



Written by [Veronique de Rugy](#) on February 11, 2021

Romney's Family Security Act Redistributes Wealth, Creates Distortions, Grows Government

Sen. Mitt Romney, R-Utah, recently introduced a universal child allowance in an effort to reform federal welfare programs. That goal is worthy, but his means would be counterproductive.

For all intents and purposes, he's proposing a kid-centric version of entrepreneur and aspiring politician Andrew Yang's "basic income."

According to Romney's summary of his own plan, "The Family Security Act would provide a monthly cash benefit for families, amounting to \$350 a month for each young child, and \$250 a month for each school-aged child."

To his credit, the senator's new proposed entitlement wouldn't be unfunded. Romney would "pay for" the new child allowance plan by eliminating the state and local tax deduction, a tax break that mostly benefits higher-income taxpayers. He would also get rid of the head-of-household filing status and eliminate the Dependent Care Tax Credit, along with the Temporary Assistance for Needy Families program. Additionally, Romney's plan would reform the Earned Income Tax Credit and reduce that program's spending from \$71 billion to \$24.5 billion. The EITC has mixed incentives on work, suffers from large improper payments and is mainly a spending program, thus financed by taxes on other people.

These offsets explain why the plan is advertised as "deficit neutral." However, it would grow the size of government by increasing both spending and taxes. It increases spending by \$66 billion and increases taxes by \$46.4 billion, since most of the plan's offsets are actually tax hikes. My objection isn't with these specific tax hikes. It would be better to find additional welfare spending cuts.

Proponents rightfully argue that its universal feature, which pays child allowances regardless of employment status, would limit the high implicit marginal tax rates on work and hence some disincentives to work that exist in the current system. For instance, the EITC creates disincentives for



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workers who are in the phaseout part of the benefit, meaning that more income from work reduces the size of the benefit. Many welfare programs suffer from this issue.

However, this universality creates other work disincentives. For example, experiments with the universal basic income provide evidence that unconditional cash payments can be detrimental to beneficiaries' employment. This undermines the importance of work as a pathway out of poverty for some low-income Americans and their children. In fact, Scott Winship at the American Enterprise Institute has made a powerful case that the work requirements included in welfare reform of the 1990s played an important role in reducing child poverty.

Some say that these disincentives are worth it, if it means that single moms can stay with their kids more. I believe it is a plus for these moms. It is also likely to remove the marriage penalty built in the current system. Yet these facts don't mean that it's necessarily worth it on net, once you include *all* of the present and future costs and distortions of the plan.

These distortions include the reduction of federalism resulting from a plan that gives an even bigger role to Washington. In addition to more federal spending added to many other and often duplicative welfare programs, one of the plan's offsets, TANF, allowed variation and experimentation in the states, as opposed to the one-size-fits-all approach with federal spending. As fiscal policy expert Dan Mitchell notes: "The right approach is to get Washington out of the business of income redistribution. We're far more likely to get good outcomes if we let states decide (and learn from each other on) how best to reduce poverty."

Finally, my Republican and Democrat friends who support this plan believe that it's the role of the federal government to redistribute money toward families and subsidize children, but I don't share this view. It is low on the list of things I would cut, but I'd always prefer a system where government doesn't favor one activity over another, such as having children as opposed to not having them. This is a difference of opinion we may never bridge, I'm afraid.

That said, at the very least, we should all agree that anti-poverty programs shouldn't benefit higher-income households, which Romney's allowance does. As AEI's Angela Rachidi notes, "It is a rare thing to see proposals that benefit high-income families nearly as much as low-income families marketed as poverty-reduction plans."

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