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Ensuring Opportunity: Altering Wisconsin's Safety Net to Encourage Upward Mobility

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Executive Summary

Wisconsin, like the nation as a whole, is on the cusp of major change. Even before the COVID-19 pandemic began in 2020, the United States faced a fragile fiscal future, with entitlement spending on programs such as Social Security and Medicare following an unsustainable financial path and the growth in spending on means-tested safety net programs far outstripping inflation. The consequences of this fiscal crisis eventually will affect state governments and their constituents. Federal program cuts or higher taxes, or both, inevitably will create challenges for states wanting to assist their poor and vulnerable populations.

Failed federal safety net policies affect states directly by increasing the need for state funding when federal money runs out and indirectly by requiring states to deal with the consequences of poorly designed programs. However grim, this scenario creates an opportunity for state officials to demand more authority over federal safety net programs, including a willingness to take a larger funding role while assuming more responsibility.

This report outlines what Wisconsin leaders can do to better address poverty in the Badger State through reforms to the federal safety net. Over the past decades, the federal government has assumed a larger role in funding and administering means-tested safety net programs. This has left state leaders with little ability to address flaws in the system such as employment and marriage disincentives, while also giving them little authority to make changes.

By my estimates, Wisconsin residents receive at least $9 billion in federal assistance through means-tested programs, and the state contributes another $3 billion. When we count some of these expenditures in the calculation of the poverty rate, it has declined.

But a crucial question remains: Can more money dedicated to a flawed federal safety net effectively reduce poverty and increase upward mobility for Wisconsin's residents?

Without addressing the underlying causes of poverty, namely limited employment and unmarried parenthood, the answer is no. Big-government proponents want more federal dollars to combat poverty, advocating for child allowances and universal benefits. Instead, state leaders must assume more control over fighting poverty for their residents and design programs in a way that encourages employment and marriage. This demands a shift in how federal safety net programs work and requires state leaders who are willing to take on that responsibility.

Introduction

Historically, the Badger State has been among the lowest poverty states in the nation. Wisconsin benefits from a relatively strong economy, low cost of living and relatively high labor force participation, although the state's aging population presents challenges for the future.[1] This helps explain why 6.8% of people in Wisconsin were in poverty compared to 11.2% of the U.S. population in 2020, according to the Census Bureau's supplemental poverty measure.

At the same time, however, there are pockets of poverty in the state where families face economic vulnerabilities that threaten their livelihoods and hinder their climb up the economic ladder. Wisconsin leaders also face impending workforce challenges with an aging population and disruptions to manufacturing and agricultural sectors.[2] Additionally, the U.S. government is on an unsustainable fiscal path, with growing entitlement programs that continue to strain the federal budget, unprecedented levels of debt and a vulnerability to rising interest rates that will increase the cost of servicing the ever-increasing federal debt. Without reform, the impending U.S. fiscal crisis will severely limit the ability of the federal government to provide for the nation's poor. State leaders must take an active role in ensuring that a safety net exists for the next generation.

In the coming years, the challenge for Wisconsin's leaders will be to maintain the state's progress fighting poverty while ensuring that every family can share in the state's prosperity. This requires a multipronged approach. Foremost, helping families escape poverty requires tax and regulatory policies that support a strong economy, combined with education and training policies that attract and build a skilled workforce. However, reducing poverty and increasing upward mobility also require public assistance policies that give struggling families temporary financial assistance when needed while reinforcing the behaviors necessary to get people back on their feet.

The focus of this report is to outline a safety net approach for Wisconsin that emphasizes employment and family formation as a permanent path out of poverty toward upward mobility. I recommend changes at the federal level that would give states more flexibility in designing programs, while asking states to assume more of the cost. At the state level, I propose restructuring the Wisconsin's safety net infrastructure. The aim is to allow state leaders to design benefit programs in a way that reduces administrative complexity, encourages employment, reduces effective marginal tax rates (i.e., benefit cliffs) and reduces marriage penalties.

Background

What is the Safety Net?

The social safety net involves means-tested government programs that provide cash and in-kind assistance to low-income families and individuals. The federal government funds more than 80 different means-tested programs and services, but the largest programs in terms of expenditures fall into these categories: income support, nutrition assistance, housing and energy assistance, and public health insurance.[3]

The U.S. safety net has a long history of federal, state and local partnerships to fund and operate programs to help poor people. At the country's founding, local organizations and charities played the primary role in addressing poverty. However, beginning with the Social Security Act of 1935, the federal government codified its role to provide cash assistance to poor mothers with children, followed by a major expansion in the federal government's role in the 1960s as part of President Lyndon Johnson's War on Poverty.[4]

By disincentivizing employment and penalizing marriage, it is likely that increasing transfer payments makes it harder for families to escape poverty on their own, leading to persistent low income and limited upward mobility.

Many safety net programs started as a shared responsibility between the federal government and states. Over the years, the federal government passed laws to establish federal safety net programs and authorize funding. The federal government created programs to help poor families meet their basic needs, including food, housing and health insurance. Most programs started by targeting families with children, which remains a focus today, although over time programs expanded to also assist working-age and elderly individuals without dependents.

In many safety net programs, the federal government gives state governments the responsibility for administering programs, including determining eligibility and distributing payments within a framework provided by federal law, while also requiring state governments to share in the costs. However, since the 1990s, the federal government has assumed a larger role in providing direct income support to poor families without state involvement, mainly through the federal Earned Income Tax Credit (EITC), Child Tax Credit (CTC) and Supplemental Security Income (SSI) — all of which are funded and administered entirely by the federal government.

States still play a funding and administrative role in the Temporary Assistance for Needy Families (TANF) program, which also provides income support to low-income families. But since the 1996 welfare reform law, the size and scope of TANF relative to other safety net programs has shrunk tremendously. Consequently, income support to low-income families through the federally operated EITC, CTC and SSI far surpasses assistance provided through TANF in today's safety net *(see Figure 2)*.

The federal government also plays the primary role in funding nutrition assistance programs, including the Supplemental Nutrition Assistance Program (SNAP), formerly known as the food stamp program, and the National School Lunch Program as well as housing and energy programs, such as Housing Choice Vouchers (Section 8) and public housing. However, in Wisconsin as in other states, county offices and local housing authorities administer these programs under state and federal rules and regulations. Families and individuals apply for benefits through county offices, and staff employed by these agencies assess eligibility and distribute benefits.

Medicaid (and the Children's Health Insurance Program, or CHIP) is another major component of the safety net and provides government-funded health insurance to low- and moderate-income families. Medicaid is different from other safety net programs in several ways, including how it operates and how the federal government and states fund it, although it remains means-tested. Medicaid encompasses a complex scheme of funding formulas, eligibility criteria and funded services that differ by state.[5] States play a large role in funding Medicaid, with cost-sharing requirements that range from 10% to 50% of total Medicaid expenditures.

In sum, the evolution of policies has resulted in a safety net for low-income families that combines multiple programs operating through a mix of federal and state funding and administering authority. Some programs are entitlements, meaning that Congress authorizes funding to serve every eligible individual, while other programs are discretionary, meaning that Congress caps program funds and they cannot serve all eligible families. Table 1 summarizes the major federal safety net programs, the federal and state roles in administering them and the federal cost for Wisconsin residents in fiscal year 2019 (prior to the pandemic). Federal expenditures on Wisconsin residents in these select programs totaled approximately $9.1 billion in 2019, with Medicaid accounting for the bulk of federal spending. The State of Wisconsin contributed another roughly $3.6 billion through these safety net programs.

Table 1

Federal income, nutrition, housing and public health insurance programs 2019

Program	Description	Federal cost for Wisconsin residents
	Income support	
Earned Income Tax Credit (EITC)	• The federal government administers the EITC through the Internal Revenue Service. • The EITC provides a lump sum benefit at tax time — which can range from a few hundred dollars to over $6,700 depending on other income in the household and family size — including to those who have no federal income tax liability.[6]	$806 million in federal EITC payments to Wisconsin tax filers.[8] Wisconsin's state EITC totaled $94.1 million in 2019-'20.[9]

	• The EITC phases in at different rates depending on family size starting with the first dollar earned, increasing as earnings rise. • The EITC phases out completely for families with three or more children at $51,000 in annual income (in 2021) and at lower amounts for families with fewer children. • The EITC targets low-income households, with the bottom two-fifths of tax units receiving $59 billion in benefits in calendar year (CY) 2019.[7] • Some states and cities have their own EITC, which they provide in addition to the federal EITC. Wisconsin provides 4%, 11% and 34% of the federal credit to tax units with one, two and three qualifying children, respectively.	
Refundable Child Tax Credit (CTC), also called the Additional Child Tax Credit (ACTC)	• In CY 2022, the federal CTC provided up to $2,000 per child for families with income tax liability, including up to $1,400 per child for families without income tax liability (refundable portion), phasing in at 15% of earnings above $2,500.[10] • The CTC was significantly expanded temporarily for 2021, including by 1) increasing the benefit amount, 2) making the benefit entirely refundable (that is, no longer contingent on work and earnings by recipient adults), and 3) making benefit payments in monthly installments, between July and December 2021. • Maximum annual benefits in 2021 increased from $2,000 per child in 2020 to $3,600 per child (under age 6) or $3,000 per child (ages 6 through 17). • The refundable portion of the CTC targets low-income households, with the bottom two-fifths of tax units receiving $32 billion in benefits in fiscal year 2019.[11] • Wisconsin does not provide a state CTC.	Approximately 244,000 Wisconsin children receive the refundable portion of the CTC, suggesting that the federal government sent $244 million to Wisconsin through the refundable CTC in 2019.[12]
Supplemental Security Income (SSI)	• Monthly cash payment from the federal government for low-income adults unable to work due to age, being blind or otherwise disabled; with benefits ranging from $841 per month for an individual to $1,261 for an eligible couple (in 2021).[13] • Requires an application to the Social Security Administration, and working-age recipients must demonstrate a severe disability that prevents gainful employment, while children are assessed based on the severity of their physical or mental impairments.	$833 million in federal SSI payments to Wisconsin residents.[15]

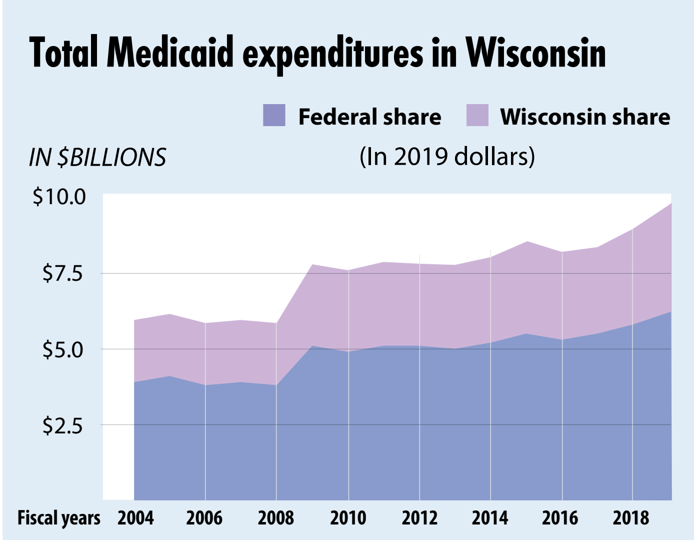
Program	Description	Federal cost for Wisconsin residents
	Income support	
	• Eligibility is generally limited to individuals below the federal poverty threshold, which was $12,880 for a one-person household in 2021. • Wisconsin provides an exceptional expense supplement for recipients of federal SSI who need full-time in-home care. Wisconsin also provides a caregiver supplement.[14]	
Temporary Assistance for Needy Families (TANF)	• Federal block grant administered by the states. • States can use funds to provide various benefits and services, including cash assistance, to low-income families with children. • Direct cash assistance comes with federal time limits and work requirements. • Wisconsin offers several TANF programs, including Wisconsin Works (W-2), which provides cash assistance and job search and training assistance to eligible participants.[16] • As part of W-2, participants in a paid placement receive up to $653 per month depending on the type of placement and hours. They also receive childcare and other supports, such as SNAP and Medicaid.[17]	$312.8 million in federal TANF funds to Wisconsin in FY 2019.[18] Wisconsin provided an additional $275.6 million in FY 2019 in state funds through maintenance of effort requirements,[19] with 13% in direct cash assistance, 35% for childcare, 12% for tax credits and 25% for other services.[20]
	Nutrition assistance	
Supplemental Nutrition Assistance Program (SNAP)	• SNAP, formerly known as the food stamp program, provides a monthly benefit from the federal government to low-income households for food and beverages. • Non-working able-bodied adults without dependents are subject to time limits for benefits, which generally have been waived in recent years. Wisconsin reinstated the work requirement in 2015, and it was suspended statewide in 2020 due to the pandemic. • SNAP benefits range from $250 per month for a one-person household to $992 per month for a family of five (FY 2022).[21] • Gross income must be below 130% of the federal poverty threshold for most household types to be eligible.	$778.4 million in federal benefits to Wisconsin households in FY 2019.[22]

	• States administer SNAP through local offices and share the administrative costs with the federal government. States also partly fund employment and training programs. Wisconsin's program is called FoodShare.	
	Housing and energy	
Housing (Housing Choice Vouchers and public housing)	• Provides assistance in two forms: tenant-based assistance (vouchers to eligible families used for housing costs) and project-based assistance (assigned an apartment in public housing). • Administered by state/local housing authorities. • Voucher amounts vary by state and follow fair market rent guidelines. Public housing assigns apartments to eligible recipients. Both programs generally require families to contribute 30% of income toward housing costs. • Funding is limited, and not all eligible families receive assistance.	$186.3 million to Wisconsin households.[23]
	Public health insurance	
Medicaid	• Medicaid is a joint federal and state program that provides health insurance to low-income individuals and families who lack coverage. It also funds long-term care services for low-income elderly residents. • States design their own coverage programs within federal guidelines and share in the financing of services. States determine what their Medicaid program covers (under federal guidelines) and enroll eligible participants. • The federal government requires each state to contribute toward total Medicaid costs according to a formula — the Federal Medicaid Assistance Percentage, or FMAP. Wisconsin covers approximately 35% of Medicaid costs, with the federal government covering the remainder. • Wisconsin provides several different Medicaid programs called BadgerCare, including for children, adults and people with disabilities.[24] Generally, children and pregnant women are eligible for BadgerCare when income is below 300% of the federal poverty line (FPL); other adults are eligible with income below 100% of the FPL. Some families must provide a copay for services, and a range of services is covered.[25]	$5.9 billion in federal Medicaid costs for Wisconsin in 2019. The state provides approximately $3.2 billion, or 35%, of total costs.[26]

Source: Author's summary of safety net programs

Federal and state spending on these programs has increased dramatically over the past few decades, with Wisconsin's Medicaid expenditures alone increasing over 60 percent in constant dollars since 2004 *(see Figure 1)*.

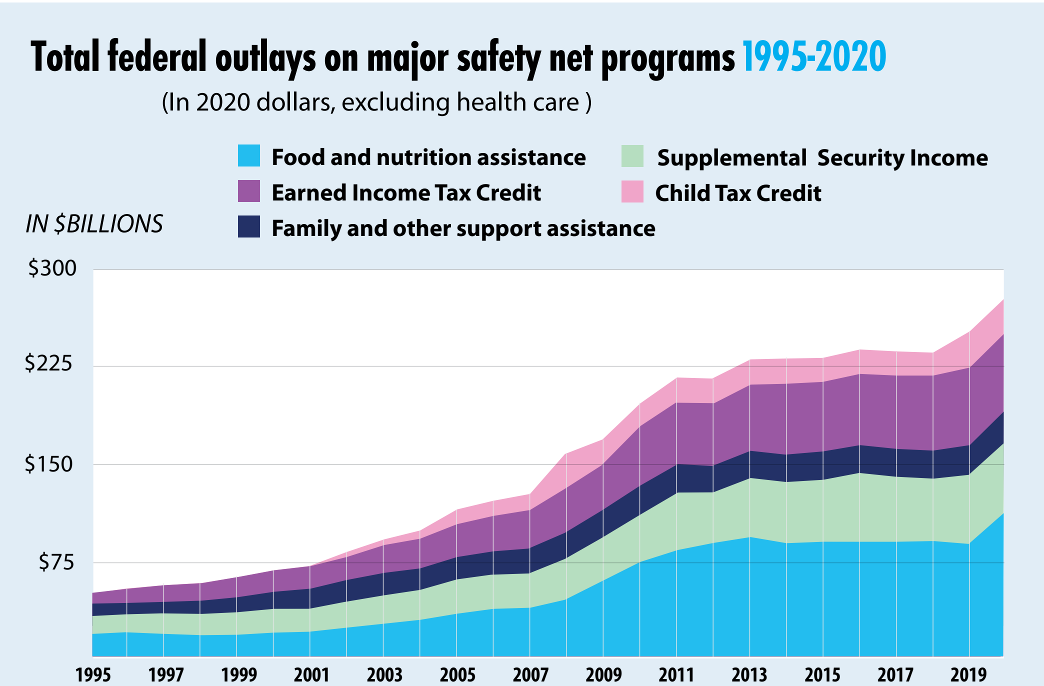
Figure 1



Source: Centers for Medicaid & Medicare Services (CMS) Financial Management Reports, FY 2004-'19

Spending on other safety net programs also has risen in recent decades. At the federal level, expenditures on major means-tested safety net programs across all states, including food assistance, SSI, family support (mainly TANF) and refundable tax credits have almost doubled in constant dollars since 1995 *(see Figure 2)*.

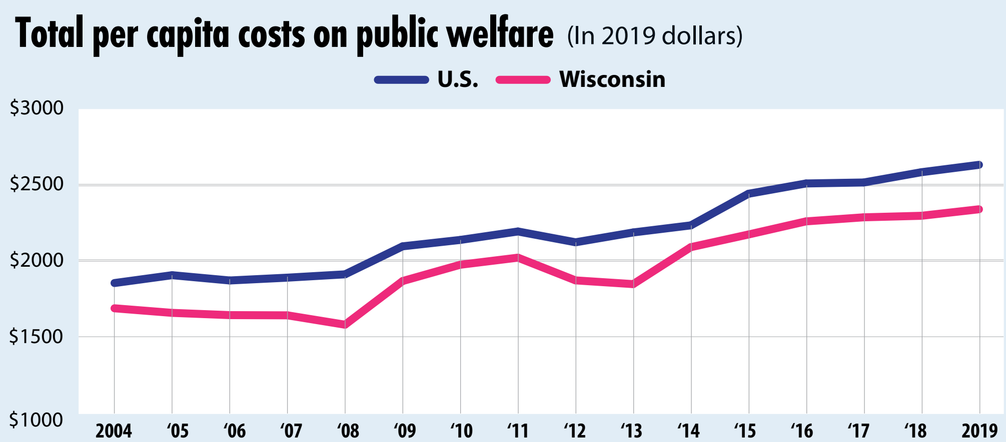
Figure 2



Source: White House Office of Management and Budget, Table 8.6 — Outlays for Mandatory and Related Programs in Constant (FY 2012) Dollars: 1962-2026, adjusted to 2020 dollars. Outlays only include the refundable portions of the EITC and CTC, not the portions that offset taxes paid.

Expenditures at the state level on different safety net programs can be difficult to obtain, mainly because of the complex nature of the financing structures and programs operate out of many different state and federal agencies. The Urban Institute compiles expenditure data and summarizes state and local funding on various categories, including public welfare. Its "public welfare" category includes cash and in-kind assistance programs, such as TANF and housing assistance as well as public health insurance. Its analysis shows that growing expenditures on Medicaid and other federally funded programs have led to large increases in spending per capita on public welfare by the State of Wisconsin and by the U.S. government as a whole *(see Figure 3)*. Since 2004, per capita spending on public welfare by the State of Wisconsin increased 39% and by the federal government by 42%.

Figure 3



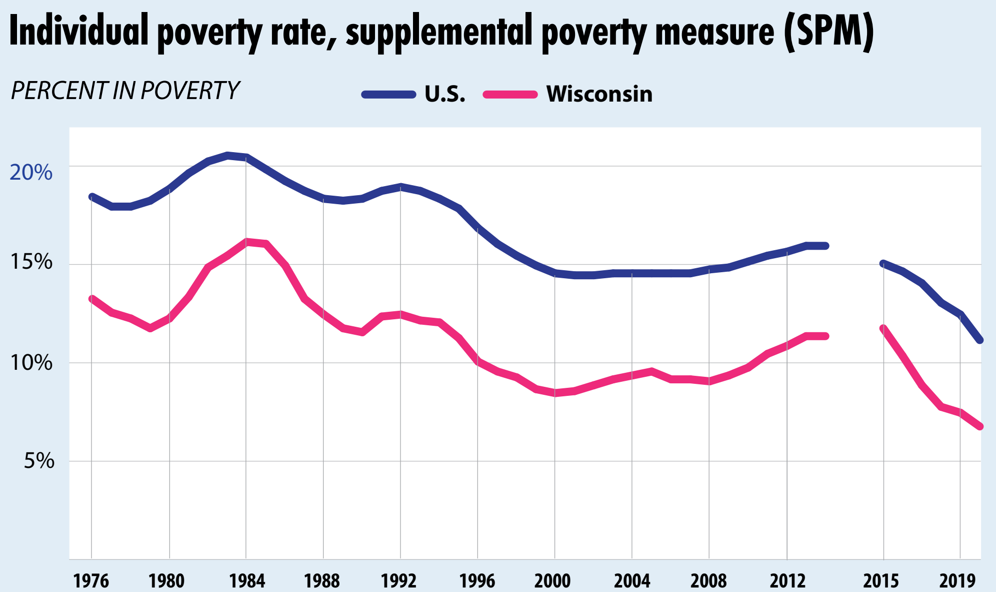
Source: Urban Institute State and Local Expenditure Project, State and Local Backgrounders, Public Welfare Spending, https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/state-and-local-expenditures. Public welfare mainly includes TANF, SSI and Medicaid expenditures; for details see https://www2.census.gov/govs/pubs/classification/2006_classification_manual.pdf. I added EITC/ACTC spending from Tax Policy Center EITC Recipients and Costs and Spending on the EITC, CTC and AFDC/TANF, https://www.taxpolicycenter.org/statistics/low-income, and SNAP spending from USDA FNS, https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap. All figures reflect 2019 dollars.

How Safety Net Expansions Have Affected Poverty in Wisconsin

Poverty rate trends help to show the impact of this increased safety net spending, although measuring poverty is not straightforward. Controversy over how to measure poverty dates back to the original inception of an official national poverty statistic in the 1960s. The details of poverty measurement in the U.S. are beyond the scope of this report — simply stated, the best way to assess poverty trends over time in the context of safety net programs is to use the supplemental poverty measure (SPM). This is because the SPM counts most government assistance as household resources, including safety net expenditures, to the extent that people report them on surveys. Importantly, research shows that households vastly underreport on surveys the amount of public benefits they receive, suggesting that the true poverty level would be even lower than the SPM indicates.[27]

Even still, trends in the SPM show large declines in poverty in Wisconsin in recent decades. Figure 4 reflects the percentage of all individuals in poverty in Wisconsin and the U.S. based on two versions of the SPM,[28] and it shows a long-term decline in poverty for

Figure 4



Source: Historical anchored SPM 1976-2014 by State from Columbia University's Center on Poverty and Social Policy, https://www.povertycenter.columbia.edu/publication/state-policy-chartbook/long-term-poverty-trends, which researchers anchored to 2012 poverty rate. The 2015-'19 trend is from U.S. Census Bureau's 3-year Supplemental Poverty Measure by State, which does not anchor the threshold to 2012; rather it uses a quasi-relative threshold. The break in the trend line reflects the change in methodology and means that the trend lines are not comparable.

Wisconsin (and the U.S.) that started in the 1980s and continued until the recession that began in 2007. Since 2007, poverty rates for Wisconsin increased slightly and then started to decline again through the strong economy of 2019 *(see Figure 4)*. Since the COVID-19 pandemic, poverty has continued to decline, although this has been due largely to the amount of government assistance provided to households to mitigate the pandemic.[29] These trends present a picture of growing public expenditures on means-tested programs combined with declining poverty rates. Big-government advocates often use this reality to argue that the key to reducing poverty even more requires the federal government (or states) to transfer more money to poor families. However, this approach ignores the potential downsides to ever-increasing public transfer payments. The design of current safety net programs can discourage the very things that help families escape poverty permanently on their own, such as employment and marriage.

Despite increasing payouts from safety net programs over the past several decades, research has shown that those at the bottom of the income distribution are no more likely to climb the ladder to the middle class than previous generations.[30] When government expands safety net programs without considering the unintended behavioral consequences, it can make situations worse for families in the end and for states trying to foster a strong economy and high quality of living for all of their residents.

Although point-in-time poverty rates can be useful in showing the effects of government transfer payments, there is no way to know what poverty rates would have looked like in

Wisconsin in the context of a safety net that better promotes employment and marriage. The point-in-time poverty rate also reveals nothing about persistent poverty and upward mobility trends. By disincentivizing employment and penalizing marriage, it is likely that increasing transfer payments makes it harder for families to escape poverty on their own, leading to persistent conditions of low income (even among those not technically poor) and of limited upward mobility.

Additionally, the prospect of ever-increasing public expenditures to reduce poverty is fiscally irresponsible without an attempt to address the underlying contributors to poverty. When federal and state safety net programs fail to promote the behaviors necessary for upward mobility, more and more people will find themselves income poor, and the government will continue to increase expenditures indefinitely to try to raise them out of poverty. This creates a vicious cycle of bad incentives and federal spending — ultimately inhibiting the path to self-sufficiency and fiscal responsibility.

The Three Pillars: What Wisconsin Can Do to Address Poverty Instead

The complex and increasingly centralized nature of the safety net leaves state leaders with limited opportunities to help residents escape poverty permanently and to increase upward mobility. This is especially true when considering the employment and marriage disincentives built into some of the federal safety net programs, such as SNAP and housing assistance, over which states currently have no control. However, Wisconsin's leaders can still focus their efforts on changing safety net policies with the aim of improving the underlying conditions that cause poverty: education levels, employment rates and family structure. Education policy is treated elsewhere; here I will cover employment and family structure.

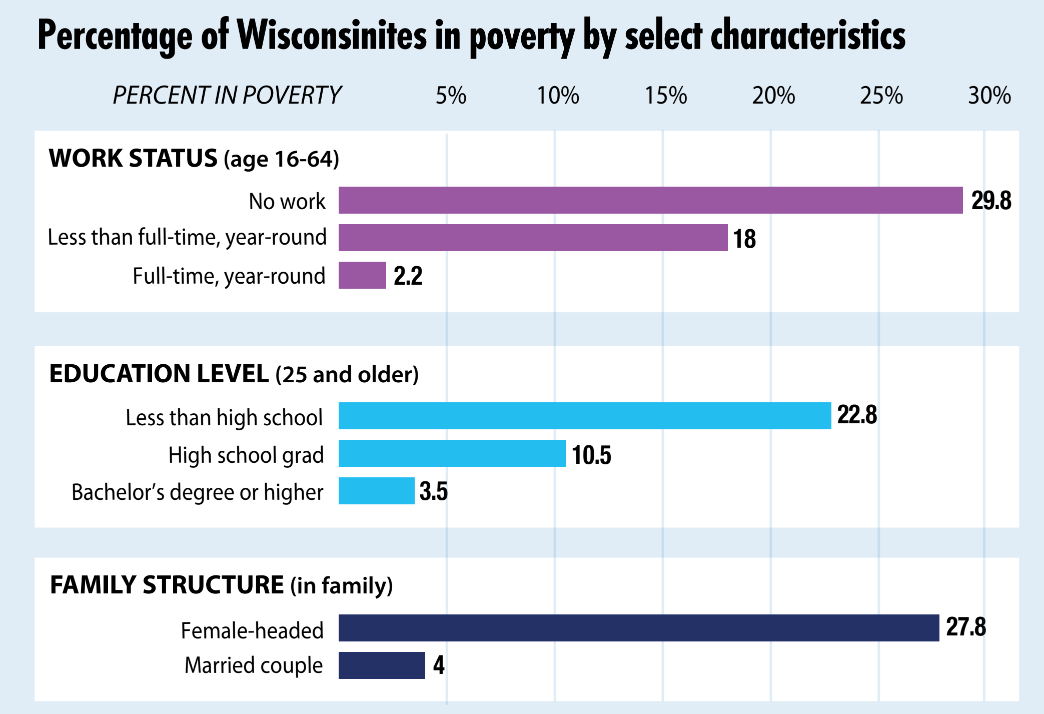
Without a financial stake in the outcomes of programs, states lack strong incentives to support work and marriage as a way to reduce program dependency.

This will require Wisconsin's leaders to take a two-pronged approach. First, administrative officials within state agencies can take advantage of existing opportunities to waive program requirements or to use TANF's flexibility to innovate. Additionally, state elected leaders will need to lobby Congress to gain more flexibility and authority over federal safety net funding and program administration. State leaders took both approaches in reforming the welfare system in the 1980s and '90s, including a major role played by then-Wisconsin Gov. Tommy Thompson and his administration's officials.[31]

Data shows that employment is crucial to helping families escape poverty. Using 2016-'20 data for Wisconsin, 2.2% of people working full time year-round were poor, according to the official poverty rate (that is, without fully considering government benefits), compared to 29.8% of those with no work *(see Figure 5)*. Beyond the direct impact of earnings on poverty rates, employment provides other nonfinancial benefits to parents, such as improved health and a sense of purpose, which also can improve family well-being over the long run.[32]

At the national level, data from the Survey of Income and Program Participation shows that almost 40% of persistently poor households (meaning income below the poverty

Figure 5



Source: American Community Survey, 5-Year Estimates for Wisconsin, 2016-2020

threshold for three-quarters of a three-year period) were also persistently jobless during the same timeframe. Only 6% of households who had escaped poverty in the same three-year period were persistently jobless.[33]

When children live in a two-parent household, they also do better on a variety of behavioral, academic and health-related outcomes.[34] Not only does having two adults with two potential incomes in a household reduce poverty for children, it also increases the chance of upward economic mobility, research shows.[35] For these reasons, policies that support employment and two-parent families offer a better path out of poverty than transferring income alone.

The Proposal: Supporting Employment and Marriage to Reduce Poverty

As previously stated, research shows that federal housing programs (Housing Choice Vouchers and public housing), SNAP and SSI disincentivize employment.[36] This is because assistance provided by the federal government replaces the need for employment or creates benefit cliffs, meaning that as recipients' earnings rise, their benefits decrease — making the individuals only marginally better off by working.[37] To address employment disincentives in the current safety net, states need more flexibility over program design. State leaders need the ability to structure income-support programs in ways that meet the material needs of poor families but also incentivize employment. This requires the ability to impose things such as program time limits and work requirements as well as the flexibility to coordinate the phasing out of benefits in order to minimize marginal effective tax rates (that is, benefit cliffs).

To achieve this flexibility, Congress needs to authorize "superwaivers" of federal safety net programs through demonstration projects. Wisconsin's leaders cannot currently coordinate the phasing-out of the federal EITC, SNAP and childcare assistance in a way that minimizes benefit cliffs.[38] In general, Wisconsin leaders also cannot impose time limits and work requirements on SNAP participants or housing program participants with the aim of reducing program dependency and encouraging self-sufficiency. Similarly, significant marriage penalties exist in SNAP, childcare subsidies and housing assistance programs, and state leaders have no ability to reduce these penalties.[39] Rather than trying to tackle these problems at the federal level, Congress needs to provide states with the ability to redesign the safety net to meet the unique needs of their residents.

Helping families escape poverty requires policies that support a strong economy. It also requires public assistance policies that reinforce the behaviors necessary to get people back on their feet.

With the proper authority granted by Congress, Wisconsin leaders would be able to consolidate funding streams from different safety net programs, such as SNAP, SSI, housing assistance and TANF to design a more effective safety net. One potential design would be to create a Unified Family Assistance Program. This would provide financial assistance and services to low-income families in a coordinated way that involves a family assistance budget and that sets clear goals for employment and self-sufficiency. This also would help coordinate services at the state and county level in ways that the current federal structure of programs makes difficult. Under the current structure, different safety net programs have different rules and reporting requirements from the federal government, which makes it difficult for states to try to coordinate the application and recertification of different programs into one process. While there might be some advantage to consolidating these processes at the state level, until the federal government gives states more flexibility, consolidation will remain difficult.

The process would ensure that Wisconsin families could meet their food, housing and other expenses with sufficient employment and government assistance, and the benefits would phase out slowly in a coordinated way to minimize benefit cliffs. The program could address marriage penalties by setting income eligibility requirements higher for married families. Additionally, Wisconsin officials could impose reasonable work and education expectations as a condition of receiving assistance and set time limits for cash support. The federal government would need only to allow states the administrative flexibility to design a safety net that meets the needs of their participants.

With this flexibility, however, states would need to assume more financial responsibility for safety net programs while being held accountable for positive outcomes. Congress' Joint Economic Committee (JEC) described the problem in a recent report: "States do not have strong incentives to properly steward the welfare system because the federal government provides the vast majority of funding."[40]

The JEC continued, "Requiring states to contribute more of their own funding to welfare programs could also increase their motivation to discourage long-term dependence and promote self-reliance."[41] Without a financial stake in the outcomes of programs, states lack strong incentives to support work and marriage as a way to reduce program dependency. In fact, in some ways, states have financial disincentives to helping people move away from safety net programs because that can mean fewer federal dollars coming into the state in the short term.

In exchange for more flexibility over program design, Congress could require that states contribute a larger share toward programs that currently are federally funded. In a forthcoming report on entitlement and safety net reforms, two of my American Enterprise Institute colleagues, Matt Weidinger and Scott Winship, and I outline what this might look like. We propose that Congress require states to contribute 50% of program costs for SNAP, housing programs and SSI, giving states a larger financial stake in the success of these programs in moving people into employment. We recognize that this approach would introduce a new financial burden on Wisconsin and other states. Therefore, we also propose that Congress allow states to offset some of these new costs if states meet employment and poverty-reduction benchmarks for their low-income residents. In our view, the threat of increased financial burden is precisely what states need as an incentive to implement effective program designs that help people escape poverty permanently.

When children live in a two-parent household, they do better. Not only does having two adults with two potential incomes in a household reduce poverty for children, it also increases the chances of upward economic mobility. Policies that support employment and two-parent families offer a better path out of poverty than transferring income alone.

At the same time, the federal government should support working low-income families by expanding direct cash assistance through increased federal tax credits and by using savings from state-level safety net reforms to fund more childcare assistance. This follows the idea that the federal government can provide assistance to support work while state leaders implement social service programs. One way to achieve this goal would be to combine the EITC and CTC into a unified child tax credit administered through the federal income tax system, which also would reduce marriage penalties in the EITC.[42]

The framework involves the federal government taking full responsibility for providing direct cash assistance through tax credits and childcare assistance to working families, while states such as Wisconsin would take responsibility for the balance of safety net programs, with the ability to restructure them. Through this re-envisioned safety net, Wisconsin would serve low-income populations that struggle to find employment because of disabilities, health issues or a history of incarceration, for example. In sum, the financial and administrative architecture would recognize that Wisconsin's leaders need greater control over policies aimed at reducing poverty. State leaders are better suited than the federal government to develop policies that meet the needs of their residents.

To support marriage better, reducing marriage penalties through a consolidated child tax credit and through flexibility at the state level would be a major step forward. However, there are additional things Wisconsin leaders can do to encourage two-parent families. One approach is to promote the success sequence among Wisconsin's young people. Research has demonstrated that those who complete the success sequence — finishing high school, working full time and waiting until marriage to have children — are far less likely to be in poverty than those who do not.[43]

Messages to young people about finishing high school, working and waiting until marriage to have children traditionally come from parents. However, alternative sources can reinforce these messages through programs at schools, youth centers and other social service programs. Similar to the National Campaign to Reduce Teen Pregnancy, Wisconsin philanthropic leaders could come together to support nonprofit organizations aimed at promoting the success sequence among Wisconsin's young people. It could collaborate with churches, faith-based organizations and private charities to implement a statewide campaign to promote the success sequence as a way to reduce poverty and ensure prosperity for all Wisconsin families.

Conclusion

Wisconsin already has among the lowest poverty rates in the nation, but too many families remain without opportunities to move up the income ladder and achieve prosperity. Too often, the federal safety net is to blame, however well-intentioned it might be. Employment disincentives and marriage penalties can hold Wisconsin's low-income families back and prevent them from meeting their full potential. The approach outlined above moves away from simply accommodating poverty and toward supporting the principles that will lead to family prosperity — more work, less government dependence and more marriage.

This requires a restructuring of the responsibility for safety net programs in this country, with an emphasis on returning control to the states. Much like the welfare reform experiments in 1996 (led in Wisconsin by then-Gov. Tommy Thompson), state leaders should push the federal government to authorize demonstration projects allowing states to blend safety net program funding for the purposes of promoting employment and two-parent families as a way to reduce poverty. At the same time, the federal government should spend more on federal tax credits for working families while authorizing demonstration projects and requiring states to pick up more of the tab for assistance programs. This will incentivize state leaders to achieve better outcomes for Wisconsin's low-income families.

The reforms detailed above would return more of the responsibility for helping Wisconsin families escape poverty to state leaders, where it rightfully belongs. This contrasts with current policies that have the federal government sending increasing amounts of federal money to Wisconsin households without consideration for their employment status or their family situation. American families — and especially those in need of assistance — deserve far better.

Takeaways

Wisconsin should demand of Congress waivers that permit innovation in federal safety net programs in our state. Elements that Wisconsin should pursue:

- **Consolidate funding streams for SNAP, SSI, housing assistance, TANF and other programs into a Unified Family Assistance Program.**
- **Structure aid under the United Family Assistance Program to phase out in a coordinated way to minimize benefit cliffs that discourage work.**
- **Increase income eligibility requirements under the plan for married families, to stop discouraging marriage.**
- **Set and enforce work and education requirements for receipt of benefits.**
- **Set time limits for cash support.**

In exchange, Wisconsin would assume a greater share of the cost of the program than it does under existing programs with an opportunity to offset those new costs when it hits agreed-on employment and poverty-reduction benchmarks.

Wisconsin should encourage or require schools, youth centers and other social service programs to explain the success sequence — finishing high school, working full time and waiting until marriage to have children — as the demonstrably likeliest way to avoid poverty.

Philanthropic leaders in the Badger State should support nonprofit organizations that promote the success sequence among young Wisconsinites.

About the Author

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Endnotes

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