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Block Grants: Flexibility vs. Stability in Social Services

MARGY WALLER

Since the 1940s, federal officials, commissions, and scholars all have suggested that local governments receive their federal funds in the form of so-called block grants. Supporters say block grants allow local governments more freedom to design programs, simplify administration of funds, and improve consumer access to social services. The biggest challenge to wholesale support for block grants is simple: How can we ensure accountability for spending and outcomes?

Policymakers face a dilemma: keep block grant funding flexible to ensure its success or protect programs from potential cuts that threaten the stability of services. This policy brief reviews the history of federal block grants for social services, the academic literature examining block grant outcomes, and recent federal proposals.

In 1996, Congress and President Bill Clinton agreed on fundamental changes to Aid to Families with Dependent Children (AFDC), the safety-net program of cash assistance to poor families, transforming what had been a federal-state funding partnership into the Temporary Assistance for Needy Families (TANF) block grant to states. Turning this entitlement safety-net program into a block grant was not a new idea in 1996. Beginning in the 1940s, numerous administrations, members of Congress, commissions, and scholars recommended block grants of federal funds to lower levels of government. In 1980, Robert B. Carleson, President Ronald

Reagan's senior welfare advisor in the White House, stated his intention to achieve Reagan's goal of returning responsibility for financing welfare to states by eliminating the guarantee of federal matching funds to assist poor parents and replacing it with a system of state block grants.

BLOCK GRANT HISTORY

In the late 1970s, the Advisory Commission on Intergovernmental Relations (ACIR) developed a list of characteristics of block grants, 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

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statutory formula for use in a broad functional area, largely at the recipient's discretion." In contrast, categorical funding from the federal government to states and localities is generally limited to narrowly defined purposes and targeted populations, and typically comes with reporting obligations designed to ensure accountability to the federal agency charged with oversight of the program. Proposals to block grant programs that previously guaranteed benefits to individuals who met a set of defined qualifications (called entitlements) present special issues because shifting from the guarantee to fixed funding ends the individual entitlement, as occurred with the welfare legislation in 1996.

Federal categorical funding for a variety of targeted needy groups and communities grew in the 1960s. By the late 1960s, many scholars called for consolidation and devolution of the funding and program oversight to lower levels of government as a means to reduce the complexity and size of the federal government. Some state and local officials began to support a block grant mechanism because they believed it would reduce administrative and reporting burdens.

The first block grant (health) was enacted in 1966 under President Lyndon Johnson. More block grants were enacted based on proposals made by the administrations of Richard Nixon (job training, housing, and social services); Reagan (health services, low-income energy assistance, substance abuse, mental health, social services, and others); and George H. W. Bush (child care).

After the 1994 election, the new Republican majority in the House of Representatives supported many block grant proposals. The most famous of these—welfare reform—became law in 1996 with bi-partisan support.

More recently, policymakers and analysts have proposed program waivers as a method for promoting state government flexibility and autonomy in delivering social services with federal funding. Waivers are different from block grants in several ways: the federal administration often retains oversight, state flexibility is narrowly prescribed, independent evaluations of outcomes are sometimes required, and the change is time limited. However, program waivers have sometimes been followed by proposals to transform the federal program into a block grant. Furthermore, recent proposals have lacked all or many of the waiver protections outlined above, thereby increasing state flexibility, but diminishing accountability.

Proponents of devolution by means of waivers also have used the word "super" to describe plans that would shift federal funding along with decision-making and responsibility to the states for services to the poor and unemployed, much like proposals made in the early 1980s and 1990s. President Reagan proposed a swap with the 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. His idea was that states

would then design individualized assistance packages without observing federal program rules. Similarly, President George H.W. Bush proposed to consolidate a number of existing block grants into one “super block grant.”

Federal decisionmakers’ experience with state waivers has provided support for block grant proposals. The 1996 transformation of AFDC came after both Presidents George H.W. Bush and Clinton liberally granted waivers of AFDC requirements to allow state experiments with new rules for cash assistance recipients. By 1996, the Department of Health and Human Services had granted such waivers to 43 states.

In the mid-1990s, some members of Congress promoted the shift to block grants as the logical next step. The 1996 welfare law terminated open-ended AFDC funding to assist states with providing benefits for every eligible family and substituted TANF, a block grant that was level-funded by the authorizing law. States traded the guarantee of automatically increasing federal funds as needs grew for some flexibility in program design.

President George W. Bush has proposed a series of block grants and a “super-waiver,” discussed more fully below.

BLOCK GRANT PHILOSOPHY

Supporters have typically cited any of three reasons for block grant proposals. First, proponents assert that shifting from federal management to block grants administered at the state or local level reduces federal responsibility for priority setting and oversight by giving states or localities more flexi-

bility in the use of the funds while reducing reporting and administrative requirements. Many officials argue that local decisionmaking about priorities and resource allocation is more responsive to local needs and makes services simpler for consumers to access. Early supporters argued that block grants would promote efficiency and coordination, sometimes noting that they could yield administrative savings by reducing the need for federal program managers. More recently, public administrators and other proponents have noted that block grants created by consolidating funding for related programs could yield efficiency gains resulting from reduction of federal program staff and reporting requirements.

The second argument is more political. Transforming categorical grants can reduce the role of Congress, federal bureaucrats, and lobbyists representing program beneficiaries in shaping these programs. Eliminating the categorical nature of the funds makes it harder for individual policymakers and advocates to take credit for the services and may thereby reduce their interest in the funding. Supporters of consolidating categorical funding argue that retaining categories will likely lead to expansion of the programs.

Finally, proponents of block grants make a fiscal argument: block grants control spending. While some block grant proposals include an initial increase in funding, which can allay the fears of current categorical recipients, proponents have generally hoped for program savings in the future. In fact, states have been willing to trade funding reductions

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for promised flexibility in block grants. Proponents also argue that savings may result from reduced administrative costs. Block grants generally lose political support in Congress over time, and funding reductions follow. Robert Rector of the Heritage Foundation has said, “The point of block grants is to save the government money....”

THE SOCIAL SERVICES BLOCK GRANT

The Social Services Block Grant (SSBG) is an early example of the fiscal argument: an uncapped entitlement was subsequently capped for fiscal reasons and the funding has since declined significantly. SSBG was once an uncapped entitlement to states for social services—particularly child care and training for welfare recipients. Congress and the Kennedy administration established the social services grants in 1962 for services to welfare recipients, as well as former recipients, and those at risk of becoming part of the welfare caseload, authorizing a 75 percent federal match for uncapped state spending. States were free to determine which services were necessary, as the law did not define services, but rather stated a number of loosely defined eligible purposes including services intended to shift welfare from a “handout” to a program that put more emphasis on reduced dependence.

In 1967, Congress sought to cut welfare in the face of rising caseloads and lack of public support for welfare funding. The House Ways and Means Committee leadership pressed for “work,” while federal agency officials responded by insisting on funding for child care that would be necessary as a

result. After amendment, SSBG became an open-ended funding stream to help states manage the costs of meeting expectations that welfare recipients should have to prepare for a job and required that states use the funds to provide child care and family planning services to all welfare recipients referred for training.

But some states quickly learned to use SSBG to finance a variety of services not only to current welfare families but also to past and potential recipients, plus the aged, disabled, and others. Federal spending on the grants increased rapidly after 1967. In 1972, alarmed by the increased spending, the Nixon administration proposed a plan to cap the funds and allocate them on a formula basis. Congress agreed, and since then the purchasing power of SSBG has declined by 85 percent relative to its initial funding level, a large decline even when compared to other block grants.

Today, states are expected to provide training and work support services, child care, and cash assistance to families from two block grants: TANF and the Child Care and Development Block Grant. SSBG remains available to fund services to these families and many other needy populations.

REAGAN BLOCK GRANTS AND LESSONS LEARNED

President Reagan’s 1982 budget proposed nine block grants, consolidating 57 programs. These block grants included the Low-Income Home Energy Assistance Program, SSBG, Community Services Block Grant, and Community Development Block Grant.

The Reagan block grants differed from earlier proposals in several ways. Most represented a cut in spending, while earlier administrations had increased funding to reduce objections from grantees. Also, Reagan introduced devolution of oversight and accountability along with funding. Previously, the federal government had retained some oversight and regulatory authority that strengthened accountability to the federal government. Finally, Reagan proposed to permit transfers among the block grants and to certain other federal programs—so called “super block grants.” Congress adopted most of Reagan’s proposals, merging over fifty categorical grants and three existing block grants into nine block grants while devolving responsibility for administration of these programs to the states. Funding was cut by about 12 percent overall from the previous funding levels.

Scholars and government analysts studying the implementation and funding of Reagan block grants find:

- Over time, Congress added restrictions and requirements, thus reducing flexibility; in the nine block grants, Congress made 58 amendments between 1983 and 1991
- As state officials blended federal block grant funds with state money, block grants lost their federal identity and support from federal officials
- Administrative savings did not offset cuts in program funding; while there was some new efficiency of management, states also had new responsibilities to manage increased flexibility and program development

- Distribution formulas based on funding levels in the eliminated categorical grants did not always reflect levels of need, cost of providing services, or ability of states to pay for program costs
- States reduced program standards to save money, particularly in child care
- States used several means to offset federal funding reductions: carryover of prior-year categorical funding, transfers among block grants, and notably, greater reliance on state funds for program areas in which states had long been active
- Social service block grants did not keep pace with general inflation, resulting in a loss of purchasing power for services over time.

While the Reagan block grants achieved fiscal policy goals with initial and subsequent funding cuts, Congress undermined the political goal by recategorizing some of the grants. State program management effectively limited the efficiency and coordination goal by maintaining existing agency categorical management responsibilities and funding priorities.

RECENT PROPOSALS

Current block grant proposals do not all take the same form, but still generally meet the ACIR definition established 25 years ago. Some proposals consolidate categorical programs, others merely change the level of government responsible for program administration. Some transform a national competition for funds into a formula grant to states. Some retain the existing funding level, others increase funds, if only briefly.

“The welfare reauthorization debate illustrates the reason some analysts warn against block grants: both the funding level and the flexibility of the current grants are threatened by pending proposals.”



Most proposals do not impact entitlement benefits, with some important exceptions—food stamps, Medicaid, and child welfare. These proposals include many programs serving poor households and would significantly expand the percentage of federal aid allocated through block grants. Here is an overview of some proposals:

HEAD START. The Bush administration proposed to shift some responsibility from the federal government to the states, and eliminate the direct federal-to-local funding system. Proponents (some of whom assert that the proposal is not a block grant) argue that children would benefit from the states' ability to coordinate Head Start programs with early childhood education and care services and could use the funds to design systems tailored to local needs and resources. Opponents fear that states could merge the funds into existing preschool programs that may not be as targeted to low-income children, and they note that many state early education standards are not as comprehensive as the Head Start Performance Standards.

CHILD WELFARE. States receive funding for assistance payments to foster families, administration of the program, and training for foster care staff. The entitlement funding rises and falls based on the number of children in foster care who meet eligibility standards. The proposal allows states to convert their funding to a fixed block grant equal to an amount based on the state's federal funding history. The block grant would be flat-funded over five years; states would be able to use a larger share of that money more flexibly

in the early years, but would be limited to the five year funding level overall. Proponents believe costs could decrease in subsequent years from new investment in preventive programs that states would be able to implement in the early years. Opponents believe the current system is underfunded and that the block grant would lock in the underfunding and disparity between states while capping the federal government's commitment. They also fear states would shortchange children and families in need if caseloads increase, or fail to decline as fast as inflation erodes the value of the funding.

FOOD STAMPS. The House proposal would transform this entitlement program for low-income households into a five-state demonstration block grant based on the history of federal funding to each state. States would be locked into the base funding level for five years regardless of caseload levels. Proponents have not articulated a programmatic rationale for support of the House proposal. Opponents raise concerns about loss of nutrition assistance if caseloads rise, and assert that the block grant structure will undercut efforts to enroll working poor families.

ASSISTED HOUSING. The administration has proposed to convert Section 8 housing vouchers into block grants. One proposal would have provided block grants to states, a later proposal would provide grants to housing authorities—the administering agencies under the current program. Poor households are not entitled to assistance, and vouchers now reach only about 25 percent of those eligible, but recipients

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are entitled to assistance for as long as they remain eligible. Proponents note that program costs are growing rapidly and must be reduced if vouchers are to survive. Opponents assert that the funding proposals for block grants would require state or local administrators to take action to reduce costs that would result in a loss of services to low-income households.

JOB TRAINING. This proposal to alter programs in the Workforce Investment Act would require merging funds for adult, youth, and dislocated worker training with grants for unemployment assistance centers and other programs into one large block grant to states. Current targeting of funds for specific populations would be eliminated. Proponents assert the change would decrease bureaucratic inefficiencies in current services and would allow for more flexible and targeted programs. Opponents note that states already have flexibility to reallocate funds between programs and object to funding cuts under the proposal.

“SUPERWAIVER.” In addition, as part of welfare reauthorization, the administration proposed changes to a number of anti-poverty programs in its “super-waiver” proposal. Under the super-waiver, states could change eligibility rules, alter targeting rules and service providers, and transfer funds across a wide range of social programs. This proposal shares a name and design features with earlier proposals to devolve social services to the state level.

WELFARE AND BLOCK GRANTS

In the late 1960s, the cash welfare program and social services grants

existed side-by-side as uncapped matched entitlements to provide cash, child care, education and training, as well as other services. Since then, Congress eliminated both categorical grants and states now fund these services out of three capped block grants. The welfare reauthorization debate illustrates the reason some analysts warn against block grants: both the funding level and the flexibility of the current grants are threatened by pending proposals. As observers of block grants have noted, Congress usually either cuts block grant funding or adds new mandates for the recipient of the funds. In this case, some members of Congress and the administration propose to do both.

Bush administration budget proposals have consistently provided level funding for the TANF block grant and child care. In 2004, the administration encouraged Senators to pass a House bill that included an additional \$1 billion for child care, but opposed Senate amendments to increase child care funds. The Senate did not pass the bill. Welfare caseloads and state obligations to provide cash assistance have declined since 1996, but states now use TANF funds to provide work supports to millions of low-income workers. Still, TANF funding has fallen by 19 percent, in inflation-adjusted dollars. The administration’s budgets have acknowledged that proposed flat funding of the child care block grant would cause the loss of hundreds of thousands of child care slots. In addition to the declining purchasing power due to inflation that is typical of block grants, the administration also proposed to add new federal requirements to TANF, reducing the

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flexibility that supporters promised to state officials in 1996.

CONCLUSION

Local design, ease of administration, and consumer access are worthy goals, and desired by many state and local officials. Yet some are wary of the recent block grant and devolution proposals after observing program changes and funding cuts in other block grants over time. There are significant differences between block grants that end guaranteed federal funding for entitlement programs like Medicaid and food stamps, and proposals to devolve responsibility for categorical programs. Yet, experience suggests that accountability for outcomes remains a difficult challenge in both. GAO analysts suggest that accountability may be more readily

achieved with block grants for a single program like workforce initiatives, while a fungible funding stream like SSBG is quite difficult to track on a national basis. GAO has also recommended designing measurable performance goals when consolidating categorical grants with related purposes.

Many stakeholders desire the flexible ends of block grant funding, yet oppose using means that typically threaten the stability of services. Unfortunately, it is not yet clear how to achieve flexibility while ensuring federal funding levels and accountability for outcomes. Unless these issues are resolved, proponents of block grants will continue to have difficulty garnering widespread support, while skeptics will be justified in their resistance. **B**

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