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National League of Cities Roundtable “Is the Federal-State-Local Partnership Being Dismantled?” The History of Block Grants and Current Proposals

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Thank you for inviting me to participate in today’s discussion about proposed changes in the federal – state – local partnership. The National League of Cities is providing an important service by hosting this roundtable to address the question of a shift in federal policy that until recently has been proceeding mostly under the radar.

Reviewing administration reauthorization and budget proposals earlier this year, I realized that there are a number of recommendations to shift federal program administration from a federal agency to the states. In some cases, these are programs now administered by a federal agency allocating and monitoring outcomes after a national competition for funds. In other cases, the proposed shift would transform an individual entitlement – like Medicaid – into a state block grant with capped funding over time. Some of these programs are currently administered by means of a direct grant to local government or nonprofits – like Workforce Investment Act funds, Head Start, and Section 8 vouchers.

The other thing I noticed is that many of these proposals affect programs serving poor or needy populations.

Earlier this year, I made a few phone calls to colleagues in think tanks, advocacy groups, and Congressional offices to ask whether others were tracking these proposals. Mostly, those I spoke to were aware of the proposals in programs impacting their own area of expertise. But, hardly anyone had started to think about the broad and long-term impacts of the sum of these administration recommendations. Thus, meetings like the one today are critical for discussing these proposals across government agencies.

One Senate Finance Committee staffer, Doug Steiger, summarized the funding relationship options we are discussing today by telling me this anecdote.

When he was working at the Office of Management and Budget, there was a time when a large number of colleagues and friends were getting married. The clever OMB analysts came up with a way to categorize these weddings. First, there was the “entitlement wedding” in which the parents paid for part of the cost of the wedding, but demanded to define how the wedding would look. Then, there was the “block grant wedding” in which the parents gave a fixed amount of money to the bride and groom and let them

plan the wedding. Finally, there was the “regulatory wedding” in which the parents dictated the wedding plans, but the kids had to pay for it.

This morning I will review the history of federal block grants, the academic literature examining block grants, and the current proposals.

The first block grant

Block grants are not a new idea, of course. A federal commission made the first block grant proposal in the late 1940s. Subsequently, members of Congress proposed legislation that would give states the option of combining some federal public assistance programs – with state flexibility to use the funds to design general programs of public welfare. At least one analysis concludes that proposal failed because recipients were concerned about losing funding.

But proponents pressed on, and the first block grant was enacted in 1966 under President Johnson. More proposals followed in the Nixon, Reagan, and first Bush administrations.

The “Contract with America” Republicans supported many block-grant proposals after the midterm elections in 1994. The most famous of these - welfare reform - became law in 1996.

Why does this funding mechanism come up again and again?

Arguments made for block grants

The research identifies at least three arguments for block grants.

First, programs could be streamlined in ways that will be easier to administer and simpler for consumers to use.

The second argument is political. This argument is usually not explicit, but depending on the makeup of Congress, the party in the White House, and the majority of statehouses – there may be a perceived advantage to shifting the control of funds to another level of government.

Finally, and universally, proponents of block grants make a fiscal argument: block grants control spending.

Robert Rector of the Heritage Foundation has said, “The point of block grants is to save the government money...” During the debate over block granting welfare programs in 1995, one Harvard professor noted, “The block grant is the secret device for cutting welfare benefits. It is a way of avoiding blame for loading deficit reduction onto the backs of the poor.”

The Social Services Block Grant is an early example of fiscal argument in action. SSBG was once an uncapped entitlement to states for social services – particularly child care and training for welfare recipients. It was created at least in part to help states manage

the costs of meeting Congressional expectations that welfare recipients should have to prepare for a job. Some states quickly learned to use this funding stream for a variety of services and the costs went up. This was followed by a plan to cap the funds and allocate them on a formula basis. Since then, the purchasing power of SSBG has declined by 80 percent relative to its initial funding level in FY 1977.

What do we know about block grant outcomes?

President Reagan proposed nine block grants, consolidating 57 programs, in his 1982 budget. In the end, the block grants that passed cut funding levels from \$11.1 billion in 1981 categorical funding down to \$9.7 billion in block granted funds. The Reagan proposals created or changed many block grants still familiar to us including LIHEAP, SSBG, CSBG, and CDBG.

The Reagan block grant proposals differed from earlier ones in several ways. Most of his proposals cut spending, while earlier administrations had increased funding to reduce objections from grantees. Also, Reagan proposed to give control of the block grants to states regardless of what entity had managed the funds. In contrast, the Nixon block grants gave control of block grants to local governments and community based organizations – because they had managed the categorical funding that preceded the Community Development Block Grant and CETA. Finally, Reagan proposed to permit transfers among the block grants and to certain other federal programs. Some observers called these transfer proposals “super block grants”.

Scholars and government analysts studying the impacts of the Reagan block grants concluded that:

- Block grants are more vulnerable to funding cuts than categorical programs
- Congress tends to add strings and set-asides over time, reducing flexibility
- As funds are blended with state money, block grants lose their reason for being
- Services that were previously administered by the state, or served all areas of the state, benefited - while programs serving mainly cities or their residents did not
- Cities were losers in reallocation of funds by state officials
- Where income targeting was maintained, eligibility tightened leaving out working poor households
- Administrative savings did not offset cuts
- States reduced standards to save money – particularly in child care

But, most of all we now know that block grants do not keep up with general inflation, resulting in a loss of purchasing power for services over time. A review of a sample of block grants reveals a reduction of funding of 26 percent between 1982 or the first year of the programs and 2003.

The news of record federal deficits in the last week provides at least one of the reasons that the administration might be feeling pressed to propose funding strategies that are proven to save money in the end.

Not all block grants are the same

The Advisory Commission on Intergovernmental Relations developed a list of characteristics of block grants in the late 1970s, saying, "...a block grant may be defined as a program by which funds are provided chiefly to general purpose governmental units in accordance with a statutory formula for use in a broad functional area, largely at the recipient's discretion."

The administration's block grant proposals do not all take the same form, but they still generally meet the definition established 25 years ago. Some proposals consolidate categorical programs, others merely change the administrator. Some transform a national competition into a formula grant to states. Some retain the existing funding level, others increase funds, if only briefly. Most proposals do not impact entitlement benefits – with some important exceptions – Medicaid and child welfare. Interestingly, the proposals uniformly propose to transfer the administration of the programs to states – not cities or other local entities.

There is one other significant difference between this administration's proposals and those of earlier Presidents. In the past, the proposals were explicit. This time around, the strategy has the feeling of a stealthy plan. It took awhile for most observers to realize that the administration is applying this funding strategy to a large number of programs, across agencies. In one case, the supporters of devolution legislation took care to release a list of "16 reasons" the proposal is not a block grant.

Current block grant proposals

The list of current proposals to block grant federal programs serving the unemployed and working poor households is lengthy. It includes Head Start, Unemployment Insurance administration, Medicaid and the State Children's Health Insurance Program, Child Welfare foster care services, Section 8 housing, transportation assistance in the Job Access program, food stamps, and job training in the Workforce Investment Act.

In addition, as part of the welfare reauthorization proposals and legislation, a number of anti-poverty programs are included in a so-called "superwaiver" proposal, including food stamps, child care, public housing, most employment and job training programs under the Workforce Investment Act, the Social Services Block Grant, adult education programs, and homeless assistance programs like transitional housing and emergency shelter grant programs. Under the superwaiver, states could change eligibility rules and transfer funds across programs. States would have to request permission from federal agencies to make these changes – but members of Congress, local officials, and consumers would be left out of waiver negotiations.

Is the "superwaiver" proposal a the same as block granting?

I will close by noting two things about the superwaiver proposal.

First, like proposals made in the early 1980s and 1990s – it incorporates the word "super" as part of a plan to shift decision-making and responsibility to the states for services to the poor and unemployed. The first President Bush proposed to consolidate

a number of existing block grants into one “super block grant”. Earlier, President Reagan proposed to swap states: the federal government would take full responsibility for Medicaid, in exchange the states would take over the funding and administration of food stamps and welfare. When that proposal failed, he proposed to lump funding for a number of services into a “super block grant” to states. The idea was that states would then determine how much assistance any individual might need without observing individual programmatic rules.

Second, for those who still insist on making a distinction between “superwaivers” and block grants, I want to review what happened to welfare. In the early 1990s, Presidents Bush and Clinton liberally granted waivers to states that wanted to experiment with work requirements and other rules for cash assistance recipients. By 1996, the Department of Health and Human Services had granted forty-three states at least one waiver in the AFDC program.

Remember what came next? The 1996 welfare law ended the open-ended AFDC funding to assist state with providing benefits for every eligible family. In its place, we now have a block grant – that was level funded for the first six years. States traded flexibility for the promise of necessary funds if caseloads increased.

Now what is happening? The worst of all outcomes: the Administration proposes no new funding for the block grant or for child care. In fact, the President’s budget acknowledged that proposed flat funding of the child care block grant would cause 200,000 children to lose federally funded assistance next year.

But, in addition to the funding cuts we have come to expect with block grants, the administration also proposes to take away the flexibility that was promised as part of the welfare law by adding costly and unproven mandates on states and localities.

Anyone paying attention to the pattern is justifiably wary of the proposed superwaiver, and all of the many block grant proposals in the mix this year.