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Privatization and the Poor: Exploring Patterns in Welfare Contracting

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This study explores state-level administrative contracting patterns in social welfare programs that extend street-level administrative authority to private sector providers. Workfare reforms in the 1990s devolved welfare policy-making authority and encouraged administrative diversity resulting in unique implementation arrangements across the American states, yet the forces underlying privatization patterns remain understudied. Utilizing privatization data for the year 2001 from the General Accounting Office, this study finds that state urbanization and African American welfare demand are significantly associated with welfare contracting. In addition, Mississippi and Washington, DC, are found to exhibit a proclivity toward welfare privatization unmatched by other jurisdictions.

KEYWORDS *administrative privatization, Temporary Assistance to Needy Families, welfare reform*

The perpetual search for bureaucratic efficiency and effectiveness is leading governments and researchers to rethink traditional modes of public service delivery. One popular approach to contemporary policy implementation, known as "privatization," sheds direct public responsibility by integrating private-sector actors and market forces into formerly public-based industries and services (Kemp, 2007; Lamothe & Lamothe, 2010; Osborne & Gaebler, 1992; Savas, 1998). Contracting bureaucratic activities with private, third-party providers has routinely been undertaken by governments, but in recent decades has been expanding vigorously into new social policy areas involving human support services (Sanger, 2003; Winston, Burwick, McConnell, &

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Roper, 2002). Private organizations are not only being employed by governments to build and maintain public goods like schools, roads, and prisons, but are increasingly likely to teach students, rehabilitate prisoners, and assist welfare recipients. As a scholarly community, we know that governments at all levels are establishing privatized administrative arrangements when implementing social policy, yet we know relatively little about how these arrangements are formed, especially at the state-level (Brudney, Fernandez, Ryu, & Wright, 2005).

One neglected area in need of study involves welfare reform policy in America. The manner in which means-tested cash assistance programs are delivered to the American populace was fundamentally altered in 1996 following the passage of the Personal Responsibility Work Opportunity Reconciliation Act (PRWORA) and its lead cash assistance program, Temporary Assistance to Needy Families (TANF). Not only did PRWORA institute stringent work requirements and sanctions for non-compliance with program rules, but the administrative structuring of welfare at the street level also changed dramatically. In particular, welfare administration became more decentralized and privatized (Crew & Lamothe, 2003; Gainsborough, 2003; Sanger, 2003; Soss, Fording, & Schram, 2011; Winston et al., 2002). Along with diversity in program rules, PRWORA additionally encouraged administrative diversity allowing states to grant private entities, for the first time, the potential authority to determine TANF program eligibility and effectively manage the operation of entire welfare offices (GAO, 2002; Sanger, 2003; Soss et al., 2011).

Under welfare reform, states and locales established customized administrative arrangements choosing to direct resources and bureaucratic authority to private providers or retain in-house governmental control over workfare activities (Sanger, 2003). The budding embrace of privatized contracting in welfare reform implementation is evident across the American states. With the exception of South Dakota, every state has contracted some portion of their TANF dollars with private-sector organizations (GAO, 2002), but the factors that underlie the magnitude of privatization across states remain unknown. This study represents a first attempt to systematically explore why the American states vary in their administrative responses to an ever-devolving and diversifying welfare policy regime.

Because of dramatic changes in administrative structuring that have taken place across the American landscape, it is imperative that policy researchers begin to unlock the puzzles as to why sub-national jurisdictions are implementing various bureaucratic arrangements under TANF. Administrative structuring shapes relationships among government and community stakeholders and can ultimately influence the quality of program outputs experienced by program clients (Ingraham & Lynn, 2004). An abundant literature investigates the predictors of state and local contracting decisions and with good reason. Prior to any bureaucratic arrangement influencing administrative functioning and program outputs, the decision to "make or buy" service provision must be undertaken by government actors (Brudney et al., 2005; Boyne, 1998; Greene, 1996; Lamothe & Lamothe, 2010; Sclar, 2000;). While scholars have conducted studies of contracting across multiple policy areas such as refuse collection, prisons, and health care facilities (Bel & Fageda, 2007; Brudney et al., 2005; Ferris, 1986; Price and Riccucci, 2005), less is known regarding welfare privatization.

This study reports that Mississippi and Washington, DC, are substantially more privatized than other jurisdictions in the fiscal year 2001—the only year of available General Accounting Office data. Beyond a Mississippi centric explanation of state-level variation, multiple regression analysis uncovers that levels of state urbanization and African American welfare demand are significantly associated with TANF privatization. This suggests that state officials are potentially responding to acute needs and provider networks established in urbanized settings (Warner & Hefetz, 2003), while at the same time responding to symbolic racial considerations perpetually entrenched in state welfare politics (see Fellowes & Rowe, 2004; Hero &Tolbert, 1996; Soss et al., 2011; Soss, Schram, Vartanian, & O'Brien, 2001;).

POTENTIAL DETERMINANTS OF TANF PRIVATIZATION

What factors potentially explain variation in TANF contracting patterns across states? The antecedents of TANF contracting across states are borrowed largely from previous groundbreaking privatization research by Boyne (1998), Brudney et al. (2005), and Price and Riccucci (2005). These various policy scholars argue that a blend of economic and political variables can potentially predict the presence or absence of privatized contracting in public policy implementation. Also included are two supplementary hypotheses germane to welfare politics involving racial considerations and class-based mobilization that may further explain why states are inclined to privatize TANF dollars. All premises are discussed in the following text.

ECONOMIC EXPLANATIONS OF TANF CONTRACTING

Service Supply and Urbanization

According to public choice theory, it is not organizational form necessarily, but rather perpetual marketplace competition and the prospect of failure that ultimately yields performance gains (Boyne, 1998; Brudney et al., 2005; Kemp, 2007; Savas, 1998). In turn, when state agencies are deciding how much of their TANF dollars to contract-out, they should consider the competitive environment and privatize substantial amounts of resources only when sufficient competition among rival providers exists (Brudney et al., 2005; Savas, 1999; Sclar, 2000). Potential replacement by rival firms coupled with economic desire for atomized financial self-enrichment from continued government contracts should maximize organizational effectiveness and the quality of administrative outputs at the street-level (Sclar, 2000). When private entities openly compete among each other in a transparent government bidding process, program costs to taxpayers are theoretically more likely to be reduced and quality more likely to improve, and thus privatization in competitive environments should be a more appealing option in contracting decisions (Brudney et al., 2005). The *log of state population, log of total nonprofits*, and levels of *urbanization* are hypothesized to be positively related to TANF contracting[1].

State *urbanization* levels arguably represent an indirect measure of service supply but are still expected to influence welfare privatization patterns. Metropolitan Statistical Areas (MSAs) have been found to privatize public services to a greater degree than rural areas potentially due to the geographic density of for-profit and nonprofit providers (see Warner & Hefetz, 2003). Rural areas face structural challenges to successful privatization in part because, "the costs of serving a sparse population, where unit costs are higher, may discourage the formation of a competitive market of alternative providers" (Warner & Hefetz, 2003, p. 3). Central-city and suburban areas within broader metropolitan settings likely exhibit heightened levels of market competition due to the proximity of networks of specialized service providers. In addition, urban areas face concentrated levels of social service demand (Wilson, 1996), and required abrupt administrative responses to PRWORA in order to fulfill new legislative requirements. The scope and scale of reform undertakings in the wake of PRWORA could have provided an impetus for privatization efforts in more urbanized states especially. Moreover, urban areas also contain relatively lucrative per-unit social service contracts, and thus private entities are potentially motivated to actively seek out contracts in urbanized environs (Sanger, 2003; Warner & Hefetz, 2003).

Hypothesis 1: Population size will be positively related to TANF privatization
Hypothesis 2: Nonprofit presence will be positively related to TANF privatization
Hypothesis 3: Urbanization will be positively related to TANF privatization

Fiscal Capacity

Another set of antecedents informed by past research center on the fiscal conditions of states that provide motivation to privatize social services and

1 Due to extreme values in the state population and nonprofit size distributions, the measures are transformed into logarithmic scale (base 10) to normalize outlier values.

free up state resources (Brudney et al., 2005; Greene, 1996; Kodrzycki, 1998; Price & Riccucci, 2005). States routinely confront deleterious social conditions and assist citizenries through raising tax revenues and providing public services that potentially drain state fiscal resources from state coffers. In the TANF context, the financing structure shifted to block grants, awarding states a fixed-amount of welfare funds, and further mandated that states allocate "maintenance of effort" (MOE) funds that reflected previous welfare effort. When state governments have a diminished capacity to generate tax revenue and fund public services, they are theoretically more apt to pursue bureaucratic cost-cutting and privatization represents one probable solution for doing "more with less" (Brudney et al., 2005; Greene, 1996)[2]. This research employs an index measure of *fiscal capacity* developed by Yilmaz et al. (2007) that incorporates a state's "revenue capacity" relative to its "expenditure need" for outlaying public expenditures. States with higher fiscal capacity index scores have both an expansive tax revenue base and lower levels of social service need, whereas states with lower fiscal capacity scores have both a weaker revenue base and greater levels of expenditure needs[3]. Following the logic posited in previous privatization research, states scoring lower on the capacity index are expected to privatize TANF services to a greater degree. In a cross-sectional analysis of 50 states, parsimony drives variable selection. The fiscal capacity index represents the most comprehensive fiscal health proxy currently available and is utilized over competing measures like gross state product or tax revenue per capita.

Hypothesis 4: Fiscal capacity will be negatively related to TANF privatization.

POLITICAL EXPLANATIONS OF TANF CONTRACTING

Public Employee Strength

A second set of variables that may explain variation in TANF contracting is endorsed by both Boyne (1998) and Brudney et al. (2005), and relates to the

2 Admittedly, most states realized financial windfalls in the years following PRWORA due to rapidly declining welfare rolls, but nonetheless TANF block grants could stress state budgets if significant numbers of eligible clients enter TANF programs. States with weaker fiscal capacity are expected to be in perpetual search for efficient delivery systems and other ways to assuage budgetary pressure, and thus I argue privatization is more likely in relatively stressed states even though TANF did not meaningfully influence many state budgets in 2001.

3 The Yilmaz et al. (2007) fiscal capacity index measure includes several indicators of tax revenue capacity or the ability to raise revenues (income tax capacity, tax effort, etc.) and relates those indicators to a state's need for expenditures. The "expenditure need" denominator includes an index of "workload factors" including indicators like number of public school children, poverty rates, and unemployment rates. Higher values on the fiscal capacity index indicate stronger revenue capacity *and* less need for expenditure. See further explanation of index construction at (http://www.urban.org/UploadedPDF/311384_fiscal_disparities.pdf).

strength of public employees. The American of Federal Association of State, County and Municipal Employees vocally deplore privatization efforts, perceiving the movement to privatize public services as a threat to occupational well-being and the quality of life for impoverished clientele in social service programs (McEntee, 2006). Public employee unions argue that private entities in welfare implementation will voraciously "profit off the poor" rather than deliver improved efficiency and quality, and are expected to actively resist privatization efforts (Brophy-Baermann & Boeser, 2006). States with a stronger numerical base of public employees should encounter heightened resistance to privatization, and thus the strength of public employees should be negatively associated with TANF contracting. This study employs the *ratio of government employees to total state population* as an indicator of the relative strength of public employees to oppose privatization efforts (Brudney et al., 2005; Boyne, 1998).

Hypothesis 5: Public employee strength will be negatively related to TANF privatization.

Ideological Considerations

A consistent theme in the research on contracting decisions involves ideological factors that can enhance or impede privatization efforts (Brudney et al., 2005; Price & Riccucci, 2005). The trend toward privatization in public service provision in recent decades has arguably been ignited by conservative elites, such as Ronald Reagan and Newt Gingrich, championing the involvement of the private sector in public affairs and policy implementation at the expense of government control. As E. S. Savas (1988, p. 14) writes, "adherents of this world view understand that collective action does not necessarily mean government action. . . it means free markets, localism, voluntarism, and deregulation." This suggests that privatization has an ideological dimension buttressed by conservative desire to reduce the size of government and increase the influence of the private sector. Although many liberal Democratic legislators eagerly signed onto PROWRA in 1996, others on the ideological left remained openly skeptical of the reform measures, desiring more public guarantees and accountability.

When states are deciding to contract-out TANF funds, the policy preferences of state government actors should shape the acceptance and prevalence of privatized administration. Ideological conservatism embraces the free market ideals of competition and innovation that undergird administrative privatization, while liberal ideology tends to place greater emphasis on equity and public accountability in service provision that is more readily achieved with direct government involvement at the street-level. This study hypothesizes that the ideological liberalism of state governments will be negatively related to TANF privatization, and employs the measure of *government liberalism* from Berry, Ringquist, Fording, and Hanson (1998)[4].

This study includes one additional political variable found in past privatization research, the party identification of the governor (Price & Riccucci, 2005). Governors act as state executives, overseeing state-level bureaucracies and certain gubernatorial actors, such as Tommy Thompson in Wisconsin or Daniel Fordice in Mississippi, have taken a lead role in reforming welfare services and introducing unique bureaucratic arrangements to welfare provision (Breux et al., 2002; Mead, 1997). State officials influencing contracting decisions may operate at the local or regional level, but are ultimately beholden to state-level agencies that disperse TANF grants. Republican governors are hypothesized to embrace privatized welfare contracting because of an ideological proclivity to favor decentralization and private markets in the implementation of social policy. Democratic governors are expected to pursue more equitable and charitable approaches that favor direct government involvement.

Hypothesis 6: Government liberalism will be negatively related to TANF privatization.

Hypothesis 7: Democratic governorship will be negatively related to TANF privatization

Racial Politics

An impressive body of political science research documents the intimate connection of African American identity to the American welfare state. Studies performed at the individual level found that negative stereotypes of blacks as "lazy" and "undeserving" illicit austere welfare spending preferences among white Americans (Gilens, 1999; Dyck & Hussey, 2008). When individuals believe minorities, especially African Americans, lack a proper work ethic, they are less likely to support redistributive welfare efforts. Concurrently, research into state welfare policy adoptions has consistently demonstrated empirically that a greater presence of African Americans leads to diminutive monetary benefits and punitive program rules related to work requirements

4 The ideological orientation of state governments is constructed from five indicators that combine ideology scores of governors and state legislators of both parties, weighted by the proportional composition of the respective parties in the state legislature. The ideology scores of state legislators are derived from interest group ratings (Americans for Democratic Action and the American Federation of Labor and Congress of Industrial Organization Committee on Political Education) of U.S. congressmen (based upon some assumptions about ideological congruence between state and national policy makers). These ratings range from 0–100 with a score of 0 indicating pure conservative voting positions in Congress and 100 representing a strictly liberal voting record. The ideology scores of governors are derived from the average ideology score of state legislators of the same party (based upon some assumptions about ideological congruence between state legislators and governors that share party identification). Higher values on the index indicate more liberal orientations.

and sanction for non-compliance (Fellowes & Rowe, 2004; Hero & Tolbert, 1996; Key, 1949; Soss et al., 2001). I argue that these enduring racial considerations can extend to TANF administration in that states with more impoverished African Americans should be interested in shedding direct public responsibility for the especially marginalized, disadvantaged minority poor away from government and embrace private sector solutions.

The social construction of African Americans with regard to welfare policy is rooted in "cultural characterizations or popular images" of negative racial stereotypes that potentially "has a powerful influence on public officials and shapes. . . the actual design of policy" (Schneider & Ingram, 1993, p. 334). Under this theoretical perspective, the beneficiaries of redistributive welfare programs may not be deserving of government guarantees and direct government provision. According to Schneider and Ingram, "Elected officials will find it easy to cut welfare policies when the poor were constructed as lazy or shiftless and were often believed to be minorities who were responsible for their own plight" (Schneider & Ingram, 1993, p. 334). Similarly, elected officials could find it easier to privatize welfare services and shed public responsibility and accountability away from government when the beneficiaries of welfare programs are disproportionately African American. Just as state officials are apt to reduce benefit levels in the presence of African American welfare demand, states should be less interested in public accountability and equity principles when minorities are the disproportionate beneficiaries of cash assistance programs.

> Hypothesis 8: The percentage of a state's TANF rolls comprised of African Americans will be positively related to TANF privatization.

Lower-Class Mobilization

Research on state welfare adoptions has consistently found that when lower-class citizens are mobilized and participate actively at the ballot box, they are rewarded with more generous cash benefits and eased program requirements (Avery & Peffley, 2005; Hill, Leighley, & Hinton-Andersson, 1995). Interest groups representing the assumed electoral interests of poor individuals, such as the Welfare Information Network, have published works documenting the potential pitfalls of "profiteering off of the poor," most notably decreased client attention and service quality in the dogged pursuit of corporate income (Yates, 1997). When individuals with depressed socioeconomic status are mobilized, participating in legislative advocacy and in the voting booth, it is in the electoral interest of policy makers to react with policy "responsiveness" to special interests, favoring a greater role for governmental implementation over privatized approaches (Avery & Peffley, 2005; Hill, Leighley, & Hinton-Andersson, 1995).

Hypothesis 9: Upper-class voter turnout will be positively related to TANF privatization.

CONCEPTUALIZING AND MEASURING TANF PRIVATIZATION

The outcome variable of interest for this study captures the magnitude of TANF privatization occurring at the state-level. TANF privatization is conceptualized as the extent to which private sector actors are involved with the implementation of state TANF programs. Private organizations can potentially be involved with one or several aspects of TANF administration including eligibility determination, case management, data management, community outreach, or any combination of various workfare functions(GAO, 2002; Sanger, 2003; Winston et al., 2000). However, this study centers on the general magnitude of TANF privatization as opposed to specific functional areas because of limited data availability[5].

Operationally, minimal numerical data exists on TANF privatization; however, a 2002 General Accounting Office (GAO) report published the *total-value of privatized TANF contracts as a percentage of total state TANF spending* for the fiscal year 2001[6]. This TANF privatization measure from the GAO offers untapped empirical insight into state-level welfare contracting patterns. Univariate statistics in Table 1 illustrate that Washington, DC, and Mississippi contracted the greatest proportion of total TANF outlays to private entities (74% and 71% respectively), while only one state, South Dakota, retained complete governmental control[7]. Several states did privatize significant portions of their TANF budget, but the majority of states in 2001 ultimately privatized less than 15% of total TANF funds. Given the opportunity to contract workfare services with private sector actors, most states have favored in-house operations and direct government involvement. The average state privatized 13.52% of its total TANF dollars, with a standard deviation of 13.82 ($N = 50$)[8].

The analysis presented below must account for the state of Mississippi. With 71% of TANF funds appropriated to private entities, Mississippi is

5 Disaggregating the TANF privatization data by operational functions would represent significant improvement over the blunt privatization measures presented in this article. However, data beyond generic TANF privatization efforts are not readily available across space or time, thus disaggregation endeavors must await future research.

6 The "total TANF spending" denominator in this measure includes both federal block grant dollars and required state "maintenance of effort" (MOE) funds. The numerator consists of privatized spending allocated to all non-governmental, both nonprofit and for-profit entities.

7 Washington, DC, is a statistical outlier at 74% TANF privatized and arguably represents important variation, but the case is necessarily excluded from the regression analysis. Because Washington, DC, lacks statehood, it lacks measures for several of the independent variables (party of the governor, government ideology, fiscal capacity, etc.).

8 With Mississippi excluded, the mean TANF privatization level falls to 12.53 percent and the standard deviation declines to 11.21 (N=49).

TABLE 1 TANF Privatization Across the American States, 2001

Privatization (%)		Privatization (%)	
Alabama	5	Nebraska	20
Alaska	4	Nevada	11
Arizona	9	New Hampshire	9
Arkansas	11	New Jersey	42
California	7	New Mexico	1
Colorado	11	New York	9
Connecticut	12	North Carolina	2
Delaware	15	North Dakota	7
Florida	4	Ohio	16
Georgia	10	Oklahoma	4
Hawaii	3	Oregon	1
Idaho	43	Pennsylvania	39
Illinois	18	Rhode Island	8
Indiana	9	South Carolina	16
Iowa	2	South Dakota	0
Kansas	2	Tennessee	31
Kentucky	3	Texas	8
Louisiana	20	Utah	8
Maine	9	Vermont	29
Maryland	11	Virginia	6
Massachusetts	9	Washington	20
Michigan	6	Washington, DC	74
Minnesota	21	West Virginia	13
Mississippi	71	Wisconsin	43
Missouri	7	Wyoming	3
Montana	8	Mean (N=50)	13.5

Note: Source, GAO (2002). The cell values represent the percentage of total TANF outlays, including state maintenance-of-effort funds, awarded to private-sector providers. The mean privatization value excludes Washington, DC.

approximately 30 points more privatized than the four next most privatized states[9], and Mississippi is over five times more privatized than the average state in 2001[10] Mississippi is the only state that has a majority of TANF funds appropriated to private entities, and therefore works to skew the privatization distribution rightward. The Mississippi anomaly is typified by the fact that some 13 states fall between 0 and 5% TANF privatized, with another 16 states falling between 5 and 10% privatized. In response, I include a state dummy variable to directly account for Mississippi in the regression analysis.

According to Breaux, Duncan, and Keller (2002), two forces dually contributed to Mississippi's disproportionate reliance on private welfare delivery, one political and one practical. First, during the 1990s, Republican Governor Daniel Fordice governed as an ardent philosophical conservative,

9 These states include Wisconsin: 43%; Idaho: 43%; New Jersey: 42%; and Pennsylvania: 39%.
10 Mississippi had more than five times the amount of welfare privatization than the average state in 2001 (71/13.5 = 5.26 times more TANF privatized than the average state in the dataset).

championing privatization in government functions and strongly urging the heavily Republican legislature to adopt privatized approaches in the wake of PRWORA. Second, the Mississippi legislature is briefly in session for a maximum of 90 days per year, thus the assembly was reportedly racing against the clock to implement the TANF block grant. "Faced with a tight timeline and an executive interest in privatization, DHS officials concluded that privatization of several TANF components offered the solution" (Breaux, Duncan, & Keller, p. 4).

State-Level TANF Privatization Model:

$$\begin{aligned} \text{y } (\mathit{TANF\ Privatization})_{\boldsymbol{s}} = {} & \beta 0 + \beta 1(\mathit{Population})_{\boldsymbol{s}} + \beta 2(\mathit{Nonprofits})_s \\ & + \beta 3(\mathit{Urbanization})_s + \beta 4(\mathit{Public\ Employ})_{\boldsymbol{s}} \\ & + \beta 5(\mathit{Ideology})_{\boldsymbol{s}} + \beta 6(\mathit{Governor})_s \\ & + \beta 7(\mathit{Fiscal\ Capacity})_{\boldsymbol{s}} + \beta 8(\mathit{Mobilization})_{\mathbf{s}} \\ & + \beta 9(\mathit{Race})_s + \beta 10(\mathit{Mississippi})_s \\ & + \varepsilon \end{aligned}$$

ANALYSIS AND FINDINGS

The fully specified OLS estimation of TANF contracting across the American states for the year 2001 is found in Table 2. The findings suggest that patterns in TANF contracting are significantly related to at least two variables: levels of urbanization and African American caseload levels[11]. Due to having a small number of cases and substantial number of independent variables, I additionally present a reduced model in Table 3, further corroborating the marginally significant relationships observed in the full specification.

One interesting observation in Table 2 is the lack of statistical significance among familiar political and economic variables conventionally thought to be associated with government contracting decisions. The public employee measure is statistically insignificant along with the state ideology and governorship variables[12]. Liberalism among state governments and Democratic control of state governorships does not lessen privatization

11 An alternative model specification dropped Mississippi entirely from the dataset leaving an N of 49 states. The substantive results closely mirror the 50-state dummy variable model presented in Table 2.

12 A measure of public sector union density from the *Monthly Labor Review* was substituted in the model as another measure of public sector influence and was similarly found to lack statistical significance.

TABLE 2 Determinants of TANF Privatization Across the American States, 2001

	Slope	Standard Error	Beta
Population	17.54	(14.66)	.563
Nonprofits	13.70	(16.08)	.391
Urbanization	.356*	(.201)	.340*
Public Employ	−.014	(.006)	−.029
Liberalism	−.019	(.086)	−.007
Governor	−2.89	(4.14)	−.117
Fiscal Capacity	−.134	(.143)	−.189
UC-Turnout	.122	(.094)	.178
Black Caseload	.123*	(.064)	.235*
Mississippi	65.64***	(4.14)	.672***
N	50		
R2	552		
Adjusted *R2*	.436		

Note: OLS slope and standardized beta coefficients are reported, with robust standard errors in parentheses. The dependent variable is measured as the percentage of total state TANF spending awarded to private-sector providers. *$p < .10$.; **$p < .05$; ***$p < .01$.

TABLE 3 Determinants of TANF Privatization Across the American States (Reduced Model), 2001

	Slope	Standard Error	Beta
Population	22.99	(14.66)	.383
Nonprofits	14.80	(12.22)	.338
Urbanization	.373**	(.158)	.361**
UC-Turnout	.102	(.086)	.148
Black Caseload	.131*	(.052)	.268*
Mississippi	68.36***	(8.10)	.685***
N	50		
R2	.486		
Adjusted R2	.414		

Note: OLS slope and standardized beta coefficients are reported, with robust standard errors in parentheses. The dependent variable is measured as the percentage of total state TANF spending awarded to private-sector providers. *$p < .10$.; **$p < .05$; ***$p < .01$.

efforts, just as conservatism and Republican governorships do not significantly increase privatization efforts. This could be highlighting the pragmatic nature of welfare privatization as an all-purpose administrative strategy, embraced by both relatively liberal and conservative governments alike. Previous research has failed to uncover any consistent ideological link to administrative contracting decisions, and researchers such as Price and Riccucci (2005) have documented a counterintuitive *positive* association between liberalism and administrative privatization of prison maintenance. The evidence here supports the notion that "current reform efforts have taken on pragmatic dimensions at the state and local level" (Sanger, 2003,

p. 17), and that the politics of TANF privatization seemingly extend beyond conventional left-right ideological divisions.

Along with minimal political effects, fiscal concerns also do not appear to significantly influence privatization decisions in 2001. The fiscal capacity coefficient is negative indicating that fiscally stressed states have greater proclivity toward privatization but fails to achieve statistical significance. If economic constraints do influence welfare privatization, they may be playing out through the state of Mississippi without exhibiting a more general pattern across states. Mississippi scores lowest on the fiscal capacity scale and is found to have the greatest privatization effort, but with the state accounted for in the regression estimation, there is not an apparent fiscal connection more broadly. In short, political and fiscal considerations are not found to meaningfully shape TANF state-level contracting patterns in this study. Due to the relatively high number of explanatory variables in a single-year 50-state analysis, I present a reduced model found in Table 3 that drops statistically insignificant political and economic variables including fiscal capacity, government ideology, and public employee strength.

Turning attention to the statistically significant independent variables in Table 3, TANF privatization is found to be associated with urbanized environments. Indeed, the strongly significant beta coefficient ($p < .028$) in Table 3 suggests that urbanization was the single best predictor of TANF privatization across the American states in 2001 ($\beta = .361$). Admittedly, the urbanization variable is likely capturing much more than the competitive presence of service provider networks. It is unclear that state officials are responding to the presence of multiple providers specifically, or rather responding to a mix of other underlying factors in more urbanized states. One likely explanation for a significant urbanization connection is that states with geographically concentrated urban populations responded to PRWORA directives with increased ability to administer workfare services among spatially concentrated demand. AFDC (Aid to Families with Dependent Children) entitlement offices were transformed into employment centers and one practical way of briskly ramping up social service capacity and functional diversity involves contracting with the private sector actors (Brudney et al., 2005; Savas, 1999).

Moreover, established social service organizations likely have magnified presence in urbanized settings, catering to social ills and more lucrative per-unit welfare pools. In short, a confluence of factors related to needs, networks, competition, and capacity potentially explains the strong urbanization connection to welfare privatization efforts. The bulk of state privatization funds were indeed allocated to charitable nonprofit organizations in 2001 (GAO, 2002), and there exists a robust correlation between urbanization and nonprofit presence (see Appendix B), yet the *log of nonprofits* variable was found to be statistically insignificant in Tables 2 and 3, suggesting that any effect of nonprofit presence possibly works through urbanization levels first and foremost.

Next, African American welfare demand is also found to motivate TANF privatization. The more modest beta coefficient of .268 achieves a marginal level of statistical significance ($p < .057$) suggesting that racial considerations have less influence on privatization decisions than levels of urbanization, yet even after controlling for the heavily minority state of Mississippi and removing Washington, DC, entirely, an independent and significant racial association does remain. Put another way, the observed coefficients in Tables 2 and 3 are likely conservative estimates of racial association with TANF privatization since two prominent cases favorable to racialization dynamics are controlled for or removed entirely from the analysis. Just as minority presence can influence TANF policy adoptions (Fellowes & Rowe, 2004; Soss et al., 2001), racial effects can seemingly extend to TANF administrative structuring.

A marginally significant statistical association exists, but it is unclear exactly why privatization efforts are pursued more extensively among heavily African American contexts. Policy makers in states with disproportionate African American welfare demand could be pursing privatization, especially with charitable nonprofits, in a good-faith effort to optimize street-level workfare functioning and ultimately the employment outcomes of historically disadvantaged black clientele. African Americans contend with structural employment challenges, thus, in the pursuit of administrative innovation and policy responsiveness, states with sizable African American poor populations could be apt to embrace private sector solutions for the potential betterment of economic health in African American communities. State officials might be compelled to undertake a comprehensive administrative strategy, including third-party contracting arrangements, to address the particularly complex needs and economic challenges of African American clients.

Considering the long-documented unsympathetic racial connection to the American welfare state, this evidence could contrarily suggest that state officials are motivated by desire to shed direct governmental responsibility and remove public accountability for minority welfare recipients that are inextricably linked to welfare by unflattering undertones of "dependency" and "laziness" in the minds of citizens and policy makers (Gilens, 1999; Schneider & Ingram, 1993). When minority clients are constructed as shiftless and irresponsibly dependent, there might be less interest in public solutions and equity principles that undergird government involvement. The decision to privatize welfare services could be related more to easy handling of minority clientele as opposed to any focused effort to optimize service quality or eliminate employment barriers among the disadvantaged. Future research will have to probe the specific causal pathways through which urbanization and minority welfare demand impact welfare privatization. Figure 1 displays the predicted values of TANF privatization across varying levels of urbanization and African American welfare demand.

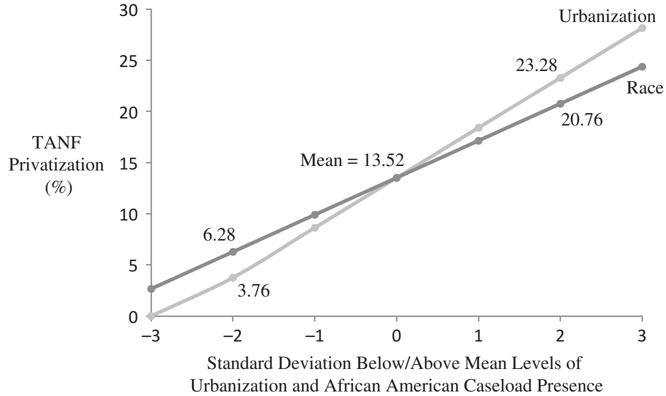

FIGURE 1 Predicted change in TANF privatization percentage across levels of urbanization and African American caseload levels.

Note: Predicted values of TANF privatization were calculated from the standardized beta coefficients for urbanization and African American welfare demand in Table 3. For instance, the .361 urbanization coefficient means that every standard deviation change in urbanization predicts a .361 standard deviation unit change in TANF privatization. Thus, moving two standard deviations above the mean urbanization level predicts a TANF privatization percentage of 23.28%. Moving two standard deviations below the mean urbanization level predicts a TANF privatization level of 3.76%.

Three of the top four privatizing states—Wisconsin, New Jersey, and Pennsylvania—are disproportionately urban with above average minority welfare demand. Washington, DC, is a highly privatized jurisdiction and follows a similar pattern albeit formally removed from the regression analysis. Admittedly, there are outlier states with heightened TANF privatization levels that exhibit below average urbanization and African American caseload levels, most notably Idaho and Vermont. While these two states do not conform to broader privatization patterns, there might be plausible alternative case-specific explanations for the observed levels of welfare privatization.

First, Vermont has a particularly robust nonprofit presence for a rural state, the second highest number of nonprofits per capita in America in 2001, and that could potentially make privatization, especially with nonprofits more attractive. Indeed, 100 percent of Vermont's privatized contracts in 2001 were awarded to nonprofit organizations, shunning profit-seekers entirely (GAO, 2002). The disproportionately high level of nonprofit activity might partially explain the high level of TANF contracting in Vermont. Second, Idaho's high level of privatization might be driven by unique political considerations, similar to the forces shaping privatization in Mississippi. The governor of Idaho in 2001, Dirk Kempthorne, arguably governed as an ardent economic conservative, advocating for the wholesale privatization of government services from educational facilities, to welfare offices and prison management. Moreover, the Idaho legislature is in session for a maximum of 90 calendar days and were therefore possibly seeking alternative, third-party provider networks to briskly implement the TANF block grant. This blend of ideological and institutional factors might be driving Idaho's relatively high privatization level. Gubernatorial partisanship and government ideology are insignificant predictors of TANF privatization in the OLS estimations, but in a few cases, it appears crusading ideological governors were successful in pursuing neoliberal approaches to welfare administration.

CONCLUSION

Studies examining the magnitude of privatized administrative contracting are numerous; however, most center on hard services such as refuse collection, and few incorporate quantitative analyses across a larger number of cases. With privatization increasing in the social welfare arena it is imperative that policy researchers begin explicating the patterns of TANF contracting decisions occurring across the American states. This study finds that the generic magnitude of TANF privatization is significantly related to state urbanization and African American welfare demand, with Mississippi and Washington, DC, displaying exceptionally high levels of TANF privatization.

Future research should center on collecting more extensive TANF contracting data. The GAO data examined in this article was collected a decade ago and currently represent the only systematic privatization figures available across states. TANF contracting data is not readily available across space nor time and longitudinal collection will require substantial exertion and resources, but those efforts will provide needed insight into the determinants of TANF contracting arrangements in the states. In order to garner the privatization data used in this study, the GAO distributed nationwide surveys to administrative heads and made hundreds of site visits across the country, requesting and verifying contracting information (GAO, 2002). It will take another intensive nationwide effort to procure more recent TANF contracting data.

The effort could be worth the scientific payoff. TANF contracting is undoubtedly a dynamic process that changes over time and should be modeled as such. Taking a single-year snapshot simply does not allow for deep empirical insight into longitudinal patterns and specific causal pathways. Moreover, Congress has reauthorized TANF on several occasions, including the Deficit Reduction Act of 2005, which tightened TANF client work categories and increased state participation rates, and the implementation of cash assistance programs remains highly decentralized. The delivery of cash assistance programs is arguably increasing in importance with the latest economic downturn experienced in late 2008 and early 2009, resulting in increased unemployment and poverty levels. Indeed, the American Recovery and Reinvestment Act signed by President Obama in 2009 increased grant funding for TANF services meaning that state and local officials are making important administrative decisions about welfare functioning. It behooves social policy researchers to examine how the magnitude of TANF privatization is evolving and operating in the face of economic hardship.

Beyond the generic magnitude of privatization, researchers should also begin examining the privatization of particular welfare functions related to eligibility determination, case management, community outreach, and data management. Examining total magnitude obscures important variation in TANF functioning that hinders a richer understanding of implementation arrangements. For instance, we might discover that privatization of case management and community outreach activities lend themselves to non-profit arrangements, while contracting with for-profits makes more functional sense in areas like data management. It is not clear that disaggregated TANF privatization data currently exists in any readily collectable form, but garnering a better understanding of privatization arrangements across various functional areas will enrich our understanding of welfare contracting and program outcomes.

Future research should additionally begin examining variation in privatization *within* states where mixes of public and private networks oftentimes administer welfare programs. Second-order devolution potentially extends policy and administrative authority downward to counties and local governments (Gainsborough, 2003; Kim & Fording, 2010), and these jurisdictions potentially control contracting authority, resulting in meaningful variation in service arrangements at the county or local level. Examining patterns of TANF privatization at the state level is an appropriate initial methodological strategy, but these efforts should be complimented by studies that examine contracting patterns within states. Currently available data is limited at the local level, but increasing our knowledge of intrastate variation will do much to improve our understanding of welfare contracting patterns more generally.

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APPENDIX A

TABLE A1 Data and Measures

Variables	Definition (Sources)	Mean	S.D.	Min-Max
Privatization	Total value of TANF contracts to private service providers as % of total TANF spending. (GAO, 2002)	15.16	16.31	0–74
Population	Log (base 10) of state population. (U. S. Census Bureau, 2001)	6.15	2.27	5.69–7.54
Nonprofits	Log (base 10) of number of organizations filing a 990 Form with the IRS. (National Center for Charitable Statistics, 2001)	3.82	0.39	3.15–4.73
Urbanization	% of state's population that resides within a Metropolitan Statistical Area. (U.S. Census Bureau, 2001)	72.25	15.27	38.2–94.4
Public Employ	State government's full-time equivalent (FTE) employment per 10,000 population. (Statistical Abstract of the United States, 2001)	558.62	68.06	420–806
Ideology	Government liberalism (Berry et al., 1998)	44.45	27.06	5.38–97.5
Governor	Party identification of the state governorship, coded 1 if Democratic Governor and 0 if otherwise. (Statistical Abstract of United States, 2001)	0.38	0.49	0–1
Capacity	Fiscal capacity index (Yilmaz et al., 2007)	101.96	20.56	54–149
UC-Turnout	% of the upper-class that voted divided by the percentage of lower-class that voted. (Avery & Peffley, 2005)	172.23	20.04	129.09–216.87
Black Caseload	% of state TANF families headed by African Americans. (DHHS TANF Characteristics and Financial Circumstances, 2001)	34.57	27.12	0.3–783.8

APPENDIX B

TABLE B1 Correlations

Variables	1	2	3	4	5	6	7	8	9	10
1. TANF Privatization	1.00									
2. Population (log)	.08	1.00								
3. Nonprofits (log)	.14	.45	1.00							
4. Urbanization	.28	.42	.44	1.00						
5. Black Caseload	.33	.53	.45	.31	1.00					
6. UC-Mobilization	.04	.11	.11	.10	−.22	1.00				
7. Fiscal Capacity	−.32	−.22	.06	.11	−.34	−.24	1.00			
8. Governor	−.06	−.06	−.22	−.22	.11	−.25	.06	1.00		
9. Ideology	.02	.05	.01	.02	.15	−.05	−.04	.60	1.00	
10. Public Employ	−.04	−.34	−.16	−.27	−.15	.06	−.08	.08	−.07	1.00