How Combining Federal Social Programs into Block Grants May Erode Funding and Foster Inequality

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Over the past several decades, lawmakers have increasingly sought to transform the U.S. welfare state by combining programs into block grants that allow state authorities to move funds around. In the early 1980s, Ronald Reagan's budget plans replaced a slew of categorical grants with consolidated block grants. In 1996, President Bill Clinton worked with Republicans in Congress to convert the nation's cash welfare program for the poor from an entitlement to a block grant. In 2005, President George W. Bush tried unsuccessfully to create ten new block grant programs in a wide range of fields including education, infrastructure, social welfare, and law enforcement. Within the past two years, Republicans have proposed to turn parts of the Affordable Care Act and Medicaid into block grants.

Is it a good idea to shift existing social welfare programs into block grants? Social scientific research suggests that block-granting tends to erode program funding. And because this approach gives more power to state and local governments, it can end up exacerbating racial and economic inequalities.

Block Grant Basics

Block grants are lump sums of federal funds given to states, counties, or local governments for broad, general purposes such as community development, social services, infrastructure, or health care. Categorical grants, in contrast, must be used for specific and narrowly delineated purposes. Compared to categorical grants, the federal government plays a relatively limited role in administering block grants, because federal authorities merely set requirements at the most basic level necessary to meet general goals. States, counties, or local governments retain much more control over the administration and distribution of federal block grant funds.

Proponents of block grants typically argue that converting programs in this way will save money, increase efficiency, and make policies more responsive to local needs. However, the available evidence suggests that such promised benefits almost never come to fruition; instead, block grants often produce negative consequences.

Block-Granting Usually Reduces Funding

When reformers propose switching a program to a block grant, they often reduce funding at the same time, on the theory that increased flexibility and greater autonomy for the states should create efficiencies to offset funding reductions. Ronald Reagan's 1981 budget plan established nine new or revised block grants in the fields of public health, social services, education, and community development — and simultaneously consolidated or terminated 139 categorical programs, nearly a fifth of all existing programs. The new consolidated block grants significantly cut funding for the previous programs — imposing reductions ranging from 10 percent to 30 percent depending on the policy area.

A recent report showed that overall funding has fallen by 37 percent since 2000 across thirteen major housing, health, and social service block grant programs, adjusting for inflation and population growth. Funding for entitlement programs like food stamps and Medicaid used to respond automatically to increased needs during economic downturns — thus helping to stabilize the economy and provide a modicum of security for low-income citizens. But block grants do not automatically adjust. During economic downturns, the fixed nature of block grant funding requires states to either absorb rising costs or cut eligibility and benefit levels.

Greater flexibility can also backfire. In 1996, Congress and President Clinton converted the entitlement-based welfare program Aid to Families with Dependent Children into block grants called Temporary Assistance for Needy Families. Under the old law, the federal government matched half or more of each dollar state agencies provided to needy families and almost every dollar of federal and state funds went directly to cash assistance. Block-granting gave states greater flexibility to deploy dwindling amounts of federal aid. By now they use only about one-quarter of funds for cash assistance, and many states have shifted newly freed-up funds to offset tax cuts or fill state budget gaps. By 2015, only 23 of every 100 poor families with children received cash assistance, down from 68 of every 100 families prior to block- granting.

Block-Granting Can Make Inequalities Worse

States with higher proportions of poor citizens need to be better equipped to respond to citizen needs, but block grant cuts often leave them less able to help the poor and force them to scale back social benefits during economic downturns. As the Temporary Assistance for Needy Families program shows, racial inequalities often grow as a result. When states can govern every phase of the welfare process, those with more minority citizens are more likely to cap family benefits and impose strict eligibility requirements, punitive sanctions, and shorter time limits. When the federal funding was converted into a block grant, one analysis found that “tough welfare policies” were most quickly imposed in states where a “conservative governments held sway and… black families made up a higher proportion of clients.”

Pushing Back

Policymakers and civic leaders should push back against false claims that block-granting social programs will increase efficiency, save money, and make programs more responsive to citizen need. Opponents have available evidence on their side, because block grants usually pass financial burdens from the federal government to already financially-strapped state governments. Especially in times of economic distress or budget pressures, block grants open the door to wider racial gaps. Devolving authority to structure social welfare unleashes races to the bottom, allowing states with conservative governments and high proportions of low-income people of color to slash their social safety nets. At a time when America is purportedly committed to expanding equality and opportunity, this approach worsens inequities by race and place.

Read more in Ryan LaRochelle, “Block-Granting and the Erosion of the American Welfare State,” paper presented at the Annual Meeting of the American Political Science Association, September 2018.