Race and the Politics of Welfare Reform
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CHAPTER 2

Ghettos, Fiscal Federalism, and Welfare Reform

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Welfare reform in 1996 had little to do with poverty; it had a lot to do with racialized politics of poverty. Conservatives declared that anything was better than the old welfare system for poor women and that their plans for tough work requirements and time-limited benefits was a policy of hope. What they were really interested in was politically exploiting the issue and painting the Democrats as defenders of "amoral" black women in ghettos. Liberals rationalized welfare reform as necessary, but they also understood it to be a way of banishing race, and racialized poverty, from the political lexicon. For the Democrats welfare reform was as much about solving their frayed relationship with disgruntled, irate middle-class white voters as it was about poverty. Now many liberals think that replacing the cash entitlement of Aid to Families with Dependent Children (AFDC) with a work-based safety net precludes racial stigmatization of social benefits and ensures political legitimacy for antipoverty policies. Rather than suppressing the debate about race and poverty that began with Lyndon Johnson's War on Poverty and Daniel Patrick Moynihan's famous report, welfare reform will reopen it.

Opponents of the 1996 welfare reform legislation feared that repealing AFDC's cash entitlement would lead to untold misery. In a scathing editorial, the *Washington Post* called the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) "reckless because it could endanger the well being of the poorest children in society in the name of a series of untested theories about how people *may* respond to some new incentives." Others worried that welfare reform would unleash a "race to the bottom" as states competed to lower benefits and keep migrating poor people out. Today any lingering concern that poor children will be plunged into misery is quickly forgotten amid cheers over plummeting caseloads. Yet the euphoria over the so-called success in replacing welfare payments with paychecks masks the real dilemma underlying welfare reform—a conflict between the fiscal incentives embedded in the Temporary Assistance for Needy Families (TANF) program and racialized poverty concentrated in big-city ghettos.

Changes in the racial composition of poor women remaining on the rolls expose the political trap at the heart of the new welfare policy. In many states whites have left the rolls faster than blacks. The proportion of white families in TANF sharply dropped to 31 percent of all cases; racial minorities now account for over two-thirds. Meanwhile, states have amassed financial windfalls due to the rapid decline in caseloads and fixed federal financing. Most states are either hoarding this money or passing it on to white middle-class voters in the form of tax cuts and other subsidies. Whether this surplus will be used to help the African American and Latina mothers remaining on the rolls is an open question.

Policymakers assumed that PRWORA's work requirements and time limits would be cushioned by public investments in education, job training, child-care, and other services for poor women. Yet states are encouraged by the financial incentives of the act to push welfare recipients into any available jobs or workfare, and the fiscal structure of the law provides no guarantees that financial windfalls will be used to help those most in need. When it converted the AFDC entitlement to cash benefits into a block grant administered by states, Congress reduced the money states were required to contribute to welfare and gave them considerable freedom in allocating federal dollars. Other than a frail hope that governors and state legislators could do better, there is little to prevent the money from being used for white middle-class constituencies rather than poor African American women and Latinas living in urban ghettos.

Race and devolution have been antagonistic features of federal social policy since the 1930s. Title IV of the Social Security Act gave states control of AFDC benefits and eligibility and led to pervasive racial discrimination in both the North and the South. Supreme Court decisions and civil rights laws curtailed these abuses in the 1960s by diminishing state authority over eligibility and by ordering states to provide due process of law to poor women who lost their benefits. These policy changes partially centralized AFDC. The 1996 welfare reform law unwinds the welfare system once again and grants states enormous authority over poor women and their children (Mink 1998, 44–64). Before the 1960s the antimony between race and devolution was based on southern efforts to exclude eligible African Americans from welfare in order to uphold Jim Crow and northern ambivalence toward black migration from the South. Today it turns on the antagonism between race and fiscal federalism. It is conflict between the changing racial composition of the TANF rolls and state control of how federal funds are allocated, not the so-called race to the bottom in which states compete to lower benefits, that will determine whether this social experiment succeeds or fails.

Political conflict between Democrats and Republicans over fiscal federalism and social welfare that goes back to the 1930s produced the antinomy between race and fiscal federalism embedded in the welfare reform law. PRWORA's fiscal structure and incentives are the result of state governments' attempt to shift all the costs of federal social policy to the national government and Republicans' strategy of using block grants to limit growth of the welfare state. This fiscal structure is not easily reconciled with the urban concentration of racialized poverty, and, in fact, it is a consequence of the racial politics of welfare—opponents of federal social policy using race as a political weapon to undermine support for the welfare state.

Why Liberals Should Hate Block Grants

The contradiction between fiscal federalism and race was the unspoken corollary to the debate over race and poverty that preceded passage of the 1996 law. The debate assumed that the persistence of racialized poverty (African American and Latino poverty rates three times those of whites) was rooted in individual failure by and large—the failure of poor blacks to accept work when it was available, a failure to stay in school, or a refusal to get married. Conservatives demanded work requirements and individual responsibility of poor women as way of reforming "ghetto culture." Forcing poor African American mothers to work would change their values and "break the culture of poverty," according to Mickey Kaus (1992, 127). Liberals accepted the need for work and self-discipline; they merely sought to soften the program with a plan for guaranteed jobs. Although many liberals acknowledged that the massive decline in good jobs in big cities was the main cause of urban poverty, they nonetheless believed the so-called pathological behavior of the poor was just as relevant. Thus, they were willing to accept time limits on benefits and to allow states to make moral improvement a condition of aid.

This debate misconstrues the problems facing poor women and their children and fails to explain why racialized poverty endures. Growth in the number of female-headed families among African Americans has less to do with persistent poverty than the loss of jobs in inner cities, declining demand for unskilled labor, and racially segregated neighborhoods.[1] Equally important to these well-known causes of racialized poverty is one that often goes unstated: public disinvestment in ghetto communities. The problem with governmental policy is not that it has been too generous or that it contributes to the bad behavior of poor women. Rather, it has always been insufficient. Neoliberal welfare reformers recognized these realities and assumed that any policy predicated on eliminating the AFDC entitlement and forcing poor women into the labor market would require substantial public investment in day care, employment training and education, health services, and a variety of social services. This was the premise underlying their hopes for the 1988 Family Support Act, which was supposed to provide new resources for poor women and their families. And it was the basis of the Faustian bargain neoliberals made when they agreed to the 1996 welfare reform bill.

TANF appealed to many "new Democrats" because it held out the possibility of fashioning a race-neutral, work-conditioned safety net that could address inner-city poverty. Whites, particularly white Democrats, strongly prefer race-neutral policies (Sniderman and Carmines 1997, 104–10). Neoliberal welfare reformers also assumed that TANF was a way of reconciling the mantra of individual responsibility that is the ideology of welfare reform with the economic realities of low-wage labor markets. The challenge facing policymakers, they assume, is how to make a work-conditioned safety net function in an hourglass economy where demand for unskilled labor has dramatically declined and economic growth is less effective in reducing poverty. It was obvious during the long debate over welfare reform that any work-conditioned policy would be very expensive. Yet liberal welfare reformers lost their wager when they agreed to block grants. TANF's fiscal structure undermines any possibility of building a viable work-conditioned safety net: it gives states powerful financial incentives to reduce caseloads and few incentives to reduce concentrated poverty in inner cities.

Under TANF federal funding no longer oscillates with changes in caseloads, as it did under AFDC. The AFDC entitlement was based on an open-ended grant-in-aid in which the federal government matched state expenditures on a sliding scale that provided proportionally more resources to poor states. Regardless of the number of cases, the federal government paid from 50 to 80 percent of the statewide average cost of the caseload. Congress replaced this open-ended grant with a block grant and capped spending at $16.5 billion annually. The money is allocated to the states based on their 1994–95 caseloads. TANF is a far more rigid program than AFDC. From the vantage point of the federal budget, an "uncontrollable" entitlement program is now a fixed appropriation where Congress will determine the volume of spending. From the vantage point of states, caseload reductions yield a financial windfall. Since federal funding no longer fluctuates with the size of the caseload, states are allowed to keep any unexpended federal dollars.

States lost open-ended federal funding but acquired more freedom to choose how to spend federal money. Under the law states may shift up to 30 percent of TANF funds to either the Child Care Development Fund (CCDF) or the Social Services Block Grant (SSBG).[2] States can also reallocate federal welfare dollars. The law requires that state funds be spent for former AFDC programs or programs for TANF recipients, but no such restriction applies to federal dollars. Conceivably states could use federal dollars to pay for other state social welfare programs and reduce the amount of state spending. By substituting federal for state dollars, governors and legislatures free up state money for tax cuts or other programs.[3] Executives and legislators can also reallocate TANF dollars geographically, and they will undoubtedly succumb to the temptation to do so—at least if experience with previous block grants at the city and county level is any guide.

Capped funding, substitution of federal for state dollars, and geographical dispersion of TANF funds potentially vitiate any work-based safety net. So far, though, the anticipated fiscal crunch has failed to materialize. Total spending is down due to the mandated reduction in the state contribution, but because caseloads have declined so far so fast and funding is based on the higher 1994–95 caseloads, states have reaped a financial windfall. According to the General Accounting Office, states received $4.7 billion more under TANF for their 1997 caseloads than they would have received under the "pre-reform cost structure."[4] Presumably, states will be able to increase spending for the remaining women and children, though there is no guarantee they will do so. What is clear is that TANF's fiscal incentives have driven states to adopt a "work first model."[5]

Some states have been very aggressive in using the law to push recipients into any available job. Caseloads in Wisconsin, Wyoming, Idaho, and Mississippi have dropped by 80 percent or more, and in 13 other states the decline exceeds 60 percent. Many states have transformed welfare offices into job centers. States have made the application process more difficult, and some states "divert" poor mothers from assistance by paying them to stay away. Needy and eligible individuals are deterred, as a consequence, from seeking cash assistance. What states have not done is provide alternatives to employment such as education or job training. Just 6 percent of the two million adults on the TANF rolls are in educational or work-training programs. However, many states have made it easier for single mothers to work and keep their benefits, and as a result about one-third of those women remaining on the TANF rolls combine work with welfare (U.S. Department of Health and Human Services 2000d, 1, 5).

The large decline in caseloads has not been matched by a comparable decline in poverty rates or increase in wages. One recent study found that the income of single mothers who had dropped out of high school rose by 7 percent under TANF, while their poverty rate declined by 2 percent. But TANF's work requirements have had no effect on personal earnings, suggesting that other sources of income such as friends, family, or transfer payments like the Earned Income Tax Credit (EITC), food stamps, and TANF have been more important in lowering poverty (Schoeni and Blank 2000, 21, 23). Single mothers who went to work did not gain much, and some women are clearly worse off. Disposable income increased by just $292 among the poorest 40 percent of single mothers between 1995 and 1999; those women in the bottom 20 percent saw their disposable income decline by 4 percent (Primus 2001). This is hardly surprising in the new world of welfare reform where cash benefits have been curtailed.

Sheldon Danziger worries that "we have in place a safety net that does very little to provide work opportunities for those who have trouble finding a job or working full-time full-year" (2000, 5). This may be true, but Danziger elides the question of race and TANF's fiscal incentives. The disproportionate number of black women and Latinas who remain on the TANF rolls face severe obstacles to stable employment in well-paying jobs. Black women remaining on TANF are more likely to lack education and job skills than white women, and most of the valuable jobs are located in the suburbs at considerable distance from public transportation and poor neighborhoods. And while employers *say* they are willing to hire poor single mothers, in fact they are often reluctant to do so. Besides the geographical barriers to employment, black and Latino

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welfare mothers, according to Harry Holzer and Michael Stoll, are "less likely to be hired in suburban and/or smaller establishments, and for blacks, in the retail trade industries" (2000, 16). The poor single mothers who would benefit from a program capable of meeting their needs for education, job training, transportation, and day care are mostly black and Latina.

We face the same question that vexed policymakers in the 1960s: how to get nonstigmatized aid to poor blacks and Latinos. Richard Titmuss, the doyen of British social policy, thought the solution was universalistic social policies. But the political will and support for such policies is lacking, and any effort to target resources to the inner-city poor may be undermined by the fiscal incentives of PRWORA.

What are the origins of this perverse policy? It was no accident. As Republicans clearly understand, a block grant with fixed funding is a form of budgetary control. According to one congressional aide involved in creating the program, block grants "are one of the best ways to cut the budget. The cuts are so ethereal. You don't have to specify what will really happen to people and programs. You just give the states less money and let them decide" (Conlan 1998, 237). Republicans initially introduced legislation converting 336 federal programs into eight block grants, and tried to eliminate the federal entitlement for welfare, Medicaid, and food stamps. They were hardly interested in improving governmental efficiency. Republican affection for block grants goes back to the 1960s and their efforts to derail the Great Society. In fact, there is a consistent theory of devolution and budget cutting that runs from Nixon to Newt Gingrich. TANF's paradoxical discrepancy between fiscal incentives and racialized poverty should be understood as the result of a partisan political struggle over financing of federal social policy that dates to the New Deal and the racial conflict defining the history of AFDC and the antipoverty programs of the Great Society.

The Political Economy of Devolution

Race and fiscal federalism have been antagonistically linked since the New Deal, when the federal government assumed greater responsibility for subsidizing the activities of state and local governments. From FDR on, national politicians chose to use state and local governments as conduits for national policies; they only differed in the latitude they granted to subnational governments. If federalism has been constitutive of the welfare state, it has also impeded the redistributive policies needed to either ameliorate or diminish poverty while permitting racial discrimination to flourish and reinforcing the hierarchy of white over black. African Americans have always understood that a decentralized welfare state would only sustain the color line. During the debate over the 1935 Social Security Act, Walter White of the NAACP warned Eleanor Roosevelt that "if the Federal Government continues to make lump grants to the States and leaves expenditures to the States it should not abandon all responsibility to see that Federal funds are not used to grind a section of its citizenry further into the dust" (Kifer 1961, 234).

Redistribution is a national function. Relying on the states to redistribute resources from wealthy citizens and places to impoverished citizens and communities is a dead end. Such a policy, Richard Musgrave observes, "can only operate within narrow limits" (1997, 67). States have few incentives to mount redistributive social programs and will seek, ordinarily, to shift the burden of spending to the national government. Tax revenues needed to fund governmental services depend on private investment and the willingness of taxpayers to pay up. Any government is an "economic parasite," Joseph Schumpeter memorably wrote, and it "must not demand from the people so much that they lose financial interest in production or at any rate cease to use their best energies for it" (1991, 112). Since capital and taxpayers are highly mobile, state governments must compete for economic resources just as nation-states compete in the global economy. High-tax states intent on redistribution may find themselves at a disadvantage in attracting new investment and retaining the support of taxpayers. These costs can be avoided by transferring the burden for social expenditures to higher levels of government, in effect shifting the burden and political responsibility for taxation upward.

The New Deal established shared fiscal responsibility for social policies, using federal grants-in-aid to subsidize state-run programs. Joint financing of categorical grants-in-aid is less a venture in cooperative federalism than an endless game waged by politicians to shift the responsibility for raising taxes to finance the welfare state. The allocation of tax burdens between the federal and state (or local) governments depends on whether states must match federal spending and how much they must pay. Matching grants, such as the federal subsidy for AFDC, lower the "price" to states of providing a good or service and thus affect state and local spending and taxation. The higher the federal contribution, the lower the price to states. What matters to states is what proportion of costs the federal government assumes and whether the federal contribution is capped, covering only a portion of total costs. States prefer high federal matches and seek to have most of the costs of the service covered. They will also try to shift the costs of existing state programs to the federal government. States often try to reclassify state activities so they are eligible for federal aid, and historically they have been quite inventive.

Federal policymakers seeking to limit spending (or taxation) prefer a low federal match or fixed spending limits, or both. National policymakers do not always seek to limit federal tax burdens. When they want to stimulate spending for services that states might not be inclined to undertake and they perceive constraints on taxation to be low, they will endorse, as they did in the 1960s, high federal contributions to grants-in-aid.

National grants-in-aid are imperfect tools of redistribution. They can be used to equalize the fiscal resources at the disposal of places, states for example. Since the 1930s, Congress has diverted proportionally more federal resources to southern states to compensate for the lack of fiscal capacity. But it is more difficult to use grants-in-aid to equalize the distribution of cash transfers or services to individuals. Redistribution to individuals is much easier through a national system of cash transfers where the federal government can control eligibility criteria and benefit levels. Once federal officials decide to use grants-in-aid to redistribute cash payments or services, they "must take into account the fact that states will further reallocate the resources at their command after the center has done its redistribution" (Dixit and Londgegan 1998, 178). State reallocation of federal resources may entail the diversion of money to constituencies or programs other than those specified by federal legislation; it may also result in discrimination.

Fiscal federalism is usually justified on grounds of efficiency—minimizing externalities in the provision of public goods and enhancing responsiveness to citizens' preferences for different bundles of basic services, taxes, and regulation. It is usually assumed as well that decentralization of public services promotes democracy and protects individual rights from overweening central authorities. Doubtless, federalism has promoted diverse responses to public problems, and it might even be seen as a bulwark against federal intrusion. Yet these conventional justifications for federalism evade its role in perpetuating inequalities. Decentralization to small units ignores, as Grant McConnell observed long ago, "questions of power within the unit of organization" (1966, 115). McConnell's point, of course, was that some individuals or groups gain by decentralization, while others may lose.

Depending on the limits imposed on subnational governments, fiscal federalism holds federal policy hostage to the potentially pernicious inclinations of local majorities and their official representatives. Historically, states have had wide latitude under the police powers, the reserved powers delegated to states by the Tenth Amendment to the Constitution, to "promote the health, safety, morals, and general welfare." These powers have been used to regulate any moral conduct deemed inappropriate by a majority—Sunday blue laws for example—and they did little for a long time to protect individual rights from arbitrary state laws (Lowi 1995, 28–29). Buoyed by the ideology of "states rights," state laws were used to uphold slavery and Jim Crow—*Plessy v. Ferguson* upheld segregation as a reasonable use of a state's police powers. Until the 1960s, the rights granted to African Americans by the Fourteenth and Fifteenth Amendments had little meaning in a society determined to defer to local (white) majorities. Federalism has been one of the chief bulwarks of racial domination in the United States.[6]

Franklin D. Roosevelt decided against creating an entirely national welfare state in the 1930s, and he refused to fund national standards for categorical public assistance. This ensured that federal welfare policies would be used as weapons of racial oppression. Many federal social policies were affected as a result, not just the categorical public assistance programs of the Social Security Act. Works Progress Administration (WPA) jobs were usually allocated with a preference for unemployed white workers in mind, and federal housing programs were implemented by local officials with an eye to maintaining residential segregation (Brown 1999, 82–85; Jackson 1985). Blacks have historically dissented from this notion of federalism, and from the 1930s to the present, they campaigned for national social policies (Hamilton and Hamilton 1997).

Whether fiscal federalism facilitates racial discrimination depends, in part, on the level of national control over states' decisions. Besides holding states accountable to constitutional standards of due process and equal protection, choices about the type of grant-in-aid used to distribute federal dollars determine whether fiscal federalism is permissive or nonpermissive. Categorical grants restrict state spending to legally defined programs and allow national officials to narrowly target resources to the needs of specific groups or individuals. Unless federal policymakers set standards for the distribution of resources, however, even categorical grants can be used as tools of discrimination. Broad-based grants are far more permissive. These grants give state and local officials wide authority to allocate resources among competing uses. Revenue sharing, for example, gives state and local officials substantial autonomy to spend federal dollars as they wish, and if there is no required state contribution or match, subnational governments can easily substitute national dollars for local dollars. Block grants are a hybrid; such grants restrict spending to specified policy issues—urban redevelopment for example—but grant state and local officials substantial autonomy in deciding how to address the issue. Unlike categorical grants, block grants lend themselves to the dispersion of funds across numerous and diverse constituencies. Indeed this is their chief virtue from the point of view of state and local politicians.

The Antinomies of Race and Fiscal Federalism since the 1930s

Cooperative federalism, as Democrats and Republicans have euphemistically referred to federal grants-in-aid since the 1930s, masks a political struggle over both the allocation of tax and spending burdens and the racial bias produced by white control over the distribution of benefits and resources at the local level. As the recent history of federal transfers for the poor and other antipoverty policies reveals, the antinomy between race and fiscal federalism has been indelibly shaped by partisan conflict over the financing of federal social policy and widening social divisions over, first, dismantling Jim Crow and, then, how to overcome the legacy of slavery and Jim Crow. TANF's discrepancy between needs and resources emerges from a 50-year struggle over race and money.

Although Roosevelt underwrote state welfare programs with federal subsidies, he chose to use fiscally constrained but permissive grants-in-aid. Lyndon Johnson's Great Society rectified the New Deal's permissive federalism by imposing limits on state authority while expanding federal financing of social policies. Conservatives responded by attempting to derail the Great Society through devolution and budget cutting. Block grants were the weapon of choice. Race amplified these partisan divisions over tax and spending burdens. Initially, southerners used their power over the distribution of federal grants to stave off an assault on Jim Crow and build a racially segregated welfare state; after the 1960s, Republicans used dissension over race and welfare to drive a wedge between Democratic constituencies.

FDR and Harry Hopkins, director of the Federal Emergency Relief Administration, were reluctant to assume the full cost of financing social programs. From the outset, they insisted that states share the obligation of financing relief during the depression and in the new welfare state. The

1935 Social Security Act established a permanent federal subsidy for state categorical public assistance programs. But FDR, intent on limiting the growth of federal spending and thus tax increases, expressly chose to impose a ceiling on federal payments. The federal ADC subsidy, for instance, applied only to first $18 for the first child (and $12 for the second child). If states made payments above this limit, they were on their own. Southern Democrats lobbied Roosevelt to raise the ceiling (some wanted full federal funding of public assistance), but he refused (Brown 1999, 44–45).

By the late 1930s southerners were advocating variable grants-in-aid, a scheme to shift much of the financing for public assistance in the South to the federal government. Roosevelt initially refused to back these proposals, but after 1945 northern Democrats reversed themselves and supported funding formulas that would increase the federal share of public assistance funding, mainly in the South. Faced with united opposition from a coalition of Republicans and southern Democrats to their plans for a national "cradle to grave" welfare state, this was one of the few ways northern Democrats could expand social welfare programs. Republicans invariably fought these legislative proposals, and in 1958 the Eisenhower administration tried, but failed, to reduce the federal share of public assistance costs to an average of 50 percent. Changing the funding formula had the desired effect: real welfare benefits rose dramatically, more than doubling between 1940 and 1965 (Moffitt 1988, 4–5). Aid to Dependent Children (ADC) benefits increased in the South as well as the rest of the nation (even with the rise in real benefits, welfare payments were still extraordinarily low).

Democratic success in raising welfare spending was costly. Southerners typically agreed vote for changes in public assistance formulas and other federal welfare programs so long as they retained control of the distribution of benefits. What this meant, as northern Democrats were well aware, is that federal policies would be wielded as tool to keep African Americans in their place. Adam Clayton Powell, then the lone African American in Congress, often attached antidiscrimination riders to social welfare bills, which northern Democrats then voted to remove. Democratic legislative victories, thus, depended on sacrificing any presumption of racial equality (Brown 1999, 132–33).

Southerners took full advantage of their power over the allocation of federal grants-in-aid to build a segregated welfare state and exclude blacks. Federal grant-in-aids for hospital construction authorized by the 1946 Hill-Burton Act were used to build segregated hospitals throughout the South (Smith 1999, 103). By the early 1950s, all southern states had severely restricted eligibility for ADC. Similar restrictions were enacted in some northern states, notably Michigan and Illinois, where growing caseloads were composed mainly of African American women. Discrimination was the order of the day: in the South eligible African Americans were denied aid; in the North they were admitted to the rolls but given lower benefits (Lieberman 1998, 126–40). In either case, needy African American families were denied aid, and many poor women were deterred from applying for the assistance they were legally entitled to receive.

White southerners' ferocious defense of their Jim Crow privileges, fueled by their virulent hostility to the stirrings of the civil rights movement, and a palpable fear and dislike of black immigrants in the North spurred the welfare purges of the 1950s. In both regions, politicians exploited white fears in elections and local welfare officials succumbed to the demands of white majorities or farmers and businessmen looking for low-wage labor. Roosevelt's permissive federalism also gave local officials control of federal urban renewal and public housing programs. Many cities used urban renewal money to forcibly displace African Americans living on prime downtown land and transformed public housing into a tool to maintain residential segregation (Hirsch 1983).

Great Society liberals repealed Roosevelt's permissive, fiscally constrained federalism. They began by raising federal contributions to grants-in-aid, enabling them to launch new programs and change the spending priorities of state and local governments. In 1965 Democrats succeeded in eliminating the federal ceiling originally imposed by Roosevelt on public assistance payments to states. Congress had removed the federal cap on individual grants in 1958 but still limited federal payments to the overall average individual benefit payment in a state. This average was initially set at $30 and raised to $32 in 1965. With a deft slight of hand, Congress also gave states the option seeking reimbursement for public assistance costs under the more liberal Medicaid formula. This policy effectively removed the ceiling on average payments, which meant that the federal government would henceforth pay a proportion of the total costs of AFDC. Not surprisingly, almost all states chose this financing option by the mid-1980s (Myers 1985, 723–24, 751–55). By then the federal contribution to AFDC averaged 60 percent of total welfare payments.

Hardly any programs were immune, however, as Democrats changed funding formulas in both old and new programs. The Manpower Development and Training Act's federal match was initially 50 percent, but in

1963 the Kennedy administration convinced Congress to raise it to 100 percent for one year, and then Congress renewed it each year thereafter. Similarly, in older programs like vocational rehabilitation, which the Johnson administration expanded and redirected toward a poor clientele, the match was raised from 50 to 75 percent. By raising the federal match, the Great Society stimulated spending by state and local governments and changed their spending priorities "to a greater extent than had been seen in the previous thirty years" (Reischauer 1986, 182–83).

Great Society liberals were willing to use federal resources to induce state and local spending; they were unwilling to give state officials much autonomy. Most Democrats understood that attacking African American exclusion from federal programs and curtailing abuses required centralization. Title VI of the 1964 Civil Rights Act was perhaps the single most important step taken to limit state abuses of federal grants-in-aid. Federal officials used this law, which banned discrimination in the distribution of federal funds, to undo segregated schools and hospitals in the South. Centralization was the impulse behind most of the new Great Society programs. Liberals insisted on project grants, thus tying recipient governments to federal requirements (Reischauer 1986, 183). They also centralized old programs. Beginning in 1967, Robert Weaver, secretary of the Department of Housing and Urban Development, imposed new rules on urban renewal, forcing local officials to adhere to national goals and curtailing their discretion. Urban renewal was a very different program after 1967 (Sanders 1980, 108, 112).

Although many of Lyndon Johnson's advisers wanted a national standard for AFDC benefits, the administration never proposed such a change to Congress. Rather, they tried to make food stamps into a national welfare program, believing that it would "supplement local welfare systems and . . . correct local welfare disparities" (Brown 1999, 300). Johnson refused to convert food stamps into a supplement for AFDC, but Nixon did, and by 1973 it was a national welfare program. It was the Supreme Court, not the president or Congress, that changed the administration of AFDC. In a series of important decisions, the Supreme Court sharply limited the authority of states to arbitrarily deny poor women benefits or make a woman's sexual behavior a condition of aid. The Court did not create a constitutional right to aid, but it did impose constitutional standards of due process on states' use of their police powers to regulate the lives of poor women. AFDC was a much different program thereafter.[7]

Lyndon Johnson succeeded in increasing public investment in education, job training, and neighborhood facilities in poor ghetto communities. As welfare rights protest and Supreme Court decisions opened up welfare, the number of poor women and children receiving aid rose from about 3 million in 1960 to almost 11 million by 1973. Yet the effort to raise benefits by supplementing AFDC with food stamps was stillborn. AFDC benefits declined dramatically over the 1970s, falling 25 percent in real terms; by 1984 the combined net AFDC/food stamp benefit was only 5 percent higher than the AFDC benefit in 1960. Ironically, when Congress made food stamps a national program, it gave states an incentive to substitute food stamp benefits for AFDC; many states saw no need over the 1970s to raise welfare benefits. All Congress did, Robert Moffitt ruefully observed, was "provide a large measure of budget relief to the states" (1988, 49). So while many more eligible women received food stamps and AFDC with less harassment, they lost ground.

After the 1960s conservatives waged a political campaign to unwind the Great Society and reestablish state authority over welfare (Mink 1998, 33–44, 50–57). Republicans were intent on rolling back Great Society programs where possible or limiting their growth. The 1996 welfare law is the culmination of conservatives' success in manipulating the backlash to the Great Society's centralization and expansion of social welfare during the 1960s, a campaign based on the political exploitation of the vulnerability of poor African American women, who became the scapegoats for the "failures" of the Great Society.

Republicans countered the Great Society's centralized, narrowly targeted grant-in-aid policy with a political strategy that combined revenue sharing or block grants with fixed limits on federal spending. They appropriated the idea of sharing federal revenues with state and local governments from the Democrats—revenue sharing was first introduced by a member of John F. Kennedy's Council on Economic Advisers—and turned it into a weapon against the Great Society. Republicans introduced some 50 revenue-sharing bills during the 89th Congress (1965–66). Some of these bills sought to consolidate categorical programs into block grants and were justified as a necessary administrative reform; most were designed as "substitution" bills in which revenue-sharing funds replaced existing grants-in-aid. Charles Goodell, a New York Republican, described revenue sharing and block grants as the alternative to the "philosophy of the Great Society." As such it was deeply attractive to conservative Republicans seeking to halt the progress of Lyndon Johnson's War on Poverty. Seventy-five percent of the Republicans who favored revenue sharing voted against new grants-in-aid more than 60 percent of the time.

In fact, the most conservative GOP members of Congress consistently supported revenue sharing (Dommel 1974, 65–67).

It was the Nixon administration that perfected the Republican strategy. Nixon and his advisers toyed with the idea of converting most grants-in-aid into revenue sharing but abandoned the idea because of anticipated political opposition. They then hit upon the idea of converting categorical matching grants to block grants, or special revenue sharing, as it was called. Nixon's advisers understood block grants as a way to limit federal spending and, ultimately, to limit the growth of government. The Revenue Sharing Working Group, set up in the fall of 1970 to plan the effort, identified the goal as "termination of categorical grant programs to cut [the] size and spending of the federal government." The administration preferred block grants with no maintenance of effort (MOE) requirement, or no state and local match, because it would allow state and local governments to substitute federal for local dollars and limit the growth of the public sector. An MOE requirement was inconsistent with their prime budgetary objective: reducing the size of government (Brown 1999, 317–18). Block grants were attractive to the Nixon administration for another reason. They presumed that block grants would diminish the power of national constituencies pushing to expand various categorical programs. Henceforth, local officials would decide how to allocate the limited funds available.

Nixon succeeded in creating only two block grants, but Ronald Reagan picked up where Nixon left off; only the scale of his ambitions differed. Upon taking office, Reagan proposed $14.1 billion for new and existing block grants, a reduction of 21 percent over fiscal year 1981 expenditures. In fact, two-thirds of Reagan's proposed 1981 budget cuts came out of federal aid to state and local governments, which made up only 17 percent of the federal budget (Conlan 1998, 113). The Reagan administration succeeded in creating nine new block grants and consolidating 77 programs and eliminating another 62. Republicans also cut some of the federal strings on block grants imposed by Democrats during the Carter years. Perversely, at the same time the Reagan administration saddled welfare and child nutrition programs with new eligibility requirements, they loosened the targeting requirements for the education block grant, giving local politicians more discretion in allocating funds. Reagan did not get every thing he asked for; still, spending for grants-in-aid declined by 10 percent in constant dollars between 1981 and 1987. Social programs were deeply cut.

Republicans prefer devolution for both ideological and political reasons. Conservatives have always believed that devolution leads to a smaller government, and they have plausible reasons for this assumption—tax competition limits the size of government at the state and local level or at the very least constrains redistribution. George Peterson believes that conservatives expect "governments directly accountable to local voters will choose to spend less than a central government where the voters' will is filtered through interest groups" (1984, 218). This is true enough, but it understates the Republicans' ideological animus toward the welfare state, and the Great Society in particular, an animus that has driven Republican budget cutting for three decades.

Devolution also yields political advantages. Republicans couch their case for devolution on its virtues. Local taxpayers, not federal bureaucrats, they say, should decide what are the important needs government should meet. Allowing local politicians more say-so in the allocation of federal funds usually means that Republican constituencies and middle-class taxpayers are more likely to get their share of federal dollars, something that Republican members of Congress are not likely to let their constituents forget.

Why congressional Republicans preferred block grants with spending caps during the welfare reform debate is plain enough. But why would the states go along with them? Governors scotched an attempt by the Reagan administration to shift the burden of welfare to states, mainly because funding would have been cut by 25 percent. In 1995, though, Republican governors (and eventually some Democratic governors) jumped on the bandwagon. Early on a few Republican governors forged an alliance with the new House leadership, and together they devised an audacious plan to eliminate the state match for AFDC and shift all responsibility for funding to the federal government. The Republicans' original bill capped funding for all low-income block grants and allowed states to shift money between TANF, food stamps, and Medicaid (Conlan 1998, 279, 280–82).

Governors lost their fight to eliminate the state match, but they gained considerable flexibility in running TANF and allocating resources. The final bill also minimized the risks to the states by allowing them to impose shorter time limits on benefits than the federal law required. Moreover, Republican governors, who were among the strongest supporters of converting entitlements to block grants, saw few political risks since they represented mostly nonurban, affluent constituencies (Weir 1999, 56–57). They were undoubtedly aware of the political benefits of distributing money saved from welfare to new groups of grateful voters.

The Republican formula of block grants and budget cuts may appeal to white suburban voters. What it has meant for poor African American women is much different. Together, states' decision to substitute food stamps for raising AFDC benefits and the advent of block grants denied poor women in inner-city communities needed aid at the same time they were stigmatized as the progenitors of a threatening underclass. This experience, not the pleas of reformers for a work-conditioned safety net, suggests the likely outcome of welfare reform.

The Color of Block Grants

It is usually assumed that welfare reform will lead to a "race to the bottom" because high-benefit states will attract ever-larger numbers of poor women who search for the most attractive benefit package. As costs escalate, states will seek to stem migration by reducing benefits; thus all states will have powerful incentives to keep benefits as low as possible. This is a plausible model of what might happen, but the evidence on its behalf is weak (Schram and Beer 1999). It is far more likely that the financial incentives of block grants will undermine the premises of the program and preclude allocation of resources where they are needed most

By converting AFDC to a block grant, Congress gave states incentives to reduce spending on TANF. Under open-ended matching grants, states paid 40 cents for an additional dollar of AFDC benefits; with block grants and a cap on federal spending, an additional dollar of TANF benefits now costs states $1. Moreover, once the cost of food stamps to states is taken into account, the real cost of increasing benefits by one dollar is $1.43. Even with a TANF subsidy that pays 40 percent of the cost of a dollar of increased benefits and federally funded food stamps, states would pay almost the full cost of the extra dollar of benefits.[8]

Lacking incentives to increase spending to meet needs, states will be tempted to substitute other federal programs for increases in welfare benefits, just as they substituted food stamps for increases in AFDC benefits in the 1970s. During the Reagan years, for example, states responded to the massive cuts in the Social Services Block Grant by shifting $112 billion from the low-income energy assistance block grant, where federal funding was increasing (U.S. General Accounting Office 1998, 35). But states may also be tempted to substitute federal dollars for state spending, and politicians may be reluctant to spend funds on selected but needy communities.

Whether the so-called work-conditioned safety net is shredded and whether impoverished ghetto communities receive needed resources depends on how states respond to fiscal shortfalls, to the temptation to substitute federal for state dollars, and to political pressure to geographically disperse TANF funds. There are powerful fiscal incentives for state officials to reallocate the resources needed to substantially diminish inner-city poverty to state welfare programs, which are designed to meet broad, statewide needs, or to disperse the funds to white beneficiaries in the suburbs or the rural hinterlands. There is no way to judge conclusively the outcome of the complicated social experiment that has just begun. We can derive some very suggestive answers, however, from the first three years of TANF and the history of block grants.

How have states responded to the financial windfalls, and is there any evidence of substitution? Total welfare spending actually declined in 21 states despite a substantial increase in available resources because of lower caseloads and a fixed federal subsidy based on the much higher 1994 caseloads. At the same time spending per recipient went up. The federal maintenance-of-effort requirement acted as a brake on state spending reductions, preventing states from reducing state expenditures to zero. This is a source of considerable frustration to many state budget officials, one of whom told the GAO that states "will no longer realize any budgetary savings from a declining case load because they must spend the same amount of state funds on their welfare program as they did in the previous year even if their case loads are lower" (U.S. General Accounting Office 1998, 11, 14).

States are reallocating resources from cash benefits to services of one kind or another. Between 1994 and 1999 expenditures for cash assistance under TANF declined by $10.6 billion. Rather than increase cash benefits, states have used federal money for job placement services (but not necessarily training), child-care, and related supportive services. One careful study of four states (California, Georgia, Missouri, and Wisconsin) found that spending for work-related services almost doubled between 1995 and 1999, even though overall these four states spent less on low-income services in 1998–99 than they did under the old policy regime, 1994–95. Spending on cash benefits in these four states declined dramatically. Simultaneously, there was a massive rise in spending for child-care and employment training, mainly because federal funding increased (in California child-care spending jumped by $998 million; in Wisconsin it was up almost $100 million) (Ellwood and Boyd 2000, 9, 12).

One reason states are funding social services for the working poor is that federal regulations have made it much easier to do so. TANF regulations allow states "to use their welfare block grant to pay for child care, transportation, and job retention services to help people who have left welfare stay off the rolls," and these payments are not subject to time limits (only direct cash payments to families are subject to time limits).[9] Yet all four states, according to Deborah Ellwood and Donald Boyd, were also reducing spending on programs for low-income families while adding resources to other welfare programs, including substance abuse programs, mental health, child welfare, and senior services. Even so, state spending declined in these programs, as well as in federally funded child-care and employment training, suggesting that all four states were substituting federal for state funds.[10]

States are already taking advantage of a loophole in the law that permits them to shift funds from TANF into the Child Development Fund or Social Services Block Grants. States transferred a total of $6 billion, or 13 percent of all TANF spending in the first three years of the program. There are undoubtedly good policy reasons for transferring TANF funds into a statewide child-care program. It allows states to evade the time limits on TANF funds and bolsters a statewide program. But it also allows states to reduce their own contributions to the two programs and then use money for other state services or tax cuts. Both Wisconsin and Connecticut, for example, shifted federal dollars into these programs and then reduced state spending.

In a variation on this strategy some states have replaced state spending on welfare with TANF funds. This is possible only because federal funding is higher than it otherwise would be (the windfall), and by law the MOE requirement is 20 percent lower. States basically reallocate the budgetary savings. Oregon is a prime example. Officials in that state reallocated $55.2 million of state funds, thereby increasing the federal share of the state's TANF program from 56 to 68 percent (U.S. General Accounting Office 1998, 15).

No one knows how widespread substitution is, but one can assume that many states are doing it or thinking about it. The GAO found that 11 states had shifted money; another recent study found 6 states—Connecticut, Kansas, Minnesota, New York, and Texas—had used TANF funds to pay for services previously funded with state monies and then used the savings for tax cuts among other gifts to the middle class. New York alone may have diverted as much as $1.3 billion from TANF to state programs that "freed up an unprecedented amount of state money that has been used to help pay for politically popular programs." One New York

Democrat told a reporter, "what the state is doing here is subsidizing other areas of government at the expense of welfare recipients."[11]

The reallocation of federal dollars to other state programs is not the whole story. Many states have simply failed to spend all allocated federal funds and have accumulated large unobligated balances. Federal law does not require that states spend all their federal money within a single fiscal year. These unobligated balances totaled $2.8 billion after the first three years of operation. The net effect of all this maneuvering is to substantially reallocate funds in a program that was once solely dedicated to helping poor women. Even though federal spending per family rose dramatically, actual spending increased more modestly. Consider Pennsylvania. In that state federal funding per welfare family rose by 56 percent between 1994 and 1998, but Pennsylvania officials reduced state spending by $109 million and have failed to spend $158 million of TANF dollars. So, in fact, actual spending per family rose just 23 percent.[12] And this money, if past experience is any guide, will be geographically dispersed.

American politicians face strong political incentives to spread the money across constituencies. Governors and legislators build political coalitions by distributing side payments to their allies, and in a system of territorial representation this means politicians will build support for their agendas and programs by spreading funds across legislative districts. It is very difficult to ensure that needed resources reach geographically isolated, poor communities. Both of the big block grant programs of the 1970s, the Community Development Block Grant (CDBG) and the Comprehensive Employment and Training Act (CETA) allowed mayors and members of the city council to spread funds throughout cities and thus reduced the share of benefits going to poor communities. CETA shifted funds from central cities to suburban jurisdictions, and CDBG reduced resources originally targeted on the poor in favor of middle-class constituencies. Only one-third of CDBG resources in Boston, Cleveland, and St. Louis ended up benefiting low- and moderate-income families. A study of CETA's implementation in Cleveland concluded that one-third of the program benefits went to "more affluent families . . . The most disadvantaged workers in the city have been under represented in the program" (Brown 1999, 330–32; Tompkins 1981, 42, 59).

Similarly, many states used the new Reagan era block grants to increase the number of beneficiaries by dispersing resources to suburban and rural cities and schools districts. According to one study, Illinois politicians decided to distribute 70 percent of education block grant funds according to enrollments, which led to a "clear redistribution of funds away from Chicago and other larger school systems with concentrations of lower income students." Michigan changed the funding formula for the Community Services Block Grant and reduced Detroit's share of CSBG money from 53 to 27 percent (Detroit sued the state and later settled for a 42 percent share) (Elling 1988, 72–73).

Both the Nixon and Reagan administrations combined block grants with cuts in federal funding for education, social services, and employment training, reducing federal spending for the remnants of the Great Society's service programs 40 percent in real dollars by 1988. Since much of this money was distributed through block grants, diminishing federal resources were spread out over a larger number of beneficiaries. Republicans succeeded in reversing the Great Society's policy of using categorical grants-in-aid to narrowly target federal resources. Even though states restored some of the money, federal grants to central cities were sharply cut. In cities with a population of 300,000 or more, federal aid as a percentage of city's general expenditures dropped from 22 percent in 1980 to 6 percent in 1989, mainly due to budget cuts and geographical dispersion of the remaining funds (Caraley 1992, 11).

TANF's experience so far is quite different because the financial windfall masks the underlying conflict between needs and resources. Incentives for states to substitute federal for state dollars and geographically disperse the remaining funds, juxtaposed with the changing racial composition of the TANF caseload, pose the obvious question: how will states respond to a caseload composed mostly of women of color who face severe obstacles to permanent, well-paying jobs as economic growth diminishes?

Given white electoral majorities, state and local politicians have few incentives to develop a work-related safety net for poor black and Latino communities. White Americans remain profoundly hostile to policies that appear to be distributing benefits by race, while generously supporting policies that help all the poor. One recent survey found that only 50 percent of least prejudiced whites expressed any support for race-specific policies but 80 percent said they would support race-neutral policies. Other surveys have produced similar results (Sniderman and Carmines 1997, 107; Quadagno 1974, 172–73). Yet the underlying structure of racial inequality in the United States—residential segregation, labor market discrimination, gaps in income and wealth—will inevitably undermine any pretensions to a so-called race-neutral safety net whether it is conditional on work or not. African American women and Latinas are not only a higher proportion of the TANF caseload today, they are geographically concentrated. Almost 60 percent of the TANF caseload is concentrated in the nation's 89 largest urban counties, where the large majority of poor black and Latino families live. The combination of perverse fiscal incentives and white hostility to any policy that appears to disproportionately benefit blacks may once again leave poor African American women and Latinas isolated and bereft of needed aid. Sharp reduction in funds for inner-city communities is unlikely. Instead, funds will be incrementally siphoned off from other programs and shifted away from urban jurisdictions and poor inner-city communities.

Race and Poverty: The Next Round

TANF is less a new experiment in federalism, as some have claimed, than a successful effort to put welfare policy in a straitjacket.[13] It is hard to imagine how policymakers could have designed a more perverse policy than if they had set out intentionally to do so. Claims that the new welfare policy will improve the well-being of most poor women are open to question so long as TANF's fiscal incentives are intact. A more honest claim, which some conservatives will admit to, is that TANF was intended to reduce caseloads and over time reduce spending on welfare. Editorial writers, pundits, and most policy analysts admitted that replacing the AFDC entitlement with a work program would be more expensive. To suppose, though, that a program emerging from protracted conflict between liberals and conservatives over social spending and the maneuvering of states to divest themselves of as much of the fiscal responsibility for social policy as possible would lead to a safety net for poor working women is a pious hope. There is no other way to read the historical evidence recounted in this chapter.

The current policy will intensify scrutiny of the women of color who remain on the TANF rolls. The success of the many, mostly white, women who have left welfare will call into question the motivation of those who remain. There is no reason to suppose that TANF will ever become as racially stigmatized as AFDC, but a welfare caseload composed largely of women of color is not likely to induce sympathy or an acknowledgment that addressing inner-city poverty requires something more than a call for individual responsibility.

There is only one other time when the racial composition of welfare caseloads changed so radically, the 1930s. In the midst of the Great Depression, black workers were much more likely than white workers to be on work relief or general relief, but as caseloads plummeted in the late 1930s, whites left the relief rolls at a faster rate than blacks. Thereafter, African American workers made up a sharply higher proportion of people on work relief in northern cities. This did little to call attention to the brutal labor market discrimination during the depression that denied black workers jobs and prolonged their need for relief. Instead, politicians pointed to the "large numbers of Negroes who, after having sampled the pleasures of relief, refused to work any more" (Brown 1999, 77–81, 90).

Historical parallels are inexact; the predicament of poor African American women and Latinas on TANF is very different from that of black workers in the 1930s. But the stereotype of black indolence persists and will form the subtext for any debate over the failures of TANF. This need not be the case. Instead of waving the flag of individual responsibility, Congress might reconsider the perverse fiscal incentives embedded in the welfare reform law. Congress could impose stiff requirements that federal dollars be allocated for poor inner-city communities. Congress could also expand the Earned Income Tax Credit, provide health insurance, and even consider a non-work-related entitlement for poor mothers. But that would require an admission that only national policies can address race and poverty.

NOTES

1. The President's Council of Economic Advisers recently estimated that if there had been no change in black family structure since 1967, the poverty and income gaps between blacks and whites would have declined by only one-fifth. "These are surprisingly modest effects," the CEA noted (Council of Economic Advisers 1998, 133).

2. However, only 10 percent of TANF funds can be transferred to SSBG, and it must be used for programs for families with incomes below 200 percent of the poverty line. See U.S. General Accounting Office 1998, 150. Transfer of TANF funds to SSBG will be limited to 4.25 percent of the block grant beginning FY 2001.

3. Deborah Ellwood and Donald Boyd (2000, 19) think that the leeway granted states by the legislation to substitute federal for state resources is inadvertent. This strikes me as unlikely.

4. U.S. General Accounting Office 1998, 11. Altogether, 46 states had more total resources under TANF than they would have had under the AFDC grant system (U.S. General Accounting Office 1998, 4).

5. Richard P. Nathan and Thomas Gais (1999, 16–17) attribute the work-first model to a change in the culture of welfare departments. What has changed is the fiscal incentives.

6. On one interpretation, however, federalism permitted African Americans to launch and sustain a successful attack on Jim Crow. See Young and Burstein 1995.

7. The major Supreme Court decisions were *King v. Smith,* 292 U.S. 309 (1968); *Goldberg v. Kelly,* 397 U.S. 254 (1970) ; and *Shapiro v. Thompson,* 394 U.S. 618 (1969). For a detailed discussion see Bussiere 1997.

8. This is because the federal government reduces the food stamp allocation for individual families by $.30 for every dollar of welfare benefits above a base income. As a result the real cost of raising benefits by one dollar is $1.43, of which the federal government will pay only 57 cents (45 percent of $1.43), leaving states to pick up the remaining 86 cents. See Chernick and Reschovsky 1999, 166–67.

9. U.S. Department of Health and Human Services, "HHS Fact Sheet: Clinton Administration Finalizes Welfare Regulations" (Washington D.C., April 9, 1999), cited in Ellwood and Boyd 2000, 4.

10. Total social services spending declined by 14 percent in Wisconsin and by 1 percent in Georgia; it rose in Missouri and California (Ellwood and Boyd 2000, 10, 18).

11. Raymond Hernandez, "Federal Welfare Overhaul Allows Albany to Shift Money Elsewhere," *New York Times,* April 23, 2000.

12. "Leftover Federal Welfare Money Either Baffles or Inspires States," *New York Times,* August 29, 1999, 20.

13. Robert Inman and Daniel L. Rubinfeld think welfare reform is an "experiment with an alternate paradigm of federalism" (1997, 60). They fail to address to the distributive problems of fiscal federalism; for a critique see Musgrave 1997.