI in excess of \$15,000. Costs incurred to care for a child under 13 (generally including day care) and costs for household services qualify, assuming they were incurred to enable the taxpayer to be gainfully employed. Expenses are limited to \$3,000 for one qualifying child and \$6,000 for two or more qualifying children.

As Obamacare was enacted, Obamacare credits were meant to automatically kick in as a person no longer qualified for Medicaid. In other words, if one didn't qualify for Medicaid, one would automatically qualify for Obamacare, assuming not eligible for coverage meeting statutory requirements from a different source. But the U.S. Supreme Court upset that apple cart in 2012, when it ruled in *NFIB v. Sebelius*, 567 U.S. 519 (2012), that states could not be required to implement such an automatic transition as a condition of receiving Medicaid funding. Most states adopted the automatic transition (with Medicaid applying until income exceeds 138 percent of the federal poverty level), and there has been a gradual transition of more and more states applying it. But, some haven't done so, including Georgia. In Georgia, abled-bodied working adults qualify for Medicaid only if their income doesn't exceed the federal poverty level (FPL). In contrast, a much higher income limit exists for Georgia children. So, in Georgia, it's common for lower income parents to be covered by Medicaid or Obamacare, while their kids are covered by Medicaid (called "Peachcare").

When Obamacare applies, it potentially provides huge benefits, covering much of the costs of coverage for lower and middle income persons and households eligible to participate. Basically, as modified AGI (generally, AGI) increases in excess of the FPL, benefits (tax credits) decrease, with the percentage of health care paid by the individual increasing as modified AGI increases, with full phase-out of benefits once modified AGI exceeds 400 percent of the FPL. At modified AGI levels slightly above the FPL, almost all premiums are covered, assuming the coverage acquired is the second lowest cost silver premium coverage for the locality. Coverage can cost more if a pricier plan is purchased, or less, if a less pricey plan is purchased. It's the consumer's choice. In this regard, Obamacare created four different levels of coverage: bronze, silver, gold, and platinum. Private insurers provide the coverage. The coverage value is so great that, for many small employers, there is disincentive to establish a health plan. (It's financially better to simply pay employees a little more and let them get Obamacare benefits.)

*Entitlements.* Medicaid is generally available to low-income people and their family members. It ordinarily is free or costs very little. Most of the funding is supplied by the federal government, with the remainder provided by the states. Generally, for lower income persons, one is either eligible for Medicaid or Obamacare, if affordable minimum coverage is not available.

The most significant entitlement that is widely available to low to moderate income persons is, by far, Supplemental Nutrition Assistance Program ("SNAP") benefits, formerly known as food stamps. It is authorized by the Food and Nutrition Act of 2008, so it's outside the tax system. A

total of \$113 billion was spent on SNAP in 2023; 2019 SNAP spending was \$60 billion. Unlike the tax credits, that analyze income or AGI, etc. for eligibility, this entitlement has a work or work substitute requirement. SNAP benefits eligibility is analyzed on a household basis, regardless of marital status. Both gross income and net income must fall below certain thresholds, based on household size. If these figures fall below both thresholds, the benefits generally are substantial. If above, no benefits are available. (Per 7 U.S.C. §2011, the program “includes as a purpose to assist low-income adults in obtaining employment and increasing their earnings.” But, don’t earn too much.) Households receive an allotment figure (i.e., expected food costs) that is then reduced by 30 percent of their net income. Benefits can only be redeemed for certain food items. SNAP is fully funded by the U.S. government. States certify eligibility and issue benefits. State have different policies regarding eligibility, including the work requirement.

At least in recent years, the second most significant entitlement for low to moderate income persons and households in many states has been the child and parent services (CAPS) benefit. It is akin to the child and dependent care tax credit described above. There is an income limit that, if and when exceeded, results in ineligibility to receive benefits. Before September 1, 2024, the Georgia threshold for initial eligibility was 50 percent of the state’s median income (SMI). After August 31, 2024, it is 30 percent of SMI. Once eligible, a household’s income can rise to as high as 85 percent of SMI without resulting in a loss of, or reduction to, benefits. A COVID temporary expansion in Georgia once made the initial eligibility limit 85 percent of SMI. When benefits are payable, particularly in recent years due to COVID-19, the benefits are very substantial. Due to increased funding under the American Rescue Plan Act of 2021, many states, including Georgia, reimbursed eligible families all their out-of-pocket costs for childcare services. In October 2023, Georgia scaled back these benefits, by requiring households to pay for part of their care, but the maximum required generally is seven percent of income. States run this program, and finding out how things really work can be difficult. Like SNAP, adults must work or go to school, etc. to be eligible to receive benefits. In Georgia in 2024, generally at least 24 hours of such activities must take place each week.

Other commonly received benefits with smaller price tags are the Special Supplemental Nutrition Program for Women and Infant Children (WIC), Low Income Home Energy Assistance Program (LIHEAP), cell phones (Lifeline) and free or reduced school breakfasts and lunches. WIC is generally available to low income women with children and pregnant low income women with a “nutrition risk.” Only certain foods qualify, and store shelves generally note what qualifies. Both WIC and SNAP benefits can be received, and those eligible for SNAP benefits automatically qualify for WIC benefits. Otherwise, the WIC income limit is 185 percent of the FPL. For LIHEAP, a family’s income must be equal to or less than 60 percent of median income for a Georgia family of equal size. For Lifeline, income must generally be 135 percent of the FPL or less, except SNAP and Medicaid recipients are automatically eligible. If income is 130 percent of the FPL or less (based on household income), free school breakfasts and lunches are available. If income exceeds 130 of the FPL but does not exceed 185 percent of the FPL, reduced costs

breakfasts and lunches are available. Local school districts set costs. Reduced cost breakfasts and lunches usually cost very little.

Other entitlements exist but are much less frequently available. An example of one that can produce very substantial benefits is the Housing Choice Voucher Program (formerly known as Section 8 housing). Under it, tenants pay no more than 30 percent of their income for rent and utilities. Income can be as great as 80 percent of the median income for the local county without losing benefits (although it must be 50 percent or less to become initially eligible). A lottery system is used to determine those who will become newly eligible to receive the benefit.

For almost all tax credits and entitlements, less income and more kids means more benefits. As noted somewhat above, the tendency has been for tax credits and entitlements for low to moderate income persons to only increase. In this regard, it's somewhat akin to the expansion of the ability to "write off" large purchases of equipment and other business assets under Code sections 168 and 179. Congress takes the vote-buying easy route. How is it funded? As noted below, largely by debt. Of particular interest here are CAPS benefits, for which COVID-19 funding ran out in 2024.

### Analysis of Households under the Current System

Below is an analysis of how the current system works with respect to sampling of single, married, and cohabitating persons. Below the chart, the various columns are analyzed. The analysis shows the Congressional objectives in reforming welfare are not being met by this combined tax credits and entitlements system.

SNAP calculations:																						
Column from above:	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>19</u>	<u>20</u>	<u>21</u>	<u>22</u>
Number in household:	1	2	2	3	3	4	4	1	1	3	3	3	4	4	4	5	5	5	4	4	4	3
Maximum monthly benefit:	292	536	536	768	768	975	975	292	292	768	768	768	975	975	975	1158	1158	1158	975	975	975	768
Gross monthly income:	2083	2083	1250	2083	1250	2083	1250	2500	3333	2917	3750	4583	3750	2917	4583	3750	2917	4583	2917	3750	4583	2667
Gross income limitation:	1632	2215	2215	2798	2798	3380	3380	1632	1632	2798	2798	2798	3389	3380	3380	3963	3963	3963	3380	3380	3380	2798
Ineligible based on gross?	Yes	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes	No	Yes	Yes	No
Standard deduction:		204	204	204	204	217	217							217		254	254		217			204
Earned income deduction:		417	250	417	250	417	250							583		750	583		583			533
Net inc bef exc shel deduc		1463	796	1463	796	1450	783							2116		2746	2079		2116			1929
Excess shelter ded (below):		440	712	431	712	438	712							388		73	398		388			206
Net income		1023	84	1032	84	1012	71							1728		2673	1682		1729			1723
Ineligible based on net inc?		No	No	No	No	No	No							No		No	No		No			No
Net income x .3		307	25	310	25	304	21							519		802	504		519			517
Subtracted from max ben:		229	511	459	743	672	954							457		356	654		456			251
x 12		2750	6130	5502	8914	8058	11444							5478		4273	7843		5477			3013
Excess shelter deduction:																						
Shelter expenses:																						
Rent		1000	1000	1000	1000	1000	1000							1250		1250	1250		1250			1000
Gross utilities		200	200	200	200	200	200							225		225	225		225			200
Less: LIHEAP		-29	-38	-38	-38	-38	-38							-29		-29	-38		-29			-29
Equals shelter expenses:		1171	1163	1163	1163	1163	1163							1446		1446	1438		1446			1171
Net inc bef ex shel deduc		1463	796	1463	796	1450	783							2116		2746	2079		2116			1929
x .50		731	398	731	398	725	392							1058		1373	1040		1058			965
Pre-limit exc shel expense		440	765	431	765	438	771							388		73	398		388			206
Limit:		712	712	712	712	712	712							712		712	712		712			712
Excess shelter deduction		440	712	431	712	438	712							388		73	398		388			206

People can disagree about the assumptions made in the above chart, in terms of costs of renting an apartment or the costs of food, etc. Many lower to moderate income households purchase their clothing from Goodwill, etc., paying very little. Some of the merchandise sold at Goodwill is brand new. Hand-me-downs are also common, as are gifts from relatives and friends. For most low income persons, the above chart shows being single and having kids produces a net cash flow positive outcome relative to being married with the same number of kids. And having more kids while remaining single increases the positive outcome.

Column 1 shows a single person struggling to get by making \$25,000/year. The person would need to change lifestyle to make her numbers work, absent receipt of gifts or borrowing. But having a child and paying someone to care for the child while she works (Column 2) nets her roughly \$3,000. Adding a second child while remaining single (Column 4) nets her roughly an additional \$6,000. Adding another child while remaining single (Column 6) adds over \$2,000 more. And she now has three children without a father. (“As the snow flies . . .”)

Let’s say she decides to, instead of continuing to work full-time, work part-time and make \$15,000, in part so she can spend more time with her child or children. Column 3 shows doing so would result in little change in net income from being single and making \$25,000 (column 1). Column 5 shows adding a second child while remaining single increases cash flow by roughly \$4,000. Having another child (Column 7) increases cash flow another \$2,000.

But what if she was to marry? Add the results of Column 8 and 9 to Columns 3, 5 and 7, and compare them to the married equivalents in Columns 11/12, 14/15 and 17/18. The combination of Columns 8/3 produces a net of (\$6,435), while Column 11 produces (\$10,732). The combination of Columns 8/5 produces a net of (\$2,277), while Column 14 produces (\$4,705). The combination of Columns 8/7 produces a net of (\$265), while Column 17 produces \$2,192. The combination of Columns 9/3 produces a net of (\$316), while Column 12 produces (\$5,910). The combination of Columns 9/5 produces a net of \$3,842, while Column 15 produces (\$8,923). The combination of Columns 9/7 produces a net of \$5,854, while Column 18 produces \$1,847. With one exception, being married with the same number of children and the same income is a financial loser. And the differences are generally significant. Comparing columns 13-15 to columns 19-21, cohabitation with kids is an economic winner relative to being married with kids. “Houston, we have a problem.”

As noted above, childcare assistance will likely be cut, with pandemic funds drying up. So, let’s take the figures from the immediately preceding paragraph except assume state childcare benefits are cut in half, as pandemic funding dries up. (These figures are in the chart, just below the above figures.) The combination of Columns 8/3 produces a net of (\$9,125), while Column 11 produces (\$10,732). The combination of Columns 8/5 produces a net of (\$8,240), while Column 13 produces (\$9,076). The combination of Columns 8/7 produces a net of (\$6,229), while Column 16 produces (\$2,180). The combination of Columns 9/3 produces a net of (\$3,006), while Column 12 produces (\$5,910). The combination of Columns 9/5 produces a net of (\$2,121), while Column

15 produces (\$8,923). The combination of Columns 9/7 produces a net of (\$110), while Column 18 produces (\$2,175). Again, with one exception, being married with the same number of children and the same income is a financial loser. Clearly, there is little or no logic to these results.

Column 10 shows how a married couple with one child and household income of \$35,000 comes out—negative \$12,512. Yet if income was reduced by \$3,000 to \$32,000 (see column 22), they'd come out over \$3,000 ahead, mainly because the decrease in income would result in eligibility for SNAP benefits. SNAP benefits are all-or-nothing; there is no phase-out. It's easy to see how those close to the edge would want to reduce income to come out ahead.

Obviously, the numbers need to work. People would/will adjust their situation to make their numbers work. Some people may receive gifts from relatives. Some will work multiple jobs. Others may borrow to the extent feasible. Some may steal. Some may underreport income. But the chart shows how difficult it can be for honest, law-abiding lower income people to make it.

Many people want to have kids. It's just a question of who'll pay for them. In some cases, making more money means living a worse lifestyle. The welfare reform objectives of Congress are not being met, and the above hodgepodge of tax credits and entitlements is largely to blame.

### Charities

Put simply, most charities helping low to moderate income people are great and indispensable. People potentially receive a tax deduction for contributions, although the 2017 Tax Act greatly reduced the ability of individuals to itemize and benefit from contributions to charities.

In the Atlanta metro area, charities helping out include the Midtown Assistance Center (MAC) and The Atlanta Community Food Bank. MAC helps low income working people and households on a short-term basis when a work interruption, etc. occurs. It might pay a month or two of rent or help someone with transportation or support in finding a new job. The Atlanta Community Food Bank provides food to low-income people and families.

All sorts of nationwide charities exist that provide aid to low-income people and families. They include The Salvation Army, Food for the Poor, Feed the Children and Goodwill. (Goodwill also provides job opportunities. )

### **Studies of Problems Created by the Current System**

Many have studied the problems incident to current system, including an explosion in single parenthood. A recent (2023) book by Melissa A. Kearney titled “The Two-Parent Privilege” pulls together a lot of analysis done over the years by many different persons. In the preface of her book, Ms. Kearney states:

Based on the overwhelming evidence at hand, I can say with the utmost confidence that the decline in marriage and the corresponding rise in the share of children being raised in

one-parent homes has contributed to the economic insecurity of American families, has widened the gap in opportunities and outcomes for children from different backgrounds, and today poses economic and social challenges that we cannot afford to ignore—but may not be able to reverse.

Well said. We need to reverse them. Of course, that would mean less reliance of government, something that many in federal office have no interest in whatsoever.

Some of Ms. Kearney’s findings follow. On p. 2, she notes “college-educated adults are more likely than non-college-educated adults to get married and to raise kids in two-parent homes.” At p. 7, Ms. Kearney notes: “Over the past 40 years, there has been a dramatic decline in the share of children living with married parents; this shift has happened largely outside the college-educated class.” She notes that in 2019, only 63% of children in the U.S. lived with married parents, down from 77% in 1980. But there was little change in the family structure of children whose mother has a four-year college degree. Most of the change relates to less educated people. At p. 9, Ms. Kearney notes this matters “[b]ecause children who grow up without two parents in their home are at a substantial disadvantage relative to kids who do.” She then notes there are “. . . mounds of social science evidence that shows how the odds of graduating high school, getting a college degree, and having high earnings in adulthood are substantially lower for children who grow up in a single mother home. The odds of becoming a single parent are also substantially higher for children who grow up with a single mother . . .” BINGO! She then states: “It is an economic imperative for the United States to break this cycle, and doing so will require coming at the problem from all dimensions.”

On p. 14, Ms. Kearney notes “. . . the disproportionate growth of single-parent households among America’s non-college-educated population is both a reflection of and a source of growing inequality—if left unchecked, these class divisions will deepen and perpetuate across generations.” And, at p. 15, she notes: “Marriage is the most reliable institution for delivering a high level of resources and long-term stability to children.”

Ms. Kearney notes the distinction between marriage and cohabitation. At p. 65 she notes: “[T]he practical truth is that, to date, there has been no alternative institution to marriage that is characterized by the same long-term partnership and commitment in the United States.” At p. 28, she cites a study (the Fragile Families and Child Wellbeing Study) that provided the following regarding unwed mothers who had just given birth:

74% of the unmarried mothers and 90% of the unmarried fathers said they believed that their chances of marrying the other parent were 50% or better. But by the time of their child’s fifth birthday, only a third of the unmarried parents were still together. Furthermore, new partners and new children were common, leading to high levels of instability and family complexity. A third of the fathers had virtually disappeared from their children’s lives.

At p. 31, Ms. Kearney notes:

White and Asian children are significantly more likely to live with married parents, as compared to Hispanic and Black children. In 2019, 77% of White children and 88% of Asian children lived with married parents. The share among Hispanic children was 62%. Only 38% of Black children lived with married parents—a historically low share that reflects a downward trend over four decades.

Ms. Kearney then notes “a sizeable racial gap in family structure existed before the late twentieth century, though it widened in the 1960s and 1970s.” The “Great Society” began in the 1960s.

On p. 32, Ms. Kearney wrote: “In 2019, almost half of all babies in the US were born to unmarried mothers. This figure represents a dramatic increase since 1960, when only 5% of births were to unmarried mothers.” **THAT’S A HUGE CHANGE!** (At p. 48, citing a study, Ms. Kearney notes in 1960, for Blacks, only 20% of households were headed by a single mother.)

On p. 43, Ms. Kearney quotes Barack President Obama from a 2008 speech when he said: “We need to help all the mothers out there who are raising these kids by themselves . . .” (As noted elsewhere herein, entitlements and tax credits have increased, producing financial help but also continuing and expanding the system of dependency and single parenthood.) At p. 44, Ms. Kearney notes what these single mothers need: “They need another parent.” Possibly most important to the analysis of this article, at p. 45, Ms. Kearney states:

Some, but not all, of the gaps in children’s outcomes are statistically attributable to the fact that married-parent households have higher income, which is important because it means policy makers can take steps to close these gaps by increasing the income of single-mother families. But it also means that even if policy makers were to *dramatically* scale up government support and shrink gaps between one- and two-parent families, there would still be meaningful differences in children’s experiences and outcomes.

Citing a study, at p. 53, Ms. Kearney notes: “. . . children of mothers who were never married have substantially lower income in adulthood than the children of continuously married parents . . .”

At p. 72, Ms. Kearney points out the share of Americans who are married is at a historic low. In 2020, 60% of men and 63% of women were married. That compares to 87% of men and 83% of women in 1970. **THAT’S A HUGE CHANGE!** And when children exist, they lose.

A p. 79, Ms. Kearney cites a study that found “many women don’t marry the father of their child because they do not see him as a reliable source of economic security or stability . . . many appear to have a higher bar for a potential spouse than their partners—and the fathers of their children—have met.” So, these women get pregnant by guys who they deem unworthy of marriage, and the public will largely financially support their decision through tax credits and entitlements.

To this author, that's a bit much to stomach. At p. 93, Ms. Kearney notes: "in a nutshell, most people generally want to have kids, but kids are expensive." As of now, as the numbers in the chart point out, a lot of the expense is being borne by U.S. taxpayers. As noted below, much is also being funded by debt.

At pp. 97-100, Ms. Kearney makes her case "why we can be confident that cash welfare has not been the driver of the changes of family structure we have witnessed over the past 40 years." She then focuses on welfare and (correctly) notes how it has diminished. But her analysis fails to note the corresponding increases in tax credits and entitlements that largely replaced welfare benefits. She cites language from the 1996 welfare reform act (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996) noting the importance of marriage to a successful society. On p. 99, she cites a 2018 census data set and notes the "annualized family income among unpartnered-mother households averaged \$50,403. The lion's share of this amount came from earnings: 82%, or \$41,365." She then said: "On average, benefits from means-tested transfer programs (including, but not limited to TANF and SSI) accounted for only 2% of family income, or \$1,055 . . ." Analyzing the numbers from the chart above, assuming they are accurate and means-tested transfer programs includes tax credits and entitlements, these conclusions are incorrect—at least for low to moderate income single mothers.

On pp. 114-115, Ms. Kearney notes the following findings:

For White, Black, Hispanic and Asian mothers, married mothers spend more time in childcare and with their children than do unmarried mothers. . . . But married dads tend to spend more time with their children than unmarried dads. . . . Dads with four-year college degrees spend the most amount of time in childcare, even though they also spend the most hours in paid work . . . Dads without a high school degree spend the least amount of time in childcare, even though they also work the fewest hours . . ."

At p. 127, Ms. Kearney notes her belief that to address the problems and challenges, ". . . the US is going to have to do much more than we currently do to alleviate the material burdens of low-income families. By making families more economically secure, parents (whether single or married or unpartnered or cohabitating) will be better able to provide for their children, better equipped to give their children safe, enriching childhood experiences, and more likely to send their children out into the world prepared to thrive and reach their human potential." So, the government needs to spend more money to fix these problems. If you had asked an American 100 years ago about how to deal with such problems and challenges (if they had then existed), the common answer would have been: "People who have kids need to take care of and raise their kids."

In Chapter Six, Ms. Kearney notes how boys, in particular, are struggling due to lack of a father in the home. At p. 130, she cites a 2019 study that concluded "a high incidence of Black dads in neighborhoods is one of the strongest positive predictors of upward mobility rates for Black boys in the same neighborhood." At p. 135, Ms. Kearney cites a study that found "single mothers

spend relatively less time engaging in childcare-related activities with their sons as compared to their daughters.” At p. 138, she notes: “it is impossible to ignore the fact that Black children are substantially more likely than White, Hispanic, and Asian children to be raised without a father in the home.” At p. 139, she notes research showing “the presence of more dads in a neighborhood benefits not just the children of those dads but other boys in the neighborhood as well.”

In the end of her book, Ms. Kearney recommends more money be spent by the U.S. government to solve the problems. At p. 176, she says she “would endorse a massive infusion of federal resources into public universities and community colleges that educate and train millions of Americans each year.” She then notes there is a strong case to be made for expanding the EITC (EIC). At p. 181, she states: “For too long, the US has offered scant material assistance to single-mother families out of fear that if the government made it too ‘easy’ for women to raise children on their own, many mothers would choose to raise their children without a father figure present.” She then gets back to her welfare analysis and, at p. 182, says the “US system of material support for low-income families should include a meaningful cash allowance or child tax credit for low-income families with children, along with a combination of in-kind support though public health insurance, food assistance, housing assistance, and publicly provided or subsidized high-quality early-childhood education programs.” But, as noted above, most or all these things now exist. And the unmarried mothers problem has proliferated. I submit: If all assistance was cut off to unmarried mothers having kids and the assistance money moved to married persons with children, these problems would get solved. And they would get solved quickly. (I don’t recommend such.)

### **Questions and Observations**

The current system raises a lot of questions. One is whether it’s beneficial to society in general for any mom with an infant or two or more young children to be doing a significant amount of work outside the household. The entitlements aspect of “welfare to work” generally demands such. Perhaps all concerned would be better off if such a mom was spending virtually all her time with her child/children. Of course, if a responsible husband (or other mate) exists to help take care of the child/children, the ability for the mom to take on work without detriment to anyone exists.

The “cliff” nature of SNAP benefits is odd and not beneficial. Looking back at the chart, consider columns 10 and 22. By making \$3,000 less, the household comes out roughly \$3,000 ahead. Surely how this system works is widely known by low to moderate income persons, thus producing jockeying to keep income low enough to come out ahead. As an aside, there are seminars discussing means of becoming eligible for nursing home care paid by Medicaid. The seminars often get into means of getting both income and net worth down to take advantage of not only nursing home Medicaid, but also a slew of other entitlements available to lower income elderly persons. Is it good that we are creating a system whereby one is wealthier by being poorer?

Returning to Elvis and “In the Ghetto,” the song provides: “People don’t you understand, the child needs a helping hand, or he’ll grow to be an angry young man someday.” It then

questions: “Take a look at you and me; are we too blind to see? Or do we simply turn our heads and look the other way?” From reading at the Kearney book, it seems a lot of people are concerned about the issue and not just turning their heads away. Who is mainly responsible? It’s certainly not the child. The blame lies somewhere with the mother, the father, and society in general. Congress acts for society. Why can’t Congress focus on these matters and reach a compromise? I think it largely lies in Republicans seeking tax cuts mainly for the wealthy when in power (while ignoring these issues), and Democrats seeking expansion of tax credits and entitlements while in power, with some blend thereof that doesn’t get the job done when power is shared.

As the Kearney book notes, there is something outside finances that is causing the tremendous shift from two-parent married households to single mom scenarios. Prior to the 1970s, divorce was generally frowned upon. It meant failure. Then, in the 1970s, the shame was quickly gone. Did this change relate to the significant single-mom entitlements enhancements of the “Great Society” that began in the 1960s? Is it connected to a weakening of the power of religious institutions? In 2016, Donald Trump was largely lionized for not paying any taxes. If he had lived and done so in the 1940s during the height of World War II, he would likely have been considered a traitor. How can the pendulum swing back? Perhaps making significant economic changes to the tax credits and entitlements system that encourage marriage with children and discouraging single mom situations would induce moral changes.

### **The National Debt and the Nation’s Financial Problem in General**

Financially, the U.S. system does not work on a long-term basis. Solutions to the problems noted above need to be undertaken in light of the national debt. In this regard, in 2007, when total federal debt was less than \$9 trillion, the Government Accountability Office (GAO) said: “GAO’s current long-term simulations continue to show ever larger deficits resulting in a federal debt burden that ultimately spirals out of control.” Now, total debt is approximately \$36 trillion. Federal revenue FYE September 30, 2024 was \$4.92 trillion; spending was \$6.75 trillion.

Most on the “left” would argue more money needs to be given in some way. But, according to the Congressional Budget Office (CBO), interest paid on the national debt exceeded military spending by the U.S. *in 2024*. The gap between interest and military spending only grows hereafter. By 2034, net interest expense is expected to be 3.9% of GDP, while defense spending is expected to be 2.5% of GDP. And net interest expense is then expected to consume 22% of total federal revenue. Given what happened on January 6, 2021, at what point do the natives become restless?

Absent significant tax hikes (and few in either of the major parties are talking about such), spending needs to be cut everywhere or virtually everywhere. Otherwise, the realistic options for dealing with the matter are, in the short term, reduced Fed rates (assuming Treasury rates will follow, as they generally have in the past) and, in the long-term, reducing interest obligations or debt obligations (or both) through some sort of bankruptcy-type reorganization and/or printing a

heck of a lot of money (to water down the debt). None of these options are good for investors, including seniors with those IRA and 401(k) accounts.

No one wants their program cut and most want more money. But, absent significant changes, we do not have a system that will endure.

In February 2024, the CBO forecast the following: (1) the percentage of debt held by the public to Gross Domestic Product (GDP), which averaged 48.3% from 1974-2023, was 97.3% in 2023 and is expected to grow to 116% of GDP in 2034; (2) net interest expense, which averaged 2.1% of GDP from 1974-2023, is expected to grow to 3.9% of GDP in 2034; and (3) debt held by the public is expected to grow from \$26,240 billion in 2023 to \$48,300 billion in 2034. History shows, in large part because the CBO must assume current laws will apply and expire as written, CBO generally underestimates future debt, and often by a lot. It's no secret Congress usually makes popular tax cuts and temporary entitlement enhancements permanent, while not cutting spending. Also, in making these assumptions, it used relatively low Treasury rates, averaging around 4%. President Trump has pledged to make the 2017 tax cuts permanent, while exempting tips and overtime from taxation.

The financial statements of the United States for the year ended September 30, 2024 also paint a pretty grim picture. Page 14 provides: "The current fiscal path is unsustainable." Assets totaled \$5.6 trillion, and existing liabilities totaled \$45.5 trillion. Total outlays of \$7.4 trillion exceeded total inflows of \$5 trillion. Most alarming are the projected 75-year sustainability figures for Social Security and Medicare. The present value of the revenues is \$143 trillion, and the present value of the outlays (excluding interest) is \$221 trillion. The net shortfall is \$78 trillion. These figures assume Social Security and Medicare payments will continue after their "trust funds" have been depleted. According to the Federal Reserve Bank, the total net worth of all Americans and nonprofits combined in the fourth quarter of 2024 was \$169 trillion. So, in order to pay these amounts without expanding debt, almost half of the net worth of Americans will need to be consumed—assuming no major changes in policies.

In his 2021 book titled "The Changing World Order," Ray Dalio wrote (p. 85):

History shows that when an individual, organization, country, or empire spends more than what they earn, misery and turbulence are ahead. History also shows that countries that have higher percentages of people who are self-sufficient tend to be more socially, politically, and economically stable.

At p. 125, Dalio notes four levers policy makers can pull to bring debt and debt service levels down. They are: (1) austerity (spending less); (2) debt defaults and restructurings; (3) raising taxes on those who have more than they need and transferring of the money to those who have less than they need; and (4) printing money and devaluing it. He then notes that "**printing of money is the most expedient, least well-understood, and most common big way of restructuring debts.**" At p. 169, he notes: "Those governments that have the option to print money always do so because

that is the much less painful path, but it leads investors to run out of the money and debt that is being printed.” The U.S. government has the option to print money. (Quantitative easing is, substantively, printing money.)

### **Possible Means of Achieving Congress’s Objectives in Light of the National Debt Situation**

While not enough, many people are interested in solving these problems. However, many who understand the above child/marriage problems don’t understand and appreciate the gravity of the debt problem. A common solution for them is to “throw more money at the problem.” Annual spending on interest on the national debt exceeds military spending. And that’s just the beginning. As of now, the debt is growing out-of-control, and throwing more money at the problem should not be an option under consideration. Sorry to those on the far left.

As to the far right, some hard cores will say: Shut it all down immediately. That won’t happen either. Could it all be phased out over many years? Yes, but that’s very unlikely. Until the 1930s, Americans largely took care of themselves and their family members. Was it tough for many? Absolutely. But it worked, and the U.S. grew into a world power in the process, in large part relying on families to provide for their family members. Religious institutions encouraged families and, along with charities, helped out. The system worked and the country flourished. The country is now in despair. Could people adopt to such changes? In the words of a Brit when discussing the “blitz” of 1940 he survived on *The World at War*, people can adapt to almost anything. But what is politically realistic?

What’s practical in light of the national debt and the political system?

Money could simply be shifted, in material amounts, from single moms to married couples with children, at some point in time in the not-too-distant future after enactment (e.g., one year). The current system could remain for existing children, but the future would be very different. The changes could be advertised throughout the nation, so that all would know of them. It appears such a change would only be possible now if the Republicans were completely in power. *In 2025, they are in complete power!* However, in the past, they’ve shown little or no interest in these matters. They don’t involve cutting taxes (that largely benefit the wealthy). For longstanding changes to be made, a bipartisan effort would be needed. But Democrats are only interested in increasing entitlements. It seems few Democrats appreciate the gravity of the debt problem.

A possibility would be to eliminate, with respect to children born more than one year after enactment, increases to tax credits and entitlements that would ordinarily exist due to addition of the child to the household. Numbers could be run with and without the new child, and any savings could be transferred to the child tax credit applicable to married persons with children. For example, in comparing column 2 to column 4, the difference of \$5,943 (i.e., \$4,312-(\$1,631)) would be eliminated. If childcare assistance was cut in half (as provided in the bottom line of the chart above), the difference would be \$1,689 ((\$2,981)-(\$4,670)). Perhaps with such a solution there could be a one child born more than a year after enactment exception, such that a woman

without a child would receive benefits for such one child, but no more. But creating such a one child exception could turn into something akin to China's one child solution. It's probably a bad idea. This solution might sound harsh. But charities can help low to moderate income people, people are supposed to take care of themselves (as they did prior to the Great Society's creation), and government policies are (hopefully obviously) a significant contributing factor to the current mess. It will take substantial change to produce beneficial results. To reduce future deficits, perhaps none or only a percentage of the savings (e.g., 50%) could be transferred.

Another possibility would be to gradually reduce incremental benefits with respect to children born to single mothers one or more years after enactment, so that there is as partial or full phase-out of incremental benefits related to them over a number of years, such as five or ten. Some or all of the savings could be moved to benefit married couples with children. (To reduced future deficits, none or only some of the savings could be moved.) This change would not be as abrupt as the possible solution noted in the preceding paragraph, but it also would not produce the desired changes nearly as quickly.

A very difficult issue is how to financially encourage married children situations without hurting those who are or become divorced due to a bad spouse situation. A blanket married versus single solution could be unfair in those circumstances, but what is a bad spouse situation? Presumably it would include a situation where a perfect spouse became the direct opposite. (What a perfect spouse is, is subject to debate.) What about a situation where someone marries someone because they become pregnant, but quickly divorces the person soon thereafter? State divorce law is supposed to produce justice in divorce situations, while taking children into account.

If whatever was done was simply revenue-neutral, in terms of spending, but it shifted money from encouraging single parenthood and single moms having more kids to encouraging married couples having children in a significant enough manner that greatly reduced single parenthood (while increasing married parenthood), the overall financial result to society in the long run would be *hugely beneficial*. There would be many fewer kids on street corners selling water bottles. There would be many more people who value their life and the lives of others. There would be much less need for the legal system to deal with prisoners. Now, we don't have longsighted leaders.

Aside from moving money saved by eliminating credits and entitlements for single moms having more children on a prospective basis to the child tax credit for married couples with children (as outlined as a possibility above), existing tax credits could be amended to discourage single parenthood and encourage married parenthood. For example, for the dependent care credit of Code § 21, subsection (c) could be amended to have different credits for single parents and married parents. The general credit could be amended to be (instead of the current credits of \$3,000 for one child and \$6,000 for two or more children): (a) \$1,500 for a single parent with one child; (b) \$3,000 for a single parent with two or more children; (c) \$3,000 for a married couple filing jointly with one child; and (d) \$6,000 for a married couple filing jointly with two or more children. Another

option here would be to gradually phase down the single parent credits (from under current law) to a lower amount (perhaps \$0) for children born more than one year after enactment. Similar changes could apply to other tax credits, and to entitlements.

As noted, the tax credits and entitlements are a hodgepodge. There is little or no coordination between any of them. A publication of the Congressional Research Service (CRS) regarding SNAP benefits titled *Supplemental Nutrition Assistance Program (SNAP): A Primer on Eligibility and Benefits*, dated September 8, 2023, provides at p. 3: “The SNAP household definition is different than that used in other means-tested programs . . . However, it is close to those used by some other programs such as the National School Lunch Program . . .” There should be one definition of household, and it should generally require two adults when children exist. The CRS has previously reported on the differing definitions of income for different entitlement programs. Like the definition of household, one definition should exist.

As noted in comparing columns 10 and 22 of the chart, in some cases, income goes up and lifestyle diminishes. This possibility needs to be eliminated. It could be prevented by creating an overarching federal tax credits and entitlements coordination statute, that causes benefits to gradually phase out as income increases. For example, a new Code section 16 could be enacted, to coordinate all tax credits and entitlements for low to moderate income people and households. In such a case, the SNAP statutes, 7 U.S.C. § 2011 *et seq.*, could be amended to be subject to section 16 of Title 26. In such case, subsection (a) of 7 U.S.C. § 2013 could be amended to begin: “Subject to the availability of funds appropriated under section 2027 of this title and section 16 of Title 26, . . .” Section 16 would then place a limit on combined credits and benefits, so that they phase out as income increases. To the extent entitlements are received, and limits exist, it would seem a cafeteria plan type approach should be applied, so that people could take benefits of their choosing, up to their limits.

Obviously, other possibilities exist. It seems a three-part means of attack is necessary. The first is government discouragement of single parenthood, through tax and entitlements reforms, as outlined above. The second is involvement of the religious community. In this regard, both Christianity and Judaism (two major U.S. religions) include marriage as a major tenet of their doctrine. The third is simply individual behavior control. It is likely the most difficult. But if the first two get going, the third will hopefully follow.

The nation’s financial problems need to be dealt with and resolved. A massive legislative undertaking is needed to do so. One should occur that: (a) reforms and simplifies the tax system in a manner that matches annual spending to income outside a recession (or worse) year, while greatly reducing evasion; (b) gradually moves the Social Security normal retirement age and the Medicare eligibility age to 70 or perhaps greater, and then adjusting them every decade starting in a year not too far off in the future (e.g., 2050) for changing life expectancy, so all receive benefits over a constant percentage of life expectancy; and (c) reforms low to moderate income tax credits

and entitlements as outlined above, to discourage single parenthood, encourage married parenthood, and cause all to only benefit by making more money.