

# Implications Of Increasing Block Grants For Programs Directed At The Poor

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Determining the appropriate balance of power between the national government and the states is the "cardinal question of our constitutional system," Woodrow Wilson in 1908.



## Programs to Reduce Poverty

There are two principal categories of public benefit programs — those that provide benefits regardless of income and those that limit assistance to people with low or modest incomes.

The first category of programs includes the major social insurance programs such as Social Security, unemployment insurance, and Medicare. (Excluded from rest of talk)

Programs in the second category are often referred to as “means-tested” programs.

Means-tested programs play a large role in reducing the extent and severity of poverty and providing health care to low-income Americans. Some 11 million low-income Americans are lifted above the poverty line by means-tested benefits, and more than 55 million receive health insurance from the means-tested medical programs, Medicaid and SCHIP. These programs include the Earned income tax credit, a subsidy to low income parents with children who work, Food Stamps, a federal program that provides vouchers for food purchases to low income individuals (with a work requirement for able bodies adults), TANF, the successor to cash assistance under AFDC which provides aid to low income single parents but requires work from most, and certain childcare subsidy programs targetted on those who are poor and near poor.

*Note – handout provides some data on success of these programs in terms of take-up rates.*



# Size of Federal Transfers to States, 2001: Sizeable

- In fiscal 2001, the United States federal government distributed an estimated \$284.9 billion to state and local governments through 158 formula grant programs and subprograms. Federal spending on those programs amounted to **15.3** percent of all federal outlays and **18.3** percent of all nondefense outlays.
- If we exclude Social Security, Medicare, net interest on the Federal debt, and defense from the total expenditures of Federal, state, and local governments in the U.S., **80%** of what remains is administered by state and local governments. In addition, most public investment (infrastructure, education, and training) is financed by state governments, and most infrastructure facilities "reside" in the states.
- almost all grants in aid to state and local governments, with the exception of the Medicaid program, fall into the category of capped expenditures



## Public Expenditures for Low-Income Individuals *Outlays* in 2002 (\$in billions) (Many have state discretion)

	<i>Federal</i>	<i>State &amp; Local</i>	<i>Total</i>
<i>Medical care</i>	\$163.8	\$118.7	\$282.5
<i>Cash aid*</i>	82.5	19.7	102.2
<i>Food benefits</i>	36.8	2.5	39.3
<i>Housing benefits</i>	34.9	.7	35.7
<i>Education aid</i>	28.8	1.7	30.5
<i>Services</i>	17.5	4.7	22.2
<i>Jobs and training</i>	6.9	.9	7.8
<i>Energy assistance</i>	2.0	.1	2.1
<b>TOTAL</b>	<b>\$373.2</b>	<b>\$149.0</b>	<b>\$522.2</b>



# Block Grants

- Block grants are broader in scope and offer greater state flexibility in the use of funds than categorical programs;
- block grants allocate funding on the basis of a statutory formula.
- Block grants have been associated with a variety of goals, including encouraging administrative cost savings, decentralizing decisionmaking, promoting coordination, spurring innovation, and providing opportunities to target funding.
- Block grants have historically accounted for only a small portion (11 percent) of grants to states and localities.
- History: Before OBRA created nine block grants in 1981, three block grants had been created under the Nixon administration for community development, social services, and employment and training..



## Welfare Reform increased State's flexibility

- Welfare reform law created a block grant giving states flexibility in policy and administrative strategies.
- State innovation and experimentation are seen as critical ingredients of policy change.
- Federal time limits and work requirements apply only to cash assistance funded by the federal block grant, Temporary Assistance to Needy Families (TANF).
- States can devise programs without time limits or work requirements when they use their own money, spending state funds under TANF's "maintenance of effort" provision.
- States can use federal TANF funds to provide benefits to low-income families without time limits if those benefits help pay the costs of working, such as child care or transportation.
- States can impose stricter work requirements or shorter time limits.
- States can change many other eligibility requirements for cash assistance, including asset and earnings disregards.
- States determine the services to be offered to low-income families and define who is eligible for such services.
- States have wide discretion over which providers—public or private, or religious—carry out their programs.



# Ending Welfare as We Know It: PRWORA

- Objectives
  - Assist needy families care for children
  - Promote job preparation and work
  - Reduce out-of-wedlock childbearing
  - Promote two-parent families
- “Devolution” – states were given responsibility for welfare, funded through block grants.



## Restrictions in PRWORA

- Major provisions:
  - Five year time limits on benefit receipt.
  - Targets set on the fraction of the caseload that must be working.
  - Comprehensive child support collection.
  - Restrict benefits to *legal* immigrants.
- States have complete ability within these guidelines in program design.



# Overview of TANF as a block grant

- With its block grant, each state was free to design its own cash assistance program, subject to two main federal rules: With limited exceptions, federal funds couldn't be used to provide assistance for more than five years, and states had to meet federal work-participation rates each year for families receiving assistance. States could impose other restrictions on assistance, and -- as turned out to be important -- states could use block grants for a wide range of activities besides operating cash assistance programs.
- In implementing TANF, almost all states established programs of time-limited assistance. Most embraced a strong “work-first” philosophy, which discourages education and training and encourages recipients to take any available job as a condition of receiving benefits.
- During this period, the nation coincidentally entered a period of economic growth, with demand for low-wage labor so strong that a two-decade decline in real wages for low-earning workers reversed and real wages began growing at the bottom. And, as a result of other deliberate policies, notably a large expansion of the federal Earned Income Tax Credit (EITC) coupled with minimum-wage increases enacted in 1996, low-wage workers realized income gains. In addition, health-care access was broadened for children outside the welfare system, and states began expanding child-care assistance for families not receiving welfare.



# Emerging PRWORA Models: Wisconsin

- Caseworkers are “financial and employment planners” and social service agency is called the “Department of Workforce Development.”
- Five features
  - Focus on adults, not children
  - Must work full time (in private or public jobs)
  - Other benefits not tied to welfare receipt
  - Emphasis on responsibility and reciprocity
  - Program and administration are separated



# Emerging PRWORA Models: Wisconsin, continued

- Job ladder: W-2 Transitions, to Community Service jobs, to Trial jobs, to regular jobs in private employment.
  - Harsh terms in lower tiers.
    - CSJ participants receive a monthly grant of \$673 for up to 30 hours per week in work training activities and up to 10 hours a week in education or training.
    - W-2 T participants receive a monthly grant of \$628 for up to 28 hours per week of participation in work training or other employment-related activities; and up to 12 hours per week in education and training.
  - Sanctions if do not work
    - when a participant does not participate in an assigned activity and does not have “good cause” for missing the activity, a participant’s grant is reduced by \$5.15 (Wisconsin’s minimum hourly wage) for each hour of an assigned activity that the participant misses without “good cause.”
  - Large child care, health care and transportation spending.



## Federal and State TANF programs in Wisconsin: A generous program IF adults work.

- Core State program meeting federal requirements
  - W2 jobs ladder
  - Benefits to parent while child is < 12 weeks
  - Food Stamps
  - Child welfare prevention services
  - EITC
- State
  - Child Support Pass Through
  - Child Care
  - Transportation Programs
  - Job access loan program
  - Domestic abuse services
  - Literacy Services
  - State EITC supplement
  - W2 interim assistance

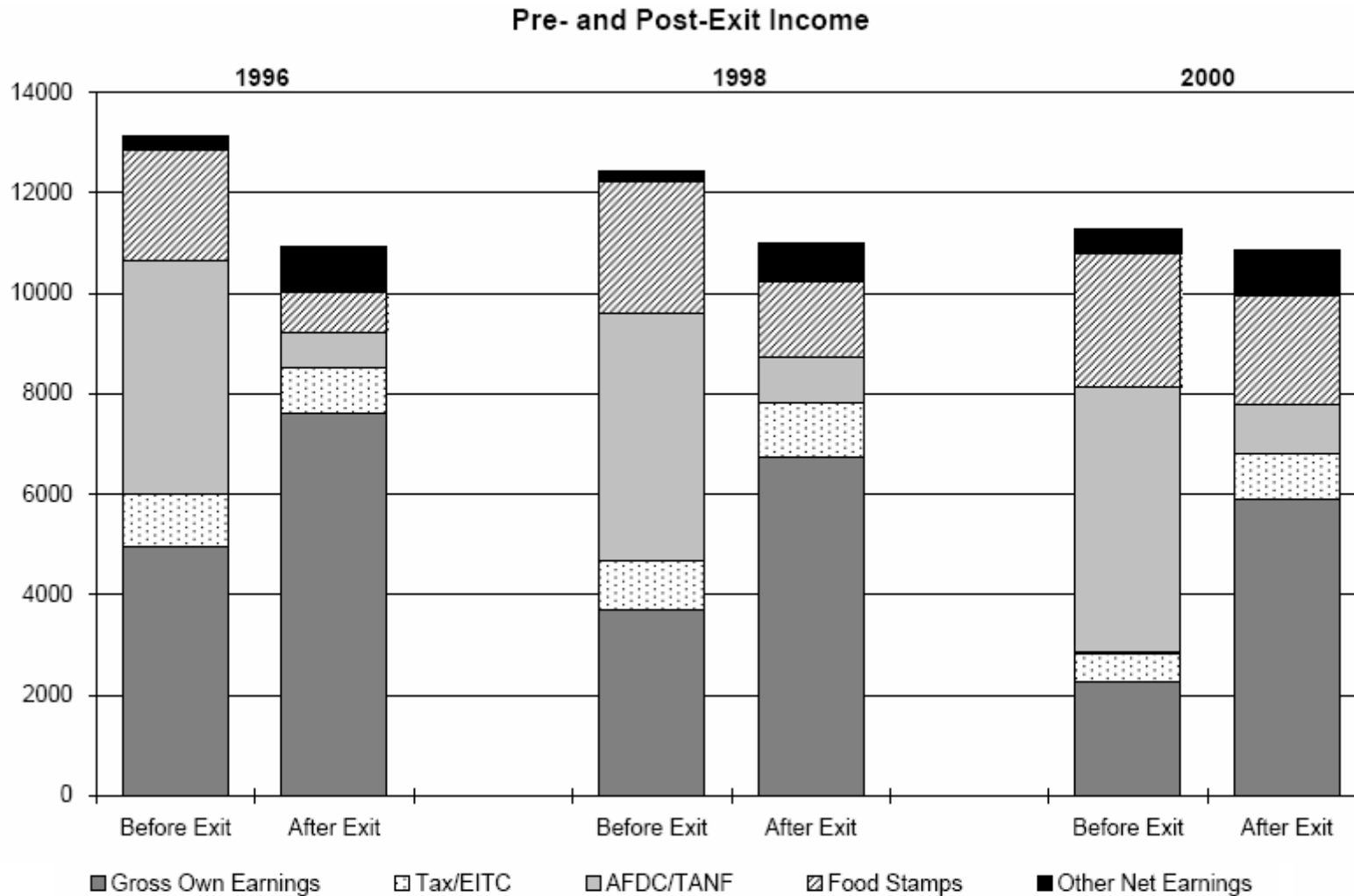


## Has W2 worked?

- Caseloads fell over 90 percent (now up slightly to 35,000 of whom 24,000 receive payments).
  - Some better off, some worse, many the same
- Most former recipients work: > 80% in first year after leaving cash assistance.
- Median earnings higher among those first to leave: average of about \$9,600 for 1995 cohort (2000\$s) but only \$7300 for 1999 leavers.
- Somewhere between a quarter and a third return to cash assistance during first year after exit

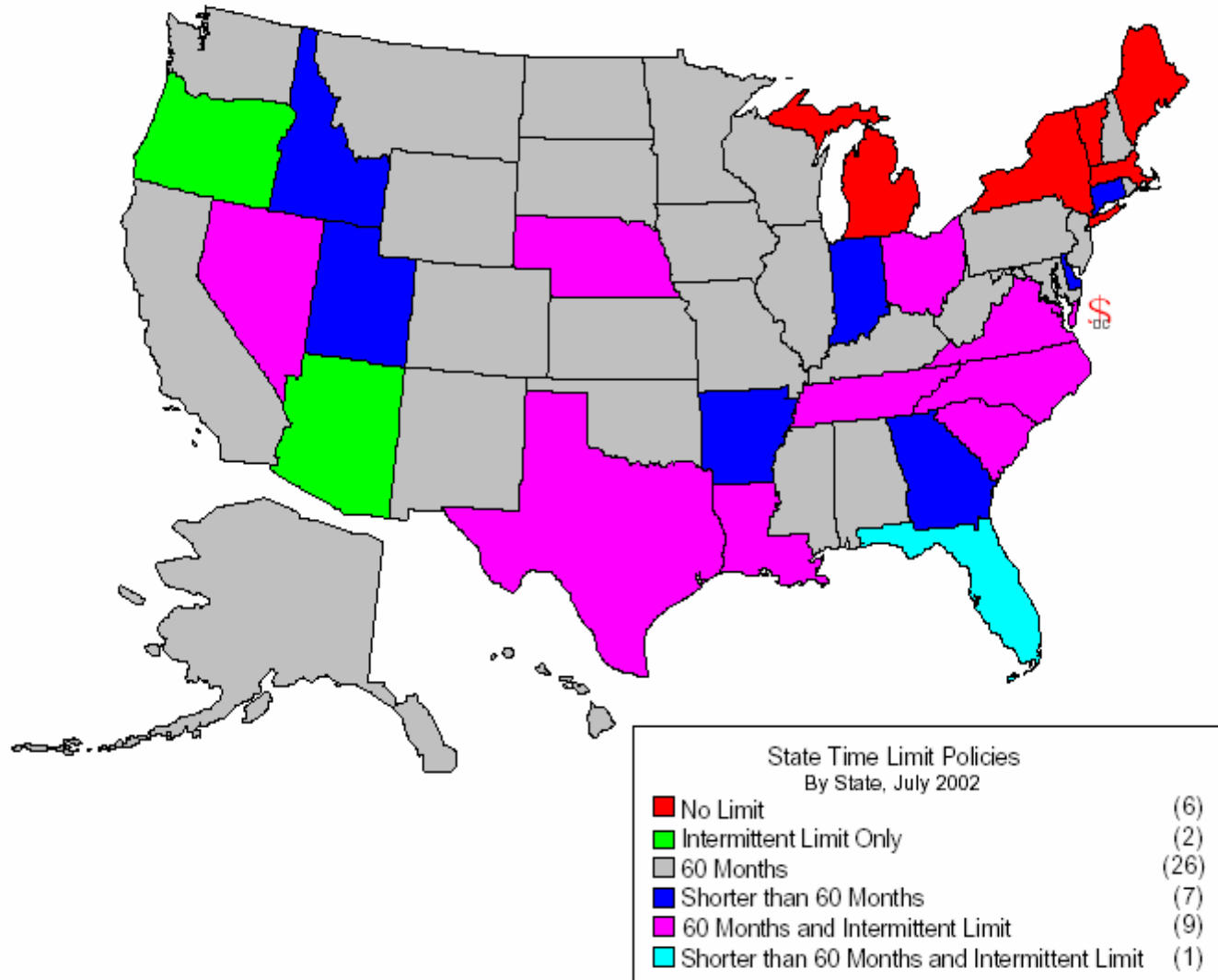


# W2 Leavers: a comparison of income pre and post leaving cash assistance



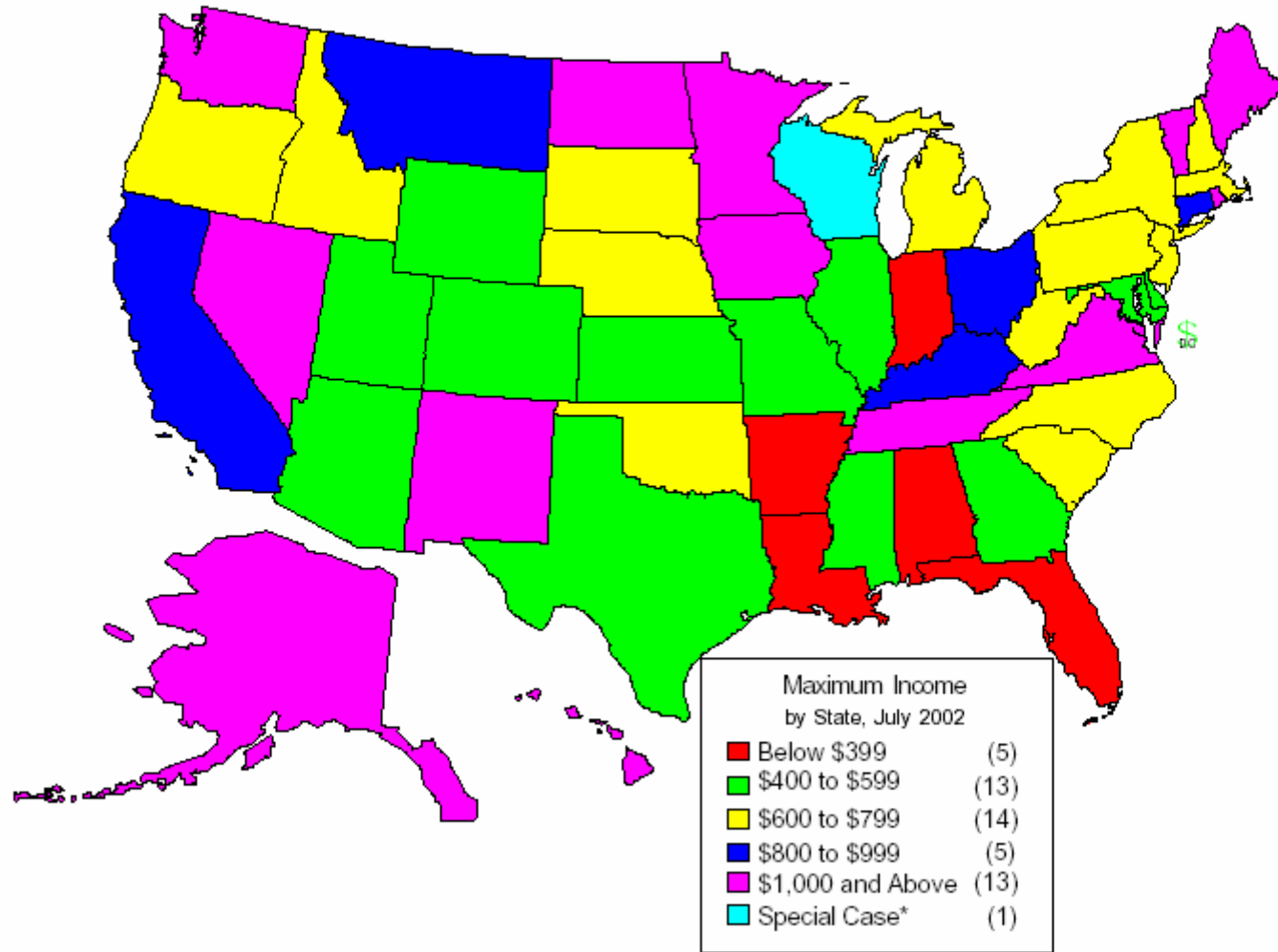
How different are state policies under Block grants?

## State Time Limit Policies

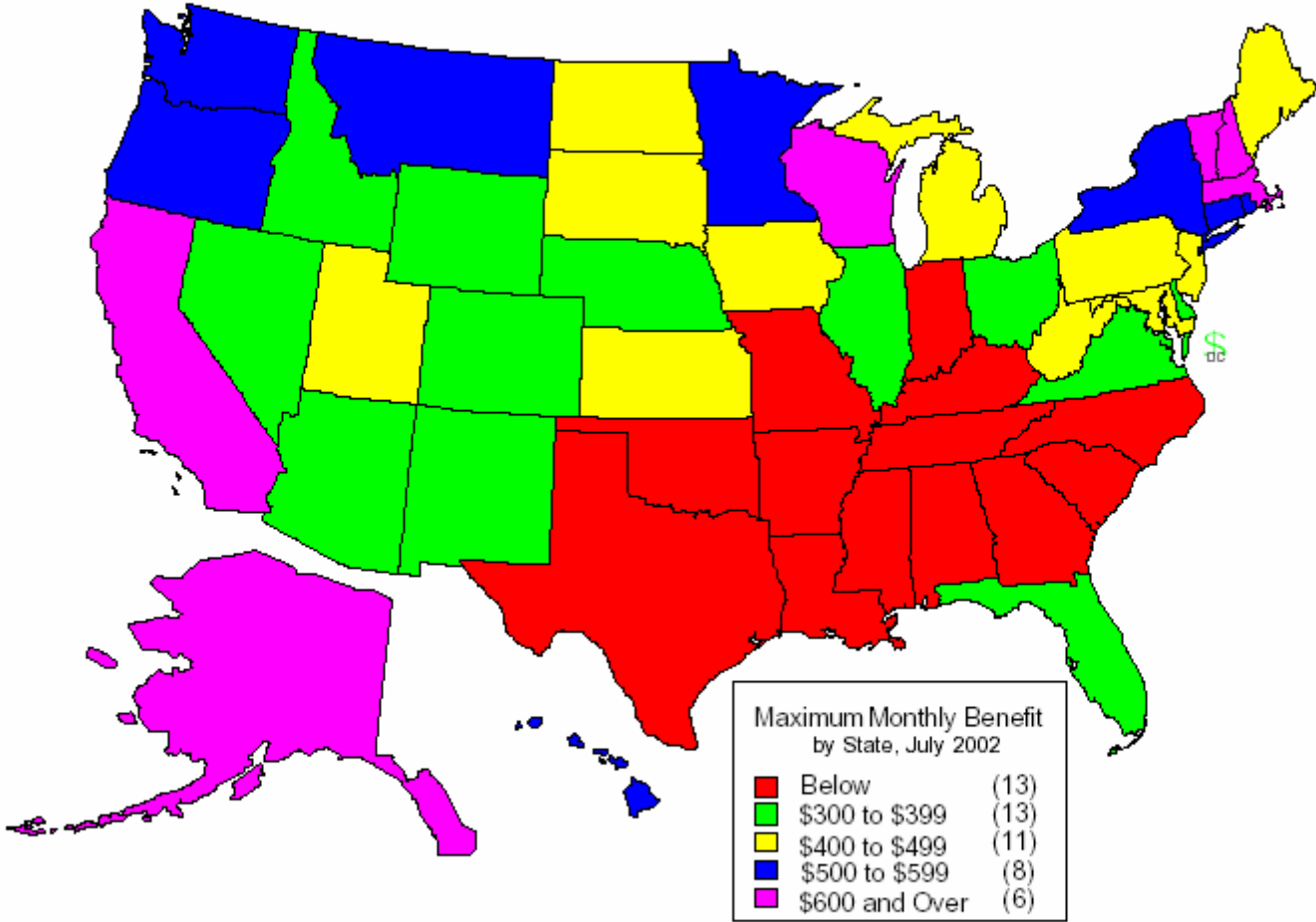


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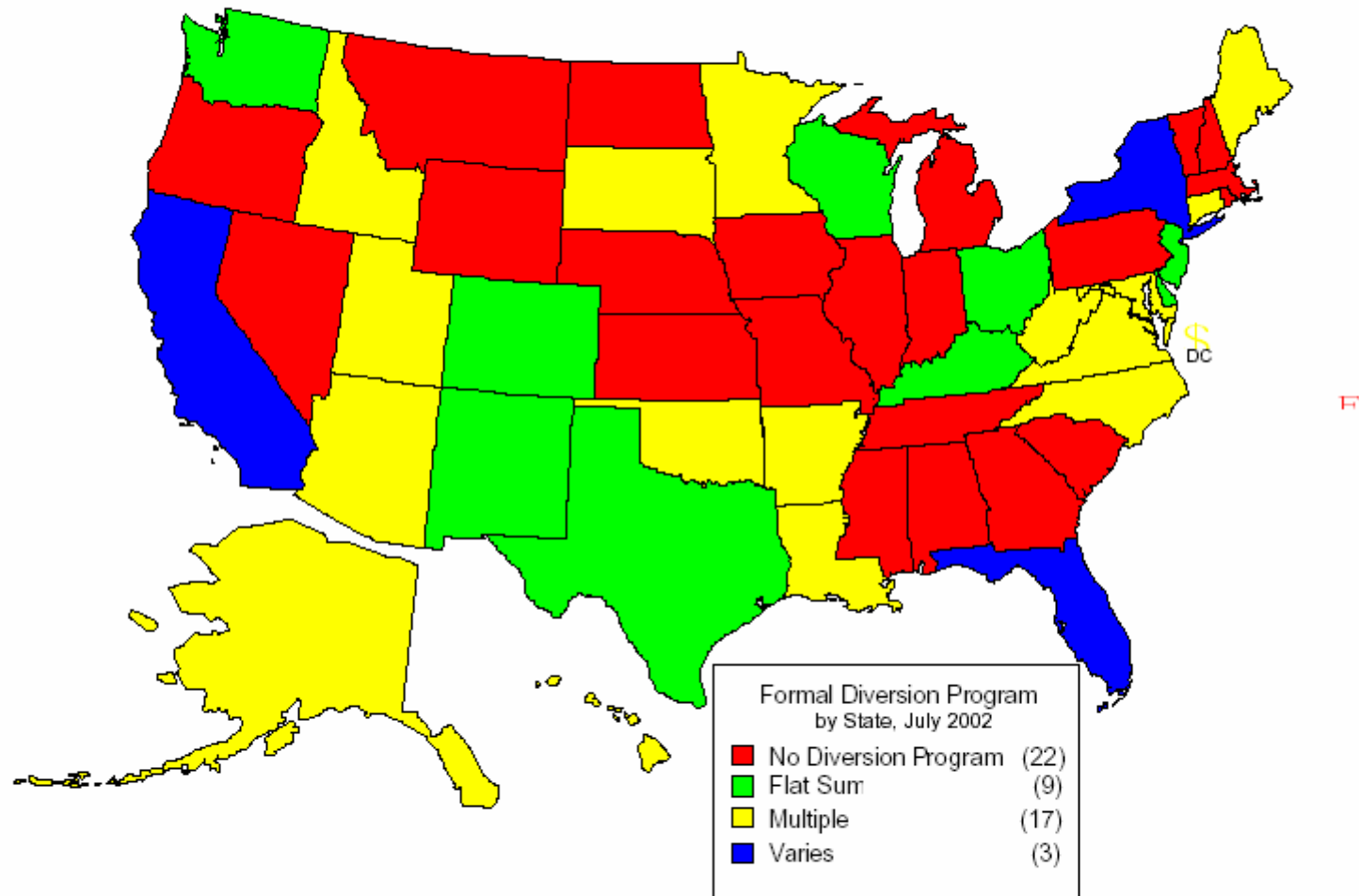
# TANF Income Eligibility Thresholds



# Maximum Family Benefit



## Formal Diversion



By July 2002, over half of all states (29) offered formal diversion programs. Diversion programs help families weather short-term crises and alleviate immediate problems that interfere with obtaining or retaining employment. Families that accept diversion payments are generally barred from applying for monthly TANF benefits for a specific period of time.

**States have made cuts in a wide range of programs since 2000**, including:

- Some 34 states have cut eligibility for **public health insurance**.
  - these cuts have caused 1.2 million to 1.6 million low-income people to lose publicly funded health coverage
  - some modest restorations have occurred,
  - major additional cuts are planned in Mississippi and Tennessee.
- At least 23 states have cut eligibility for **child care subsidies** or otherwise limited access to child care.
  - In about half the states, low-income families who are eligible for and need child care assistance are either not allowed to apply or are placed on a waiting list.
  - More than 280,000 children are on waiting lists in California alone.
- Real per-pupil aid to school districts for **K-12 education** declined in 34 states between 2002 and 2004.
  - Effects of the cuts include new or higher fees for textbooks and courses, shorter school days, reduced personnel, and reduced transportation.
- States across the country are cutting **higher education**, leading to double-digit increases in college and university tuition and reduced course offerings.



**Table 1**  
**Selected Policy Changes Adopted in States by 2000**

Number of states adopting	Policies enhancing access to supports	Policies restricting access to supports
Most frequently adopted (40-51 states)	Increased asset disregards for cars (51) Enhanced earned income disregards (47) Increased financial asset disregards (44) Ended 100 hr work limit for 2 parent families (40)	Required work activity in less than 24 months (43)
Frequently adopted (26-39 states)	Ended 30 day waiting period for 2 parents (30) Ended work history requirement for 2 parents (28)	Required immediate work activity (38) Decreased or ended child support pass-through (34) Limited post-secondary education as allowable activity to less than two years full-time (26)
Less frequently adopted (12-25 states)	State earned income tax credits (16)	Adopted family caps (23) Limited General Education Development (GED) or English as a Second Language (ESL) as allowable first activities (22) Enforced worst-case sanctions equal to 100% of benefits for 3 or more months (21) Reduced food stamps or Medicaid through sanctions (22) Decreased age of child exempting mothers from work to less than 12 months (22) Enforced sanctions equal to 100% of benefits for first-time violations (17) Introduced intermittent time limits (14) Imposed state residency requirements (13, but struck down by courts)
Least frequently adopted (0-11 states)	Extended transitional Medicaid past 12 months (11)	Reduced lifetime time limit to less than 60 months (6) Ended all cash benefits to teen parents (0)



**Table 2**  
**Predictors of State Policy Choices**

	State Benefits under Five Wage Scenarios plus State Earned Income Tax Credit	Sanctions Scale	Time Limits Scale	Family Caps	Immediate Activity Requirement	
Type of regression	linear	linear	linear	logistic	logistic	
R Square	0.623	0.345	0.351	0.320	0.233	
% of caseload that is African American	-	-	-	-		
% of caseload that is Hispanic			-			
% popular vote for Clinton in 1996		+	+		+	
% Republican state legislators		-				
Republican governor					+	
TANF \$/ children in low-income household	+				-	
Unemployment rate						
State per capita income	+					
Welfare dependency (peak caseload as percentage of state population)			+			
Statewide non-marital birthrate						
	+ = more generous policy (i.e., more generous state benefits, weaker sanctions, less strict time limits, no family caps, and no immediate activity requirement) - = more restrictive policy (i.e., less state benefits, harsher sanctions, stricter time limits, etc.)					
						= significant between the 5 and 10% levels
						= significant between the 1 and 5 % levels
	= significant between the 0 and 1% levels					

## Recent State Cuts

- A cut in eligibility for publicly provided health insurance
  - As of 2004, 34 states had cut eligibility for public health insurance, primarily through cuts in Medicaid and/or the State Children's Health Insurance Program. Between 1.2 million and 1.6 million people lost coverage, about half of whom are children.
  - Most of these cuts involved measures to scale back health care coverage for children and parents in families in which the parents work at low-wage jobs.
    - Texas ended coverage for nearly 170,000 children in low-income working families,
    - Connecticut reduced Medicaid eligibility for about 19,000 parents with incomes between 100 percent and 150 percent of the poverty line
- 32 states have cut eligibility for child care subsidies targeted on low- and moderate-income families or otherwise limited such families' access to child care.
  - In 20 states, child care assistance is no longer available to low-income working families newly applying for such help; such families go on waiting lists instead.
  - At the end of 2003, 48,000 children were on the child care waiting list in Florida.
  - Tennessee no longer even accepts child care applications from families not receiving TANF cash assistance



## Federal Policies that make federalism painful for states and residents

- The real value of the TANF block grant has already fallen by more than 11 percent. The TANF law authorized the block grant through fiscal year 2002; Congress has been regularly extending this authorization for short periods at a time since then.
- **Unfunded mandates.** In several policy areas, such as special education and the No Child Left Behind education initiative, the federal government has placed requirements on state and local governments without adequately funding them.
- **Shifting health care costs.** For more than a decade, the cost of health care for low-income elderly and disabled people (in other words, people who are eligible for both Medicare and Medicaid) has been shifting from Medicare to Medicaid. A prominent reason is the increasing use of prescription drugs, which Medicaid covers but Medicare has not. Because Medicare is fully federally funded, while states pay nearly half of all Medicaid costs, this shift in costs from Medicare to Medicaid has increased the financial pressure on states.
- The recently enacted Medicare drug bill will leave states responsible for the bulk of these drug costs even after the new Medicare drug benefit takes effect. Under the drug bill, seniors and disabled individuals eligible for both Medicare and Medicaid will receive drug coverage through Medicare. But, while this will produce significant savings for state Medicaid programs, states will be required to return most of these savings to the federal government.
- These federal policies have hit the poorest states especially hard. This is partly because the populations of these states have the greatest need for government services, and partly because these states are the least able to raise their own funds to pay for services.



# A federal program that “works” to reduce poverty-- EITC

Several recent studies have found that the EITC encourages work, as well as alleviates poverty.

Comparing the effects of time limits, the EITC, and other policy changes on welfare participation, labor supply, and income, Grogger (2003) concludes that the EITC may be the “single most important” policy parameter for explaining recent declines in welfare and increases in work and earnings among female-headed families.

Meyer and Rosenbaum (2001) found that more than 60 percent of a nine percentage point increase in the employment of single mothers between 1984 and 1986 was due to expansions of the EITC.

Dickert, Houser, and Scholz (1995) estimated that expansions of the EITC between 1993 and 1996 would induce more than half a million families to move from welfare to work.

Eissa and Liebman (1996) find that the EITC expansion in the Tax Reform Act of 1996 significantly increases labor force participation among single mothers, especially less educated women.”\*



# Support for the EITC

- In a 1996 *Wall Street Journal* column, conservative Harvard economist and then *Journal* contributing editor Robert J. Barro observed: "...There exists a serious program in the form of the earned income tax credit that actually helps the working poor in a way that promotes work and discourages welfare. The EITC was originally a Republican idea — started by the Ford administration in 1975 and expanded by the Reagan administration during the glorious 1980s and the Bush administration in 1990....Mr. Clinton's support is not sufficient reason to regard the program as mistaken. In fact, it has a well conceived structure that ought to be retained and perhaps expanded..."\*\*
- Similarly, in a 1996 *Business Week* article, Nobel laureate Gary S. Becker praised the EITC for aiding poor families without reducing employment, discouraging work, or increasing reliance on public assistance. Becker wrote that the EITC "rewards rather than penalizes poor families with working members....Empirical studies confirm the prediction of economic theory that the EITC increases the labor force participation and employment of people with low wages because they need to work in order to receive this credit." Becker also applauded the EITC for being "fully available to families with both parents present, even where only one works and the other cares for their children...."\*\*\* [i.e., for being available to low-income working families with stay-at-home mothers].



# Food Stamps – a federal program

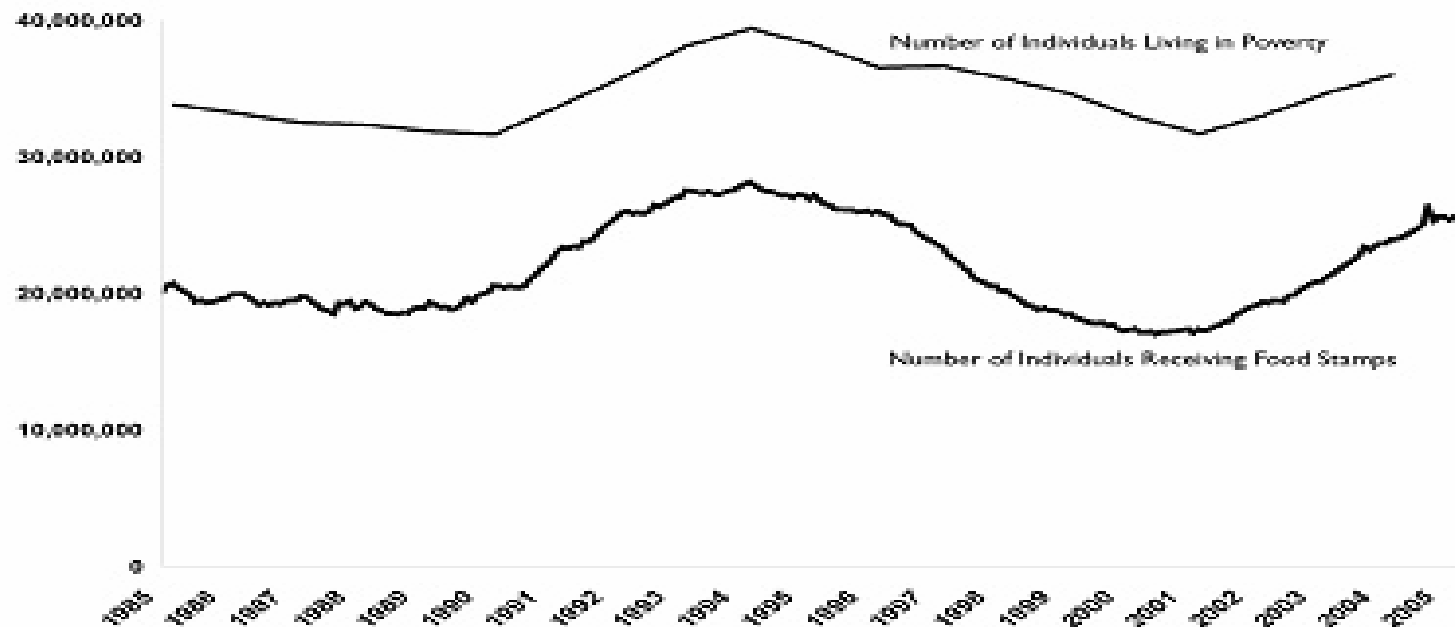
- Food Stamps provide electronic debit cards that can be used only to purchase food. The average family receives a card that allows it to purchase about \$200 a month in food. The average food stamp benefit equals \$1 per person per meal.
- Ninety percent of the households that receive food stamps have incomes below the poverty line. More than a third of food stamp recipients have incomes below half of the poverty line — about \$7,800 on an annual basis for a family of three in 2004. Very poor households receive more food stamps than households closer to the poverty line, significantly increasing their food purchasing power.



# Food Stamps – a federal program that is countercyclical

## Food Stamps Respond to Poverty

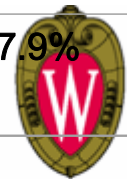
When poverty increases, as it during the recession in the early 1990s and the recent economic downturn, more people need and get help purchasing groceries from the Food Stamp Program. As conditions improve, the number of people receiving food stamps declines.



## Public Spending on Work Support for Low-Income Families with Children Since PWRORA (billions of \$2002)

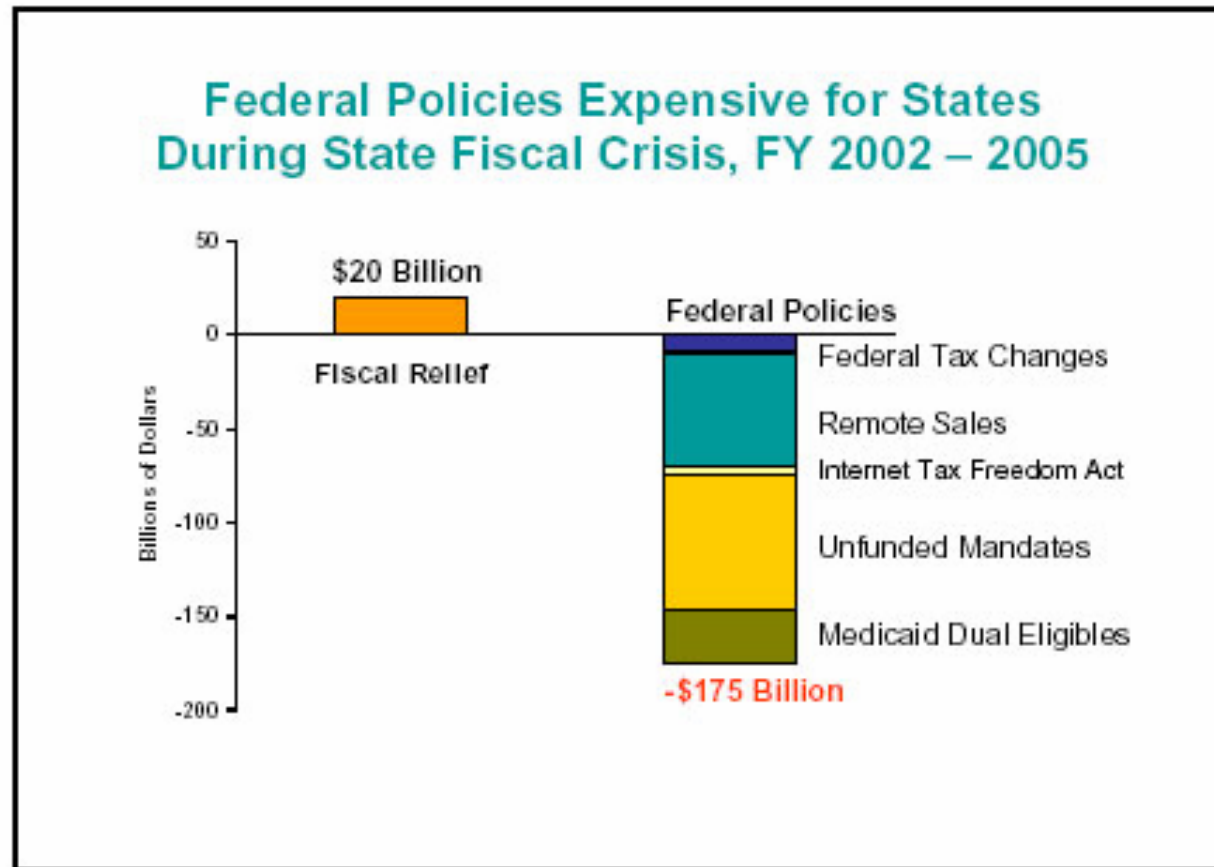
	FFY 1996	FFY 1999	FFY 2002	Percent Change 1996- 2002	Percent Change 1999- 2002
Child Care	\$4	\$9	\$12	300.0%	33.3%
SCHIP/Medicaid	\$46	\$48	\$68	47.8%	41.7%
EITC	\$32	\$34	\$37	15.6%	8.8%
Food Stamps	\$20	\$13	\$14	-30.0%	7.7%
<b>Total</b>	<b>\$103</b>	<b>\$104</b>	<b>\$131</b>	<b>27.2%</b>	<b>26.0%</b>
Total Spending for Low Income Persons (other than Long-term Care)	\$382	\$401	\$480	25.6%	19.7%
Total Spending for Low Income Persons <sup>a</sup> Other than Family Work Support	\$279	\$297	\$349	25.0%	17.9%

<sup>a</sup> Excluding spending on long-term care for the elderly



# A view of how federal policies impact states

Figure 2



# Superwaiver

An example of “extreme” power to states

- Superwaiver legislation would authorize federal agencies to approve a state's petition for relief from various statutory and regulatory provisions pertaining primarily to TANF, food stamps, child care, employment and job training services, family services, and public housing. This would give State's added discretion in determining allocation of resources for social programs.
  - Remove requirements of independent evaluation
  - Allow benefit reductions (Currently states can do so for TANF, Medicaid and most recently Food Stamps)
  - Maintain restrictions of appropriations bills, immigrant eligibility rules, civil rights legislation, health and safety standards, environmental protections, child support enforcement (fec control)



# 2005

## *The “Superwaiver” Proposal*

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The House bill allows states to obtain waivers of nearly all federal law and rules related to TANF, the Food Stamp Program, public housing and most homelessness programs, Social Services Block Grant, Child Care and Development Fund, most Workforce Investment Act programs, and adult basic education.

Under the Senate bill, up to ten states could obtain waivers of federal law and rules related to TANF, the Social Services Block Grant, and the Child Care and Development Fund.



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# Major Issues re Superwaiver

- Reduce benefits for relatively weak constituencies, esp. if economy and/or budget performing poorly.
  - In early 2000's > 35 states squeezed TANF and other program budgets serving poor households.
  - Block grants more vulnerable to budget cuts
  - Block grants tend to lack solid well-organized political constituencies
  - Ex. Of cuts – Social Service Block Grant went from an expansive source of funds to a capped program



## Pluses and Minuses of Block Grants

- +Greater opportunity for creativity
- +Opportunity for savings in administration and reporting
- +Tailor to preferences of State's residences; make use of State's special resources; modify to reflect experiences
- +Federalism disperses power and slows the march of ideological crusades
- +Closer to the consequences of bad policies
- -States differ in fiscal opportunities and poor states tend to have more poor who need more support (inequity and incentive effects)
- -Administrative costs in setting up programs
- ?Is allocation system from federal to state appropriate and does it change rapidly enough to handle changing needs?
- -Are resources required from states such that those with more in need face a bigger problem?
- -May reduce target effectiveness
- -May reduce political constituency and hence political power.
- -Loss of dollar resources over time

