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Welfare Series: Block Grants Starve State Budgets

By Jennifer Friedlin, WeNews Correspondent

(WOMENSENEWS) – The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 did more than change the work requirements and benefits offered to welfare recipients. It also overhauled the way the federal government funds welfare.

Rather than maintain welfare as an entitlement of cash assistance for anyone who qualified, Congress began providing funding to states through a block grant that offers a fixed amount of money for welfare programs.

In the late 1990s, when the economy was strong and caseloads dropped precipitously, the federal block grant, which has held steady at $16.5 billion a year, provided states with enough money to help cover costs of welfare, which under the 1996 act became known as the Temporary Assistance for Needy Families program.

Now, at a time of rising inflation and weaker state economies, states must bear the brunt of increasing costs.

<u>Structure Leads to Cuts and Limits</u>

"The TANF story underscores how moving to a block-grant structure makes it much more difficult to expand funding for a program or even to keep up with inflation," said Mark Greenberg, director of policy at the Center for Law and Social Policy, a family policy and advocacy organization based in Washington, D.C. "So, there's a greater likelihood that families face cuts in benefits and services over time, because it's impossible to sustain current levels of services with flat funding," he said.

In the years immediately following 1996, states were not spending as much as they were receiving under TANF. In part that was because guidelines for what states could do with the money were not issued until 1999.

When the guidelines came out, states realized they had a lot of discretion about how to spend the money. In general, states began allocating less money for cash assistance and more for so-called work supports, such as child care and job training.

In order to make these supports available, states have also had to dip into the reserves they built up between 1996 and 1999. In total, states used $2.6 billion of their reserves between 2000 and 2002 above the block grant. At the end of fiscal year 2002 states had a total of $6 billion in reserves. As this money gets used, states will have a more difficult time funding the types of programs, such as child care, that have enabled single parents to go to work.

States Can't Keep Up

"States have continued to dip into reserves and are using them up," said Zoe Neuberger, a policy analyst at the Center on Budget and Policy Priorities, a Washington, D.C.-based research institute. "This puts them in the awkward position that they can't keep up their programs."

States are already coming under pressure in part because inflation is eating away at the real value of the block grant. A 2002 paper published by The Brookings Institution reported that the real purchasing power of the $16.5 TANF block grant has been falling annually and by 2007 the grant will be worth 22 percent less than it was in 1997.

"There should be an inflationary adjustment," said Ron Haskins, a senior fellow at The Brookings Institution and the welfare staff director of the House of Representatives Ways and Means committee when the 1996 welfare reforms were developed and enacted.

Haskins said, however, that there has never been a serious discussion in Washington about such an adjustment largely because the sharp drop in the welfare caseload has made it difficult to argue for an increase in funds. "Even if you take account of inflation we're still way ahead of the game," he said.

Supplanting Welfare

While inflation has eaten into purchasing power, many analysts, including Haskins, are also concerned that a number of states, including New York, Ohio and Texas, are taking advantage of the flexibility inherent in the TANF spending guidelines to "supplant" welfare funds. In other words, states in some cases, may be using money originally earmarked for welfare for other purposes.

In 2001, Cuyahoga County sued the state of Ohio for allegedly diverting hundreds of millions of dollars of TANF money to Head Start programs that are not part of the welfare program. Cuyahoga County, the largest in Ohio, argued that by diverting the money, the governor had broken a deal he made with the counties to do whatever was needed to make TANF work.

A judge ruled against the county, saying that the governor's commitment to the county ended after each budget cycle. On another count, however, the county won. In that instance, the county argued and the judge agreed that that the state could not use $60 million in social service money from the TANF block grant to balance the budget.

James Corrigan, government relations officer for Cuyahoga County Commissioner, referred to what the state has tried to do with the funds as "dangerously creative."

Texas Diverts Millions

Similarly, policy analysts say that between 1997 and 2001 Texas pulled more than $300 million out of the TANF budget and used the funds for non-welfare related services.

"We have huge waiting lists for child care of upwards of 40,000 kids and we need job training," said Patrick Bresette, associate director for the Center for Public Policy Priorities, a non-partisan policy research organization based in Austin. "It would have been one thing if the state had no new money, but we gave away huge tax cuts. I could argue that the state used TANF funds to fund tax cuts."

Experts say there is little that can be done to correct the diversion of welfare funds without greatly reducing state flexibility in designing and implementing their welfare programs, a cornerstone of the 1996 legislation.

The flexibility has produced widely divergent welfare programs across the 50 states, as the neighboring states Wisconsin and Minnesota demonstrate.

While Wisconsin took a very conservative approach toward welfare reform, Minnesota has stressed the importance of helping single parents to not just leave welfare rolls but also poverty.

"Figuratively speaking, Wisconsin made it hard to get in the front door while Minnesota made it easy to get in and then helped people get into stable employment," said David Hage, an editorial writer for the Minneapolis Star Tribune and author of "Reforming Welfare by Rewarding Work," a book about Minnesota's welfare program.

North-South Discrepancies

The 1996 welfare law also led to large discrepancies between the richer states in the north and the poorer ones in the south. The block grant is divvied up among states based on each one's historical spending levels under the Aid to Families with Dependent Children program, the precursor to TANF.

Since poor states historically offered lower benefits, they now receive less money per person.

To compound matters, under the new guidelines states must match 75 to 80 percent of the funds they receive from the federal government. This means that rich states are not only receiving more federal money, they are allocating more of their own resources.

“The big arguments in the debate over welfare reform were about the grander issues of social policy like time limits, work requirements, and whether to have a block grant structure, not about how the funding was being divided among the states,” said Greenberg of the Center for Law and Social Policy. “As a result low-benefit states got a bad deal.”

Moving forward, the system is not likely to become any more generous for states or any more accountable to taxpayers, many analysts say. Congress has proposed keeping the block grant at $16.5 billion a year from 2005 through 2009.

Jennifer Friedlin is a writer in New York.

For more information:

Center for Law and Social Policy: http://www.clasp.org/

Center on Budget and Policy Priorities: http://www.cbpp.org/

Center for Public Policy Priorities: http://www.cppp.org/