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

Block grants have been part of the American federal system since 1966, but their role in federal assistance to state and local governments would expand greatly if current proposals were enacted. These proposals, summarized in table 1, would have particularly dramatic effects on programs in health, where an optional block grant would replace both Medicaid and the State Children's Health Insurance Program (SCHIP), and income security, where new block grants would replace Section 8 housing vouchers, restructure child welfare funding, and allow states to test an alternative to Food Stamps. Other block grant proposals address preschool education, job training, transportation, and justice. In addition, the administration's proposal for reauthorizing the Temporary Assistance for Needy Families (TANF) program—already approved by the House—includes a "superwaiver" provision that could effectively transform certain programs into block grants upon application by a state and approval by the secretary of the administering department (Waller 2003; Greenstein, Fremstad, and Parrott 2002).

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

### TABLE 1. Current Block Grant Proposals

<table>
<thead>
<tr>
<th>Child Welfare</th>
<th>Consolidates the Local Law Enforcement Block Grant, Byrne Formula [Block] Grant, Byrne Discretionary Grants, and Community Oriented Policing Services Hiring Grants to form single block grant.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stamps</td>
<td>Permits up to five states to receive State Food Assistance Block Grant instead of food stamps.</td>
</tr>
<tr>
<td>Head Start</td>
<td>Pilot program permits up to nine states to receive Head Start funding as flexible grant.</td>
</tr>
<tr>
<td>Housing</td>
<td>Replaces Section 8 vouchers with the Flexible Voucher Program, a block grant to public housing agencies.</td>
</tr>
<tr>
<td>Job Access and Reverse Commute</td>
<td>Replaces current project-based program for provision and development of employment transportation services for low-income workers and reverse commuters.</td>
</tr>
<tr>
<td>Job Training</td>
<td>Combines the Adult, Dislocated Worker, and Employment Services State grants to form a single block grant.</td>
</tr>
<tr>
<td>Justice Assistance Grant</td>
<td>Gives states the option to receive Title IV-E Foster Care funding as flexible grant.</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Gives states the option to consolidate Medicaid and SCHIP funding into state acute care and long-term care allotments.</td>
</tr>
<tr>
<td>New Freedom Program</td>
<td>Promotes access to alternative transportation methods for individuals with disabilities.</td>
</tr>
<tr>
<td>Superwaiver</td>
<td>Expands authority for states to seek waivers of statutory or regulatory requirements attached to low-income programs, subject to approval of secretary of administering department.</td>
</tr>
<tr>
<td>Surface Transportation</td>
<td>Pilot program permits up to five states to manage formula highway program funds as a block grant.</td>
</tr>
</tbody>
</table>

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

### Historical Overview

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

state and local governments during this period. A more recent analysis of 11 block grants found that from their establishment to the
1995) found that the real value of four of them decreased from 1986 to 1995, despite a 66 percent increase in total federal grants to
The real value of block grant funding tends to diminish over time. A study of five Reagan block grants (Peterson and Nightingale
Initial funding for block grants has not been consistently higher or lower than funding for the programs they replaced. Four of the five

Funding Gradually Declines

What can we learn from past and present block grants that might relate to the Bush proposals? Some lessons seem clear, while

Lessons from Past and Current Block Grants

Figure 1 shows how far the impact of the Bush proposals would exceed that of previous block grant legislation. It all the proposals
What can we learn from past and present block grants that might relate to the Bush proposals? Some lessons seem clear, while
evidence on other important questions is mixed.

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The real value of block grant funding tends to diminish over time. A study of five Reagan block grants (Peterson and Nightingale
Creeping Categorization Reduces Flexibility
Once in operation, block grants have been subject to "creeping categorization." In this process, Congress erodes the flexibility of block grants by adding restrictions, requiring that a share of funds be set aside for particular purposes, or creating new categorical programs with the same or related objectives. A common explanation traces this phenomenon to members of Congress, who seem to reap greater electoral benefits from narrowly targeted categorical grants or set-asides than from wide-ranging block grants (Conlan 1998). Categorization can also be seen as Congress's response to perceived misuse or misadministration of block grants by state or local governments (Conlan 1981).

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

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

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

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

Implementation of new block grants has been smoothest when and where states were responsible for administering the categorical programs they replaced. States that have already developed a capable administrative structure and established relationships with recipients and service providers can most easily incorporate new responsibilities under a block grant into existing management systems.

The 1981 block grants illustrate the contrast between block grants in policy areas with a history of state involvement and those in areas previously outside of the states' responsibilities. States were able to use existing administrative organizations and service provider networks to implement the social services, education, and health block grants with few additional changes (GAO 1995).

The Community Services Block Grant, however, replaced a system of direct federal assistance to local organizations in which most states played little or no role. To implement the block grant, states had to establish administrative structures, hire new personnel, and develop relationships with service providers (GAO 1984; Bowsher 1982).

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

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

Several block grants of the 1980s centralized authority, sending funding that had gone directly to local governments to state governments instead. For example, the Job Training Partnership Act program, which provided funding through the states, replaced the CETA program, in which state governments had only a minor role (Farber 1989).

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

**Do Block Grants Redirect Program Targeting?**

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

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

**Conclusion**

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

If enacted, the current proposals would create a fourth wave of block grants potentially larger than the first three combined. In one year, the proportion of federal aid to state and local governments delivered through block grants would more than quadruple. Health is currently the domestic policy category in which block grants are least important; under the Bush proposal, almost all federal aid for health would be included in the block grant replacing Medicaid and SCHIP.
The proposed block grants would have particularly significant effects on low-income families with children. Seven of the 10 proposals would affect existing social welfare programs that serve the nation's most dependent populations. Replacing Medicaid and Food Stamps with block grants would eliminate two important means-tested entitlement programs.

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

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

Notes
1. The Medicaid block grant proposal was introduced in the FY 2004 Executive Budget. While the full proposal does not appear in the FY 2005 budget, language does appear that indicates the administration's continued interest in such a proposal. Analysis of the Medicaid block grant proposal in this brief is therefore based on those provisions specified by the administration in the FY 2004 budget.
2. Block grant funding may go to states, territories, local governments, or tribal governments, depending on the program. For simplicity, we refer to recipient governments as “states” throughout this brief.
3. See also Westside Mothers v. Haveman, 289 F.3d 852 (U.S. Court of Appeals 6th Cir. 2002).
4. The estimates in this section and the next were computed from Office of Management and Budget, Budget of the United States Government, Fiscal Year 2005: Historical Tables, Table 12.3 (228-72), and General Services Administration, Catalog of Domestic Federal Assistance, various years. Our estimates for the proposed optional block grants (see table 1) assume the maximum number of states choose to participate. For details, see Finegold, Wherry, and Schardin (2004).

References
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About the Series

This series is a product of Assessing the New Federalism, a multiyear project to monitor and assess the devolution of social programs from the federal to the state and local levels. Alan Weil is the project director. The project analyzes changes in income support, social services, and health programs. In collaboration with Child Trends, the project studies child and family well-being.


This series is dedicated to the memory of Steven D. Gold, who was codirector of Assessing the New Federalism until his death in August 1996.

The authors thank Randy Desonia and Alan Weil for helpful comments and suggestions.

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