



WELFARE BLOCK GRANTS AS A GUIDE FOR MEDICAID REFORM

“Block granting Medicaid or other poverty-related programs to the states will not be a panacea, but should help create an institutional setting for the more efficient use of tax dollars.”

In 1996 President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act replacing the Aid to Families with Dependent Children (AFDC) program with the Temporary Assistance to Needy Families (TANF) program. This reform of the nation’s welfare system replaced federal matching grants for AFDC with block grants to states, eliminated the entitlement to cash assistance, and imposed work requirements on recipients.

Welfare reform has reduced the number of recipients by more than two thirds, and it has not resulted in the “race to the bottom” feared by some. Benefit levels have not been slashed and child poverty has not risen.

Driven by the need to reform unsustainable entitlement programs, policymakers today are looking to the successful example of welfare reform—specifically, to its block grants to states. To inform this discussion, a new Mercatus Center at George Mason University study by Daniel Sutter reviews arguments in the debate over block grants versus matching grants for joint federal-state programs, examines the effects of shifting control of welfare programs to the states, and considers how the lessons from welfare reform can inform the current debate about Medicaid block grants.

A brief summary is below. To read the full study and learn more about its author, please see [“Welfare Block Grants as a Guide for Medicaid Reform.”](#)

Summary

The Success of Welfare Reform

The goal of welfare reform was to encourage AFDC recipients to transition to the workforce, thus reducing welfare rolls without imposing undue hardship on recipients.

- As measured by the number of recipients, reform has been a success.
 - The welfare caseload fell by 59 percent between 1996 and 2002; by 2006, there were 10 million fewer recipients than in 1994.
 - TANF appears to have permanently reduced the welfare caseload. During the 2007–2009 recession, the caseload increased by only about 10 percent and remained at less than a third of the 1994 total.
- The race to the bottom has not taken place: maintenance-of-effort requirements imposed on states by the federal government prevented cuts in TANF benefit levels.
 - The child poverty rate declined after welfare reform, from 20.5 percent in 1996 to 16.7 percent in 2002, during which time TANF caseloads fell by about 60 percent nationally.
 - The child poverty rate did not return to early-1990s levels, not even during or after the 2007–2009 recession.

Lessons of Welfare Reform Block Grants

The flexibility provided by block grants appears to have been critical in allowing states to adapt a model of reform to fit their specific needs, economic conditions, and policy environments.

- Block grants enabled policy experiments in the "laboratory of the states" that yielded benefits to the nation as a whole.
 - Caseload declines under TANF varied substantially from state to state. Research on welfare reform confirms that differences in states' policy innovations explain the reductions in caseloads.
 - States can benefit from the experiments of others by adopting successful innovations and avoiding ineffective policies.
- Block grants generate an incentive structure more conducive to efficient spending of tax dollars.
 - Under AFDC's matching grants and Washington's open-ended commitment to share the cost of benefits, each state had an incentive to set a benefit level greater than its voters would prefer if they had to consider the full cost.
 - Under block grants, states face the full cost of expanding cash assistance—and reap the full benefits from controlling fraud and abuse; both are strong incentives to reduce spending.

Lessons for Future Block Grant Reforms

The experience of welfare reform demonstrates that block grants offer a viable means of tailoring programs for state conditions and creating better incentives for spending tax dollars efficiently. It also offers several contributions to the debate over extending block grants to Medicaid and other joint federal-state programs.

No Race-to-the-Bottom. The maintenance-of-effort requirements imposed by the federal government limited the potential diversion of TANF block grants, while allowing states to keep dollars saved on the margin.

Broad Block Grants Better Align Incentives. Broad block grants eliminate the potential to merely shift beneficiaries to other programs.

- The federal government today maintains more than 80 poverty assistance programs. States have an incentive to discourage participation in the block grant program and instead enroll recipients in substitute federally funded programs. Increases in participation in food stamps and the Social Security disability program may be a consequence of such substitution for traditional cash assistance programs.
- Broad block grants may prevent this situation; breadth of block grants is particularly relevant for Medicaid, given the close connections between health and other life choices.

The Importance of Experimentation. Most of the innovative state programs to encourage welfare-to-work transitions were initiated under the AFDC waiver program, begun before the 1996 welfare reform.

- The role of the AFDC waiver program in the success of TANF block grants highlights the importance of a preliminary round of experimentation before the block granting of Medicaid.
- States need promising models to use when devising their own programs, and the AFDC waiver programs offered "proof of concept" that helped inform the debate over the 1996 reform law.
- The ongoing policy experiments being conducted currently under Medicaid waivers suggest that the time may now be right for Medicaid block grants.

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