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BLOCK GRANTS:

PAST, PRESENT, AND PROSPECTS

PANEL TWO: RESEARCHERS AND SCHOLARS

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## P R O C E E D I N G S

MS. KANE: Okay, why don't we go ahead and get started with the second panel this morning. I'm really glad that we got off with such a good start with that first panel. As you heard we're very sorry that Senator Angela Monson couldn't join us from Oklahoma. I think Jack did a wonderful job pinch-hitting and I just want to give him a round of applause for doing that so quickly and graciously.

[Applause.]

We also do have some materials out in the back that Angela Monson had prepared for previous speaking engagements and testimony that she did. So it's the next best thing to having heard from her.

This panel, we're going to hear from three prominent researchers, policy experts, smart people who have been thinking about this issue for a long time. And I'm hoping that part of what we can do on this panel is look with a long lens in terms of both time and programs and try to sort of step back, go up sort of 30,000 feet a bit and look at some of the history, some of the lessons learned; some of the theoretical, philosophical, and financial arguments and, of course, political arguments, both pro and con on block grants.

And I think--I hope, in your remarks and also in the questions we can also keep focused on what we heard in the first panel which is, ultimately, what does this-- what do these questions and these issues mean for the people that we're trying to serve? And I think, you know, for the taxpayers, as well, who are funding the services?

Everyone's going to have seven minutes. I would ask the panelists to keep an eye on Joe in the front row. He'll give you a two-minute warning, so that we

can have plenty of time for questions and answers. So, with that, why don't we start with Robert Rector from the Heritage Foundation?

MR. RECTOR: Let me begin by saying that the welfare system, by which I mean the 70 major main assisted aid programs that exist in the United States is a lot larger than many people realize. We spend over \$400 billion a year; \$200 billion to families with children. If you simply took that amount of money and divided it among the lowest-income one-third of children in the U.S., it's about \$7,000 a child. Not as much as some people in this room would like, but still an awful lot of money. And we often don't see the size of the system because it's divided up into so many tiny pots.

But the most important thing in terms of this discussion is that when we look at that \$400 billion of spending on welfare is to recognize that over 70 percent of that spending is federal in nature. This is a federal welfare system. The federal government pays for it and I think it's going to remain that way for the foreseeable future, through the rest of my lifetime.

When, in Congress, in the Republican Party, we talked about block grants, I really think that that has meant three different things. And I'll use these three different categories for my remarks here today.

Some people think a block grant is something having to do with federalism.

Others, as a kind of super revenue sharing or what I would call zero-string block grant.

And then there's a third category, which was embodied in the TANF reform, which I would call block grants with moral principles.

Are block grants federalism? I think Republicans tend to get themselves confused about that. They're absolutely not federalism, they have nothing to do with federalism whatsoever. Federalism would mean that state governments or local governments tax their own constituents and spend their own money. Collecting money at one level of government and shoveling it into another level of government is, in fact, almost the antithesis of federalism.

So, that comes to the second category: Zero-strings block grants. Many Republicans were very favorable towards this kind of idea and it got a lot of push under the Reagan Administration, but, in fact, it seldom results in the type of conservative innovation that conservatives were looking for. And, in fact, if you look at the Reagan Administration, one of the first things that they did in 1981, was abolish revenue sharing.

Well, what was revenue sharing? Revenue sharing was essentially the super, super block grant of all block grants. You know, this doesn't work. It's a big pile of money, let's get rid of it. Conservatives believe in limited government, because they basically believe that people spend their own money more wisely than they spend other people's money. In that sense, individuals spend their money more wisely than politicians spending other people's money.

And in that frame of reference, the worst possible situation you could have is one group of politicians spending money raised by another group of politicians, which is, essentially what this revenue sharing, block granting and so forth is all about. It's an absolute recipe for total non-accountability, which is, I think, what you get.

I often challenge Republicans. I say, let's look back at those Reagan block grants and so forth. Can we find one radical--one strong innovation in the welfare system, one profound, conservative reform that ever came out of those block grants?

And the answer is, absolutely not. They may have met some purposes, but in terms of what I want, which is radical transformation of the welfare system, they were completely ineffectual.

And that leads us, sort of, to the third category of block granting, which is what I think happened in TANF. In TANF, we took an entitlement-based system, AFDC; moved it into a discretionary-based system. Now, when you do that--and I think that's the key change in block grants--it enables you to have a great deal more flexibility.

An entitlement-funded system is essentially a blank check written to the state or local government that says wherever you guys want to spend, you spend. When you do that, you inevitably have to micromanage what that fund can be spent on or you're going to bankrupt the government pretty quickly.

When you move to a discretionary-funded system, such as TANF, that allows you to be much more flexible in terms of where the money goes. But, in TANF, when we were creating the TANF system, Congress was very uncomfortable, and I was extremely uncomfortable with the notion that what we wanted to do was just shovel up a bunch of money here in Washington and dump it on the states. That is the antithesis of reform.

And so, what we had was a reform that was focused on work and marriage. And, paradoxically, while it gave states much greater flexibility in terms of the types of things they could spend the money on, it also had far stronger performance standards than the old AFDC system did.

It had very strong standards that said to the states, we want you to reduce your caseloads and if you fail to reduce your caseloads, we want individuals engaged in

some type of work activity. These were much more challenging standards than the old system.

And that's what I would call a block grant, but with moral principles. You can give more flexibility, but you have to be very strong and very challenging in what you want that grant to accomplish--what your goal is. And I will tell you, the states didn't like that. They fought those standards tooth and nail. Every jot and tiddle, every paragraph of those standards were fought by the state governments back in 1996, but the standards went in and they were pretty strong.

And what we're talking about in terms of TANF today is keeping those standards--reviving those standards and making them more up-to-date, really.

I think the main problem in TANF is that over half of the TANF caseload in any given year, in most states, is sitting idle and doing nothing and that's ridiculous and it's an abuse of federal funds. Those standards need to be updated and toughened.

Overall, what I would say is when we look at block grants philosophically, I see that both conservatives and liberals generally or almost inevitably, want to subordinate block grants, in most cases, to some higher principle. We don't agree on what the principle would be. In my case, I would want them subordinated to the goals of work and marriage. You can have flexibility within that context. Generally, liberals are more concerned about the reach of the program, how many people are getting services, trying to make sure that everyone gets as much as possible.

But, overall, the, I think very few people would accept flexibility as a primary goal in and of itself. And, therefore, I think that block grants, although they can be useful in some contexts, always have to be kept subordinate to stronger goals and objectives that we have.

MS. KANE: Thank you, Robert. Next we're going to hear from Pietro Nivola, who's a senior fellow here at Brookings in Governance Studies.

MR. NIVOLA: Thanks. To get a sort of realistic sense of what the problems and the prospects might be of the latest round of block granting proposals, I thought it would be useful to kind of track back over some of the history of block granting schemes in the past.

Now, as you know, the first big wave of block grant proposals, came under the Nixon Administration's so-called new federalism. And Nixon's plan was pretty ambitious. It called for taking about one-third of all categorical aid programs and rolling them into essentially six blocks.

Well, what happened? Congress summarily ruled out four of the six. Block granting for transportation was said to be some sort of raid on the Highway Trust Fund; block granting education was, to, if I can quote from the chairman of the House Education Committee at the time, "like throwing money down rat holes." And so on and so forth.

The only consolidations that got through, sort of, were the Comprehensive Employment and Training Act, otherwise known as CETA; and the Community Block Grant System. The latter got unusually strong support from mayors for reasons that are too intricate to get into right away. But as for the CETA program, that really didn't turn out to be much of a block grant at all, about 60 percent of that retained separate authorizations for highly specialized niches, like programs for Native American workers, migrant workers, and so on.

And then, gradually, the remaining 40 percent reverted back to categorical forms, as well. Strings were added later.

In short, by the time the dust had sort of settled on the Nixon and Ford Administrations, essentially one and kind of a whisker block grants had been implemented alongside more than 90 new categorical grants.

Now, the Reagan Administration had a little better luck, at least at the outset. Back in 1981, about 75 programs, mostly, in the education area, were folded into nine blocks. After that year, though--after '81--progress, basically ground to a halt. Some of the changes that were made in the early '80s were subsequently repealed and when the Administration proposed adding another--taking another 24 categorical grants and consolidating them, it got absolutely nowhere.

So, the interesting question is: Why is it so difficult to do block granting? Why is it politically hard? And I think the answer's pretty straightforward: it seldom has more friends than it has enemies. Liberals prefer a categorical approach to intergovernmental grant giving. Essentially for two reasons: First of all, it locks in--it institutionalizes constituencies; that is, it sets up a pretty sturdy relationship between client groups; program authorizing committees in Congress; and patron agencies in the Executive Branch. And this pretty much ensures that intended target populations get funded, consistently.

But, secondly, unlike block grants, which are often administered by formula, the categorical system gives politicians more opportunities for credit claiming. I'm going to quote, here from Yale political scientist David Mayhew on this subject. He says, "The categorical grant is for modern Democratic Congressmen what the Rivers and Harbors Act and the tariff were for pre-New Deal Republican Congressmen."

That's true, but when the chips were down, conservatives are often not that keen about block granting, either, for reasons that Bob Rector just mentioned. They

may like the fact that it may be somewhat easier to trim program spending, once programs are taken out of their political silos or cease to be entitlements. But they don't necessarily like the total lack of accountability, the absence of any strings to the money, once it goes out to the states.

I don't remember Republicans rising to the defense of the CETA program, for instance, when that was going to be scrapped. Why? Because this program was difficult to defend, it was thought to be basically a carte blanche, but it was rife with mismanagement and abuse and, therefore, difficult to protect.

In addition, if you think that state and local governments are always enamored of consolidations and block grants, think again. Yes, state officials like the added flexibility that was discussed in the earlier panel--a lot. But they also--state officials also like to avoid blame for program failures.

And it's often useful to them to point the finger at federal red tape, the strings attached to programs, or at federal budget cuts as the source of their problems. If you take away the tape and you take away the strings and all the dollars or many of the dollars the states wind up owning the problems.

I think it's also a mistake to refer, as I actually just did, to state and local officials as if they were some kind of monolithic lobby. Mayors and other local officials often prefer to have their own separate money pipelines coming down from Washington than to depend on money being passed through from the state houses.

Oh, I've got a minute left here. Let me wrap up with a final question and an observation.

Why did Reagan meet with some success in 1981? And I think the short answer to that is that the block granting proposals in '81 were part of the 1981 Omnibus

Budget Reconciliation Act, which was an indivisible legislative package that Congress was forced to vote up or down on.

Now, maybe some future David Stockman will come along and be able to bulletproof the budget process, as well as the original David Stockman did back then, but I think the circumstances for the Bush Administration today are a little less auspicious than they were for the Reagan Administration back in the very early '80s.

MS. KANE: Great, thank you Pietro. Last, but not least, we've got Bob Greenstein, Executive Director of the Center on Budget and Policy Priorities. And he's going to use the podium because he's got some charts he needs to refer to.

MR. GREENSTEIN: I think there is a big distinction between block grants that combine a number of modest-sized categorical programs with similar missions and consolidate them. And block grant proposals to take a single major low-income benefit program and simply convert it to a block grant; as in Medicaid, food stamps, or the like. And I'm going to focus on the second kind of block grant, which is where I think the problems are significantly greater.

Flexibility for states is often advanced as a rationale. I think with regard to the second kind of block grant, it's usually not, at least today the principal purpose for such a block grant. If you take Medicaid about, if I remember correctly, two-thirds of Medicaid expenditures are for optional expenditures or optional beneficiaries, they're not mandated on states.

There's sweeping waiver authority under the Medicaid statute. In food stamps, there have probably been 15 or 20 new state options created by statute and regulation in the last two or three years in areas from sanctions and work requirements to

how you define income and what the asset limits are so states can align more closely with TANF and Medicaid in those areas.

In these kinds of programs, especially, in today's debate, I think the key issue, really, underneath the flexibility rhetoric is a fiscal issue.

We face, as a nation, severe, long-term fiscal problems. We face a collision between rising costs for elderly entitlements and a shrinking revenue base. Federal revenues as a share of GDP this year will be at their lowest level since 1959, which was a year before most of these entitlements we're talking about--while income entitlements even existed.

Over time, some things, many things have to give. And I think block grants are attractive to some policy makers, as a way over a long period of time to squeeze funding for some of the big low-income programs, relative to what it would be under the current entitlement funding structures and it enables it to do it without looking heartless by proposing to throw x-numbers of people over the side in program A, B, or C.

In a forthcoming paper, Dick Nathan, a longstanding student of federalism, notes that the current range of block grants from the Administration are more motivated by fiscal concerns than federalism concerns.

If you take examples, like, Medicaid as an example, under Medicaid, if people lose their jobs in a downturn, and lose their employer-based coverage, they qualify for Medicaid, federal government automatically pays its share. Or if an epidemic comes along and health care costs go up. Under a block grant, that ends, there's a fixed amount of federal money, costs go up more than that, states are left holding the bag.

Very hard to figure out what those federal amounts should be in advance. If you take the CBO estimate of Medicaid costs made five years ago in '98, what those costs would be in 2002, the estimate turned out to be too low, by \$17 billion.

Senator Talent mentioned community health centers as a great way to deliver health care to the poor. Community health centers, one of their major forms of funding is Medicaid reimbursement. If their Medicaid is squeezed because a block grant funding allocation is inadequate, community health centers lose money.

Similar issues in the proposed housing block grants--today, the way Section 8 housing works, although it's technically a discretionary program, in fact, it operates as a quasi-entitlement, there is a determination made each year of how much money it costs to renew all existing housing vouchers. It's done in a flexible way so that if the rents rise more in a given community than had been anticipated, the community gets the extra funds. Under a block grant, there's a fixed amount of money for Section 8. At the beginning of the year, the appropriations committee's faced with tight discretionary caps. It's unlikely they keep pace over time with rental costs.

Are these simply hypothetical considerations on my part that funding wouldn't keep pace with need? Well, there are five mandatory block--low-income mandatory block grants today. So we took every one of these five, we took the year in which it started; we took the year in which it started; we took it's funding level for its first full of operation; we adjusted that for inflation and we compared it to the actual funding level in 2003.

It bears out what Margy Waller was saying. Blocks and mandatory programs tend to start out with adequate money, doesn't keep pace even with inflation.

So what we found is that if you take the total amount of money in these five blocks in 2003 and we simply compare it to their first-year funding level, adjusted for inflation for 2003, the reduction is \$11.5 billion in 2003, alone, an aggregate 32 percent reduction, relative to the first-year funding level, adjusted for inflation.

These kinds of fiscal problems have consequences. A number of states already are putting waiting lists on the SCHIP program, which is a block grant. You can't put a waiting list on Medicaid because it's an entitlement and there's a waiting list on SCHIP, that means low-income children remain uninsured.

Or you can look at what's happening in the TANF and child care area. In the last couple of years, over half of the states have instituted cuts in child care due to funding problems. Or you can look at, even just in the area of cash assistance, where TANF funds don't automatically rise when the economy turns down; Arizona, one of the states where caseloads are rising in this downturn, due to funding problems is now looking at such options as capping cash assistance enrollment such that some thousands of people despite, otherwise qualifying and being very poor, would get no cash assistance. Or not capping enrollment, but cutting the cash assistance benefit level for people with no other income from 36 percent of the 1992 poverty line to 27 percent of the 1992 poverty line.

There are particular concerns in the TANF arena where initial funding was adequate or above what would have occurred under the old program, in part, because TANF used as a base year when it was established, a period from the economic downturn of the early '90s. States brought up unspent funds they could draw down on, states are increasingly exhausting those funds. And as we move forward with all that

goes on without freezing TANF funding without an adjustment for inflation, through 2008 and the cuts are picking up.

If TANF ends up following the path that the social services block grant did, at an adequate initial level of funding, which pretty much never changed over a quarter century, SSBG is now 84 percent in real terms, below its original funding level, when it was formed in the early '70s. If that happens over time to TANF, then a lot of the innovations in job readiness, job training, expanded child care and the like that it provided, will not be able to be sustained over time.

And a last point on this front, was alluded to in the earlier panel, is that under the current programs, funding for states automatically rises in accordance with each state's change in poverty, in unemployment, and the like, in population increases.

No one has ever designed a formula to adjust an allocation in a basic needs tested program to track those changes. Any data you use on poverty, unemployment or the like, is both out of date, there's always a lag; and some of it is too crude sample sizes aren't big enough on a state-by-state basis.

Let me stop there. The bottom line, again, there are some very significant fiscal issues here. They generally are a different set of issues when you're talking in the categorical area. But in the entitlement or quasi-entitlement area, like Section 8 housing, I think the fiscal issues dominate.

MS. KANE: Thank you, Bob. I just want to follow up on your point about the fiscal issue with a question, that if, I'm trying to sort of tease out what's behind the block grant motivation and how your response to this would be different if the fiscal issues were taken off the table.

Let's say there was an automatic inflation adjuster attached to every one of these block grant proposals. How much difference would that make in how you view these proposals? Would that be something, Robert, that you'd be willing to accept? I know it doesn't get at the intrastate allocation, which is really tough, but I'd be curious to just sort of see, how much of the concern is because of this question of losing purchasing power over time that we've heard through the history? And any of you are welcome to comment on that.

MR. GREENSTEIN: Since I raised the issue, I'll start and the other two will probably disagree with me.

I don't think it addresses the--now, in the area of TANF, already a block grant would be critically important to adjust for inflation.

Let me separate TANF and move it to the side. In the area of Medicaid, I don't know how you would do an adjuster, a formula that would work. Do you use the regular CPI? Health care costs rise faster than that. Do you use the medical CPI? Well, because of the increasing proportion of the Medicaid caseload that's elderly and disabled, and has higher average health care costs than children do, if you look at the last number of years, Medicaid costs have risen much faster than the medical CPI.

How do you predict in advance a possible epidemic? It takes a while till you get the data, what would you use? Would you use the previous year's medical CPI and then some states needed to know in advance for their own appropriations. It's very hard to figure out how you would make that work.

The same is true in the Section 8 area. Rents do not rise by the same percentage in communities across the country. It varies tremendously. The current Section 8 funding formula has cushions in it so that if the allocation of a given housing

authority turns out to be inadequate because rents have risen more quickly in that area, the HUD funding mechanism adjusts for that. To simply have a national adjuster by some percentage doesn't address that.

Furthermore, the history there is that in recent years, fair market rents, HUD's measure of rents for low-rent housing, have risen faster than rental costs in general. Perhaps because there's a growing surge of low-rent housing.

Now, I--well, if you're going to do a block grant, it's sure better to have an inflation adjustment than not to have one. In--particularly in things like Medicaid and housing, you really can't match the actual changes in need and just keep a steady state by trying to come up with some inflation-type formula in advance and writing it into the statute.

MS. KANE: Robert, do you want to --

MR. RECTOR: Well, Bob is very eloquent, as always, and in the terms that he's addressing this issue, I agree with everything he said. I'm fully convinced.

But I think that the problem here is that it's the wrong paradigm. We're playing that this is a zero-sum game. And I think the thing that we learned from TANF was that it's not a zero-sum game.

One of the fundamental points that we conservatives made about TANF or AFDC was: there were a lot of people getting assistance there who didn't actually, absolutely need that assistance. And that if you put behavioral requirements, work requirements on it, effectively, those people would leave the system and it would create a very large surplus for meeting needs in another way. And, in fact, it's a classic example of a positive-sum game.

Now at the margin of it now, we can say, oh, we need a little bit more, but if you look back at what we were doing under AFDC, with 5 million families on there, and if you try to project out, well, you know, we have to conserve these 5 million families in the future and so forth, none of that rationale was valid. Because most of the families on AFDC, honestly didn't need to be there. If you had work requirements or activity requirements, they would either not enter the system or leave the system and you immediately generated large surpluses, most of which flowed into day care, so you change the nature of the system.

Now, I think that in housing, and in food stamps, we're essentially in a very, very similar situation. With systems that continue to reward single parenthood and non-work and what we need to do rather--and block granting is irrelevant, okay, what we need to do is change the basic structure of the system so that those become systems that challenge individuals to move toward self sufficiency. All of these programs are profoundly biased against marriage. That's a nutty thing. We need to alter that and begin to--begin to harness the positive energies of the recipient with the program, rather than having programs that reward prolonged dependence, non-work and single parenthood.

When you change the structure of the system, although we can disagree, you know, how much we need at the margin, whether we need an inflation adjuster, but the bottom line of TANF was, when you changed that structure, it liberated a tremendous amount of money which could be spent in, I think more productive ways, I think the same thing applies to most of these other problems.

So, that I think everything that Bob said was valid, but I think the frame work of examination is too limited.

MS. KANE: Pietro do you want to get on this question, or--

MR. NIVOLA: Yeah, quickly. Actually Bob basically said what I was about to say, but I'll put it in a different way.

I think there seems to be sort of an assumption here at the hidden agenda behind block granting is strictly to cut program budgets, to gut programs. And there may be people who look at it that way, but other people are, as Senator Talent was saying earlier, are mainly interested in the added administrative flexibility that these more discretionary type programs can give to local administrators.

Now, what I think Bob is driving at here is that what we need to be interested in is not just levels of--absolute levels of spending on programs. But the marginal effect that each dollar spending makes in terms of efficient outcomes. And it's conceivable, anyway, that added flexibility at the local level, brings you more efficiency so that the dollars that do get spent have a greater impact.

MS. KANE: But do we have any evidence of that from past history?

MR. NIVOLA: There are many more experts on welfare administration in this room than I am, but I'm sure, you know, there are examples.

MS. KANE: I mean I think part of what came out in the last panel was that that was always the goal.

MR. NIVOLA: Mm-hmm.

MS. KANE: But it wasn't always a goal that was realized and I think that's probably disappointing to many people so I think it would be an interesting question, when we get to questions and answers, if anyone has an answer to that question, we'd be happy to hear it.

MR. GREENSTEIN: If I could make a quick comment here--mainly in response to Robert. He mentioned that TANF liberated a lot of dollars. I think that's true. Part of what I was saying was those liberated dollars will disappear over time, if we flat-line the program for the next 10 or 20 years.

More fundamentally, when he talks about a number of people were getting TANF who didn't need it and we changed the situation so they got off welfare and they went to work. Does that analogy apply to some of these other programs?

Are there people on Medicaid who don't need it? Well, that's tantamount to saying we should have more uninsured low-income people. So I think, one needs to-- I know that wasn't what you were saying. I'm not trying to put words in your mouth. The point I'm trying to say is one needs to be careful about drawing analogies from the TANF situation to some of these other areas.

And my final comment there regards housing. In fact, block granting the Section 8 program, I think, would likely undercut the goals of welfare reform. The Section 8 program--conservatives should love the Section--I mean, they, in a sense generated the ideas that led to Section 8. They said let's move, years ago, let's move away from public housing projects into vouchers where people have choice and they can move to where the jobs are better and the schools are better and one of the things Section 8 does, it doesn't do this well enough. One of the things Section 8 does is it helps people move out of high-crime areas with lousy schools and few job opportunities to areas of job growth that they otherwise couldn't afford. And sometimes that means black people moving to white suburbs.

And if you transform Section 8 into a block grant, do we really think that states across the country are going to resist local pressures from those white suburbs? I think what you'll end up having, is more of the money will be used for project-based housing that ties minorities more to the areas they're locked into.

If we want people to work, the kind of choice and the mobility that Section 8 provides fits well there. There was a bi-partisan issue several years ago that still exists, it's called Welfare-to-Work Vouchers. And local public housing authorities, due to a change--a good change--made in the late '80s, have the flexibility now to give priority to people working or moving to work and who gets housing vouchers in the first place.

But, you know, you want to look at a case-by-case basis to see if some of the kinds of points Robert made with regard to TANF, really apply to some of these other kinds of programs and I think by and large they do not.

MS. KANE: Great, I want to open it up to the audience now. If you have got a question, raise your hand, we will bring you a microphone. If you would just identify your name very clearly and try to keep it a question rather than a statement, we would appreciate it.

MR. POSNER: Paul Posner with GAO. This block grant term has acquired a lot of symbolic significance so that it stands for all of our hopes and all of our fears in some sense. And I think we need to think about unpacking it and I think, Bob, you did nicely when you kind of disaggregated it, that a block grant that attempts to essentially cap an entitlement is a very different creature who needs different criteria.

I want to address something Pietro said about a block grant that really-- there are other purposes of block grants over time. One is to consolidate at a range of

categorical programs. And it is possible to create a block grant that has very different effects and benefits from a capped entitlement when you are dealing with, for example, what we are dealing with right now, 21 first responder grant programs, highly specific. We talk about the efficiency effects we have, very specific grants for training and for equipment and we don't allow local governments the transferability to transfer money across those categories even when it makes more sense to them. So if they have a lot of equipment, they cannot get money to train because they didn't get that particular grant.

So there are lot of inefficiencies by kind of standardizing the national level in highly specific categories of grants like that. And I guess what I am wondering is if we can think about a way to change the language we use rather than using these broad-brushed terms to think about a consolidation rather than necessarily a block grant.

I mean, EPA has been working on this model they call performance partnership where they have gone across the various modes and negotiated agreements with states, where they have given states flexibility to move money around but holding them accountable for outcomes in measurable terms. That kind of model is totally different from some of the kind of conventional definitions of block grants we see that does confer substantial public management benefits but promotes accountability.

And I am wondering whether we can think about this concept in a more differentiated way.

MS. KANE: That's an excellent question. Pietro.

MR. NIVOLA: I agree with everything Paul just said. It wasn't really a question. I do think thought that Bob Greenstein is on to something when he distinguishes between the difference between sort of entitlement type programs and more functional ones such as grants to first responders for Homeland Security. I mean,

that is a classic example of where the local governments know where they have got-- local conditions are very different, targets for terrorism may be 100 percent different between one city and another, and local officials have to know how to allocate funds in the most sensible way.

But when it comes to entitlements, Bob Greenstein's point is, you know, there are recipients on the other end of these funds, and you may cut programs on their backs when budgets get cut.

MR. GREENSTEIN: I just want to add too that I agree with what Paul was saying. I very much was trying to distinguish between the two. I don't know anything about the first responder area. But if there are 21 separate funding streams serving a similar mission that are overlapping, they each have their own set of reporting requirements, that is the kind of area which in my view it is very reasonable to consider a block grant. I want to very distinguish that kind of thing from something like block granting the Medicaid program.

MR. RECTOR: The two areas that I specifically mentioned where that TANF lesson is applicable are public housing, Section 8 housing and food stamps. Let me just take subsidized housing.

It is a little off the top of my head, but as I recall based on research that we did, in the aggregate subsidized housing, about half of the able-bodied households or heads of households in that program perform no work during the course of the year, very similar to old AFDC system.

Similarly, food stamps looks very, very similar, huge overlap between that population and the old AFDC system. I think that one of the things that we have to do in both of those programs, which gets way beyond and is more profound than block

granting is to convert those to work-based programs, where you give aid, you give aid even more generously but you make some sort of constructive activity a condition of receiving the aid. I think that that works, and you don't have to change Section 8 to do that.

But the problem is that we have found with AFDC, and it is very applicable to food stamps, is if you have a work requirement to come into the program, the caseload will go down. And, as under AFDC, that meant the state lost money. Okay? I mean, I used to listen to Tommy Thompson all the time. Tommy Thompson is the leader in welfare reform prior to 1996, and he lost a bundle. And there are not very many governors that are willing to do that. He said I am going to lose federal money because I have these work programs in and my case is dropping rapidly and everything I do costs me federal bucks.

Well, that doesn't work. Okay? So one of the things we had to do to move to a work-based system was say we have to get rid of this entitlement funding structure that says the more people you have in this program, the more stuff we give you. And then, you can talk about how to adjust it for inflation and so forth. I think it is important to look at all the programs in aggregate, like let's put EITC and what we have done with that into our mix of spending here, but you cannot just have a purely entitlement-based system that rewards higher enrollments if you are going to have a work-based reform.

And I think that the major lesson we gained from TANF was that work-based reforms, and hopefully in the future marriage-oriented reforms, work well. They perform better. They reduce poverty more than simple cash handouts and cash entitlements. We need to embody that principle in housing and in food assistance where

it is applicable. And in order to do that, regrettably because it is not a major issue--but you cannot do under a classic entitlement funding system. You have to move to some type of fixed funding, adjust it as we will, add on on top of it, or maybe add in another area.

I mean, I think one of the things about TANF is that TANF doesn't necessarily have to be the primary vehicle for assisting families in the future. I think that is what we have learned there. EITC is a better mechanism. I would want TANF to go for a long time, but I don't think we need to judge it as to say, well, back here we got this amount of money and now we have got this amount of money, because we changed the very nature of welcome in that program. And I think those are the things that we really have to look at in the future.

MS. KANE: Belle.

MS. SAWHILL: I think the way you made your arguments, both of you sound like you are right. And I think that, as Robert was suggesting, the problem is you are talking from different paradigms. And if the goal was not to provide people with housing assistance, for example, but to do something else, like reduce poverty or increase self-sufficiency, then you can make an argument that there should be more flexibility to use housing assistance in some other ways.

So I think my question to you back to you, Bob, is let's just suppose--I know this is very hypothetical and I would have some skepticism about whether this would ever happen politically, but just put that aside for the moment--suppose that all the money that is now going into housing assistance or food stamps could be put into the EITC and you could be guaranteed that exactly the same amount of funding was going to go to increase the EITC or something like it, which is obviously an entitlement in the

sense that the money is there for whoever comes in the door, and we cashed out one of these other programs in that way and you could be assured that it would be funded at exactly the same level, then where would you come out?

MR. GREENSTEIN: Let me respond, Belle, both to your point and to Robert's comment which I pretty profoundly disagree with. I would be very much against the proposal, Belle, you just suggested for a variety of reasons.

First, maybe you view this as technical. The EITC only provides payment once a year. I don't think we can simply give people one enormous lump-sum payment in April and nothing on a month-by-month basis.

MS. SAWHILL: You do view as a technical--go ahead.

MR. GREENSTEIN: We have tried for twenty-five years to figure out to make the EITC work on a monthly basis.

Secondly, and getting into some other kinds of issues here, as you know, the EITC provides very small payments to people with small earnings. Now there are going to be economic downturn periods where people with their best efforts don't have jobs. We are talking about lower-skilled people here, people with various barriers people to work. There are going to be non-economic downturn periods where some of these people, given their personal, physical, mental problems and/or just their low levels of skills are going to be out of work for a few months at a time.

I remember talking to Larry Katz several years ago about the work effort of the very low-income, low-skilled population. By and large, they are not remaining employed twelve months of the year every year, year-in and year-out. What do we do during those periods of time?

Even the people who, let's say, don't do what we want them to do. They are not working as Robert would have them work. Should we have them homeless and eating in soup kitchens? If the only benefit is tied to a certain level of earnings and there is no remaining safety net, I hate to think what would happen.

When the TANF block grant was being debated in 1995 in the House Ways and Means Committee, Democrats raised some concerns about what was going to happen to poor children. A constant response from the Republican members of the Ways and Means Committee was we are maintaining food stamps as an entitlement. We are maintaining that as the bottom net so that if with all these other changes people get no cash assistance at all, at least they are going to have food stamps.

Section 8 vouchers, you can have a preference for work but they also can be used to avert homelessness. And there is a fair amount of evidence that when people make their final plunge into homelessness, then what you have to do to get them back out and going to work is really too large.

Turning very quickly to Robert's point, I really don't buy at all the notion that you have to have a block-grant funding structure to have various kind of work requirements. One can write what requirements one wants to into the programs--

MR. RECTOR: And go down? I mean, I will go for that.

MR. GREENSTEIN: The funding will automatically respond if they are in an entitlement. And by matter of fact, the Food Stamp Program does have a lot of work requirements.

If you want to say here is the percentage of food stamp households that have earnings, you have to remember that a very significant share of those households

are elderly and disabled. So you want to move them out of the equation and say what percentage of the non-elderly and disabled have earnings.

There has been a sea change in food stamps in the past six, seven years, following changes in the labor market and the TANF changes. We have gone from the number of food stamp families with children that have no earnings and are getting welfare, being much larger than the number of families with children that have earnings and don't have welfare. The two have reversed.

So the percentage with earnings is now higher than the percentage on welfare. States have all kinds of options to piggy-back on the TANF work requirements and sanction people in food stamps when they don't comply with the TANF work requirements.

So most people on food stamps are either under the TANF work requirements, already working, or elderly and disabled. And if one thought that there were gaps, we can debate that--it is beyond today's discussion--but if one thought there were gaps, one could change the work requirements in the food stamp statute to address those gaps. I don't see that the block-grant issue is a relevant issue here.

MS. KANE: I think Pietro wants to get on this next.

MR. NIVOLA: Just a footnote to Belle's proposal here. I mean, an expanded EITC would basically be tantamount to putting the United States in line with the welfare states of most other advanced countries, that they have negative income taxes or income-maintenance programs, much more along those lines, and they have not relied on sort of the TANF-type program or certainly not on the old AFDC program. It was much more of an eccentric way of going about meeting the needs of the poor than we find in most other Western countries.

MR. : I thought other Western European countries were less work-based than we are. You have children's allowances you get whether you work or not.

MR. : That is just what I was trying to say.

MR. RECTOR: Basically, I think that would be a splendid idea with a couple of provisos. I think Bob is exactly right that we have to find a way that it cannot be an annual lump sum, but that is a challenge that we all need to work on.

The other one is that I think, in fact, you do have to have some backup system for someone that doesn't have a private sector job or doesn't have a formal job. It would be a very bad system if you said you don't have a private sector job, we don't give you. You have to have a system that if people legitimately can't get a job, you give them very generous assistance, but you need to make that assistance, as it is under TANF or should be under TANF--it is not really--should be conditional on constructive activities that prepare for self-sufficiency.

But I think that anybody who has looked in detail at either Section 8 or public housing--and I just served on the Congressional Millennium Housing Commission--this is a truly bizarre program. Okay?

It is essentially a system that gives a few families a gold Cadillac. There are subsidies in that system that are as high as \$12,000 or \$14,000 per household, and then you have virtually identical families that get absolutely nothing out of the program. And it does have substantial anti-work effects, large numbers of people in there that are able-bodied with no work effort at all. And it is inefficient; it is crazy. Talk to people. I mean, it makes TANF look like a streamlined administrative system.

So I think that a system that would move from something like that to one that assists working families and promotes work and provides assistance in a more

flexible manner would be an ideal step forward. And one other I think gain from it would be if you look at the degree of bipartisan support behind the EITC, it would generally have more political support than the current housing system does.

I think really the long-term support and base for giving any form of-- setting aside medical--giving any form of housing, cash or something like that to able-bodied people who are not engaged in activities to help themselves be self-sufficient, the days for that are waning.

MS. KANE: This is a perfect segue into the next panel where we are going to have in-depth discussions of housing and several of the other important programs.

So thank you very much to all of our panelists.

[Applause.]