

## Block Grants: Historical Overview and Lessons Learned

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*If enacted, the current proposals would more than quadruple the proportion of federal aid to state and local governments delivered through block grants.*

Between President Bush's FY 2005 budget and pending congressional legislation, at least 10 different block grant proposals are up for consideration by national policymakers. Block grants are fixed-sum federal grants to state and local governments that give them broad flexibility to design and implement designated programs. Federal oversight and requirements are light, and funds are allocated among recipient governments by formula. Most federal aid is currently distributed to state and local governments as categorical grants, which may also be allocated by formula but can only be used for rather narrowly defined purposes.

Block grants have been part of the American federal system since 1966, but their role in federal assistance to state and local governments would expand greatly if current proposals were enacted. These proposals, summarized in table 1, would have particularly dramatic effects on programs in health, where an optional block grant would replace both Medicaid and the State Children's Health Insurance Program (SCHIP), and income security, where new block grants would replace Section 8 housing vouchers, restructure child welfare funding, and allow states to test an alternative to Food Stamps.<sup>1</sup> Other block grant proposals address preschool education, job training, transportation, and justice. In addition, the administration's proposal for reauthorizing the Temporary Assistance for Needy Families (TANF) program—already approved by the House—includes a "superwaiver" provision that could effectively transform certain programs into block grants upon application by a state and approval by the secretary of the

administering department (Waller 2003; Greenstein, Fremstad, and Parrott 2002).

Proponents of block grants typically argue that programs will be more effective and better suited to each state's needs when decisionmaking shifts to the states.<sup>2</sup> Opponents usually respond that state flexibility will be misused, and that the block grant mechanism will provide an indirect means of reducing funding for key social programs. Rather than rely solely on conjecture to evaluate these claims, researchers can draw on nearly 40 years of experience with current and former block grants in a wide range of policy areas.

This brief traces the development of block grants over time and by policy area. It then reviews the lessons learned from past and present block grants and how they may apply to the current proposals. A companion brief examines the details of the Bush proposals, which, if enacted, will be especially important in determining the effects of the new block grants (Finegold, Wherry, and Schardin 2004).

### Historical Overview

The earliest block grants were enacted as Democratic initiatives. The first two block grants, the Partnership for Health program, approved in 1966, and the Safe Streets program, created under the Omnibus Crime Control and Safe Streets Act of 1968, were enacted by a Democratic Congress during the Johnson administration. Taken together, these two programs accounted for less than 1 percent of all federal aid to state and local governments (figure 1).

Three subsequent surges in the use of block grants were each associated with

TABLE 1. Current Block Grant Proposals

<p><b>Child Welfare</b></p> <p>Gives states the option to receive Title IV-E Foster Care funding as flexible grant.</p> <p><b>Food Stamps</b></p> <p>Permits up to five states to receive State Food Assistance Block Grant instead of food stamps.</p> <p><b>Head Start</b></p> <p>Pilot program permits up to nine states to receive Head Start funding as flexible grant.</p> <p><b>Housing</b></p> <p>Replaces Section 8 vouchers with the Flexible Voucher Program, a block grant to public housing agencies.</p> <p><b>Job Access and Reverse Commute</b></p> <p>Replaces current project-based program for provision and development of employment transportation services for low-income workers and reverse commuters.</p> <p><b>Job Training</b></p> <p>Combines the Adult, Dislocated Worker, and Employment Services State grants to form a single block grant.</p>	<p><b>Justice Assistance Grant</b></p> <p>Consolidates the Local Law Enforcement Block Grant, Byrne Formula [Block] Grant, Byrne Discretionary Grants, and Community Oriented Policing Services Hiring Grants to form single block grant.</p> <p><b>Medicaid</b></p> <p>Gives states the option to consolidate Medicaid and SCHIP funding into state acute care and long-term care allotments.</p> <p><b>New Freedom Program</b></p> <p>Promotes access to alternative transportation methods for individuals with disabilities.</p> <p><b>Superwaiver</b></p> <p>Expands authority for states to seek waivers of statutory or regulatory requirements attached to low-income programs, subject to approval of secretary of administering department.</p> <p><b>Surface Transportation</b></p> <p>Pilot program permits up to five states to manage formula highway program funds as a block grant.</p>
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Republican control. In 1971, President Nixon proposed consolidating 129 different programs into six block grants. A Democratic Congress rejected Nixon's original consolidation proposal. Nonetheless, by the end of the Ford administration, Congress had created three large new block grants. Two of these—the Community Development Block Grant (CDBG) and the Social Services Block Grant (SSBG)—are still in operation. Funding for the third, the Comprehensive Employment and Training Act (CETA) program, ended in 1982, but other job training block grants have since been enacted.

As proposed by President Nixon and approved by Congress, the block grants of the 1970s provided more money than the programs they replaced. With the additional funding, even states and cities that received a smaller share of federal aid under the new formulas received more money than in the past.

In 1981, President Reagan proposed consolidating 85 existing

grants into seven block grants. Congress, as part of the Omnibus Budget Reconciliation Act of 1981, consolidated 77 categorical grants into nine block grants. With the new programs, block grants made up nearly 17 percent of federal aid. Unlike the Nixon block grants, the Reagan block grants provided about 25 percent less funding than the programs they replaced (Conlan 1998). Thus, with new distribution formulas, some governmental units were double losers, receiving smaller shares of a smaller total of federal support.

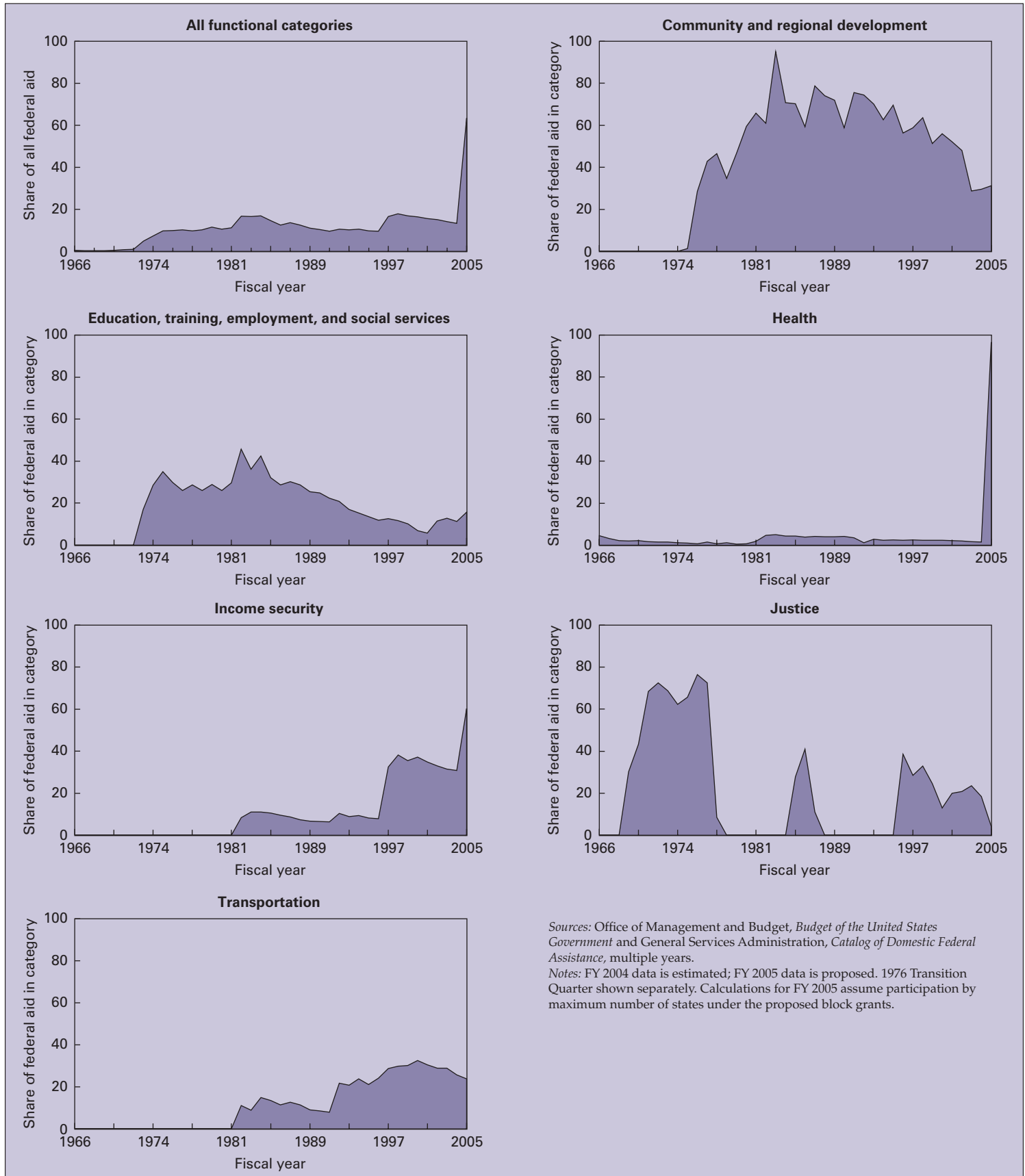
The most recent expansion of block grants occurred in 1996, when the Republican-controlled 104th Congress approved the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), the welfare reform legislation that replaced the Aid to Families with Dependent Children (AFDC) and related programs with the TANF block grant. Congress also increased block grant funding for child care and

allowed states to transfer some TANF money to the child care or social services block grants.

The block grant initiatives of the 1990s and 2000s embody a shift in fiscal policy. The TANF block grant and the proposed Food Assistance, Medicaid, and Child Welfare block grants eliminate individual entitlements to services and replace them with fixed grants to each state. In contrast, the block grants of the 1960s, 1970s, and 1980s either provided federal funding in new policy areas or replaced existing categorical grants to states or localities.

A block grant has different legal implications from an entitlement. Entitlements such as Food Stamps, Medicaid, and the former AFDC create individual rights to benefits. Litigation over these rights has resulted in court orders to provide benefits to whole categories of individuals denied assistance (Melnick 1994).<sup>3</sup> Block grants do not create the same rights. The TANF statutory language gives this point special

FIGURE 1. Block Grants as Share of Federal Aid to State and Local Governments, by Functional Category, FY 1966–2005



emphasis: the heading “No Individual Entitlement” is followed by the statement “This part shall not be interpreted to entitle any individual or family to assistance under any State program funded under this part” (PRWORA, Sect. 103). State and local officials thus enjoy more discretion in implementing block grants than in implementing entitlements. How much more discretion is unclear because constitutional protections against discrimination or arbitrary treatment still apply (Cimini 2002).

A block grant also has different budgetary implications from an entitlement. While both block grants and categorical grants are normally financed by fixed appropriations, entitlement funding is usually open-ended (King 2000; Posner and Wrightson 1996). Block grants give Congress more control over future spending; entitlements are more responsive to macroeconomic conditions.

### Block Grant Patterns by Policy Area

Figure 1 shows block grant funding as a proportion of total federal aid within the broad functional categories used in the federal budget. Since 1966, block grants have been most important as a component of federal aid for community and regional development. The block grant share of funding in this category, however, peaked in the mid-1980s, the heyday of CDBG. None of the new block grant proposals is in this category.

The block grant share of federal aid for education, training, employment, and social services, which also peaked in the mid-1980s, has risen slightly in the past few years, with new block grants for educational technology, teacher quality, and English language acquisition. The current proposals for Head Start and Job Training would further increase the block grant share of federal aid in this category, from 11 to 16 percent.<sup>4</sup>

The proportion of transportation funding in block grant form, which rose above 30 percent in 1999, 2000,

and 2001, has fallen under the Bush administration. Despite new block grant proposals in this area, the FY 2005 budget would continue the downward trend because of proposed spending reductions for existing transportation block grants.

Block grant funding for justice programs has been sporadic. The Safe Streets program, for example, accounted for more than three-quarters of federal aid in this category in FY 1976, but within a few years Congress discontinued funding. The proposed Justice Assistance grant would absorb the current Byrne and Local Law Enforcement block grants at lower levels of funding, reducing the block grant share of funding in this area.

The creation of TANF and the related increase in child care funding greatly expanded the role of block grants in income security between FY 1996 and 1997. With the proposed Housing Assistance and Child Welfare block grants, and the conversion of Food Stamps into a block grant in five states, 60 percent of federal aid for income security would be delivered through block grants.

Though health was the subject of the first block grant, funding has remained low relative to other federal programs in this area. Converting Medicaid into a block grant would dramatically alter the situation, increasing the block grant share of health programs from 2 to 97 percent.

### Lessons from Past and Current Block Grants

Figure 1 shows how far the impact of the Bush proposals would exceed that of previous block grant legislation. If all the proposals became law, an unprecedented 63 percent of federal aid would be in block grant form.

What can we learn from past and present block grants that might relate to the Bush proposals? Some lessons seem clear, while evidence on other important questions is mixed.

#### *Funding Gradually Declines*

Initial funding for block grants has not been consistently higher or lower

than funding for the programs they replaced. Four of the five block grants approved before 1980 provided increased funding; the fifth, the Safe Streets program, funded activities for which federal aid had not previously been available (Stenberg 1977). The block grants of the Reagan era, in contrast, generally cut funding (Conlan 1998). Initial state allocations for TANF were based on spending under AFDC. Performance bonuses and supplemental grants to states with low spending or high population growth provided some additional funding.

The real value of block grant funding tends to diminish over time. A study of five Reagan block grants (Peterson and Nightingale 1995) found that the real value of four of them decreased from 1986 to 1995, despite a 66 percent increase in total federal grants to state and local governments during this period. A more recent analysis of 11 block grants found that from their establishment to the present, real federal funding fell by an average of 11 percent (Sard and Fischer 2003).

#### *Creeping Categorization Reduces Flexibility*

Once in operation, block grants have been subject to “creeping categorization.” In this process, Congress erodes the flexibility of block grants by adding restrictions, requiring that a share of funds be set aside for particular purposes, or creating new categorical programs with the same or related objectives. A common explanation traces this phenomenon to members of Congress, who seem to reap greater electoral benefits from narrowly targeted categorical grants or set-asides than from wide-ranging block grants (Conlan 1998). Categorization can also be seen as Congress’s response to perceived misuse or misadministration of block grants by state or local governments (Conlan 1981).

The first two block grants illustrate distinct patterns of recategorization. The Partnership for Health Act retained its original flexibility but became irrelevant when concerns

about state administrative performance led Congress to create more than 20 new categorical grants for health services outside the block grant (U.S. General Accounting Office [GAO] 1982). As for the Safe Streets program, Congress expressed its dissatisfaction with state administration by adding mandatory set-asides and other statutory requirements that reduced the block grant's original flexibility, and ultimately terminated program funding (GAO 1982; Advisory Commission on Intergovernmental Relations 1977).

### ***Block Grants Work Best when State Administrative Capacities Already Exist***

One common justification for block grant programs is the expected increase in administrative efficiency accompanying state flexibility. Following implementation of the Reagan block grants, most state officials reported management improvements, including better planning and budgeting methods, changes in administrative procedures and standardization across programs, and increased efficiency in the use of state personnel (Peterson et al. 1986; GAO 1985).

Whether projected administrative savings followed from the state management improvements is not as clear. Although relaxed federal requirements eased some administrative burdens, block grant programs brought new management responsibilities to the states. Net changes in spending are difficult to measure owing to the absence of uniform administrative data (GAO 1995). A GAO study found only a small reduction in overall administrative costs under the pre-1981 block grant programs, with administrative costs increasing in some cases (GAO 1982). Few state administrators claimed savings of more than 5 percent under the Reagan block grants (Peterson and Nightingale 1995).

Implementation of new block grants has been smoothest when and where states were responsible for administering the categorical programs they replaced. States that have

already developed a capable administrative structure and established relationships with recipients and service providers can most easily incorporate new responsibilities under a block grant into existing management systems.

The 1981 block grants illustrate the contrast between block grants in policy areas with a history of state involvement and those in areas previously outside of the states' responsibilities. States were able to use existing administrative organizations and service provider networks to implement the social services, education, and health block grants with few organizational changes (GAO 1995). The Community Services Block Grant, however, replaced a system of direct federal assistance to local organizations in which most states played little or no role. To implement the block grant, states had to establish administrative structures, hire new personnel, and develop relationships with service providers (GAO 1984; Bowsher 1982).

### **Do Block Grants Decentralize Authority within States?**

Many arguments in favor of devolution from the national government to the states would seem to apply equally well within states. If state governments are closer to the people than the federal government, local governments are closer still, and just as programs that are right for one state may be wrong for another, programs that are effective in one city or county may not work elsewhere within a state. Have block grants, then, stimulated the devolution of policy decisions from state to local governments? The answer depends on whether the block grant was accompanied by a change in the level of government receiving federal funds and, if it was not, whether a particular state was already decentralized.

Several block grants of the 1980s centralized authority, sending funding that had gone directly to local governments to state governments instead. For example, the Job Training

Partnership Act program, which provided funding through the states, replaced the CETA program, in which state governments had only a minor role (Farber 1989).

Under TANF, as with AFDC, the states are recipient governments. In a study of pre-TANF welfare reform efforts, Watson and Gold (1997) identified a devolutionary trend that was strongest in those states where welfare administration was already decentralized. Gainsborough (2003) similarly found that states with decentralized administration of welfare under AFDC were especially likely to decentralize further under TANF; she did not find any states in which welfare administration became more centralized under TANF. The new block grant may have encouraged states to devolve authority to their local governments, either by drawing attention to the arguments for decentralization, or by simplifying administrative tasks so they could more easily be carried out at lower levels.

### **Do Block Grants Redirect Program Targeting?**

Block grant opponents have expressed concern that states will use increased flexibility to retarget benefits away from the individuals or communities with the greatest need (Peterson et al. 1986). Studies of past block grants do not provide consistent evidence of changes in program targeting. A GAO study of the pre-1981 block grants found the receipt of resources by target populations "about equal" under categorical and block grant programs (GAO 1982). Peterson et al. (1986) found no indications that states had used their flexibility under the Reagan block grants to directly shift resources from poor or low-income families to the middle class. Bennett and Perez (1986), however, found that state allocations to local districts under the education block grant were based more on enrollment, and less on need, than under the categorical programs it replaced.

Several Reagan block grants shifted funding from one low-income

population to another. States responded to reduced federal funding under the SSBG (Peterson et al. 1986) and the Maternal and Child Health Services Block Grant (Nathan and Doolittle 1983) by lowering income eligibility limits or increasing cost-sharing requirements for higher-income recipients. In these cases, the combination of reduced federal funding and increased state flexibility resulted in more exclusive targeting of programs to the poor. States responded to reduced funding for job training, community services, and alcohol, drug abuse, and mental health under the new block grants by moving away from services with long-term payoffs to concentrate on immediate and short-term solutions (Nathan and Doolittle 1983, 1987). Often this priority shift translated into a reduction in services for the neediest populations.

## Conclusion

Many block grants operating today can be traced to three rounds of block grant expansion. Each expansion effort increased the proportion of federal aid delivered to state and local governments in block grant form, but was also followed by a gradual decline in block grant funding as Congress opted to fund categorical or entitlement programs instead. As a result, the block grant share of federal aid has never risen above 20 percent.

If enacted, the current proposals would create a fourth wave of block grants potentially larger than the first three combined. In one year, the proportion of federal aid to state and local governments delivered through block grants would more than quadruple. Health is currently the domestic policy category in which block grants are least important; under the Bush proposal, almost all federal aid for health would be included in the block grant replacing Medicaid and SCHIP.

The proposed block grants would have particularly significant effects on low-income families with children.

Seven of the 10 proposals would affect existing social welfare programs that serve the nation's most dependent populations. Replacing Medicaid and Food Stamps with block grants would eliminate two important means-tested entitlement programs.

Experience with block grants offers lessons involving program design and implementation. Researchers have found that over time, the real value of block grant funding gradually declines, and state flexibility erodes as Congress responds to patterns of state implementation. Given these patterns, the risks for future erosion in funding and flexibility are particularly high for the Justice Assistance block grant, which has initial funding below current funding, and for the Food Assistance block grant, which, as proposed, already bars assistance to certain legal immigrants.

Researchers have also found that block grant implementation is smoothest when states can draw upon administrative capacities already developed under the preceding program. Experience with the Title IV-E Foster Care program may equip states to administer a Child Welfare block grant. But a Head Start block grant might pose transitional problems because of the low level of state involvement under the current program (Prah 2003). And while states currently administer other programs that would be replaced by block grants, including Medicaid and Food Stamps, the proposed block grants may require planning, administrative, and analytical capacities beyond what most states have developed to date.

## Notes

1. The Medicaid block grant proposal was introduced in the FY 2004 Executive Budget. While the full proposal does not appear in the FY 2005 budget, language does appear that indicates the administration's continued interest in such a proposal. Analysis of the Medicaid block grant proposal in this

brief is therefore based on those provisions specified by the administration in the FY 2004 budget.

2. Block grant funding may go to states, territories, local governments, or tribal governments, depending on the program. For simplicity, we refer to recipient governments as "states" throughout this brief.
3. See also *Westside Mothers v. Haveman*, 289 F.3d 852 (U.S. Court of Appeals 6th Cir. 2002).
4. The estimates in this section and the next were computed from Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2005: Historical Tables*, Table 12.3 (228–72), and General Services Administration, *Catalog of Domestic Federal Assistance*, various years. Our estimates for the proposed optional block grants (see table 1) assume the maximum number of states choose to participate. For details, see Finegold, Wherry, and Schardin (2004).

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