The 104th Congress seems intent on reforming the financing of federal programs and, in the process, devolving more authority for the design and delivery of supports and services to states and communities. This paper reviews the experience and lessons from the Reagan block grants of the 1980s, highlighting the similarities and differences between those programs and current block-grant proposals. Also, a number of suggestions for designing social welfare block grants to effectively and equitably address the needs of the nation’s children, families, and communities are presented. To sustain support, block grants must clearly define program purposes, goals, and objectives and should protect support for vulnerable populations. Policymakers should consider each state’s administrative capabilities, maintain an adequate safety net for state funding, work out the equitable distribution of funds, and remember that flexibility requires adequate funding. Some block-grant funding should be targeted at populations with clearly defined needs, and block grants should protect federal funding for cities. Accountability should be based on an established set of measurable results. Five tables are included. Information about the Finance Project and its resources are included. (Contains 81 endnotes.) (LMI)
RETHINKING
BLOCK GRANTS

Toward Improved
Intergovernmental
Financing for Education and
Other Children's Services
RETHINKING BLOCK GRANTS

Toward Improved Intergovernmental Financing for Education and Other Children's Services

By Cheryl D. Hayes with research assistance from Anna E. Danegger

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PREFACE

Public financing for education and an array of other children's services has become a topic of significant interest and political concern. Growing skepticism among a critical mass of American voters and taxpayers has fueled doubts about the ability of government to solve social problems and provide basic supports and services that enhance the quality of life in their communities. Voters spoke clearly in November 1994. They want more for their money. They want more and better services, but they also want balanced budgets and cuts in income and property taxes. In this time of big public deficits, they want government at all levels to operate more effectively and efficiently. They also want it to invest wisely and live within its means. On Capitol Hill in Washington, DC and in statehouses nationwide, policymakers are scrambling to respond.

Across the country, there is mounting evidence of efforts to reform and restructure education and other community supports and services in order to improve the lives and future prospects of children and their families. Critical to the success of these initiatives is the way in which they are financed. How revenues are generated and how funds are channeled to schools, human service agencies, and community development initiatives influence what programs and services are available. It determines how they are provided and who benefits from them. Financing also affects how state and local officials define investment and program priorities, and it creates incentives that guide how educators, other service providers, and community volunteers do their jobs. For these reasons, financing fundamentally affects how responsive programs and institutions are to the needs of the people and communities they are in business to serve.

In recent years, several blue ribbon commissions and national task forces have presented ambitious prescriptions for reforming and restructuring the nation's education, health, and human service systems in order to improve outcomes for children. While some have argued that public financing and related structural and administrative issues are critical to efforts to foster children's healthy development and school success, none has been framed for the specific purpose of inventively reconceptualizing public financing. Indeed, many of the most thorough and thoughtful reports have called for an overlay of new funds, but have neglected to provide cogent analyses of effective financing strategies, the costs of converting to these approaches, and the potential beneficial outcomes that might accrue from addressing financing reform as an integral aspect of program reform.

In addition, the past several years have witnessed a burgeoning of experimental efforts by mayors and city managers, governors and state agency directors, legislators and council members, program managers and school officials to make government work better and more efficiently. They have been enhanced by the work of people outside of government, including foundation executives, business and labor leaders, community organizers, and academic scholars. Some are creating new ways to raise revenues, manage schools, deliver human services, and spur community economic development. Others are designing new public governance and budgeting systems. Still others are developing and testing new approaches to more directly involve citizens.
in setting public priorities and maintaining accountability for public expenditures. Taken together, these efforts suggest the nascent strands of new and improved public financing strategies.

Against this backdrop, a consortium of national foundations established The Finance Project to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, The Finance Project is conducting an ambitious agenda of policy research and development activities, as well as policymaker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

As a part of its work, The Finance Project produces a series of working papers on salient issues related to financing for education and other children’s services. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of the authors. By making them available to a wider audience our intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings they present and use them to advance their own efforts to improve public financing strategies.

This paper, Rethinking Block Grants: Toward Improved Intergovernmental Financing for Education and Other Children's Services, was prepared with assistance from Anna E. Danegger, a Research Associate on The Finance Project staff. It reviews the experience and lessons from the Reagan block grants of the 1980s. It highlights the similarities and differences between those programs and current block grant proposals. And it presents a number of suggestions for designing social welfare block grants to effectively and equitably address the needs of the nation’s children, families, and communities.

Cheryl D. Hayes
Executive Director
ABOUT THE AUTHOR

Cheryl D. Hayes is the Executive Director of The Finance Project. Anna E. Danegger is a Research Associate there.
INTRODUCTION

In November 1994, a critical mass of American voters called for dramatic changes in the way government does business. The Republican landslide was not just a bout of anti-incumbency fever. It was a profound expression of doubt about the ability of government -- especially the federal government -- to solve social problems and provide basic supports and services that enhance the quality of life in communities across the country. At least part of the message was that government is too big, too expensive, and it doesn't work very well.

Despite steadily increasing public expenditures for health, education, welfare, human services, and public safety over the past two decades, seemingly intractable problems persist. Nearly a quarter of U.S. children are poor and live in families and communities that are unable to meet their basic needs. Schools have become increasingly expensive. But student achievement hasn't matched the rising costs, and drop-out rates remain unacceptably high. Health care costs continue to go up. Yet, many Americans can't get the services they need, and with each passing year their health care dollars buy less. Criminal justice demands a rapidly increasing share of public dollars -- for police officers and judges and jails -- but neighborhood streets aren't safer.

Taxpayers say they want more for their money. They want government at all levels to operate more effectively and efficiently. They want it to invest wisely and live within its means. In response, the 104th Congress has made public finance reform a high priority. Significant energy and attention is focused on proposals to streamline and consolidate the many fragmented funding streams that channel federal aid to states and communities. In 1994, more than 480 separate federal programs allocated $398 billion for education, health, human services, housing, criminal justice, community development, and other supports and services for children and families. More than 90 programs, for example, funded employment and training services. More than 90 different programs funded early childhood services. Approximately 106 supported youth development activities. And 18 funded nutrition education and assistance for children and their families. Within each cabinet level department, multiple agencies oversee overlapping programs that serve essentially the same populations. Each of these programs has its own administrative requirements, eligibility rules, and performance standards.

The new Congress seems intent on simplifying this disjointed maze and, in the process, devolving more authority for the design and delivery of supports and services to states and communities. Most of the discussion of how to accomplish this reform is focused on creating block grants that would consolidate numerous federal categorical programs into a few unified funding streams. An array of emerging proposals is under consideration, including those contained in the Republican Contract with America and the National Governors Association policy position on welfare reform.

The idea of creating block grants is not new, however. As far back as 1949, a report by the Commission on the Organization of the Executive Branch concluded that "a system of grants should be established based upon broad categories [of funding] as contrasted with the present system of extensive fragmentation." In the early 1970s, the Nixon administration
attempted to reduce the federal role in program management and the number of federal categorical programs through special revenue sharing. In 1981, the Reagan administration created nine block grants that consolidated approximately 57 of the more than 300 federal programs providing assistance to states and localities at that time. A decade and a half later, block grants are once again a hot topic, and current proposals call for even more far-reaching consolidations of federal categorical programs than those of the early 1980s.

It seems likely that political forces will unite behind legislation to transform scores of existing funding streams into a few domestic social welfare block grants in 1995. In the process, federal grantmaking and intergovernmental relations could undergo more profound changes than at any time in the past 30 years. As they move to restructure the federal-state relationship and reduce domestic social spending, however, Congress, the Clinton administration, and the nation's governors and mayors will face a number of policy and political hurdles. Many of the programs targeted for consolidation are much larger and are fundamentally different from those that were folded into the Reagan block grants. They include the entitlements that make up the nation's social safety net as well as smaller discretionary grant programs. As deliberations proceed, it would be useful to recall past experiences and the lessons that were learned. It would also be useful to draw distinctions between current proposals and past programs, and to anticipate the special issues and challenges ahead.

LOOKING BACK
Proposals to consolidate numerous separate federal funding streams into broad blocks were first introduced in the aftermath of World War II. The aim was to give states and localities more flexibility in setting program priorities, to simplify the excessively fragmented program structure, and to ease the administrative burdens on federal departments. As Timothy Conlon has written, the primary rationale for greater use of block grants between the late 1940s and the late 1960s was that grant programs could be better administered if narrow categorical restrictions and requirements were removed. Federal agencies and grant recipients alike were expected to benefit.

The proliferation of Great Society programs during the Johnson administration dramatically expanded the federal role in domestic policy and targeted assistance to needy groups that had been overlooked by state and local governments, most notably the poor and minorities. It also highlighted the problems inherent in trying to design and run what are essentially local initiatives from Washington. The experience of the late 1960s led to sharp criticism and calls for administrative reform and simplification from several quarters: former federal officials who had broad administrative responsibility, professional policy analysts, as well as Washington policy support groups like the General Accounting Office (GAO) and the Advisory Commission on Intergovernmental Relations (ACIR). These critics were largely outside the arenas of Congressional politics and federal mission agencies. From their vantage point, federal efforts to manage thousands of local initiatives were inefficient and ineffective. They endorsed block grants as a means to bring order and simplicity to a fundamentally irrational and administratively over-burdened federal government.
In the early 1970s, the Nixon administration took up the campaign against categorical programs, offering in their place proposals for special revenue sharing. The goal of special revenue sharing was to consolidate existing federal programs, and in addition to curtail the expansion of federal program priorities, federal mandates, and federal monitoring and reporting requirements. Proponents sought to "reverse the flow of power and resources ... to Washington" and return control over setting domestic priorities to the states.

To support their proposals, Nixon administration officials continued to cite the need for administrative reform. However, they also invoked a new political rationale, castigating categorical grant programs as the product of a conspiracy between the Congress, special interests, and the federal bureaucracy. Passage of legislation creating numerous, narrowly defined programs, they argued, provided senators and congressmen an opportunity to take credit for delivering clearly identifiable benefits to vocal constituencies. Special interests had gained a toehold in the federal budget. And burgeoning federal agencies became the beneficiaries of rapidly growing budgets, staffs, and program responsibilities.

Ultimately, special revenue sharing failed amid strong political opposition in the Congress. Nevertheless, three block grants were established during the Nixon years. With strong support from mayors who wanted more control over funds made available through Great Society urban programs, Congress passed the Community Development Block Grant. The Title XX Social Services Block Grant replaced a number of categorical social service programs and set forth broad national goals for helping people become economically self-sufficient; protecting children and adults from abuse, neglect, and exploitation; and preventing and reducing inappropriate institutional care. Additionally, the Comprehensive Employment and Training Act (CETA) folded 17 Labor Department programs together in a unified structure, while retaining several "national emphasis" programs. Almost as soon as CETA was established, however, it began to be "recategorized." By 1977, so many separate emphasis programs had been added that the original block grant had declined in size to only 23 percent of total spending under the law.

The theme of federal consolidation and downsizing was revitalized in the early 1980s. As several authors have noted, the now famous Reagan block grants reflected both the desire to implement significant federal administrative reforms and to return program decisionmaking and management to the states. Speaking to a joint session of Congress in which he introduced his Program for Economic Recovery, President Reagan promised that block grants would "bring government closer to the people." In addition, however, a clear aim was to reverse the tide of increasing federal social welfare spending begun during the Johnson years. Earlier attempts at federal consolidation had been sweetened with funding increases. Yet, the Reagan administration proposals were openly intended to curb federal domestic spending. Block grants became the mantra of a new approach to intergovernmental relations and fiscal management -- as some would say, a code for cutting the budget.

Once President Reagan announced his proposals in February 1981, Congress moved quickly to enact them. Using the budget reconciliation process to expedite legislative consideration, the administration effectively bypassed Congressional committees that are the traditional guardians of the categorical grant system. Within six months, Congress passed
and the President signed the Omnibus Budget Reconciliation Act of 1981 (OBRA), which provided for nine new or revised block grants containing 57 categorical grants. The 1982 budget authority for the new grant programs was approximately $9.7 billion.\(^2\) The block grants brought together programs in the areas of social and community services; preventive health and health services; maternal and child health; alcohol, drug abuse, and mental health; low-income home energy assistance; elementary and secondary education; and community development.

Although the block grants accounted for a relatively modest amount of federal aid to state and local governments, approximately 10 percent in 1982, they represented a dramatic shift in federal-state relations and the most ambitious consolidation to date. Under OBRA, the states were given broad discretion to decide what programs and services to provide, as long as they were related to the goals of the block grant program. Federal data collection and reporting requirements were significantly reduced from what they were under the categorical programs. And, overall federal funding for the consolidated programs was reduced by approximately 12 percent or about $1 billion.\(^3\) However, the change in the level of federal funding varied across the new block grants. Some reduced previous funding by significantly more than the average. The Community Services Block Grant, for example, sustained a 30 percent cut. Others actually increased funding. The Community Development Block Grant received a 10 percent higher appropriation than under the categorical programs. The Social Services Block Grant, which included the old Title XX funding, was reduced by the largest amount in current dollars -- $591 million, or about 20 percent of previous funding.\(^4\) (See Table 1.)

<table>
<thead>
<tr>
<th>Block Grant</th>
<th>FY 1981 Appropriations for Categorical Programs</th>
<th>FY 1982 Appropriations for Block Grants</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Services</td>
<td>$525,000</td>
<td>$366,000</td>
<td>-30.29%</td>
</tr>
<tr>
<td>Alcohol, Drug Abuse, and Mental Health Services</td>
<td>$585,000</td>
<td>$432,000</td>
<td>-26.15%</td>
</tr>
<tr>
<td>Primary Care</td>
<td>$327,000</td>
<td>$247,000</td>
<td>-24.46%</td>
</tr>
<tr>
<td>Social Services</td>
<td>$2,991,000</td>
<td>$2,400,000</td>
<td>-19.76%</td>
</tr>
<tr>
<td>Maternal and Child Health</td>
<td>$455,000</td>
<td>$374,000</td>
<td>-17.80%</td>
</tr>
<tr>
<td>Preventive Health and Health Services</td>
<td>$93,000</td>
<td>$82,000</td>
<td>-11.83%</td>
</tr>
<tr>
<td>Education (Chapter 2)</td>
<td>$536,000</td>
<td>$470,000</td>
<td>-12.31%</td>
</tr>
<tr>
<td>Low-Income Home Energy Assistance</td>
<td>$1,850,000</td>
<td>$1,875,000</td>
<td>1.35%</td>
</tr>
<tr>
<td>Community Development (Small Cities)</td>
<td>$926,000</td>
<td>$1,020,000</td>
<td>10.15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,288,000</strong></td>
<td><strong>$7,266,000</strong></td>
<td><strong>-12.33%</strong></td>
</tr>
</tbody>
</table>

*Source: Early Observations on Block Grant Implementation (GAO/GGD-82-79, August 24, 1982).*
Consistent with President Reagan's emphasis on federalism, the states became the primary locus of program and funding control under the 1981 block grants. Congress imposed some guarantees of pass-through funding to localities, but the major thrust of the policy was to transfer program decisions and administrative authority to the states. The new approach also permitted the transfer of federal funding among block grants and from certain block grants to other federally supported programs in the same field, thus enhancing state flexibility to use funds to support their own program priorities.

TAKING STOCK OF THE 1981 BLOCK GRANT EXPERIENCE

Several studies of the effects of the 1981 block grants that were conducted following their implementation generally conclude that the transition from categorical programs to block grants was a relatively smooth process. They also suggest that the experience was neither as dire as the critics had predicted in terms of social and economic effects on target populations, nor as positive as the proponents had projected in terms of administrative cost savings. It is important to recognize that most of the policy research on the impact of the Reagan block grants only examined the several years immediately following passage of the Omnibus Budget Reconciliation Act. These studies did not track state and local responses beyond the mid-1980s. Nevertheless, as Congress, the Clinton administration, and the nation's governors and mayors consider a new generation of federal grant reforms, the 1980s experience provides a useful context.

Program Flexibility

Implementation of block grants was intended to fundamentally restructure federal-state relations in areas related to health, education, and social welfare by providing states broad discretion to design and operate programs responsive to their needs and priorities. Despite greater flexibility, however, most states did not rush to radically gut or overhaul their programs, management systems, or service delivery systems. Some took steps to consolidate administrative units and coordinate or combine related categorical programs. For example, where previous federal programs had required that federal and state funds for similar services, such as alcohol and drug abuse treatment and mental health, be administered separately, states generally folded the federal program into the state administrative unit. However, in areas where they had well-established programs and where local grantees had developed relationships with state officials, the states generally did not cut funding or alter the program design in substantial ways.

This seems to have been especially likely if the states had primary control over the design of a program and its service delivery system prior to the enactment of the block grants. In these situations, there is evidence that states often assigned a higher budgetary priority to the activity and allocated more resources to it than to programs or activities that had simply been carried out under a federal mandate, perhaps through a contract. Thus, for example, within the Maternal and Child Health Block Grant, the Crippled Children's Services program actually saw its funding increase in many states. The program had a long history of state involvement and support. In contrast, programs such as the Lead-Based Paint program
and the Rodent Control program, which were folded into the Preventive Health and Health Services Block Grant, were regarded by many states as narrowly-focused, big-city initiatives that had been administered by the federal government. Because these activities had been carried out previously without much state involvement, support declined in most states after the block grants were implemented. Activities under the Community Services Block Grant seem to have been least likely to receive sustained state support. The federal programs folded into this block grant had channeled funds directly to local community action agencies, mostly in cities, with little state involvement. Therefore, they had few champions among state officials after the financing reform.

Many states did develop and implement new program priorities in areas where the block grants made funding available and where previously there had not been strong programs and delivery systems. For example, with the availability of new support for small cities under the Community Development Block Grant, many states shifted attention and resources to community economic development and infrastructure projects and away from housing rehabilitation, which had been a strong emphasis of U.S. Department of Housing and Urban Development (HUD) categorical programs. Similarly, creation of the Education Consolidation and Improvement Act, Chapter Two, which provided support for local school desegregation, led to a significant shift in program priorities and patterns of funding. Previously a highly targeted program that directed resources to inner-city schools, the block grant offered the states much greater flexibility in applying funds to serve general programmatic purposes. As a consequence, most states allocated the funding to meet general educational program and materials needs, including the purchase of computer equipment, rather than to efforts to alter the racial and ethnic composition of school populations. Moreover, funds began to be distributed more broadly across school districts, rather than being targeted specifically to districts in large urban centers.

Over time, the intended flexibility of the block grants was diminished. In response to concerns that the states were not adequately meeting national needs and priorities, Congress added a variety of constraints that effectively recategorized them. These included set-asides, which required that a minimum amount of available funds be used for a specific purpose, and cost ceilings, which specified a maximum portion of funds that could be used for other purposes. GAO reports that in the nine Reagan block grants, Congress added new cost ceilings and set-asides or changed existing ones 58 times between 1983 and 1991. In all but two cases, the portion of funds restricted under set-asides increased. In the Maternal and Child Health Block Grant, for example, 60 percent of total funding was restricted to specific types of services and target populations. Restricted funds were decreased in only two of the block grant programs, the Preventive Health and Health Services Block Grant and the Alcohol, Drug Abuse, and Mental Health Block Grant.

In addition to the legislative restrictions that Congress placed on the use of block grant funds, the fact that appropriations for the block grants remained relatively flat also limited state flexibility over time. Throughout the 1980s, poverty increased and the population of children and families in need of supports and services continued to grow. However, the amount of funding made available through the block grants remained relatively flat, and in
some cases actually declined. (See Table 2.) As a result, available funds had to stretch further just to cover basic services, including those that were mandated by the federal government or by court actions. This left many states with little flexibility to direct block grant funds toward new programmatic needs and emerging priorities.

**Administrative Streamlining**

In the mid-1980s, states generally reported that federal administrative requirements under the block grants were less burdensome than they had been under the categorical programs. The amount of paperwork was reduced, and GAO investigators reported that state officials believed they were spending less time and effort preparing grant applications and reports. In particular, they claimed the greatest administrative savings on eligibility determination. Many states rejected previous federal requirements for case-by-case (family-by-family) determination of program eligibility and instead adopted self-designation within broad geographic neighborhoods or other areas with high concentrations of potential recipients.

While they generally tightened eligibility standards to limit assistance to relatively poorer and needier families, they substituted neighborhood-wide eligibility to reduce the administrative inefficiency of individual determinations. This alleviated the administrative burden of determining eligibility on a case-by-case basis, and made it easier for families in designated low-income, high-risk communities to get assistance.

Although states reported greater administrative and management efficiencies under the block grants, they also experienced increased grant management responsibilities. Yet because state administrative cost definitions and data were not uniform, the General Accounting Office and other evaluation groups were not able to measure the net effect of the block grant reform on administrative costs. However, it seems likely that the dollar savings were not as great as block grant advocates had projected. Generally, states did not dramatically reduce the size of their administrative staffs. Instead, staff members were reassigned to other program and grant management responsibilities.

**Replacement of Lost Federal Funding**

A major contributor to the relatively smooth transition from categorical programs to block grants in 1981 was the fact that states found a number of ways to offset federal funding reductions. The ability to shift federal funds between the block grants enabled states to use federal dollars from one source to make up shortfalls in other high priority program areas. Thus, for example, GAO reports that 13 states transferred approximately $125 million among block grants in 1982 and 1983. About $112 million, or 90 percent, was the result of moving funds from the Low-income Home Energy Assistance Block Grant to the Social Services Block Grant.

During the early years after enactment of the block grants, many states were able to avoid making dramatic spending adjustments by adding federal categorical funds carried over from previous years to the new block-grant funding. The federal government had made advance payments on many categorical programs which it did not try to recapture. The Reagan administration allowed the states to reallocate carryover funds, within the parameters...
## Table 2
Federal Block Grant Funding, 1983-1994
(Obligations in Current Dollars)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Social Services 1</td>
<td>2,675</td>
<td>2,700</td>
<td>2,725</td>
<td>2,584</td>
<td>2,697</td>
<td>2,700</td>
<td>2,762</td>
<td>2,804</td>
<td>2,800</td>
<td>2,800</td>
<td>3,800</td>
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<td>Low-Income Energy Assistance</td>
<td>1,975</td>
<td>2,075</td>
<td>2,100</td>
<td>2,008</td>
<td>1,822</td>
<td>1,532</td>
<td>1,283</td>
<td>1,443</td>
<td>1,610</td>
<td>1,500</td>
<td>1,346</td>
<td>1,427</td>
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<tr>
<td>Community Services</td>
<td>373</td>
<td>348</td>
<td>368</td>
<td>368</td>
<td>363</td>
<td>319</td>
<td>322</td>
<td>436</td>
<td>360</td>
<td>372</td>
<td>386</td>
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<tr>
<td>Prevention/Treatment of Substance Abuse 2</td>
<td>460</td>
<td>462</td>
<td>490</td>
<td>509</td>
<td>487</td>
<td>806</td>
<td>1,193</td>
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<tr>
<td>Preventive Health &amp; Human Services</td>
<td>85</td>
<td>87</td>
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<td>91</td>
<td>129</td>
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<tr>
<td>Maternal &amp; Child Health</td>
<td>478</td>
<td>399</td>
<td>478</td>
<td>457</td>
<td>497</td>
<td>536</td>
<td>554</td>
<td>587</td>
<td>650</td>
<td>664</td>
<td>687</td>
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<td>Education (Chapter 2)</td>
<td>462</td>
<td>451</td>
<td>500</td>
<td>477</td>
<td>501</td>
<td>478</td>
<td>400</td>
<td>519</td>
<td>419</td>
<td>446</td>
<td>370</td>
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<tr>
<td>Community Development 3</td>
<td>2,300</td>
<td>2,300</td>
<td>2,388</td>
<td>2,053</td>
<td>2,059</td>
<td>1,973</td>
<td>2,053</td>
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<td>2,203</td>
<td>2,397</td>
<td>2,790</td>
<td>2,871</td>
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<td>Job Training and Partnership Act 4</td>
<td>1,415</td>
<td>1,386</td>
<td>1,836</td>
<td>1,783</td>
<td>1,840</td>
<td>1,809</td>
<td>1,788</td>
<td>1,745</td>
<td>1,778</td>
<td>1,773</td>
<td>1,692</td>
<td>1,742</td>
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<td><strong>Total</strong></td>
<td><strong>10,311</strong></td>
<td><strong>10,788</strong></td>
<td><strong>11,024</strong></td>
<td><strong>10,276</strong></td>
<td><strong>10,382</strong></td>
<td><strong>9,953</strong></td>
<td><strong>10,087</strong></td>
<td><strong>10,599</strong></td>
<td><strong>11,227</strong></td>
<td><strong>11,355</strong></td>
<td><strong>12,625</strong></td>
<td></td>
</tr>
</tbody>
</table>

1. The Social Services Block Grant increase between FY 1993 and FY 1994 is due to Empowerment Zone/Enterprise Community obligations.
2. The Prevention/Treatment of Substance Abuse Block Grant included mental health until FY 1992.
3. The Community Development Block Grant does not include undistributed allocations, nor does it include spending on the nonentitlement portion of the Block Grant.
4. JTPA Block Grant is for the Adult and Youth Training Block Grant portion of the JTPA program – interpreted to mean Titles II-A and II-C for 1994.

of the new block grants, and in many cases, the states used those funds to make up some part of the funding shortfalls. Studies of the effects of the 1981 block grants showed that conserving funds whenever possible became a widespread practice that helped states to smooth out spending adjustments and achieve greater financial flexibility in the face of the federal reductions.23

In addition, states used their own resources to replace funds lost as a result of the overall 12 percent federal funding reduction. The amounts they allocated and the extent to which they were willing to cover shortfalls varied from one program area to another. However, critics who had predicted that states would be unable and/or unwilling to use their own funds to offset federal cuts were proven wrong. While most states made minimal adjustments in the first year after the block grants were implemented, in later years they began to provide greater contributions.24 Social services spending, which had seemed especially vulnerable, received surprisingly strong support. States also called on local governments to finance more of the total cost of human services that were eligible for funding through the block grant. Moreover, as Nathan and Doolittle have pointed out, states' replacement of lost federal funding was not limited to the block grants. They also took steps to offset federal cuts in other categorical aid programs for the poor, especially Medicaid.25 This trend toward increased state spending on select programs continued after 1985. Data concerning state expenditures on federal matching programs show dramatic increases in spending for Medicaid, foster care, and child support between the mid-1980s and the early 1990s.26 (See Table 3.)

Table 3
Total State Spending on Federal Matching Programs for Children
(In millions of 1992 dollars)

<table>
<thead>
<tr>
<th>Program</th>
<th>1985</th>
<th>% of Total</th>
<th>1990</th>
<th>% of Total</th>
<th>1992</th>
<th>% of Total</th>
<th>Percent Change in Spending (1985-1992)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFDC</td>
<td>10160.7</td>
<td>67.92%</td>
<td>10471.0</td>
<td>58.61%</td>
<td>11330.0</td>
<td>52.60%</td>
<td>11.51%</td>
</tr>
<tr>
<td>Medicaid for Children</td>
<td>3003.7</td>
<td>20.08%</td>
<td>4470.2</td>
<td>25.02%</td>
<td>6160.5</td>
<td>28.60%</td>
<td>105.10%</td>
</tr>
<tr>
<td>Foster Care</td>
<td>667.2</td>
<td>4.46%</td>
<td>1464.1</td>
<td>8.20%</td>
<td>1904.6</td>
<td>9.26%</td>
<td>198.95%</td>
</tr>
<tr>
<td>Maternal and Child Health</td>
<td>719.3</td>
<td>4.81%</td>
<td>677.8</td>
<td>3.79%</td>
<td>729.4</td>
<td>3.39%</td>
<td>1.40%</td>
</tr>
<tr>
<td>Child Support</td>
<td>322.2</td>
<td>2.15%</td>
<td>588.9</td>
<td>3.30%</td>
<td>651.8</td>
<td>3.03%</td>
<td>102.30%</td>
</tr>
<tr>
<td>AFDC Child Care</td>
<td>0.0</td>
<td>0.00%</td>
<td>102.7</td>
<td>0.57%</td>
<td>317.3</td>
<td>1.47%</td>
<td>N/A</td>
</tr>
<tr>
<td>At-risk Child Care</td>
<td>0.0</td>
<td>0.00%</td>
<td>0.0</td>
<td>0.00%</td>
<td>266.3</td>
<td>1.24%</td>
<td>N/A</td>
</tr>
<tr>
<td>Child Welfare</td>
<td>87.6</td>
<td>0.59%</td>
<td>90.0</td>
<td>0.50%</td>
<td>90.4</td>
<td>0.42%</td>
<td>3.20%</td>
</tr>
<tr>
<td>Adoption</td>
<td>0.0</td>
<td>0.00%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>14960.7</td>
<td></td>
<td>17864.7</td>
<td></td>
<td>21540.3</td>
<td></td>
<td>43.98%</td>
</tr>
</tbody>
</table>

Source: Stephen Gold and Deborah Ellwood, How Funding of Programs for Children Varies Among the 50 States, 1995 forthcoming.
The shift from categorical programs to block grants also led critics to speculate that states would reduce their spending when matching formula requirements were discarded. Matching grants typically require states to contribute 25 to 75 percent of the amount provided by the federal government, thereby creating a price incentive for recipient spending. Under block grants, the amount of federal aid to the states became a fixed allocation that is not increased by the amount of state or local spending. Most federal matching grants (except Aid to Families with Dependent Children and Medicaid) had been capped by the mid-1980s so that states spending above the matching limit did not receive additional funds. Therefore, the conversion from categorical programs did not have the predicted effect of discouraging state spending across the board, although it did have some effect in states where spending was below or just at the level of the matching limit. An Urban Institute study from the mid-1980s showed that low-expenditure states cut their spending on social services by approximately 5.3 percent under the Social Services Block Grant from what they were spending under the Title XX program. States that were spending above the matching limit prior to the conversion to a block grant actually raised their average expenditures for social services by 18.8 percent.

Since the early 1980s, state and local governments have continued to take on an increasing share of the burden for financing social programs and expenditures. In the face of declining assistance from the federal government, states and localities have also increased their spending for investments in infrastructure and economic development as well as for rapidly rising health care costs for the poor and the elderly. By increasing revenues (largely through raising taxes and imposing user fees) and by reevaluating their spending priorities, states have managed to meet these growing fiscal responsibilities.

Protecting Support for Vulnerable Populations

During the Congressional debates over the 1981 block grants, advocates for the poor, for children, and for other disadvantaged or minority populations voiced significant concern about what would happen if program targeting was abolished. In hindsight, it is clear that the results were not as dire as the critics forecast. However, state behavior in the several years following implementation of the block grants did not follow a single, simple pattern. It varied from one program area to another. While programs employing income eligibility standards generally tightened their focus, causing available assistance to be more narrowly targeted to the very poor, other programs—including the Community Development Block Grant and the Chapter Two Education Block Grant—shifted funds away from narrowly-defined populations with special needs.

Initially, most federal funding to states under the block grants was distributed on the basis of the state's share of funds received under the prior categorical programs in fiscal year 1981. With the exception of the Social Services Block Grant and the Community Development Block Grant, the consolidated funding streams included a requirement that the allocation of funds take into account what states received in previous years in order to ease the transition to block grants. Under the Alcohol, Drug Abuse, and Mental Health Block Grant, for example, funds had to be distributed in the same proportions as in fiscal year 1980. Over time, however, such distributions were found to be inequitable in several ways, and
Congress and the states themselves moved to adopt formulas that more heavily weigh beneficiary populations and other need-related factors.13

Where block grants incorporated means-tested programs, states generally tightened their eligibility standards and targeted reduced levels of federal funding on a more narrowly defined poor population. For example, several states lowered their income cutoff for eligibility for state-financed child care and family planning programs and/or established sliding fee scales. As Peterson et al. suggest, these state responses helped protect the very poor, but forced those at the margin of income eligibility to make greater adjustments.24 In many cases, working poor families found themselves no longer eligible for services they had previously received, such as child care.

In cases where block grants consolidated programs for which the purpose was broader than just ameliorating poverty, there is greater evidence that states shifted resources away from poverty populations toward populations defined by other characteristics. This movement was facilitated by the elimination of a prior federal requirement that at least half of all federal funds be used to support “categorically” eligible individuals — those eligible because they participate in Aid to Families with Dependent Children (AFDC), Medicaid, or other federal categorical programs. As a result, some states began to define “needy” in terms other than low income, and applied their funds to a larger proportion of non-poor children and families who were at risk in other ways. For example, in several states, children and adults at risk of abuse or neglect were identified as eligible for family support and other protective services under the Social Services Block Grant, regardless of their families’ economic status. By redefining categories of need in this way, Virginia, for example, shifted some of its federal social service dollars away from healthy, poor families in need of child care, employment training, and family planning to those vulnerable to physical abuse and neglect, regardless of family income.35

In the education block grant, states retreated from targeting funds to big-city schools with large minority populations. Instead, many states redefined need as it applied to education, and distributed funds across their school districts based on school population rather than minority or socio-economic status. The education block grant requires states to distribute funds to local education agencies (LEAs) using a formula that considers relative enrollment and adjusts per-pupil allocations upward to account for large populations of students whose education imposes higher than average costs — generally students from high-risk groups. Although this formula was prescribed, states were given the discretion to decide which factors to consider in determining who were high-cost students.36 In 1985, only 17 states were still targeting funds available through the education block grant to LEAs based on the concentration of low-income and minority children.37

A related effect of the Reagan block grants was to shift the general mix of federal aid away from populations with special needs, including those with disabilities, those for whom English is not a first language, and those of minority status. Between the mid-1960s and 1980, federal program support for special populations grew significantly faster than aid for general populations. Between 1981 and 1985, that trend was reversed. In education, for example, the growth in Chapter Two non-targeted aid was 18 percent between 1981 and 1984, compared to
aid for Indian education, which fell by 23 percent; support for the Follow Through program which fell by 75 percent; and Desegregation Aid, which was eliminated altogether.  

The shift in patterns of distribution of federal funds was not limited to special populations. Cities were also clear losers under the Reagan block grants. Funds to big-city schools were cut dramatically with the elimination of desegregation aid. Several health and human service programs that had been largely targeted to urban localities experienced significant reductions. And large cities did not receive as great a share of funding through the Community Development Block Grant as they had through the previous categorical grant programs. According to Peterson et al., this diversion of block grant funds from cities reflects residual resentment on the part of states toward big cities, and a reduced federal priority for specific urban problems. To some extent, it also undoubtedly reflects the fact that the prior federal grant structure had enabled big cities to tap directly into the federal coffers, bypassing the states. In contrast, the new federalism of the early 1980s shifted program decisionmaking and fiscal authority to the states. Because they had little historical stake in the urban initiatives that had been supported by federal funds, many states were less likely to give big-city claims a high priority in the face of competing demands for reduced federal funds. Undoubtedly, it also reflects the political power base in the Congress. Republicans and conservative Democrats, who often voted as a block, were more likely to represent suburban and rural districts. Democrats who represented the interests of large urban areas were in a distinct minority.

Where the law did not prescribe distribution formulas, states typically developed their own. Many states, for example, distributed Community Service Block Grant funds using formulas that more heavily weighed poverty, overcrowding, age of housing, and other measures of urban deterioration than prior categorical programs did. As a consequence, community action agencies in cities such as Chicago, Detroit, and Los Angeles saw their share of funds reduced to match more closely their relative shares of the states' poor children and families, even though the cost of providing supports and services in these large urban areas was greater than in small cities, towns, and rural communities. Similarly, the distribution of Community Development Block Grant funds provided a greater relative share of dollars to smaller communities, and more effectively targeted available resources to distressed communities. Because many more small communities applied for funds from the state-administered programs, state awards actually made funding accessible to more communities in need than did the prior federal grant programs.

In sum, critics who predicted that federal funding for the poor and for children in need would be radically redistributed to middle-class families and away from vulnerable populations under the block grants did not see their predictions come true. In some cases, the states more narrowly targeted funding for low-income children and families. In other cases, however, factors other than low income became the defining criteria for the distribution of significant amounts of public funding under the block grants. And across the board, large cities received a reduced share of funding from what they had received under the categorical programs.
Maintaining Accountability

The implementation of the block grants provided states far greater discretion and authority for establishing and maintaining program and service delivery standards than they had enjoyed under categorical programs. In the first several years, it also significantly reduced the reporting requirements imposed by the federal government on states. As a result, it became more difficult for the federal government to hold states and localities accountable for the monies they received.

With the reduction in federal reporting requirements, states generally assumed a greater role in providing oversight for programs and expenditures. GAO reports that in 13 states they studied, state officials were "maintaining their prior level of effort for data collection under the categorical grants." However, states were given the latitude to determine what program information to collect and report and how to report it. As a consequence, the states often redefined data requirements to meet their own planning, budgeting, and legislative needs, without regard to how other states were collecting and reporting information or whether it could be aggregated. Federal evaluation efforts were largely stymied, because it was impossible to make cross-state comparisons or assess cumulative effects. As a result, Congress, which maintained an interest in the use of federal funds, had limited access to information on program activities, services delivered, clients served, or the results of their investments.

In response, model criteria and standardized forms were developed in 1984 for some block grants in order to help states collect uniform information. The process relied on voluntary cooperation, however, rather than legal requirements. Data comparability remained an issue, and as a result, information that was collected was not always very useful to policy makers in assessing the magnitude of needs among the states, determining the allocation of federal funds, and comparing the effectiveness of program approaches across states.  

Similarly, Congress became concerned about financial accountability in the wake of the block grant implementation, and in 1984 passed the Single Audit Act. The aim of the new law was to achieve more uniform, entity-wide audit coverage than was achieved under the previous grant-by-grant audit approach. The single audit approach is credited with improving state and local systems for tracking federal funds, strengthening administrative controls over federal programs, and increasing oversight of entities to which the states distribute federal funds. However, the positive effects are limited by several factors. First, the sole criteria for determining which entities and programs are to be audited is the dollar amount of their allocation. While this does impose audit requirements on a significant proportion of federal assistance to states and localities, it does not necessarily focus audit resources on the programs at greatest risk of fraud and abuse. Second, the usefulness of the single audit reports is limited because they are not required until 13 months after the end of the audit period; state program managers are not required to report on the adequacy of their internal control structures; and federal program managers do not routinely compile them so that they can be analyzed for program-wide effects and directions for new program activity. Third, the elaborate audit reports focus narrowly on how federal funds are expended, not on...
what results they achieve. As a consequence, the audit process imposes strict rules and sanctions regarding the use of funds, but gives virtually no attention at all to how and whether programs accomplish their intended purposes.

Although an original purpose of the block grants was to alleviate much of the paperwork burden imposed by federal program regulations and reporting requirements, federal auditors—most prominently, Inspectors General—have in fact added significantly to the administrative burden in recent years. Fear of being cited for audit exceptions often leads service providers and state and local program officials to take extraordinary steps to document their actions in order to create a paper trail that can protect against cost disallowances when federal auditors review the records. Conflicting audit requirements create confusion and an extra burden on state agencies and local programs that receive funding from more than one federal program and must collect the same information in different forms to satisfy the needs of auditors in different federal agencies. This is particularly true if confidentiality requirements restrict using information collected for one purpose (and set of program records) for other administrative purposes. For example, schools cannot tell Job Training Partnership Act (JTPA) programs who is in the school lunch program in order to simplify eligibility for schoolwide programs, although participation in the school lunch program is an established JTPA eligibility criterion. Moreover, continual changes in audit requirements often require state agencies and local community-based organizations to reconstruct data after the fact in order to conform to new procedures and formats. The process is unnecessarily time-consuming and costly.

During the several years immediately following the implementation of the Reagan block grants, delegating responsibility for setting and maintaining program standards to the states significantly reduced federal control over the quality and content of service delivery. This is nowhere more clearly illustrated than in the promulgation of regulations governing the care of young children in child care centers. Beginning in 1982, child care services subsidized with Title XX funds were to be subject to the Federal Interagency Day Care Requirements (FIDCR). These regulations set stringent requirements for child/staff ratios, physical facilities, staff training, and a number of other aspects of child care service delivery to ensure the quality of care provided in publicly financed centers. The FIDCR were developed over a period of several years, following contentious debate among early childhood professionals, providers, and federal and state officials. With the implementation of the Social Services Block Grant, the FIDCR were shelved, and responsibility for regulating child care services was shifted to the states. As a result, state requirements governing child/staff ratios, group size, teacher training, and other significant characteristics of service delivery varied dramatically. Many states, for example, set no limit on the number of children a single caregiver could care for and permitted large group sizes even for very young children. Although early childhood professionals and advocates decried the lack of protection for children's health, safety, and development, states claimed significant administrative cost savings and increases in the population served as a result of not having to implement the FIDCR. Peterson et al. report that Texas was able to care for approximately 16 percent more children at almost 20 percent less total cost to the state by not specifying a ratio for the care of infants and by increasing the
ratio for toddlers from 12 (specified in the FIDCR) to 35 per caregiver. Only one state, Massachusetts, maintained the FIDCR standards after the block grants were implemented.48

Only one of the federal block grant programs, the Job Training Partnership Act, implemented an outcome-based accountability system that infused federal policy priorities into the daily management of local programs. JTPA is aimed at training disadvantaged young people and placing them in the workforce. The program is fully funded by the federal government and does not require any state or local funding match. Perhaps for this reason, the architects of the program went further in their efforts to establish a system of accountability based directly on the achievement of federally-determined performance standards. For better or worse, the JTPA performance standards have created strong incentives for program management. The clear priority placed on job placement has led many local programs to select participants who are likely to require less training and who will be easier to place in private sector jobs. Critics of the standards now contend that although the program has demonstrated success in achieving desired outcomes (i.e., placing young people in jobs), it has generally failed to achieve desired impacts that add value above and beyond what might have been expected had the program not existed (i.e., moving the most disadvantaged and difficult-to-place young people into the labor force). The clear implication is that even when Congress and the federal bureaucracy take steps to focus accountability systems on outcomes rather than traditional inputs, it is not easy to define desired outcome measures in ways that do not create perverse management incentives that can ultimately undermine the program.49

A clear objective of federalism was to return responsibility for program decisionmaking to the states. In so doing, however, the Reagan block grants largely relinquished federal control over program quality and accountability for the use of federal funds. In subsequent years, Congress and the federal agencies took steps to strengthen the quality of program data provided by the states and to impose audit controls. Although these developments imposed new requirements on states (and, in turn, on local programs) for collecting and reporting program data, they did not significantly enhance federal policymakers' ability to know how well public dollars were being used or what results they were achieving. Even where the federal government established performance standards to guide the management of programs receiving block grant funds, questions are raised about the outcome measures that are used to assess performance, and whether the incentives they created were contrary to Congressional intent.

Categorical Creep
Following the initial round of consolidations of domestic programs in 1981, additional block grant proposals were expected. The Reagan administration, bolstered by its initial success, proposed 23 more consolidations or expansions of existing ones. Administration officials also endorsed the creation of "super" block grants that would combine many of the original block grants and give even more latitude to the states to determine program priorities and design.

Only one of these proposals succeeded: replacement of CETA with the Job Training Partnership Act of 1982. Why did the block grant momentum come to such an abrupt halt?
Several observers attribute it to the fact that the Reagan consolidations were regarded first and foremost as a budget-cutting strategy, rather than as a means of achieving greater administrative efficiencies. This perception was reinforced as subsequent proposals called for even deeper cuts in federal social welfare spending. Moreover, because the initial block grants were maneuvered through Congress using the reconciliation process to bypass committee consideration of the proposals, Congressional leaders became more cautious and protective of their authority with subsequent rounds of legislation.

Funding under the nine Reagan block grants represented a reduction from previous funding under the categorical programs. Throughout the 1980s, the block grants generally continued to be reduced in both current and in constant dollars. (See Tables 2 & 4.) Despite recent modest increases, most of the block grants had lower constant dollar funding levels in 1994 than they did in 1983. Only two of the grants increased over the 11 years following implementation: the Preventive Health and Health Services Block Grant and the Prevention and Treatment of Substance Abuse Block Grant (formerly the Alcohol, Drug Abuse, and Mental Health Block Grant).

Several factors contributed to keeping federal funding through the block grants at stable or declining levels. First, block grants, in contrast to narrowly defined categorical programs, generally lack a clear expression of purpose and constituency. Although the block-grant structure gave the states flexibility to design and fund programs, it was typically at the expense of maintaining a strong identity and rationale for existence. Therefore, over time, it became politically more difficult to rally concerted support for funding increases (or even maintain stable funding levels) for block grants than for more targeted categorical initiatives. Second, because federal reporting requirements were significantly reduced with the establishment of the 1981 block grants, advocates found it increasingly difficult to make a strong case that block grant funds were generating tangible positive results. Third, because resources provided through the block grants were so fungible with other federal and state funds, it became nearly impossible to distinguish any positive results directly attributable to the block grants. Fourth, federal agency efforts to improve program effectiveness, often fueled by policy research that highlighted "horror stories" of fraud, abuse, and mismanagement, led to the implementation of more restrictive federal controls on block grant funding. Finally, and perhaps most significantly, in the wake of the block grants an array of new federal categorical programs was created. These narrowly defined authorities were intended to respond to the specific needs of vocal constituencies, who argued that they were short-changed by the block grants. They were also intended to direct federal dollars to specific social and economic problems that were not being addressed adequately in some states. Perhaps above all, they were intended to reinstate many of the federal program and fiscal accountability controls that were initially abandoned under the block grants.

Over the past decade and a half, the number of categorical programs serving children and families exploded from approximately 300 in 1980 (before the Reagan block grants) to just under 500 in 1994. As an example, over 90 separate federal programs, administered by
| Block Grant Obligations (millions of dollars in constant 1993 dollars) |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Social Services | 3,886 | 3,757 | 3,653 | 3,364 | 3,100 | 3,094 | 3,152 | 3,092 | 3,013 | 2,923 | 2,855 | 3,000 |
| Low-Income Energy Assistance | 2,869 | 2,888 | 2,815 | 2,614 | 2,304 | 1,869 | 1,613 | 1,615 | 1,790 | 1,566 | 1,572 | 1,437 |
| Community Services | 542 | 484 | 493 | 458 | 465 | 443 | 372 | 360 | 469 | 376 | 379 | 386 |
| Prevention/Treatment of Substance Abuse | 680 | 643 | 657 | 611 | 644 | 594 | 941 | 1,335 | 1,364 | 1,227 | 1,150 | 1,178 |
| Preventive Health & Human Services | 123 | 121 | 119 | 113 | 113 | 104 | 98 | 93 | 98 | 135 | 146 | 152 |
| Maternal & Child Health | 684 | 555 | 641 | 595 | 628 | 642 | 647 | 620 | 631 | 679 | 677 | 683 |
| Education (Chapter 2) | 671 | 628 | 670 | 621 | 633 | 583 | 467 | 581 | 483 | 466 | 449 | 379 |
| Community Development | 3,458 | 3,312 | 3,201 | 2,673 | 2,603 | 2,407 | 2,397 | 2,207 | 2,368 | 2,502 | 2,845 | 2,871 |
| Job Training and Partnership Act | 2,056 | 2,625 | 2,528 | 2,321 | 2,326 | 2,207 | 2,087 | 1,953 | 1,911 | 1,851 | 1,725 | 1,742 |
| Total | 14,981 | 15,013 | 14,777 | 13,369 | 13,126 | 12,143 | 11,776 | 11,857 | 12,066 | 11,623 | 11,578 | 12,623 |

1. The Social Services Block Grant increase between FY 1993 and FY 1994 is due to Empowerment Zone/Enterprise Community obligations.
2. The Prevention/Treatment of Substance Abuse Block Grant included mental health until FY 1992.
3. The Community Development Block Grant does not include undistributed allocations, nor does it include spending on the nonentitlement portion of the Block Grant.
4. JTPA Block Grant is for the Adult and Youth Training Block Grant portion of the JTPA program—interpreted to mean Titles II-A and II-C for 1994.

11 agencies—including the Departments of Education, Health and Human Services, Agriculture, Housing and Urban Development, Interior, Justice, and Labor, as well as by the Small Business Administration, the Appalachian Regional Commission, the Corporation for National Service, and the General Services Administration—support services for very young children and their families. Many of these programs have similar or overlapping purposes, although they may target different populations, use different eligibility criteria, and provide a different mix of supports and services to children and their families. In other domestic social policy areas, the experience is similar.

The rush to recategorize—both through the imposition of new restrictions on the use of block grant funds and through the establishment of a multitude of new categorical programs—suggests that reformers lost a measure of their political support. By the mid-1980s, the politics of the budget debate overshadowed the states' experience in implementing the block grants. Although critics had predicted that the states would abandon major parts of the domestic policy agenda without federal mandates and circumscribed program requirements, it did not happen. Instead, most states took aggressive steps to preserve the governmental role in providing education and other supports and services for children and families, increasing their own share of funding significantly over time. While many states reshaped their programs to meet local priorities, they did not dismantle them wholesale, nor did they radically redistribute benefits from the poor to middle and upper class children and families. Four years after the Reagan block grants were implemented, Peterson et al. concluded that the states had done at least as good a job of administering the funds as the federal government had, and there was far less opposition to the concept of block grants from advocates than might have been expected.

The deep economic recession of the early 1980s also contributed to diminishing Congressional enthusiasm for block grants. By late 1983, even Republican members of Congress who were determined to continue to reduce federal social welfare spending found it difficult to cut basic health and welfare programs with the 1984 election looming. The administrative rationale for consolidation, as well as the political rationale for shifting program design and control to the states, were largely supported by the early experience with block grants. For this reason, it seems likely that there might have been substantial support for later block grant proposals, if they had been discussed in the context of budget neutrality. But they were not considered on their merits, largely because block grants were perceived to be a ruthless strategy for further reductions in federal spending.

**BLOCK GRANT PROPOSALS IN THE MID-1990s**

In the aftermath of the 1994 elections, the 104th Congress is considering a fiscal agenda that could radically restructure intergovernmental relations and could have a dramatic impact on the fiscal health of states and localities nationwide. The plan outlined in the Republican *Contract with America* has been fleshed out by U.S. House of Representatives with input from the governors, mayors, and others. The Contract called for passage of a constitutional amendment requiring a balanced budget by 2002; a supermajority requirement for passage of tax increases; enactment of personal and business tax cuts; welfare reform; and deep cuts in
social spending. Block grants feature prominently in plans for welfare reform and cuts in social spending.

The U.S. House of Representatives Plan
In January of 1995, the new Republican leadership identified eight broad areas for which federal welfare programs could be replaced with block grants to the states. These include food and nutrition; cash welfare; child care; social services; child welfare and child abuse; employment and training; housing; and health. In all, 336 programs were identified as candidates for consolidation, which accounts for approximately $125.2 billion in FY 1994 or FY 1995 federal spending. Legislation was passed by the House of Representatives in March 1995 taking the form of H.R.4, which follows through on block granting some of the programs identified as consolidation candidates. (See Table 5.)

Table 5
Candidates for Consolidation in Eight Welfare Domains

<table>
<thead>
<tr>
<th>Welfare Domain</th>
<th>Number of Programs Considered January 1995</th>
<th>Corresponding FY 1994 or 1995 Appropriation (in millions)</th>
<th>Number of Programs Proposed in H.R. 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Welfare</td>
<td>7</td>
<td>$17,741 *</td>
<td>4</td>
</tr>
<tr>
<td>Child Welfare &amp; Child Abuse</td>
<td>38</td>
<td>$4,306</td>
<td>22</td>
</tr>
<tr>
<td>Child Care</td>
<td>45</td>
<td>$11,771</td>
<td>7</td>
</tr>
<tr>
<td>Employment and Training</td>
<td>154</td>
<td>$24,838</td>
<td>N/A</td>
</tr>
<tr>
<td>Social Services</td>
<td>33</td>
<td>$6,589</td>
<td>N/A</td>
</tr>
<tr>
<td>Food and Nutrition</td>
<td>10</td>
<td>$37,967</td>
<td>10</td>
</tr>
<tr>
<td>(Food &amp; Nutrition Commodities)</td>
<td>(0)</td>
<td>N/A</td>
<td>4</td>
</tr>
<tr>
<td>Housing</td>
<td>27</td>
<td>$17,516</td>
<td>N/A</td>
</tr>
<tr>
<td>Health</td>
<td>22</td>
<td>$5,976</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>336</td>
<td>$125,234</td>
<td>47</td>
</tr>
</tbody>
</table>

*Figure for 1996.

Note: The figure of $125.2 billion does not include the $87 billion the federal government spent on Medicaid or the $28 billion spent on Supplemental Security Income in Fiscal Year 1994.


The new block grant discussions include many more and larger programs than were included in the 1981 block grants. In addition, they include programs that are fundamentally different from those in the earlier consolidations. All of the block grants that have been enacted in the past involved operating or capital expenses. Many programs for which Congress already provided specific sums of money annually were folded into a few larger grants for which Congress appropriated fixed sums. In contrast, many of the welfare programs identified for block grants in 1995 are entitlements that provide direct assistance to
individuals based on need—for example, Aid to Families with Dependent Children (AFDC), Food Stamps, and Supplemental Security Income (SSI) for children with severe disabilities. Others provide open-ended support for children who are placed in foster care. Under the entitlements, states receive federal aid on a matching basis. As the number of children and families in need increases, so does federal support. Folding the entitlements into block grants would convert these open-ended funding streams to capped appropriations. Each state would receive a lump sum of federal aid to serve its poor children and families, but federal spending would not increase in times of hardship or special need.

The House Republican plan calls for packaging and cutting many federal programs that provide a safety net for poor children and families. Among those on the table for debate are the following:

- **Aid to Families with Dependent Children.** Republican House members believe fervently that any attempt to overhaul the welfare system should result in less federal spending. As set forth in the Block Grant for Temporary Assistance for Needy Families as outlined in H.R.4, AFDC would be converted to a block grant, ending its entitlement status and giving the nation’s governors wider discretion to determine eligibility, set benefit levels, and establish conditions governing the receipt of cash assistance. However, the block grant would carry significant new federal mandates that restrict aid to children of teenage mothers, to children born to mothers who are already on welfare, and to noncitizens (including legal aliens). It would also establish requirements for work activity by welfare recipients (although it does not provide federal funds for workfare or for enhancing the employability of poor heads of household). And it limits the total number of months or years that a family can receive benefits. Under the provisions of the House bill, states would be allowed to transfer up to 30 percent of Temporary Assistance Block Grant funds to the Child Care Block Grant, the Child Protection Block Grant, the Title XX Social Services Block Grant, the Family-based Nutrition Block Grant or the School-based Nutrition Block Grant. They would also be permitted to save their block grant funds in a “rainy day” savings account to help cover increased demand for income support in recessions. And the federal government would establish a “rainy day” loan account from which states could borrow funds, repayable with interest, in cases of extreme economic hardship. State matching requirements would be eliminated, so that state contributions beyond and above the fixed allocation of federal aid would be left to state discretion.

- **Supplemental Security Income.** The House bill would also create a block grant for the portion of Supplemental Security Income that provides cash assistance to children with severe disabilities. Funding cuts of up to $12 billion over five years would be achieved by limiting eligibility for cash assistance only to those judged likely to be institutionalized if the family does not receive aid. Instead, states would receive block grant funding for medical and non-medical services for disabled children, and would have the discretion to determine which services need
to be provided to qualified children. In order to eliminate a potential disincentive for parents to work, children currently receiving cash benefits whose financial eligibility is suspended would continue to receive cash benefits if their financial eligibility were later restored. The block grant would grow with the number of eligible children, but it would be set at a base lower than current expenditures.

- **Nutrition Assistance.** The House bill would package several child and adult nutrition assistance programs into two block grants. The School-based Nutrition Block Grant would end the entitlement status of the School Lunch, School Breakfast, and part of the Special Milk programs. It would reduce funding by more than $2 billion over the five-year period from 1996-2000 and eliminate all national nutritional standards, leaving regulation of nutritional content to the states. Although states would be required to assure that at least 80 percent of funds are provided to children in low-income families, they are permitted to determine the definition of "low income" up to 185 percent of the poverty level.

A second block grant, the Family Nutrition Block Grant, would end the entitlement status of the Child and Adult Care Food Program, which provides meals to children in child care centers, Head Start programs, and family day care homes. It would package the program with several other nutrition programs for young children and their families, including part of the Special Milk Program, the Homeless Child Nutrition Program, and the Special Supplemental Food Program for Women, Infants, and Children (WIC). Funding would be cut by approximately $5.7 billion over five years in the Family Nutrition Block Grant. Eighty percent of the funds would be reserved for WIC. National standards for the WIC food package, as well as nutritional standards for child care food programs, would be eliminated. However, states would be required to establish cost containment measures for WIC and to report to the federal government on their success in achieving savings. After contentious debate, the Food Stamps Program was left out of the proposed block grant.

- **Child Care.** Under the provisions of the House bill, seven separate federal child care assistance programs would be combined into a single child care block grant, including the current Child Care and Development Block Grant (a discretionary program) and the At-Risk Child Care Program (a capped entitlement). Child care entitlements for families on welfare and those coming off welfare would be ended. The law would create a single discretionary program. Funding would depend on annual Congressional appropriations. States would be required to implement safety and health requirements, although there would be no federal requirements governing state provisions.

- **Services for Abused and Neglected Children.** As a part of the House plan, the Child Protection Block Grant was established to assist states in protecting abused and neglected children. The new block grant would eliminate the entitlement status of the federal foster care and adoption assistance programs, Title IV-E. These programs would be combined with 20 other discretionary programs aimed
at addressing abuse and neglect, and funding would be cut by approximately $5.5 billion over five years. States would have the option to transfer up to 30 percent of funds from other block grants into this block grant, but they would be restricted from transferring funds out until 1998. Federal requirements that states match federal dollars would be eliminated. So too would most of the federal standards and regulations governing service delivery and the care of children placed outside their homes, although states would be required to establish at least three citizen review panels to meet and review the performance of state and local officials handling of child abuse and neglect cases.

The Governors' Proposal
Out of concern that pressures to balance the federal budget and reorder spending priorities will lead to federal budgetary decisions that could shift costs to the states without achieving true savings, the nation's governors have offered their own welfare reform proposal. They did not reach consensus on whether federal cash assistance and other entitlements should remain available as federal entitlements to needy families or be converted to a state entitlement block grant. They do agree, however, that the states should have the flexibility to enact welfare reforms without having to request federal waivers and without federal micromanagement. They also agree that any federal block grants should be entitlements to the states, not discretionary grant programs. Viewing block grant proposals as an opportunity to achieve greater flexibility, rather than as a means to cut the federal budget deficit, the governors believe that the federal government must maintain a substantial financial role in assisting states and localities to meet the needs of children and families. In exchange for modestly reduced initial allotments, they called for guaranteed funding levels over five years based on the states' average allocations over several prior years. They also called for provisions that would allow the states to retain unexpended federal funds in "rainy day" accounts to hedge against economic downturns, and for a federal set-aside each year to protect states from experiencing high unemployment as a result of changes in the cyclical economy and major natural disasters. 

In addition to radically overhauling the AFDC cash entitlement program, the governors have also called for a major restructuring of the federal grant-in-aid system to give the states greater flexibility to design and deliver supports and services and relieve much of the administrative burden. They support the establishment of block grants that would delineate clear policy and program objectives and certain minimum standards, but would provide the states broad discretion to design key program components. It is significant, however, that in presenting this element of their proposal, the governors clearly distinguish the themes of simplification and consolidation from spending reductions. They oppose efforts to balance the federal budget simply by shifting costs to the states.

The Mayors' View
Many of the nation's mayors have also spoken out in favor of block grants as a means of channeling federal aid to cities in ways that permit local decision-makers enough flexibility to
invest funds and tailor programs to meet local needs. In testimony before Congressional committees and in a statement from the National League of Cities, they have expressed support for efforts to restructure and realign the myriad of categorical grant programs. They believe that a simpler, more rational, and more flexible intergovernmental system offers significant opportunities for cities and towns to develop more innovative and cost-effective methods of delivering services and building the infrastructure. Like the governors, they support fundamental changes to reduce federal deficits and make government more effective and accountable, but they strongly oppose actions that would balance the federal budget by simply shifting costs to the cities. In other words, they support block grants as long as they are adequately funded.

Recalling the block grants of the early 1980s, the mayors also want new block grant proposals to recognize the direct federal-local relationships that have been forged in many program areas, including housing, law enforcement, and community development. They oppose a wholesale transfer of program responsibility from the federal government to the states in ways that would permit the states to satisfy their obligations by imposing unfunded-or under-funded-mandates on local governments. The National League of Cities favors the consolidation of categorical programs into highly flexible block grants directed to localities. To the extent that proposals continue to target funding to the states, they want assurances that allocations will be earmarked or otherwise targeted to local governments to prevent unmanageable cost shifting.

Like the governors, the mayors believe that overhauling the nation’s welfare system is critical. However, they separate the programmatic goals of welfare reform from budget cutting. They oppose ending entitlements, which by design are currently intended to be an open-ended safety net to provide the most basic necessities to all who meet basic standards of need. They worry that capping or block granting the welfare entitlements would shift responsibility for filling the gap to local governments that lack the independent means to provide community residents adequate protections in cases of emergency and hardship. If federal deficit reduction is a goal of welfare reform, they want all budget elements -- means-tested and non-means-tested entitlements, tax expenditures, defense and discretionary spending -- to be on the table.

LOOKING AHEAD: ISSUES FOR CONSIDERATION

Even among the staunchest advocates of the categorical grant system, there is growing recognition that the consolidation of some federal discretionary programs, if properly structured, can improve services for children and families and reduce the enormous administrative inefficiencies that are inherent in a highly fragmented program structure. The swell of categorical grant programs over the past decade and a half has created duplication and overlap that do not serve either taxpayers or the beneficiaries of public assistance well. Bringing together programs that serve a common purpose and similar target populations can reduce the administrative burden on states and localities, and at the same time give them greater flexibility to design program strategies that effectively meet the needs of their children and families.
Past experience with block grants can shed some light on the current debate. Several themes and issues emerge from a review of the 1981 reform experience that should guide members of Congress and the Clinton administration, the governors and mayors as they consider emerging block grant proposals and the restructuring of federal-state relations in domestic social policy.

To sustain support, block grants must define clear purposes, program goals, and objectives. By removing many of the categorical restrictions on how states and localities use federal funds, block grants offer the opportunity to design and implement programs in direct response to local needs and priorities. Because they enable state and local governments to blend funds from several programs, they provide a fiscal structure that is more conducive to the development of comprehensive, community-based systems of supports and services than a highly fragmented categorical system.

If past experience is prologue, however, federal funding for block grants is likely to decline over time. Unless the programs that are consolidated share common goals and a common purpose, and unless they are targeted to a clearly defined group of beneficiaries, block grants will have a difficult time mustering and sustaining political support. Overly broad consolidations and constituencies will dilute the sense of purpose and subvert funding. Moreover, it is politically easier for Congress to cut a block grant than to cut an entitlement to individuals. This is one of the reasons that advocates for the poor and for children so adamantly oppose converting the welfare entitlements to block grants.

Among policymakers who see block grants as an explicit tool for reducing total federal assistance to states and localities, fuzzing the sense of purpose, goals, and beneficiaries may be a deliberate strategy for diffusing political support for federal investments in social welfare spending. But the experience of the past decade suggests that over the long term this may be counter-productive. Although funding for the nine 1981 block grants generally declined, neither the Reagan administration nor fiscal conservatives in the Congress achieved the fundamental reforms in federalism that they sought. In the years following the initial restructuring, a plethora of new federal categorical programs emerged. Vocal constituencies reverted to business as usual, lobbying for narrowly-defined funding authorities responsive to their special interests, and Congress responded in kind. The federal grant structure proved highly resilient. There was no massive shift to the states of those domestic responsibilities that were the focus of the Great Society programs.

Flexibility requires adequate funding. Block grants represent a step toward decentralization. A primary goal of special revenue sharing in the early 1970s and the 1981 block grants was to give states and cities considerable freedom to decide how to spend federal money in response to local needs and priorities. To some extent, they did. However, achieving flexibility and encouraging innovative efforts to solve problems requires adequate resources.

Before 1981, federal efforts to consolidate federal categorical programs and devolve program responsibility to other levels of government carried additional federal funding. This enabled states and localities to maintain critical supports and services as they took steps to develop new responses to emerging program priorities and more innovative approaches to
old problems. The Reagan block grants were intended to enhance state flexibility and autonomy. However, they were also part and parcel of a concerted strategy to reduce federal domestic spending. From the very beginning, their laudable administrative goals were obscured by their budget-cutting role. Initial funding for the block grants was less than that of the programs they replaced, and they did not grow as fast as categorical programs through the 1980s and early 1990s. States successfully replaced much of the lost federal funding through a variety of approaches. Yet many found their flexibility limited over time as new mandates and restrictions were imposed on the use of federal block grant funds, and as the populations requiring mandated services grew (e.g., abused and neglected children who must be placed in foster care). Some of these mandates were the result of federal law and regulations aimed at maintaining accountability for the expenditure of federal funds. Many others were the result of judicial orders imposed when local citizens used the federal courts to press for changes in local practices.

In their welfare reform proposal, the governors have clearly stated their opposition to federal budgetary decisions that simply shift costs to the states. The mayors have expressed similar sentiments. They want discussion about the parameters of welfare reform to proceed separately from discussions about how to balance the federal budget or cut the deficit. They recognize that states and localities will be under pressure to fill the gap in any budget shortfall created by reductions in federal funding. During past fiscal crises, states have been much more willing to raise taxes than the federal government, but the anti-tax mood reflected currently in Washington is also prevalent in the states. Some observers predict that if massive reductions in federal aid occur, many states would probably respond by increasing taxes somewhat, but not nearly enough to replace the lost federal funding. They might also try to push an increasing share of responsibility for providing mandated aid and services down to local governments. Because local governments also have a limited capacity to generate sufficient new revenues to meet the projected need, the result is likely to be a reduction in levels of service. Services that are provided will be only the most basic mandated protections, not more innovative efforts to provide comprehensive, prevention and support to at-risk children and families or workfare for poor heads of household who are required to leave welfare and enter the workforce.

Reductions in federal spending are clearly needed if the nation is to move closer to a balanced budget (with or without a constitutional amendment). However, it is unlikely that reductions in federal program spending through the proposed block grants will achieve the desired program flexibility and innovation, if funding is not adequate to do more than cover the most basic, mandated supports and services. Moreover, a persuasive argument can be made that if states are squeezed and forced to cut benefits to poor families, the incidence of poverty and child abuse and neglect will increase, placing an even greater burden on states to provide income assistance and mandated protective services.

Block grants should protect support for vulnerable populations. Combining related federal categorical programs and easing the administrative burdens on states and localities is a good idea. In the process, however, block grants should continue to protect the needs and
interests of vulnerable populations – children, low-income families, the disabled, and disadvantaged minorities.

In 1981, advocates decried what would happen if the states were given broad discretion to establish spending priorities and control programs without significant federal regulation and oversight. Yet analysts who studied the lessons of the Reagan era experience with block grants did not find major state retrenchment in response to the 1981 federal cuts in aid. Instead, they found that state and local governments actually produced higher service levels than otherwise would have been the case, through replacement funding and a wide variety of other financial coping strategies and administrative reforms. In areas where politically active local constituencies cared about particular program activities, the implementation of the Reagan block grants had virtually no impact.

In response to the House Republican plan, advocates for children, for the poor, and for other vulnerable populations are once again predicting disaster, if federal categorical programs are consolidated into block grants and funds are cut. Their claims may be well-founded. Three issues are of particular concern: 1) the administrative capability and competence of states to manage the large entitlement programs now administered by the federal government; 2) the ability of states to maintain an adequate social safety net in times of economic hardship; and 3) the fairness of proposed formulas for distributing block grant funds across the states.

Administrative capability. If anything, many states are better equipped to respond to reductions in federal funding now than in 1981. They have developed their own independent fiscal bases and administrative systems. They have more professional staffs and better management resources. They also have a significant stake in the continuation and success of programs and initiatives that they have developed and nurtured over the past decade and a half. States such as Wisconsin are often cited as bright examples of how well state governments can manage welfare programs when they are free of many of the strings of federal management. However, one of the important factors in Wisconsin’s success in reducing its welfare roles, according to a recent study, is that the number of caseworkers was increased so that people on welfare could be supervised more closely. The clear conclusion is that reforming welfare may save money on balance, but it requires more bureaucracy rather than less. Many states would be hard pressed to match Wisconsin’s success, because they lack the administrative capability to handle the increased responsibilities that managing the large welfare entitlements would entail.

Maintaining an adequate safety net. As pointed out earlier in this paper, many of the programs currently targeted for consolidation are entitlements that provide aid based on the extent of need. Ending the entitlement would remove the guarantee of assistance to eligible individuals and families and make the availability of supports and services dependent on each state’s fiscal capacity. In good economic times, states are likely to have greater ability to serve needy children and families. However, if the number of poor families with children and the number of children vulnerable to parental abuse and neglect continue to grow, it is not clear that states will be able to keep up with the increased demand for supports and services if federal funding does not rise. Moreover, in economic downturns and emergencies
or in periods of high inflation, the number of families in need can be expected to rise sharply
at just the time when states have less revenue and a diminished capacity to respond. It is
quite likely under these circumstances that states will face the difficult choice of turning away
many needy applicants, dramatically reducing benefits across the board, or significantly
raising taxes to meet the rapidly growing demand for assistance. There is little reason to
think that states can easily replace lost funds of the magnitude that proposed welfare cuts
would entail. Although state fiscal conditions have generally improved since the mid-1980s,
they still have limited financial reserves available."

The House plan includes a provision allowing states to reserve their block grant funds
in a “rainy day” savings account, and it establishes a federal “rainy day” loan fund. However,
these raise questions about whether states will actually be able to save money in
the face of projected budget cuts if they don’t cut benefits or experience a sudden economic
boom, and how states operating under balanced budget requirements will be able to pay back
their federal loans (with interest) when they experience economic downturns and generate
less revenue. Reductions in benefits and services seem inevitable.

Under any economic circumstances, poor states have much less fiscal capacity to take
care of their poor populations than wealthier ones. There are large differences in AFDC
spending among states, with poor states providing more limited programs — serving fewer
people and offering lower benefits. At present, the federal government helps them by
matching their outlays at a higher rate than it matches the spending of affluent states. The
House Republican plan would eliminate state matching requirements, however. If this
happens and AFDC is converted to a block grant that provides states a lump sum payment
rather than adjusting aid to the level of need, it seems likely that already low benefits will fall
even more in poor states."

Benefits can also be expected to fall in wealthier states in economic hard times, leaving many children and families without an adequate safety net.

_Equitable distribution of funds._ The question of how to distribute the money may be
the single most difficult issue faced by lawmakers writing the block grant legislation. The
easiest approach, and the one taken in the past when block grants were established, was to
allocate funds based on how much each state had been receiving from the individual
programs that were folded into the block grant. As GAO has pointed out, however, this
approach has proved to be inequitable."

It does not adequately take account of changes in
the demographic composition of states’ populations, their economic conditions, and other
need-related factors. It also overlooks differences among states and localities in the costs of
providing services and the states’ ability to contribute to the costs of providing services.
Thus, for example, many wealthier states supplement funds made available through the
School Lunch Program. They use those funds to expand the number of students who are
enrolled in the program, including some who do not meet strict income criteria. If, as
proposed, the allocation of funds under the block grant is based on past enrollments,
wealthier states may receive larger shares of federal funds than poorer states, even though
poorer states may have a larger proportion, and even a larger absolute number, of poor
students in need of subsidized meals. To compound the inequity, formulas will not be
readjusted for a period of five years under the House plan.
To help ensure that funds are distributed to respond equitably to need, several factors should be included in distribution formulas, including: 1) the concentration of at-risk children to help determine the level of need; 2) the effective tax rate to reflect states' ability to pay; and 3) costs of providing services. Revised formulas should also be phased in to avoid as much disruption in service delivery as possible. Regardless of what formula is developed and implemented for distributing federal funds available through the block grants, there will be winners and losers, which will inevitably stir political opposition. The goal must be to distribute funds equitably and at the same time to create more winners than losers.

In almost every political quarter, there is widespread agreement that the current welfare system doesn't work very well. Major reform is needed. Republicans in Congress and the Republican governors are eager to shift major responsibility away from the federal government to the states. Ending the entitlement status of basic cash assistance and other welfare-related benefits raises serious concerns, however. The House plan would make it possible for states to deny aid to anybody and everybody as long as they can demonstrate that they are spending their block grant funds on one of the bill's purposes -- for example, discouraging out-of-wedlock births or even saving for a rainy day. It seems unlikely that many states would adopt this kind of "cold turkey" approach. Yet eliminating welfare entitlements may not be the most effective or efficient way to reduce welfare dependency. Ultimately, the extent of political support for this kind of radical reform also seems questionable. Broad ideas that play well in campaigns do not always translate easily into administratively workable blueprints. For example, initial proposals to fold Food Stamps into the Family-based Nutrition Block Grant were abandoned when the Republican chairman of the House Agriculture Committee expressed serious concern about the wisdom of removing this piece of the safety net for poor families. Efforts to repeal the entitlement status of AFDC, Medicaid, and other basic welfare supports may meet similar resistance when debate is ended and the proposals are put to a vote in the Senate.

Some block grant funding should target resources to populations with clearly defined needs, not just to categories of services. As Congress considers which federal programs to consolidate and in what combinations, special attention should be given to constructing some block grants that focus on the multiple needs of target groups, rather than simply echoing the current categorical program structure, albeit in larger units. To provide greater flexibility in meeting the multiple needs of very young children and their families, for example, it may make more sense to fold together numerous programs that are aimed at addressing the special health and developmental needs of this age group. Similarly, adolescents have an array of developmentally-related needs that may be more effectively addressed through a unified youth development funding stream, rather than through a series of block grants combining alcohol and drug abuse initiatives, nutrition programs, juvenile justice programs, remedial education, and health services in categorical silos serving populations of many ages.

The Congressional committee structure perpetuates categorical programs and budgets, and often discourages more cross-cutting policy initiatives. Nevertheless, targeting block grants to special populations and enabling states to use these funds to design programs that
bring together an array of supports and services will help overcome the fragmentation that families face in negotiating the current system. It will facilitate the development of more comprehensive, community-based systems of support. It will also lead to a greater diversity and increased availability of specialized services, many of which do not fit neatly into formalized program categories.

**Block grants should protect federal funding for the nation’s cities.** Block grants, which offer the potential for greater local flexibility and discretion to tailor programs to achieve desired results in a local community setting, have gained support from the nation’s mayors. Overburdened by federal program regulations and requirements and, in many cases, lacking the capacity to compete effectively for categorical grants, many mayors strongly support proposals to streamline and consolidate federal programs through block grants.

However, it is important to recall that big cities were losers in the Reagan block grants. When states were given control over the distribution of federal funds, they generally shifted support away from narrowly conceived urban activities that they regarded as primarily federal initiatives. Some mayors express concern that cities could once again be at a political disadvantage in state decision-making, if the process is dominated by suburban, ex-urban, and rural representatives. While most enthusiastically support the greater use of block grants and believe this administrative reform is in the interest of local governments as well as the federal government, they oppose directing all block grant funding to states. Citing recent crime proposals aimed at providing support for local law enforcement, the mayor of Dallas, Texas suggested that channeling the monies through the states would unnecessarily contribute to the growth of state government bureaucracy and would result in longer delays and fewer dollars actually reaching local communities.

Developing effective block grant legislation that would protect support for the nation’s large and small cities requires a clearly defined purpose and adoption of an established policy for carrying it out. Cities would like to see a significant proportion of federal funds directed to them with few strings attached, rather than being routed through state government. Congress may be reluctant to support this approach. Alternatively federal legislation could bracket cities according to population, and target some portion of funds directly to large urban areas that have adequate administrative capability to conduct programs without state intervention. It could adopt sub-allocation formulas requiring pass-throughs to major cities, if block grants are directed only to states. It could also require states to allocate funds based on formula or other criteria that reflect the special needs of cities, ensuring that they receive an adequate share of available funding. To further urban revitalization, the block grants could also create self-authorizing enterprise zones with meaningful tax breaks for businesses and individuals to encourage economic development and attract middle-income residents.

Some reformers argue that cities should not be given special status in the distribution of federal block grant funds. They should be forced to fight it out in their own states. But history suggests that vesting sole decision-making authority in the states may unfairly disadvantage large cities where it is more expensive to address housing, education, economic
development, and infrastructure needs than it is in rural areas, especially if the balance of power and decision-making lies with non-urban legislators and administrators.

In the end, this issue raises a larger concern that must be addressed as the debate over the shape of federal block grants proceeds. The Reagan era restructuring took it for granted that the states were the appropriate locus of power and decision-making concerning the allocation of federal funds. However, this assumption deserves reconsideration. Just beneath the surface of the devolution debate are several fundamental questions: In a decade when global economic restructuring has become a preoccupation, is it still relevant to assume that state governments should play a preeminent role in economic development and social problem-solving? Or should intergovernmental relations be reorganized to highlight the federal role in macro-economic affairs, the regional role in strategic planning, and the neighborhood role in addressing America's most serious social problems, since it is at the community level where these matters must ultimately be dealt with? What criteria should be used in deciding which matters of law and public policy are allowed to vary, and to what degree, among and between states and localities? Who should decide these matters -- Congress, federal and state judges, governors, state legislators, city officials?

Accountability should be based on an established set of measurable results. Congress and the executive branch have a continuing responsibility to ensure that federal taxpayer dollars are used efficiently, effectively, and for the purposes for which they were intended. Creating block grants that combine categorical programs with similar purposes, and that serve similar or related target populations, makes it possible to identify intended results and evaluate progress toward achieving them over time. Maintaining accountability for federal block grant funding should be based on a relatively simple, clear set of measurable goals, not just on satisfying extensive bureaucratic paperwork requirements.

The 1981 block grants were established with virtually no requirements to hold states and localities accountable for the expenditure of federal funds. A backlash of concern that funds were being misused led to the promulgation of audit rules and procedures to prevent waste, fraud, and abuse. Although implementation of single audit report requirements helped generate data on state expenditures, it added significantly to the administrative burden borne by state and local governments and community-based organizations. And it is not clear that Congress was any better informed about what results were being achieved by federal funding through the block grants. This is largely because audit procedures focus on adherence to administrative rules rather than measures of effective performance. Moreover, as one observer has noted, the federal auditor has had a chilling effect on innovation. Under current audit procedures, program officials are evaluated on how well they comply with eligibility rules and the quantity of services they provide, rather than the outcomes they achieve. As a consequence, many are discouraged from implementing new management and service delivery approaches, or from taking steps to creatively marshal program resources for a needy child and his/her family, if there is any chance these actions could run afoul of the auditors and lead to penalties and disallowances.

Performance accountability is a significant theme in the movement to reinvent government. Substituting clear and reasonable results measures for the detailed process...
audits that now exist is a commendable goal. However, as recent Congressional testimony 
illustrates, far more thought is needed about how this would work in practice. The specifics 
of performance measurement are critically important, but not well-developed. Nor are the 
processes by which Congress and federal agencies would monitor states' progress toward 
established performance goals and actually hold them accountable.

Related to performance accountability are performance standards to ensure the 
minimum quality of services that are provided using block grant funding. The current House 
plan calls for the elimination of many of the performance standards that govern federal 
categorical programs, including nutrition assistance programs and foster care and adoption. 
Advocates worry that without basic requirements for the delivery of services, children's 
health and safety will be threatened. They are right to be concerned. As the experience of the 
1980s illustrates, many states achieved administrative savings by reducing, or abolishing 
standards governing the quality of services and the administrative apparatus for monitoring 
it. In child care, for example, some states set caregiver/child ratios and group size 
requirements so high that they did compromise children's safety and development. The 
challenge is to structure standards to set appropriate thresholds of quality without strangling 
states and localities in a tangle of overly detailed regulations.

Ensuring that federal funds made available through block grants have their desired 
impact also requires that these monies not be subverted to offset state and local budget and 
tax cuts. States and localities face growing fiscal pressures. Most operate under balanced 
budget requirements that prohibit deficit spending, even in economic downturns and 
emergencies. Over the past decade and a half, states have found a number of ways of 
balancing their budgets, including shifting growing fiscal responsibilities to local 
governments, moving some areas of expenditure off-budget, and deferring payments from 
one fiscal year to the next. They have also become far more savvy about how to draw down 
federal funding for social welfare supports and services, most of which require the states to 
match some proportion of federal dollars with their own resources. If federal matching 
requirements are eliminated, there will be less incentive for states to contribute their own 
resources to help fund programs. As the 1980s experience shows, while states spending 
above the matching limit are not likely to change their funding behavior dramatically, those 
spending at or below the limit are more likely to reduce or discontinue altogether their 
financial contributions to basic supports and services. Because states funding below the 
matching limit are also likely to be poor states, which already provide lower levels of services 
and benefits, the elimination of matching requirements could lead to further reductions and 
compromises in the quality of essential services. In addition to establishing clear 
accountability measures and performance standards, maintaining state matching 
requirements can be expected to help ensure that federal funds have their desired impact, 
and do not just supplant state and local funding.
MOVING FORWARD TO IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF FEDERAL INVESTMENTS IN CHILDREN AND FAMILIES

In her book, *Reviving the American Dream*, Alice Rivlin called for a major realignment of government responsibility for improving education and training, delivering social services, fostering economic development, and building infrastructure. These are public policy domains that depend on experimentation, adaptation, and community participation and support. Effectively delivering human services requires improving service quality, increasing responsiveness to customers and clients, and empowering workers at all levels to contribute to organizational success. Because quality is closely related to the interactions that take place between clients and staff, workers must have a clear sense of mission and discretion to get the job done. Rivlin argued that many federal programs should be "devolved to the states or [should] gradually wither away," in order to improve the efficiency and effectiveness of public investments and to relieve pressure on the federal budget.

Rivlin’s proposals strike a remarkably similar note to those of prominent Republicans. At least in principle, there seems to be broad agreement that efforts to restructure the relationship between the federal and state governments are important and timely. However, the hard work of crafting specific proposals and turning them into legislation that can be passed remains to be done.

Block grants represent one avenue for accomplishing realignment. The concept of block grants, however, engenders strong support from some and equally strong opposition from others. Almost no one is neutral. For this reason, it is important to look back and learn from past experience about what block grants are and are not, what they can do and what they cannot do. At this point, block grants are a somewhat amorphous, but highly value-laden, label for diverse federal efforts to consolidate some or many of the plethora of federal categorical programs, to revive federalism reform, and to relieve the mounting pressures on the federal budget. What programs will be combined, how much control over program design and administration will be shifted to the states, and what magnitude of federal spending cuts will be achieved remains to be seen.

What is clear is that the block grants of the early 1980s did not create the catastrophic social welfare disaster that critics predicted. As the federal government relinquished its role in domestic policies, the states did not retreat, as many observers thought they would. Instead, they stepped forward to replace the federal presence, albeit according to their own priorities rather than those of politicians in Washington. There were no massive redistributions of federal resources from the poor to the middle-class. America’s needy children and families were not worse off as a result of this administrative reform.

What is also clear is that the block grants of the early 1980s were not the unqualified administrative triumph that proponents forecast. They did not achieve the fundamental reforms in federalism that President Reagan had called for. There was no large-scale transfer of domestic responsibilities to the states. The federal grant-in-aid system was not undermined. In fact, as Peterson et al. suggested, the federal grant structure continued to give “practical definition” to federalism.
When all the ideological and political concerns about federal retrenchment and budget cutting are stripped away, the block grants of the early 1980s can be seen for what they really were: groundwork for effective administrative reform. It is on that foundation that current debates about a new wave of block grants should be based. In the past, block grants have been subverted by the perpetual desire on the part of Congress and constituencies to recategorize federal social spending. In the current context, they present a positive opportunity for crafting a renewed expression of broad federal priorities and for using federal funding as the core, or seed money, for stimulating new state program approaches for welfare reform, education reform, community building, and economic development. Properly structured, block grants could encourage states and localities to launch local improvement projects, to experiment with new ways of providing a safety net for vulnerable children and families, and to develop new, more efficient management systems, rather than merely using federal block grant funds to supplement or supplant their existing budgets. With attention to the lessons of the past and the special issues surrounding emerging proposals, Congress and the Clinton administration, in partnership with the nation’s governors and mayors, could dramatically -- and positively -- change the course of American governance for years to come.
ENDNOTES

1 For a more detailed breakdown of federal programs and funding for children and families, see Anna Danegger, Elise Lipoff, and Cheryl D. Hayes, Federal Funding for Children and Families: An Analysis of Trends and Patterns (Washington, DC: The Finance Project, forthcoming).


8 Conlon, 1984; Peterson et al., 1986.

9 GAO, 1995, p.22.


14 Ibid. p.5.

15 Peterson et al., 1986; GAO, 1985.

16 Ibid.

17 Ibid., p.17.

18 Ibid., p.17, 69-84.

19 Ibid., p.17.


21 Ibid.


23 Ibid.


36 Nathan and Doolittle, 1984.
38 Peterson et al., 1986, p. 16.
39 GAO, 1995, p. 36.
40 Peterson et al., 1986, p. 19.
41 Ibid., pp. 57-64.
44 Ibid.
45 GAO, 1995, p. 38.
46 Ibid., p. 39.
47 Ibid.
48 Ibid., p. 40.
51 Ibid.
52 Ibid.
55 Peterson et al., 1986, pp. 28-29.
56 Ibid.
59 Ibid.
60 Testimony by the Honorable Steve Bartlett, Mayor, City of Dallas, TX, before the Subcommittee on Oversight and Investigation of the Committee on Economic and Educational Opportunities, U.S. House of Representatives, February 9, 1995.
62 Ibid.
63 Ibid.

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63 Nathan and Doolittle, 1984, pp. 7-8, 84.

64 Ibid.


68 GAO, 1995, p. 44.

69 Ibid.

70 Testimony before the Subcommittee on Oversight and Investigation Block Grant Hearing, op.cit.

71 Ibid.


73 CDF, 1995, p. 25.


76 Testimony before the Subcommittee on Oversight and Investigation of the Committee on Economic and Educational Opportunities Block Grant Hearing, U.S. House of Representatives, February 9, 1995.

77 Hayes et al., 1990.


81 Peterson et al., 1986, p. xv.
THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.
RESOURCES FROM THE FINANCE PROJECT

Working Papers:

Rethinking Block Grants: Toward Improved Intergovernmental Financing for Education and Other Children's Services by Cheryl D. Hayes, with assistance from Anna E. Danegger (April 1995)

Securing Equal Educational Opportunities: Past Efforts and the Challenges Ahead by Alexandra Tan and Martin Orland (February 1995)

Reform Options for the Intergovernmental Funding System: Decategorization Policy Issues by Sid Gardner (December 1994)

School Finance Litigation: A Review of Key Cases by Dore Van Slyke, Alexandra Tan and Martin Orland, with assistance from Anna E. Danegger (December 1994)

Spending and Revenue for Children's Programs by Steven D. Gold and Deborah Ellwood (December 1994)

The Role of Finance Reform in Comprehensive Service Initiatives by Ira M. Cutler (December 1994)

Forthcoming Working Papers:

Comprehensive Service Initiatives: A Compendium of Innovative Programs by Elise Lipoff and Anna Danegger (Spring 1995)

How Funding of Programs for Children Varies Among the 50 States by Steven D. Gold and Deborah Ellwood (Spring 1995)

Financing Comprehensive Services: Cases Studies of State Innovations by Ira M. Cutler, Ann Segal, and Alexandra Tan (Summer 1995)

Federal Funding for Children and Families: An Analysis of Trends and Patterns by Cheryl D. Hayes, Anna Danegger, and Elise Lipoff (Summer 1995)

Financing Early Care and Education: Meeting the Challenges Ahead by Cheryl D. Hayes and Sharon L. Kagan (Summer 1995)

The Financing of Children's Services in Six Communities by Bill Benton (Summer 1995)

Federal Funding for Education and Other Childre; Services by Karen Bachler (Summer 1995)