CHAPTER 5

Redesigning Federalism for the 21st Century

The Nation's federal system is one of the great strengths of the American economy. Federalism gives States and localities the freedom to provide services that best meet the needs of their diverse populations. It puts citizens closer to their government, and thus in a better position to monitor and control how their tax dollars are spent, and it creates competition between jurisdictions, which drives innovation.

The Federal Government plays a crucial role in the effectiveness of this system. It is important for the Federal Government to seek a framework for competition and accountability that avoids burdensome rules and regulations, which undermine the competitive advantages of State and local governments. Rigid dictates from Washington about how public goods and services are provided preclude innovation and dull competition. Creating a flexible institutional structure that will allow the efficient provision of public goods, by focusing on achieving goals and freeing up innovation, is an important goal of this Administration. In this way the Federal Government can improve the quality and efficiency of public programs and increase their responsiveness to public needs.

The advantages of this results-oriented, flexible approach are evident in many programs and at all levels of government. First, when the focus is on results, such as student achievement, rather than on process, such as how schools spend money, States, localities, and private organizations are empowered to choose, from a wider menu, the most effective means to these ends in their area and for their population. Second, flexibility allows more institutions to become involved in providing these services. As long as all are evaluated on the basis of results, governments, nonprofit organizations, faith-based organizations, and others can compete on an equal footing, while using different methods. The resulting laboratory of methods allows more effective ideas and organizations to win out over less effective ones, creating the potential for more and better services for a given amount of spending.

This chapter examines both the promise and the challenges of federalism, focusing on three specific areas of program design in systems of flexible accountability: education, welfare, and health insurance for those with low incomes. In education, this Administration believes that the competition provided by choice is the best tool available to improve quality, with public, private, and charter schools vying with each other to provide the best education most efficiently. When the right institutions are in place, parents can hold school systems accountable for results. Similarly, taxpayers must be able to hold the providers of safety net programs, like welfare and Medicaid, accountable for the quality of services they provide and the resources they use to provide them. By tying payments to social service providers to the results that they achieve, and by allowing private nonprofit providers to compete on an equal footing with government providers, the same market discipline that drives innovation and efficiency in the private sector can be brought to bear on these programs as well.

Institutional Design in a Federal System

The preeminent means for providing goods and services in the U.S. economy is private markets. The fundamental strength of the market system is that consumers are able to evaluate the quality and price of a variety of goods and services that they might purchase, and are free to make decisions about which vendors to patronize. Competition among providers promotes efficiency, which means goods and services of the highest quality at the lowest cost.

In those circumstances where markets do not work efficiently, there may be an avenue for governments to improve overall economic performance. An example is the provision of public goods. Public goods are those goods and services that, in contrast to conventional private goods, provide benefits for society beyond those enjoyed by any individual consumer. For example, there is no single "consumer" of a cleaner environment; as discussed in Chapter 6, environmental protection is therefore a public good. Similarly, each member of the population gets the benefits of safer streets, or a better informed electorate, or a public park. Here the collective nature of the benefits flowing from the good or service makes it difficult or impossible for private providers to make any single consumer pay for it. To ensure the availability of these public goods, the government may arrange for their production, provision, and financing.

The long federalist tradition in the United States is a tremendous resource for governments seeking to meet this challenge. A neighborhood park, for example, is a local public good, shared by the citizens of a local area, not the Nation as a whole. Getting the "right" amount of these local public goods in every locality would be an insurmountable task for a central government. Instead, State, county, city, and town officials, who are closer than their Washington counterparts to the needs and desires of their electorates, are better positioned to be responsible for these goods. Moreover, there is a natural check on their actions: residents voting at the ballot box—or with their feet, by moving elsewhere—force local governments to compete. Just as private firms compete in markets for private goods, so, too, governments can compete in terms of the quality, price, and quantity of the services they provide, and this fosters innovation and efficiency. This marketplace for government services constitutes a more efficient means by which to provide these services in our society.

Although there might be a clear role for governments in providing local public goods, it is not immediately obvious that it is efficient for the public sector to produce a particular public good or service. Instead the government could choose how much to provide but rely on the private sector to undertake actual production. If minimizing costs is the only objective, complete reliance on competitive private sector production will likely be efficient. In other circumstances, however, competition could foster an excessive focus on cost reduction to the detriment of achieving results of the desired quality. (This is especially likely when it is difficult to write contracts that comprehensively specify the level of quality to be achieved.) Strictly public provision, on the other hand, might promote a focus on high-quality results without due consideration of the efficient use of public resources. Which is the better method of production depends on how difficult it is to observe the quality of the services provided, the degree to which cost reductions affect the level of quality, and the potential for innovation in producing the services.

Thus, although competition between jurisdictions generally promotes the efficient provision of public goods and services that are tailored to the diverse needs of their citizens, it is neither always necessary nor desirable that those jurisdictions themselves produce those goods and services. The focus of public spending should be on efficiency: on the quality of results achieved for every dollar spent.

One way to produce public goods more efficiently is to let private firms compete for public contracts. Some municipalities contract out services such as trash collection to private vendors through competitive bidding. There is no reason, however, that such competition should be restricted to the for-profit sector. Indeed, government agencies can promote competition through outside contracts for staffing, limited reliance on exclusive grants and contracts, and opening competition for grants and contracts to faith- and community-based organizations. In each of these cases, it falls to the government responsible for providing the service to monitor the quality of services provided and to ensure, through whatever contracting means are available, that services being purchased with public funds live up to public expectations and requirements. Competition between governments can then lead to the right public goods and services being provided with the greatest efficiency.

In practice, several complex issues arise in a federalist approach. First, by its nature, competition among governments offers no guarantee of equal outcomes: competing jurisdictions may differ greatly in the resources at their disposal to finance government services, and thus in the amounts and the variety of services that they can offer. Although these differences may reflect differences in the tastes of households across jurisdictions—and thus show that the government marketplace is working—they may run counter to a desire for greater equality. In these and other circumstances, the Federal Government may choose to provide funds to State and local governments in a way that makes outcomes more equal. That is, it may seek to alter the result of the federalist system. This may be desirable in itself, but often the Federal Government has chosen to dictate the use of these funds. Such mandates are at odds with the goal of encouraging State and local governments to respond flexibly to the desires of their constituents.

The history of federalism is to a large extent a history of the struggle to achieve an optimal balance between allowing flexibility for State and local governments and maintaining accountability for the use of Federal funds. The New Deal of the 1930s and the Great Society of the 1960s consolidated in the Federal Government much authority for the programs they created, and Federal spending increased from 3.4 percent to 19.3 percent of GDP between 1930 and 1970. Then, in the mid-1970s, the "New Federalism" sought to increase efficiency in the federalist system and to devolve program control to States and localities, while introducing such innovations as Community Development Block Grants and general revenue sharing. In the late 1970s, the Federal Government sought to expand its authority over these block grants. Ninety-two new categorical grant programs were instituted from 1975 to 1980. (Categorical grants are those that must be spent on a designated population, and they may involve Federal matching of State funds.) In the 1980s, the tide once again turned toward decentralization: 77 programs were consolidated into 9 block grants. Much like the 1970s decentralization, this movement was thereafter partially reversed as more constraints were placed on the block grants, and previously scaled-back regulations again became more cumbersome. The major federalist initiative of the 1990s was the partial decentralization of welfare. These swings highlight the tension between the desire for assurances that Federal funds will be spent productively to advance program objectives, and the desire to take advantage of the efficiencies generated when local agencies have the resources and the freedom to innovate and to cater programs to local populations.

These two goals need not be at odds. Federal micromanaging of resources and processes achieves neither. By focusing instead on setting standards for results—not dictating actions—and rewarding providers for achieving goals, the Federal Government can give local governments more control over the use of funds without sacrificing progress toward national goals. This focus on outputs is a key piece of the infrastructure for an efficient federalist system, one that centers attention on what is delivered to the final consumer and puts in place incentives to identify and measure desired results. This

Administration has signaled its commitment to such systems through its vision for Federal, State, local, and private partnerships across all areas of public spending.

Fostering Partnerships, Competition, and Accountability

Organizations, be they public or private, that accept Federal funds in return for providing a service must agree to provide that service in a manner that meets Federal standards and goals. It is desirable, however, that they do so with the minimum interference possible. In activities where measuring results is difficult, it is harder to hold providers accountable. In some cases the data currently available are insufficient for this task. However, it is important to recognize that the existence of good data on program outcomes is in large part determined by the measures used to evaluate the programs. Developing a system of accountability based on well-measured output will promote the collection and analysis of this important information. This Administration seeks to create an institutional framework that will encourage the development of measurable standards to which all providers of public services—Federal and local, public and private—can be held accountable, and then to allow these providers themselves to find the best way to meet those standards.

Leveling the playing field for governments, nonprofit providers, and for-profit providers, and thereby encouraging the free entry of all providers, promotes market efficiency just as in the private sector. This is a desirable goal, and not an entirely new phenomenon. Market forces already bear on for-profits, but they do on nonprofits as well, when they compete for private donations. In a 1998 survey, 75 percent of respondents said that whether or not a charity used their time and money efficiently affected their choice of charities. Allowing private providers to compete with public agencies to provide services in areas such as welfare, and evaluating all providers based on achieving program goals, are ways of expanding this market discipline to public providers. However, several institutional and logistical barriers currently inhibit this kind of competition. For example, although the Charitable Choice provision of the 1996 welfare reform legislation was intended to allow faith-based organizations to compete on an equal footing with other organizations to provide welfare services, preexisting laws and regulations in many States still prevent them from participating. This Administration is committed to eliminating these barriers.

Despite these impediments, many State governments are already forging new partnerships with private organizations for the provision of high-quality public services through performance contracting in social services. Performance contracts usually include output targets and may make the size of payments contingent on meeting those targets. States have long used performance standards in their budgeting processes. For example, under Texas's approach to performance measurement, agencies are required to include 6-year strategic plans in their budget requests. Each plan must specify the agency's goals, objectives, outcome measures, strategies, and efficiency measures. Pennsylvania has included performance measurement in its program budgeting for over 25 years. As of 1997, 31 States had legislated some form of performance-based budgeting requirements, and 16 had implemented such measures through guidelines and instructions.

Although such provisions have long been standard in municipal service contracts such as those for garbage disposal, they are relatively new in social service contracting. In the municipal services sector, results may be more easily defined and codified in contracts: for example, where and how often trash will be collected. However, the quantities and the quality of social services desired can be much harder to specify and to observe, making contracts more difficult to write. Recipients may not have the expertise to evaluate the quality of the services they are receiving, and they may not have the option of changing service providers if dissatisfied. In such circumstances, the contracting agency must provide oversight to ensure that adequate services are provided. Creative solutions have been devised for some of these problems; for example, providers can be required to meet a professional or industry standard, potentially simplifying contracts. The Federal Government could make performance contracting easier for States by developing generic contracts for commonly used social services, which interested States could then adapt to their particular needs.

These public-private partnerships illustrate some of the advantages and some of the difficulties of designing programs with flexibility and accountability in a federal system. These issues are explored below in the realms of education, welfare, and Medicaid.

Elementary and Secondary Education

Unlike many other publicly financed services, primary and secondary education has historically been under the control of local governments, with educators accountable to local taxpayers. Taken at face value, this suggests that the forces of competition should already be at work to promote high-quality, efficient provision of public education. To some extent, taxpayers have the ability to control the quantity, quality, and price of education by "voting with their feet": if the local school district fails to perform adequately, they can move elsewhere. In some jurisdictions, citizens vote directly on property taxes, or even on school budgets. Parents may also remove their children from the public school system altogether by placing them in private schools or home schooling them.

These mechanisms are more effective, however, when parents can accurately evaluate the quality of local schools. When they cannot, or when local alternatives to poor-quality schools do not exist and moving is prohibitively expensive, effective competition is limited. Also, given the broader social benefits of a well-educated work force, some redistribution may be necessary to ensure that all children have access to an adequate education. Thus, even though State and local governments retain the primary responsibility for educating the Nation's children, and face competitive pressures in doing so, the Federal Government can still serve a vital role in further lowering barriers to local competition.

This Administration seeks to create and strengthen the institutions that allow local education markets to work, that let school districts cater to the diverse needs of their populations, that empower parents to choose what is best for their children, and that ensure that no child is left behind. An efficient and effective market for education, much like any other market, requires freely available information and incentives for good performance. Tests are a key component of this framework. This Administration believes that once this information and these incentives are in place, competition among schools is the best way for parents to make sure their children receive the best education possible. School choice empowers them to do so. To ensure that adequate options are available for all children, the Federal Government can provide supplemental resources for the education of low-income children and children with special needs. However, these subsidies must be designed so that they do not interfere with the incentives for schools and school districts to spend efficiently.

The No Child Left Behind Act, proposed by the President, passed by Congress, and signed into law on January 8, 2002, addresses each of these goals. It is a major step toward improving the quality and efficiency of the schooling available to America's children. The rest of this section discusses in detail the principles that underlie this legislation.

Setting Standards and Measuring Progress

In the provision of education, accountability hinges on the development of adequate measures of results. In the long run, important measures of the success of education are the well-being, self-sufficiency, and productivity in adult life of today's schoolchildren. As a practical matter, however, it is difficult to evaluate schools based on their pupils' accomplishments 10 or 20 years later. For this reason, tests are a fundamental building block for school accountability. This Administration believes that well-designed tests are among the most valuable tools for evaluating school performance, giving early feedback about the success or failure of programs, educational reforms, teachers, and students alike. They augment the other information parents need to evaluate their children's schools. The No Child Left Behind Act makes available school-by-school report cards, which include data on test results, to help parents make the best decisions for their children.

Although the Federal Government provides substantial funding to States for education, State and local governments themselves contribute the lion's share—over 90 percent—of the funds for public elementary and secondary schools. Consistent with its focus on results, this Administration believes that States should have the freedom to design tests that provide parents with the tools they need to evaluate local school systems, and the No Child Left Behind Act specifies that each State be evaluated based on the test of its choice. At the same time, however, a key aspect of good testing is comparability: the ability to compare schools within districts, and districts within a State. The tests that States choose must be consistent enough so that parents can use them to evaluate their children's education and make well-informed choices. The National Assessment of Educational Progress (NAEP), a nationally representative test designed to evaluate America's students and schools, is also a useful tool for evaluating student progress at the national and the State level. The Federal Government has provided funds through the No Child Left Behind Act for some of every State's fourth and eighth grade students to participate in the NAEP.

Designing good tests is only the first step in strengthening school accountability and enhancing competitive efficiencies in education. Tests serve two goals: to create incentives for students, teachers, and schools to excel, and to trigger appropriate consequences for failure. When schools fail, parents should have the choice to move their children to better schools. To this end, the No Child Left Behind Act makes Federal education funding conditional upon local school districts and States taking defined steps to improve schools that fail to make adequate yearly progress, as determined by testing.

Expanding Options

Once clear, measurable results have been defined, competition can be a strong motivating force for improving schools. This competition can come from several sources, including other public schools, charter schools, and private (including parochial) schools. School charters and the contracts of educational management organizations (EMOs are private enterprises that run charter schools and contract with school districts to operate individual public schools) can be reviewed before renewal, and if measures of their results are publicized, parents and school districts alike will be able to evaluate their performance. The No Child Left Behind Act supports school competition (through the creation of charter schools, for example), which can improve school quality and increase the choices available to parents.

There are currently some 2,400 charter schools operating in 37 States and the District of Columbia, and the number is growing rapidly. The performance-based competition for students that charter schools exert puts pressure on all schools to excel. Indeed, research shows that competition from charter schools forces traditional public schools to respond and improve. Many school districts are also experimenting with outsourcing education to EMOs, which brings the benefits of market competition to public education. Some studies of EMOs suggest that they perform well relative to their public school counterparts. Competition from private schools can have a similar effect: one study found that such competition significantly increased the performance of public schools in the same area. Another study found that competition among public schools seems to both increase achievement and lower costs.

The No Child Left Behind Act also ensures that parents in school districts receiving funds under Title I of the Elementary and Secondary Education Act (ESEA) will have the option of moving their child to another public school in their district if the child's school has failed to make adequate yearly progress (as defined by the State) for 2 or more consecutive years, except where that option is prohibited by State law. Students in schools that fail for 3 straight years can receive funds to obtain supplemental educational services, such as tutoring, after-school services, and summer school programs. These options would benefit students in thousands of schools that have already been identified as failing under current law. Finally, if a school fails to make adequate yearly progress for 5 consecutive years, it will face restructuring as a condition for the State in which it is located to continue to receive Title I funds. Such restructuring by the State or locality may take forms such as conversion to a charter school, contracting with an EMO, or complete reconstitution of the school. Furthermore, any school district receiving any funds under ESEA must provide parents with the option of moving their child to another public school if the child has been the victim of a violent crime at school, or if the State determines that the school is unsafe. Giving localities the ability to offer parents options other than relocation prompts schools to perform well to keep their students, and it gives students in failing schools additional options. At the same time, the financial consequences for failure engender market-like discipline.

Vouchers could also increase the power of school competition. Vouchers allow parents to use the money that would be spent in their public school district to purchase education at another existing public or private school. School vouchers of various forms are available to parents in 38 States and the

District of Columbia. In some cases, however, these voucher programs are thought to be too small to provide strong incentives for public schools to improve, shifting too few educational dollars away from failing public schools. Similarly, in some rural areas vouchers may be less effective if there are not enough students to support multiple schools. Preliminary academic evidence, however, suggests that vouchers can be effective. Evidence from randomized field trials in Dayton, Ohio, New York City, and Washington, D.C., found that African American students receiving vouchers achieved moderately large gains in test scores after 2 years. Evidence from voucher experiments in Milwaukee suggests that students realized gains in both reading and math. Tax credits are an alternative vehicle that can deliver the power of choice to families. What these initiatives have in common is that they exploit the ability of markets to give parents the power to choose the highest quality and most efficient education available for their children. The ability to make those decisions depends crucially on the availability of standardized and meaningful data, which testing can provide.

Providing for Vulnerable Populations: Government Partnerships

There is a compelling public interest in ensuring adequate educational opportunities for all children. Children who are well educated are likely to become more productive members of the work force, are less likely to need public assistance later in life, and tend to pass along their social and material well-being to their own children. To the extent that local school districts do not take these long-run effects into account, and given the difficulty of redistribution at the local level, subsidizing education for low-income children and children with special needs is a valuable State and Federal function. This Administration has made it a priority that no child be left behind.

Educational Resources for Low-Income Populations

The Federal and State governments have taken different approaches to ensuring adequate educational resources for low-income school districts. Most States have experimented with some form of school finance equalization (SFE) in the past 30 years to redistribute funds to low-income districts. SFE programs mainly seek to redistribute funds from districts with high property values per pupil to districts with lower property values per pupil. In practice, however, many SFE programs actually redistribute funds based on per-pupil education spending, not property values, and property values themselves may be affected by tax rates.

State SFEs, if not carefully crafted, not only may fail to increase the resources available to low-income students, but indeed may decrease the resources available to all students. This can happen for any of several reasons. When redistribution of funds to poorer districts is based on district spending levels, it becomes, in effect, a tax on education spending by the high-spending districts, which may respond by reducing spending. Thus equalizations that rely on this approach may have the unintended consequence of "leveling down," achieving greater equality only by lowering average spending per pupil; this could even result, perversely, in lower per-pupil spending in poor districts. SFEs that subsidize local education spending through matching may be able to "level up" through infusions of State funds.

The Federal Government, under Title I of the Elementary and Secondary Education Act, targets funds to low-income students through their school districts. Providing grants to high-poverty districts out of general revenue has the potential to be much more effective and less distortionary than State-level SFEs. Federal Title I aid may be particularly valuable to high-poverty districts in States with limited fiscal resources available to fund equalization programs. In fiscal 2001 the Federal Government allocated almost $9 billion to Title I, to reach approximately 12.5 million students in both public and private schools. In fiscal 2002 the Federal Government will spend more than $10 billion, and the President's 2003 budget requests an increase of roughly 10 percent. Federal education funds are more narrowly targeted to high-poverty school districts than State and local funds. The poorest quartile of school districts received 43 percent of Federal funds, but only 23 percent of State and local funds, in 1994-95. Title I, Part A, funds are generally targeted to students deemed most at risk of failure, but if half or more of a school's students are living in poverty, the funds may be used for school-wide programs. To discourage States and localities from shifting their funding responsibilities to the Federal Government, Title I conditions Federal funding on local and State resources being comparably allocated to Title I and non-Title I schools. Beyond these two conditions, schools have a great deal of flexibility in the use of Title I funds, and this flexibility should allow districts to use funds to meet their most pressing needs.

To promote quality in education, since 1994 the Federal Government has been using access to Title I funds to encourage districts to establish results-oriented infrastructures. States' Title I funding was made dependent upon their implementing final assessment systems and providing the Department of Education with evidence that such systems met Title I requirements by the 2000-01 school year. In addition, through Title VI the Federal Government provides grants to assist local education reform efforts that are in keeping with statewide reforms, and to support other promising local reforms. These programs are two examples of how the Federal Government can encourage the creation of desired institutional infrastructures while maintaining flexibility at the State level.

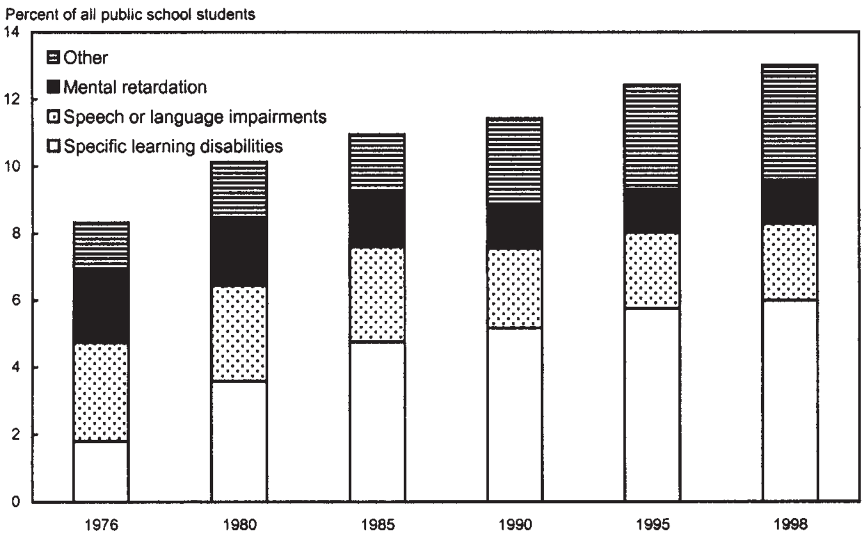
Special Education Funding

Although education of children with special needs is primarily a local responsibility, State and Federal resources also support this important work. The courts have determined that States and localities are constitutionally required to educate students with disabilities, and when Congress passed the Education for all Handicapped Children Act (now the Individuals with Disabilities Act, or IDEA) in 1975, States were given Federal dollars in exchange for providing free, appropriate education to all such students. One study estimates that Federal, State, and local governments bore, respectively, 8 percent, 47 percent, and 45 percent of the cost of public special education provision in 1998-99. The President's 2002 budget requests a 13 percent increase in IDEA grants to States. This spending can have significant payoffs for children with special needs: research shows that special education programs improve the math and reading test scores of special education students and do not undermine the achievement of other students.

The conflicting interests described in the earlier discussion of public-private partnerships can also be seen in intergovernmental partnerships. Special education is a prime example, demonstrating the issues that arise when those who provide services do not fully bear either the cost of those services or accountability for their results. In the past, the extra resources that categorical State and Federal funding made available for special education students may have created incentives for school systems and parents to expand the population identified as having special needs. Indeed, there has been a steady rise since the late 1970s in the percentage of students so classified, with the greatest increase in those categories, such as learning disabilities (as opposed to physical disabilities), where the identification of need is most subjective (Chart 5-1). African American and Native American students make up a disproportionate share of those referred into special education. Furthermore, school districts are often able to exclude special education students' test scores from State assessments; this may give them an incentive to refer students to special education inappropriately.

To address these undesirable incentives, the 1997 IDEA reauthorization changed the way in which Federal special education funds are allocated to States, but these funds account for less than 10 percent of all special education funds, and many undesirable incentives persist at the local and the individual levels. The subjectivity of such hard-to-observe classifications makes well-designed systems and incentives essential. On October 2, 2001, the President signed Executive Order 13227 to establish the President's Commission on Excellence in Special Education. This commission will examine these and other issues to prepare the Administration and Congress for the upcoming IDEA reauthorization.

Chart 5-1 **Children in Federally Supported Programs for the Disabled**
Both the fraction of children in programs for the disabled and the proportion of children classified as having specific learning disabilities have dramatically increased.



Note: Data are for school years.
Source: Department of Education.

Summing Up: Getting Incentives Right

Education is one area of public spending that has traditionally been subject to competition among localities, and between public and private providers. Research suggests that this competition has led to measurable gains in student achievement, but there is also an important role for the Federal and State governments to play in redistribution and social insurance. In designing systems that provide these valuable services while maximizing local flexibility, it is imperative to account for the influence of incentives on governments, schools, teachers, parents, and students alike. By rewarding good performance at all levels, programs can align individual incentives with public goals to promote efficiency and excellence. Indeed, these lessons pertain beyond the realm of education.

Welfare

Safety net programs such as welfare and Medicaid pose some of the greatest challenges—and the greatest opportunities—for more efficient provision of services in a Federal system. The ability of taxpayers to vote with their feet is more constrained in this setting than in education, because, as discussed below, social insurance is harder to achieve at a local level. This does not mean that competitive forces cannot be harnessed to foster greater efficiency in providing support for low-income families. Rather, it is in these areas in particular that flexibility of method and careful accountability for results are likely to achieve the greatest gains, and where it is most important that the results to be evaluated be chosen and measured well.

The 1996 enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) replaced Aid to Families with Dependent Children (AFDC), the primary Federal welfare program, with Temporary Assistance for Needy Families (TANF). PRWORA increased State discretion over the use of welfare funds by converting federally matched grants to block grants, thereby affording States greater flexibility. PRWORA also set time limits on benefit eligibility for recipients and created a framework for innovation in welfare reform. PRWORA was introduced in the wake of record highs in welfare participation and extensive program experimentation. Already before the passage of PRWORA, many States had been granted waivers, and 27 States had obtained major waivers exempting them from various aspects of AFDC's eligibility and process requirements, allowing them to experiment with alternative approaches. PRWORA widened this flexibility to all States. Welfare caseloads declined dramatically following PRWORA's enactment. Between August 1996 and June 2001, the number of TANF recipients was reduced by 56 percent nationwide. Although favorable economic conditions certainly played a role, research suggests that roughly a third of the decline was due to welfare reform (Box 5-1); estimates vary, however. PRWORA appropriated funds for TANF grants to States through fiscal 2002. Hence this year Congress will determine appropriations for fiscal 2003 and beyond. This provides an opportunity to review the program, the principles on which reforms were undertaken, and those that should guide the program in the future.

Focusing on Results

A prominent feature of PRWORA is its restrictions on benefits; these include 5-year lifetime eligibility limits and the condition that beneficiaries find work after receiving benefits for 2 years. Just as important, however, PRWORA also mandated the devolution of program design to the States (some States further devolved welfare provision to the counties) and increased flexibility and opportunity for innovation in welfare provision. When TANF replaced AFDC, the Nation moved from a welfare system in which the Federal Government prescribed the process of service provision to one in which it defines goals and creates incentives, leaving the process to be determined largely by each State. Under the former centralized, process-based approach, the Federal Government determined how funds were

Box 5-1. Why Have Welfare Caseloads Declined?

There is no question that strong economic performance and the resulting tight labor market of the late 1990s account for a portion of the recent decreases in welfare caseloads. However, the decline would not have been nearly as sharp were it not for the structural changes in the safety net programs that support working families.

In 1999 the Council of Economic Advisers found that only 8 to 10 percent of the decline in welfare caseloads between 1996 and 1998 could be attributed to changes in the unemployment rate; research also suggests that welfare reform was responsible for roughly one-third of the reduction. The lifetime time limits imposed under PRWORA create incentives for welfare recipients to find jobs (even before they reach the limit), and researchers have found that the imposition of time limits alone was responsible for over 10 percent of the decline in welfare caseloads between 1993 and 1999. In addition to encouraging self-sufficiency through time limits, PRWORA explicitly conditions benefits on welfare recipients engaging in work-related activities, and since its passage there has been a dramatic increase in the work participation rates of welfare recipients. This employment experience continues to help former recipients over their lifetimes by building their human capital and thus improving their future employment prospects.

Increases in other forms of support for working families also made work more appealing, by making it more lucrative relative to welfare receipt. After the passage of PRWORA, people could leave welfare without fear of losing valuable Medicaid coverage (as long as their income remained below eligibility limits, or for up to a year after it rose above those limits). They could also continue to receive child care subsidies, and many were eligible for an expanded Earned Income Tax Credit. These expansions were also likely responsible for part of the decline in caseloads. For example, one study found that in 1986 a single mother with two children, who left welfare to work full time at the minimum wage, would have increased her family income by only $2,000 (and would still have been living on income of only 80 percent of the poverty line); she also would have lost her eligibility for Medicaid. The same woman in 1997 would have increased her family income, upon leaving welfare, by $7,000 in constant dollars (almost doubling her income and raising her above the poverty line) and would have likely retained her family's Medicaid coverage for up to a year.

allocated as well as many other details of the program. Under PRWORA's outcomes-based approach, in contrast, funds are appropriated to decentralized providers for the pursuit of defined objectives, and these providers are then given discretion over how the funds are used. Although process and design are important features of any program, emphasizing ends rather than means can be a more effective way to reach goals.

Participation in some other assistance programs, for example, is conditioned on participation in job training. Although the goal of such requirements is noble—to enable recipients to become self-sufficient members of the work force—uniform training requirements may not be the answer for all workers. Some might benefit more from relocation assistance, or from income support to allow a longer job search. For some workers a greater obstacle to employment may be lack of child care or transportation. Thus, although training is one route to productive employment, it is neither the only route nor the best route for all. Assuming that the objective of these programs is to foster self-sufficiency, it is reasonable to judge the success of a program by the number of people it moves into lasting employment, rather than by the number of hours of training it provides.

The Importance of Measurement

When public policy objectives are broken down into measurable outcomes, providers can be paid and contracts awarded according to how well they achieve those outcomes. This encourages agencies and organizations to excel. By rewarding those programs that are succeeding, government can foster innovation, efficiency, and personalized solutions to the problems facing providers and their clients.

The first step toward reaching these goals is to turn public policy objectives into quantifiable measures and to set targets for those measures. When possible, such measures should accurately reflect broad policy objectives, not narrow intermediate steps. They should also strive to distinguish subpar performance due to labor market fluctuations and other anomalies from genuine program shortcomings. Providers can then have maximum flexibility and a minimum of restrictions, and be free from adverse incentives (such as the incentive to maximize training, when training is neither right for everyone nor the ultimate goal of the program).

Creating such measures is not always easy. Indeed, it is especially difficult when people and localities differ in their needs; such differences can affect both the appropriate goal of programs and the feasible outcomes. For example, getting welfare recipients into the work force is one measure of the success of welfare reform. Under PRWORA, Federal funding is conditioned on States meeting targets for the fraction of welfare recipients who are employed. Among the conditions are that 50 percent of recipient families (and 90 percent of two-parent recipient families) be employed by fiscal 2002. States may reduce the target employment rate on which their funding is conditioned by 1 percentage point for each percentage point that welfare rolls are reduced from their fiscal 1995 levels. The dramatic decline in welfare caseloads actually observed since 1995 has meant that the overall participation requirement has been binding on very few States. Focusing solely on the size of welfare caseloads, however, could have created incentives to make recipients ineligible for welfare rather than make them self-sufficient. A broader goal of PRWORA is ending needy parents' dependence on government benefits, by promoting job preparation and work, while providing temporary income support for those who fall on hard times.

When measuring success by results, basing measures on the right outcomes is essential. These measures should ascertain the extent to which State programs are meeting the ultimate goals of PRWORA while still affording flexibility in program design. The Federal Government can help ensure that Federal, State, and local agencies have the tools they need to evaluate service providers. Although not all data may be collected currently, basing payments on progress toward those outcomes would encourage the collection of such data in the future.

The Value of Incentives

The second step in achieving the goal of innovative and effective provision is to create incentives for public and private service providers to succeed. Rewards for excellence can be paired with consequences for failure to meet minimum standards; this is especially useful when dealing with government agencies that cannot be replaced by more efficient entrants from the private sector if they fail. If a State fails to meet the work participation rate targets established in the TANF program, its block grant is reduced by an amount determined by the Department of Health and Human Services' evaluation of the duration and degree of its noncompliance. States can avoid these consequences if their performance improves in the following year under a corrective action plan. The Federal Government also has discretion in penalizing States and may choose to waive or substantially lower penalties in extenuating circumstances, such as regional recession, natural disaster, or a substantial increase in caseloads.

Flexibility is crucial to encouraging experimentation, because all experimentation entails risk. Despite a State's best intentions and efforts, reforms that appeared promising may not succeed. By giving the Federal Government discretion in penalizing failing States and using corrective action plans, TANF seeks to prevent such penalties from discouraging the very innovation it intends to foster. This furthers the ultimate goal of creating a system that encourages the development of effective and efficient programs.

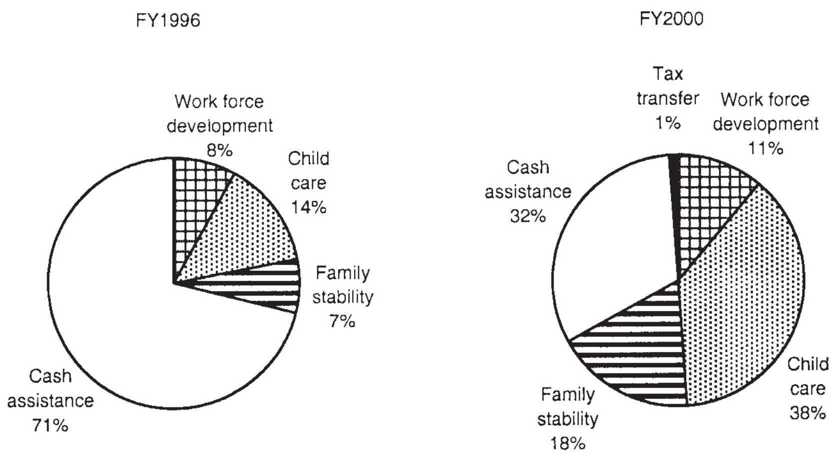
The Benefits of Flexible Approaches

This Administration believes that welfare goals and targets should be flexible enough to accommodate local differences, encourage innovation, and foster excellence, and that such flexibility must be accompanied by accountability, careful monitoring, and rewards for progress toward meeting goals. Providing these rewards based on comprehensive outcome measures allows States, localities, and organizations facing different economic and demographic circumstances to design programs that work best for them. People on welfare face different obstacles to self-sufficiency and will therefore benefit from different services. Similarly, regional demographic and geographic differences shape the types of assistance that are appropriate, and State programs, capacities, and opportunities differ as well. The idiosyncrasies of local labor markets mean that the types of education and job training programs that are beneficial may vary widely across communities and over time. States have been using the flexibility granted under TANF to tailor programs to the needs of the populations they serve. As a consequence, between 1996 and 2000 the composition of welfare spending by type of assistance changed dramatically (Chart 5-2).

One example is subsidies for transportation. Lack of transportation can impede welfare recipients from getting training and holding a job. In an urban area with a well-developed transportation system, providing transportation subsidies to welfare recipients may make sense. Rural areas, however, may lack public transportation, and even some urban areas may have inadequate public transportation between the neighborhoods where many welfare recipients live and those where employment is available. States are using TANF funds to address these difficulties in a variety of ways. Governments in some States, such as Michigan and New York, are working with the providers of public transportation systems to expand access and service provision. Others are establishing programs to assist welfare recipients in purchasing or leasing their own automobiles, and some State agencies are providing transportation themselves.

Child care assistance is another area in which States are using their greater flexibility to increase funding, despite the disappearance of a mandate to provide this service. TANF released States from AFDC's conditions that they guarantee child care to all recipients who need it to work or go to school. Yet more stringent work participation requirements have likely increased recipients' need for child care services. In response, States have used the flexibility in TANF to increase child care funding: in fiscal 1999, Child Care Development Fund transfers and TANF funds directly spent on child care totaled $4.4 billion, more than double the amount spent in fiscal 1998. Many States have experimented with child care vouchers, which have

Chart 5-2 **The Changing Allocation of Welfare Funds in Six States**
Welfare funds shifted away from cash assistance toward other needs after the passage of the Personal Responsibility and Work Opportunity Reconciliation Act.



Note: Spending data are for six States that participate in the Midwestern Welfare Peer Assistance Network: Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin.
Source: Smith, Courtney, Susan Golonka, and Fredrica D. Kramer, "The Evolving Nature of Welfare Reform: Where We Stand on the Eve of Reauthorization," National Governors Association, 2001.

reduced the paperwork required of them and made it easier for parents to take advantage of child care subsidies. States have clearly tapped into an important need among their populations and generated innovations in service provision.

These examples reflect broad shifts taking place in State welfare programs in the wake of PRWORA. Overall, between 1996 and 2000 State welfare spending shifted away from cash assistance toward providing social services. Beyond targeting services to communities, many States are using their newfound freedom to experiment with the structure of their welfare programs, recognizing that incentives matter for individuals, organizations, and governments alike. In 2000, 34 States offered “diversion payments” or services to families applying for TANF benefits. Most of these States provided lump-sum payments in lieu of monthly benefits. It is hoped that these payments, sometimes termed welfare avoidance grants, will enable families to weather a temporary emergency while avoiding attachment to the welfare system. Another structural innovation aimed at preventing welfare dependence is an intermittent time limit. Thirteen States are currently experimenting with such limits, which deny or reduce benefits for a period of time after a family has received assistance for a given number of months.

Some States are further devolving welfare to counties and local governments. California, Colorado, New York, North Carolina, and Ohio give counties block grants with which to provide welfare services. Like the Federal Government, these State governments are seeking to balance the desire to give local governments freedom to innovate, and to tailor programs to local needs, with the need to maintain standards. Most States that have ceded partial control of programs to localities, however, maintain some control over the criteria for eligibility, benefit levels, work requirements, and time limits.

One of the great advantages of flexibility in the laboratories of State programs is that each can learn from the experience of others. Even States that are succeeding in meeting specified outcome targets can benefit from information regarding other States' experiences. The Department of Health and Human Services, the National Governors Association, and other groups are already facilitating such information sharing. Because the Federal Government gathers and analyzes a great deal of State welfare program data in its monitoring of TANF compliance, it can play a vital role in helping States target their efforts, by disseminating information on the programs that have proved most successful.

Encouraging Broad Participation

In addition to affording States greater flexibility, PRWORA enlarged the pool of providers with whom States may contract. Under the Charitable Choice provision of PRWORA, States may administer and provide TANF services through contracts with charitable, religious, or other private organizations. Any State that chooses to involve nongovernment entities in social service delivery may not exclude providers because of their religious nature. This provision does not, however, amount to giving preference to religiously affiliated organizations. As the President stated in his executive order establishing the White House Office of Faith-Based and Community Initiatives, "This delivery of services must be results oriented and should value the bedrock principles of pluralism, nondiscrimination, evenhandedness, and neutrality."

Religious organizations have long been involved in poverty relief in the United States, and government partnerships with such groups have a long history. In 1999 Catholic Charities and Lutheran Social Services both received over half of their funding from the government. The Charitable Choice legislation prohibits agencies receiving government funds from discriminating against clients of different faiths, but it does not require religious organizations' beliefs to be strictly segregated from the services being provided. Federal funding is also conditioned on the government making an alternate service provider available if a client is uncomfortable receiving assistance from a religious provider.

The inclusion of nonsecular service providers in welfare programs is very much a work in progress. Changing agency policies and State laws that had made religiously oriented service providers ineligible for government funds is a time-consuming process. As of 2000, fewer than half the States had removed legal and policy barriers to religious organizations' participation in government-funded welfare provision, but at least 23 States had new cooperative relationships with newly eligible faith-based providers. The language of Charitable Choice extends beyond TANF to food stamps and Medicaid as well, but it has not been implemented in these programs because current law requires that a public official, not a private citizen, evaluate recipients' eligibility. Even in States and programs where legal barriers have been removed, small organizations often struggle to compete with agencies that have received government grants and contracts in the past and already have the necessary infrastructure to comply with government regulations. Federal grants and contracts typically require formal recordkeeping, monitoring, and substantial infrastructure, yet many religious congregations have outreach budgets of less than $5,000, and few have more than one staff member assigned to such activities. Although smaller contracts might promote the incorporation of such agencies into the welfare provision network, they are not always cost-effective. Any gains from including small providers must be weighed against the costs of coordination and other increased costs associated with working with a greater number of providers.

Thus, in addition to affording States greater flexibility in the types of services they offer, PRWORA allows them to choose from a larger pool of service providers. Local organizations have a great deal to offer and can be a source of valuable innovation. They often have an established presence in the communities they serve, greater credibility than a government agency with local populations, and access to valuable volunteer labor.

Unfortunately, in the past, Charitable Choice language has not ensured that Federal administrators will require State and local governments to comply with new rules for involving faith-based providers. Faith- and community-based groups remain an underutilized resource, and this Administration will continue to work to eliminate barriers to their participation.

Medicaid and SCHIP

Maintaining a healthy citizenry is a compelling public interest, arising from the risk of the spread of disease, the loss of productivity from illness, and the altruistic motivation to provide for those who are ill but cannot afford health care. This can lead to inefficiencies in the health care system if only emergency room care is provided. For example, people without health insurance are more likely to forgo cost-effective early or preventive care, to wait until very ill to seek health care, and when they do, to use the expensive option of emergency room care. The cost of this uncompensated emergency room care may then be passed on to the public in the form of higher medical fees or higher taxes. This compromises both the health of individuals and the public finances and suggests a role for government in subsidizing more efficient health care for low-income populations.

At present, the primary mechanism for such assistance is Medicaid, a Federal- and State-financed public health insurance program for low-income individuals who are aged, blind, disabled, or members of families with dependent children. In certain circumstances, Medicaid also provides medical care to those with high medical expenses but incomes modestly over the Medicaid threshold and to pregnant women. (States have discretion over the eligibility of both groups, and they are covered in 35 States and the District of Columbia.) The Federal Government matches each State's Medicaid spending at a rate inversely related to the State's income per capita; rates range from 50 to 76 percent in 2002. As discussed below, however, States are beginning to use their new flexibility to explore alternative ways to provide high-quality and high-value health care to their low-income populations.

States may seek waivers to use Medicaid funds to provide otherwise uncovered services and to experiment with Medicaid program design, and almost all States are now experimenting with different approaches, especially for populations whose Medicaid eligibility is not mandated. The State Children's Health Insurance Program (SCHIP; Box 5-2) provides health insurance for low-income children who do not qualify for Medicaid, under rules that provide more flexibility, and with a higher Federal match rate. These systems provide access to valuable health care for many low-income Americans and have improved the well-being of many.

Medicaid and SCHIP resources, however, could be allocated more efficiently than they are now, to provide greater benefits at lower cost, by using market mechanisms to promote access to private health insurance rather than relying on public production. Along with States' flexibility to experiment must come more consistent accountability for results. As in the education and welfare programs discussed above, this Administration believes that a Federal focus on ultimate goals and outcomes, rather than micromanagement of processes, is needed to promote innovation and efficiency.

Limitations and Shortcomings of the Current System

Medicaid enrollment grew by almost 60 percent between 1980 and 1993, from 19.6 million person-years to 31.2 million. Much of the enrollment growth since 1987 was driven by federally mandated eligibility expansions, which increased the pool of eligible individuals well beyond those eligible for

Box 5-2. The State Children's Health Insurance Program

The State Children's Health Insurance Program (SCHIP) is a joint Federal-State program, driven by Federal incentives to improve the health care of low-income children while still affording States a great degree of flexibility in reaching this goal. SCHIP was established in the 1997 Balanced Budget Act, under Title XXI of the Social Security Act, and provides health insurance coverage to Medicaid-ineligible low-income children. Every State currently has a federally approved SCHIP program, but the design and scope of programs vary widely. Fifteen States and the District of Columbia provide SCHIP insurance through existing Medicaid programs, 16 States have separate programs, and 19 States use a combined approach. States are experimenting with providing health insurance to entire families and with using sliding copayment scales.

Like Medicaid, SCHIP is funded through Federal matching of State expenditure, with poorer States eligible for higher match rates. In fiscal 2002 the Federal Government reimbursed individual States for between 65 and 84 percent of the cost of providing health insurance under the program. In addition to providing a substantial portion of the funding, in fiscal 2002 the Federal Government will use awards, based on the participation of former TANF recipients in Medicaid and SCHIP, as incentives for States to insure low-income children.

AFDC by raising income limits. Although those receiving TANF continue to be eligible for Medicaid, PRWORA severed the link between cash assistance and Medicaid enrollment. Since 1993, Medicaid enrollment has grown at a much slower rate, reaching 36.9 million in fiscal 2001, and is projected to grow by an average of only 1.9 percent a year over the next 5 years. Federal Medicaid expenditure, on the other hand, is projected to grow at an annual average rate of almost 9 percent, from $159 billion in fiscal 2003 to $206 billion in fiscal 2007.

These expansions to families with higher and higher incomes appear to have had diminishing effectiveness, both in improving health and in reducing the number of uninsured. One unfortunate side effect of the current system of publicly provided and publicly produced health insurance is the crowding out of private insurance: the existence of public insurance provides a disincentive for private employers to offer insurance to those eligible for the public program. Research shows that many of those to whom Medicaid eligibility was extended during the broad expansions of the late 1980s and early 1990s already had access to private insurance. Researchers estimate that only 27 percent of the children made newly eligible for Medicaid between 1987 and 1992 were uninsured in 1987, and that almost half of those newly eligible may have lost private coverage. In fact, as the fraction of children eligible for the program rose from 15.2 percent in 1987 to 21.8 percent in 1996, the fraction of children who were uninsured not only failed to decline but rather increased, from 12.9 percent to 14.8 percent. This experience illustrates the potential pitfalls of expanding public programs without considering potentially offsetting responses in private markets.

There is other evidence that mandated expansions of this form are not the most efficient way to improve the health of low-income families. A more diverse population of patients is likely to have differing needs, making it more difficult for a one-size public insurance package to fit all. One symptom of the inefficiency of the current system is the failure to enroll all eligible children: nearly a quarter of uninsured children are eligible for Medicaid, and many more are eligible through SCHIP. Although Federal laws explicitly guarantee continued Medicaid coverage for many of those leaving welfare, researchers found that 49 percent of women and 29 percent of children lack health insurance 1 year or more after leaving welfare. Confusion about eligibility, the effort required to reapply for Medicaid after leaving welfare, and stigma may contribute to this lack of health insurance among former welfare recipients.

Fostering Market-Based Health Insurance

Greater flexibility is allowing States to address these shortcomings in varied and innovative, market-based ways. By increasing the access of low-income families to private insurance markets rather than trying to provide the same public health insurance to all, the Federal Government can promote the health of all citizens without a monolithic, slow-acting, and inefficient bureaucracy. States have requested waivers and demonstration projects to experiment with other means of provision and have highlighted the potential gains to such approaches, empowering patients and providers to choose the best health insurance options at the best price through unfettered markets. The process of applying for waivers used to be quite cumbersome for State agencies, as was the oversight of waiver programs for their Federal counterparts. The goal of the 2001 Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative is to increase State access to Section 1115 Medicaid and SCHIP waivers, simplify the waiver process, and create renewed interest in working with private insurance markets to provide health insurance to low-income individuals. The HIFA initiative encourages States to use available Medicaid and SCHIP funding to develop comprehensive health insurance coverage approaches. This offers States greater flexibility in designing benefit packages and cost sharing in exchange for increasing coverage, particularly in support of private health insurance. Even without HIFA, the Administration has already approved over 1,400 waivers and State plan amendments through other programs. These waivers and amendments have already made an additional 1.4 million Americans eligible for health insurance and expanded coverage for over 4 million more, and the Department of Health and Human Services has cleared application backlogs for State plan amendments dating to the mid-1980s.

This use of Medicaid waivers parallels that of AFDC waivers before TANF. Since 1981 the Centers for Medicare and Medicaid Services (CMS, the agency formerly known as the Health Care Financing Administration) has granted over 250 home and community-based services waivers, which cover budget-neutral but previously uncovered services for Medicaid-eligible individuals who would otherwise be institutionalized. In 2001, 15 States were running statewide health care reform demonstrations under Section 1115 waivers. These waivers allow States to change provisions of their Medicaid and SCHIP programs in order to experiment with program improvements, provide coverage to groups not eligible under current law, or investigate an issue of interest to the CMS.

States are using these waivers to experiment with different methods of health care delivery. The waivers offer the most flexibility when used to extend coverage to "optional populations." These are groups that States may use Federal Medicaid funds to insure, but whose coverage is not a condition of Federal funding. Because they often have higher incomes than other Medicaid recipients, these recipients are more likely to be employed and therefore to have access to employer-sponsored health insurance. Enabling them to purchase coverage through their employers is less likely to crowd out private provision than is public Medicaid insurance. States may choose to offer this insurance under their existing Medicaid plans, under group plans, or through other sources of the States' choosing, as long as the coverage meets Federal cost and quality guidelines.

States have long had the option of using Medicaid and SCHIP funds to help eligible individuals purchase private health insurance through their employers. However, in part because of administrative and operational complexities, very few States were able to take advantage of this option. Massachusetts helps employees pay private insurance premiums through its own premium assistance program. Kansas provides small businesses with a $35 health insurance tax credit for every employee to whom they provide coverage. The Administration's HIFA model waiver initiative is designed to give States program flexibility to support approaches that increase private health insurance coverage options. HIFA quickly generated State interest in exploring other ways to use employer-sponsored insurance to provide coverage to Medicaid-eligible populations. The Department of Health and Human Services has already approved one such waiver for Arizona.

States are also using market mechanisms to expand access to health insurance through other Federal laws, such as the Health Insurance Portability and Accountability Act of 1996, and through high-risk health insurance pools. Both are discussed in Chapter 4. Each uses market mechanisms to set prices and expand access, while empowering individuals to choose the plans that suit them best.

State flexibility can also promote cost containment without sacrificing quality. Medicaid expenditure grew dramatically between 1988 and 1994, primarily because of cost increases and issues of program integrity, but partly from the eligibility expansions and enrollment increases discussed above. In an effort to control costs, States have enrolled an increasing fraction of Medicaid recipients in private health insurance programs. Fifty-four percent of Medicaid recipients were enrolled in some form of managed care in 1998. Other States are experimenting with directly providing care through public clinics and community health centers (Box 5-3). Although these measures have helped States (and the Federal Government) contain costs, continued innovation in cost containment is still greatly needed, as is flexibility to experiment.

Federal officials have expressed concerns about State financing practices that increase Federal Medicaid spending without increasing health insurance coverage. Recent studies by the Inspector General of the Department of Health and Human Services and by the Congressional Budget Office have identified provider payment policies that have allowed billions of dollars in Federal Medicaid funds to be used for purposes other than those intended, including nonhealth expenditure. The Administration has taken steps to increase State accountability while also increasing State flexibility.

Although the provision of health care poses challenges not seen in other safety net programs, the lessons drawn can inform a wide range of policies. By setting goals based on outcomes, promoting innovation, and rewarding achievement, the Federal Government can create a lasting institutional structure that adapts to the rapidly changing health care environment without saddling States and providers with cumbersome and quickly outdated conditions and regulations.

Box 5-3. Community Health Centers

The Community Health Center (CHC) program is a Federal grant program that offers funding to local communities for the provision of family-oriented primary and preventive health care services. In fiscal 2001 the program funded services to 10.5 million people living in medically underserved rural and urban areas throughout the country. In the last decade there has been a significant increase in the number of access points, primary care providers, and people served, as well as in appropriations; more than 3,300 CHC sites are now in operation, providing essential services that improve the health status of these underserved populations. To ensure that more communities benefit from the care provided by these centers, the Federal Government will expand the program to 1,200 more sites over the next 5 years, serving millions of additional patients. CHCs are discussed in more detail in Chapter 4.

Conclusion

Creating efficient, high-quality public programs requires balancing freedom against responsibility, and local needs against national interests. By tying Federal funds to meeting program goals, but not tying the hands of willing and able providers, Federal dollars can be stretched further and the quality of services provided can be higher. Rewarding innovation and requiring success can bring out the best in public and private providers alike.

The United States' federal system provides unique advantages for getting the most out of public spending. Competition among States and localities and public and private providers encourages the efficient use of public funds. Accountability for results can be achieved without rigid and burdensome Federal dictates. This Administration believes that it is the role of the Federal Government to create the infrastructure—including high-quality data, a level playing field, and incentives that promote the efficient use of taxpayers' money—that makes such competition and accountability possible.