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WELFARE BLOCK GRANTS AS A GUIDE FOR MEDICAID REFORM

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Abstract

In 1996 President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act, replacing the Aid to Families with Dependent Children program with the Temporary Assistance to Needy Families program. This reform of the nation's welfare system replaced federal matching grants for the Aid to Families with Dependent Children program with block grants to states, eliminated the entitlement to cash assistance, and imposed work requirements on recipients. Welfare reform has reduced the number of welfare recipients by over two-thirds, and has not resulted in the race to the bottom feared by some Democrats: benefit levels have not been slashed and child poverty has not risen. Block grants allowed states to tailor welfare reform to their own legal and economic conditions, and increased the incentive to control waste, fraud, and abuse.

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Welfare Block Grants as a Guide for Medicaid Reform

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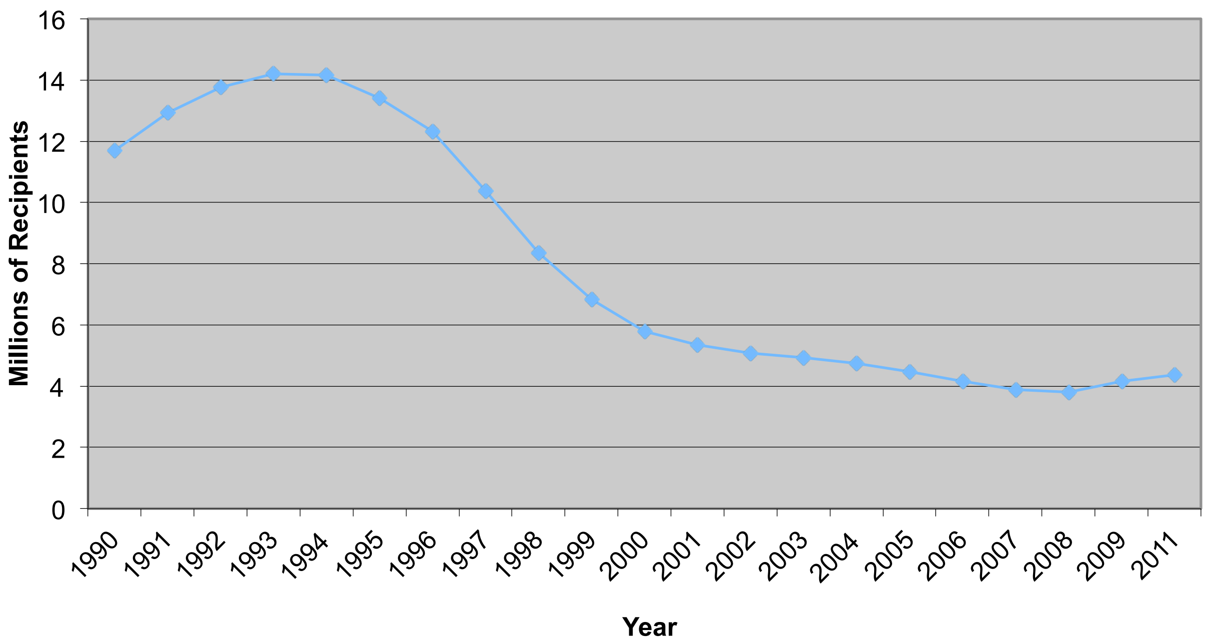
I. The End of Welfare?

President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) with great fanfare on August 22, 1996, ending "welfare as we know it," or specifically the Aid to Families with Dependent Children program (AFDC). A new program known as Temporary Assistance to Needy Families (TANF) was created to replace AFDC. TANF is jointly administered by the federal government and the states, with federal funding provided through block grants. The new act set a time limit on TANF eligibility, eliminating the AFDC entitlement.

The intellectual case for welfare reform had been laid out by sociologist Charles Murray in his seminal work *Losing Ground* (1984). Murray documents the adverse effects of welfare programs on recipients, including dissolution of families and loss of the self-esteem normally generated through work. Nonetheless, many politicians and commentators prophesied dire consequences of the end of AFDC and the adoption of TANF. Representative Dick Gephardt predicted that the new program "could put a million children in a difficult situation." Senator Daniel Patrick Moynihan called the legislation "the most brutal act of social policy since reconstruction" (both quoted in New 2008, p. 516). Senator Ted Kennedy in a Senate debate characterized the measure as "legislative child abuse" (quoted in Edelman 1997).

The goal of welfare reform was to encourage AFDC recipients to transition to the workforce, and thus reduce welfare rolls without imposing undue hardship on recipients. As measured by the number of recipients, reform has been a success. Figure 1 displays the time series of AFDC/TANF recipients nationally, and the decline is immediately apparent. The caseload fell by 59 percent between 1996 and 2002; by 2006, there were 10 million fewer recipients than in 1994. The strong economy undoubtedly helped the reduction, but the caseload increased by only about 10 percent during the 2007–2009 recession, and remained at less than a third of the 1994 total. TANF appears to have permanently reduced the welfare caseload, without bringing the feared consequences for recipients and their children.

Figure 1. US AFDC/TANF Recipients



Source: US Department of Health and Human Services, TANF Caseload Data, available at http://archive.acf.hhs.gov /programs/ofa/data-reports/caseload/caseload_recent.html.

In 2012, the results from welfare reform have led to renewed interest in block grants to the states for Medicaid (Howard 2012), food stamps, and other poverty-related programs. The interest today seems driven by necessity—escalating federal debt has led Republicans and Democrats to look for options that might reduce spending without totally gutting current programs. As a consequence, this debate can be informed by an examination of how TANF block grants led states to adopt innovative policies to improve the welfare system, or of the operation of the “laboratory of the states,” in the famous phrasing of Supreme Court Justice Louis Brandeis.

This paper reviews arguments that have been made in the debate over block grants versus matching grants for joint federal-state programs, both generally and in the context of welfare reform. It then turns to what the experiment with shifting control of welfare programs to the states has revealed. The race to the bottom feared by many has not taken place: maintenance-of-effort requirements imposed on states by the federal government prevented cuts in TANF benefit levels. The flexibility provided by block grants appears to have been critical in allowing states to adapt a model of reform to fit their policy environments. Welfare reform also highlights the limits of block grants for one program in the presence of substitute federal programs. Finally, this study offers some lessons from welfare reform to inform the current debate about Medicaid block grants. Block grants have the potential to help improve program performance, but will not solve the federal government’s fiscal problems.

II. The Benefits of State-Level Policy-Making

Shifting control of welfare programs to the states through block grants promised two sources of improved performance. The first is the policy innovations expected to emerge from the “laboratory of the states.” The second is the effect of block grants on the marginal cost to states of providing welfare benefits.

Making policy decisions at the state as opposed to the federal level offers numerous advantages for the design of welfare programs (Oates 1972). State-level decisions allow policy makers to tailor programs to state conditions, whereas programs designed in Washington, DC, are more likely to be uniform across the country. Policy makers could design state TANF plans to take each state's conditions into account, both on the cost side (for instance, the ability of a state economy to create jobs for former welfare recipients) and the demand side (for instance, the preferences of state residents concerning the level of benefits). Extra costs and excessive, mismatched, or insufficient benefits result if the federal government unnecessarily imposes a one-size-fits-all solution on diverse and heterogeneous states.

As states tailor policies for their specific conditions and preferences, the resulting diversity of policies produces policy experiments that yield benefits to the nation as a whole. A state might be more willing to change the parameters of a program, say conditions governing work requirements, than the federal government. Feedback on the effectiveness of these various innovations is a public good, meaning that the knowledge is available to all the states. The availability of evidence from the field regarding innovations allows both the innovating state and other states to see whether specific work requirements, for instance, are effective. States can adopt successful innovations and avoid the mistakes and missteps of others. Early successes might convince other states that reforms will be as effective as expected or that side effects will be less severe than anticipated, and thus lead to more extensive reform than would occur if "proof of concept" were not available.

The other major effect of block grants was to increase the marginal cost to states of welfare benefits. Under AFDC, states received federal dollars on an open-ended match of their spending. The rate for the federal match depended on state income and ranged from $1 to $4 from the federal government for every dollar spent by the state. Thus, if a state wanted to offer $1 extra in welfare benefits, the cost to state taxpayers would range from 50 cents with a $1-for-$1 match to as little as 20 cents with a $4-for-$1 match (Powers 2000). States could pass part of the cost of their generosity on to the federal government, and thus to taxpayers in other states. On the other hand, TANF block grants were set using the caseload in a base period, so a state offering more generous benefits for a longer period of time, or with fewer work restrictions, would have to pay the full cost. Shuttling dollars from taxpayers across the nation through Washington, DC, and back to the states does not create money, and thus the taxpayers in total always pay the full cost of welfare. But under matching grants and Washington's open-ended commitment to share the cost of AFDC 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. AFDC matching grants created a familiar problem of (partial) third-party payment.

Block grants also improve the incentive for states to reduce spending, particularly by controlling fraud, waste, and abuse. Under matching grants, a state that pays 50 cents for every dollar of spending also saves only 50 cents for every dollar of waste eliminated. Yet states are in a much better position to identify and eliminate waste and abuse than the federal government. Block grants generate an incentive structure more conducive to efficient spending. To ensure that states benefitted from reducing their welfare caseloads, perhaps through more vigilant efforts to prevent fraud, waste, and abuse, TANF block grants were based on caseload in 1994 in the initial PRWORA funding cycle. If the block grant amount is adjusted too frequently, the difference between matching grants and block grants disappears: a state that reduced its caseload by 10 percent in a year could see its block grant reduced by 10 percent the next year. Infrequent resetting of the base grant amount allows states to benefit from the reduced costs in the interim, with federal spending eventually reduced to benefit taxpayers.

Shifting welfare policy to the states through block grants does bring some potential costs, and barriers block the realization of the potential gains from state experimentation. Perhaps the most widely voiced concern involves a "race to the bottom" among states regarding welfare benefit levels (Lurie 1997; Super et al. 1996). States could reduce welfare caseloads by cutting benefit levels, imposing tougher work requirements, and reducing time limits with the expectation that recipients would move to nearby states to avoid these requirements. With welfare-related migration, a $1 cut in benefit levels could save a state more than $1 in payments, if some recipients leave the state because of the cut. Similarly, a state with relatively generous benefits could become a welfare magnet, raising the cost of its program, which the state pays under block grants.

With matching grants, however, the increased cost of a generous program that attracts migration will be paid only partially by the state, with the rest of the costs shifted to other states via the federal government. A race to the bottom would lead to an outcome that is the opposite of third-party payment effects: namely, levels of assistance that Americans would think are too low overall instead of too high. The dire and extreme characterization of PRWORA by Senators Moynihan and Kennedy (noted above) can be interpreted as referring to a race to the bottom. While the term “bottom” suggests zero benefits, it strictly means lower benefits than desired.

Economists have long favored a federal role in welfare programs because assistance to the poor is a public good (Brueckner 2000). If Americans care for the plight of all poor Americans, this argument goes, Californians create benefits for Georgians, Minnesotans, and residents of other states when they provide welfare to the poor in California. If welfare policy choices are set exclusively by states, legislators in California may fail to consider the spillover benefits created for other Americans when assisting poor Californians. Alternatively, Georgians and Minnesotans can freeload off the efforts of California to assist their poor. The public good argument implies, again, that the benefit levels set by individual states would be lower than what

Americans would favor if states could collaborate to set a collective benefit level. Proponents of this argument hold that this coordination can be achieved by the federal government.

The potential for states to experiment and learn from experiments does not mean that learning and emulation will occur. While the laboratory of states metaphor is powerful, some factors may limit the amount of innovation and imitation states undertake. State government does not have a residual claimant, so political entrepreneurs, politicians, and diligent bureaucrats will not be able to profit from policy innovations or efforts to control waste. State legislators will be less likely than business managers to control costs, because legislators cannot benefit from the savings. Whereas private firms might lose customers and suffer losses if they do not adopt cost-reducing innovations, a state's welfare bureaucracy does not face a similar competitive threat. If the states do constitute a laboratory, it is a government-run laboratory, and will not be as efficient as a lab in the private sector. In addition, the effect of policy experiments is not always apparent to the casual observer and thus analysis may be needed to evaluate outcomes. If states fail to provide adequate resources for policy evaluation, the lessons from experiments that do occur may go unlearned.

These factors relate to the overall efficiency of the political system. If democratic decision-making is rather inefficient, as Mitchell and Simmons (1994) and other public choice economists hold, the gains should be smaller than otherwise. Wittman (1995) argues that scarcity creates at least minimal pressure for efficiency in the political sector. If politicians can reduce the costs of welfare programs but maintain safety-net support for individuals truly unable to work, the cost savings can be used to satisfy currently unmet political demands.

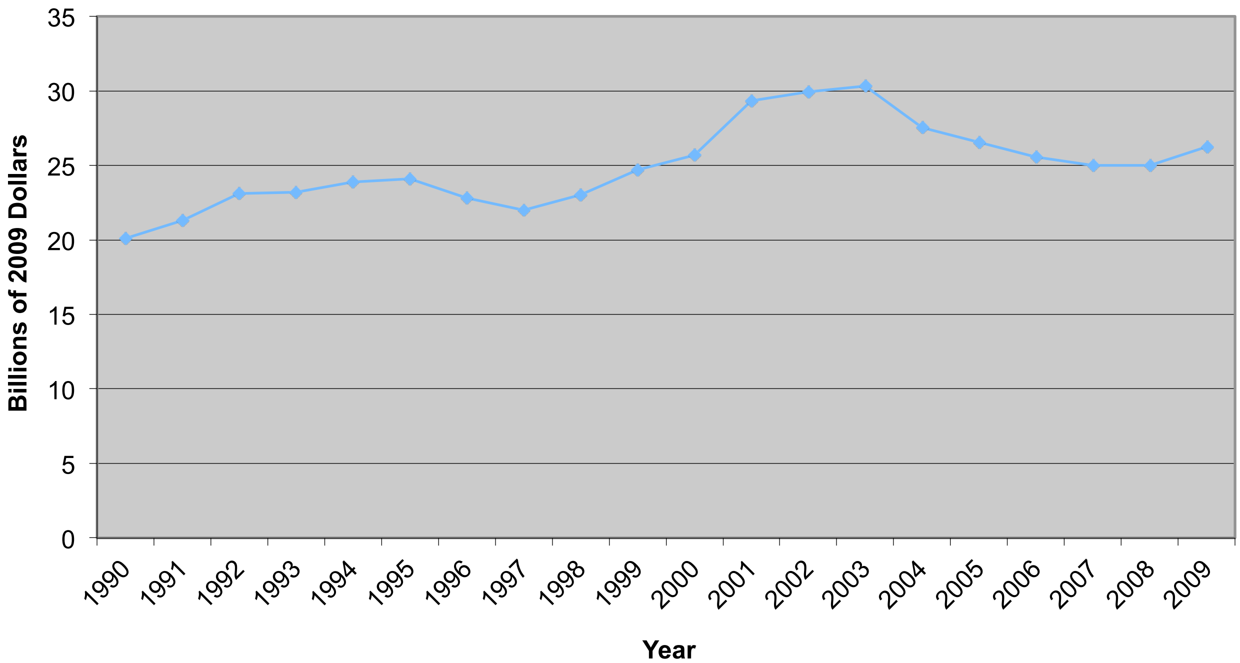
III. The Lessons of Welfare Reform

Many politicians and observers predicted that abolition of the AFDC entitlement program would have the most dire of consequences (Edelman 1997). Whether third-party payment or the race to the bottom would dominate was ultimately an empirical question. Fortunately predictions of children dying in the streets have not come to pass. Even the reduction in the number of AFDC/TANF recipients shown in figure 1 is somewhat inconclusive, if reductions in caseload led to recipients being unable to make the transition to the workforce and being left in dire straits. What lessons emerge from states' experiences under TANF block grants?

Real Improvements, Not Just Apparent Ones

The reduction in welfare caseloads is only a partial measure of reform success. The political coalition in favor of welfare reform in 1996 did not intend to simply halt assistance to poor families altogether. Instead the goal was to retain welfare as a component of the safety net but eliminate long-term dependency by encouraging welfare-to-work transitions (Murray 1984; Brooks 2010, pp. 112–17). A reduction in welfare rolls attained simply by cutting off or reducing benefits would be inconsistent with the goal of reform. This does not appear to have happened. States did not generally reduce TANF benefit levels with the institution of block grants, as cynics might have expected. New (2008, p. 519) reports that TANF benefits averaged across states actually increased by less than 1 percent between 1996 and 2002 (adjusted for inflation), and only three states changed their benefit level by more than 30 percent. Benefit reductions cannot be the cause of TNAF caseload declines of 60 percent or more in many states. The level of spending also provides evidence on this point. Figure 2 reports real federal spending on the AFDC/TANF programs, which remained relatively constant despite some fluctuations, rising from $24 billion in 1995 (2009 dollars) to $25 billion in 2008. The level of spending is probably more relevant for the extension of block grants to Medicaid, as significant reductions in caseload are not realistic for Medicaid. Since spending remained approximately constant and caseload fell, cost-per-recipient necessarily rose, although TANF spending now in part supports workforce transitions and not just transfers.

Figure 2. Federal Spending on AFDC/TANF

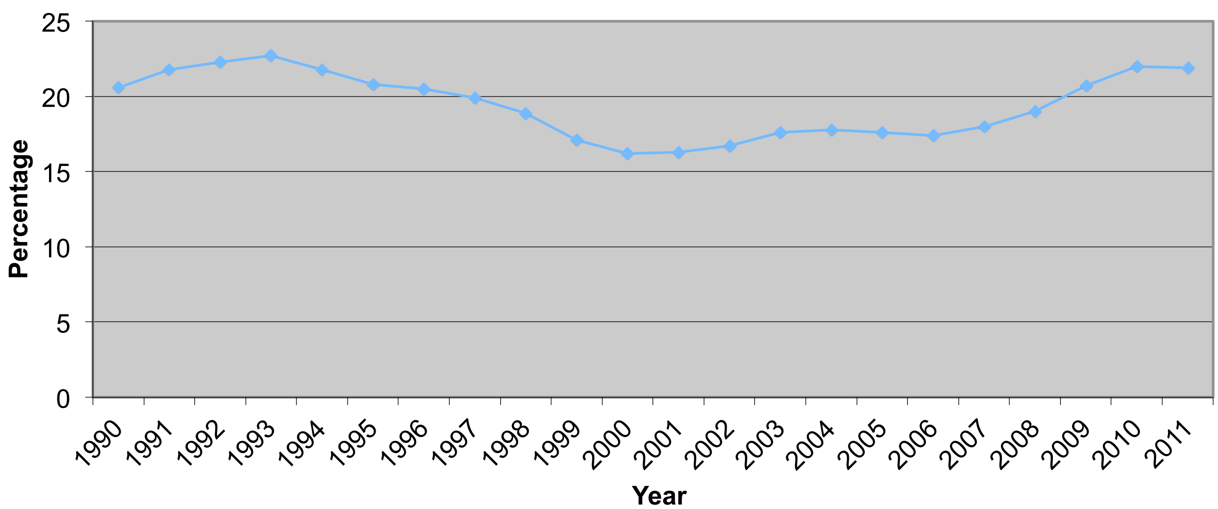


Source: Tax Policy Center, Tax Facts, available at http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=266.

Opponents of welfare reform predicted that the child poverty rate would rise significantly under PRWORA (Super et al. 1996). If welfare reform reduced caseloads by simply dropping recipients without work opportunities, as critics feared, Americans might expect to see a rise in the child poverty rate. Figure 3 reports the national poverty rate since 1990 for persons under 18 years of age. 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.

While a strong economy may have been responsible for the declines in the late 1990s, the child poverty rate did not return to early-1990s levels even during or after the 2007–2009 recession. Reform seems to have reduced TANF caseloads without imposing socially unacceptable levels of hardship on recipients. In addition, many former welfare recipients have transitioned into the workforce, where they have developed the job skills to raise themselves out of poverty and enjoyed the success earned from work (Brooks 2010, pp. 116–17).

Figure 3. US Child Poverty Rate



Source: US Census Bureau, "Survey of Current Population," Historical Poverty Tables, Table #3, http://www.census.gov/hhes/www/poverty/data/historical/hstpov3.xls.

The Race That Never Happened

Why did a race to the bottom not occur, especially given the political opposition to welfare? TANF remains a joint federal-state program, limiting the extent of any potential race. The federal government provides the bulk of TANF funding through the aforementioned block grants, revenue raised through federal taxes. Thus states do not face migration in response to the taxes to support the program, only potential migration by the recipients. Moreover, the migration of welfare recipients to states with high benefit levels appears to be more limited than the term "welfare magnet" suggests. Although some evidence of migration due to benefit levels exists (Blank 1988), one survey concludes that the results evidence "a mixed effect that is at best mildly positive in favor of the hypothesis of welfare migration" (Brueckner 2000, p. 519).

PRWORA's maintenance-of-effort requirements, or floors on state benefits, also helped prevent the race. The floor, initially set at 80 percent of states' prior benefit levels, prevented states from excessively cutting benefit levels and using the block grants for other purposes. If states' reforms reduce welfare rolls and program costs, they can keep the savings under block grants, but federal TANF grants are allocated to operate a TANF program in some form, not to use solely for other purposes. The importance of the maintenance-of-effort requirement is one of the takeaway lessons for policy makers from welfare reform.

A final factor preventing a race to the bottom may be public support for assistance programs. Americans have demonstrated support for safety-net programs, but hostility toward welfare dependence (Brooks 2010; 2012). TANF's time limits and work requirements, by reducing the potential for dependency among the nondisabled poor, ironically could increase public support for these programs, defusing popular pressure to reduce benefits.

Elements of Successful Reforms

The TANF caseload fell by about 60 percent nationally between 1996 and 2002, so state programs under PRWORA block grants in the whole had their intended effect. Yet how much of this reduction was due to the TANF programs, and how much was a product of the strong economy or of other policy changes (such as expansion of the earned income tax credit)? For instance, Donna Shalala, secretary of health and human services during the creation of TANF, later stated, “What happened on welfare reform was this combination of an economic boom and a political push to get people off the welfare rolls” (quoted in New 2008, p. 517). States did not implement identical reforms under TANF, and the caseload decline varied substantially from state to state (see Rector and Youssef 1999 or New 2008 for specific figures). The variation suggests that different elements of state TANF programs certainly contributed to the reduction. Research confirms that differences in the policy innovations explain the reductions in caseloads.

Three policy factors affected caseload reductions. One factor, not directly a component of reform, was the level of benefits under a state’s AFDC and TANF programs. States with lower initial benefit levels experienced greater caseload reductions (New 2002). Because states did not reduce benefit levels with TANF and states with more generous benefit levels had higher caseloads to begin with, one might expect that states with higher benefit levels would be able to reduce loads more. Yet this was not the case. The explanation lies in the value of participation. A lower benefit level reduces an individual’s gain from participation in TANF, making it less likely a person will accept the work requirements to remain in the program.

The second factor, which was an element of policy reforms, was the immediacy of work requirements. TANF requires all state programs to include a work requirement, but some states imposed this requirement immediately upon recipients. Rector and Youssef (1999) find that states with an immediate work requirement experienced an 11 percentage point larger caseload reduction in 1997/98, everything else held constant.

The third factor was the nature of the sanction for violation of program requirements. Some states reduced a recipient’s payment for the first violation of TANF work requirements, while others did so only upon repeated violations. The portion of TANF benefits subject to sanction also varied from state to state. Some states withheld only the adult’s portion of the payment for rule violations, while others put the full payment at risk. Normally the adult's portion is only a small part of the overall payment, so withholding the full payment is potentially a much more significant penalty. Empirical analysis has shown that stricter sanctions significantly reduced TANF caseloads (Rector and Youssef 1999; New 2008). Furthermore, controlling for variation in state policies, state economic conditions (e.g., the state unemployment rate) were no longer significant determinants of caseload reductions. The impact of sanctions for failure to comply with work requirements is particularly troubling because the Department of Health and Human Services is considering unilaterally revoking work requirements (Rector and Payne 2012).

TANF work requirements reduced caseloads for several reasons (Rector and Youssef 2012). One is that many former welfare recipients were able to join the workforce, and reported a high level of satisfaction and eventually higher standards of living from doing so. In addition, many AFDC recipients had previously engaged in unreported work. TANF work requirements prevented recipients from easily continuing this unreported work, and many decided that the unreported work provided a better deal than TANF. Waste and fraud have been easier to detect and eliminate as well, since a recipient receiving multiple payments cannot simultaneously fulfill multiple work requirements.

Operation of the Laboratory of the States

Welfare reform in the 1990s started with a series of state-level experiments begun under the AFDC. The George H. W. Bush administration encouraged states to create experimental programs to move able-bodied recipients from welfare to work through AFDC waivers. In total, 43 states began some type of AFDC waiver program (New 2008, p. 518). Many innovative state programs were introduced at this time, and the extent of the experiments grew; Wisconsin received a waiver to completely replace its AFDC program with its welfare-to-work program before the passage of the PRWORA. Although states did develop innovative welfare reform policies, block grants were not a necessary condition for the experiments. One reason for this was legal, but still significant. States' policy-making institutions differ, so policy makers must tailor a model for welfare reform for the institutions and circumstances of each particular state. The adjustments needed to tailor a program could easily run afoul of restrictions on matching grants (Lurie 1997).

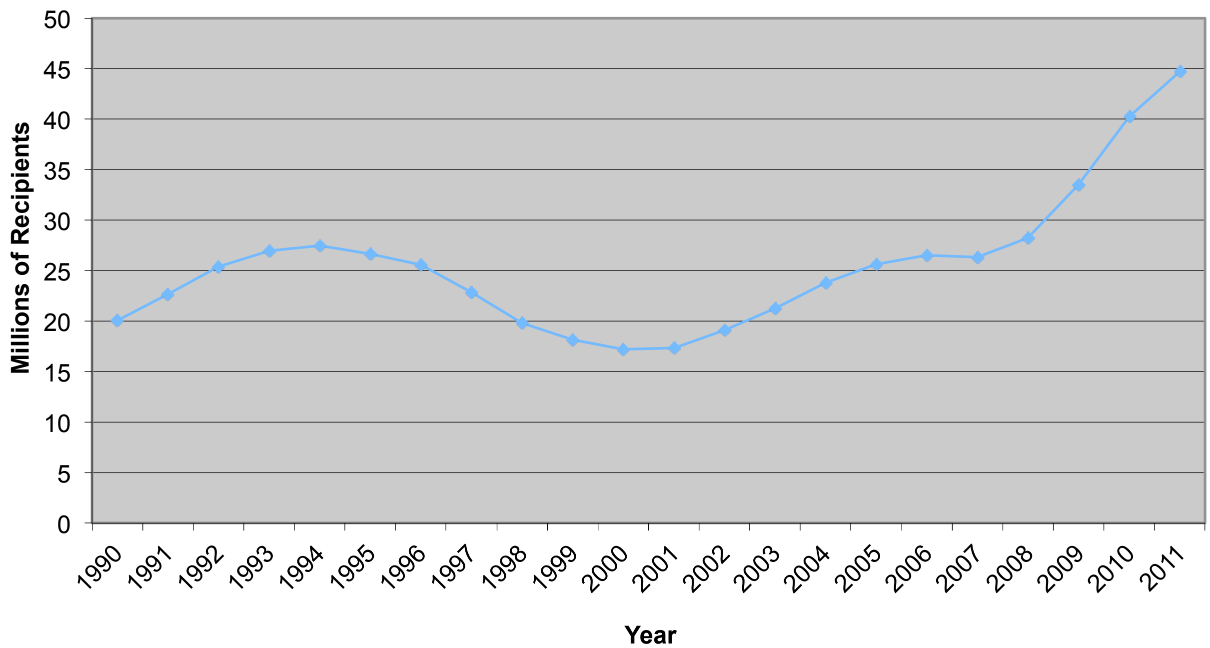
Although significant variation emerged in states' welfare reform plans, states exhibited relatively little evidence of learning from each other's experiences and adopting the best practices (Gais and Nathan 1999). Most states settled on a model for reform relatively early in the process and then stuck with this approach, even if other states were having more success. States were interested in learning from their own experiments, but basically viewed feedback as a way to implement course corrections in their own chosen plan. The range of reforms used by early experimenters did shape the choices of late-reforming states, in that a state beginning reforms late might decide on a reform plan based on the model from an early-experimenter state. Once a model was adopted states mainly tinkered to make the model work given their circumstances, instead of abandoning ship and beginning over with an alternative model. Gais and Nathan (1999) find that transfers of influence among states occurred from the use of common consultants from think tanks or the hiring of administrators from another state, so results from the laboratory of the states percolated through these more informal channels.

Substitution with Other Income Maintenance Programs

AFDC was but one of over 30 means-tested federal programs designed to assist low-income households (Goodman and Carlson 1995). Block grant funding for TANF leads to a different set of responses by states and individuals when viewed as one of a set of closely related programs, where others are still funded by federal dollars, than when viewed as an isolated event. The closely related programs can serve as substitutes, creating the potential for reductions in TANF caseload that do not accurately reflect a reduction in welfare state spending (Burkhauser and Daly 2011). Given the existence of related substitute programs, states might choose to enact strict eligibility requirements and shift recipients to federally funded assistance programs. TANF caseloads could fall despite the persistence of welfare dependency and spending, and states could divert TANF block grant funds to other purposes. Welfare recipients might also react to the restriction of eligibility for TANF by seeking out other government assistance programs.

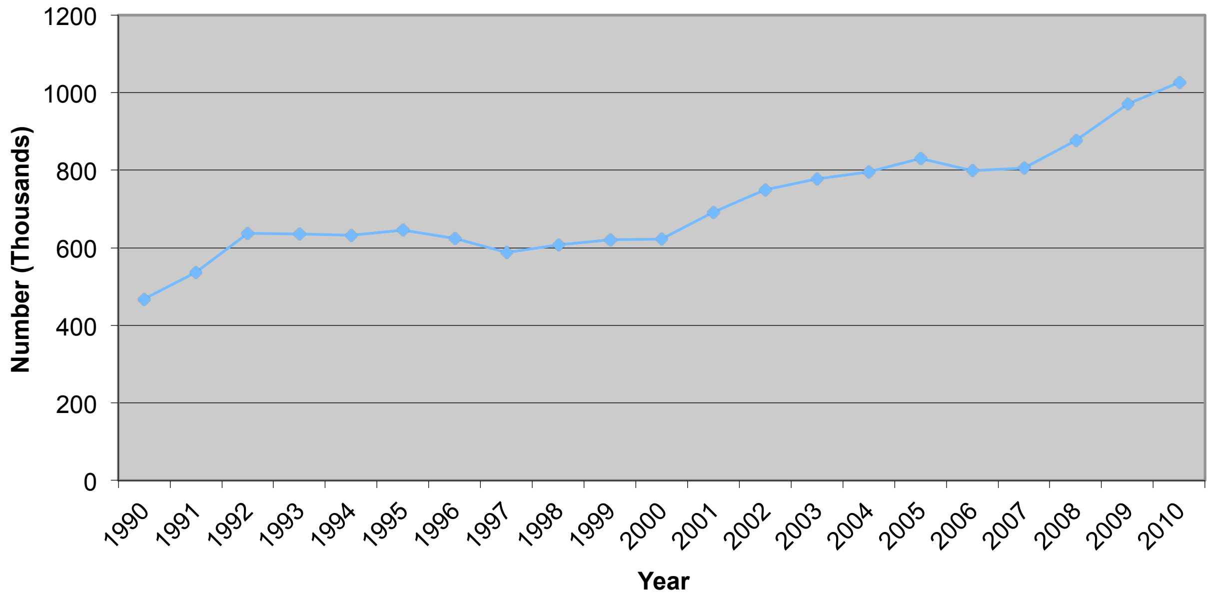
Several other assistance programs show evidence of TANF-related substitution. Figure 4 reports the number of Americans receiving food stamps annually since 1990. The number of food stamp recipients increased following the 1990–1991 recession, peaking at 27.5 million in 1994 before declining steadily to 17.2 million in 2000. This number did not drop as dramatically as the number of TANF recipients during the late 1990s, suggesting again that the economy was not the exclusive driver of TANF caseload declines. The number of food stamp recipients has increased steadily since 2000, with only a small decline in 2007; by 2008 participation exceeded the 1994 peak. The food stamp program has experienced tremendous growth since 2008, with a 58 percent increase in recipients. Figure 5 reports the annual number of new disability claims under Social Security since 1990. New disability awards fluctuated from 600,000 to 650,000 between 1992 and 2000, before increasing to around 800,000 in the middle part of the 2000–2009 decade and then exceeding 1 million in 2010. TANF work requirements apply only to able-bodied workers, so the Social Security disability program represents a particularly relevant alternative for TANF recipients, as Burkhauser and Daly (2011) emphasize.

Figure 4. US Food Stamp Recipients



Source: US Department of Agriculture, 2013, "Supplemental Nutrition Assistance Program Participation and Costs," http://www.fns.usda.gov/pd/SNAPsummary.htm.

Figure 5. New Social Security Disability Awards



Source: Social Security Administration, 2011, "New Awards to Retired and Disabled Workers," Fast Facts and Figures About Social Security, http://www.ssa.gov/policy/docs/chartbooks/fast_facts/2011/fast_facts11_text.html#chart13.

IV. 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. The experience of welfare reform offers several contributions to the debate over extending block grants to Medicaid and other joint federal-state programs.

Race-to-the-Bottom Concerns Have Been Overstated

Despite the dire predictions that accompanied the passage of the PRWORA, a race to the bottom with TANF never materialized. 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. The potential for a race to the bottom can be averted even if Medicaid or other programs are funded with block grants.

Broad Block Grants Better Align Incentives

The federal government today maintains over 80 poverty assistance programs (Rector and Payne 2012). 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 eliminate the potential to merely shift beneficiaries to other programs. 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 started during the George H. W. Bush administration, before the passage of PRWORA in 1996. 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 or other programs in the future. States need promising models to use when devising their own programs, and the AFDC waiver programs offered proof of concept that helped in debates over the passage of PRWORA in 1996. The ongoing policy experiments being conducted currently under Medicaid waivers (Howard 2012) suggest that the time may now be right for Medicaid block grants.

Program Evaluation Is Valuable and a Public Good

Evaluating whether or not a program is working in the real world is not a simple task. Lessons are not always apparent from a casual inspection of outcomes, so policy evaluation is both important and a public good. Block grant proposals for Medicare or other poverty programs should not neglect program evaluation. Ensuring adequate resources to conduct systematic analysis of policy experiments could be an appropriate role for the federal government in a future reform.

V. Conclusions

The sharp decline in TANF caseload has not heralded the end of welfare, broadly conceived, that some had predicted following the passage of PRWORA. Federal spending on means-tested programs amounted to an estimated $750 billion in 2012, with states spending $200 billion more on these programs (Rector and Payne 2012). In addition, mixed-income developments have been a priority of the Department of Housing and Urban Development for public housing since the mid-1990s. Larger-scale housing projects with only public housing recipients contributed to a culture of poverty, as residents (and particularly children) had few or no neighbors who worked (Brophy and Smith 1997; Levy, McDade, and Dumlao 2010). The policy importance accorded to mixed-income public housing reveals by implication that welfare reform has not transitioned all able-bodied recipients to the workforce.

Nonetheless, welfare reform did lead to better policy. TANF caseloads did not increase substantially in the 2007–2009 recession, suggesting that the declines have become permanent, but without the feared impacts on recipients. TANF did end the AFDC entitlement to cash assistance. Block grants to the states do appear to create better incentives for efficient spending of tax dollars, because states face the full cost of expanding cash assistance and reap the full benefits from controlling fraud and abuse. Block grants provide states with discretion to tailor programs for conditions in their state, both economic conditions and the existing policy structure.

Furthermore, the maintenance-of-effort provisions imposed by TANF on states helped prevent a much-feared race to the bottom from materializing. Block granting Medicaid or other programs to the states will not be a panacea, but should help create an institutional setting for the more efficient use of tax dollars.

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