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IRP SPECIAL REPORT

Welfare Reform in the 104th Congress, Congressional Forum I

Welfare Block Grants: Advantages and Disadvantages

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Welfare Reform in the 104th Congress: Goals, Options and Tradeoffs

Lessons from Research and State Experience

Forum I: Welfare Block Grants: Advantages and Disadvantages

February 13, 1995

A new series of forums for Congressional staff cosponsored by the

Institute for Research on Poverty

and the

Family Impact Seminar

Institute for Research on Poverty

Family Impact Seminar

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A new series of forums for Congressional staff

Welfare Reform in the 104th Congress: Goals, Options and Tradeoffs

Lessons from Research and State Experience

These forums are designed to provide staff of the 104th Congress with the opportunity to learn about and discuss with researchers and state welfare administrators the complex issues involved in current welfare reform proposals. The information will be presented in a non-partisan format. Special emphasis will be placed on what can be learned from recent and past experience of state welfare experiments and on the consequences of reform for parental responsibility, family integrity and child well-being. The first three forums will focus on the following topics: welfare block grants; adolescent out-of-wedlock childbearing and parental responsibility; jobs and labor market strategies for welfare reform.

Institute for Research on Poverty (IRP), University of Wisconsin

The Institute is a national, university-based center for study of the nature, causes and consequences of poverty and policies aimed at its elimination. Nonpartisan and interdisciplinary in nature, it has operated since 1966. It collects and analyzes information from state and national data on the evolving condition of the low-income population. IRP has been a leader in developing concepts, methods and evaluation procedures needed to advance the understanding of the changing nature of poverty in U.S. society. A recent book review in The Washington Post (1/1/95) described IRP in these words: "The members enjoy a reputation for work that is methodologically sophisticated, empirically sound and as close to politically neutral as research in this volatile field can be."

Family Impact Seminar (FIS), AAMFT Research and Education Foundation

The Family Impact Seminar is a non-partisan policy research and education institute founded in 1976, which seeks to promote family-centered policy at federal, state and local levels through seminars, conferences and publications. FIS is best known in Washington for its series of family policy seminars held since 1988 on Capitol Hill. Invitees include congressional and executive branch staff and policy researchers. The series has covered a wide range of topics including adolescent pregnancy and parenting, family poverty and welfare reform, literacy, child care, foster care and integrated services. Each seminar is accompanied by a comprehensive background briefing report.

IRP and FIS gratefully acknowledge the financial support of The Ford Foundation, The Annie E. Casey Foundation, The Foundation for Child Development, and The Joyce Foundation.

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February 13, 1995

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Co-Moderators: Barbara Wolfe and Theodora Ooms

* Barbara Wolfe, Ph.D.
  Introductory Comments: Issues Involved in Federalism

Research Panelists (Institute for Research on Poverty)

* Thomas Corbett, Ph.D.
  Concepts, Controversies, and Context

* James R. Walker, Ph.D.
  Block Grants, Interstate Competition, and Welfare Migration

* Mark Courtney, Ph.D.
  The Federal Role in Child Welfare Services

* Michael Wiseman, Ph.D.
  Evaluation: Lessons from the Welfare Waiver Demos

Comments and Reactions from the State Government Perspective

* Marta Moret, MPH, former Deputy Commissioner, Connecticut Department of Income Maintenance

* Larry Jackson, former Commissioner, Virginia Department of Social Services

Open Discussion

INTRODUCTORY COMMENTS: ISSUES INVOLVED IN FEDERALISM

Barbara Wolfe, Director, Institute for Research on Poverty
Professor of Economics and Preventive Medicine
University of Wisconsin-Madison

Our discussion today focuses on issues related to **block grants**, broadly defined, as an approach to welfare reform, "welfare" being defined as programs designed to help the poor, primarily:

- AFDC, a federal-state program for poor single parents and children or two-parent poor families with children in which the primary earner is unemployed (costing $25.2 billion in 1993);
- Food Stamps, a uniform federal program to provide food for all low-income persons ($26.3 billion in 1993);
- Medicaid, a federal-state program providing health insurance coverage to groups of the poor, including AFDC recipients, children aged 11 and under, pregnant women, disabled and elderly persons ($132 billion in 1993);
- Supplemental Security Income, a uniform federal program with optional state supplements providing income to disabled and elderly poor persons ($24.2 billion in 1993)
- Smaller programs providing housing ($21.5 billion in 1993), food supplementation, or special education ($9.5 billion on Head Start plus compensatory education in 1993) to particular groups.

The budget for these programs totals $239 billion. The largest program by far, and the one of greatest growth, is Medicaid, which now costs $132 billion, having increased 196% since 1980, as compared to a growth in AFDC of 12%. AFDC accounts for just under 1 percent of federal budget outlays. Figure 1 and Table 1 present more detail on these programs.

Historical Background

Federal grants to states have a long, sometimes troubled, history. They have been in use since the 1700s, when the federal government provided land to states and localities to support education; best known are the donations of land for land grant institutions. After World War II federal grants became a major policy strategy for construction of highways, housing, and urban renewal activities. In the 1960s they shifted toward grants of dollars for services. Beginning in the 1970s, new grants instruments were developed in the form of revenue sharing, which died out in the Reagan years, and block grants.

Block grants have undergone several phases. The view in the Nixon years was that the federal government had grown too large and that more discretion should be given to the states, resulting in Community Development Block Grants, job training programs under the Comprehensive

Employment and Training Act of 1972, and grants for social services under Title XX of the Social Security Act. These programs came under criticisms of excessive and unnecessary spending, lack of effectiveness, and need for regulation. In the 1980s, under President Reagan, a form of trade-off was reached: the states could have less money in return for more discretion. Many who have studied the results believe that the trade ended in less of both. This decline in expenditures is consistent with the experience with social welfare outlays from the time of the Carter administration through the Bush administration: real expenditures on means-tested programs and social insurance (such as Medicare and Social Security) have risen nearly every year, while grant programs have declined. Most of the former are indexed to inflation and so increase when prices increase. For grant programs there has been no similar automatic increase, and presidents and congress can more easily exercise budgetary control over these programs.

The Present System

Under the present federal grant system, there exist 578 categorical (special-purpose) grants, many of them small, and fifteen block grants. This is the highest number of grant programs in history. Most of the money goes to a half-dozen large programs, Medicaid being the largest of all, as shown on the accompanying figures. Figure 2 shows the large number of federal grant programs, and Figure 3 shows the number of block grants. Figure 4 gives dollar expenditures, highlighting payments to individuals, which are primarily for Medicaid. Figures 5-7 show the different types of grants; note the ever-growing share consumed by Medicaid.

Issues Raised by Federalism

Entitlements vs. caps. Most of the current programs are now entitlements--eligibility means payment, regardless of the total spent. If dollar amounts are capped, what will be the effect on recipients? Should discretion be given to the states to end entitlements and determine their own basis for allocation? Or should part of the block grants be mandated to be an entitlement?

Distribution. Formulas are developed to determine the basis for distribution or allocation of grants. Formulas invite the possibility of game-playing, especially with the use of sophisticated computers. (There is a history of federal-state disputes over this in the 1970s.) More serious is the issue of the incentives involved in any distribution formula. Should they reward prior efforts? How should reallocation occur over time?

Federal control vs. local discretion. The balance to strike between the two is difficult and may prove unstable. Regulation is really the only tool remaining to federal agencies, if grants are given according to preestablished formulas. History suggests that over time, more and more of the grant dollars are subject to regulation, such as set-asides.

Administrative efficiencies or inefficiencies: How can duplication be avoided? How can monitoring be conducted so that efficiencies are preserved?

Cost-sharing or matching requirements. Should these be imposed on state and local governments, to ensure maintenance of effort?

Fungibility and cost shifting. What kind of shifting can and should be permitted from one type of program to another? Can there be effective constraints on the use of funds for unintended purposes, while permitting the shifting of funds across block grants in a way consistent with program goals?

Variation. How much variability should be allowed? We wish to create opportunities for initiative and creativity across states or areas. How can differences be taken into account when different results may stem from different political systems?

Legal challenges. Federal-state responsibilities can raise constitutional issues that must be settled in the courts.

TABLE 1

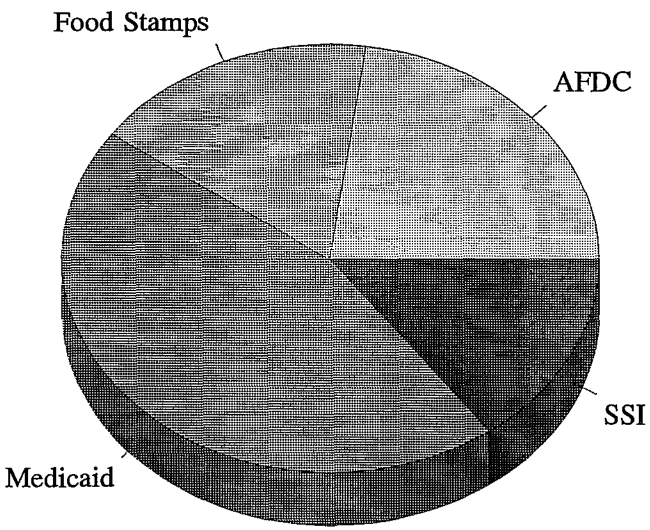
Outlays on Public Assistance, 1993

	Total Expenditures 1993 ($billions)	Cumulative Increase 1980-1993	Share of Total Public Assistance Outlays		Federal Share of Program Costs	
			1980	1993	1980	1993
AFDC	25.2	11.9%	0.23	0.12	0.55	0.55
Food Stamps	26.3	58.8%	0.17	0.13	0.96	0.94
Medicaid	132.0	195.6%	0.45	0.64	0.56	0.57
SSI	24.2	62.1%	0.15	0.12	0.76	0.90
Total	207.7	110.5%	1.00	1.00	0.66	0.66

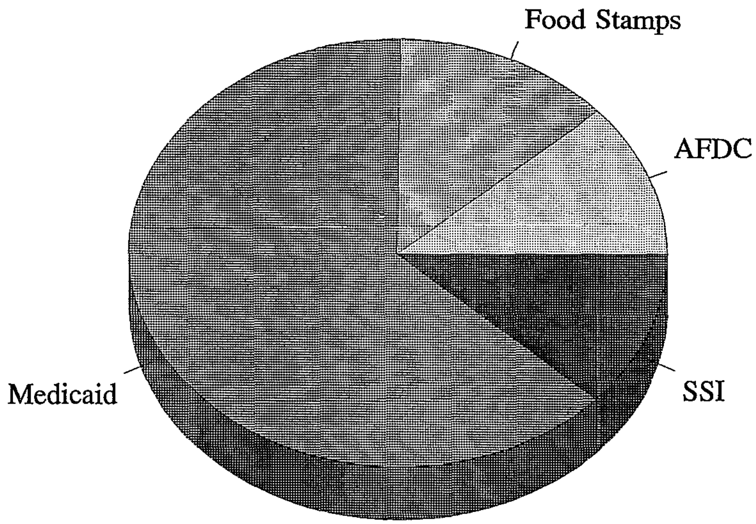
Source: U.S. House of Representatives, Committee on Ways and Means, Overview of Entitlement Programs: 1994 Green Book (Washington, D.C.: GPO, 1994). Deflated using implicit price index for gross domestic product. Some column totals may differ from sum of cells due to rounding.

Program Share of Public Assistance Outlays

1980

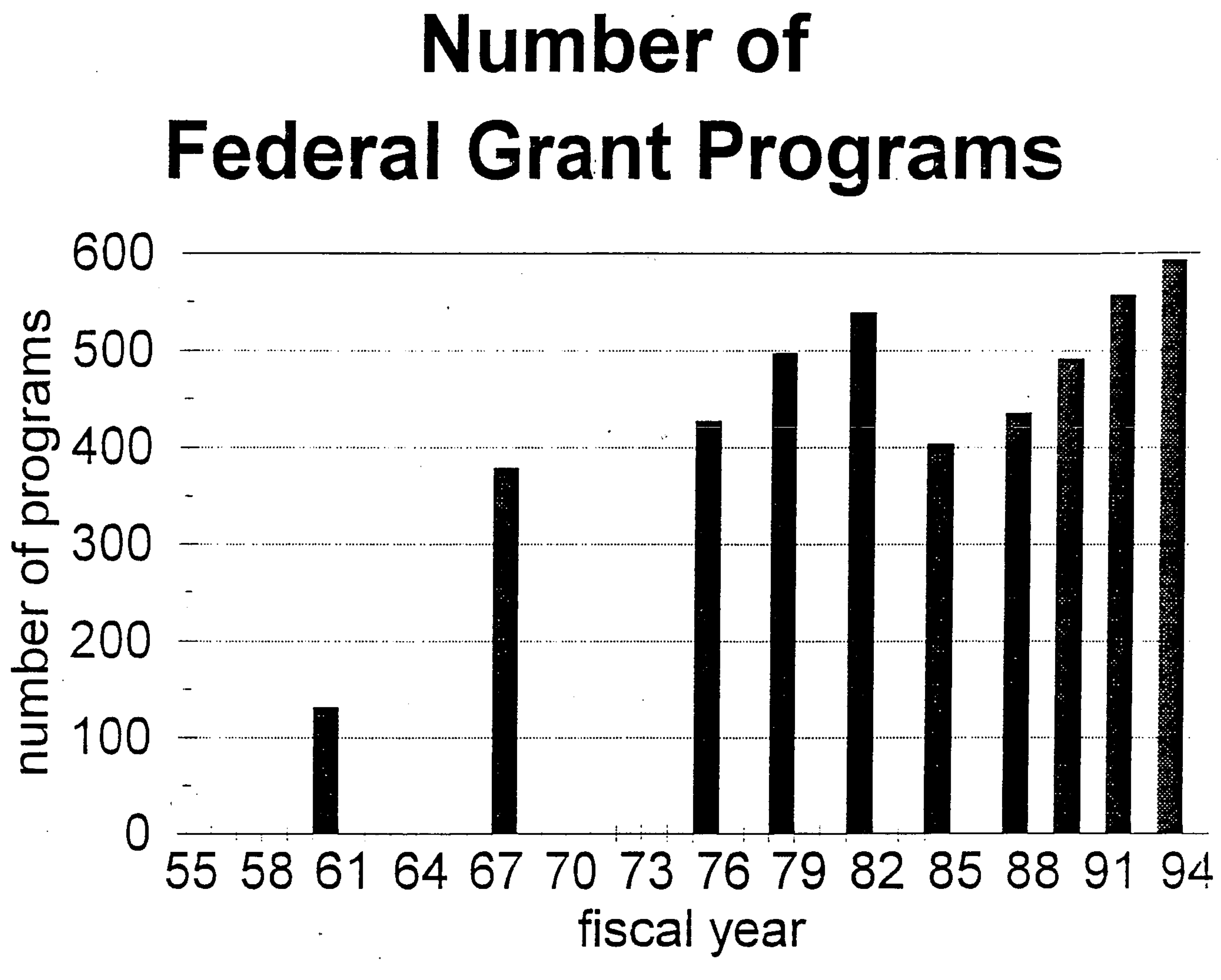


1993



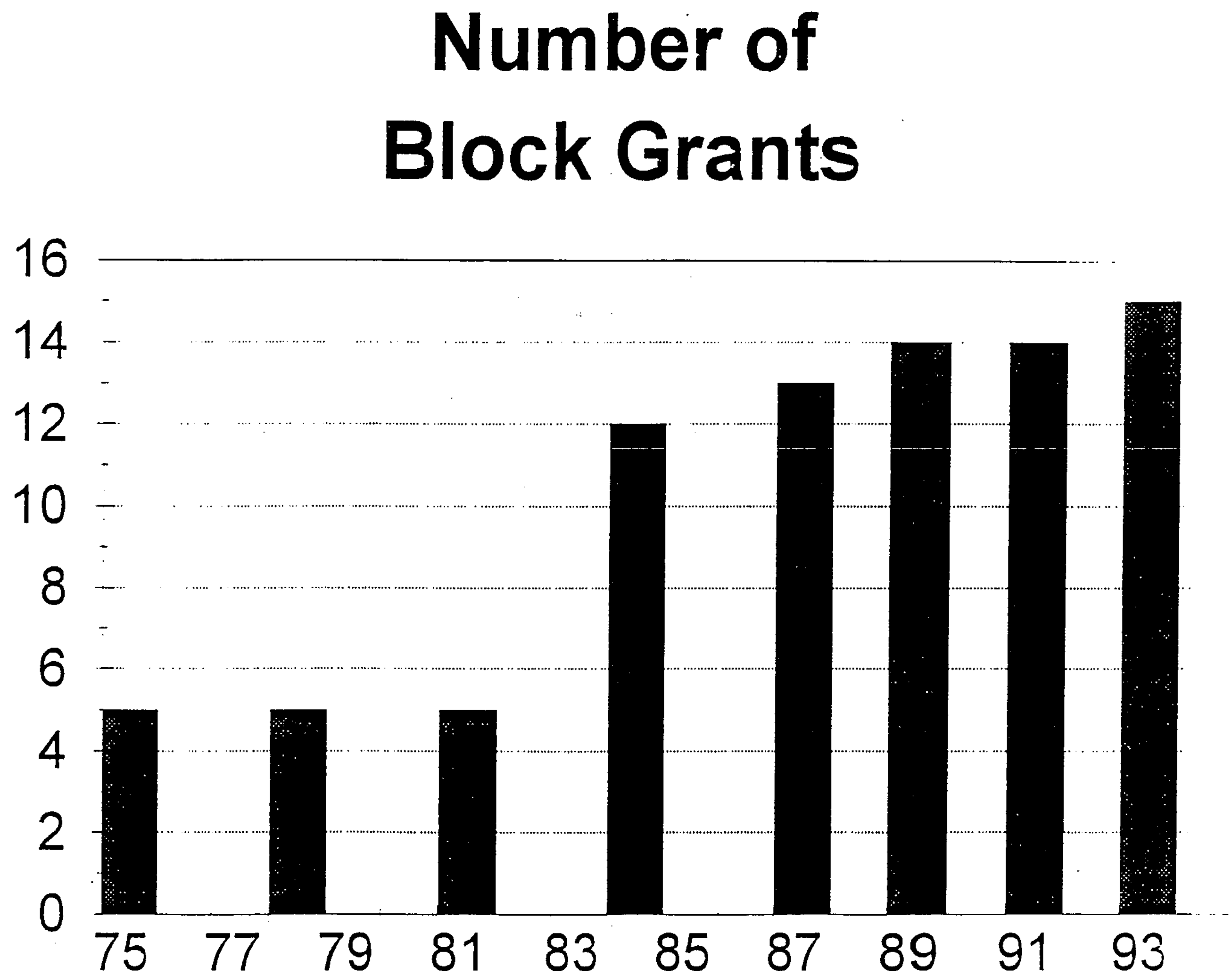
Source: U.S. House of Representatives, Committee on Ways and Means, Overview of Entitlement Programs: 1994 Green Book (Washington, D.C.: GPO, 1994). Deflated using implicit price index for gross domestic product.

FIGURE 2



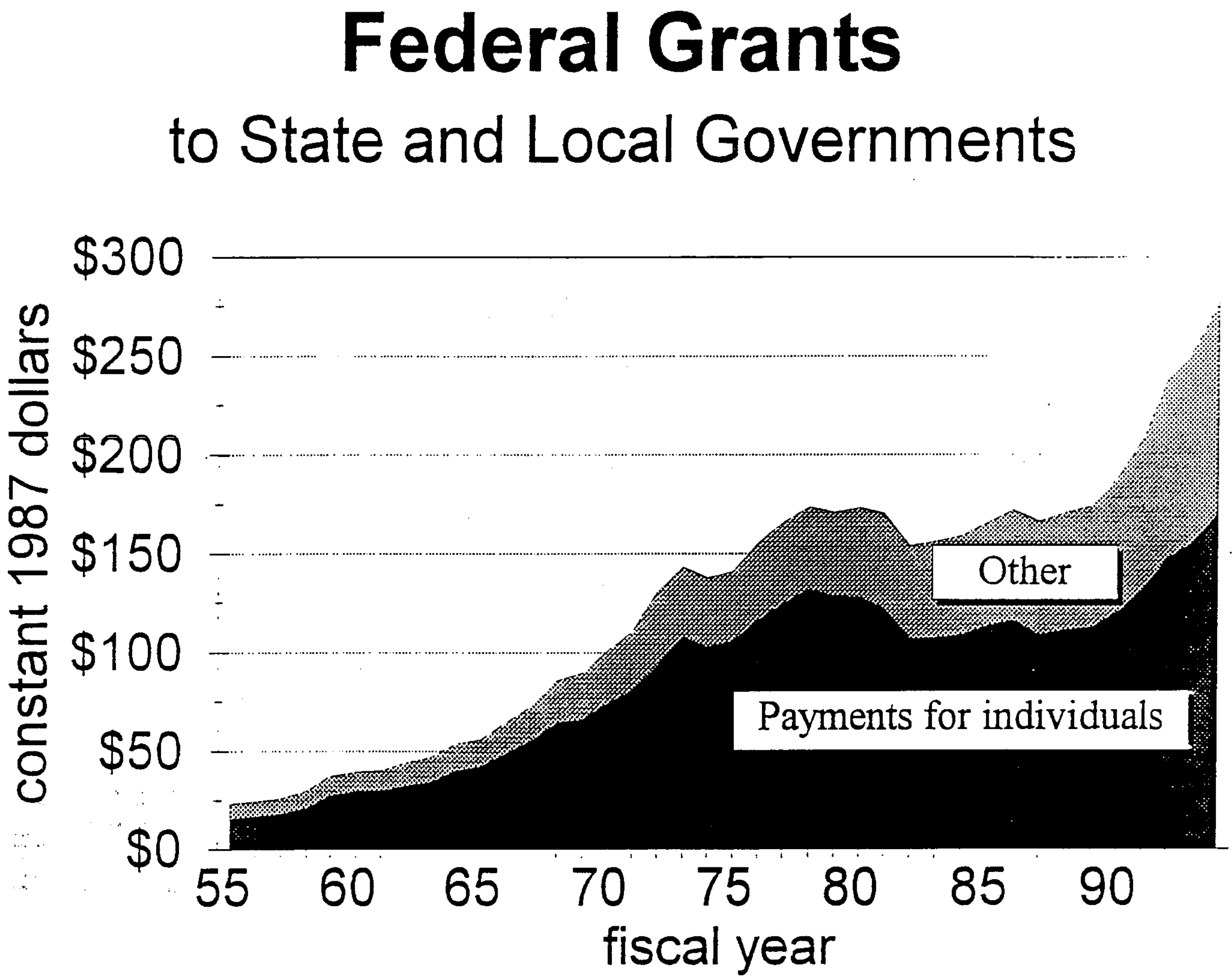
Source: U.S. Advisory Committee on Intergovernmental Relations, "Characteristics of Federal Grant-in-Aid Programs to State and local Governments: Grants Awarded FY 1993" (Washington, D.C.: GPO, 1994), p. 1.

FIGURE 3



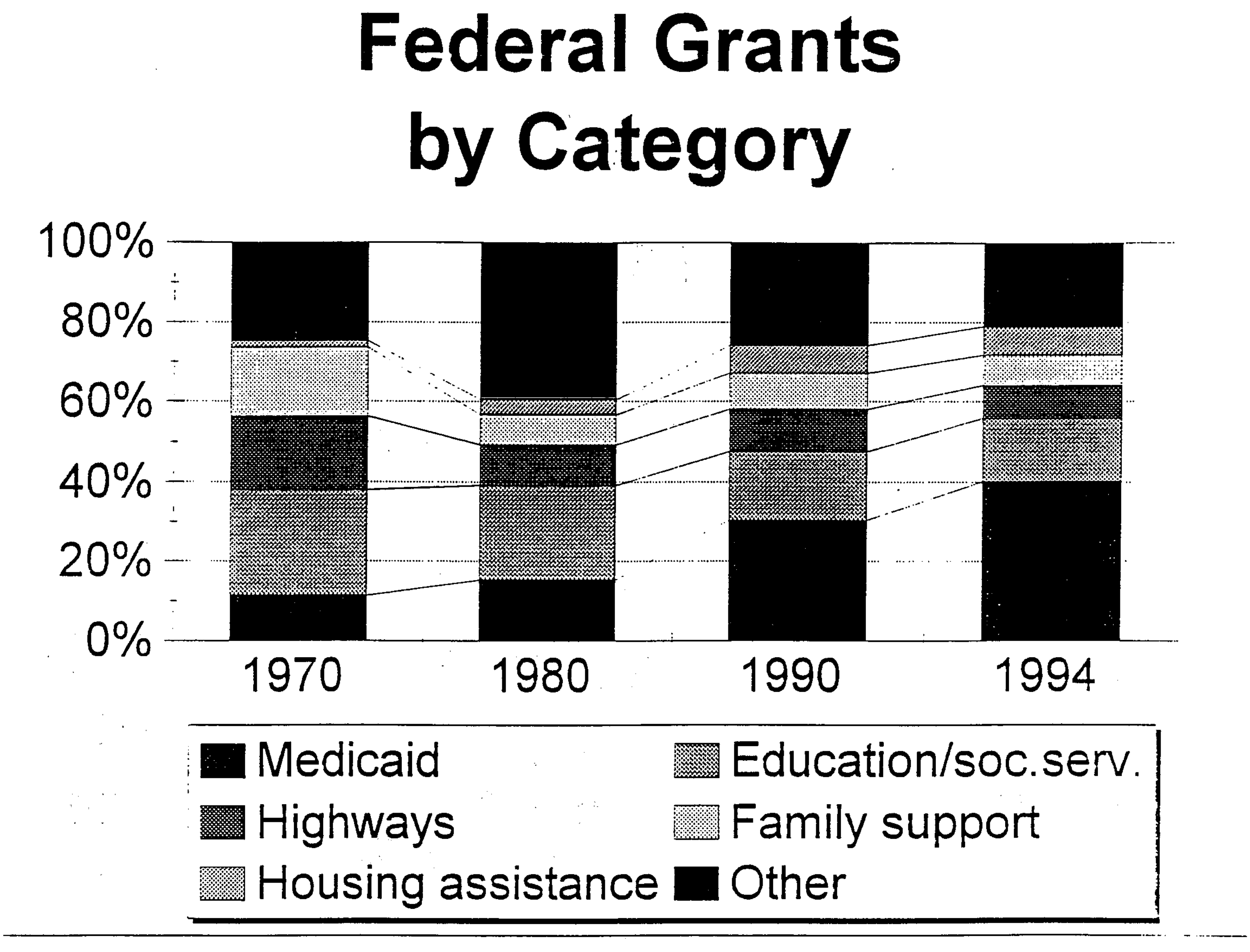
Source: U.S. Advisory Committee on Intergovernmental Relations, "Characteristics of Federal Grant-in-Aid Programs to State and local Governments: Grants Awarded FY 1993" (Washington, D.C.: GPO, 1994), p. 1.

FIGURE 4



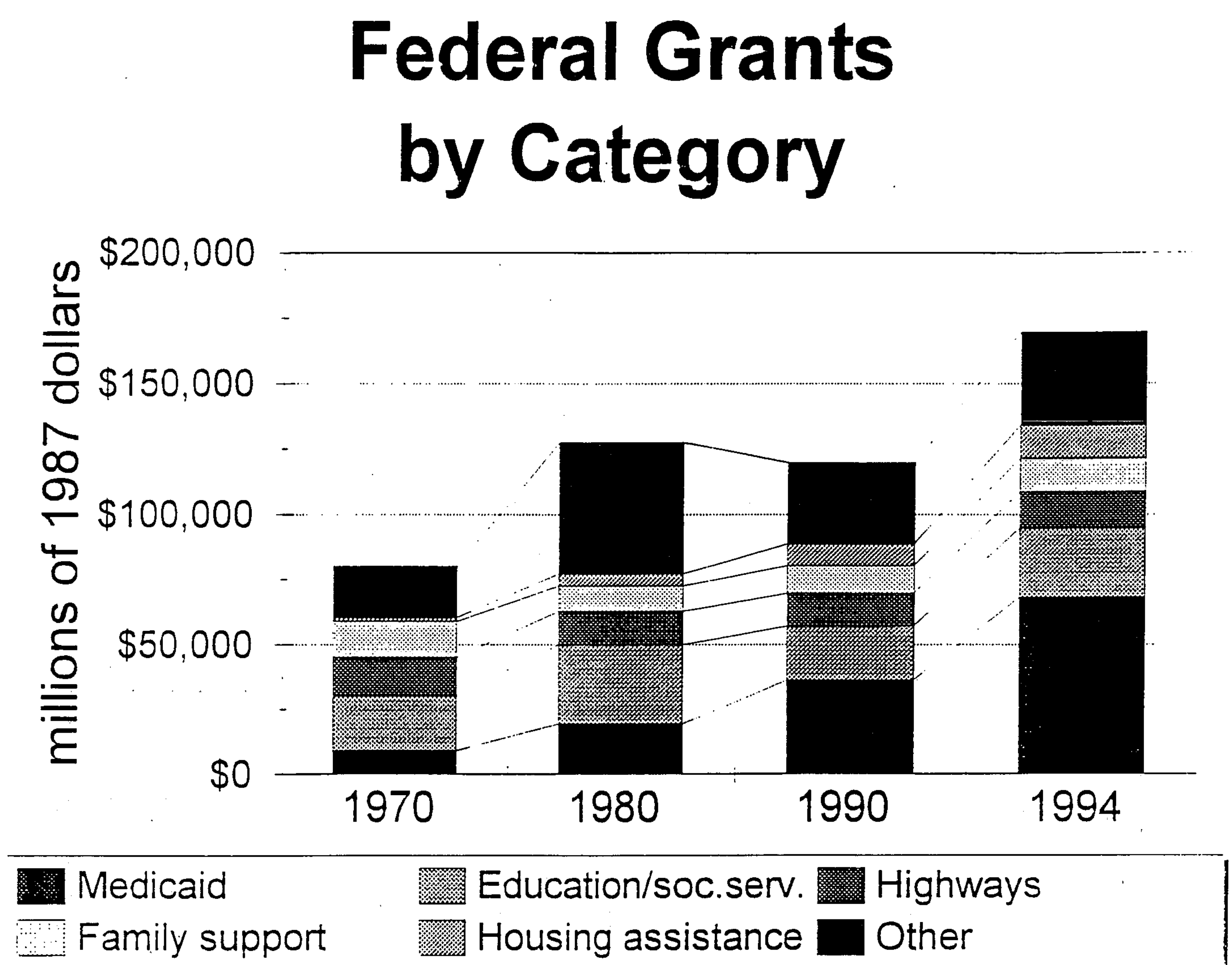
Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, Vol. 2: Revenues and Expenditures (Washington, D.C.: GPO), p. 9.

FIGURE 5



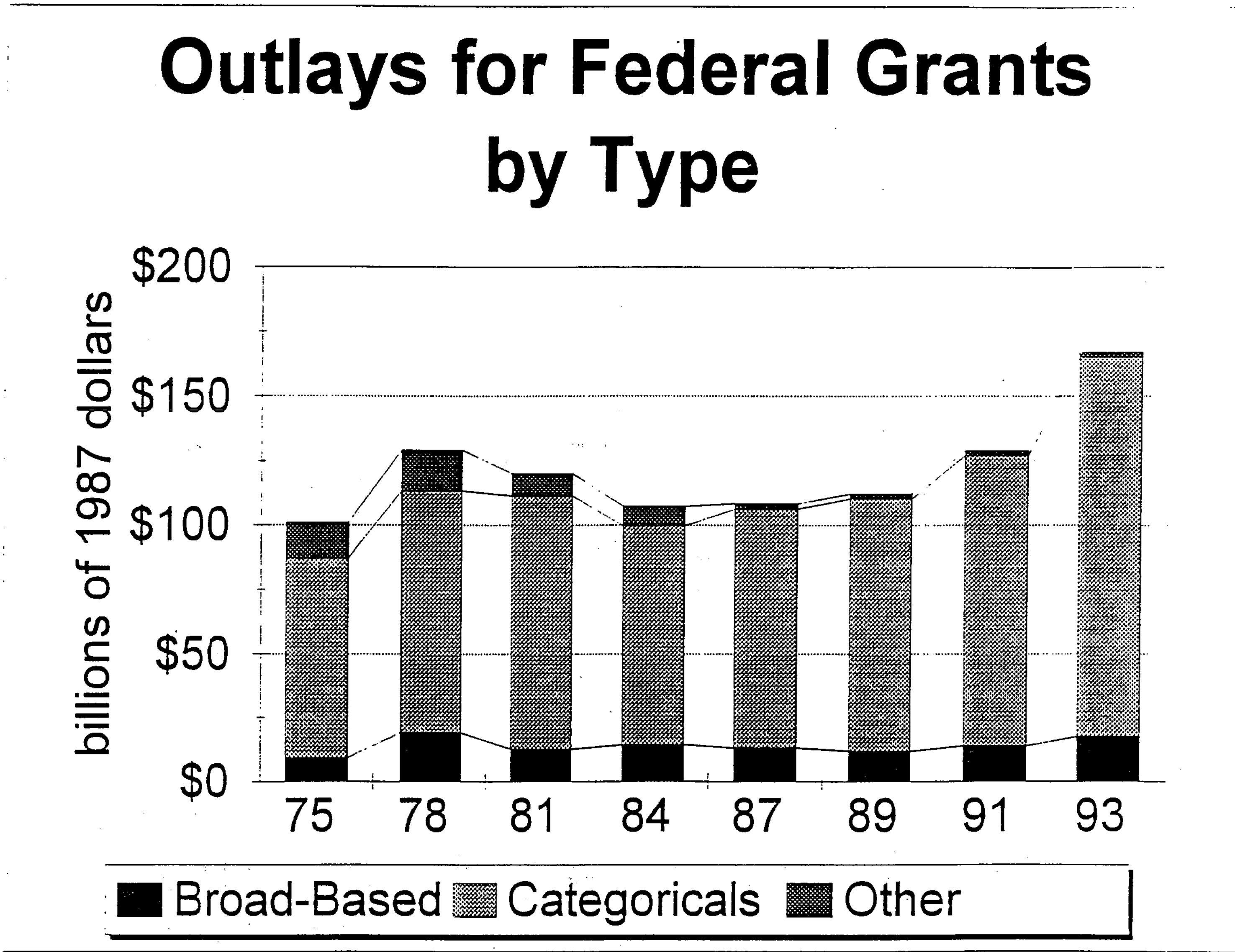
Source: Statistical Abstract of the United States, 1994 (Washington, D.C.: GPO, 1994), p. 300.

FIGURE 6



Source: Statistical Abstract of the United States, 1994 (Washington, D.C.: GPO, 1994), p. 300.

FIGURE 7



Source: U.S. Advisory Commission on Intergovernmental Relations, "Characteristics of Federal Grant-in-Aid Programs to State and Local Governments" (Washington, D.C.: GPO, 1994), p. 6.

WELFARE BLOCK GRANTS: CONCEPTS, CONTROVERSIES, AND CONTEXT

Thomas Corbett, Associate Director, Institute for Research on Poverty, University of Wisconsin–Madison

Interest in dramatically altering the federal-state relationship in the governance of social welfare programs is gaining appeal. Last year, Senators Kassebaum and Kohl, among others, introduced bills that would have transferred considerable authority over these programs to the states. The January welfare summit focused on returning welfare to the states; one recent proposal would convert some 336 programs into 8 block grants.

PROGRAM DOMAIN	NUMBER OF PROGRAMS	RECENT APPROPRIATION (in millions)
Cash Welfare	7	$17,171
Child Welfare	38	4,306
Child Care	45	11,771
Employment/Training	154	24,838
Social Services	33	6,589
Food and Nutrition	10	37,967
Housing	27	17,516
Health	22	5,076
TOTAL	336	$125,234

At present, the federal role in a variety of social welfare and human service program areas is extensive and the amount of money provided to states for a variety of purposes is substantial. In FY 1994, 226 billion federal dollars were provided to states for a variety of purposes:

1. Reimbursement to states for cash payments to individuals:
   a. entitlement programs such as AFDC and SSI; foster care payments through the Title IV-E program.

2. Reimbursement for in-kind transfers to individuals:
   a. entitlement programs such as Food Stamps;
   b. nonentitlement (or sum-certain-budgeted) transfers such as housing programs.

3. Reimbursement to states for payments to certain service providers:
   a. entitlement programs such as Medicaid;
   b. capped expenditures such as Title XX (social service block grant).

4. Up-front grants that are conditioned on:
   a. particular target groups (e.g., AIDS victims);
   b. particular service strategies or goals (e.g., Family Preservation).

5. Seed money for demonstration pilots and programs expected to entail temporary federal expenditures.

Federal dollars currently account for slightly more than one-fifth of state and local spending, most (63%) of those dollars going for payments to individuals.[1] With the dollars comes an interest in how those resources are spent. In brief, the federal government attempts to alter the behaviors and performance in several ways:

- Through **direct orders**, the federal government mandates that other levels of government act in certain ways under threat of civil or criminal penalties (e.g., public employment and environmental protection).

- Through **crosscutting requirements**, mandates apply "horizontally" to all federally supported programs, such as generally proscribing discrimination against those applying for government benefits that are all or partly federally financed.

- **Crossover sanctions** are sometimes used where the penalty for failure to comply with a federal regulation is applied in another program area.

- **Partial preemption** tactics are sometimes used, e.g., when states are notified that federal standards will be developed and imposed on those states that do not issue their own acceptable standards.

- Through a variety of **financial incentives** (e.g., match formulas), the federal government attempts to influence state and local decisions.

PROS AND CONS

All policymaking involves difficult trade-offs. Both sides can summon compelling arguments on their behalf. Discussions surrounding questions about where to vest program authority and financing, about how broadly or narrowly to target program efforts, and about how to balance legitimate entitlements to assistance while remaining fiscally prudent and sensitive to local circumstances are no exception to this general principle. At the core of the issue is a debate over how to safeguard equity and quality through prescription, regulation and some continuing federal oversight and how to simultaneously encourage the exercise of responsiveness, creativity, and experimentation in meeting human needs. Below, we list some of the major arguments on both sides:

Arguments **in favor** of changing the respective roles of the federal and state governments in social welfare programs include the following:

a. The federal government is too far removed from the people and too rigid to best design or manage programs, particularly those designed to change people and communities as opposed to issuing checks.

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[1]The federal share of local spending has been decreasing in recent years (28% in 1980 to 22% in 1994) while federally assisted payments to individuals has been increasing (36% in 1980 to 63%).

b. Decisions made at the lowest feasible level of government will result in the most efficient allocation of resources by permitting easier transfers of funds and attention among programs.

c. Categorical programs are not an effective means for treating multi-problem families or families living in disorganized neighborhoods.

d. It is easier to develop and implement collaborative service interventions models at the local level. The Congressional committee structure and the unwieldy federal bureaucracy make program integration more difficult in DC.

e. Entitlements must be curbed if federal spending is to be controlled and the budget balanced.

f. Less money will be wasted on complying with federal requirements and can be devoted to actual client needs.

g. Giving more responsibility to the states would make those who actually deliver the services also responsible for achieving results. The federal government is not very effective in measuring results.

h. Strategies that are highly targeted (on populations, service strategies, or locations) inevitably create adverse incentives.

i. Federal programs are designed for the lowest common denominator, or the least capable states. Besides, one size doesn't fit all and states "might" improve by competing with one another in a healthy fashion.

Arguments often heard **in defense of** the status quo include:

a. Categorical programs target scarce resources more effectively.

b. Entitlement programs better assure equal access to benefits and minimize abuse of discretion.

c. Uncapped federal expenditure programs tend to stabilize the economy over time and across regions.

d. The federal government is best positioned to reduce inequities across states and ensure equal access to benefits and services.

e. Incremental adjustments can be made easily by adding a new program or expanding/contracting existing programs without negotiating among the host of vested interest involved in a block grant.

f. The current approach makes political credit easier to assign. Politicians can take credit for developing a new program in response to an identified need.

g. Local and state officials can more easily blame higher levels of government for they ways in which resources are allocated and for problems or perceived failures.

h. Arguably, expertise in certain program areas is developed and easier to share if the ultimate responsibility is located in the federal government.

i. If program authority is transferred to the states, federal fiscal support will inevitably decline.

j. State and local governments lack the fiscal and technical capacity to properly manage these programs over the long run.

GETTING THE QUESTION RIGHT

All tough policy issues start with getting the question right, which in part is a question of language. We are confronting not a single question (e.g., where should program authority be vested) but rather a set of choices:

1. **Categorical or narrowly targeted** federal expenditures vs. **aggregated or block** expenditures. Targeted efforts are seen as prudently directing scarce resources to selected populations or to disadvantaged geographical areas. On the other hand this approach may create perverse incentives and result in inefficient allocation of resources.

2. **Open-ended or sum-sufficient** funding formulas vs. **capped or sum-certain** formulas. Open-ended programs mean that federal expenditures will continue to increase as state expenditures increase, avoiding rationing and making planning easier. On the other hand, controlling government spending is seen as more challenging.

3. **Entitlement** programs vs. **discretionary** programs. Entitlements are designed to ensure equitable treatment and provide legal recourse when alleged maltreatment occur. On the other hand, discretionary programs permit the development and implementation of programs that are sensitive to local conditions and preferences.

4. **Outcome and/or process** conditioned federal grants vs. **no-strings** intergovernmental transfers. Specifying federal standards or outcomes of interest purportedly ensures that accountability is maintained when responsibility is devolved. On the other hand, what to measure and how to measure outcomes are difficult challenges, and may be viewed as a way of perpetuating federal control over matters best left to the states.

And there are some immediate problems to be solved:

5. Should the **current value** of expenditures be maintained or should **efficiencies be assumed** and cuts in the federal commitment be made at the start? Some would argue that current spending levels are a proxy for actual need, and that cuts would therefore represent an unfunded mandate to local governments. Others would say that state and local governments could do the same or better job for less.

6. Should that amount be distributed across states based on **current effort** or some measure of **need**? Better-off states often invest more and thus would be rewarded under a formula that weights "current effort" highly. A "need"-based formula would be seen as fairer to some but would apparently penalize those who are trying hard now.

7. Should steps be taken to **guarantee the real value** of the grants over time (**and on what basis**) or should future expenditure levels be **politically determined**? To guarantee the real value over time makes the block grant a form of entitlement, which may be viewed as problematic. It also may make balancing the federal budget that much more difficult down the road. On the other hand, there is reason to believe that the value of the intergovernmental transfers will erode over time, resulting in a shift of fiscal burdens to state and local governments.

THINKING IN THE LONGER TERM

Those choices are difficult enough; much of the debate surrounds real or imagined outcomes <u>over the long term</u>.

a. **Interstate dynamics**. The new environment is likely to spur interstate competition. Some of that competition may be healthy. Witness the number of waiver requests of DHHS to implement welfare reform demonstrations. Some of the competition may not be healthy and may constrain state choice. States have always been able to set AFDC guarantees. Since 1970, fear of interstate welfare migration (among other things) has resulted in the AFDC guarantee in a typical state losing half of its value. Without the federal government acting as interstate leveler of sorts, a role played particularly well by the Food Stamp program for example, states may further fear being more generous than their neighbors and risk-taking might actually be reduced.

b. **Intrastate dynamics**. It is plausible to assume that the demand for some services and benefits is greater simply because the program exists. That is, absent a mandate from a higher level of government, some demands for help either would be reduced or satisfied through a more effective and efficient allocation of resources. In many ways, this remains an unanswered empirical question since we do not have a good counterfactual to observe. If need does not disappear and states continue to look for budget cuts, then:

- Program and funding authority may be further devolved to the local (county or municipal) level. Those needing services might become more concentrated and those best able to pay the taxes to support human services will relocate to other nearby communities areas (where feasible). This can exaggerate inequities in how social problems are distributed across localities and burden the fiscal capacity of some jurisdictions. A form of interjurisdictional competition within states might develop.

- The well-being of children and families is the real outcome of interest in many social programs. Welfare is only a strategy for providing assistance. In fact, it is a relatively cheap, if flawed, intervention. State and local governments may find that retrenchment with respect to this particularly unpopular strategy may result in the shift of disadvantaged children from the welfare rolls to more expensive treatment modalities, the child welfare system or substitute care arrangements. Even if more effective and humane, it may prove difficult to finance these alternatives.

c. **Macro-economic dynamics**. Entitlement programs with open-ended funding have played an important role in smoothing out macro and regional economic cycles. When the economy declines, they tend to automatically pump transfer money to those in need and sustain demand; when the economy improves, such spending tends to fall. Under block grants with no entitlements and capped federal commitments, states may feel pressure to further constrain spending as local economies and tax revenues decline in recessionary periods, exacerbating the downside of the economic cycle.

d. **Interconstituency dynamics**. Depending on the number of programs bundled into the blocks and the proportion of resources that continue to come from federal sources, the venue of political disputes over shares of the fiscal pie likely will shift to state-local levels of government. In many ways, the federal government now establishes a rough framework for allocating scarce resources across petitioners for help (from developmentally disabled children to working mothers needing child care). These disputes may intensify and be played out more fully at the state and local levels of government. This will either result in a more equitable and efficient distribution of those resources or crush local governing bodies with a whole new set of issues to decide.

e. **Long-term budget pressures**. Maintaining the real value of block-grant and revenue-sharing schemes over time has been problematic in the past. The requirements of individual groups are not as visible when expenditures for many groups are aggregated. This can be viewed as an effective cost-containment strategy or a problem where more powerful constituent groups prevail irrespective of actual need. Future budget realities render capped, nonentitlement human service block grants to states even more vulnerable to cuts in federal support than they may have been in the past. Balancing the national budget is expected to require $1.2 trillion in cuts in the relatively near future. Some of the tax breaks being discussed will require that several hundred billion more in savings be identified. The national debt has to be serviced (16% of federal spending), and social security and defense are off the table at present. That leaves few areas of the federal budget left to find the savings needed to achieve these other worthwhile goals. Worse, in about two decades the Social Security Trust Fund will begin to run a deficit as the baby boomers reach retirement. The search for places to cut will be relentless and a block grant will be an available target.

SOME OPTIONS

Policy choices often are posed in either-or terms: We must stay with the current system or create an entirely new relationship between the federal and state levels of government. Some intermediary options might be discussed:

a. <u>Challenge grants</u> might be explored as an option. These would be competitive block grants that are distributed both on the basis of need and on the quality of the state and local program. Some of the qualities that would be weighted heavily include whether a program is market oriented, whether it empowers communities, whether the model builds in competition and choice, and whether results are measured.

b. The <u>waiver process</u> might be overhauled. Currently, the Secretary of DHHS has limited waiver authority to permit states to innovate and experiment. With rare exceptions, states approach the federal government and petition for a waiver. Sometimes the negotiations are adversarial in tone and some good ideas have difficulty because other departments do not have the same authority. It might be time to examine the whole waiver concept, expand the number of executive agencies with such authority, encourage the federal government to be a partner, and move some of the evaluation and monitoring responsibilities outside of government where they might be less political in character.

c. The X-percent solution would permit states and local governments to use a portion of their categorical grants for whatever purpose they choose, perhaps within broad guidelines. It is feasible that a strategy could be developed to start with a reasonably small percentage and expand the percentage over time.

d. The high-needs strategy would maintain the basic categorical grant approach with strong federal oversight for most jurisdictions. Some particularly challenging areas might be treated differently and afforded much more latitude. This might be some version of an enterprise/empowerment zone approach or a neighborhood control approach.

e. The performance-partnership strategy would consolidate a number of programs within executive agencies, establish performance incentives, enhance local flexibility, introduce stricter measures of local accountability, and generally devolve the locus of responsibility to lower levels of government.

f. The mix-match strategy would make selective choices from those presented earlier. For example, it is often assumed that when categorical programs are aggregated into blocks, the funding for the block is capped. It is possible to aggregate programs, thereby allowing easy funding transfers within blocks, and design flexible funding levels.

Other strategies clearly are possible but these are offered to stimulate a broader discussion.

HISTORICAL NOTES

The proper relationship between federal and local levels of government has been a matter of ongoing concern. We still argue the meanings of the 1st and 6th articles of the Constitution, which appear to give Congress and the Supreme Court considerable powers, and the 10th amendment to the Constitution, which appears to constrain those powers. The following describes an evolving relationship:

During the **dual federalism** period (1787-1913) there was more clarity concerning the powers reposed in the national government and those reserved to the states. During the **cooperative federalism** period (1913-64), world conflict and economic challenges led to increasing federal government help to states. During the more **centralized federalism** (1964-80) period, the federal government was more active in setting national policy goals and in pursuing those goals. Since 1981, some have concluded that we are in a **new federalism** period, when a more reasonable balance between national and local responsibilities is being sought.

Federal grants to states have been used since the 1700s, when the federal government provided land to states and localities to support education. The modern federal grant program might be traced back to 1887 when federal support was first provided for state and local agricultural extension services. Additional programs were launched near the end of the Progressive Era (1914-21) in the areas of maternal and child health, vocational education and rehabilitation, and physical infrastructure (e.g., highways).

The depression of the 1930s led to new federal programs that were to be administered through the states, many of which were considered countercyclical and temporary in nature (FERA, CCC, CWA, PWA, and so forth). The Social Security Act of 1935 altered the federal-state distribution of responsibility. It was designed to be permanent in nature and preventive in approach. Smaller, and largely unnoticed, provisions of the Act established categorical aid programs for impoverished mothers and other groups not expected to work (the blind).

In 1949, the Hoover Commission called for reform of what had become the established practice of federal provision of categorical grants. President Eisenhower also called for reform in 1955. Yet the number of grant programs crept upwards. For example, Eisenhower established a match formula (50% rate) to encourage states to provide social services to welfare recipients.

The 1960s saw an explosion of grant programs and the beginning of serious efforts to alter both the categorical nature of the programs and the distribution of responsibility and financing across federal, state, and local levels of government. Between 1960 and 1968, the number of categorical programs and projects increased from 132 to 379. The Great Society era was a particularly fertile period for new programs designed to rehabilitate the poor, lower barriers to opportunity, and empower impoverished communities.

Expansion was accompanied by reform efforts. The Office of Economic Opportunity (OEO) was located in the White House in an attempt to coordinate poverty-reduction efforts across executive agencies. The Model Cities (1967) program was one attempt to allocate federal dollars directly to the affected communities and to foster collaboration at the local level. And the process of bundling narrowly targeted programs into larger bundles began with the creation of health block grants.

The 1970s saw renewed efforts to move away from categorical grants. For example, the Department of Health, Education, and Welfare (now DHHS) carried out a number of experiments in service integration designed to coordinate the delivery of services and to allocate resources at the local level in ways responsive to local needs. State fiscal claims on Washington for the provision of social services soared, from several hundred million dollars at the end of the 1960s to an expected $4.5 billion in 1973. In response, the Title XX block grant program combined and capped spending on a number of categorical service programs. The Community Services Block Grant (CSBG) and the Comprehensive Employment and Training Act (CETA) were also efforts to consolidate program efforts and devolve decisionmaking to lower levels of government. The biggest change was the introduction of General Revenue Sharing in 1972. Federally collected revenues would be returned to the states with virtually no constraints. The official rationale was to "return power to states and local governments." President Nixon proposed in 1973 to cut and consolidate some 100 existing programs. President Ford established the Domestic Council Review Group on Regulatory Reform, a body whose initial work laid the groundwork for important reductions of federal regulatory control under President Carter (e.g., transportation).

On the other hand, the 1970s witnessed an expansion of federal power. Nixon proposed what amounted to a guaranteed income to families (the Family Assistance Plan). Though it failed, welfare for the blind, disabled, and aged poor was essentially federalized in the SSI program and Food Stamps were mandated throughout the country. AFDC became more of an entitlement in this period (late 1960s and early 1970s), subject to increasing oversight by the courts and the federal government. Many on both sides of the ideological spectrum argued that an "incomes solution" to poverty was more consistent with a minimalist approach to government. Giving people money was seen as less costly and intrusive relative to the service intensive and moralistic approaches to welfare that had recently dominated welfare administration.

President Carter also proposed a national welfare reform, the Program for Better Jobs and Income. The era of "solutions from the center" was drawing to a close, however, and it had little chance of passage. He did launched an Interagency Eligibility Simplification project to coordinate and streamline program rules and procedures, an effort that was replicated a little over a decade later.

President Reagan called for a massive retrenchment in federal regulatory behavior in order to "get government off the backs of people." By some standards, success was achieved. In 1982, some 77 categorical programs were aggregated into 9 block grants and the total funding cut by about one-quarter. While federal aid to states and local governments had been increasing at an annual rate of 17 percent in real terms during much of the 1960s and 1970s, the level of assistance dropped by 18 percent between 1980 and 1986. Despite this, regulatory oversight continued to increase in some areas: 140 regulatory changes were identified in eighteen policy areas, adding a total of 5,943 requirements, including a net increase of 4,702 additional program standards and 1,241 new or revised administrative procedures.

Reagan also called for a new federalism and devolution of authority for welfare to the states. A key proposal would have given the main welfare programs to the states in exchange for fully federalizing Medicaid. The outcome was the provision of some greater flexibility to the states. Later in the 1980s, states were encouraged to exploit the waiver authority vested in the Secretary of DHHS to experiment with changes to the welfare system. The Low Income Opportunity Board, later the Economic Empowerment Task Force, was created to facilitate the waiver and experimentation process. Finally, the Family Support Act (FSA) of 1988 changed the welfare system through a combination of new federal requirements tempered with the provision of state flexibility in key areas.

The 1990s witnessed an increase in state experimentation. By 1994 over half the states had secured waivers of welfare rules. By some estimates, 80 to 90 percent of the states might have a waiver by the end of this calendar year.

Yet by some measures little change has taken place. The decade began with 557 federal grant programs. Though different counts will come up with different distributions, 75 means-tested programs were identified in 1988, 77 small-grant programs for children and families existed in 1991, along with 100 social service programs.

The recent efforts at reform of federal grant programs, which might be traced to the 1949 Hoover Commission, have had mixed results. Several attempts to consolidate and bundle up programs appear to have been offset by the creation of new, targeted programs or set asides within expenditure areas. And where federal dollars are provided to states with few if any strings attached, such transfers appear vulnerable to reductions in federal support over time. Inflation adjusted Title XX expenditures (a social service block grant) fell by 58 percent between 1977 and 1994. The desire to move programs closer to the people has proved to be complicated indeed.

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BLOCK GRANTS, INTERSTATE COMPETITION, AND WELFARE MIGRATION

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What are the probable effects of changing the financing of welfare benefits from a matching grant to a block grant? What do we know about the determinants and magnitude of welfare-induced migration flows?

Current Knowledge Concerning Migration

Aid to Families with Dependent Children (AFDC) and Food Stamps account for 80 percent of the income support available to poor families. Attempts to gauge the effect of welfare on migration flows have centered on these two programs. All models of migration predict that conditions in *both* the sending and receiving destinations determine migration flows; the fact that there is a *difference* in these conditions matters more than the magnitude of the differences. High welfare benefits are assumed to *attract* and *retain* poor households. The image summarizing these effects is that of a magnet; a state such as Wisconsin or California offering high welfare benefits relative to other states is labeled a "welfare magnet." Separating the influence of these effects from all the other reasons people move has been the analytical challenge facing researchers.

The available evidence suggests that welfare magnets exert very little force on poor households. Migration flows from data in the decennial Census reveal no support of welfare magnet effects: migratory responses by poor young women are as likely to disagree as they are to agree with the conjectured forces of welfare magnets. When they do agree, responses are weak and never statistically significant. The data provide no strong evidence that welfare magnets have either an attractive or retentive force. The largest estimated effects are from direct interviews of migrant households, and even these interviews tell us that a only small percentage of poor households moving into a high-benefit state consider welfare benefits when deciding where to live. Since these responses are for households who recently made an interstate move and were currently on welfare, it is likely that this evidence overestimates the influence of welfare benefits. In sum, the empirical evidence indicates that the magnet forces are either nonexistent or small, and no analysis suggests that these forces are large.

The importance of *relative* differences that influence migration applies most forcefully for understanding flows of undocumented immigrants from Mexico and Asia. The large difference in earnings opportunities between the United States and the sending countries is the dominant source determining immigrant flows. As long as extreme differences in economic conditions persist between the United States and the sending countries, cutting or eliminating public benefits to these illegal immigrants will have little or no effect in reducing flows of undocumented immigrants.

Concern over welfare magnets remains a public issue for reasons separate from the empirical evidence. Why does the issue persist? The public debate has centered on whether welfare benefits influence household location decisions. The theory is simple, intuitive, easy to communicate and at least for some households *must* be right. It is much harder to reach consensus on exactly how many households are so influenced. Moreover, the available data give a distorted view of the incentives facing poor households. While information on potential benefits is readily available from state benefit schedules, migration costs are mostly hidden and vary from household to household. Low-income households are more likely to operate in informal markets—i.e., to exchange information and other resources among family members, friends and neighbors, and acquaintances. These exchanges require more information about trading partners and place heavy reliance on the family and social network of the individual. Moving generally destroys this information, so the value in moving is the difference in benefits less the increased cost resulting from the loss of the social network.

Influence of Block Grants

Although specific responses to a block grant system will depend in large part on the details of the legislation, some general comments can be made on the probable effects. Let us consider the likely reactions of the primary groups of actors: individual recipients and state (and local) officials.

The expected response by recipients depends on whether the change in financing increases or decreases the difference in benefits between states. During the last twenty-five years the average difference in combined AFDC and Food Stamp benefit levels decreased by 55 percent. For reasons described below, I expect that a state block grant system will continue the trend of more uniformity in state benefit levels. Under these circumstances, I expect that the currently small welfare-induced migratory flows will become even smaller.

Whether benefit levels become more or less alike across states depends on the behavior of state officials. How will a block grant system affect their incentives? Most important, a block grant system will change the cost of supporting a low-income household. Under the current system, federal matching funds are available to support all households. For example, current federal eligibility rules require that the Food Stamp program recognize income available from such sources as AFDC, while the rules governing AFDC do not require the recognition of Food Stamp benefits. Hence, a dollar reduction in state AFDC benefits is partially offset by an increase in Food Stamp benefits; so a dollar reduction in AFDC leads to less than a dollar reduction in total cash benefits to the poor household. Since the mid-1970s, states have been able to use these rules to shift a greater burden of support of the poor on to the federal government, and their doing so led to the increased uniformity of benefit levels mentioned above. With a financing change to a block grant system in which states are responsible for both AFDC and Food Stamp benefits, the cost of an additional welfare recipient (a state native or otherwise) will be increased. It is likely that competition among programs within each state will induce a reduction from the higher priced welfare programs. Moreover, competition among the states, as no state wants to set benefit levels much higher than one's neighbors, will lead to a further reduction in the difference in welfare benefits among states.

For states (such as New Jersey and Wisconsin) that lie near a large out-of-state population center, the ability to set their own benefit levels will increase the use of different benefit schedules for native and recent migrants to the state. While seemingly attractive as a means of economizing on benefits and a way to stem the flow of poor households into the state, these administrative systems require identification and *verification* of prior residence and may entail significant administrative costs. Given the evidence on the small immigration of poor households, between households, I doubt that the added administrative costs to maintain such systems will be cost effective.

In light of the small interstate flows of poor households and the increased uniformity of benefit levels across states, it appears that the competition for resources *within* each state, not the competition *between* states, will be the primary determinant of the well-being of individuals and the cost effectiveness of the block grant system.

THE FEDERAL ROLE IN CHILD WELFARE SERVICES

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Although child welfare remains the primary responsibility of state and local government, since the 1960s the federal government has played an increasing role in providing funding and regulating the provision of child welfare services. Because the ways in which the federal government is involved in child welfare are complex, attempts to combine federal public assistance or child welfare programs into one block grant must take into account the varying and even conflicting goals that existing programs seek to achieve.

Foster Care

Federal assistance to states for maintenance payments for children placed out of their homes by a child welfare agency was first provided in 1961 under the old Aid to Dependent Children (ADC) program, now known as AFDC. The federal role results from recognition that some states were denying ADC payments to children after determination that the child's home was "unfit." The 1961 regulations required that states either continue ADC payments while trying to improve the home conditions or provide out-of-home care. Federal financial assistance was only available for placement of children who had received ADC in the month preceding. Later amendments moved the foster care program to a new Title IV-E of the Social Security Act (1980), made the program permanent, made it mandatory, allowed for payments to children in private and nonprofit institutions, and expanded eligibility to children from families eligible for AFDC, regardless of receipt at the time of placement. Title IV-E foster care is a government program that takes over primary childrearing responsibilities from poor parents on the assumption that government can and must do better.

Child Maltreatment

During the 1960s and early 1970s, state legislatures began to enact child abuse reporting laws. In 1974 Congress passed the Child Abuse Prevention and Treatment Act (CAPTA, Public Law 93-247), providing federal financial support to states that developed programs for preventing, identifying, and treating child abuse and neglect. States which receive assistance must enact child abuse and neglect reporting laws that require various professionals (e.g., teachers, physicians, social workers, psychotherapists) to report suspected incidents of child maltreatment to law enforcement or child welfare officials. This federal legislation, in the process of drawing attention to the problem of child maltreatment, has also done much to increase the "demand" for child welfare services, including foster care. The continuing bipartisan political support for CAPTA reflects the strong American tradition of "child saving."

"Reforming" Child Welfare

By the late 1970s, interest in finding adoptive homes for hard to adopt or "special needs" children in foster care (e.g., ethnic minorities, older children, children with disabilities), along with the perception that many children were being placed inappropriately in foster care or spent inordinate time in the system, led to demands for reform, resulting in 1980 in the Adoption Assistance and Child Welfare Act (Public Law 96-272). This law changed the federal role in child welfare services. Procedural and programmatic requirements were placed on the states if they were to receive full federal financial participation in the Title IV-B Child Welfare Services program and the Title IV-E Foster Care program. Among the requirements: a statewide information system and inventory of children in foster care, a preplacement preventive services program providing "reasonable efforts" to prevent child placement, procedural safeguards regarding child removal and placement, a detailed case plan for every child in care, standards for care emphasizing placement in a "least restrictive" environment, in close proximity to parents, and with kin when possible, judicial or administrative case reviews done every six months and a dispositional hearing within 18 months of a child's placement, and services to reunite children with their families or find another "permanent" placement.

The focus on "permanency planning" in the 1980 law calls for prompt action to maintain children in their own homes or place them in permanent homes with other families (preferably guardianship or adoption). It reflects our tradition of preserving families.

Foster Care by Kin

In 1979 the U.S. Supreme Court ruled in *Youakim v. Miller* that relatives of children placed in out-of-home care are eligible for the same federal foster care reimbursement as unrelated foster parents. As long as a child is eligible for AFDC and the home of the relative meets the state's licensing requirements, the state must pay the caregiver the foster care rate. If the child does not come from an AFDC-eligible family, then a kin provider is only entitled to reimbursement at the (lower) AFDC rate. Practices vary widely from state to state and within states as a result of state legislation, administrative regulations, legal decisions at the state level, and informal policies of child welfare agencies. For example, at least 16 states pay kinship care providers at the foster care maintenance rate regardless of whether a child comes from an AFDC-eligible home, while others appear to actively discourage kin from seeking foster care reimbursement and licensing. Some states considerably relax licensing standards for kinship foster homes; others make no special effort on behalf of kin.

Kinship care did not become a major placement resource until the foster care caseload explosion of the late 1980s. The fact that kinship care is consistent with the mandate of Public Law 96-272 to place children with family members made it an attractive option when caseloads began to rise at the same time that the number of available foster family homes was declining nationally. Some estimates suggest that kinship care now accounts for about 30 percent of all court-ordered substitute care in the United States, but the proportion is closer to 50 percent in the several large states (e.g., California, Illinois and New York) that make up the bulk of the foster care caseload. Even these estimates may be low, depending upon how kinship care is defined. Some states appear to be diverting abused and neglected children away from their foster care systems to the homes of relatives who are paid AFDC benefits and given minimal supervision by the juvenile court and child welfare agency. Even though these children do not appear on the foster care rolls of these states, they are at least nominally under the protection of Public Law 96-272.

Welfare Reform

Comparisons of growth of the federal foster care program and AFDC dramatically demonstrate the need to consider how welfare reform will affect the foster care system. Between 1983 and 1993, the average monthly number of Title IV-E eligible children in foster care grew by 149 percent, from 93,360 to 232,668. Over the same period, the average monthly number of children receiving AFDC grew by 35 percent, from 7.1 million to 9.5 million.

Although AFDC caseloads still dwarf federal foster care caseloads, the costs of the two programs are rapidly converging (see Figure 1). Federal expenditures on foster care maintenance payments and administration were $309 million in 1981, when federal AFDC benefits and administration costs were $7.76 billion. Under current law (without welfare reform), the Congressional Budget Office estimates that by 1999 federal AFDC expenditures will increase to $16.43 billion and federal foster care expenditures will grow to $4.38 billion. Thus, while the ratio of AFDC costs to foster care costs was 25 to 1 in 1981, it may well decline to less than 4 to 1 by 1999.

Differences in the per-child costs of the programs are particularly striking. Dividing total costs by the average monthly caseload, the federal government spent about $10,947 per child on foster care maintenance and administration costs in 1993. In contrast, it spent about $975 in 1993 for each recipient of AFDC. In short, it now costs the federal government over 11 times as much per person to provide foster care as to provide AFDC.

How will welfare reform affect the foster care system and child welfare services in general? Clear answers are impossible, given the limited data on federal and state child welfare programs and their relationship to AFDC. Although we have virtually no evidence regarding the relationship between a large-scale termination of public assistance benefits to families and subsequent child maltreatment, it is virtually certain that there will be some impact across these systems and that the impact will vary greatly depending on the nature of reform.

It is necessary to appreciate the current crisis in child welfare services. Child maltreatment reports are the most concrete indicator of "demand" for child welfare services; they must be responded to by child welfare authorities and they are the entry point to substitute care. The number of these reports nationally has tripled since 1981, reaching approximately 3 million last year. Over the same period (see Figure 2), federal child welfare services spending (Title IV-B) grew by only 14 percent after inflation, and Title XX Social Services Block Grant spending (an unknown amount is spent by the states on child welfare) declined in real terms. The deluge of child abuse reports in an era of stable or declining resources has placed child welfare systems under great stress. Several child welfare jurisdictions have lawsuits pending against them owing to their apparent failure to carry out basic child welfare service functions, and others are already operating under court decrees.

The vast majority of children in substitute care come from single-parent homes; about half come from AFDC-eligible families. Poverty is the best predictor of child neglect--the primary reason for child placement--as well as a strong predictor of other forms of child maltreatment. Welfare reform efforts which eliminate or significantly reduce economic support for poor families will lead to an unpredictable increase in child maltreatment, and a corresponding increase in demand for child welfare services, including foster care. The expansion of work requirements in the absence of the provision of adequate child care may also lead many AFDC recipients to end up neglecting their children to the point of endangerment.

Increased demand for child welfare services as a result of welfare reform would have human as well as fiscal consequences. It is reasonable to expect that many if not most poor parents affected by program cuts will attempt to raise their children by any means necessary. Only when their failure results in a child maltreatment report will the current child welfare system even begin to intervene. Many children may suffer considerable harm before such a report is made, and even the filing of a report does not guarantee timely intervention given the precarious state of child welfare services. In fact, in the absence of increased child welfare funding, the additional maltreatment reports generated by the increased stress on these families will further stretch the already overwhelmed child welfare system.

The costs of welfare reform in terms of foster care expenditures could be quite large. As mentioned above, placement resources are already stretched precariously thin as foster family homes have declined in number by about one-third since the mid-1980s. Kinship care has picked up much of the slack. The continued use of kinship care, however, is inconsistent with the desire of many welfare reform advocates to eliminate the "reward" associated with having children, since it is virtually impossible to ensure that unwed mothers will not spend time with their children if the children are placed with members of the extended family. Regardless of the role of kinship care after welfare reform, a significant increase in demand in the face of scarce placement resources will almost certainly lead child welfare agencies to develop new group care settings. These placements currently cost an average of $3,000 per month in foster care maintenance payments alone (i.e., not including administrative costs). Thus, a major increase in demand for child welfare services will not only increase the number of children needing substitute care, it will also lead to an increase in the average per-child cost of substitute care.

Infants and young children are most likely to be added to substitute care caseloads by some of the most significant proposed changes in AFDC eligibility (e.g., elimination of benefits to young unwed mothers). Yet this age group is least appropriate for the institutional placements that will be needed to meet any significant increase in demand for substitute care. Although research on the long-term functioning of children raised in foster care does not show that they fare much worse than poor children in general, they do not appear to fare better, and they more often lack the long-term support afforded by family.

The existing policies and trends discussed above suggest that the impact of creating block grants for public assistance and child welfare programs on the child welfare services will largely depend on the following (see Figure 3):

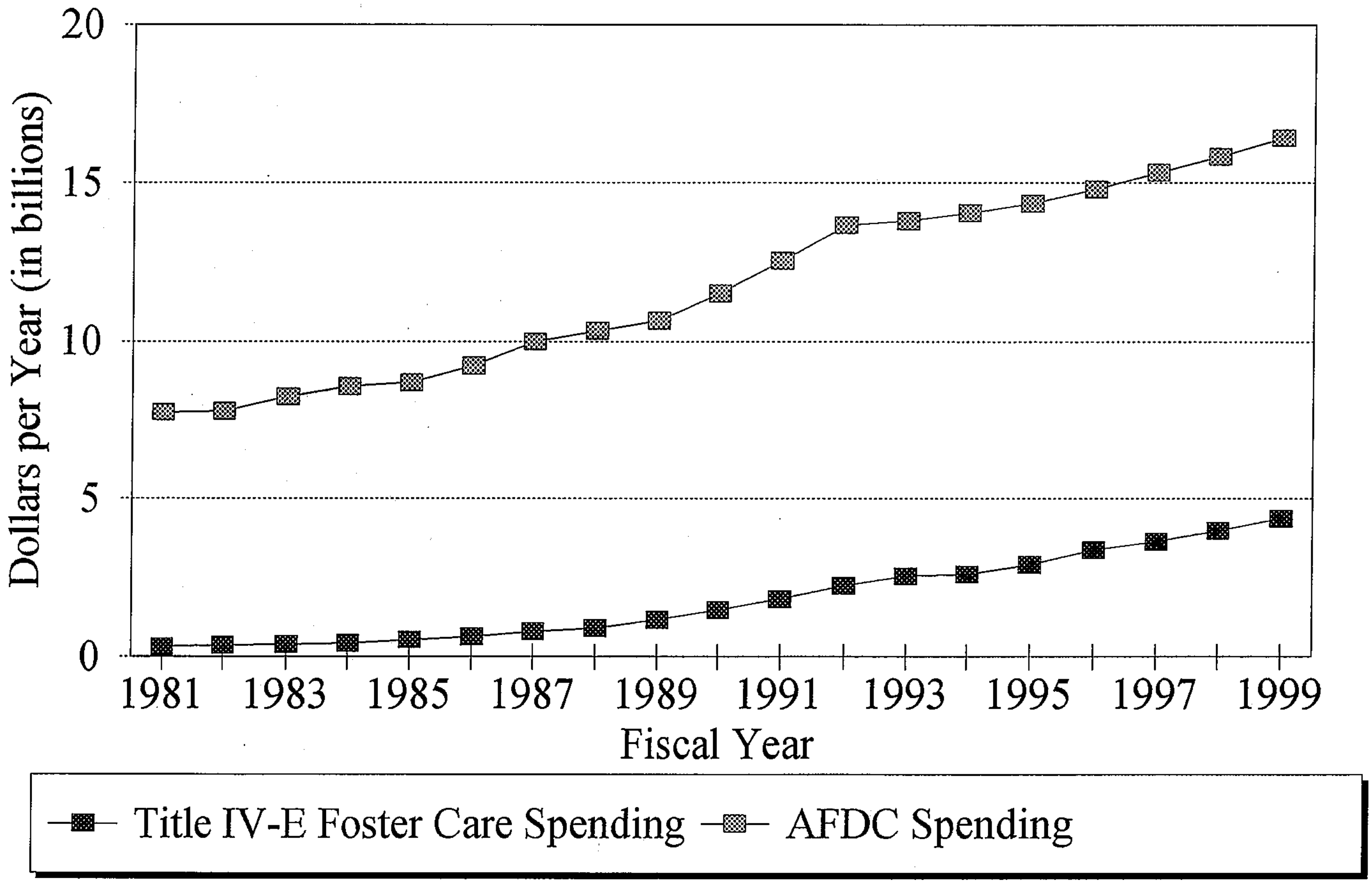
1. The level of federal funding provided, including the formula (if any) for increasing funding over time.

2. In what policy domains (e.g., child abuse reporting, permanency planning) federal financial incentives for state compliance are maintained.

3. The subpopulations most affected by program cuts (e.g., parents of infants or young children).

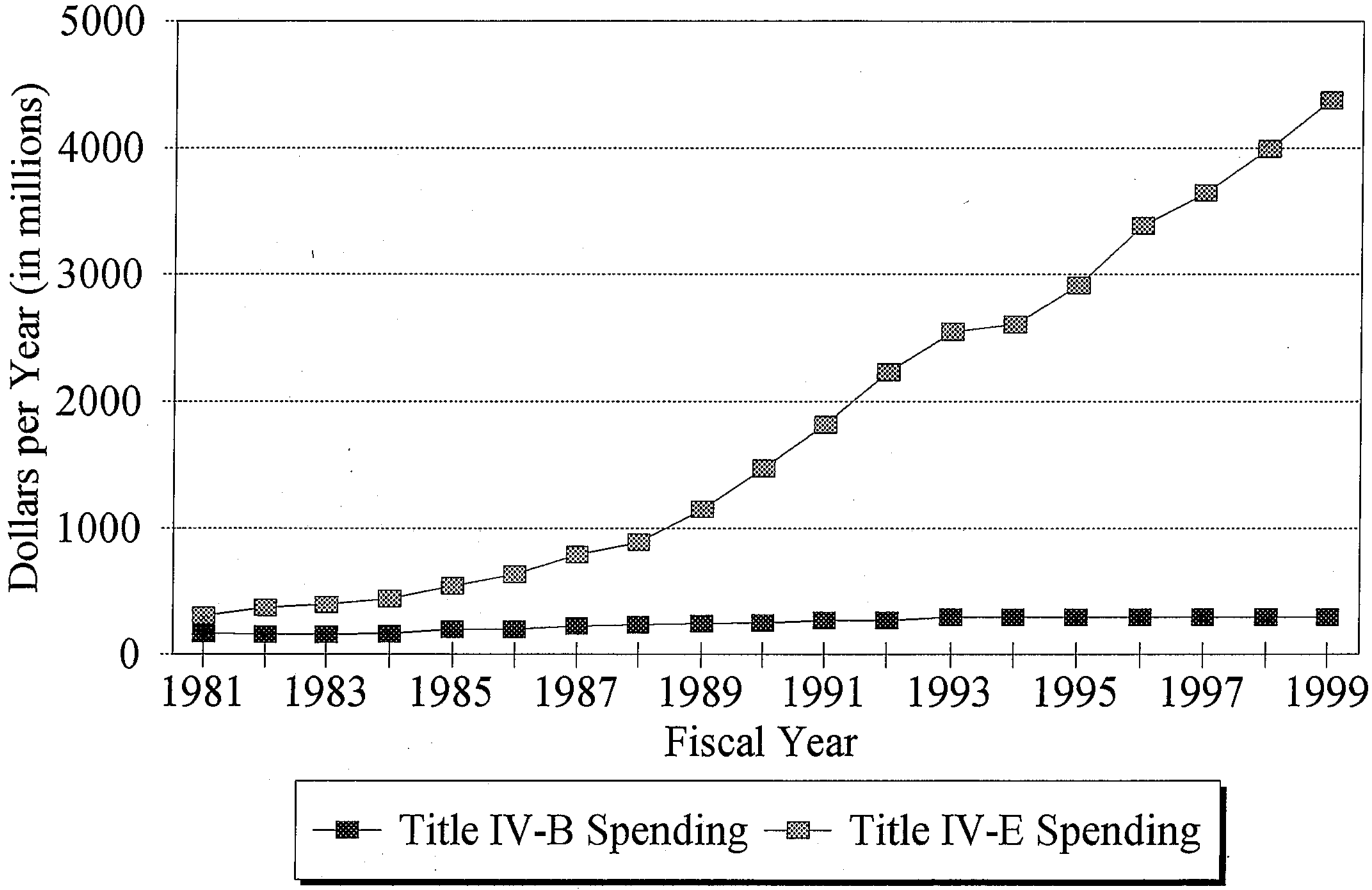
4. Improvement in program performance resulting from increased state and local control.

Figure 1: Federal Spending on Title IV-E Foster Care and AFDC Compared, Fiscal Years 1981 to 1999



1994 through 1999 figures are U.S. Department of Health and Human Services projections.

Figure 2: Federal Spending on Title IV-B Child Welfare Services and Title IV-E Foster Care Compared, Fiscal Years 1981 to 1999



1994 through 1999 figures are U.S. Department of Health and Human Services projections.

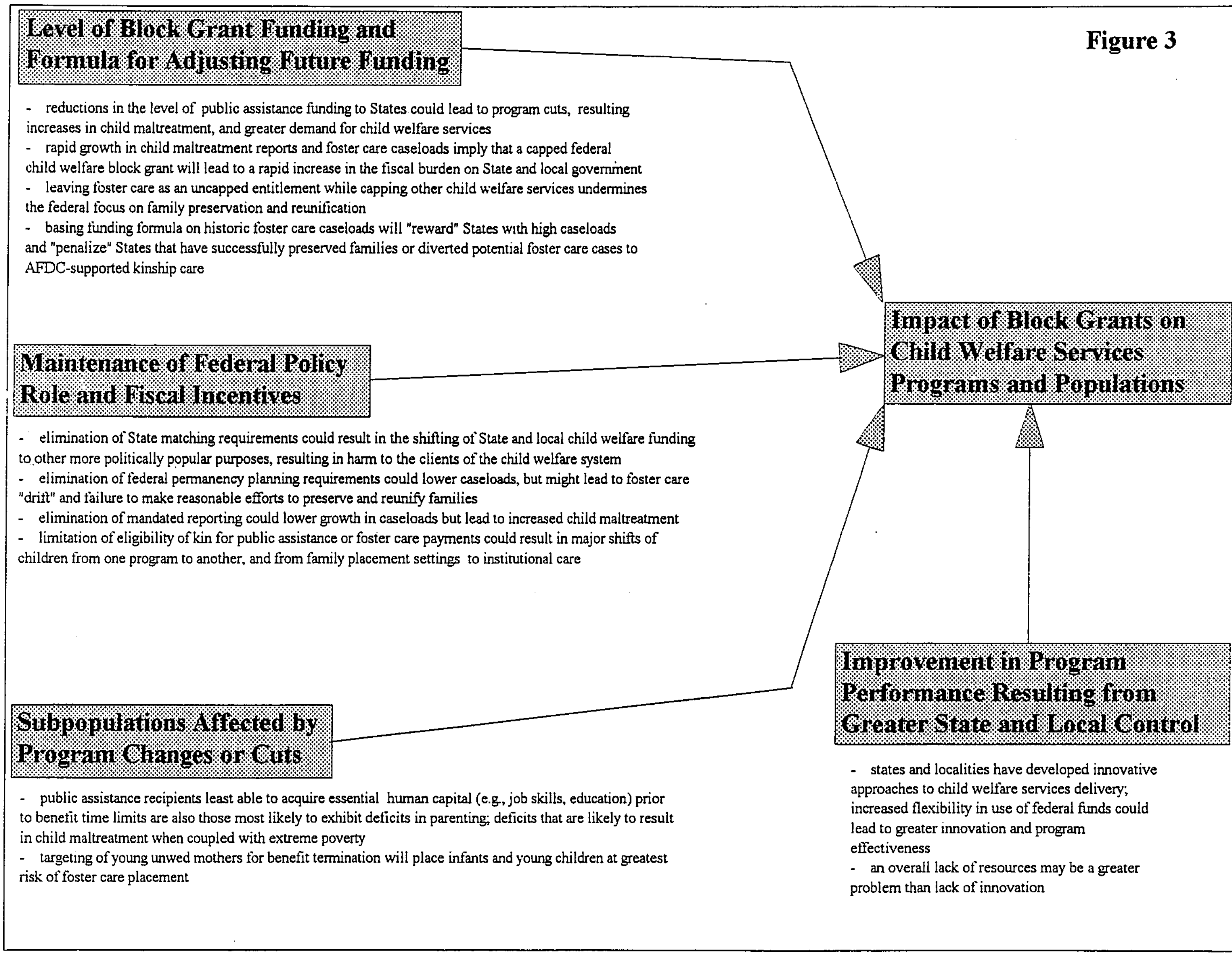

Level of Block Grant Funding and Formula for Adjusting Future Funding
- reductions in the level of public assistance funding to States could lead to program cuts, resulting increases in child maltreatment, and greater demand for child welfare services
- rapid growth in child maltreatment reports and foster care caseloads imply that a capped federal child welfare block grant will lead to a rapid increase in the fiscal burden on State and local government
- leaving foster care as an uncapped entitlement while capping other child welfare services undermines the federal focus on family preservation and reunification
- basing funding formula on historic foster care caseloads will "reward" States with high caseloads and "penalize" States that have successfully preserved families or diverted potential foster care cases to AFDC-supported kinship care
Impact of Block Grants on Child Welfare Services Programs and Populations
Maintenance of Federal Policy Role and Fiscal Incentives
- elimination of State matching requirements could result in the shifting of State and local child welfare funding to other more politically popular purposes, resulting in harm to the clients of the child welfare system
- elimination of federal permanency planning requirements could lower caseloads, but might lead to foster care "drift" and failure to make reasonable efforts to preserve and reunify families
- elimination of mandated reporting could lower growth in caseloads but lead to increased child maltreatment
- limitation of eligibility of kin for public assistance or foster care payments could result in major shifts of children from one program to another, and from family placement settings to institutional care
Improvement in Program Performance Resulting from Greater State and Local Control
Subpopulations Affected by Program Changes or Cuts
- public assistance recipients least able to acquire essential human capital (e.g., job skills, education) prior to benefit time limits are also those most likely to exhibit deficits in parenting; deficits that are likely to result in child maltreatment when coupled with extreme poverty
- targeting of young unwed mothers for benefit termination will place infants and young children at greatest risk of foster care placement
- states and localities have developed innovative approaches to child welfare services delivery; increased flexibility in use of federal funds could lead to greater innovation and program effectiveness
- an overall lack of resources may be a greater problem than lack of innovation

Figure 3

Evaluation

Michael Wiseman*

(1) My comments focus on the federal role in authorizing and evaluating state welfare reform initiatives and possible consequences of changes in federal funding procedures for state demonstration activities. I argue the following:

- The rapid increase in state welfare reform initiatives has severely taxed the capacity of administering federal agencies for assuring that the objectives of federal waiver policy are attained. Major effort is focused on assuring that demonstrations do not increase federal costs.

- Despite widespread impressions to the contrary, it is doubtful that any of the major state welfare reform programs will save money *except* in cases in which benefits are cut and/or eligibility is restricted. If states were thrown more to their own devices, it is likely that fiscal pressure would encourage such policies.

- Examination of Wisconsin's success in reducing welfare caseloads indicates that policies not requiring waivers have played at least as great a role in caseload reduction as have the experiments that have earned the state its reputation for innovation. Because of an early agreement with the federal government, the state has enjoyed exceptional latitude in obtaining federal fiscal support for its efforts. It is unlikely that the level of welfare-to-work effort in Wisconsin can or would be sustained without it.

- It is possible that increasing the latitude offered states in welfare policy operation will enhance commitment to evaluation. But for this commitment to be mobilized, leadership is needed to focus research on critical issues, to improve design, and to assemble and communicate results. The federal fiscal role must be changed to permit subsidy of appropriate research independently of contribution to benefits or administration.

(2) I begin with what is obvious to anyone who reads the papers: While Congress and the Administration have been talking about welfare reform, states have

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*These comments are based in part on research conducted under contract to the Office of Analysis and Evaluation of the Division of Food and Consumer Service of the U.S. Department of Agriculture. This document has not been reviewed by the U.S.D.A. and does not represent the opinions or official position of the research sponsor. The opinions and judgments expressed are those of the author alone.

been doing it. Overhead 1 summarizes the numbers. Currently 35 states either have a welfare reform initiative underway or under consideration. Other proposals—for example the initiative announced by New York's Governor Pataki two weeks ago—are on the way.

(3) State initiatives typically require "waiver" of federal Food Stamps, AFDC, or Medicaid regulations. Federal waiver policy has two formal objectives. One is to encourage generation of information on the effectiveness of alternative systems of welfare operation in attaining larger ends of the relevant federal legislation. The second is to assure that federal funds are well spent in pursuing this goal.

(4) The administering federal agencies attempt to evaluate proposals in light of these objectives and political considerations. Currently virtually all waiver proposals are approved subject to two requirements: *cost neutrality* and *rigorous evaluation*.

The Waivers Explosion

- At the beginning of 1992, there were 15 waiver-based research and demonstration projects in operation in 9 states. Many were small.
- During 1992, the Bush Administration approved 14 more demonstrations and increased the number of states to 14.
- Since coming to office, the Clinton administration has approved 23 additional demonstrations, increasing the number of participating states to 28.
- At the time of the State of the Union speech, the Administration for Children and Families was reviewing 27 more proposals. If approved, these waivers will increase the state count to 35.
- More are expected soon.

Overhead 1

(a) The *cost neutrality* provision requires that demonstrations collect information on the costs or savings generated by the initiative and specifies that federal liability can be no greater with the demonstration than what was expected without it. In other words, states are held fiscally responsible.

(b) The *rigorous evaluation* requirement has generally been interpreted to imply that effects of the initiatives will be assessed by random assignment, that is by assigning families or individuals at random to a treatment group affected by the new system or to a "control" group exempted, and then gauging effects by comparing outcomes between the two groups.

From the federal side, the advantage of evaluation using experimental and control groups is that it provides both a measure of consequences of experiments for things like welfare receipt and employment and also a basis for assessing net effects on federal costs. **This is very important, because the effects of state demonstrations on federal costs are in many instances ambiguous.**

(5) The major impact of the waiver-based state demonstrations has been political. Results from the demonstrations of the early 1980s helped establish the bipartisan consensus that led to passage of the Family Support Act of 1988 and federal funding for the Job Opportunities and Basic Skills Training program (JOBS). The early-1980s demonstrations differed substantially both in focus and in evaluation from more recent state efforts, and the successes attributed to them do not necessarily carry over. The publicity attached to recent demonstration efforts in various states has encouraged demand for similar efforts elsewhere.

(6) **Here's the problem:** Despite what is sometimes claimed, we have yet to learn much that is pertinent to welfare program administration from the current crop of state demonstrations. This means that if you are a state welfare administrator or Congressperson looking for ways to improve efficiency of a state system, you will be disappointed. There are several reasons for this.

(a) Virtually none of the demonstrations approved since the beginning of 1992 has come to fruition.

Media attention has generally been focused on the *announcement* of such plans and not upon the actual timetable. When one hears that such things "work," what is typically meant is that something is in fact underway and at least one participant has been processed and passed along for an interview with a local reporter. That's much different from believing that the collection of initiatives we now observe offers much promise for immediate cost savings or significant long-term impact on welfare policy problems.

(b) Most evaluation designs emphasize measurement of outcomes over careful description and assessment of what was done, and for which recipients. As a result, we do not have good information on the extent to which what is promised for waivers is being done, and we end up with no reliable recipe for repeating demonstrations that appear to be successful.

When evaluations are produced, we know that a program produced, say, some net effect on welfare receipt or recipient employment, but only a few members of the so-called "treatment" group actually experienced the activity or received the service that was used to define the experiment. Generally speaking, evaluations provide little detail on the selection process that determined who got what, with the result that we cannot be sure how to replicate what was done in one place in another.

(c) Many state experiments are too complex to allow identification of component effects. Overhead 2, the official description of a demonstration approved for Indiana last December, is an example. This complexity does not pose a problem for using experiments to assess federal costs, but it virtually rules out discovery of which program components really make a difference.

> **Indiana's Welfare Reform Initiative**
>
> Statewide, for up to 12,000 job-ready AFDC adult recipients, measured at any point in time: Limit AFDC cash benefits to 24 consecutive months; extend grant diversion to up to 24 months; freeze AFDC benefits for up to 24 months for working recipients at the payment level in effect at entry into employment; increase the AFDC resource limit to $1,500; extend post-employment supportive services (e.g. case management); and increase sanctions for failure to comply with JOBS program requirements. For all AFDC families statewide: Eliminate the incremental increase in AFDC benefits for additional children conceived on welfare and not count such additional children for purposes of the JOBS exemption for the care of a child under age 3; establish fiscal sanctions for voluntarily terminating employment; require AFDC applicants and recipients to sign a personal responsibility agreement; eliminate the 100-hour rule for AFDC-UP; require children to attend school and be immunized; eliminate the JOBS exemptions for recipients living in rural or hard-to-access areas and those employed 30 or more hours per week; establish food stamp eligibility periods that are consistent with those in AFDC and Medicaid; for the purposes of determining food stamp eligibility and benefits, disregard child support payments and earnings for a 6-month period following the initiation of employment; and require Food Stamp Program fair hearing requests to be in writing. Also, in up to 5 counties, the State will implement Emergency Assistance pilots.
>
> Source: Administration for Children and Families

Overhead 2

There are very few incentives for state demonstrations to be uniform or for the content of reforms to be simple. The political incentives encourage states to push for "comprehensive" initiatives that are "new". Under neither Republican or Democratic administrations have attempts been made to encourage comparability or focus on well-defined and narrowly-focused interventions. The result is "experiments" like the Indiana project. Suppose we were to determine that, overall, this intervention had some effect, negative or positive, on welfare recipients. How would we decide which component counted?

(d) While random assignment research designs may assist in assessing costs in a way politically acceptable to states and the federal government, they may miss certain effects that would be present, affecting costs and outcomes, should reforms be implemented statewide.

This may be particularly important when the innovation is expected to have general "community" effects by, for example, changing attitudes toward work, nonmarital pregnancy, or absent parent support obligations.

If such effects are to be evaluated at all, evaluation approaches more complex than random assignment are required.

(7) Many state innovations, particularly those related to creation of financial incentives to work, have the potential of *increasing* federal and state costs. Such increases were experienced before the current round of experimentation by Washington State (in its Family Investment Plan) and Alabama (as a result of the Avenues to Self-Sufficiency through Employment and Training Services program). It is very doubtful that *any* of the state initiatives are actually saving money in the short run through manipulation of work incentives or other innovations. The only prescription for lowering welfare costs that is known to work is to cut benefits or restrict eligibility, and even this policy, by leading to spill-overs into other social service networks, is problematic. This conclusion has at least two important implications:

(a) We must be cautious about any system that increases state discretion in program design while continuing federal match; and

(b) There is no magic bullet, so in the absence of maintenance of effort provisions or restrictions on benefit level adjustment, many if not most states are likely to respond to a reduced federal commitment coupled with greater state discretion by making welfare "reform" synonymous with cutting benefits, especially if other cutbacks or state economic conditions make budgets tight.

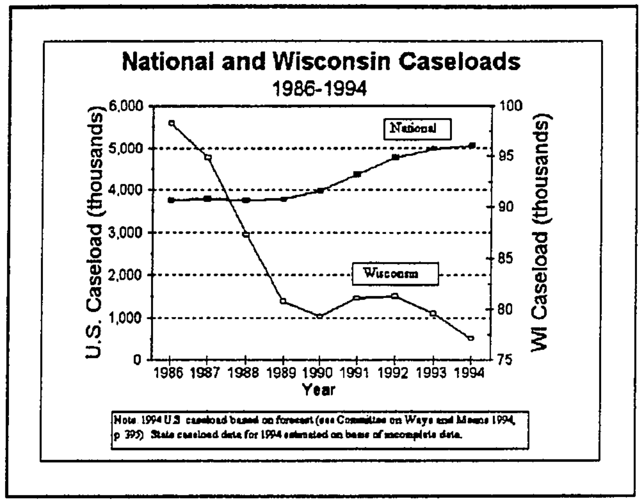
Governors like to treat federal evaluation requirements as just another onerous mandate. It is important to remember that, for better or for worse, it is currently these evaluation requirements that are the basis for protecting the federal budget. It is probably true that evaluations are not as productive as could be the case, and this should be a Congressional concern.

(8) **But aren't some state welfare reforms really effective?** Of all the states, Wisconsin has the greatest number of waivers approved and the most demonstrations actually in progress. The state would seem to be the premier example of what states can do if freed of federal restrictions. A close look makes this inference more problematic.

(a) The extraordinary record of the state is illustrated by Overhead 3.

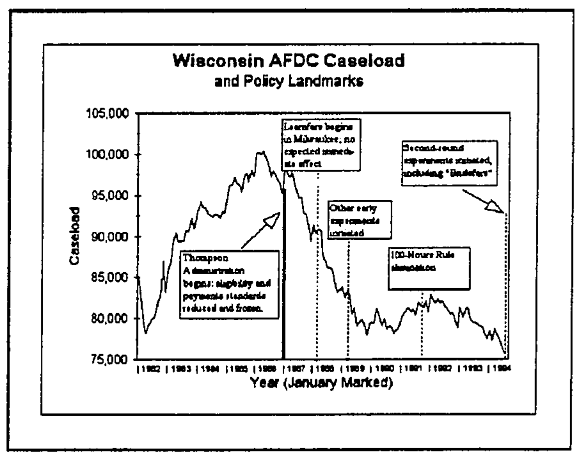
(b) The paradox is that with the exception of the Learnfare initiative, most of the waiver-based welfare initiatives that have attracted national attention (the so-called "Bridefare initiative, Work Not Welfare, and so forth) were introduced after the major portion of the case decline occurred.

Learnfare itself could not be expected to immediately reduce the caseload in a significant way, although its long-run effect may be important. Other early changes, for example the elimination of the AFDC-UP 100 hours rule, have likely increased the caseload, and there is some early evidence that this is the case. See Overhead 4.



Overhead 3

(9) What happened? Environmental and policy factors are important. The environmental effects have to do with the dramatic and prolonged effect of the recession of 1981-82 on the Wisconsin economy, the nature of the families which came on to welfare in that context, and, more recently, the exceptional record of the state during the recession of 1991-92. The current state unemployment rate is 3.9 percent. At the depth of the recession (1991, in Wisconsin) it reached only 5.4 percent, while the national unemployment rate climbed to 7.4 percent by 1992.



Overhead 4

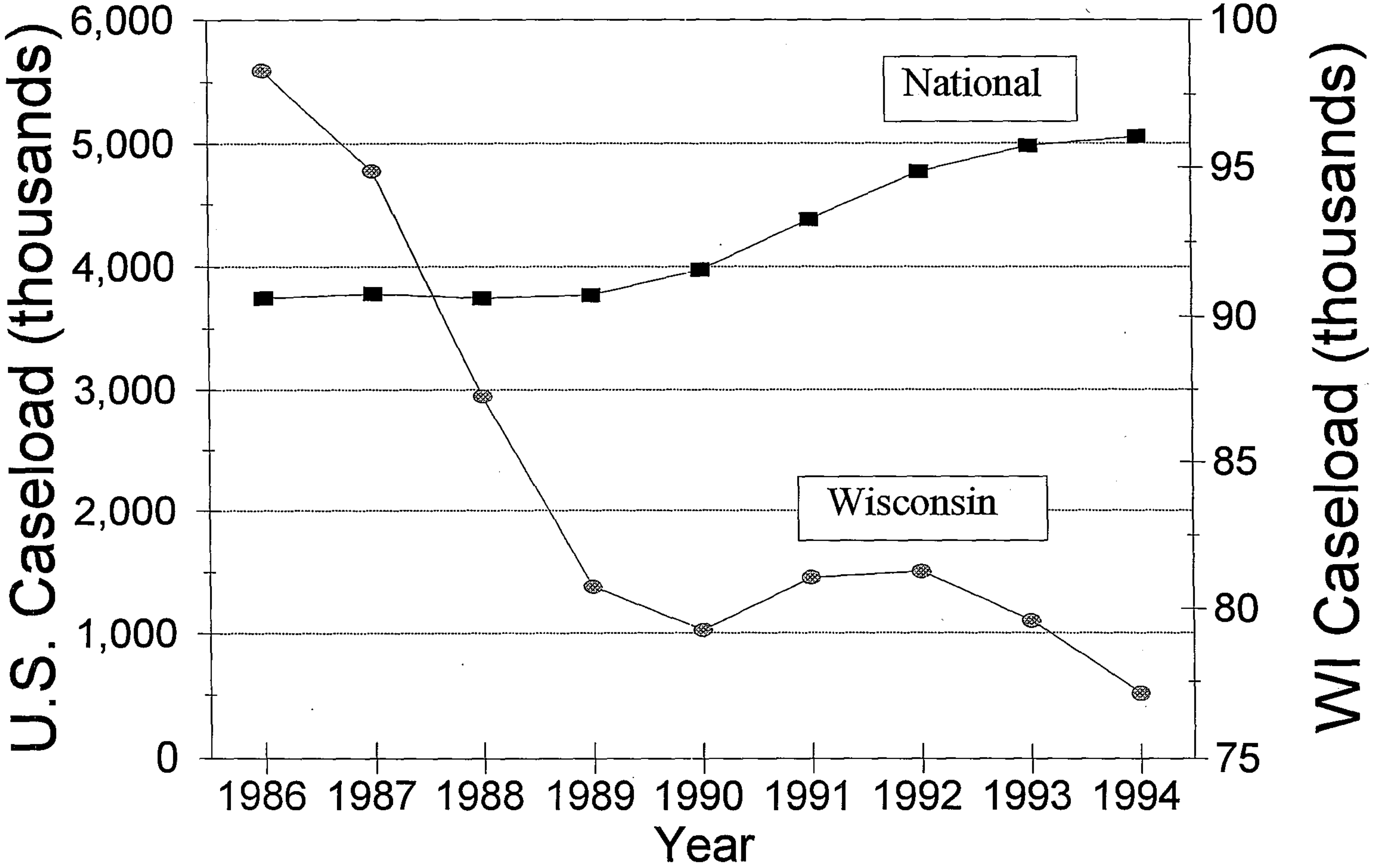
(10) There are two important policy factors.

(a) First, the state reduced and then froze both its welfare eligibility and need standards in 1987. The result has been a continuous (since 1986) reduction in benefits and the standard of eligibility. These changes have reduced the attractiveness of assistance and the ability of families to combine earnings with welfare eligibility. See Overhead 5.

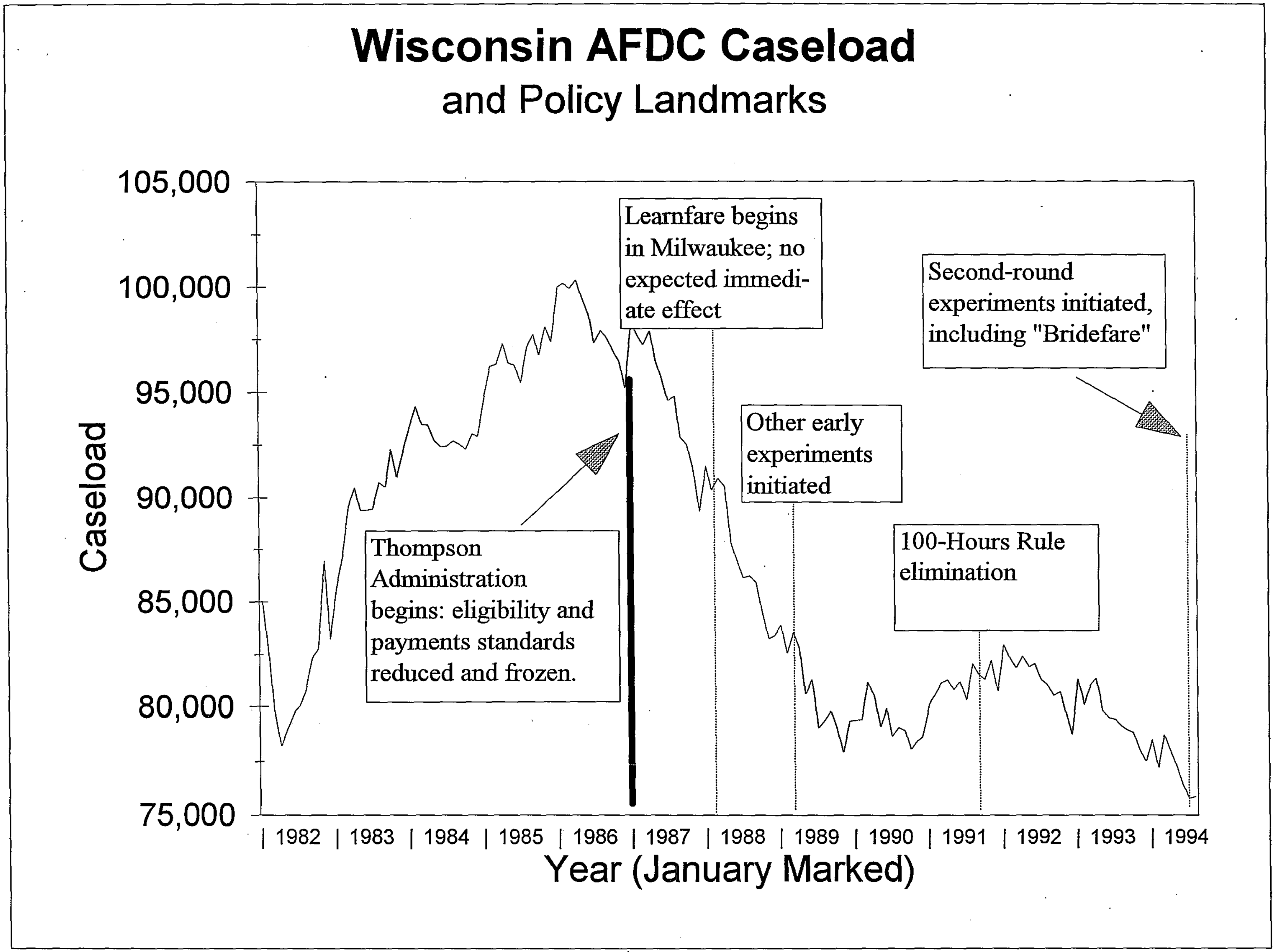
(b) Second, the state spends an extraordinary amount on employment and training. Beginning in 1988, the state dramatically increased its outlays on welfare-to-work programs. See Overhead 6.

National and Wisconsin Caseloads

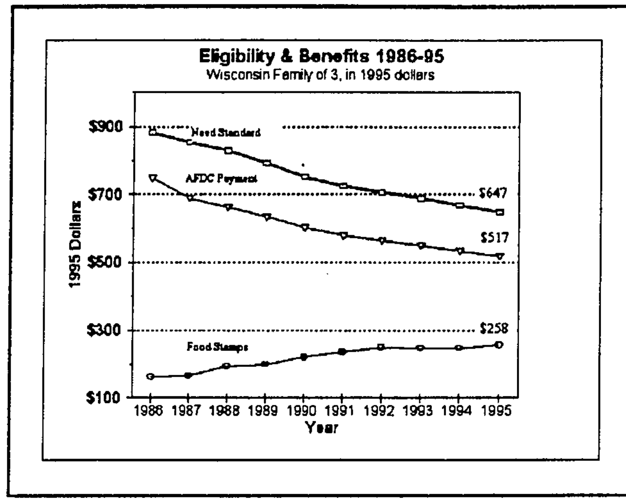
1986-1994



Note: 1994 U.S. caseload based on forecast (see Committee on Ways and Means 1994, p. 395). State caseload data for 1994 estimated on basis of incomplete data.


Wisconsin AFDC Caseload
and Policy Landmarks
105,000
100,000
95,000
90,000
85,000
80,000
75,000
Caseload
Learnfare begins in Milwaukee; no expected immedi-ate effect
Second-round experiments initiated, including "Bridefare"
Other early experiments initiated
100-Hours Rule elimination
Thompson Administration begins: eligibility and payments standards reduced and frozen.
| 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994
Year (January Marked)

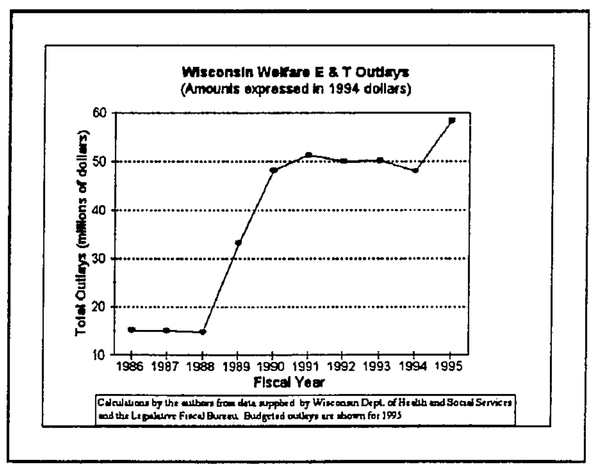
(11) Wisconsin's great emphasis on welfare-to-work programs is important and generally unrecognized. For our purposes, it is important to understand that the state possessed an exceptional advantage in that it was allowed to draw on estimated federal savings from the benefit reduction introduced in 1987 as a source of "match" for employment and training expenditures beyond its entitlement under the JOBS funding formula as well as for a variety of supportive services provided recipients at the county level. The waiver savings pool also provided "insurance" against cost overruns that might violate cost neutrality restrictions. This very aggressive employment and training effort is, in other words, fueled by what has for practical purposes amounted to an open-ended federal "match" for local expenditures. The state has now exhausted this savings pool, and state resources will be severely strained in the coming fiscal years by the commitment of both the Governor and the state legislature to a major increase in state funding for primary and secondary education.



Overhead 5

(12) I close with a note on what I see as the issues in waiver and evaluation policy.

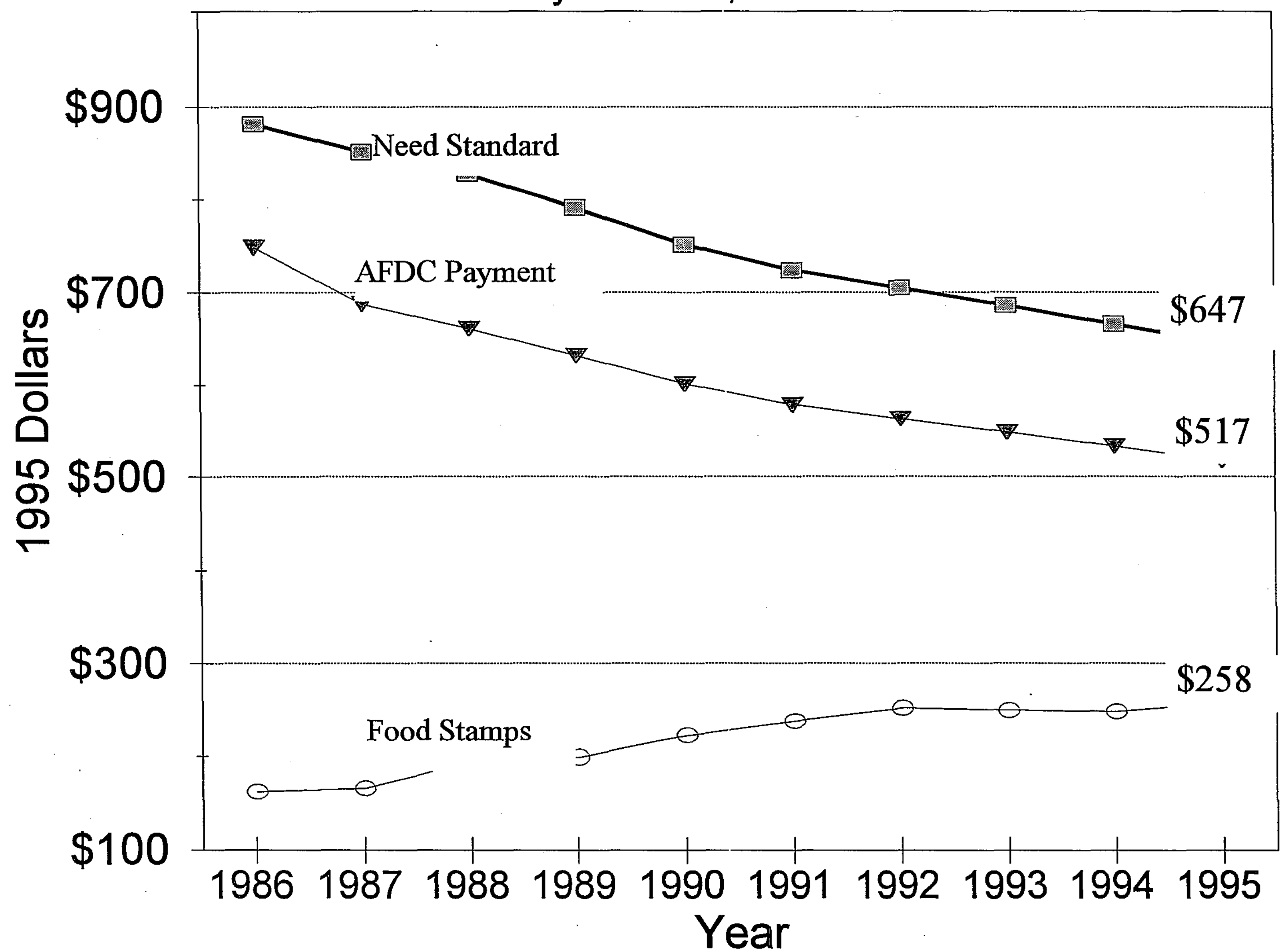
(a) *Leadership is essential.* To question the utility of what will be gained from the current system is not to say that benefit cannot be gained from sustaining or even increasing the latitude granted states in welfare innovation. What is needed is bipartisan commitment to evaluation. Right now states which gamble on innovations incur all the risks, even when what might be learned would benefit everyone. The tendency is to "insure" against such risks by cutting benefits. But no one, in the White House, in Congress, or in DHHS, seems to be willing to draw all parties together to



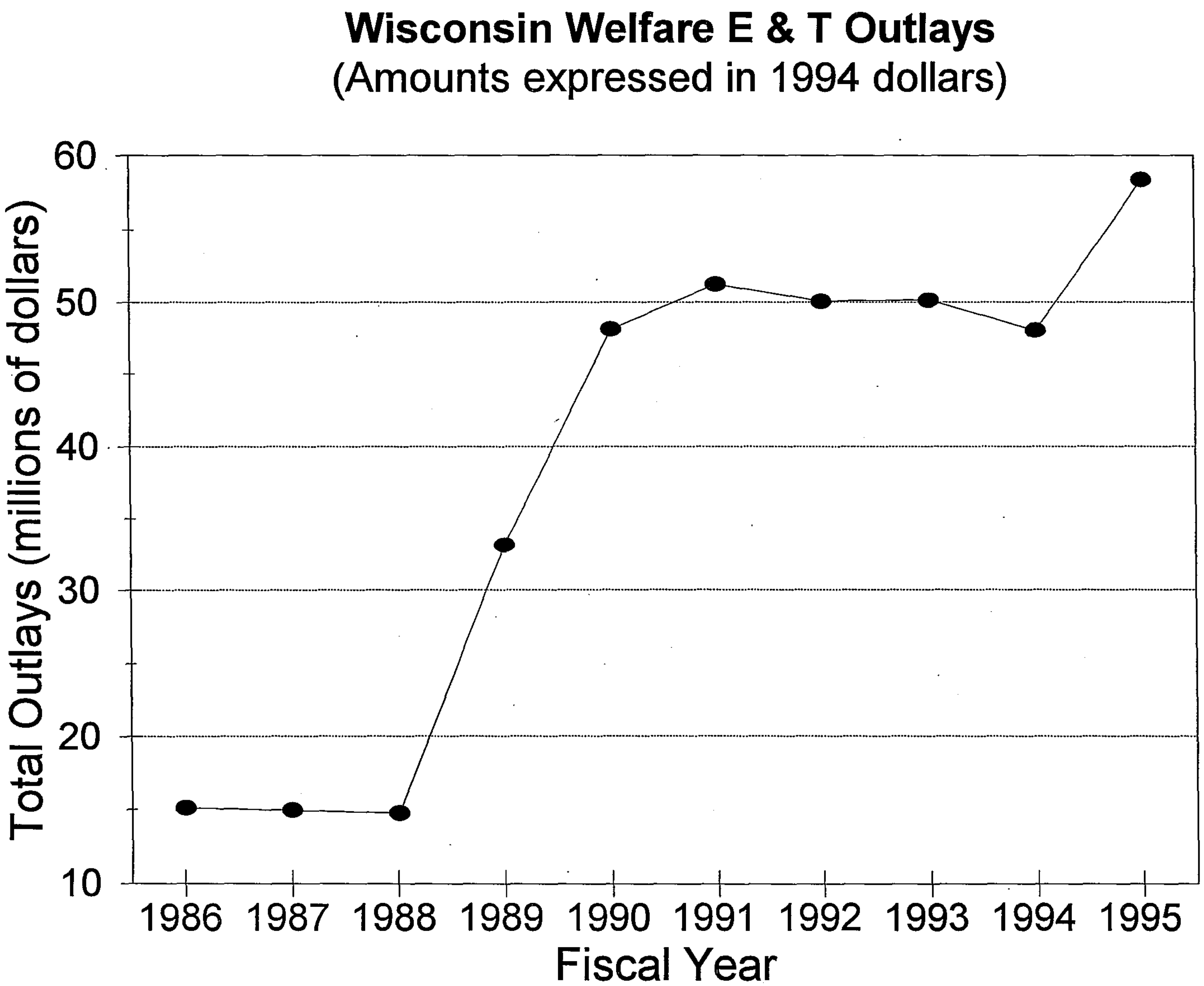
Overhead 6

Wisconsin Eligibility & Benefits

Family of Three, in 1995 dollars



Source: Calculation by author using data from Comm. on Ways and Means(1994)



Calculations by the authors from data supplied by Wisconsin Dept. of Health and Social Services and the Legislative Fiscal Bureau. Budgeted outlays are shown for 1995.

work out an agenda and procedures for assuring that something serious is gained from all this effort.

(b) *A clearinghouse is needed.* Even with more devolution of welfare authority to the states, some agency should serve as a clearinghouse for information exchange. DHHS could serve this role, but to date it does not. The National Governors' Association has from time to time attempted to summarize demonstration efforts, but their purpose seems to be to promote increased discretion for states rather than genuine information exchange.

(c) *We must be concerned about the effect of alternative fiscal arrangements on evaluation incentives.* States view many of the current evaluation requirements as just another form of federal mandate. They may well seek relief. I think it very unwise to give up on the federal role in bounding state invention and in assuring at least a modicum of interest in substance. It is not obvious what the consequences for evaluation of a decentralized system might be. A closed-ended block grant system might create a fiscal incentive for more serious attention to evaluation and analysis. But it is also possible that some states may simply decide to retreat when faced with the uncertainty that in fact surrounds welfare policy making.

Statistics on Poverty and Welfare

POVERTY RATES

	1960	1970	1980	1990	1992	1993
OVERALL	22.2%	12.6%	13.0	13.5	14.5	15.1*
CHILDREN	26.9	15.1	18.3	20.6	22.3	22.7
< 6 YRS.		16.7	20.3	23.6	25.0	25.6
AGED	35.2	24.6	15.7	12.2	12.9	12.2
BLACKS	55.1	33.5	32.5	31.9	33.3	33.1
HISPANICS		22.8*	25.7	28.1	29.3	30.6
THOSE IN FEMALE HH	48.9	38.1	36.7	37.2	38.5	35.6
CENTRAL CITIES			17.2	19.0	20.5	21.5
NONMETRO			15.4	16.3	16.8	17.2

Source: U.S. Department of Commerce, Bureau of the Census. 1995. Income, Poverty, and Valuation of Noncash Benefits: 1993.

*(39.3 million)

AFDC Guarantees

	Maximum AFDC Benefit January 1994 for Family Size 3	Percentage Change in Maximum Benefit 1970-1994 in Constant Dollars for Family Size 3
Alabama	164	-33
Alaska	923	-25
Arizona	347	-33
Arkansas	204	-39
California	607	-13
Colorado	356	-51
Connecticut	680	-36
Delaware	338	-44
D.C.	420	-43
Florida	303	-29
Georgia	280	-30
Hawaii	712	-16
Idaho	317	-60
Illinois	367	-58
Indiana	288	-36
Iowa	426	-43
Kansas	429	-48
Kentucky	228	-59
Louisiana	190	-42
Maine	418	-17
Maryland	366	-40
Massachusetts	579	-42
Michigan	459	-44
Minnesota	532	-45
Mississippi	120	-43
Missouri	292	-25
Montana	401	-47
Nebraska	364	-43
Nevada	348	-23
New Hampshire	550	-44
New Jersey	424	-63
New Mexico	357	-36
New York	577	-45
North Carolina	272	-50
North Dakota	409	-49
Ohio	341	-44
Oklahoma	324	-43
Oregon	460	-33
Pennsylvania	421	-58
Rhode Island	554	-35
South Carolina	200	-37
South Dakota	417	-58
Tennessee	185	-56
Texas	184	-67
Utah	414	-37
Vermont	638	-36
Virginia	354	-58
Washington	546	-44
West Virginia	249	-42
Wisconsin	517	-25
Wyoming	360	-55
United States	366	-47

Source: U.S. House of Representatives, Committee on Ways and Means, 1994 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Washington, D.C.: GPO, 1994), pp. 375-377.

Selected AFDC Parameters Across States

	Maximum AFDC & Food Stamp Benefits as a Proportion of Poverty Line Family Size 3, 1993	Maximum AFDC Benefits as a Proportion of Poverty Line Family Size 3, 1993	Income Level at which AFDC Eligibility for a Family of 3 Ends as a Percentage of Poverty Line 1994	Income level at which AFDC Eligibility for a Family of 3 Ends as a Percentage of Minimum Wage, 1994
Alabama	48	17	26	34
Alaska	101	77	84	137
Arizona	67	36	46	59
Arkansas	52	21	31	40
California	86	63	73	95
Colorado	67	37	53	69
Connecticut	91	71	80	104
Delaware	66	35	45	58
D.C.	72	44	53	69
Florida	62	32	41	53
Georgia	60	29	54	70
Hawaii	103	65	73	109
Idaho	64	33	42	55
Illinois	69	38	48	62
Indiana	61	30	39	51
Iowa	72	44	54	70
Kansas	74	45	54	70
Kentucky	55	24	64	84
Louisiana	51	20	29	38
Maine	72	44	67	87
Maryland	69	38	48	62
Massachusetts	83	60	70	91
Michigan	0	0	57	74
Minnesota	80	55	65	84
Mississippi	43	13	48	62
Missouri	61	30	40	52
Montana	71	42	51	67
Nebraska	68	38	47	62
Nevada	67	36	46	59
New Hampshire	81	57	67	87
New Jersey	73	44	54	70
New Mexico	67	37	47	61
New York	0	0	69	91
North Carolina	59	28	66	86
North Dakota	71	43	52	68
Ohio	66	36	45	58
Oklahoma	65	34	43	56
Oregon	78	48	57	75
Pennsylvania	72	44	53	69
Rhode Island	86	58	67	87
South Carolina	52	21	30	72
South Dakota	72	43	53	69
Tennessee	50	19	54	70
Texas	50	19	29	37
Utah	72	43	53	68
Vermont	88	67	76	99
Virginia	67	37	46	60
Washington	84	57	66	86
West Virginia	57	26	35	46
Wisconsin	79	54	63	82
Wyoming	68	38	71	92
United States	69	38	0	0

Source: Columns 1-2: 1994 Green Book, pp. 366, 386; columns 3-4: calculated by IRP authors.

Foster Care Rates and SSI Benefits, by State

	Basic Monthly Foster Care Rate for One 16-Year Old Child, 1993	Monthly SSI Benefit for One Elderly Person, 1994
Alabama	241.00	446
Alaska	621.00	820
Arizona	362.00	446
Arkansas	375.00	446
California	484.00	603
Colorado	372.00	502
Connecticut	593.00	*
Delaware	391.00	446
D.C.	526.00	461
Florida	372.00	446
Georgia	300.00	446
Hawaii	529.00	451
Idaho	278.00	491
Illinois	377.00	*
Indiana	518.00	446
Iowa	382.00	446
Kansas	386.00	446
Kentucky	330.00	446
Louisiana	364.00	446
Maine	*	456
Maryland	550.00	446
Massachusetts	492.00	575
Michigan	442.00	460
Minnesota	487.00	527
Mississippi	250.00	446
Missouri	286.00	446
Montana	406.00	446
Nebraska	461.00	474
Nevada	337.00	482
New Hampshire	418.00	473
New Jersey	320.00	477
New Mexico	281.00	446
New York	510.00	532
North Carolina	265.00	446
North Dakota	424.00	446
Ohio	203.00	446
Oklahoma	420.00	506
Oregon	391.00	448
Pennsylvania	459.00	478
Rhode Island	334.00	510
South Carolina	275.00	446
South Dakota	370.00	461
Tennessee	385.00	446
Texas	476.00	446
Utah	310.00	447
Vermont	386.00	501
Virginia	372.00	446
Washington	405.00	474
West Virginia	242.00	446
Wisconsin	337.00	531
Wyoming	400.00	456
United States	392.98	

Source: Column 1: <u>1994 Green Book</u>, pp. 611-612; column 2: pp. 226-227.
*Each benefit individually determined.

MONTHLY BENEFITS SUMMARY: January 1994 for a Family of Three

	Need Standard	Gross Income Limit	AFDC	Food Stamps	Combined	Poverty Threshold	AFDC/ Pov. Thresh.	Combined/ Pov. Thresh.
Alabama	$673	$1,245	$164	$295	$459	$960	17.1%	47.8%
Alaska	$975	$1,804	$923	$285	$1,208	$1,200	76.9%	100.7%
Arizona	$964	$1,783	$347	$292	$639	$960	36.1%	66.6%
Arkansas	$705	$1,304	$204	$295	$499	$960	21.3%	52.0%
California	$715	$1,323	$607	$214	$821	$960	63.2%	85.5%
Colorado	$421	$779	$356	$289	$645	$960	37.1%	67.2%
Connecticut	$680	$1,258	$680	$192	$872	$960	70.8%	90.8%
Delaware	$338	$625	$338	$295	$633	$960	35.2%	65.9%
D.C.	$712	$1,317	$420	$270	$690	$960	43.8%	71.9%
Florida	$991	$1,833	$303	$295	$598	$960	31.6%	62.3%
Georgia	$424	$784	$280	$295	$575	$960	29.2%	59.9%
Hawaii	$1,140	$2,109	$712	$422	$1,134	$1,104	64.5%	102.7%
Idaho	$991	$1,833	$317	$295	$612	$960	33.0%	63.8%
Illinois	$890	$1,647	$367	$291	$658	$960	38.2%	68.5%
Indiana	$320	$592	$288	$295	$583	$960	30.0%	60.7%
Iowa	$849	$1,571	$426	$268	$694	$960	44.4%	72.3%
Kansas	$429	$794	$429	$284	$713	$960	44.7%	74.3%
Kentucky	$526	$973	$228	$295	$523	$960	23.8%	54.5%
Louisiana	$658	$1,217	$190	$295	$485	$960	19.8%	50.5%
Maine	$553	$1,023	$418	$271	$689	$960	43.5%	71.8%
Maryland	$507	$938	$366	$295	$661	$960	38.1%	68.9%
Massachusetts	$579	$1,071	$579	$222	$801	$960	60.3%	83.4%
Michigan*	$551	$1,019	$459	$258	$717	$960	47.8%	74.7%
Minnesota	$532	$984	$532	$236	$768	$960	55.4%	80.0%
Mississippi	$368	$681	$120	$295	$415	$960	12.5%	43.2%
Missouri	$846	$1,565	$292	$295	$587	$960	30.4%	61.1%
Montana	$511	$945	$401	$276	$677	$960	41.8%	70.5%
Nebraska	$364	$673	$364	$287	$651	$960	37.9%	67.8%
Nevada	$699	$1,293	$348	$292	$640	$960	36.3%	66.7%
New Hampshire	$1,648	$3,049	$550	$231	$781	$960	57.3%	81.4%
New Jersey	$985	$1,822	$424	$276	$700	$960	44.2%	72.9%
New Mexico	$357	$660	$357	$289	$646	$960	37.2%	67.3%
New York**	$577	$1,067	$577	$239	$816	$960	60.1%	85.0%
North Carolina	$544	$1,006	$272	$295	$567	$960	28.3%	59.1%
North Dakota	$409	$757	$409	$273	$682	$960	42.6%	71.0%
Ohio	$879	$1,626	$341	$295	$636	$960	35.5%	66.3%
Oklahoma	$471	$871	$324	$295	$619	$960	33.8%	64.5%
Oregon	$460	$851	$460	$293	$753	$960	47.9%	78.4%
Pennsylvania	$614	$1,136	$421	$270	$691	$960	43.9%	72.0%
Rhode Island	$554	$1,025	$554	$268	$822	$960	57.7%	85.6%
South Carolina	$440	$814	$200	$295	$495	$960	20.8%	51.6%
South Dakota	$491	$908	$417	$271	$688	$960	43.4%	71.7%
Tennessee	$426	$788	$185	$295	$480	$960	19.3%	50.0%
Texas	$574	$1,062	$184	$295	$479	$960	19.2%	49.9%
Utah	$552	$1,021	$414	$272	$686	$960	43.1%	71.5%
Vermont	$1,124	$2,079	$638	$205	$843	$960	66.5%	87.8%
Virginia	$393	$727	$354	$290	$644	$960	36.9%	67.1%
Washington	$1,158	$2,142	$546	$258	$804	$960	56.9%	83.8%
West Virginia	$497	$919	$249	$295	$544	$960	25.9%	56.7%
Wisconsin	$647	$1,197	$517	$241	$758	$960	53.9%	79.0%
Wyoming	$674	$1,247	$360	$288	$648	$960	37.5%	67.5%

* Michigan data based on Wayne County.

** New York data based on New York City.

Source: 1994 Green Book, Table 10-11, pp. 366-367.

Increase in Caseloads, by State, AFDC-BASIC

	1989	1993	% Increase in State
New Hampshire	4,901	10,474	113.7%
Florida	118,582	247,886	109.0%
Arizona	36,044	68,674	90.5%
Nevada	7,293	12,649	73.4%
North Carolina	76,932	127,678	66.0%
Delaware	7,422	11,276	51.9%
Georgia	92,654	140,259	51.4%
Texas	181,598	270,821	49.1%
Tennessee	70,575	103,372	46.5%
Connecticut	37,869	55,115	45.5%
New Mexico	20,372	29,500	44.8%
Rhode Island	14,939	21,488	43.8%
South Carolina	37,145	52,448	41.2%
D.C.	18,013	24,611	36.6%
Alaska	7,415	10,103	36.3%
Virginia	53,918	72,883	35.2%
California	534,662	717,700	34.2%
Indiana	51,611	69,154	34.0%
Oklahoma	35,930	47,786	33.0%
Missouri	64,442	84,764	31.5%
Hawaii	13,318	17,452	31.0%
Vermont	6,558	8,582	30.9%
Montana	8,334	10,575	26.9%
Oregon	30,502	38,662	26.8%
Maryland	62,624	79,232	26.5%
New York	329,280	415,725	26.3%
Kentucky	58,717	73,799	25.7%
Maine	17,007	21,198	24.6%
Massachusetts	87,045	107,916	24.0%
Wyoming	5,123	6,324	23.4%
Utah	14,969	18,251	21.9%
Colorado	33,851	41,234	21.8%
Washington	70,210	85,259	21.4%
New Jersey	100,435	121,254	20.7%
West Virginia	27,610	33,211	20.3%
Idaho	6,231	7,466	19.8%
Minnesota	48,060	57,209	19.0%
Ohio	198,477	233,965	17.9%
Kansas	23,524	27,729	17.9%
Nebraska	13,265	15,463	16.6%
Pennsylvania	167,426	194,964	16.4%
Alabama	44,820	51,065	13.9%
Illinois	197,472	221,226	12.0%
Arkansas	23,914	26,165	9.4%
North Dakota	5,489	6,005	9.4%
South Dakota	6,632	7,172	8.1%
Iowa	32,628	34,472	5.7%
Michigan	187,687	197,999	5.5%
Mississippi	59,860	59,922	0.1%
Wisconsin	72,616	71,994	-0.9%
Louisiana	92,194	88,928	-3.5%

Source: Unpublished report prepared by Hudson Institute for the Wisconsin Department of Health and Social Services, December 1994.

"Performance Partnerships" Table 12-3

from the

BUDGET

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1996

State, local, and Tribal governments, and private sector representatives—to direct funds to each State's highest rural economic development priorities. USDA's proposal will include performance measures and performance incentives.

For a picture of how the facets of these proposals relate to one another, see Table 12–3 "Performance Partnerships."

The proposals highlighted in Table 12–3 will save additional FTE (and associated administrative costs) beyond levels required by the 1994 Federal Workforce Restructuring Act. The Administration expects other FTE savings in the future as part of Phase II of the National Performance Review.

Table 12–3. "PERFORMANCE PARTNERSHIPS"

	Department of Agriculture: Rural Development Programs	Departments of Education and Labor: G.I. Bill for America's Workers	Department of Health and Human Services: Public Health Service	Department of Housing and Urban Development	Department of Transportation	Environmental Protection Agency
Number of programs consolidated.	14 existing USDA rural development loan and grant programs remain separate, but USDA State Directors would be authorized to shift funds between existing programs.	70 programs to be consolidated into one system.	108 programs to be consolidated into 16 categories.	60 statutory programs to be consolidated into 3 programs. The first stage, in 1996, consolidates into eight.	30 categorical programs would be consolidated into three broad allocations: a unified grant, State Infrastructure Banks, and a discretionary grant program.	Up to 12 media-specific State grants would be consolidated at the request of the State, although the underlying EPA programs would remain separate.
Performance incentives.	Up to 10 percent of the annual formula allocation would be withheld and awarded based on superior performance.	Increased flexibility for States and localities to use resources in ways that best meet their needs; providers that fail to meet standards or fail the market test of choice would be eliminated.	Increased funding for grantees that develop, report and show progress toward performance goals.	To keep full spending discretion, localities must meet their performance targets. Up to 10 percent of formula allocation would be withheld and distributed on performance.	Increased flexibility for recipients to use funds in ways that best meet their needs; fewer Federal requirements; ability to leverage Federal funds to generate increased total investment.	Incentives would be negotiated in work plans between EPA and the States, and could include performance-based funding and various means to encourage additional States to accept delegation of EPA programs.
Improved flexibility.	More flexibility at State level on funding priorities set by USDA in consultation with State Rural Development Councils, and State and local governments.	States and localities can design service delivery systems as they see fit to accomplish results.	Small categorical grants replaced with larger, flexible pools of funds. Grantees can decide how funds to be used.	Would remove spending restrictions from current law and replace process compliance with accountability for results.	States and localities given broader discretion to choose projects, fewer restrictions by type of mode (e.g., highways vs. transit); Infrastructure Banks allow closer aligning of expected returns with level of subsidy provided, more flexible use of contributions from State/local revenues and private fees.	Participating States would transfer funds between programs, based on agreements with EPA, without further action by Congress.

Table 12–3. "PERFORMANCE PARTNERSHIPS"—Continued

	Department of Agriculture: Rural Development Programs	Departments of Education and Labor: G.I. Bill for America's Workers	Department of Health and Human Services: Public Health Service	Department of Housing and Urban Development	Department of Transportation	Environmental Protection Agency
Improved accountability.	State-by-State work plans (embodying performance measures and accountability) would be negotiated between USDA headquarters and the USDA State Directors (in consultation with State Rural Development Councils, and State and local governments.	Improved information on jobs, labor markets, and institutional performance will empower individuals to exercise informed choice and not use poor schools; tougher quality standards on providers based on results, system goals for services and outcomes, and published performance.	Strong State planning and reporting process. Grantees will report on outcomes, and progress on broad-based public health goals as well as specific results achieved with PHS funds.	Would consolidate programs into performance-based formula grants which are accompanied by Federal conditions. Grant recipients will be accountable for locally-developed performance benchmarks.	Performance reporting will be simplified under a few large programs; Infrastructure Banks will require substantial contributions of resources from States and localities, user fee financing will assure market tests of investment decisions.	The State work plans would include an evaluation component to maintain EPA oversight while improving environmental results.
Administrative savings.	$42 million over five years with accompanying reductions in headquarters FTEs.	$31 million over five years for Federal oversight FTEs. States use savings from their program flexibility redesign for additional services.	$15 million in 1996 for 230 oversight FTEs with FTE savings more than doubling over four years for cumulative savings totalling $218 million.	$770 million over five years. Phased-in estimates of HUD administering (1) grant versus direct Federal programs; and (2) fewer grants versus the multiplicity of HUD's current grant structure.	Consolidation of grant programs would reduce grant administration costs.	Lower EPA processing costs for consolidated grants, and lower EPA implementation costs in States that accept more delegation of EPA programs.
1996 BA for Performance Partnership grants.	$988 million	$14.1 billion (Discretionary BA)	$3 billion	$26 billion	$25 billion	$634 million
Locus of decision-making.	State Directors (coordinating with the State Rural Development Councils, and State and local governments) would be able to shift resources among existing programs to meet the specific needs of each State.	Most program and administrative design responsibilities are shifted from Federal to State and local levels. Individuals empowered to select training.	Five of 16 program groups will be State grant programs, where decision-making would be left to States. States will be eligible for most of the other 11 grant clusters.	Decision-making shifted to States, cities, and communities.	Fewer Federal constraints on use of funds shifts decision-making to States and localities; Infrastructure Bank decisions reflect market viability of investments.	Participating States would be able to make funding decisions based on their priorities and to simplify their administrative procedures.

How is performance measured?

Performance measures and performance targets will be developed in consultation with State and local governments and other grantees. Performance measures will include input, output, and outcome measures for the populations served.

Restructuring Programs: Other Efforts

In a host of other areas, the Administration proposes to eliminate some programs, turn some functions over to the private sector, and better focus some activities on their proper Federal roles. The savings from these proposals also will help to finance the President's middle-class tax cut and keep the budget deficit under control.

Terminating the Interstate Commerce Commission (ICC): The budget proposes to phase out the ICC, thus removing Government controls that place costly and unnecessary burdens on industry. The proposal would eliminate the bulk of the ICC's activities, including most remaining motor carrier regulatory functions and some rail functions that have outlived their usefulness. It would trans-