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Policy Essay

Rich State, Poor State:
The Case For Reforming Federal Grants

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Key Takeaways

- A rich state can potentially raise more tax revenue than a poor state (its *fiscal capacity*), and therefore provide superior public goods at more attractive tax rates. Diverse countries like the United States attempt to adjust for subnational variation in fiscal capacity through inter-governmental grants, i.e. fiscal transfers to poorer states.
- In practice, the American system of federal grants is regressive, providing windfalls to rich states while squeezing budget-strapped poor states. This creates a perverse dynamic that perpetuates regional inequality and economic divergence.
- Criticisms of poor states as "low tax, low service" are fundamentally mistaken. In general, poor states exert similar fiscal effort as rich states, but generate a fraction of the revenue for education and social assistance due to the simple fact that they're poor.
- Well-designed grants ensure *horizontal equity*, enable *minimum standards*, and help avoid *poverty traps*. Applying these principles, this paper proposes budget neutral but distributionally-progressive reforms to Title I education grants, Medicaid matching grants, and the TANF block grant—each designed to help fix our broken fiscal union.

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Introduction

Economic development policy cannot be divorced from issues of public finance. An effective system of public finance can foster economic development, attract innovative businesses, encourage job growth, and fund a host of public goods and services including infrastructure, education, public safety, and a robust social safety net. An ineffective one can undermine all these things.

One of the enduring myths of American political discourse is that many states in struggling regions have mistakenly pursued a "low-tax, low-service" growth strategy while thriving regions have wisely pursued a "high-tax, high-service" strategy. Massachusetts, for example, spends twice as much per pupil on education as Mississippi. As a consequence, Mississippi remains mired in poverty while Massachusetts prospers. The problem is that this story gets it backwards. Massachusetts can afford to spend more precisely because it is prosperous. Mississippi is limited precisely because it is poor.

The two states look very similar in terms of top marginal income tax rates (5 percent in Mississippi; 5.05 percent in Massachusetts) and sales tax rates (7 percent in Mississippi; 6.25 percent in Massachusetts). In terms of fiscal effort, Mississippi actually dedicates a larger proportion of its total taxable resources to education in particular (3.19 percent in Mississippi; 2.82 percent in Massachusetts) and public spending in general (16.7 percent in Mississippi; 12.2 percent in Massachusetts). In reality, being poor means Mississippi generates less revenue with more effort than wealthy Massachusetts.

In response, the federal government has developed a system of intergovernmental grants that is supposed to provide additional assistance for struggling regions that lack the fiscal capacity to invest more in education, health care, and social assistance. Unfortunately, this system is broken. Rather than reduce interstate inequities, it exacerbates them. This report documents the ways that federal funding for education (Title I), health care (Medicaid) and social assistance (Temporary Assistance for Needy Families, or TANF) contributes to the vicious cycle that keeps struggling regions from reaching their full potential.

What role does our system of fiscal federalism play in the problems facing struggling regions? Struggling parts of the United States face a number of

challenges—higher morbidity, higher poverty, lower economic mobility, declining industries, volatile employment, and limited economic growth—which, at first glance, seem to have little to do with intergovernmental fiscal relations. As Joseph Schumpeter once remarked, "The public finances are one of the best starting points for an investigation of society."

Fiscal Federalism: Key Concepts

In order to understand how our existing system of federal grants leaves struggling regions at a disadvantage relative to wealthy regions, we must consider three concepts and how states measure up on them: fiscal capacity, fiscal effort, and fiscal need.

Fiscal capacity is a government's ability to raise revenue to fund public goods and services. As state and local governments rely primarily on income, sales, property, and excise taxation (rather than borrowing) to raise revenues, their capacity is limited by the total amount of taxable resources available to them. Fiscal capacity varies across states and municipalities because the total amount of taxable resources varies substantially across them.

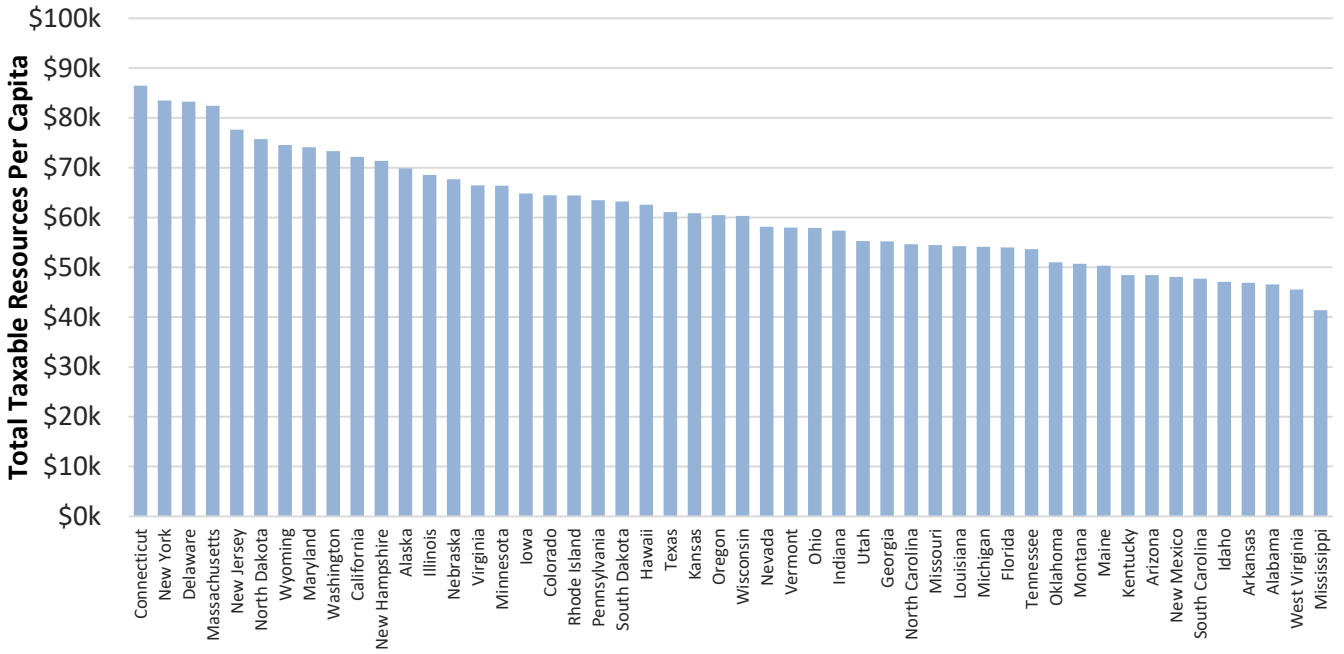
> "Massachusetts can afford to spend more precisely because it is prosperous. Mississippi is limited precisely because it is poor."

Traditionally, public finance scholars have measured fiscal capacity in terms of gross state product (GSP) per capita or state personal income (SPI) per capita, but there are several known limitations to these approaches. GSP measures the total value of goods and services produced in a state, while SPI measures the sum of all income earned by residents. Because some of these resources are not necessarily taxable in the state in which they are produced or earned, these are imperfect proxies for fiscal capacity. Delaware, for examples, scores much higher on GSP per capita because it is home to a large number of corporate headquarters, but its actual fiscal capacity is much lower because much of those profits flow to shareholders—and will be taxed—in other states.

Congress recognized these shortcomings when it asked the Treasury to come up with estimates of total taxable resources (TTR) annually in each state. TTR as a measure of fiscal capacity is superior to alternative measures because it subtracts nontaxable revenue streams flowing out of the state and adds taxable revenue streams flowing into the state. As such, it only measures resources that a state can potentially tax to generate revenue.[1]

Using the U.S Treasury's estimates of total taxable resources (TTR) per capita, Figure 1 indicates fiscal capacity across states:

Figure 1.1: **State Fiscal Capacities (2016)**



Source: U.S. Treasury (2018) Total Taxable Resources Estimates.
https://home.treasury.gov/policy-issues/economic-policy/total-taxable-resources

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According to Treasury estimates, the fiscal capacity for the country as a whole was $63,213 in TTR per capita in 2016. The average masks substantial disparities across states, though. The fiscal capacity of wealthy Connecticut, $86,480 TTR per capita, amounted to more than twice that of resource-poor Mississippi, $41,391 TTR per capita. This is consistent with a broader pattern,

[1] See U.S. Treasury website for further details:
https://www.treasury.gov/resource-center/economic-policy/Documents/nmpubsum.pdf.

with low-capacity states concentrated in the South and high-capacity states concentrated in the Northeast and West Coast.[2]

But fiscal capacity only measures the *potential* amount of revenue state available to state and local governments, rather than how much revenue they actually generate, which leads us to the next important concept.

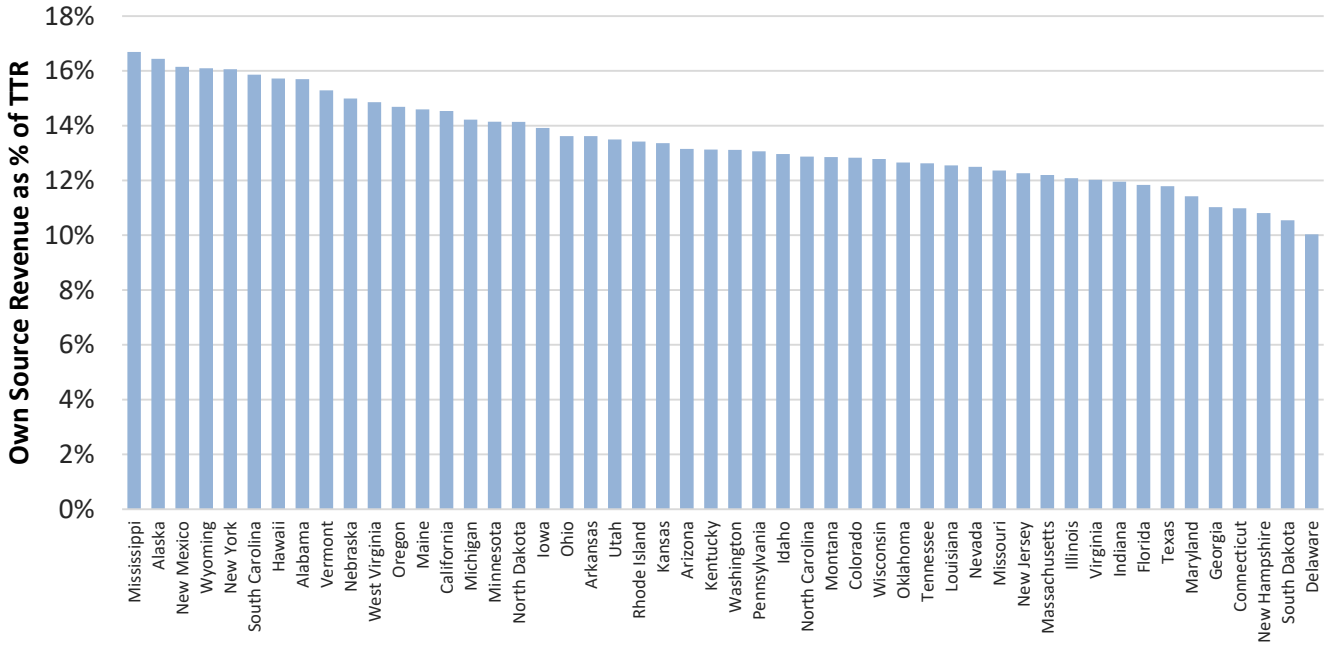
Fiscal effort measures the extent to which state and local governments actually generate revenue by utilizing available resources though taxes, charges, and fees. It is important to note that this measure takes fiscal capacity into account by definition. Measures such as revenues per capita are not a suitable proxy for effort given differences in fiscal capacity. The preceding example of Connecticut and Mississippi is illustrative. If both states taxed the same percentage of their TTR tomorrow (in other words, if they undertook the same exact efforts), Connecticut would raise twice as much revenue per capita as Mississippi simply because its fiscal capacity is twice as high. The same issues pertain to characterizations of states as "high-tax" or "low-tax" based on marginal income tax rates, because they tell us little about the size of the tax base to which those rates apply.

Instead, comparative public finance scholars typically measure fiscal effort in terms of total revenues as a proportion of gross domestic product (GDP). Given the aforementioned limitations inherent in using GSP/GDP as a measure of fiscal capacity and the availability of standard measures across states, the superior measure is total own-source revenues (which excludes federal transfers) as a proportion of total taxable resources.

Using estimates from the U.S. Census' Annual Survey of Local Government Finance and the U.S Treasury's estimates of total taxable resources, Figure 1.2 indicates the fiscal effort across states. In contrast to fiscal capacity, regional patterns in fiscal effort are much harder to find here. States in the Northeast, West Coast, and South can all be found among the ranks of those with the highest fiscal effort. The same can be said of states with the lowest fiscal effort. Strikingly, we find that Mississippi, which ranked last in terms of fiscal capacity, actually comes out on top in terms of fiscal effort. In contrast, Connecticut, which ranked first in terms of fiscal capacity, ranks 47th in terms of fiscal effort.

[2] Additionally, we find several states with small populations and lots of natural resources (North Dakota, Wyoming, Alaska)

Figure 1.2: **State Fiscal Efforts (2016)**



Source: Author's calculation from U.S. Census (2018) Annual Survey of Local Government Finance and U.S. Treasury (2018) Total Taxable Resources Estimates.

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While this may be surprising in the context of popular stereotypes about the low-tax South and high-tax Northeast, it becomes less surprising when considered in the context of fiscal capacity. States face similar revenue needs to fund basic services. Insofar as this is the case, we should expect that high-capacity states can generate higher levels of revenue with less effort than low-capacity states. In reality, revenue needs differ across states in ways that further handicap those with low fiscal capacity.

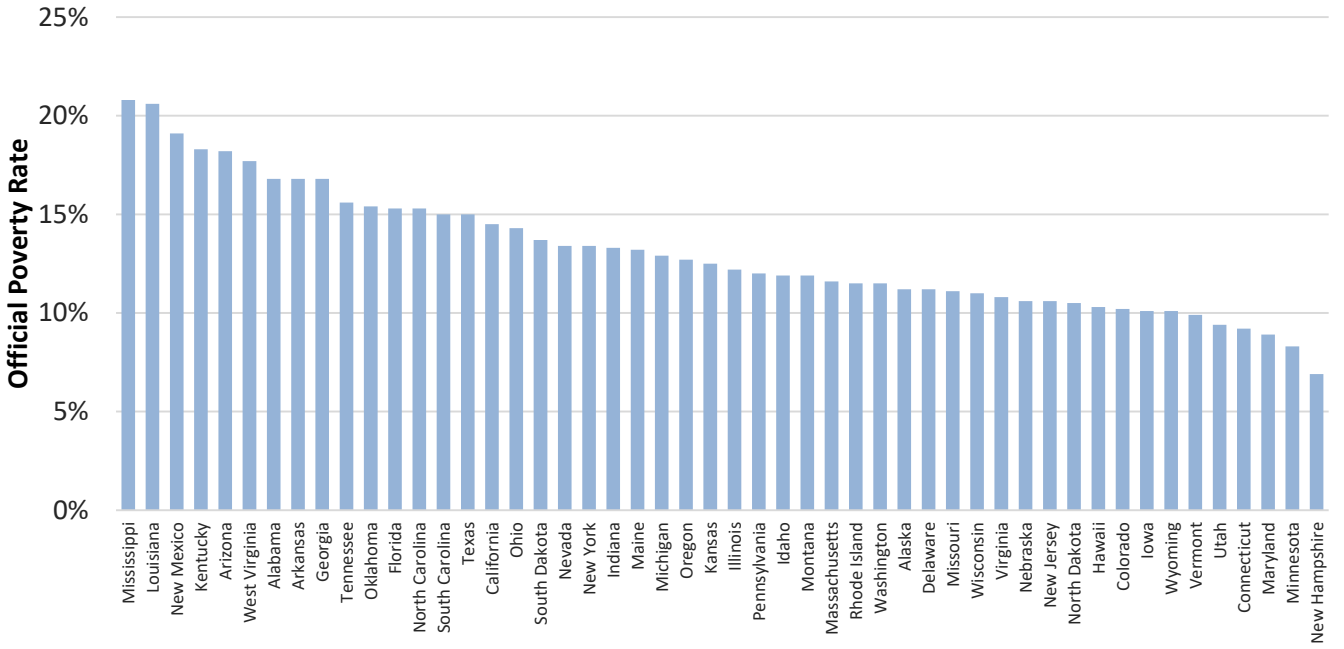
Fiscal need refers to the amount of resources a government needs in order to provide some basic set of goods and services. States are responsible for the provision of a number of programs ranging from law and order, education and infrastructure, to health care and social assistance. These expenditure requirements vary across programs and states. Higher education needs vary based on the size of the college-age population. Infrastructure needs vary based on state size and density.

Fiscal needs can be operationalized in a number of different ways. For the three program areas considered in this report—education, Medicaid, and social assistance—the most important factor to consider is a state's poverty

rate. Both Medicaid and TANF are aimed at individuals and families below or near the federal poverty line. While education is a universal program, studies indicate it costs more to educate students in poverty.[3]

Using estimates from the U.S. Census' official poverty measure, Figure 1.3 indicates poverty rates across states.

Figure 1.3: **State Poverty Rates (2016)**



Source: U.S. Census (2017) Income and Poverty in the United States.
https://www.census.gov/library/publications/2017/demo/p60-259.html

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Unsurprisingly, state poverty rates are inversely correlated with fiscal capacity. Mississippi, which ranks highest in need with a poverty rate of 20.8 percent, has the least fiscal capacity of any state. In other words, the states with the greatest expenditure requirements for education, Medicaid, and TANF are those that are least able to raise the requisite revenues to fund these programs.

This disconnect between fiscal capacity, effort, and need suggests intergovernmental grants can play an important role in reducing disparities between states, especially those in struggling regions. The question remains:

[3] Duncombe, W., and J. Yinger. 2005. "How Much More Does a Disadvantaged Student Cost?" *Economics of Education Review* 24 (5): 513–32.

which principles should govern an equitable system of intergovernmental grants?

Fiscal Federalism: Principles and Problems

The tradition of fiscal federalism is at the heart of the American experience. The Founding Fathers saw federalism as a bulwark against a too-powerful central government. Federalism also gives states and municipalities the flexibility to respond to the particular preferences of their residents. As Supreme Court Justice Louis Brandeis remarked, "It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."[4]

Academic observers have confirmed many of these benefits.[5] They have also documented some of the costs associated with various fiscal arrangements as well as the detailed policy prescriptions necessary for minimizing costs and fully realizing benefits. Three issues in particular—horizontal equity, minimum standards, and poverty traps—deserve careful attention when it comes to addressing the limited fiscal capacity of struggling regions.

Horizontal Equity

The principle of horizontal equity dictates that individuals in similar situations should be treated similarly. Specifically, individuals receiving similar baskets of goods and services from the government should have similar tax liabilities. Disparities in state fiscal capacities, left unchecked, violate this principle. To see why, we can imagine an individual whose job moves her from a high-capacity state (Connecticut) to a low-capacity state (Mississippi).

For simplicity, we will imagine that this standard basket of government goods and services costs $10,000 per capita and taxes are levied as a flat proportion of total taxable resources. When she is in Connecticut ($86,480 TTR per capita), this $10,000 basket is equal to about 12 percent of total taxable resources. When she moves to Mississippi ($41,391 TTR per capita), that same $10,000 basket is equal to about 24 percent of total taxable resources. In other

[4] U.S. Supreme Court. 1932. *New State Ice Co. v. Liebmann*, 285 U.S. 262.

[5] Rodden, J. 2006. *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism*. Cambridge University Press.

words, an individual receiving the same exact basket of goods and services in Mississippi would have double the tax liability of a similar individual in Connecticut.

Taxpayers should not be forced to pay higher or lower taxes based on the characteristics of those who live around them or the peculiar histories, whether agricultural or commercial, of the regions in which they reside. Fairness requires reducing inequities between taxpayers.

Minimum Standards

Federalism and decentralization produce a number of advantages in terms of allowing policy experimentation and tailoring programs to fit distinct needs. In practice, policymakers often worry about a lack of minimum standards and the potential for a "race to the bottom." One popular response is to enforce federally-mandated minimum standards in state and local programs. This has given rise to the problem of unfunded mandates. Whereas states with high fiscal capacity are able to meet these requirements without much trouble, states with low fiscal capacity are saddled with more and more requirements they simply cannot afford.

This is bad for program beneficiaries, as mandated benefits make encourage states to opt out of programs altogether, and bad for states, which may face extraordinary budgetary tradeoffs when they comply with federal mandates. Policymakers and pundits often assume noncompliance is a result of weak state effort without acknowledging the fact that the states most likely to fall below their preferred minimum standards rank high on fiscal effort but fall short because of a combination of higher-than-average fiscal need and lower-than-average fiscal capacity. Those interested in enforcing minimum standards must address this problem.

Poverty Traps

The issues involved in the horizontal equity example above also create problems for struggling regions trying to grow their economies and attract productive workers. One strategy for pursuing this goal is to provide the greatest basket of government goods and services for the lowest cost possible. Ideally, this would be achieved through the relentless pursuit of more efficient modes of provision. But a less ideal strategy would be to induce the migration of the most productive workers while excluding the least

productive workers. Because the most productive workers tend to increase total taxable resources, they allow governments to provide the same level of goods and services while taxing a much smaller proportion of these resources.

The most productive workers do not necessarily move to a limited set of locations *only* because of productivity-enhancing agglomeration effects, as some experts argue[6], but because their concentration in one region to the exclusion of less productive workers reduces their cost of public goods and services. The individual who moves from Mississippi to Connecticut, for example, could potentially cut their tax liability in half without sacrificing their access to similar levels of goods and services.

On the flipside, this potentially creates a poverty trap where low-productivity workers become concentrated in particular regions where governments face an unpleasant choice: Raise taxes far above the national average and offer an attractive basket of goods and services, or keep taxes competitive and offer a subpar basket of goods and services.

Recent research suggests this dynamic can help explain the declining regional convergence in the United States since the 1980s. States like New York have erected a number of barriers to housing construction, making residency unaffordable to all but the most productive workers, and thereby concentrating taxable resources within their state borders.[7] These regional disparities are further exacerbated by rising income inequality.[8] Regional divergence may continue unabated unless we change the public finance incentives faced by state and local policymakers.

The Case for Intergovernmental Grants

The solution to the problems of horizontal inequity, poverty traps, and burdensome minimum standards is a system of intergovernmental grants based in part or in whole on each state's fiscal capacity, or what scholars often call equalization grants. The case for equalizing measures can be traced back to the pioneering work of James M. Buchanan. Concerned primarily with the

[6] Moretti, E. 2013. *The New Geography of Jobs*. New York: First Mariner Books.

[7] Ganong, P. and D. Shoag. 2015. "Why Has Regional Income Convergence in the U.S. Declined?" Cato Institute Research Brief. <https://object.cato.org/sites/cato.org/files/pubs/pdf/research-brief-57.pdf>

[8] Manduca, R. 2019. "The Contribution of National Income Inequality to Regional Economic Divergence," *Social Forces*. <https://doi.org/10.1093/sf/soz013>; Highsmith, B. 2019. "The Implications of Inequality for Fiscal Federalism (or Why the Federal Government Should Pay for Local Public Schools)," *Buffalo Law Review* 67(2):101-145.

problem of horizontal equity, he suggested "an intergovernmental transfer system can be worked out which would allow state units originally unequal in fiscal capacity to provide equal services at equal rates of taxation."[9] The structural features of intergovernmental grants that increase tax equity would also help struggling states break out of their poverty trap while providing fiscal relief at the same time. What exactly are those structural features?

Popular discussions about the effects of intergovernmental grants are often filled with confusion and misperceptions, so it is worth clarifying how different aspects of these grants influence regional inequalities. Policymakers have four levers at their disposal when crafting intergovernmental grants. Decisions pertaining to the finance, allocation, scope, and adjustment of grants can reduce or exacerbate existing inequalities in state and local fiscal capacity.

"In general, flat-rate *matching* grants tend to exacerbate regional disparities because states with greater fiscal capacity can afford to spend greater sums with the same effort…"

First, the federal government must choose whether to finance the grant as a matching or block grant. With a matching grant, the amount of funding a state receives is conditional on the amount it spends from its own-source revenues. For example, a 50/50 matching formula would result in the federal government contributing a dollar for every dollar a state spends on a given program. With a block grant, the federal government contributes some fixed amount regardless of state spending decisions.

In general, flat-rate *matching* grants tend to exacerbate regional disparities because states with greater fiscal capacity can afford to spend greater sums with the same effort and therefore receive higher levels of per capita funding from the federal government. Imagine, for example, that Connecticut and Mississippi both dedicated 2 percent of their total taxable resources to a program eligible for a generous 90/10 federal matching grant, as is the case

[9] Buchanan, J.M. 1950. "Federalism and Fiscal Equity," *American Economic Review*.

with the Medicaid expansion enacted by the Affordable Care Act. Mississippi would raise about $828 per capita and receive a federal contribution of about $7,450 per capita. Connecticut would raise about $1,730 per capita and receive a federal contribution of about $15,566 per capita. For the same effort, wealthy Connecticut receives twice as much per capita as poor Mississippi, and total spending per capita is twice as high in Connecticut.

In contrast, a flat per capita *block* grant would reduce interstate disparities. Imagine the two states still dedicated 2 percent of their total taxable resources to the same program, but it offered a flat per capita block grant of $5,000. In this scenario, there are no disparities in federal funding while the disparity in total funding falls from Mississippi spending 50 percent of what Connecticut spends to being able to spend 86 percent of what Connecticut spends.

Second, the federal government must choose whether to allocate grants on a flat or variable basis. For both types of grants—matching and block—variation will tend to reduce disparities. For matching grants, this can take several forms. For example, the federal government can gradually reduce the matching rate as spending rises, matching the first $100 at 90 percent, the next $100 at 50 percent, and any state spending thereafter at 10 percent, for example. Alternatively, it could vary the match based on fiscal capacity, with states receiving a match somewhere between 25 percent and 75 percent as they move from above to below average fiscal capacity. Both of these would have the effect of channeling more federal funding to states with less fiscal capacity. The extent to which this is effective depends crucially on the amount of variation built into any given grant. As we will discuss later, the disparity-reducing power of Medicaid's variable matching rate, which offers a higher match to states with less fiscal capacity, is blunted by its fixed statutory minimum, which stipulates that even high-capacity states will receive at least a 50 percent match—well above what many would receive with a pure fiscal-capacity formula.

While the flat per capita block grants described above will moderately reduce interstate disparities, varying the grant based on factors such as percentage of persons in poverty or total taxable resources per capita will further narrow the gaps. In a pure equalization block grant, such as those in Canada and Australia, only states with below-average fiscal capacity would receive any funding. The most funding per capita goes to those with the least fiscal capacity and the funding gets progressively smaller until it phases out

altogether for states with average fiscal capacity or above. Equalization block grants are the most effective grant for reducing interstate disparities.

Policymakers do not necessarily craft variable block grants to reduce disparities, though. As we will discuss later, the conversion of the former Aid to Families with Dependent Children (AFDC) matching grant into the TANF block grant resulted in variation based on previous spending levels under the old formula. This carried over and froze those disparities into the new block grant formula. It is important to note that this policy choice—freezing the previous formula—rather than an intrinsic characteristic of block grants is what has led to TANF's inequitable allocation today.

Third, the federal government must choose the extent to which grants will be conditional or unconditional in nature. Matching grants, by definition, are conditional on state spending whereas block grants are unconditional in this respect. All existing federal grants in the United States come with some conditions. On one end of the spectrum, categorical grants for specific projects leave states with little discretion over use of funds. In the middle, the Medicaid matching grant allows state discretion within the program parameters while the TANF block grant allows more discretion as long as funds are spent with the avowed goal of aiding the poor. On the other end of the spectrum, the federal government's short-lived (1972-86) general revenue sharing program is the only recent example of an unconditional federal grant to states and local governments, allowing them to spend the funds however they deemed fit. Many states disburse unconditional block grants to municipalities in the form of general local aid. Equalization block grants to provinces in Canada are also totally unconditional.

Ideally, the extent to which the federal government attaches conditions to grants will depend on its primary goal. Conditions are more justified when the funds are explicitly given to tackle particular social goals such as providing health care or education. They are less justified when the primary goal is boosting the fiscal capacity of states. Because the chief obstacle preventing poor states from carrying out their responsibilities is limited ability to raise revenues, it is fair to assume that policymaker decisions will reflect voter preferences and the particular needs of that state if supplemental funding becomes available through federal grants.

Fourth, the federal government must choose whether and how it will adjust grants based on changing circumstances. Adjustment will occur automatically

in the case of matching grants as the federal contribution reflects changes in state choices. For block grants, the two most important factors to consider are adjusting for population and adjusting for inflation. In some case, like the TANF block grant, the total amount of the grant is set at a lump sum. Without adjustments for population growth or inflation, the per capita real value of the grant shrinks over time and its allocation becomes distorted when states experience differential changes in population.

Ideally, block grants are allocated on a per capita basis and indexed for inflation. This ensures that they are not eroded over time and reflect changing state circumstances. It also incentivizes cost control in areas like education and health care, which are subject to spending that rises faster than inflation and threatens to eat up larger portions of state budgets if left unchecked.

American Federalism in Comparative Perspective

U.S. policy debates about how to structure intergovernmental grants typically take place in the absence of any consideration of how similar countries with federal systems structure their grants. The result is a distorted perception of how much our existing system of grants reduces interstate disparities in fiscal capacity and the policy options available to reformers. Political scientist Jonathan Rodden has done the most comprehensive analysis of fiscal federalism around the world. In contrast to the rhetoric of pundits who claim there is a massive redistribution from rich (often blue) to poor (often red) states, Rodden finds that the U.S is the worst among rich democracies in terms of progressively allocating more federal grant funding to states with limited fiscal capacity.[10]

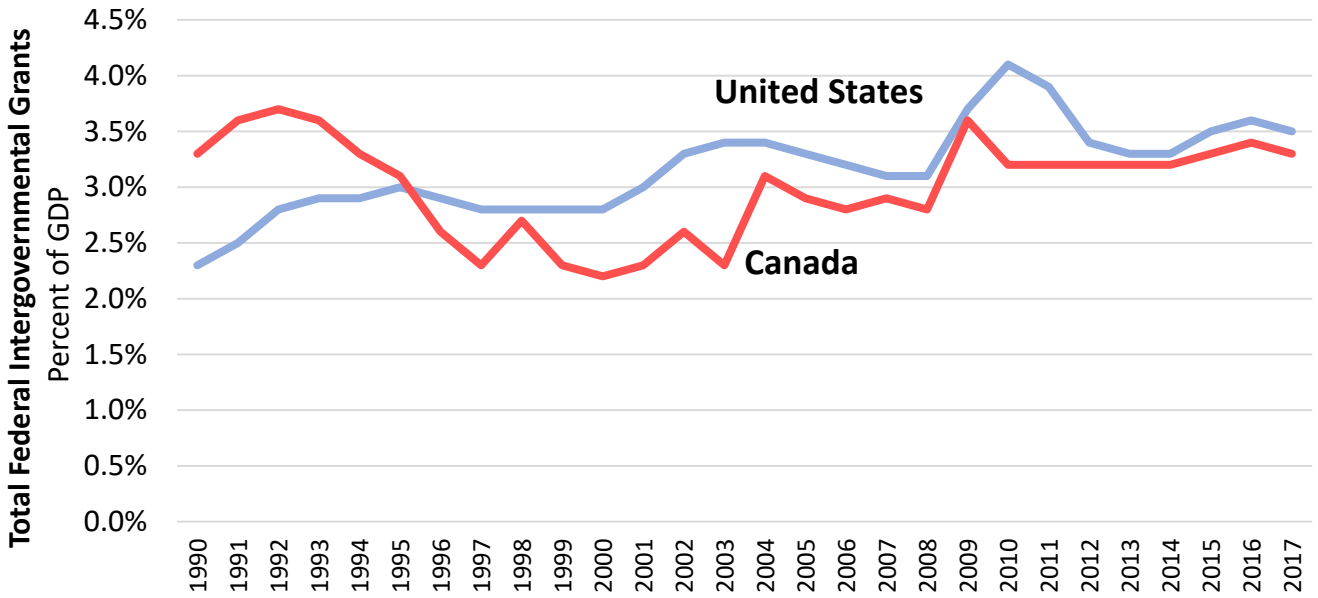
Whereas Australia, Canada, and Germany all have highly progressive systems of federal intergovernmental grants to help poorer states and provinces provide basic services at competitive tax levels, the U.S. system is only barely progressive (and loses its progressivity altogether if you exclude outliers like Wyoming and Alaska). This has important implications for struggling regions in each country. The ability to fund comparative services at comparable tax levels can help explain the convergence of poor and wealthy regions.[11] It

[10] Rodden, J. 2010. "Federalism and Inter-Regional Redistribution," in *The Political Economy of Inter-Regional Fiscal Flows*. Northampton: Edward Elgar.

[11] Kaufman, M., P. Swagel, and S. Dunaway. 2003. "Regional Convergence and the Role of Federal Transfers in Canada," IMF Working Paper. <https://www.imf.org/en/Publications/WP/Issues/2016/12/30/Regional-Convergence-and-the-Role-of-Federal-Transfers-in-Canada-16527>

reduces distortions in the decisions of workers and firms to locate based on fiscal capacity.

Figure 1.4: **Federal Intergovernmental Grants, 1990-2017**



Source: U.S. Office of Budget and Management. Historical Tables, Table 12.1. https://www.whitehouse.gov/omb/historical-tables/; Canada Department of Finance. Fiscal Reference Tables, Table 8. https://www.fin.gc.ca/frt-trf/2018/frt-trf-18-eng.asp

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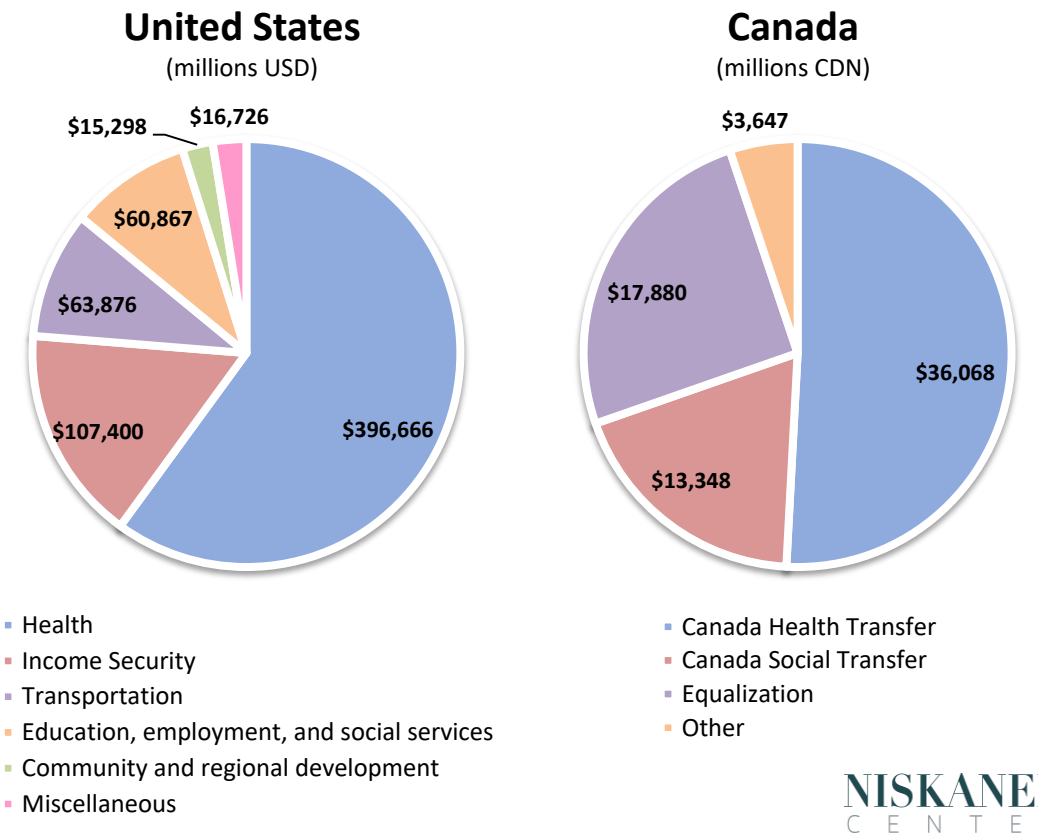
Canada offers the best comparison for contextualizing the shortcomings of American fiscal federalism. Historically, the American and Canadian federal governments have allocated similar amounts for intergovernmental grants (see Figure 1.4). Beyond this similarity, the two systems could not look more different in terms of the four levers discussed earlier.

The Canadian system is simple and streamlined into three primary grants: equalization, the Canada Health Transfer (CHT), and the Canada Social Transfer (CST).[12] All three are effective at reducing interprovincial disparities in fiscal capacity.

Figure 1.5: **Federal Grants to States and Municipalities, 2016**

[12] Canada Department of Finance. 2019. "Federal Support to Provinces and Territories." <https://www.fin.gc.ca/access/fedprov-eng.asp>



Source: U.S. Office of Budget and Management. Historical Tables, Table 12.1. https://www.whitehouse.gov/omb/historical-tables/; Canada Department of Finance. Fiscal Reference Tables, Table 8. https://www.fin.gc.ca/frt-trf/2018/frt-trf-18-eng.asp

Equalization is an unconditional block grant for provinces with below-average fiscal capacity. The purpose is enshrined in Canada's constitution: "Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."[13] The exact formula changes from time to time but the principle of providing the most funds on a per capita basis to provinces with the lowest fiscal capacity, and progressively reducing per capita funding as provinces move closer to the average where they phase out altogether, is a persistent characteristic of the program. This makes it extremely effective at reducing disparities in fiscal capacity. It is automatically adjusted each year for inflation and population changes. The federal government attaches no strings to equalization. Provinces can use the funding however they see fit for their particular needs.

[13] Subsection 36(2) of the Constitution Act, 1982 (Canada). <https://laws-lois.justice.gc.ca/eng/const/page-16.html>

The Canada Health Transfer is a conditional block grant for all provinces to fund their health care programs. The provinces have wide latitude in spending choices as long as their programs conform to five requirements (universality; comprehensiveness; portability; accessibility; public administration) set by federal legislation. It is allocated on an equal per capita basis and automatically adjusted each year for inflation and population changes. This makes it moderately effective at reducing disparities in fiscal capacity.

> "There is no stand-alone equalization grant, making the U.S the only rich democracy without one."

The Canada Social Transfer is a conditional block grant for all provinces to fund their postsecondary education, social assistance, social services, and early-childhood development programs. The provinces have much wider latitude in spending choices as long as the money is used for any of these purposes. Like the health transfer, it is allocated on an equal per capita basis and automatically adjusted each year for inflation and population changes. This makes it moderately effective at reducing disparities in fiscal capacity.

The American system, on the other hand, is complex and splintered into dozens upon dozens of grants with various purposes. This includes 20 different block grants and countless smaller categorical grants to state and local governments. In terms of broader categories, a higher proportion of funding is allocated to health-related grants and about the same goes to income security and social services relative to Canada.

There is no stand-alone equalization grant, making the U.S the only rich democracy without one. Instead, the remaining proportion of funding that would be used for an unconditional block grant for poor provinces in Canada is spread out across a number of highly specified conditional categories (e.g., transportation, education, community development, etc.) across all 50 states, regardless of fiscal capacity. This lack of autonomy and general refusal to address fiscal disparities among states explains why the U.S spends the same amount as Canada without accruing the same benefits.

Ideally, the best way to help struggling regions in the U.S. would be to adopt Canada's approach of combining broadly categorical block grants for all states with an equalization block grant for states that are below average on fiscal capacity.[14] Recognizing the political obstacles limiting our ability to make such radical changes in the short run, the following sections focus on three specific programs, explaining the shortcomings of existing arrangements and recommending incremental reforms with the goal of raising the fiscal capacity of struggling regions.

Part one looks at Title I funding for elementary and secondary education and argues that while it is currently allocated progressively based on fiscal capacity, there is much room for improvement. To do this, I propose replacing the existing set of allocation formulas with one formula based on a modified version of Medicaid's Federal Medical Assistance Percentages (FMAP) formula.

Part two looks at funding for Medicaid and argues that, contra to popular perception, the existing formula is not progressive in terms of fiscal capacity. To better serve poor states, I propose eliminating FMAP's statutory minimum matching rate for wealthy states and using the funds to create a new Medicaid Foundation Block Grant (MFBG) based purely on state population.

Part three looks at funding for TANF and argues that the existing formula is actually regressive in terms of fiscal capacity. To fix this perverse outcome, I propose eliminating it and replacing it with an expanded Family Assistance Block Grant (FABG) based purely on state population under 18 years old.

These three proposals combined, if enacted, would provide struggling regions with the fiscal relief they need to make their tax systems more competitive while investing in the education, health care, and social safety net necessary to grow their economies.

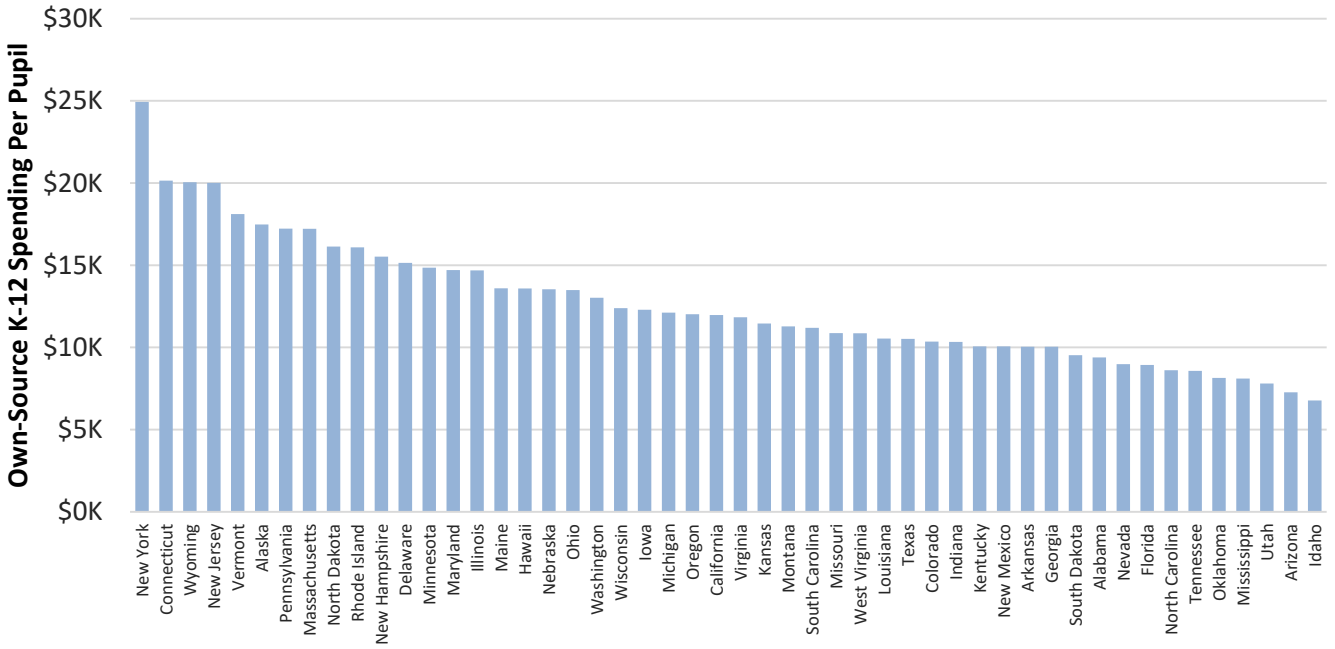
Part One: Education in Struggling Regions

Economists have long known that human capital plays an important role in the economic development of regions and intergenerational mobility among

[14] Stark, K. 2009. "Rich States, Poor States: Assessing the Design and Effect of a U.S. Fiscal Equalization Regime," *Tax Law Review* 63:957.

families.[15] For state and local governments, human capital investment traditionally takes the form of K-12 education funded from state and local taxes. This is typically the single largest budget item for state and local governments.

Figure 2.1: **State and Local K-12 Spending Per Pupil**



Source: U.S. Census (2016) Annual Survey of School System Finances.
https://www.census.gov/data/tables/2016/econ/school-finances/secondary-education-finance.html

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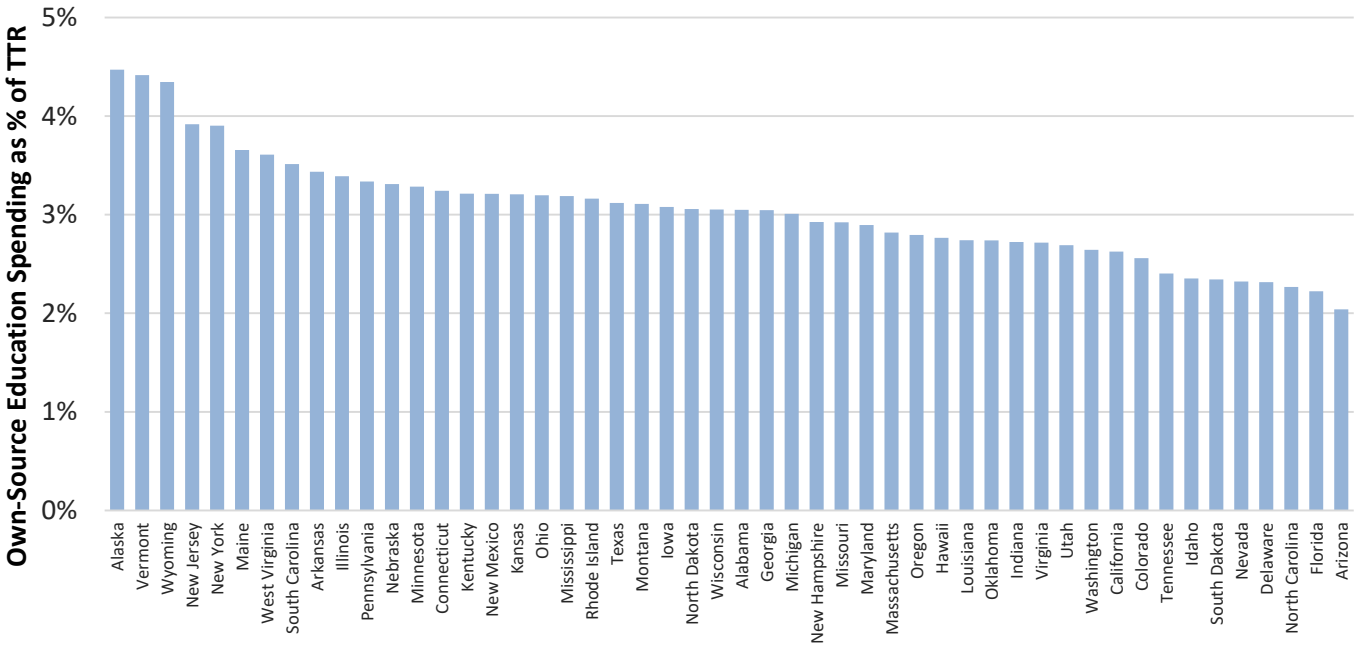
Recent teacher strikes in states such as West Virginia have brought public attention to disparities in teacher pay and per pupil spending across states.[16] Because a disproportionate share of these strikes occurred in conservative, red states, there is an assumption that lower teacher compensation and education spending more generally reflect a lack of investment stemming from opposition to public spending. Figure 2.1 confirms, for example, that deep blue Connecticut spends almost twice as much per pupil than deep red West Virginia.

[15] Barro, R. and J-W Lee. 2015. *Education Matters: Global Schooling Gains from the 19th to the 21st Century*. New York: Oxford University Press; Biasi, B. 2019. "School Finance Equalization Increases Intergenerational Mobility: Evidence from a Simulated-Instruments Approach," *NBER Working Paper.* <https://www.nber.org/papers/w25600>

[16] Chang, A. 2019 "Your state's teachers are underpaid. Find out by how much." *Vox.* <https://www.vox.com/policy-and-politics/2018/3/9/17100404/teacher-pay-salary-underpaid-database>

But as noted in the previous part, per pupil spending is not a good measure of effort. Connecticut spends almost twice as much as West Virginia, but it also has almost twice the total taxable resources per capita. When we look at own-source education spending as a proportion of total taxable resources, we find that West Virginia's effort is actually greater than Connecticut's effort (see Figure 2.2).

Figure 2.2: **K-12 and Secondary Education Effort (2016)**



Source: Author's calculations, U.S. Census (2016) Annual Survey of School System Finances and U.S. Treasury (2018) Total Taxable Resources Estimates.

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The only difference is that Connecticut's greater fiscal capacity means it can generate much more revenue for education spending with slightly less effort. This disparity is further exacerbated by the fact the West Virginia's child poverty rate, which increases education costs, is almost twice as high as that of Connecticut.

The disconnect between educational needs and fiscal capacity puts struggling regions in a Catch-22. To grow their economies and attract new businesses, struggling states need a well-educated workforce, but funding the necessary investments in education would require those same states to raise taxes to uncompetitive levels, making them less attractive to businesses and workers. Without any sort of federal aid, struggling states are left in a poverty trap.

Past efforts to break them out of this trap have been largely unsuccessful, as municipal leaders in wealthier states have used their political muscle to siphon away funds better spent in poorer places.

Education Funding: Past and Present

In 1938, President Roosevelt sent a request to the National Emergency Council (NEC) asking it to produce a report on the economic conditions of the South. Roosevelt recognized that the South was what we would call today a struggling region. The subsequent NEC report dedicated an entire chapter to the difficult task of providing a meaningful education to children in struggling regions. It listed a number of familiar issues—the South lagged behind the rest of the nation in terms of teacher pay, classroom size, enrollment, and learning outcomes. Most of this was the result of disparities in education spending. The average school district in New York spent five times as much per pupil as the average district in Mississippi in 1936. The report was careful to clarify that this did not stem from differences in effort:

> But the poor educational status of the South is not a result of lack of effort to support schools. The South collects in total taxes about half as much per person as the Nation as a whole. All Southern States fall below the national average in tax resources per child, although they devote a larger share of their tax income to schools. For the Southern States to spend the national average per pupil would require an additional quarter of a billion dollars of revenue.[17]

While acknowledging the problem of limited fiscal capacity in struggling regions, the Roosevelt administration took no action because education was seen as the prerogative of state and local governments. Federal involvement was minimal at the time and would continue to be so for another three decades.

Federal interest in education financing resurfaced in the 1960s. As President-Elect, John F. Kennedy put together a task force on education to come up with a program for his agenda. The Hovde report (named for task force chair Frederick L. Hovde) was keenly aware of the problem of limited fiscal capacity. While noting that the country as a whole needed to put more resources into the education system, the report recognized that "as the result of historical

[17] National Economic Council. 1938. *Report on Economic Conditions of the South*. p. 27.

and economic forces, there are parts of the United States that have unusual problems in financing their part of a school program."[18]

Their proposed solution, in addition to a flat block grant of $30 per pupil to states, was an additional block grant of $20 per pupil to states with personal income per pupil below 70 percent of the national average. They estimated that about one-quarter of all states would benefit and most of these would be in the South. It was a good plan but cost considerations led the Kennedy administration to quietly shelve it.

President Johnson's War on Poverty brought education funding back on the agenda. According to education historian Harvey Kantor, the experts at the time argued that any federal intergovernmental grant for education should allocate the most funding to the poor states and the least to wealthy states but feared any proposal doing this would become politically unviable. Instead, the policymakers crafted the formula for what would eventually become the Elementary and Secondary Education Act (ESEA) of 1965 so that it spread funds much more broadly across congressional districts. While politically effective, it blunted much of the equalizing impact of the formula, shifting a larger share of funds to rich states relative to an ideal formula based on fiscal capacity.[19]

Title I, the primary provision in ESEA responsible for allocating funds, has undergone a number of formula changes since 1965. Currently, funds are distributed based on four separate formulas[20] and make up about 2.5 percent of total state and local education spending. The "basic grant," "concentration grant," and "targeted" formulas are each based on the number of poor students in each school district. While not directly considering fiscal capacity, this is a rough proxy for it on the local level given existing levels of economic and racial segregation. School districts with a higher proportion of poor students typically lack the property tax base to fund schools at levels comparable to wealthy neighboring districts.

[18] Report of the Task Force Committee on Education. 1961. p. 8. <https://www.jfklibrary.org/asset-viewer/archives/JFKTRAN/1071/JFKTRAN-1071-019>

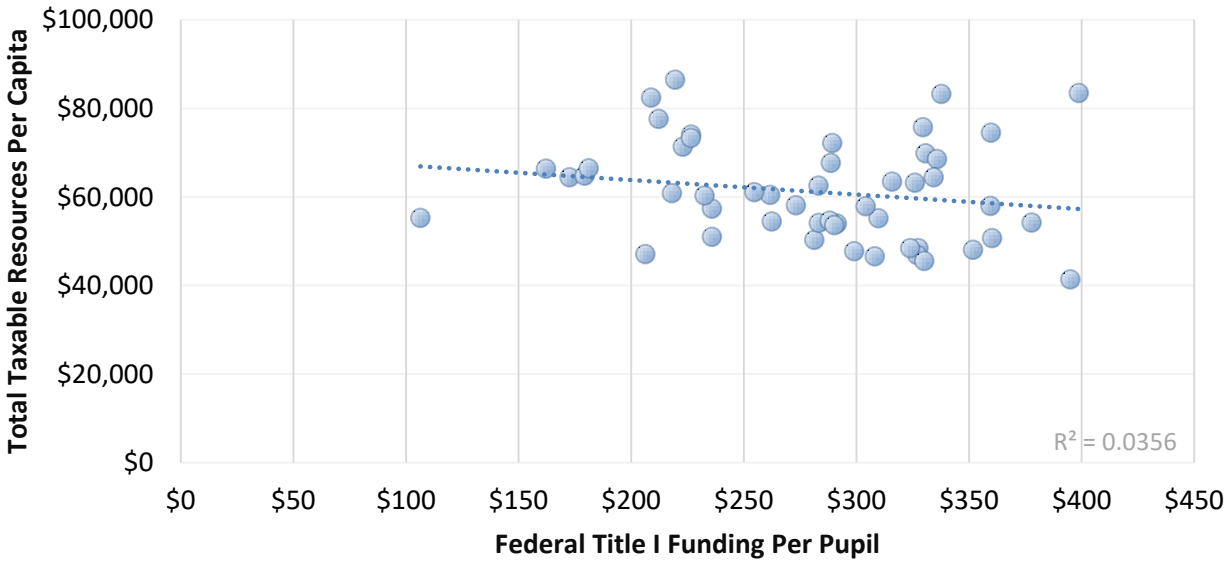
[19] Kantor, H. 1991. "Education, Social Reform, and the State: ESEA and Federal Education Policy in the 1960s, *American Journal of Education* 100(1):60-61.

[20] Skinner, A. and L. Rosenstiel. 2018. *Allocation of Funds Under Title I-A of the Elementary and Secondary Education Act*. Washington, D.C.: Congressional Research Service.

The "education finance incentive grant" formula considers a mix of factors, including the proportion of poor students, fiscal effort (spending per pupil as proportion of state per capita income), spending per pupil, and equity across school districts within a state. Some factors, like proportion of poor students, reduce disparities, while others, like spending per pupil, have the effect of increasing them.

Overall, Title I block grants moderately reduce education spending disparities between states with high and low fiscal capacity (see Figure 2.3). This makes education grants much more equitable than Medicaid and TANF grants (as discussed in parts 2 and 3) while still leaving much room for improvement. New York, which ranks second in terms of fiscal capacity, receives more in Title I funding per pupil ($399) than any other state. Utah, on the other hand, has below-average fiscal capacity and still receives less in Title I funding per pupil ($106) than any other state.

Figure 2.3: **Title I Allocation Across States (2016)**



Source: Author's calculations, U.S. Census (2016) Annual Survey of School System Finances and U.S. Treasury (2018)

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One of the major shortcomings of the various Title I grant formulas is that they focus on the characteristics of individual school districts rather than the states in which they operate. This neglects the growing role of states in schools' finances. Overall, states are the top source of funding for education. This is a response to concerns over intrastate disparities between wealthy and

poor school districts. Whether by choice or by court order, most states have introduced policies meant to help equalize spending across districts.

Despite these changes, ESEA largely treats districts as if they are still on their own when it comes to financing education. This creates large inefficiencies by allocating a sizeable proportion of funding to poor districts in otherwise wealthy states. We can illustrate the issue by taking a hypothetical example of two poor schools districts—one in Mississippi and one in Connecticut—with similar proportions of students in poverty. The existing Title I formulas treat them as if they are similarly limited in their abilities to finance adequate levels of education for their students. In reality, the poor district in wealthy Connecticut is in a much better fiscal position than the poor district in poor Mississippi after accounting for state funding. The best way to simplify federal education grants and make them more equitable is to account for state fiscal capacity.

The Proposal

In light of Title I's shortcomings, I propose eliminating the current set of formulas and allocating existing funds to states based on a single formula indexed to inflation:

$$Education\ grant_{State} = \$3{,}650 \times (FMAP_{State} - 0.5) \times Average\ daily\ attendance_{State}$$

This formula has three advantages relative to Title I funding as it is currently allocated. First, it simplifies the allocation process by basing it purely on an existing measure of fiscal capacity with modifications to make it more equitable. The Federal Medical Assistance Percentages (FMAP) formula was introduced to determine the federal match for Medicaid grants, with states given the option to use it for their AFDC grants as well. The FMAP formula is:

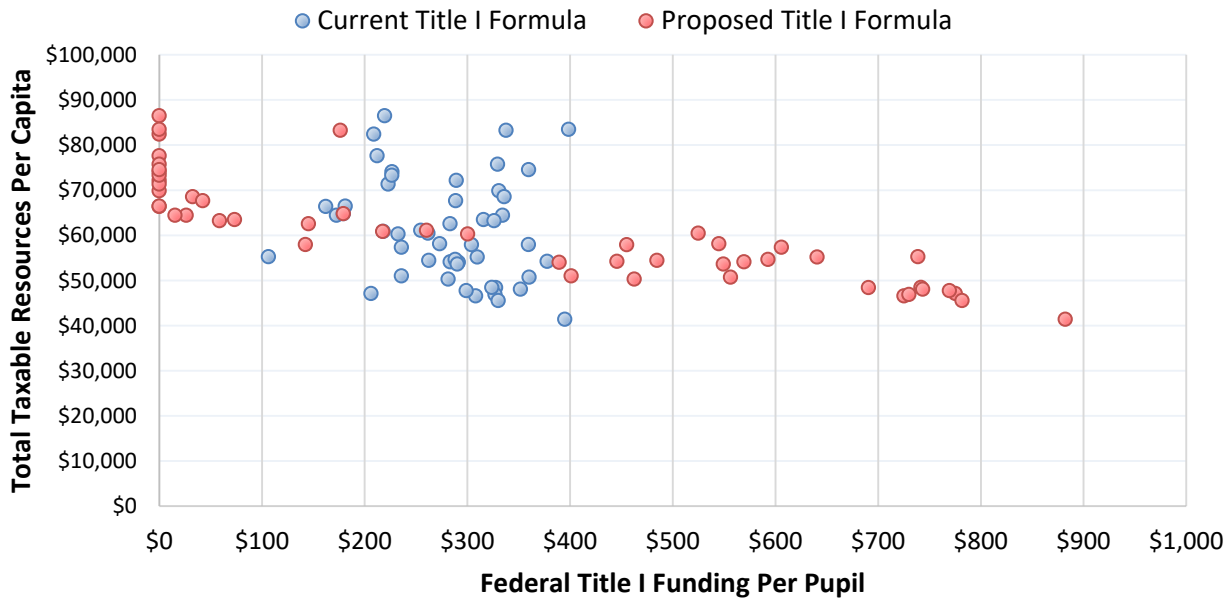
$$FMAP_{State} = 1 - \frac{Per\ capita\ income_{State}{}^{2}}{Per\ capita\ income_{U.S.}{}^{2}} \times 0.45$$

The Department of Health and Human Services publishes FMAP allocations for each upcoming year. The use of per capita income is a suitable proxy for state fiscal capacity. The FMAP rate is higher for states with per capita income below the national average, with a statutory maximum of 83 percent and a statutory minimum of 50 percent. By allocating a larger portion to wealthy states, this statutory minimum blunts the ability of the formula to reduce disparities. The matching requirement does this as well. By contrast, in order

to maximize its disparity-reducing effect, the proposal modifies FMAP by eliminating the matching requirement and limiting funding only to states below 55 percent of the average per capita income. Figure 2.4 compares the distribution of funds under the current and proposed formulas.

Under the proposed formula, the total cost of federal grants remains relatively unchanged, as does the slope of the relationship between state fiscal capacity and education funding. The crucial difference is that by shifting funds from the wealthiest states to the poorest states, it increases per pupil funding in states least able to finance comparable levels of education. Mississippi, for example, would see an additional $487 per pupil, or a 5.42 percent increase in overall spending per pupil. By concentrating funding this way, the proposal ensures the most bang for our federal buck.

Figure 2.4: **Alternative Title I Allocations by State**



Source: Author's calculations, U.S. Census (2016) Annual Survey of School System Finances and U.S. Treasury (2018) Total Taxable Resources Estimates.

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Second, it ends the practice of using federal funds for poor districts in wealthy states. The principle of subsidiarity requires that problems be solved by the lowest level of government possible. Before turning to the federal government for education funding, we must ask whether states have the fiscal capacity to fill the gap without federal aid. In the case of wealthy states like New York and Massachusetts, the answer is undoubtedly yes. In many cases, poor districts

in wealthy states already have per pupil spending on par with or better than middle class districts in poor states because the former can count on state governments to supplement their spending whereas the latter cannot.

It is an inefficient use of resources to allocate federal funds to districts that could just as well rely on state governments to boost education spending. School districts in poor states, on the other hand, are justified in receiving additional federal funds to supplement the lower amount of funding they can potentially receive from state governments. Federal policymakers can and should expect policymakers in wealthier states to step in to fill the gap left by the loss of federal funding. Given that states have come to rely on federal funding, a slow phaseout of existing funding over a transitional period would be appropriate to give state policymakers time to adjust to the changes.

Lastly, these reforms improve upon the existing system of grants by automatically updating grant amounts and distribution to reflect changing circumstances. Rather than subjecting Title I funding to annual appropriations, spending would be based on a formula that is indexed for inflation on a per pupil basis. This ensures the program neither grows out of control nor is eroded over time. Funding stability allows state and local policymakers to make better decisions about their education systems.

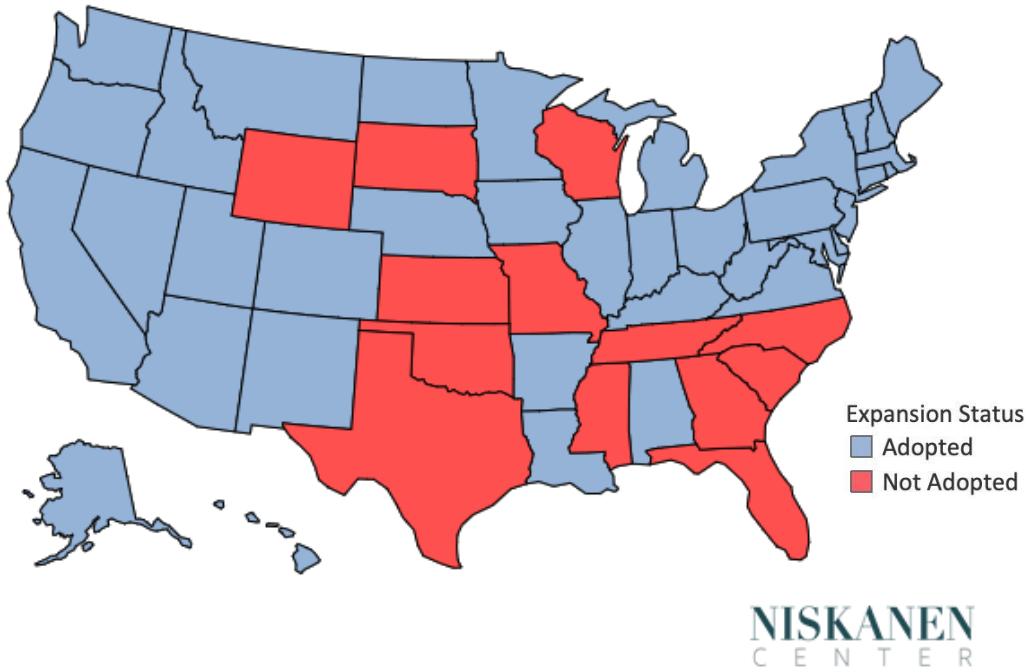
The use of 2016 spending amounts as a baseline means the reform is deficit neutral, and neither increasing nor decreasing the federal commitment to Title I. All improvements come from better targeting of funds to struggling regions in order reach the same goal of ensuring all students receive a minimum standard of education.

Part Two: Medicaid in Struggling Regions

The health coverage provided by Medicaid is a lifeline for many low-income families. The program's expansion under the Affordable Care Act (ACA) extended coverage to many of the working poor who previously went uninsured. The program is especially important in struggling regions where higher poverty rates mean there are more families in need of coverage. This is one of the reasons pundits have been taken aback by the fact that the states which would benefit most from Medicaid expansion delayed it or still have not opted to expand it at all (See Figure 3.1).

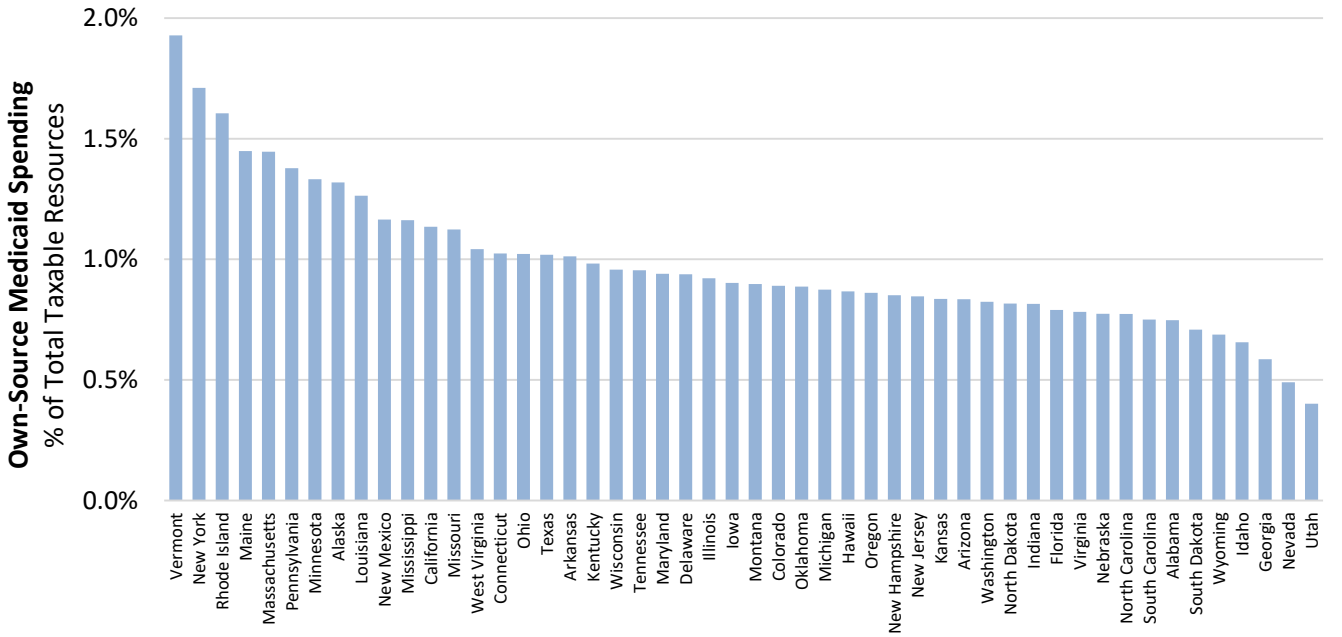
The most common explanation for this intransigence is partisan opposition from Republicans in those states. There is no doubt that Republican opposition plays some role, but the hyper-focus on this factor leads many to miss the obstacles that have limited Medicaid in struggling regions since its introduction in 1965. Rather than look at Medicaid's benefit alone, we must take a closer look at its cost to states in these regions.

Figure 3.1: **State Adoption of Medicaid Expansion (2019)**



As is the case with other income-tested programs, struggling regions face a combination of higher demand for Medicaid spending paired with a lower ability to fund it because of limited fiscal capacity. With the exception of South Dakota and Wyoming, all of the non-expanding states have fiscal capacities below the national average. Moreover, there is little evidence that struggling regions put less effort into Medicaid spending relative to wealthy regions (See Figure 3.2).

Figure 3.2: **State Medicaid Effort (2016)**



Source: U.S. Treasury (2018) Total Taxable Resources Estimates and MACPAC (2017) MACStates: Medicaid and CHIP Data Book. https://www.macpac.gov/wp-content/uploads/2015/12/MACStats-Medicaid-CHIP-Data-Book-December-2017.pdf

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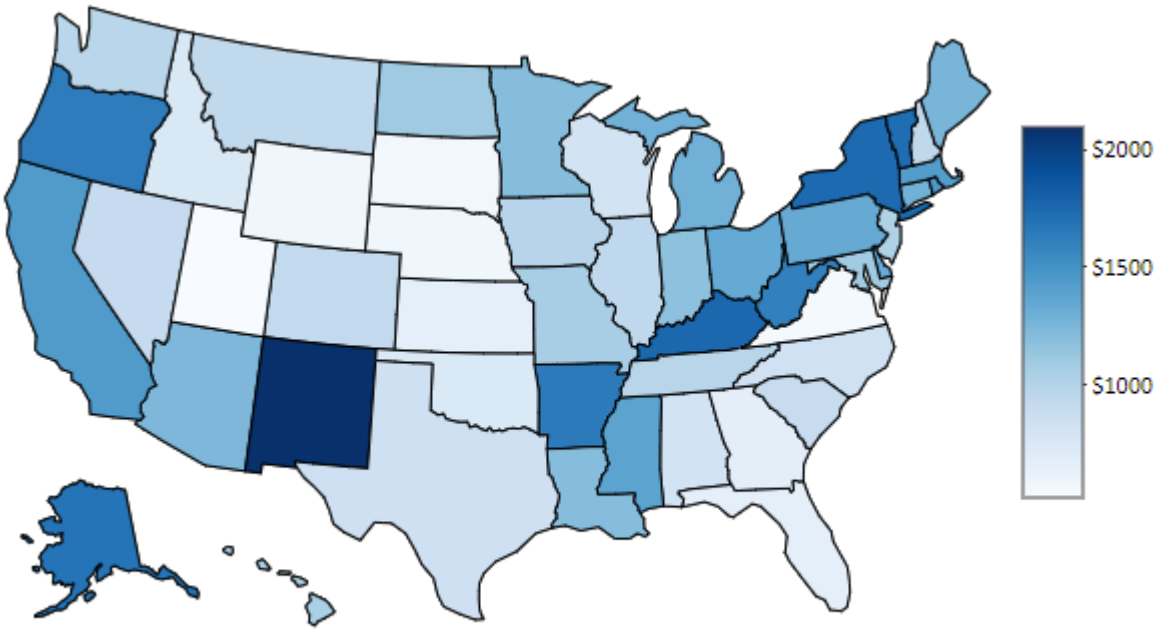
Louisiana and Mississippi, for example, have fiscal efforts on par with California. West Virginia's effort is similar to Connecticut's. Kansas' effort is similar to New Jersey. Even before the ACA made Medicaid expansion an option, many states were already struggling to fund their existing Medicaid programs. What looks like a generous 90 percent matching rate under the ACA offers little consolation to states being asked to shoulder additional costs on top of their already heavy burdens.

Farsighted policymakers know that Medicaid is the fastest-growing budget item for most states. Evidence suggests that this growth is already beginning to crowd out other spending priorities, such as education.[21] As we saw in the previous part, struggling regions cannot afford higher levels of education spending as it is right now, making growing Medicaid costs even more detrimental to their development. Such stark budgetary tradeoffs pit the interests of different state constituents against each other, and may therefore be one reason the Medicaid expansion became politicized in poorer states.

[21] Adolph, C., C. Breunig, and C. Koski. (forthcoming). "The Political Economy of Budget Trade-Offs," *Journal of Public Policy*, 1-26. <https://www.cambridge.org/core/journals/journal-of-public-policy/article/political-economy-of-budget-tradeoffs/1C3A95F08BEC207C8461065112D2B04D>

Defenders of the existing Medicaid program often point to aspects of its allocation formula to argue that it already favors poor states over rich states. The data tells a different story. Figure 3.3 maps out federal Medicaid funding per capita in 2016.

Figure 3.3: **Medicaid Spending Per Capita (2016)**



Source: MACPAC (2017) MACStates: Medicaid and CHIP Data Book.

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As noted above, Louisiana and Mississippi make fiscal efforts on par with California. Despite the fact that California is much wealthier, it receives more federal Medicaid funding per capita than these two poor states. Overall, there is almost no relationship between state fiscal capacity and federal Medicaid funding per capita (see Figure 3.4). Medicaid's funding formula is simply not as progressive as its defenders claim. A brief overview of the program's history shows why this is the case.

Medicaid Funding: Past and Present

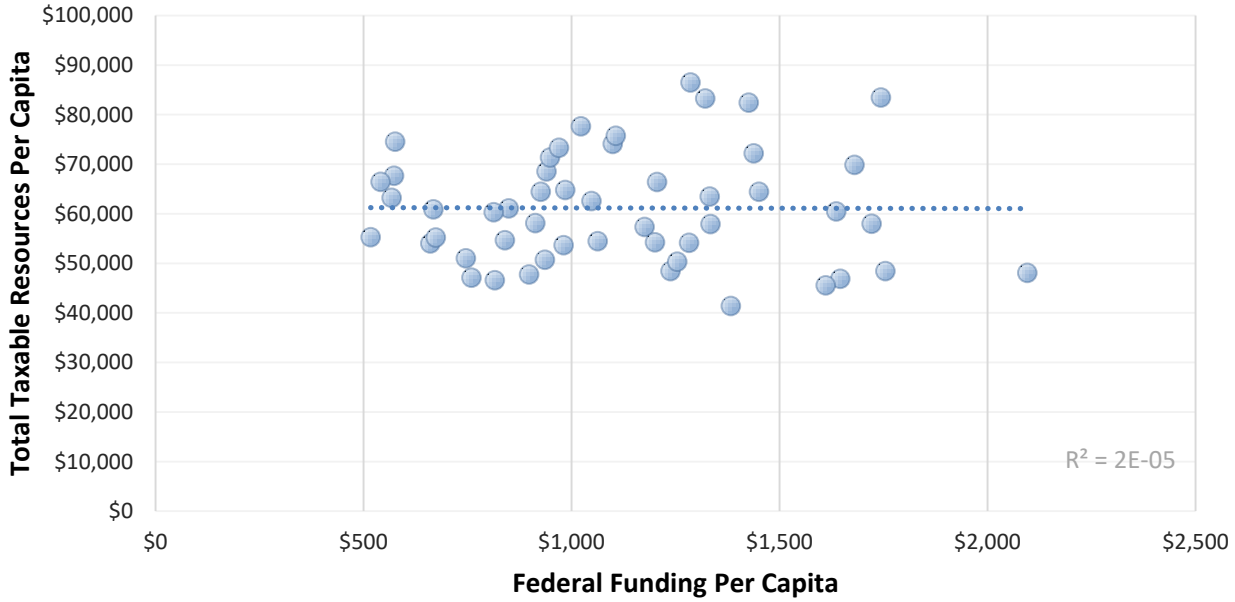
No other area of policy better illustrates the underlying conflict over the distribution of federal grants between wealthy and poor states than health care. Although it was introduced in 1965, the formula for Medicaid can trace its roots to the Hill-Burton Act of 1946, a federal grant program for hospital

construction. Congress recognized that the regions most in need of new hospitals were the ones with the least fiscal capacity to afford them. To account for this, legislators came up with a formula for allocating funds based partially on the per capita income of the state in question.[22] The allotment percentage, as it was called, was calculated as such:

$$Allotment\ percentage = 100 - \left(\frac{Per\ capita\ income_{State}}{Per\ capita\ income_{U.S.}} \times .5\right)$$

The allotment percentage was then squared and multiplied by each state's population to determine its share of the federal funds appropriated for hospital construction each year. The law also pioneered the use of statutory minimums and maximums by providing that no state's allotment percentage exceed ¾ or fall below ⅓, regardless of fiscal capacity. This truncated the funding distribution by potentially providing less for the poorest states and more for the wealthiest states than they would otherwise receive under the formula.

Figure 3.4: **Federal Medicaid Funding to States Per-Capita (2016)**



Source: U.S. Treasury (2018) Total Taxable Resources Estimates and MACPAC (2017) MACStates: Medicaid and CHIP Data Book.

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[22] Social Security Administration. 1954. *Social Security Bulletin*, 17(5). p. 11. <https://www.ssa.gov/policy/docs/ssb/v17n5/v17n5p11.pdf>

In 1956, Congress planted the seeds for Medicaid by allowing states to use federal social assistance funding for medical-vendor payments to help the poor afford medical care. In contrast to Hill-Burton, this program took the form of a matching grant, with the federal government covering 50 percent of spending. The 50/50 matching requirement favored wealthy states, but a strict cap on federal contributions limited how much funding could be captured by those wealthy states. Two years later, Congress liberalized the formula by varying the federal match based on fiscal capacity. States with per capita income above the national average would still receive a 50 percent match. Those with per capita income below the national average would receive up to a 65 percent match, depending how far below they fell. This was supposed to help shift more funding to struggling regions less able to afford spending levels on par with wealthy states.

In 1960, Congress applied an even more liberal formula to disburse grants under a new Medical Assistance for the Aged (MAA) program. The poorest states could now receive a federal match of up to 80 percent. The federal match for wealthy states was left unchanged at 50 percent—far above what many would receive under a formula based purely on fiscal capacity. Because the MAA was sponsored by two members from struggling regions (Rep. Wilbur Mills of Arkansas and Senator Robert Kerr of Oklahoma, both Democrats), many thought the new formula would help those regions achieve some level of parity.

This prediction turned out to be incorrect. A 1963 congressional report concluded, "The distribution of Federal matching funds under MAA has been grossly disproportionate, with a few wealthy States, best able to finance their phase of the program, getting a lion's share of the funds."[23] States in struggling regions were still unable to afford introducing the program, while wealthy states that were already providing benefits now received federal funding to reduce their burden. Despite these warning signs, Congress built upon this same formula when it introduced Medicaid in 1965. Medicaid's current formula, the Federal Medical Assistance Percentages (FMAP), is calculated as such:

$$FMAP_{State} = 1 - \frac{Per\ capita\ income_{State}{}^{2}}{Per\ capita\ income_{U.S.}{}^{2}} \times 0.45$$

[23] U.S. Congress. 1963. *Medical Assistance for the Aged: The Kerr-Mills Program 1960-1963*. Washington, D.C.: U.S. Government Printing Office. <https://www.aging.senate.gov/imo/media/doc/reports/rpt263.pdf>

The 0.45 multiplier means that a state with per capita income equal to the national average receives a higher federal 55 percent match. As was the case with previous iterations, Congress set statutory minimum (50 percent) and maximum (83 percent) matching rates. The Department of Health and Human Services uses an average of the three most recent available years based on the Department of Commerce's Bureau of Economic Analysis data to determine states' FMAP each year. This helps ensure stability from year to year.

In addition, the ACA gave states the option to further expand Medicaid to "newly eligible" individuals with incomes up to 133 percent of the federal poverty level, with a flat federal matching rate of 90 percent (which was temporarily higher in early years).[24] Both the traditional FMAP and ACA formulas have major shortcomings that put poor states at a disadvantage relative to wealthy states.

Figure 3.5: **FMAP's Statutory Minimum (Estimated FY 2020)**

State	Statutory minimum	Without statutory minimum	Difference
Connecticut	50.00%	11.69%	-38.31%
Massachusetts	50.00%	23.69%	-26.31%
New Jersey	50.00%	30.57%	-19.43%
New York	50.00%	34.49%	-15.51%
Maryland	50.00%	38.04%	-11.96%
California	50.00%	41.17%	-8.83%
Alaska	50.00%	41.88%	-8.12%
Wyoming	50.00%	41.89%	-8.11%
New Hampshire	50.00%	41.99%	-8.01%
North Dakota	50.00%	44.03%	-5.97%
Washington	50.00%	44.74%	-5.26%
Virginia	50.00%	47.84%	-2.16%
Colorado	50.00%	49.02%	-0.98%
Minnesota	50.00%	49.91%	-0.09%

First, they both take the form of matching grants. As discussed in the first section, matching grants, especially those with flat rates, tend to reward states with higher fiscal capacity. Mississippi, for example would need to

[24] Mitchell, Alison. 2018. *Medicaid's Federal Medical Assistance Percentage (FMAP)*. Congressional Research Service.

increase its Medicaid spending twice as much in terms of its proportion of the total taxable resources as Connecticut in order to receive the same per capita federal funding under the ACA's 90 percent matching rate. Insofar as the traditional FMAP formula varies based on fiscal capacity, it reduces this inequity. Thus, it is much better at reducing interstate disparities, despite the fact that the range of matching percentages is much lower than 90 percent.

Second, the progressive nature of Medicaid is blunted by the statutory minimum matching rate of 50 percent for wealthy states. In 2020, there will be 14 states that will receive matching rates higher than they would under a pure fiscal capacity formula. In some cases, such as Minnesota and Colorado, the difference is minimal. In others, such as Connecticut and Massachusetts, the statutory minimum provides a significant windfall (see Figure 3.5). Allocating tens of billions of dollars for Medicaid each year to the wealthiest states in the country is inefficient, inequitable, and indefensible in an era where struggling regions cannot afford lifesaving Medicaid expansions.[25]

The Proposal

In light of the existing FMAP formula's shortcomings, I propose eliminating the current statutory minimum matching rate of 50 percent and allocating savings to a new Medicaid Foundation Block Grant (MFBG) indexed to inflation and population growth.

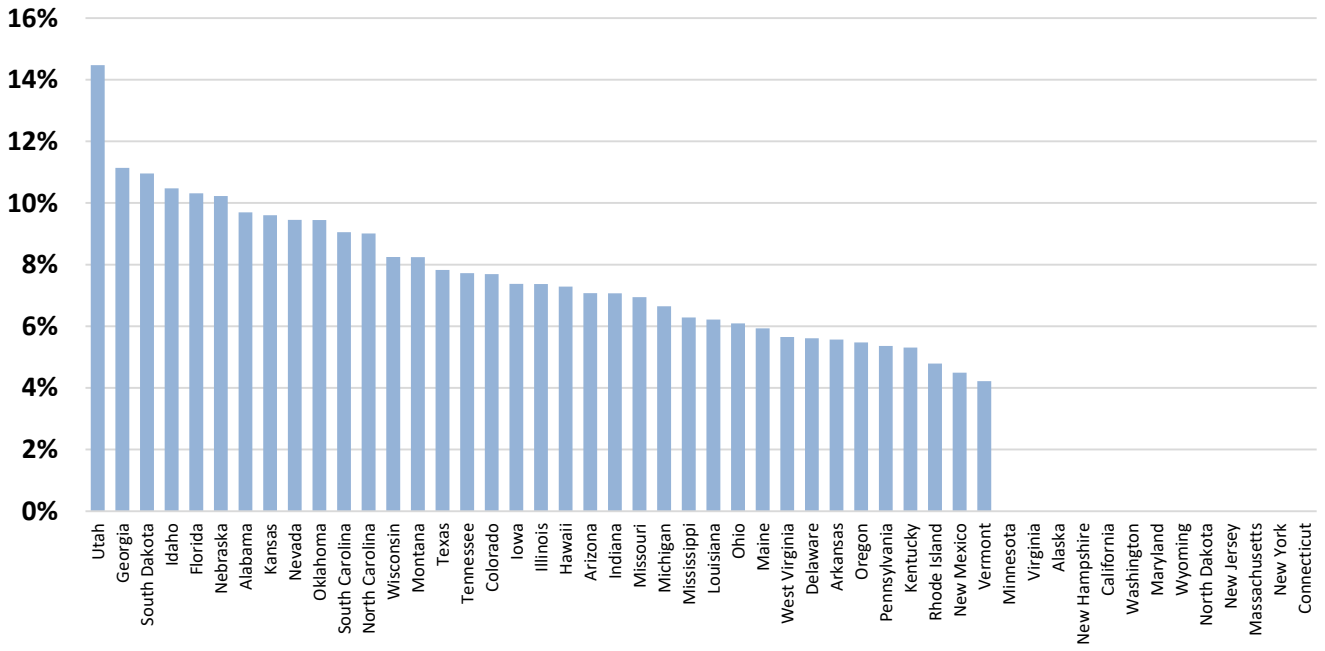
In a recent report, the Congressional Budget Office estimated that the federal government could save $394 billion between 2021 and 2028 by removing FMAP's statutory minimum match. This change would only affect the wealthiest states in the country, all of which have the necessary fiscal capacity to step in and make up for the spending from own-source revenues. Given their fiscal capacity, this would not require large increases in taxes as a percentage of total taxable resources. It is worth noting that many of these states rank high in terms of millionaires per capita, and are considering or have recently passed so called "millionaire taxes" to generate additional

[25] A recent NBER paper estimated that 15,000 deaths can be linked to the non-expansion of Medicaid in poor states: Miller, S., et al. 2019. "Medicaid and Mortality: New Evidence From Linked Survey and Administrative Data." *NBER Working Paper* 26081. <http://www-personal.umich.edu/~mille/ACAMortality.pdf>

revenue. Research suggests these states could finance much of the loss in federal funding through such taxes.[26]

Eliminating the FMAP floor would make Medicaid grants much more equitable but would not do much to help struggling regions on its own. By reinvesting the savings back into a MFBG, the federal government could provide foundational funding to complement the Medicaid matching grant as an equalizing measure. As a per capita block grant, the MFBG would moderately reduce fiscal disparities between states and ensure poorer states aren't penalized for their inability to spend larger sums of money on Medicaid.

Figure 3.6: **Medicaid Spending Increase From MFBG**



Source: Author's calculation based on MACPAC (2017) MACStates: Medicaid and CHIP Data Book and CBO (2018) Options for Reducing the Deficit: 2019-2028. States that cannot be estimated left blank.

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The MFBG would be deficit neutral in the short run and save money in the long run relative to baseline Medicaid estimates. Specifically, it would provide a per capita grant of $125 to every state to use as it sees fit for the Medicaid program. This amounts to about $41 billion in 2019. Setting it in per capita terms and including annual inflation adjustments ensures that funding is

[26] Young, Cristobal. 2017. *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich*. Palo Alto: Stanford University Press.

neither eroded over time nor spirals out of control because of rising health care costs. Canada's shift from matching grants to block grants in the 1990s provides proof that countries can use block grants to save money without putting health care programs at risk.[27]

Figure 3.6 estimates the effect of the proposed MFBG on states unaffected by the elimination of the FMAP statutory minimum. (The effect on wealthy states depends on how they respond to the funding shift, so I leave them out here). An MFBG financed from existing Medicaid savings would allow states in struggling regions to increase total Medicaid spending by somewhere between 4 percent and 14 percent without increasing federal spending overall. All improvements come from better targeting of funds to poorer states in order reach the same goal of ensuring access to Medicaid for those who need it.

Part Three: TANF in Struggling Regions

Countless studies have established links between growing up in a poor family and limited economic mobility as an adult. More recent research has brought renewed attention to the role of geography in the process. One consistent finding is that the effects of childhood poverty are magnified for families living in areas with highly concentrated poverty.[28] Social assistance programs like Temporary Assistance to Needy Families (TANF) are supposed to act as a safety net for these families when they fall on tough times.

As a joint federal-state program, TANF is largely administered and funded at the state level with federal funding and regulation. Historically, the federal government has tried to consider fiscal capacity when determining state funding. The current funding allocation was set in 1996 and has remained largely unchanged for over 20 years.

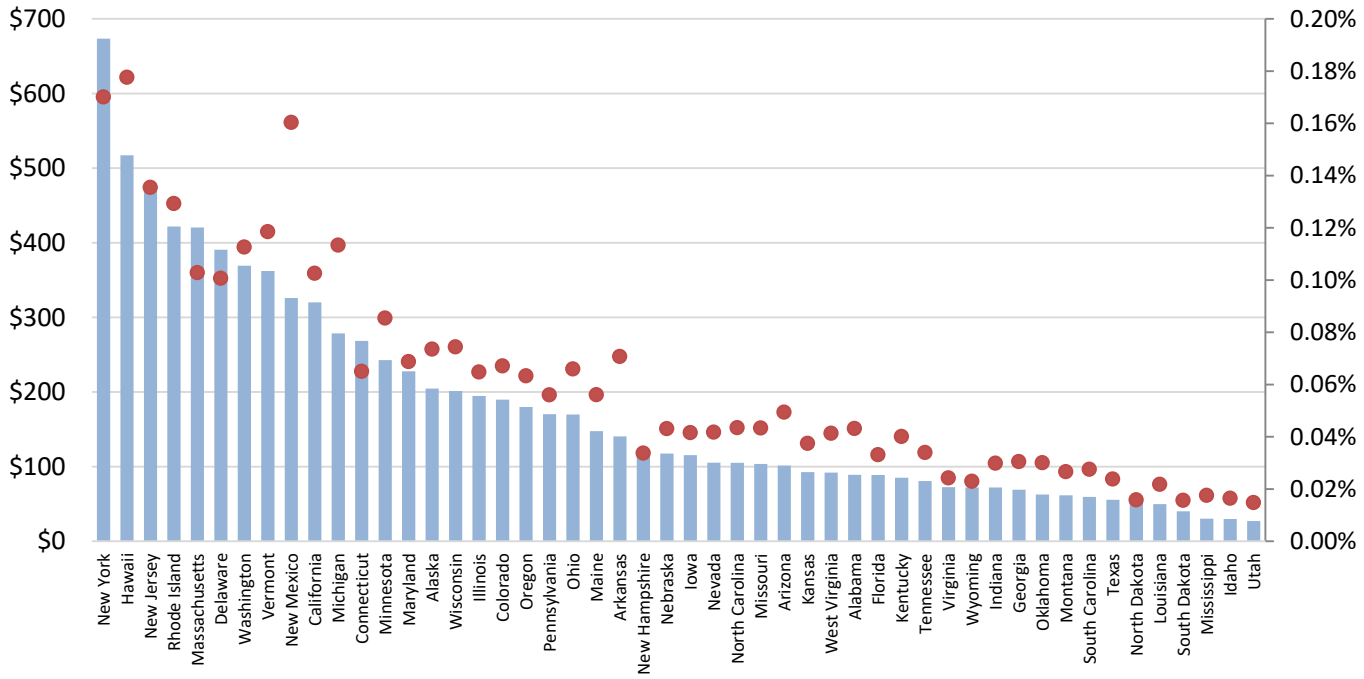
Struggling regions typically face a combination of limited fiscal capacity and higher demand for programs like TANF because of their higher poverty rates, lower wages, and more volatile employment. This makes federal support all the more important for poor states. Unfortunately, poor states have limited

[27] Crowley, Brian L., Jason Clemens, and Niels Veldhuis. 2010. *The Canadian Century: Moving Out of America's Shadow*. Toronto: Key Porter Books.

[28] Sharkey, P. 2013. *Stuck in Place: Urban Neighborhoods and the End of Progress Toward Racial Equality*. Chicago: University of Chicago Press; Chetty, Raj and Nathaniel Hendren. 2018. "The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects," *The Quarterly Journal of Economics* 133(3):1107-1162.

fiscal capacity in general, and therefore tend to have a limited appetite for spending on "welfare" programs over other spending priorities.

Figure 4.1: **Own-Source TANF Spending Per Child by Effort (2016)**



Source: U.S. Office of Family Assistance (2018) TANF Financial Data - FY 2016. https://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2016

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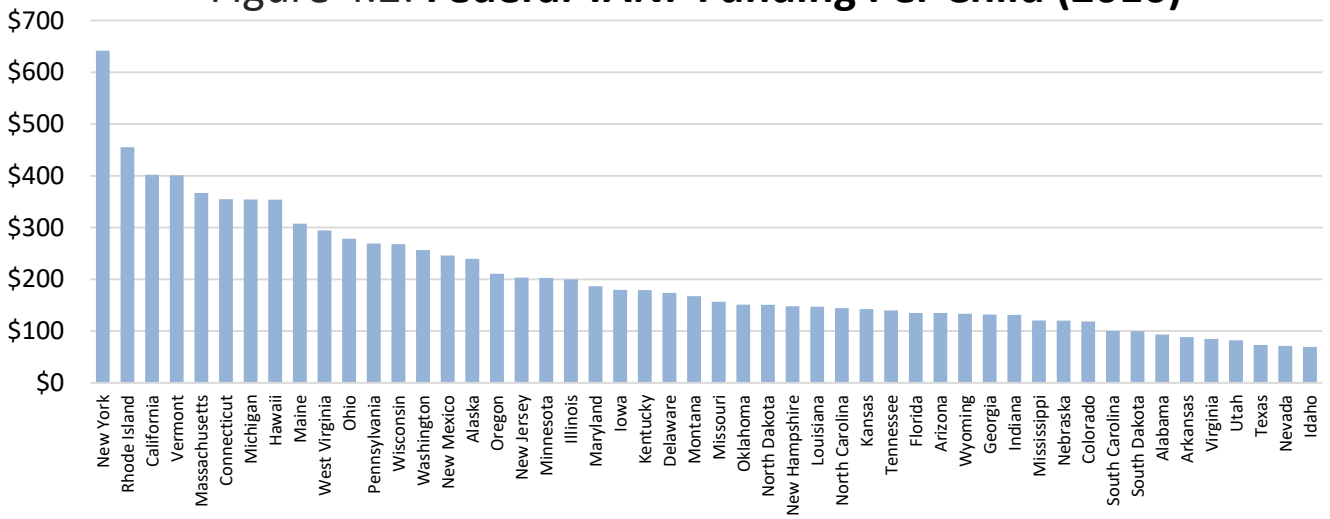
The left axis of Figure 4.1 shows how much states spend per child from own-source revenues on TANF. As expected, with the exception of New Mexico, wealthy states round out the top ten in terms of highest TANF spending. The disparities are stark: New York spends almost *25 times* as much as Utah.

To see to what extent these differences are the result of variations in effort. The right axis looks at total own-source TANF spending as a proportion of total taxable resources. The rankings look broadly similar, with wealthier states making greater fiscal efforts than poor states. Inequities based on fiscal capacity still emerge from the data. New Mexico and Arkansas undertake higher-than-average efforts but still underperform in terms of spending per child. New Hampshire puts in roughly the same effort as South Carolina but generates twice as much for TANF.

Figure 4.2: **Federal TANF Funding Per Child (2016)**



Source: U.S. Office of Family Assistance (2018) TANF Financial Data - FY 2016.

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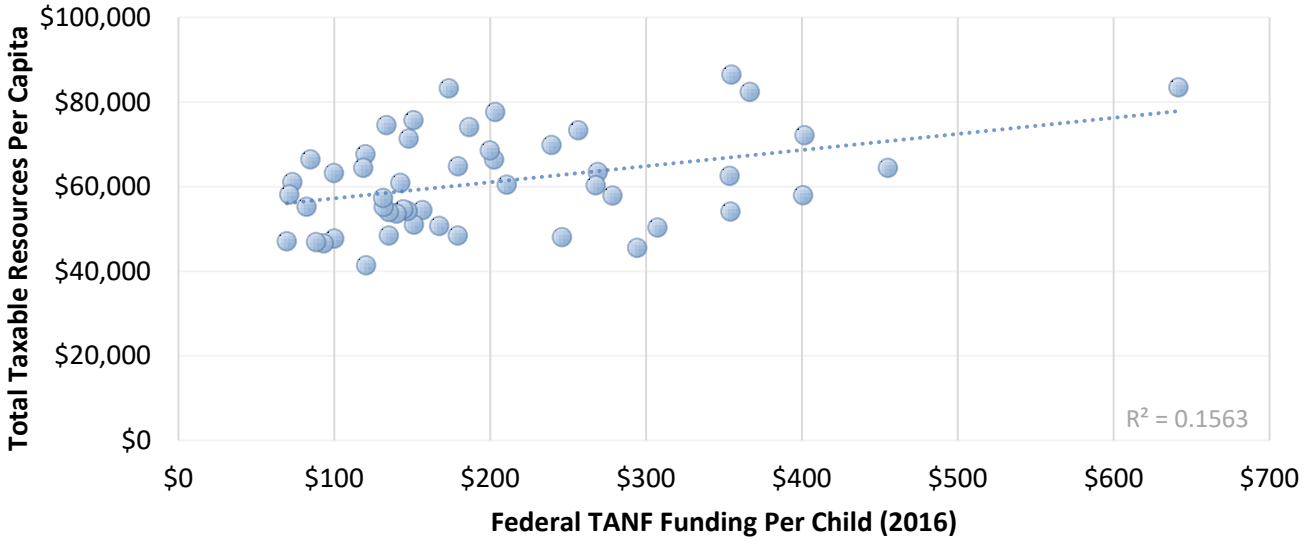
Ideally, the federal government would allocate more funding to states with limited fiscal capacity. In reality, we find that the opposite occurs, with the most federal funding per child largely going to wealthier states and the least to poor states (see Figure 4.2). New York receives more than nine times as much as Idaho.

Figure 4.3: **Federal TANF Allocation Across States**



Source: U.S. Office of Family Assistance (2018) TANF Financial Data - FY 2016 and U.S. Treasury (2018) Total Taxable Resources Estimates

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In earlier parts, we saw that federal education grants are moderately progressive and federal Medicaid grants were relatively flat. Federal TANF grants stand apart from both in that their allocation is strongly regressive (see Figure 4.3). Struggling regions simply cannot count on federal assistance to boost their TANF benefits. To understand why existing grants are structured this way, we must look at TANF's complicated history.

TANF funding: Past and Present

Federal grants for state social assistance programs have neglected inequities in fiscal capacities across states since their inception as part of the Social Security Act of 1935. Aid to Families with Dependent Children (initially called Aid to Dependent Children), the forerunner to TANF, was structured as a flat matching grant with the federal government contributing 33 percent of whatever states spent on the program. Over the next several years, the flat 33 percent matching rate was raised to 50 percent (1939), 75 percent (1948), 80 percent (1951), and finally 82.3 percent (1956) on the first portion of state spending and 50 percent on any spending thereafter. This structure slightly favored states with limited fiscal capacity insofar as they could not afford to spend beyond the initial matching threshold. Wealthier states would receive a smaller matching rate as they increased spending beyond the threshold.

The same Social Security amendments that created Medicaid in 1965 gave states the option of using the new FMAP formula to determine AFDC funding, which all states eventually adopted. Recall that the FMAP formula is as follows:

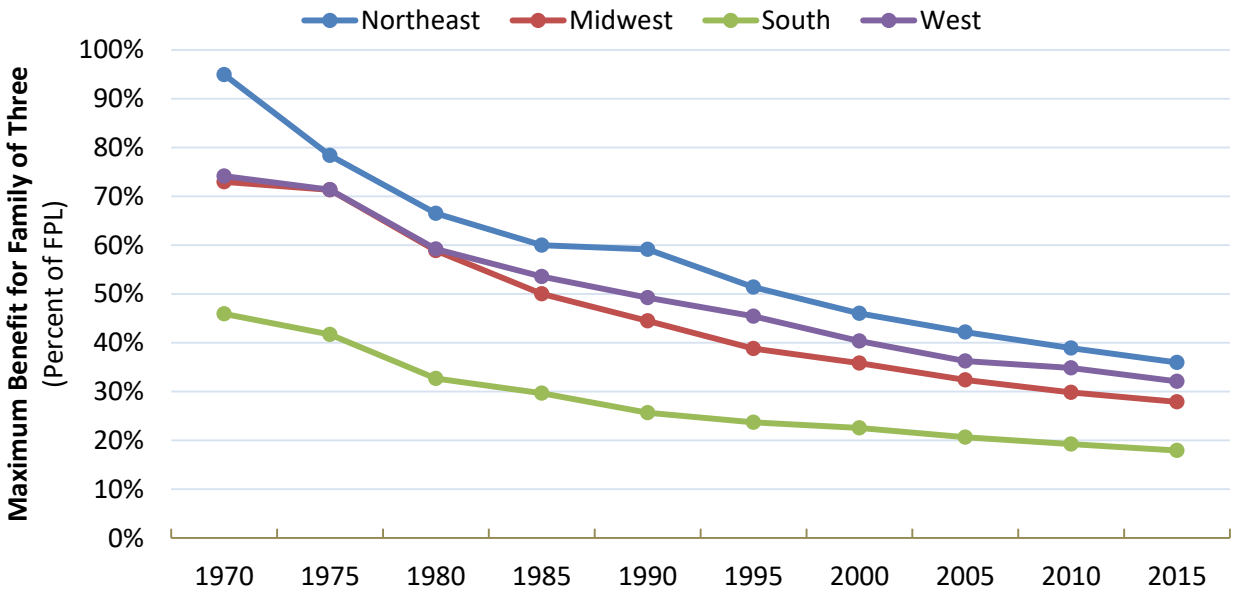
$$FMAP_{State} = 1 - \frac{Per\ capita\ income_{State}{}^{2}}{Per\ capita\ income_{U.S.}{}^{2}} \times 0.45$$

Congress also applied the same statutory minimum (50 percent) and maximum (83 percent) matching rates for AFDC funding. As detailed in the previous part, the FMAP formula reduces disparities in fiscal capacity insofar as it's based on state per capita income but exacerbates them insofar as it requires state matching and applies a statutory minimum match to the wealthiest states.

Evidence suggests use of the FMAP formula did not help reach policymakers' stated goal of boosting the fiscal capacity of poor states in order to boost benefit levels. Figure 4.4 looks at the maximum AFDC/TANF grant for a family

of three as a proportion of the federal poverty level by region for selected years between 1970 and 2015. Whereas AFDC benefits were generous enough to bring a family up to and sometimes over the poverty line in the prosperous Northeast in the 1970s, they were rarely enough to pull families out of deep poverty (defined as 50 percent of the FPL) in the struggling South.

Figure 4.4: **Average AFDC/TANF Benefit By Region**



Source: Urban Institute (2017) Welfare Rules Database. https://wrd.urban.org/wrd/databook.cfm

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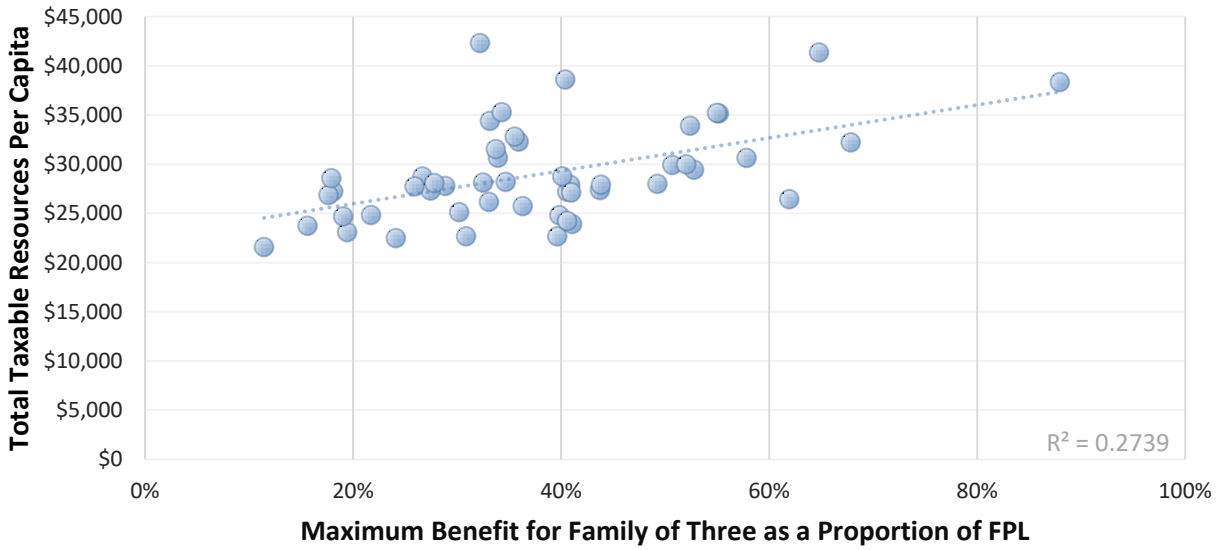
As part of the 1996 welfare reforms, Congress converted the AFDC matching grant into the TANF block grant. The debate over block granting TANF is rife with misperceptions about the effects it had on the program. Many policymakers assume converting matching grants into block grants necessarily entails the kind of retrenchment and misallocation as we have seen with the TANF block grant. This is not the case. The key difference between a matching grant and a block grant is that the latter is based on some fixed sum other than what state contributed to the program. The problem with the TANF block grant was that it based allocations on historic AFDC expenditures. This had the effect of freezing the existing FMAP-based inequities into the new law. Because wealthy states have historically been able to spend more on AFDC, they were rewarded with more generous block grants. Because struggling regions lacked the fiscal capacity to spend more, they were penalized under the new law.

Some members of Congress representing struggling regions recognized this issue at the time and proposed an amendment to change the allocation formula to one based on the number of children in poverty in each state without changing the total amount appropriated. This would have meant more funding for over two-thirds of states, with most of it going to struggling regions. Texas, for example, would have received an additional $254 million annually – a more than 50 percent increase. Wealthy states would have seen their funding decline, though. New York, for example, would have lost $749 million annually – a loss of almost a third of its existing funding. Opposition from governors representing wealthy states helped kill the proposed amendment.[29]

Figure 4.5: **AFDC and State Fiscal Capacity (1995)**



Source: Urban Institute (2017) Welfare Rules Database and U.S. Treasury (2018) Total Taxable Resources Estimates.

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Instead, Congress introduced a set of supplemental grants for the states with the lowest benefit levels at the time. After a short phase-in period, the supplemental grants boosted federal TANF funding by $319 million spread across 17 states.[30] The total amount of supplemental funding remained flat in nominal terms until 2010, when it was reduced, then eliminated altogether

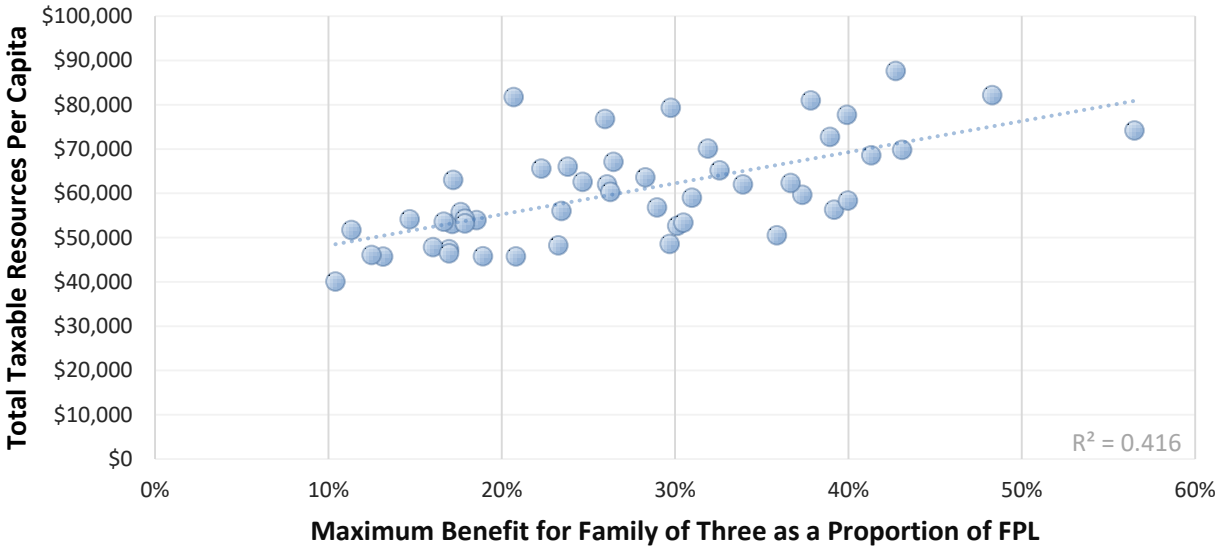
[29] Weaver, R.K. 2000. *Ending Welfare as We Know It*. Washington DC: Brookings Institution Press.

[30] Bruce Lesley and Megan Curran. 2011. *TANF Supplemental Grants: Reforming and Restoring Support for Children Who Need it the Most*. Washington, D.C.: FirstFocus. <https://firstfocus.org/wp-content/uploads/2011/12/TANF-Supplemental-Grants-Reforming-and-Restoring-Support-for-Children-Who-Need-it-Most.pdf>

the following year. Congress has not revived the grants, undoing what little had been done to reduce TANF inequities in the first place.

In addition to locking in an inequitable distribution of funding, the TANF block grant as it was first introduced had two other shortcomings, related to the fact that it was set as a lump sum. First, it was set in nominal terms, leaving it open to erosion over time from inflation. The total amount of the basic block grant was set at $16.5 billion in 1997. Had it been indexed for inflation so that the total amount remained flat in real terms, it would be about $25 billion today. Instead, it remains at $16.5 billion – losing more than a third of its real value over two decades.

Figure 4.6: **TANF and State Fiscal Capacity (2015)**



Source: Urban Institute (2017) Welfare Rules Database and U.S. Treasury (2018) Total Taxable Resources Estimates.

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Second, setting a block grant as a lump sum means it does not account for population growth. The total population under 18 has grown by over 4 million since 1995. Moreover, interstate differences in fertility rates means population is growing faster in some states, particularly the Midwest and South. Some of those children are likely to live in families who will fall into poverty at some point in their lives and require social assistance. States are nonetheless expected to finance benefits for them with limited fiscal capacity and less federal funding. The result of these two shortcomings is that struggling regions are expected to do more with much less federal assistance.

Comparing the allocation of federal AFDC/TANF grants before and after welfare reform helps shed light on what reforms did and did not do to state programs. Figures 4.5 and 4.6 show the maximum benefits for a family of three as a proportion of the federal poverty level in 1995 and 2015.

The two figures look just as we might expect based on the structure of the TANF block grant. Locking in the distribution of funding based on the previous FMAP formula locked in interstate disparities in benefit levels. Fiscal capacity remains a good predictor of benefit generosity. Poor states that could not afford to be as generous as wealthy states in 1995 still cannot afford to be as generous today. The slow erosion of federal funding stemming from lack of adjustment for inflation and population growth has reduced benefit generosity across all states. Whereas benefits as a percent of the federal poverty level ranged from 88 percent in Alaska to 11 percent in Mississippi in 1995, they declined to a range of 56 percent to 10 percent in those same states.

For struggling regions, it suggests the biggest problem with the TANF block grant is that it was structured to lock in the worst aspects of the old matching grant formula while shrinking the total size of the pie over time. Any reform of the TANF grant system must grapple with these two shortcomings.

The Proposal

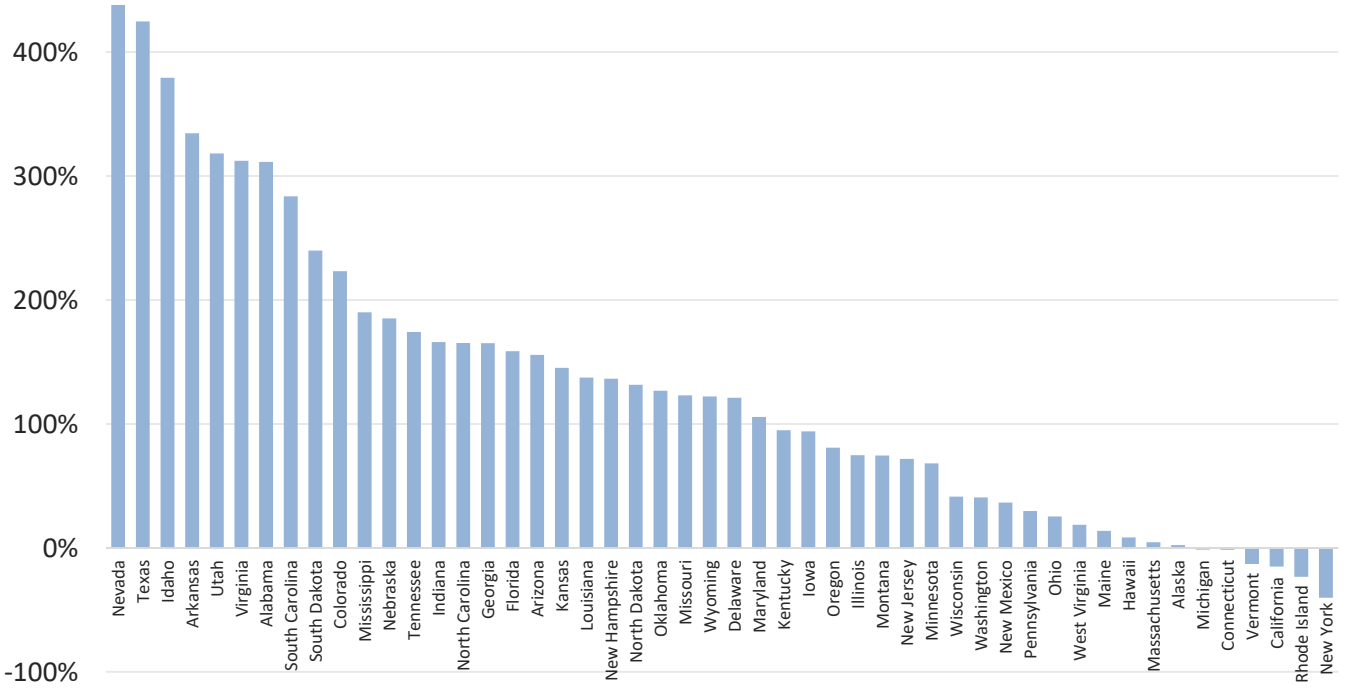
In light of the existing TANF block grant's shortcomings, I propose eliminating it altogether and replacing it with a flat per-child Family Assistance Block Grant (FABG) indexed to inflation and population growth. Each state will receive a flat $349 per child grant at a total cost of about $26 billion per year. This reform fixes three of the major flaws in the old TANF grant.

First, by basing allocation on the total population under 18 in each state rather than historical spending levels in the 1990s, the FABG would reduce interstate inequities stemming from variation in fiscal capacity. The previous formula was regressive, allocating more funding to wealthy states than poor states. Relative to that system, the majority of funding changes under the new formula shift to struggling regions. Texas, for example, would see its federal grant per child increase from the current $67 to $349 – a 402 percent change.

Second, the FABG reverses two decades of funding erosion by restoring the total value of the grant to what it would have been if its 1996 value had been

indexed to inflation and adjusted for population growth. Thus, the $223 per-child value of the original $16.5 billion TANF pot is increased to $349 per child. This increases the total cost of the grant by $10 billion relative to existing funding, which is a small price to pay for remedying decades of stealth retrenchment. It also ensures that the maximum number of states—44 out of 50—benefit or are kept whole by the shift to per-child allocation. Figure 4.7 shows how much each state would receive in 2016 under the FABG proposal relative to its TANF block grant funding that year. All but the wealthiest states receive substantially more under the FABG.

Figure 4.7: **Percent Change in Federal TANF Funding Per Child (2016)**



Source: Author's calculations based on Falk (2014) The Temporary Assistance for Needy Families (TANF) Block Grant: A Primer on TANF Financing and Federal Requirements.

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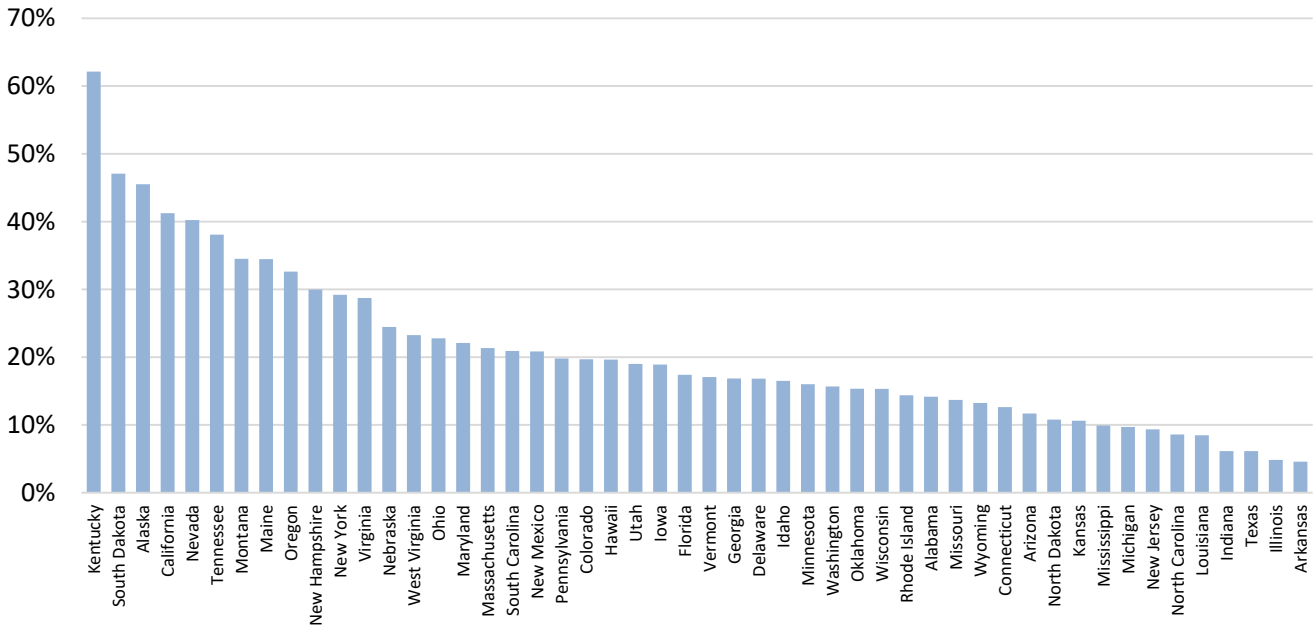
Third, indexing the FABG and setting it in per-child terms ensures it will not erode again in the future. This allows state policymakers to make better decisions, knowing that funding will not fluctuate or decrease over time. Moreover, it guarantees that even wealthy states that might be receiving less funding in the short run will receive more funding in the long run relative to the status quo. California would receive moderately less next year, but because the existing TANF block grant does not account for population growth or

inflation, it is likely that the state would be better off with FABG a decade down the road.

Additionally, there is growing criticism across the political spectrum that the TANF block grant has become a slush fund for states to spend on programs unrelated to social assistance.[31] In 2016, less than one quarter of TANF funding went to basic assistance or cash benefits for families.[32] This ranged from 62.1 percent in Kentucky to a paltry 4.6 percent in Arkansas (see Figure 4.9).

Figure 4.8: **Basic Assistance as a Percent of TANF**



Source: Schott, Liz, Ife Floyd, and Ashley Burnside (2019). How States Use Funds Under the TANF Block Grant. Center on Budget and Policy Priorities. https://www.cbpp.org/research/family-income-support/how-states-use-funds-under-the-tanf-block-grant

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Arguably, this is partly a consequence of the financial pressures that result from having limited fiscal capacity and meager assistance from the federal government. There is immense pressure to leak funds to other priorities important to constituents. Because the FABG will substantially boost funding

[31] Parolin, Z. 2019. "Welfare Money Is Paying for a Lot of Things Besides Welfare," *The Atlantic*. <https://www.theatlantic.com/ideas/archive/2019/06/through-welfare-states-are-widening-racial-divide/591559/>

[32] Schott, L., I. Floyd, and A. Burnside. 2019). *How States Use Funds Under the TANF Block Grant*. Washington, D.C.: Center on Budget and Policy Priorities. <https://www.cbpp.org/research/family-income-support/how-states-use-funds-under-the-tanf-block-grant>

for most states, it makes sense to require states to increase the proportion they dedicate to basic assistance without decreasing state fiscal efforts. As such, the FABG will index existing Maintenance of Effort (MOE) requirements and add a requirement that states spend at last 50 percent of total TANF funding on basic assistance. This will prevent future program leakage and guarantee we meet TANF's goal of acting as a safety net and springboard for families experiencing temporary job loss, especially in struggling regions.

Toward a More Equitable Fiscal Federalism

Economists have long understood that a common monetary policy requires a common fiscal policy. This truism was painfully demonstrated by the European sovereign debt crisis in the years following the Great Recession. In essence, the common Euro currency allowed competitive economies like Germany to sap spending power away from less competitive countries like Greece, Spain and Italy. With independent monetary regimes, such countries could have stayed competitive by simply devaluing their currency. Instead, they have been forced to live with persistently elevated unemployment rates, perennial debt crises, and a political Catch-22 in which the spending cuts and tax increases needed to balance budgets drive workers and businesses away.

The United States suffers from an analogous problem, differing more in degree than in kind. In a world where Mississippi and Massachusetts both use the U.S. dollar, there can only be one monetary policy for two quite different economies. Other large, federated countries like Canada and Australia adjust for such differences through intergovernmental "equalization" grants, designed to ensure poorer jurisdictions are able to fund comparable public services for a given fiscal effort. Federal grants to U.S. states, in contrast, tend to be neutral or even regressive with respect to differences in state fiscal capacities. As a result, poorer states predictably suffer from elevated unemployment rates and the politics that one might expect under conditions of permanent austerity.

In the wake of the 2016 election, Hilary Clinton—presidential candidate and former U.S. Senator for New York—remarked that, despite losing the election, she "won the places that represent two-thirds of America's gross domestic product... So I won the places that are optimistic, diverse, dynamic, moving forward." That is, the residents in the regions that voted for her were not only richer, but in some sense culturally superior.

While it's tempting to dismiss Clinton's remarks as made in frustration following a uniquely bitter election, they reflect a broader sentiment shared by policymakers within the country's wealthiest regions. According to the conventional view, states and regions with worse economic performance have only themselves to blame. Wealthy states already pay more in taxes to the federal government than they get back; poorer states need to simply pull themselves up by their bootstraps.

As an explanation for the divergent trajectories of wealthy and struggling regions, this theory leaves a lot to be desired. Ironically, it also resembles a "culture of poverty" theory at the level of state and local governments, ascribing to personal vice and virtue what can be better understood according to structural and systemic factors.

In reality, residents of poorer states care deeply about education and the health and welfare of their neighbors. The even exert similar taxing effort to provide basic public services, but lack the taxable resources to do so at levels comparable to wealthy states. Our broken system of fiscal federalism nonetheless asks more from those who have the least, and thus remains a major obstacle in the development of the country's struggling regions.

Federal grants to states have historically favored wealthy states over poor states, and continue to do so today. Whether it's Title I Education funding, the Medicaid matching formula, or the TANF block grant—no amount of moralizing about rural and southern voters will change the fact that our intergovernmental grants are woefully inadequate for state and local governments in poorer regions. If policymakers want to make concrete progress in reducing regional poverty traps, reforming our system of federal grants is a necessary first step.

In this report, I propose several concrete reforms to make the U.S. system of fiscal federalism more equitable, and to do so in a fiscally responsible and distributionally progressive manner. On the margin, this means increasing federal transfers to poor states with low fiscal capacity, and reducing federal aid to wealthy states that can afford to pay their own way. The road to a more perfect fiscal union starts with putting poor states on a level fiscal playing field.

About the Author

Joshua McCabe is an assistant professor of sociology and the assistant dean for social sciences at Endicott College. He is an expert on tax and social policy and author of The Fiscalization of Social Policy: How Taxpayers Trumped Children in the Fight Against Child Poverty (Oxford University Press).

Appendix

State (2016)	Total Taxable Resources (TTR) Per Capita	Poverty Rate	Own source revenue as % of TTR	Title I ESE Funding Per Capita	Federal Medicaid Funding Per Capita	Federal TANF Funding Per Child
Connecticut	$86,480	9.2%	11.0%	$219	$1,286	$355
New York	$83,465	13.4%	16.1%	$399	$1,744	$642
Delaware	$83,254	11.2%	10.0%	$338	$1,322	$173
Massachusetts	$82,427	11.6%	12.2%	$209	$1,426	$367
New Jersey	$77,628	10.6%	12.3%	$212	$1,023	$203
North Dakota	$75,732	10.5%	14.1%	$330	$1,106	$151
Wyoming	$74,533	10.1%	16.1%	$360	$576	$133
Maryland	$74,087	8.9%	11.4%	$227	$1,099	$187
Washington	$73,316	11.5%	13.1%	$227	$970	$257
California	$72,171	14.5%	14.5%	$289	$1,438	$402
New Hampshire	$71,352	6.9%	10.8%	$223	$948	$148
Alaska	$69,852	11.2%	16.4%	$331	$1,680	$239
Illinois	$68,546	12.2%	12.1%	$336	$940	$200
Nebraska	$67,672	10.6%	15.0%	$289	$573	$120
Virginia	$66,452	10.8%	12.0%	$181	$541	$85
Minnesota	$66,396	8.3%	14.1%	$162	$1,205	$203
Iowa	$64,801	10.1%	13.9%	$179	$985	$179
Colorado	$64,451	10.2%	12.8%	$173	$926	$119
Rhode Island	$64,433	11.5%	13.4%	$334	$1,451	$455
Pennsylvania	$63,475	12.0%	13.1%	$316	$1,332	$269
South Dakota	$63,217	13.7%	10.5%	$326	$568	$100
Hawaii	$62,561	10.3%	15.7%	$283	$1,048	$354
Texas	$61,092	15.0%	11.8%	$255	$849	$73
Kansas	$60,872	12.5%	13.4%	$218	$668	$142
Oregon	$60,464	12.7%	14.7%	$262	$1,636	$211
Wisconsin	$60,308	11.0%	12.8%	$233	$813	$268
Nevada	$58,119	13.4%	12.5%	$273	$913	$71
Vermont	$57,968	9.9%	15.3%	$360	$1,721	$401
Ohio	$57,910	14.3%	13.6%	$304	$1,334	$278
Indiana	$57,348	13.3%	12.0%	$236	$1,176	$131

State (2016)[33]	Total Taxable Resources (TTR) Per Capita	Poverty Rate	Own source revenue as % of TTR	Title I ESE Funding Per Capita	Federal Medicaid Funding Per Capita	Federal TANF Funding Per Child
Utah	$55,259	9.4%	13.5%	$106	$517	$82
Georgia	$55,198	16.8%	11.0%	$310	$674	$132
North Carolina	$54,644	15.3%	12.9%	$288	$840	$144
Missouri	$54,455	11.1%	12.4%	$262	$1,063	$157
Louisiana	$54,229	20.6%	12.5%	$378	$1,201	$147
Michigan	$54,130	12.9%	14.2%	$283	$1,282	$354
Florida	$54,001	15.3%	11.8%	$291	$661	$135
Tennessee	$53,640	15.6%	12.6%	$290	$981	$140
Oklahoma	$51,000	15.4%	12.7%	$236	$746	$151
Montana	$50,714	11.9%	12.9%	$360	$936	$167
Maine	$50,313	13.2%	14.6%	$281	$1,254	$307
Kentucky	$48,436	18.3%	13.1%	$324	$1,754	$179
Arizona	$48,430	18.2%	13.1%	$328	$1,238	$135
New Mexico	$48,068	19.1%	16.1%	$352	$2,095	$246
South Carolina	$47,738	15.0%	15.9%	$299	$898	$100
Idaho	$47,093	11.9%	13.0%	$206	$760	$69
Arkansas	$46,876	16.8%	13.6%	$327	$1,646	$88
Alabama	$46,577	16.8%	15.7%	$308	$816	$93
West Virginia	$45,535	17.7%	14.9%	$330	$1,611	$294
Mississippi	$41,391	20.8%	16.7%	$395	$1,383	$120

[33] Source: U.S. Treasury (2018) Total Taxable Resources Estimates. https://home.treasury.gov/policy-issues/economic-policy/total-taxable-resources ; U.S. Census (2017) Income and Poverty in the United States. https://www.census.gov/library/publications/2017/demo/p60-259.html ; Author's calculation from U.S. Census (2018) Annual Survey of Local Government Finance; U.S. Census (2016) Annual Survey of School System Finances. https://www.census.gov/data/tables/2016/econ/school-finances/secondary-education-finance.html ; MACPAC (2017) MACStates: Medicaid and CHIP Data Book. https://www.macpac.gov/wp-content/uploads/2015/12/MACStats-Medicaid-CHIP-Data-Book-December-2017.pdf ; U.S. Office of Family Assistance (2018) TANF Financial Data - FY 2016. https://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2016.