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Privatization and Employment in the Implementation of Temporary Assistance for Needy Families (TANF): A Multi-Level Analysis

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Introduction

A growing literature in public administration and governance examines the effect of organizational form and administrative ownership on policy outcomes and bureaucratic performance, namely the impact of "privatization" in public service provision. At its core, privatization involves the utilization of market forces to operate in formerly public-based industries and public services (GAO, 1997; Winston, 2002; and Kemp, 2007), and has in recent decades garnered attention among governments both internationally and in the United States as a tool of administrative governance (Hodge, 2000 and Salamon and Lund, 1989).

In the context of American policy implementation, privatization refers most often to the "contracting-out" of publicly funded administrative activities to private, for-profit and non-profit, "third-party" vendors. These private sector entities then perform the functions of traditional government agencies at the street-level, delivering public goods directly to citizens. In other words, private organizations perform the day-to-day administration of government-sponsored activities from refuse collection to prison maintenance and human support services (Hodge, 2000).

While concepts and application of privatization may vary, the basic thrust of privatization research remains very similar, linking market forces to *performance*, or system *outputs* (Winston, 2002). The lure of free-market gains has led countries with transitional economies to privatize state-owned enterprises, such as the agriculture and textile industries in China, with the hopes of improving economic productivity and performance at the system-level, increasing production yields or gross domestic product (Li and Rozelle, 2000). In America, which already has an established liberal economic system, privatization is manifested in private entities undertaking the administrative responsibilities of public policy *implementation*, with the expectation of improving bureaucratic service quality and reducing operating costs at the street-level (Kemp, 2007; Brudney, 2005; Winston, 2002; Boyne, 1998; and Savas 1988)[1].

Although privatization is achieving heightened popularity as a means to deliver public services, the implications of privatization for bureaucratic functioning, especially in the social policy arena, remain unknown and strikingly understudied. One school of thought argues that privatizing human support services, such as employment training or public assistance programs, will open up competition and choice among alternative providers, producing superior outcomes for program clients (Savas, 1998). Another line of reasoning asserts that social service provision is rife with ambiguity, complexity, and market failure, and hence privatized entities will be unable to deliver human support services more effectively and equitably than government agencies (Heinrich, 2001 and Hodge, 2000).

This research endeavors an original examination of privatization and redistributive social welfare policy in America. An era of welfare reform culminated in 1996 with passage of the Personal Responsibility Work Opportunity Reconciliation Act (PRWORA), resulting in public assistance programs that center on employing welfare recipients rather than simply distributing cash assistance (Soss, 2001). This shift in bureaucratic functioning associated with welfare-to-work means that welfare offices are now required to serve prospective employees, meaning that administrative success is measured in terms of their ability to move welfare clients into the labor force. It is of

[1] The term "street-level" was coined most famously by Lipsky (1980) and refers to *operations* taking place on the front-lines of public service provision (i.e., garbage collection, mail delivery, medical care, and employment assistance), the *actors* or stakeholders undertaking/receiving service provision (organizational management, employees, and clients being served), and the local *environment* in which they function.

interest to Federal employment agencies alongside state and local policymakers to better understand the efficacy of these administrative arrangements in producing employment and earnings for low-income individuals and families.

Traditional models of social policy implementation are being replaced with decentralized and contractually privatized methods of service delivery. Yet, the determinants of welfare contracting across jurisdictions and the implications for the employment outcomes of low-income welfare recipients remain an empirical mystery in need of exploration.

Three empirical questions set the stage for this research:

1. What are the antecedents of welfare contracting across the American states? Why are states more or less inclined to privatize welfare services?
2. How does variation in administrative ownership influence the program outcomes of welfare clients? Are welfare clients served under private providers working more often and earning more income?
3. Is privatized welfare provision being administered equitably across different clientele groupings?

Opportunities, Motivations, and Welfare Contracting

Both the flexibility and restrictiveness of PRWORA legislation has increased the administrative role of the private sector in delivering welfare services. In short, states have the freedom to uniquely administer PRWORA's lead public assistance program, Temporary Assistance to Needy Families (TANF), but also face restrictive Federal performance directives that make privatization an ever-appealing option (Sanger, 2003).

The impetus for welfare privatization on one hand stems from the inherent flexibility of PRWORA legislation, which gives states the ability to pursue unique bureaucratic approaches outside of the public arena. TANF eases important restrictions in terms of case management, granting private entities the authority to determine program eligibility and compliance; functions that were once strictly under public control (Sanger, 2003; Winston, 2002). For the first time, states have the ability to contract-out entire welfare offices to private entities that administer the program from start (eligibility) to finish (case closure). While TANF provides an opportunity for states and localities to increase the role of private organizations in welfare administration, it by no means guarantees this outcome. TANF also generates motivations for states to pursue alternative methods of delivery.

Welfare devolution and sub-national autonomy was accompanied by a set of rigid Federal performance standards mandating work requirements for TANF clients and general caseload reduction. States and localities have broad latitude in adopting and administering TANF policies; however, federal block-grant financing is contingent upon *performance* in moving welfare recipients into the workforce[2]. TANF mandates that after 24 months in the program, welfare clients must participate in employment activities for a minimum of 30 hours per week in exchange for monetary support. Furthermore, recipients can only receive cash assistance for a total of 60 months under federal time-limit restrictions (Soss, 2001). TANF is meant to provide temporary cash assistance in route to full employment and self-sufficiency.

This type of intense client-case manager interaction (i.e. servicing potential employment candidates) was foreign to many public welfare agencies, which had minimal experience turning welfare recipients into successful employees. In turn, states have responded to the national dictum of employment assistance and caseload reduction

[2] TANF abolished the federal "entitlement" to welfare financing, characterized by an open-ended matching-fund system in which the government would subsidize state welfare operations by matching state contributions nearly dollar for dollar. The new financing regime is based on "block grants" that afford the states a *fixed amount* of TANF dollars to spend on welfare administration, meaning that states now bear the full economic brunt of any welfare servicing costs exceeding the block-grant allotment.

by experimenting with fresh bureaucratic approaches, creating an increased role for private entities in the delivery of TANF services (Sanger, 2003; Winston, 2002).

Given the opportunities and motivations to privatize welfare services, states have indeed heeded the call. As of 2001, every state but South Dakota has instituted some form of TANF privatization, often contracting substantial portions of their TANF dollars with private, for-profit and non-profit, service providers (GAO, 2003). Unfortunately, the popularity of privatized social services has not attracted commensurate scholarly attention, and the discipline still lacks definitive answers about both the origins and effectiveness of welfare contracting. The first section of this report briefly explores patterns in welfare contracting across states. The second section examines the quality of TANF program outcomes across various welfare service providers within the state of Florida.

Exploring the Determinants of Welfare Contracting

PRWORA affords private entities unprecedented authority to determine program eligibility and manage the daily operations of welfare offices; however, it is state and local officials that ultimately choose to direct administrative authority to private vendors or not. The budding embrace of privatization in welfare implementation across states is evident, but the factors that explain the presence or absence of privatization across states and localities remain largely unknown. Through shifting to a system of *potentially* privatized service delivery, federal legislation grants policy researchers an exclusive opportunity to explore the patterns in privatized contracting occurring across sub-national jurisdictions. We know that state and local governments are establishing privatized administrative arrangements, but we know little about how these arrangements are formed and the ultimate ramifications for bureaucratic functioning and performance. This paper expands the contracting literature through undertaking an initial exploration into the potential determinants of welfare privatization across the American states.

An abundant literature investigates the predictors of state and local contracting decisions and with good reason. Prior to any bureaucratic arrangement impacting administrative functioning and program outputs, the decision to "make or buy" service provision must be undertaken by government actors. Because of the recent dramatic changes in welfare policy rules and administrative structuring taking place across the American landscape, it is imperative that the discipline begin to unlock the puzzles as to why governments are instituting specific bureaucratic arrangements under TANF. While scholars have conducted studies of contracting across multiple policy areas (Bel and Fageda, 2007; Brudney, 2005; Price and Riccucci, 2005; Boyne, 1998; and Ferris, 1986), this research represents the first systematic exploration of the potential factors that influence patterns in welfare contracting across the American states.

Dependent Variables

Three separate dependent variables capturing variation in TANF privatization are utilized in cross-sectional analyses at the state-level. All measures originate from the U.S. General Accounting Office (GAO) and are regrettably available for only one point in time, the year 2001 (GAO, 2002), thus this research is limited to "static" Ordinary Least Squares (OLS) regression analysis[3].

[3] OLS regression is a popular statistical technique used to uncover linear quantitative relationships through estimating unknown parameters that express how much a dependent variable changes (and in what direction) with a one-unit movement in an independent variable. These estimated parameters

The first dependent variable represents a state's general proclivity toward privatizing TANF administration, and is measured as the *total-value of privatized TANF contracts as a percentage of total TANF spending (TVPrivate)*[4]. This measure serves as the primary dependent variable of interest, representing a state's fiscal effort directed toward privatized TANF contracting. Univariate statistics illustrate that Washington DC and Mississippi contracted the greatest proportion of TANF funds to private entities (74 and 71 percent, respectively), while South Dakota chose to retain pure public administration. The average state in 2001 had 15.16 percent of their total TANF dollars contracted-out to private providers with a standard deviation of 16.31 percent, indicating the large amount of variability present in the *TVPrivate* measure[5].

The same study by the GAO additionally published the *percentage of privatized TANF funds devoted to both non-profit and for-profit organizations*, also for the year 2001. These measures represent the next stage of the contracting decision when jurisdictions choose the particular types of private organizations that will deliver services. The data shows that states overwhelmingly preferred to contract services with *non-profit* providers. On average, states devoted approximately three-fourths (74.45 percent) of privatized funds toward non-profit organizations, leaving the average state with just 25.55 percent of privatized funds afforded to for-profit firms. These measures

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known as "beta coefficients" tell researchers whether or not relationships are statistically significant (i.e., effects distinguishable from zero), and tell researchers the unit change in the dependent variable for a one-unit shift in an explanatory variable. In the multivariate regression analysis found here, the beta coefficients represent the unit change in the dependent variable for a one-unit change in an independent variable, "controlling for" or holding all other independent variables constant.

[4] The "total TANF spending" denominator in this measure includes both Federal block grant dollars and state "maintenance of effort" (MOE) funds.

[5] Washington DC is excluded from the statistical analysis because it lacks values for several of the independent variables that are only measured for the 50 states.

(*NonProfit* and *ForProfit*) will allow us to understand not only why states contract-out generally, but also why they tend to favor certain organizational ownership.

Independent Variables

What factors might potentially explain variation in TANF contracting patterns across states? Why are states more or less likely to direct TANF funds to private firms? The antecedents of TANF contracting across states are borrowed largely from research by Boyne (1998) and Brudney (2005) and include four sets of explanatory variables. Also included are two supplementary hypotheses that are germane to welfare politics specifically and may further explain why states are more or less likely to contract-out TANF dollars. All premises are discussed further below.

Service Supply and Marketplace Competition

According to public choice theory, it is not organizational form necessarily, but rather marketplace *competition* in service supply that yields performance gains. In turn, when state agencies are deciding how much of their TANF dollars to contract-out, they should have the competitive environment in mind and will likely only privatize substantial amounts of resources when sufficient competition among rival providers exists (Brudney, 2005). When private entities compete amongst each other for government contracts, program costs are more likely to be reduced and quality more likely to improve, and thus privatization should be a more appealing option in “make or buy” decisions. Utilizing proxies from past research (see Brudney, 2005), the log of *total number of service business* establishments and the *log of total population* in a state are hypothesized to be positively related to TANF contracting[6].

H1: States with larger populations and greater numbers of service establishments will contract-out a greater proportion of TANF funds to private entities.

Public Employee Strength

A second set of variables that may explain variation in TANF contracting is endorsed by both Boyne (1998) and Brudney (2005), and relates to the strength of public employees in terms of labor rights and union representation. The Federal Association of State and Local Municipal Employees has deplored privatization efforts perceiving the movement to privatize public services as a threat to their occupational well-being. Public unions argue that private entities in welfare implementation will simply "profit off the poor" rather than bring improved quality and bureaucratic efficiency (Berkowitz, 2001 and Brophy-Baermann, 2006). States with a stronger base of public employees should encounter heightened resistance to privatization, and thus the strength of public employees should be negatively associated with TANF contracting.

For the sake of parsimony in a 50-state analysis, this paper employs one consistent measure of public employee strength found in past research, the *ratio of government employees to total state population*. Although this measure does not tap into the power of public unions directly, researchers argue that it is a valid indicator of the relative strength of public employees to oppose privatization efforts. Furthermore, a

[6] Log of state population is admittedly not an ideal proxy for marketplace competition. This variable more than likely is capturing several different indicators beyond the presence of multiple providers, such as levels of urbanism, social service demand, and propensity for policy innovation. It is oftentimes included in studies of administrative contracting and for exploratory purposes is included in the analysis presented here.

consistent negative association between public-employee ratio measures and administrative contracting is found in the literature, while union-based measures have decidedly mixed effects (Boyne, 1998 and Brudney, 2005). Thus, this research hypothesizes that a *state government's full-time equivalent (FTE) employment per 10,000 population* will be negatively related to TANF contracting.

H2: Public employee strength will be negatively related to TANF contracting. States with a higher percentage of full-time government employees will contract-out fewer TANF funds to private entities.

Political and Ideological Factors

A consistent theme in the research on contracting decisions involve political and ideological factors that can enhance or impede privatization efforts. The trend toward privatization in public service provision in recent decades has been ignited by conservative elites with stalwarts championing the involvement of the private sector in public affairs and policy implementation. Although many liberal Democratic elites eagerly signed onto PROWRA in 1996, others on the left remained openly skeptical of the reform measures, arguing that effective service provision for the impoverished can only be achieved through direct and sustained government involvement. For instance, one New York Senator claimed that imposing time limits on welfare benefits and removing public responsibility for the poor represented "the most brutal act of social policy since Reconstruction", and that these approaches would "invite an urban crisis unlike anything we have known since the 1960s" (Rector, 2006).

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 that undergird administrative privatization, while liberal ideology tends to focus on equity and accountability in provision that is more readily achieved with government involvement. This research hypothesizes that the ideological liberalism of state governments (measures provided from Berry, et. al., 1998) will be negatively related to the percentage of TANF funds directed at private service providers[7].

H3: The liberalism of state governments will be negatively related to TANF contracting. More liberal states will contract-out fewer TANF funds to private entities than relatively conservative states.

Fiscal Conditions

The final set of antecedents informed by past research center on the fiscal conditions of states that can provide motivation to privatize social services and free-up state resources (Kodrzycki, 1998 and Brudney, 2005). These scholars succinctly point out that fiscal pressure on governments (and the motivation to assuage such pressures) comes from two-sides of the ledger. On the one hand, states require *revenues* to run government-sponsored operations, while on the other hand, they must deal with citizen *demand* for services.

States with a greater capacity to raise tax revenues will feel less fiscal strain than those states with a reduced capacity and will not have the same pressure to pursue innovative cost-cutting measures such as privatization in TANF implementation. When

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[7] 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 policymakers). 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.

state governments have a reduced capacity to generate tax revenue, they are motivated to hunt for bureaucratic efficiency and privatization is one probable solution to doing "more with less" (Brudney, 2005 and Greene, 1996). This research employs a measure of *fiscal capacity* developed by Yilmaz et al. (2007) that combines a state's revenue capacity with its need for outlaying public expenditures. States with stronger fiscal capacity have an expansive tax revenue base and score higher on the index, whereas states with weaker fiscal capacity generally have a small revenue base and more often need to expend resources, and score lower on the capacity index[8].

H4: Fiscal capacity will be negatively related to TANF contracting.

On the opposite side of the fiscal coin, states handle state citizenries that *demand* public services and have the potential to drain state fiscal resources. When states must craft and implement social policy in the face of heightened needs or demand for public services, levels of fiscal stress rise as states exhaust resources and expenditure. In the TANF context more specifically, the financing structure shifted to block grants awarding states a "fixed-amount" of welfare funds and mandated that states put up "maintenance of effort" (MOE) funds that reflected previous welfare effort. In short, the generous matching entitlement found under Aid to Families with Dependent Children (AFDC) has been replaced by a system that potentially adds fiscal stress on state budgets, as states must now bear the financial brunt of any services that extend beyond the fixed block grant.

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[8] The Yilmaz et al. fiscal capacity measure includes several indicators of tax revenue capacity or the ability to raise revenues (tax capacity, tax effort, etc.) and relates those indicators to a state's need for expenditures. Higher values indicate stronger fiscal capacity. See Yilmaz et al. (2007) for more details.

Thus, states with a greater level of need or demand for cash assistance should be more likely to contract-out services, exploring innovative and efficient ways of serving program clients. States with lower levels of social service demand should feel less fiscal pressure and less desire to seek third-party administration. Although the Yilmaz et al. fiscal capacity measure does encompass program demand to a certain degree, this study also includes straightforward measures of social service demand. In the welfare policy literature, two measures routinely capture service demand. These include the state *poverty rate* and *ratio of welfare recipients to total population*, both of which should be positively associated with TANF privatization.

H5: Program demand will be positively related to TANF contracting. States with higher poverty rates and higher ratios of TANF recipients will contract-out a greater proportion of TANF funds to private entities.

Racial Politics

A long history in political science research documents the negative connection of African Americans to the welfare state. Negative stereotypes of African Americans as "lazy" and "undeserving" have been found to incite restrictive welfare spending preferences among White Americans (Gilens, 1999). Research in state policy adoptions has consistently shown that a greater presence of African Americans leads to diminutive monetary benefits and punitive program rules (Key, 1949; Hero, 1999; Soss et al., 2001; and Fellows and Rowe, 2004). These racial considerations can be extended to TANF administration in that states with more minorities should be interested in shedding direct public responsibility for the "marginalized" or "hard-to-serve" poor away from government and embrace third-party solutions.

H6: The percentage of a state's TANF rolls comprised of African Americans will be positively related to TANF contracting.

Lower-Class Mobilization

Research in state welfare policy has consistently found that when lower-class citizens are mobilized and participate actively at the ballot box, they are rewarded with generous cash benefit levels and eased program requirements (Avery and Peffley, 2005 and Hill, Leighley, and Hinton-Andersson, 1995). Interest groups representing poor individuals such as the Welfare Information Network have published several works documenting the potential pitfalls of "profiteering off of the poor", arguing that firms will decrease client attention and service quality to maximize profits (Yates, 1998). When individuals with depressed socioeconomic status are mobilized, participating in legislative advocacy and in the voting booth, it is in the electoral interest of policymakers to react with policy "responsiveness", favoring a greater role for governmental implementation over privatized approaches (Avery and Peffley, 2005 and Hill, Leighley, and Hinton-Andersson, 1995). This research hypothesizes that lower-class mobilization at the ballot box in a state is negatively related to TANF privatization.

H7: Voter turnout among lower-class citizens vis-à-vis upper-class voters will be negatively related to the proportion of TANF funds allocated to private service providers

State-Level Privatization Model:

$$У(Privatization)_s = \beta 0 + \beta 1(Competition/Size)_s + \beta 2(PubEmployee)_s + \beta 3(Ideology)_s + \beta 4(Capacity)_s + \beta 5(Demand)_s + \beta 6(Race)_s + \beta 7(Mobilization)_s$$

s = state

Analysis and Findings

The estimations of TANF contracting across the American states are found in Table 1. From the results in the baseline *TVPrivate* model, it appears that patterns in TANF contracting are determined by at least four primary sets of factors: state size, fiscal capacity, minority caseloads, and low-income mobilization. The *TVPrivate* model accounts for a modest 31 percent of the variation in privatized TANF spending ($R^2 = .306$), but several variables are statistically significant in expected ways as predicted by theory[9].

An interesting initial observation of the results in Table 1 is the lack of significance among several familiar variables thought to be associated with contracting decisions. The strength of public employee measure is insignificant in every model. Every measure of social service demand, including the state TANF caseload-to-population ratio and poverty rate, is insignificant, along with the state ideology variable. Liberalism among state governments does not yield fewer TANF contracts just as conservatism does not increase privatization, most likely highlighting the pragmatic nature of privatization as a universally accepted, all-purpose administrative strategy, embraced by both liberal and conservative governments alike. Previous research has failed to uncover any consistent ideological link to privatization, and scholars such as Price and Riccucci (2005) have documented a *positive* association between liberalism and administrative contracting. The politics of TANF privatization seemingly extend beyond conventional left-right ideological divisions.

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[9] None of the independent variables were statistically significant in either the ForProfit or NonProfit models. This is most likely because the state-level data is highly skewed toward non-profit contracting (essentially 75% of TANF dollars went to non-profits so there is little variation to explain in the models).

Table 1. Determinants of TANF Contracting Across the American States, 2001		
IVs	***TVPrivate***	***S.E.***
Competition		
Log-Pop	**.447***	*(.262)*
Log-Bus	**1.25**	*(2.21)*
PubEmploy		
FTE PerCap	**-.023**	*(.049)*
Ideology		
GovtID	**.067**	*(.109)*
Capacity		
FiscalCap	**-.523****	*(.228)*
Demand		
CasePop	**.858**	*(.768)*
Poverty	**-2.27**	*(1.77)*
Mobilization		
UC-Turnout	**.192***	*(.103)*
Minority		
AA-Caseload	**.331***	*(.168)*
N	50	
R^2	.306	
Note: OLS coefficients in bold, with robust standard errors clustered by states in parentheses. **p<.05; *p<.10.		

As predicted by theory, TANF contracting is more prevalent in more populous, presumably more competitive states, where numerous rival contractors set the necessary conditions for successful ventures into the private sector. As seen in Table 1, increasing by one unit on the log-population scale increases the proportion of TANF funds devoted to private entities by approximately 0.45 percent (.447, $p < .10$). Admittedly, the population variable may be capturing much more than the presence of multiple potential service providers. More populous states also tend to be more urbanized and innovative, and possess the resources to draft professional contracts and monitor the activities of private entities, thus public accountability can be maintained without the government administering services in-house (Brudney, 2005). Because the arguably more valid measure of marketplace competition (the log of service business establishments) was insignificant, it is unclear that policymakers are responding to the presence of multiple providers specifically, or rather responding to other underlying factors present in more populous states.

Interestingly, states with higher percentages of African Americans on the welfare rolls are also more likely to contract out TANF services to private organizations (.331, $p < .05$). Considering the well-documented racial connection to the American welfare state, this could very well be evidence that state governments are attempting to shed direct public responsibility and accountability for this historically disadvantaged group. Once again the substantive impact is arguably trivial as a one percentage point increase in the African American TANF caseload increases privatized TANF spending by .33 percent, but the variable achieves a high level of statistical significance and should not be overlooked in future research of social service contracting. Consistent with the broader welfare policy literature, race additionally appears to be a determining factor in TANF contracting decisions[10].

On the other hand, states are seemingly *less* likely to privatize TANF funds when they have strong fiscal capacity. As hypothesized, the OLS beta coefficient is negative indicating that states with higher values on the *Capacity* variable are less likely to contract TANF funds with private providers. Another way to interpret the *Capacity* variable is that states with weaker fiscal capacity are more apt to privatize TANF services. Since privatization is largely perceived to be an effective approach to

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[10] The contracting models included controls for *urbanism* (percentage of the population that lives in an urban area) and *region* (South, or Non-South) that could potentially explain away the racial connection to TANF contracting. These two variables were insignificant to the estimations and did not meaningfully change the racial caseload coefficient.

achieving bureaucratic efficiency or doing “more with less”, states with a weakened capacity to collect tax revenue and fund human support programs are more likely to utilize the private sector in their administrative operations (-.523, $p < .10$). Through contracting government services to the private sector, policymakers in low-capacity states can continue to maintain an adequate level of public goods, satisfying constituent desires for services while simultaneously reducing the daily administrative responsibilities of the government.

An opposing point of view argues that privatization should accompany fiscal capacity because policymakers will respond to public employee demands for continued employment when public budgets are stressed (see Pallesen, 2005). Although there is some empirical support for the notion of *increased* contracting with fiscal capacity, an inverse relationship between capacity and TANF contracting exists for several potential reasons. TANF services represent a relatively small portion of state budgets and the influence of established public welfare bureaucracies have arguably been weakened by social service retrenchment associated with conservative reforms such as the Workforce Investment Act (WIA), Job Training and Partnership Act (JTPA), and PRWORA. Additionally, most Americans hold unfavorable views toward government-sponsored public assistance programs, thus when policymakers confront fiscal constraint they may be more likely to remove direct government involvement in these activities, embracing private sector solutions to welfare administration.

Lastly, although there is little evidence in this analysis to suggest that state governments respond to tangible program demand in the form of higher welfare caseloads or deepening poverty conditions when contracting TANF dollars, there is some evidence that policymakers are responsive to electoral pressures from low-income voters. When upper-income voters turnout at a greater rate at the polls vis-à-vis lower income earners, fewer TANF funds are directed at private firms (.192, $p < .10$)[11]. Put another way, there is an upper-class participatory bias in favor of privatization in that higher turnout rates among wealthier voters is associated with increased contracting and privatization of government social services; whereas, when poor populations are mobilized electorally, they are awarded with increased public control over welfare services. Just as mobilized interest groups can impact TANF policy adoptions (Avery and Peffley 2003), their influence also extends to administrative structuring in the modern welfare state.

Exploring patterns in TANF contracting is an appropriate first step in this research, but the principal concerns of this paper deal with the efficacy of TANF contracting in producing superior program outcomes. If privatization is successful then TANF clients should be participating in work activities to a greater degree and exiting welfare because of employment and earnings. The next section examines the impact of privatization on welfare clients and the outcomes they experience in the TANF program.

[11] The Avery and Peffley mobilization measure is constructed as the percentage of upper-class voters divided by the percentage of lower-class voters multiplied by 100. Higher scores on the mobilization measure indicate greater upper-class turnout vis-à-vis lower class voters. Thus, the positive coefficient for the *Mobilization* variable indicates that upper-class turnout yields *increased* contracting, validating the notion that lower-class mobilization yields fewer TANF contracts consistent with existing theoretical arguments.

Linking Privatization and TANF Outcomes

In the era of entrepreneurial government and welfare reform, policy authority and responsibility of social service implementation has shifted downward to state and local governments, and these governments have openly embraced privatized contracting structures to deliver human support services at the street-level (Winston, 2002). The basic rationale for privatization revolves around familiar microeconomic and public-choice arguments that private markets, opening up competition and choice between providers and consumers, increases service quality and reduce costs of service provision[12]. In short, proponents of privatization argue that contracting with third-party vendors boosts *performance* and improves administrative outputs, producing the highest quality or greater quantity of services while expending the fewest resources or inputs[13].

Brief Review of the Literature

Proponents of privatization herald the improved quality and cost efficiency when market forces are introduced into government sponsored activities (Savas, 1988). As appealing as the basic arguments for privatizing public services may be on the surface of pure microeconomic or public-choice theory, the effect of privatization on bureaucratic performance and client outcomes remains an empirical question in need of objective analysis. There is no assurance that privatized organizational forms produce services of higher quality and lower cost, and market theory points to several conditions

[12] Social-choice theory is essentially a microeconomic rational-choice framework applied to government officials, bureaucratic agents, and the mass populace (Pack, 1987). Private firms subjected to rival competitors and client choice will rationally seek improved quality and production at the lowest costs so that the government will continue contracting with these entities. The livelihood of the private agency and its employees is dependent upon its performance and ability to maximize profit.
[13] Brudney (2005) confirms this rationale in his survey of state administrators. The administrators cited reduced costs and improved quality, along with increased flexibility in operations as the primary reasons for pursuing privatized contracting.

that must be present, such as marketplace competition and informed consumer choices, before superior performance will be realized. In turn, scholarship operating under the rubric of "new public management" has begun the analytical task of linking privatization to program outcomes[14].

Scholarly pursuits linking privatization to bureaucratic performance *outside* of the social policy and welfare arena are substantial, but the primarily case-study methodologies are limited and the empirical evidence is decidedly mixed. For instance, Boyne (1998) performs a meta-analysis of several quantitative studies examining privatization and administrative outcomes across various activities such as garbage collection, asphalt lying, and fire and police protection. The evidence reveals that privatized contracting in general reduces the costs of service provision but does not necessarily improve service quality. The analysis warns that cost reduction in privatization may often come at the expense of quality, as underbidding on contracts is eventually felt by a strained labor force on the front lines. Other studies do find that privatization improves quality while at the same time reducing costs in routine maintenance services such as refuse collection and asphalt laying (Bendick, Jr., 1989 and Donahue, 1989), but the limited nature of the quantitative evidence leaves any empirical generalities on shaky ground.

Administrative research in the *social* policy arena is relatively sparse, but a number of studies do support the purported benefits of privatization. For instance, Price (1997) finds that private, for-profit firms are more effective in treating clients in drug abuse

[14] See Lynn, Heinrich, and Hill (2000) for an introduction to the empirical strategies of "new governance" that focuses on the "science" of street-level administration in terms of explaining and predicting "outcomes" or bureaucratic "performance". If research can isolate the factors that improve/hinder bureaucratic outcomes then improvements in public service functioning can occur more readily.

programs. Rosenau (2003) finds that privatized medical care facilities induce quality medical services at lower prices and overall program cost. Lastly, Heinrich and Fournier (2004) and Heinrich (2004) find that patients in substance abuse programs served by profit seekers and non-profits are less likely to relapse into drug abuse and more likely to be working full-time. Other studies are not so sanguine toward the prospect of privatization in social policy administration, finding that the performance improvement in job-training programs is minimal or non-existent as public agencies routinely outperform their privatized peers (see Heinrich, 2000 and Hodge, 2000).

Administrative activities that assist human clients, such as employment assistance or public safety, are more ambiguous (and arguably complex) and it is not clear that governments benefit through economies-of-scale or savings from avoiding investment in heavy equipment. Human support services in particular have a decidedly low-income, comparatively disadvantaged clientele, whose concentrated demand for attention and occupational guidance can cut into privatized profits and eventually undermine efforts to assist the poor. With these contradictory findings in mind, it becomes apparent that the researchers and policymakers lack the ability to consistently predict the effects of privatization on social services.

The few studies that exist on welfare privatization are generally informal, qualitative case studies of privatized implementation within specific states and localities, or administrative manuals instructing states on how to contract-out welfare services in hopes of achieving effective performance (Curtis and Copeland, 2003; Liebshutz, 2000; Stevenson, 2003; Breaux, Duncan, and Keller, 2002; Iverson, 2000; and Pavetti, Wemmerus, and Johnson, 1999). While these studies often provide indepth descriptions of bureaucratic structures and the potential effects of welfare privatization, none focus specifically on linking privatization to employment outcomes and none systematically examine variation in privatization and performance across a large number of cases.

One published study systematically examines the relationship between TANF contracting and performance outcomes across "workforce regions" in the state of Florida (Crew and Lamothe, 2003). The authors find that regions utilizing government agencies performed on par and often *more* proficiently than private sector providers. Interestingly, government agencies were found to provide welfare services at *lower* cost than private, for-profit organizations. These public-based organizations also induced superior quality across several aggregate performance measures, such as work participation rates and average client earnings.

While this singular piece of evidence lends credence to the notion that privatization will do little to improve bureaucratic functioning and the outcomes of welfare clients, it only represents one study of privatization in TANF implementation and ultimately fails to examine the program outputs of *individual* program participants. Privatizing TANF services may not work to improve client services but more rigorous and comprehensive tests are warranted.

Why Privatize? The Role of Ownership and Market Forces

The structural and internal organizational characteristics of private firms themselves should improve agency performance (Kemp, 2007; McConnell et. al, 2003; and Donahue, 1989). Most importantly, ownership in private organizations is held by an entrepreneur or few identifiable owners who have a clear, vested self-interest in improving their firms operations, procuring and renewing government contracts over rival firms while maximizing revenues and financial self-enrichment. Private sector firms are inherently more accustomed to competitive forces and less formalized internally than government agencies, characterized by a relatively streamlined and decentralized organizational structure of adaptive decision-making and operations.

Private actors are at liberty to design unique and innovative operations that will most readily increase revenues in the case of profit-seekers or maximize goodwill in the case of non-profits. Profit-seekers and non-profit managers have the flexibility to directly control production activities and resource allocation, adapting to changing business climates through briskly expanding or reducing the workforce or swiftly manipulating core business functions to meet existing and foreseeable challenges (Winston, 2002). In short, private firms tend to exude fluidity and flexibility in terms of personnel and operations that should lead to improved performance vis-à-vis government agencies.

Private organizations retain the ability to openly hire and fire employees, meaning that they can rapidly increase capacity to meet demands or reduce excesses when necessary. Conversely, public organizations oftentimes encounter entrenched public employee unions and rigid civil-service requirements that impede flexibility in the hiring and firing of public employees (Brudney, 2005). Additionally, government agencies are oftentimes plagued by rigidity in terms of standard operating procedures and regulatory delays that routinely get the moniker of “red-tape” (Kemp, 2007). Profit-seekers and non-profits, less hampered by burdensome regulations, can more easily operate void of red-tape obstruction and can respond immediately to the changing task environments, thereby improving performance and the subsequent employment outcomes for TANF program clients.

Ownership in government agencies, on the other hand is diffused across the broader tax-paying citizenry fostering the conditions for administrative stagnancy and ineffectiveness. When private sector firms fail to perform adequately, the adverse effects of contract and revenue loss are felt disproportionately by the primary owners and shareholders, who in turn have an undeviating economic interest to remain in business and maximize personal financial security. American citizens, the "owners" of government agencies, lack any such compelling economic interest in improving the functions of government agencies. Potentially ineffective government-based social service operations will only marginally affect individual taxpayers (because only a fraction of the citizenry utilizes means-tested social service programs, and any increased costs of government inefficiency will be spread across all taxpayers). In a similar vein, individual lobbying efforts for collective bureaucratic improvement are likely unfruitful (Donahue, 1998).

Political rather than economic considerations and diluted organizational ownership among government agencies hampers the pursuit of quality improvement and optimal program outcomes in policy implementation. As administrative scholar, John D. Donahue puts it, "At best, activities [of government agencies] will drift out of alignment with the public interest in a more or less random way. A city government is probably more likely to repave Park Street, even when Maple Street gets more traffic and has more potholes, than is a private company to make blue sweatshirts when customers are clamoring for red ones" (p. 51).

Potential Pitfalls of Privatization

Market Failure

Although many herald the performance gains that should follow administrative privatization, a substantial number of policy scholars espouse the potential pitfalls of taking such actions. One set of arguments rests on the notion that "perfect" and hence efficient, effective markets will rarely exist in the social policy arena and that market failure will provoke inferior and ineffective outcomes for program clients. There is some doubt that private firms will face sufficient competition from rivals in the contractual bidding process or that competition will remain substantial after awarding an initial contract (Gilman, 2001 and Sclar, 2000). If adequate competitive pressures are absent, private service providers will operate in an environment much like government monopolies, rarely, if ever, fearing contractual replacement by rivals and the motivation to improve performance will wane.

A second possible market failure can occur among consumers of TANF services. Market theories assert that consumers must have both perfect *information* and provider *choice* in order for maximum service efficiency to be realized; however, consumer information and choice are often inadequate and unfeasible in the market for human support services. Welfare clients or "customers" by their very nature are relatively void of the resources needed to make informed consumer choices or seek viable alternatives and often are beholden to one particular local service provider (Gilman, 2001). In populous metropolitan settings, TANF clients may have the ability to seek services among multiple providers choosing the provider that best suits their needs, but that is no guarantee. More physically isolated rural clients will more than likely be limited to only one option for supportive services. The inability of welfare clients to make informed decisions among viable alternatives should undermine the motivations of private firms to enhance service quality (Warner, 2004).

Complexity and Ambiguity in Human Support Services

Another set of arguments against privatization hinge on the type of services being provided. In the provision of "hard" services, such as asphalt laying or refuse collection, administrative outputs are physically tangible and easily observed and measured (Hodge, 2000). When hard services are performed, the providers' objectives are clearly outlined and there is little room for flexibility or discretion in activities taking place at the street-level. Social services, on the other hand, are known as "soft" services in that they are directed at a *human-based* clientele where complexity and ambiguity in service provision abounds.

Social service administrators are expected to handle human subjects, and in the case of TANF, aid these program clients toward fruitful employment and ultimate self-sufficiency. The programmatic tasks of hard services are substituted with more complex and arguably challenging endeavors that involve deep interpersonal attention and more front-line decision-making by case managers. These providers must educate the clients on program rules, ascertain extensive details into work and educational histories, and properly evaluate barriers related to child-care, transportation, and substance or domestic abuse. Case managers then must seek to address the various barriers, assist with job searches and, in some cases, supplement educational and other skills deficits, and closely monitor attempts to find employment.

A pressing concern among critics of privatization is that private (especially profit-seeking) firms will respond to complex and challenging administrative tasks by undertaking "creaming", directing attention and resources disproportionately at those clients most likely to succeed in the program, while clients with debilitating barriers to program success receive inferior services and outcomes (Kemp, 2007 and Gilman, 2001). Government agencies and non-profit organizations, immune to profit motives and shareholder pressure, should provide more equitable and service provision across all clientele groupings within the TANF client pool (Gilman, 2001 and Bendick, 1989).

This is the point at which individual-level data becomes critical in the empirical analyses. Through disaggregating client-level data this research more accurately captures the dynamics taking place between organizational form, client characteristics, and individual employment outcomes. Those disadvantaged clients, with the lowest levels of education or prior work experience, for instance, may become worse off under privatized administration relative to their more advantaged peers. This research begins to dissect these unique interactive relationships by moving beyond wholly aggregate methodologies.

The Case for Utilizing Client-Level Data

Previous research utilizes the *county* (or county-level equivalents) as the level of analysis to measure both privatization (i.e., TANF provider type) *and* program outputs (i.e., work participation). While this unit-of-analysis is perfectly logical for measuring TANF providers that operate largely at the county level, this research argues that utilizing the *individual-level outcomes* of welfare clients will provide the clearest picture of how administrative actions are impacting actual *clients* participating in the program.

Studies that examine aggregate performance measures can fall prey to inferential bias known as the "ecological fallacy" because these researchers are making inferences about the outcomes of program *clients* from aggregate outputs, measured at the state, county, or agency level, for instance (Steel and Holt, 1996). The outcomes of chief interest to administrative scholars studying policy implementation operate at the client-level and occur firsthand among individuals, not states, counties, or welfare agencies. Aggregate measures "average-out" the individual variation in client outcomes occurring at the street-level and in the process may encumber accurate causal inference.

Another advantage of employing data on clients rests on the predictive side of the empirical analysis. When aggregate outcome and explanatory measures are analyzed, the individual-level factors of clients that presumably impact eventual administrative outputs are largely ignored. Data on program clients includes a set of individual-level predictors, creating an improved ability to statistically control for the distinctive traits of participating clients that can impact eventual outcomes. This ability will afford key insight into the (client-level) reasons that individuals vary in their outcomes, while more completely isolating the independent effect of contextual measures (such as TANF provider type) on bureaucratic performance.

A final example of the analytical leverage inherent with client-level data is found in the unique hypotheses related to the potential effects of privatization that can be tested among exclusive subsets of TANF clientele. In short, the individual-level data can be disaggregated according to diverse client characteristics, allowing for distinctive "interactive" effects with privatization to be explored. Through sub-setting the clients along "hard-to-serve" dimensions, such as racial identity, educational attainment, or marital status, we can better understand how these particular client types are fairing in various administrative environs.

Quantitative Methodology

Conceptualizing and Operationalizing Administrative Performance

Research operating under the title of "new governance" or "new public management" suggests that researchers can (and should) attempt to analyze unique administrative arrangements and quality of the *results* that they produce, so that we can improve government functioning and public well-being (Heinrich and Lynn, 2000 and Ingraham and Lynn, 2004). Just as we can judge the performance of economies in terms of the *outputs* produced (such as GDP, inflation, and stock market returns), we can scrutinize social policy implementation in terms of the program outputs produced by front-line workers and experienced by the clients they serve. A better understanding of why agencies and individuals achieve various outcomes can eventually lead to knowledge of "best practices" that will maximize bureaucratic effectiveness at the street-level.

In short, this particular framework borrows from theories of political economy and conceptualizes *performance* as the quality or superiority of outputs and outcomes achieved by administrative stakeholders and the clients served through public policy implementation. The specific outputs or performance measures under scrutiny will vary with the *objectives* or *goals* of specific policies being implemented. For instance, policy analysis of Head Start educational programs will more than likely examine outputs related to educational achievement, operationalized perhaps as standardized test or other aptitude test scores (see Currie and Thomas, 1995) whereas studies of substance abuse programs will inspect performance outputs related to sobriety and employment (see Heinrich and Fournier, 2004).

In the case of welfare implementation, the performance objectives of administrators had traditionally been to provide timely cash payments and undertake routine case management procedures (i.e., determine eligibility). Under TANF, the objectives shifted from timely benefit allocation to a decidedly work-centered approach (Soss, et. al., 2001 and Fellows and Rowe, 2004). Apart from explicitly promoting sub-national policy autonomy, the stated goals (and subsequent performance objectives) of PROWRA are to promote employment and ultimately self-sufficiency, reducing long-term dependency on public assistance through sustained attachment to the labor force. Additional policy goals, including increasing rates of marriage and reducing out-of-wedlock births, are significant but doubtless secondary goals to increasing employment among low-income Americans and reducing chronic welfare dependency in America.

PROWRA and its reauthorized legislative forms mandate that clients receiving assistance beyond 24 months must be engaged in full-time work activities that are tightly defined by Federal legislation (i.e., vocational training, community service, or actual employment). In order to curb long-term dependency, Federal legislation also mandated that clients receive cash assistance for no more than 60 months. States did have wide latitude to relax the strict national guidelines, exempting clients from work requirements or extending time limits, but the fact remains that maximum Federal block grant subsidies are based upon moving individuals off the rolls and into a life of self-sufficiency.

The dependent variables capturing the quality of program outputs are measured and analyzed at the individual-level across TANF clients in multi-level models. In the quantitative analysis, employment-based program outputs that are of keen interest to both policymakers and Federal agencies alike are the primary focus here. Client-level outputs are utilized in multi-level models discussed in detail below and will include items such as individual *work participation*, *employment status*, *earnings from employment,* and *sanction for non-compliance with program requirements*[15].

Intrastate Analysis: A Hierarchical Approach

This research employs an intrastate "hierarchical" methodology, known as multi-level modeling or hierarchical linear modeling (HLM), in which individual-level data are analyzed alongside higher-level contextual measures, such as TANF provider type (i.e., for-profit, non-profit, or public administration). In essence, HLM techniques allow the program outputs of *individuals* to be modeled simultaneously as a function of both client characteristics and measures at higher levels of analysis.

HLM techniques have recently garnered popularity in social science research because of the distinctive ability to model outcomes with (linear and non-linear)

[15] In the original plan for this research, a variable for "unsubsidized employment" was included in the pilot of the survey but upon further investigation it was included as an optional survey item (secondary to the baseline employment question) and was left blank by nearly every respondent. Instead, this research includes a "sanction" variable that captures when clients receive punishment for non-compliance with program rules. When clients fail to abide by TANF program rules, perhaps working less than the required 30 hours per week or missing a scheduled meeting with a caseworker, clients are temporarily "sanctioned" off the welfare rolls. These clients oftentimes lose monetary benefits and employment resources, further hampering efforts to find meaningful attachment to the labor force. Through inclusion of this variable, researchers can better understand which clients are more likely to be sanctioned and which provider types sanction at higher/lower rates.

equations that estimate individual (level-1) and contextual (level-2) parameters simultaneously. In education research, for example, scholars can observe how pupil-level achievement varies across pupil-level traits while also observing the independent and interactive effects of higher-level variables related to families, schools, or school districts[16]. Administrative researchers of policy implementation and performance operating within the "new governance" or "new public management" frameworks recognize the hierarchical nature of relationships that are of interest to this research (Lynn, Hienrich, and Hill, 2000 and Ingraham and Lynn, 2004).

Under the "new governance" framework, administrative outputs (O) are conceived as a function of five sets of variables that include client characteristics (C), administrative structures (S), environmental factors (E), policy treatments (T), and managerial roles and actions (M). This research is centered on examining variation in administrative structures (S), and understanding how privatized delivery structures interact with client characteristics (C) and the local environment (E) to impact TANF client outputs. In the multi-level models constructed here, level-1 variables represent the *outcomes and characteristics of TANF clients,* while level-2 variables are measured across counties or county-level equivalents and capture the local *administrative*, *economic*, and *political* environments in which implementation takes place.

[16] HLM simultaneously estimates two models: first, it estimates parameters among individual-level variables, while also estimating how individual-level outcomes vary across higher-level variables. HLM is a methodological improvement because instead of aggregating individual-level data to higher levels (then performing an OLS regression), individual-level slopes and intercepts are allowed to vary randomly across higher levels of analysis. Individuals nested within higher-level contexts are likely to share specific unobserved characteristics with level-2 variables. This violates the independence assumptions of non-hierarchical OLS techniques and assumptions regarding the (random and normal) distribution of error terms, thus HLM should produce more efficient estimations.

In order to capture more direct measures of the independent variable of utmost concern, TANF provider type, one must observe variation in welfare contracting taking place *within* states, where an exclusive blend of private and public agencies administer localized welfare services. TANF service providers overwhelmingly operate at the county-level, and counties (not states) often have sole responsibility for TANF implementation and contracting decisions (Fording et al., 2007 and Winston, 2002). This means that any macro, interstate analysis must be abandoned in favor of an *intrastate* approach that examines variation in privatized arrangements and individual client outcomes *within* particular states. Because welfare providers do predominantly vary at the county-level *within* states, undertaking an intrastate approach that exclusively examines county-level differences is methodologically appropriate[17].

Florida represents one immediate state of interest for the intrastate HLM analyses. In the aftermath of PROWRA, Florida pursued extensive second-order devolution, granting 24 "workforce regions" (operating in 67 Florida counties) the autonomy to contract-out services to either private, public, or a mix of agency types, and allowed private entities to operate entire local welfare offices[18]. Florida's general demographic diversity and pursuit of decentralized bureaucratic control results in meaningful variation in provider types and street-level operations across workforce regions, making this state a popular choice for welfare reform researchers. To date, all systematic quantitative studies published on TANF privatization and performance

[17] One could feasibly pool data across multiple states and perform a multi-state analysis, but it would require the collection of localized provider type data to correctly match clients to welfare services. Unfortunately, county-level TANF contracting data is not readily available across space or time.
[18] The Florida Department of Children and Families (DCF) did retain power to determine initial TANF eligibility. Private entities in Florida are potentially in charge of all case management and monitoring activities but cannot determine who is initially eligible to participate in the program.

examine Florida (Crew and Lamothe, 2003; Fording et. al., 2007), and the ready availability of provider type data in Florida makes this state an ideal place to begin studying privatization and outputs across TANF clients.

Client-Level Data: Outcomes and Predictors

Data for individual TANF clients in Florida comes from a generous database compiled by the U.S. Department of Health and Human Services (DHHS) and includes six years of observations (2000-2005) for both "open" and "closed" TANF cases[19]. Individual program outcomes for "open" TANF cases serving as the dependent variables in the multi-level models include *participation in work activities*, *earnings from employment,* and *sanctions for non-compliance*. The work participation and sanction variables are all operationalized in a dichotomous fashion (meeting participation requirements (1) or not (0) and received sanction (1) or not (0)). Earnings from employment are measured continuously as the total income from work activities reported from the previous month in the TANF program[20].

The dependent variables employed in the "closed" case multi-level models include *reason for closure* and *earnings from employment*. Monthly earnings from employment are measured analogous to the "open" cases. There are two *closure*

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[19] "Open" cases represent TANF clients that were currently participating in the Florida TANF program at the time of DHHS data collection. "Closed" cases represent TANF clients who had previously participated in the TANF program, but were not currently receiving public assistance when the DHHS survey was administered. Open and closed TANF cases were surveyed separately and represent two distinct datasets, but both clientele groupings answered a relatively similar battery of survey questions, allowing for continuity and comparisons to be made among these different types of TANF clients. By examining open TANF cases, this research can better understand how current clients are fairing in the TANF program; whereas, examining closed cases will elucidate the reasons for case closure and earning potential after leaving the TANF program. See the Appendix for descriptive statistics that highlight the consistency of the individual-level variables among the two datasets.
[20] An "employment status" dependent variable was also included in the analysis for "open" cases, but the lack of statistical significance among the explanatory variables warrants its removal from the tables.

variables. The first represents closure due to employment or earnings and another relates to closure due to sanction for non-compliance. Both are measured in a dichotomous fashion (1 if case closes for reasons of employment/earnings and 0 if otherwise; 1 if case closes due to non-compliance (sanction) and 0 if case closes for other reasons).

Individual predictors of program outputs for both “open” and “closed” cases include *race*, *gender*, *education*, and *marital status*. African Americans, Hispanics, and females have suffered through a history of occupational discrimination and continue to face unique challenges to employment that might incite substandard program outputs. Next, levels of education should predict program success in that clients with higher levels of education are theorized to have an easier time procuring employment and finding jobs that offer elevated wages. Lastly, clients that are married presumably have greater domestic stability and fewer burdens in their search for employment and might have more successful program outcomes than single clients.

Client *race*, *gender*, *education*, and *marital status* are operationalized as a set of dummy variables (African American (1) or not (0); Hispanic (1) or not (0); female (1) or male (0); Less than 12 years of education (1) or 12 or more (0); and single (1) or married (0)).

H8: Client characteristics affect the TANF program outputs experienced by clients. African American, Hispanic, single, and female identity will be negatively related to work participation, earnings from employment, and closure due to employment, and positively related to sanction for non-compliance. Education will be positively related to employment outputs and negatively related to case sanctioning.

Operationalizing Administrative Ownership and the Local Environment

The provider type data used in this preliminary analysis is measured across counties in Florida and is measured from available data for the years 2000 - 2005 as a series of annual dummy variables. Crew and Lamothe's data is available for the years 1997-2001, thus the provider type and client-level data align only for the years 2000 and 2001. Data from Fording et al. (2007) is available for the year 2004. Data for the years 2002, 2003, and 2005 were collected and coded by the author. The analysis follows the basic 3-part coding scheme developed by Crew and Lamothe in which workforce regions choose to retain governmental administration (*Public*), or contract out to either for-profit (*ForProfit*) or non-profit (*NonProfit*) organizations. *Public* serves as the reference category throughout the analysis, thus the basic expectation is to observe higher quality employment outcomes (more work participation, higher earnings, and more closure due to employment) and fewer punitive sanctions among clients within for-profits and non-profits *vis-à-vis* public agencies[21].

Welfare contracting is pervasive and varied within the state of Florida over the 2000-2005 time period examined in this study. TANF privatization is not exclusive to any particular geographic region in Florida, and privatization (especially with for-profits) has been increasing over the six years of observations. In 2000 and 2001 government agencies operated TANF offices in nearly one in three Florida counties, but accounted for less than fifteen percent of welfare offices in 2004 and 2005. Public

[21] Provider type data is included for all years and Florida regions except for First Coast and Alachua in 2002, 2003, and 2005. Mirroring the mutually exclusive coding scheme of Crew and Lamothe each region is coded either *for-profit*, *non-profit*, or *public* depending on which provider type was most prevalent in each respective fiscal year. The vast majority of locales chose to contract exclusively with either for-profits, non-profits, or public agencies, but a minority did utilize a hybrid approach. For instance, a blend of providers operates in Miami-Dade but non-profits are most common from year to year and thus it is coded as *non-profit* throughout the entirety of the dataset.

welfare agencies oftentimes work in tandem with the Department of Children and Families and are primarily housed local community colleges (Gulf Coast Community College in Bay County, St. Petersburg College in Pinellas County, and Pensacola Community College in Escambia County for example), or other institutions of higher learning (Florida Atlantic University in Palm Beach County).

A variety of non-profits operate TANF offices across the state of Florida. Approximately one-third of Florida counties contract with non-profit organizations, and that figure stays relatively steady across the 2000-2005 time period. Catholic Charities and Goodwill Industries were awarded contracts over the six year period examined here in counties such as Miami-Dade, Broward, and Leon-Tallahassee. Other locally-based non-profits operating TANF offices are the Florida Institute for Workforce Innovation (Highlands County), Workforce Connection, Inc. (Okaloosa and Walton Counties), and Experience Works (Duval, Baker, Putnam, and Nassau Counties).

Several for-profit firms operate TANF offices in Florida, and for-profit contracting was increasing during the 2000-2005 time period. This is largely due to Affiliated Computer Services (ACS), the most prevalent for-profit administrative entity in the state of Florida. By 2004, ACS operated welfare offices in approximately one-third of Florida counties. There is not much turnover in welfare providers from year to year in Florida, but ACS has managed to successfully increase TANF market share across counties. Other profit-seeking firms operating in Florida include the Paxen Group (Pasco and Hernando Counties), Kaiser Group (Brevard County), and the Training Institute (Martin and St. Lucie Counties).

Two additional control variables are included in the preliminary analysis presented below. The *average county unemployment rate* captures the local occupational environment within which clients and administrators must operate. Secondly, *the county percentage of the vote for the Democratic candidate in the 2000 presidential election* is utilized as an indicator of the local political environment.

Intrastate Hierarchical Logit Model:

Level 1: $Ln\ [P_{ic}/1\text{-}P_{ic}]$ (*Program Outputs*) $= \beta 0 + \beta 1(\textit{African American})_{iwr} + \beta 2(\textit{Latino})_{iwr} + \beta 4(\textit{Gender})_{iwr} + \beta 5(\textit{Marital Status})_{iwr} + \beta 6(\textit{Education})_{iwr}$

Level 2: $\beta 0_c = \gamma 0_0 + \gamma 1(\textit{Public})_{wr} + \gamma 1(\textit{ForProfit})_{wr} + \gamma 2(\textit{NonProfit})_{wr} + \gamma 3(\textit{Unemployment})_{wr} + \gamma 4(\textit{Ideology})_{wr}$

iwr = Individual client in workforce region
wr = workforce region

Analyses of Interactive Effects across Client Groupings

Utilizing data on TANF clients and the accompanying individual controls, allows for a set of interesting analyses related to racial politics and “hard-to-serve” TANF clientele. One line of the anti-privatization argument suggests that private firms, in their effort to maximize profit and retain contractual authority, will curtail the quality of services to those especially hard-to-serve clients or “marginal” populations such as African American or low educated clients (Gilman, 2001).

When served by private, especially for-profit providers, these hard-to-serve clients may be given less or inferior services and experience sub-optimal program outcomes, participating in fewer work activities and for lower wages. Disadvantaged clients may also be sanctioned more often than advantaged peers. The hard-to-serve may find it relatively difficult to achieve quality program outcomes irrespective of the administrative environment but should be served more equitably by public and non-profit service providers, providing the best chance for program success. Only HLM analyses that simultaneously analyze the impact of distinctive provider types and client characteristics will help to flesh out these empirical puzzles.

Through utilizing cross-level interaction terms, the following analysis additionally examines the potentially relationship between privatization and program outcomes of African American clients and those program participants that lack a high school education[22].

Analysis and Findings

The results of the preliminary pooled multi-level estimations for the years 2000 - 2005 are arranged into eight (8) tables[23][24]. Tables 2-5 contain the baseline non-interactive HLM estimations (Tables 2 and 4) and subsequent "odds ratios" (Tables 3 and 5) for both open and closed TANF cases. In short, privatized arrangements are only

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[22] Cross-level interactions in HLM test weather higher-level variables moderate or condition the relationship between individual-level variables. In the interaction models presented here, welfare providers are hypothesized to condition the relationship between race/education and program outputs. In other words, the interactive models demonstrate how the outputs of African Americans and low-educated clients vary across administrative ownership and test whether individual effects vary in significant ways across differing provider types.

[23] All hierarchical estimations were performed in HLM (version 6.06).

[24] It can be argued that pooling the entire TANF sample is methodologically inappropriate. Because the TANF caseload is traditionally and disproportionately comprised of singe females, this group should exhibit unique program dynamics and be examined separately from male and married clients. However, approximately one quarter of the Florida TANF clients are married in both the open and closed case datasets, providing sufficient variation for inclusion of a marital status variable in the final pooled models. Secondly, the HLM models were estimated separately for females only and the substantive results do not change. The reason removing men from the datasets only has a negligible impact on the coefficients is largely because there are very few men in the datasets originally. Women make up 93.3% and 92.5% of the open and closed TANF cases respectively, thus removing men does not meaningfully change parameter estimates. There should be some caution in interpreting the highly skewed gender variable in the pooled models, but the other coefficients remain all but unchanged when men are removed from the sample.

seldom found to significantly impact the quality of program outcomes for both open and closed TANF cases in Florida, and they often impact TANF clients in an inconsistent and unexpected manner.

Table 2 presents the baseline (non-interactive) results from the pooled HLM estimations for open TANF cases in Florida. The individual-level (level-1) predictors are often significant in expected ways. Female, single, and low-educated status is associated with less participation in full-time work activities. Female and low-educated TANF clients additionally earn less monthly income from employment in the initial model, and low-educated clients are associated with higher rates of sanctioning than more educated peers. While the *Latino* variable proves to be insignificant to the estimations, African American identity is negatively related to work participation and positively related to the probability of being sanctioned (.634; $p <.05$).

Turning to the level-2 measures in Table 2, only one provider type variable achieves statistical significance. Clients served by profit-seekers earn nearly $30 (-28.86; $p < .10$) *less* in monthly earnings than those served by public agencies. One note of caution concerning the level-2 coefficients. Multi-level models are appropriate to analyze hierarchical data and should produce unbiased estimates, but these findings cannot be interpreted as definitively causal at this juncture. No effort is directed at explicitly modeling contracting decisions below the state-level, thus it is assumed throughout the analysis that workforce regions privatize welfare at random. This assumption is likely tenuous. Localities may be contracting for reasons that are systematically related to unobserved individual characteristics and outcomes. In other words, it might be that for-profit TANF clients are earning less monthly income because for-profit contracting is more likely to occur among more disadvantaged clientele. Hence, this analysis should be perceived as exploratory and associative rather than causal and definitive.

While the regression coefficients for monthly earnings can be interpreted in a straightforward manner, the coefficients for the logistic HLM regressions are not directly interpretable, thus "odds ratios" are calculated in Table 3 for both the work participation and sanction models because these outcomes are measured in a dichotomous fashion[25]. Odds ratios calculate the probability of one event occurring (i.e., participating in full-time work activities) as opposed to another event occurring (i.e., not participating in full-time work activities) and will be used to discuss the substantive findings throughout the rest of the paper.

The statistically significant odds ratios presented in the work participation model in Table 3 (column 1) are all less than one, indicating a *reduced* odds of participating in full-time work activities. Females and single clients have a 46.4 percent (1.00 - .536) and 55.7 percent (1.00 - .443) reduced odds of participating in full-time work activities relative to males and married clients. While the odds of being in full-time work activities is a paltry 4.1 percent (1.00 - .959) less for those clients without a high school education, the odds that African Americans are participating in full-time work activities is a robust 35.3 percent (1.00 - .647) less than for non-African American clients.

[25] Odds ratios are utilized to indicate the "odds" of an event taking place relative to the "odds" that an event will not take place and is calculated as the probability of an event occurring (P) divided by the probability of an event not occurring (1 – P). Because logistical regression coefficients represent the change in the "log of odds" and are not directly interpretable, odds ratios are often used to put coefficients into a substantive context. An odds ratio of "1" indicates that one event is just as likely to occur as another. An odds ratio > 1 indicates an event is more likely to occur than another, while < 1 indicates an event is less likely to occur. For instance, an odds ratio of "1.60" means that the odds of one event occurring is 1.6 times more likely than another, or that the odds of an event occurring is 60 percent (1.60 – 1.00) more likely than another.

Table 2. Pooled HLM Analysis of TANF Privatization and Client Outcomes for Open Cases, 2000-05			
IVs	***WorkPart***	***Earnings***	***Sanction***
Individual Level			
Female	**-.623***** *(.142)*	**-15.27*** *(8.94)*	**.069** *(.047)*
LTHS	**-.041***** *(.005)*	**-52.45***** *(18.37)*	**.094*** *(.052)*
Single	**-.815***** *(.069)*	**-4.72** *(4.78)*	**.064** *(.241)*
Black	**-.435***** *(.092)*	**5.27** *(5.18)*	**.634**** *(.032)*
Latino	**.098** *(.074)*	**9.06** *(6.56)*	**-.163** *(.401)*
Contextual Level			
ForProfit	**.049** *(.086)*	**-28.86*** *(16.05)*	**.083** *(.055)*
NonProfit	**-.081** *(.085)*	**7.13** *(6.01)*	**-.079** *(.054)*
N	4624; 67	4624	4624
Note: Multi-level logit and regression (Earnings) coefficients in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.			

The odds ratios in the sanctioning model in Table 3 indicate that those clients lacking a high school education are 1.11 times (or 11%) more likely to have had their case sanctioned for non-compliance than more educated clients. A similar positive relationship is even more dramatic for African American clients, whose odds of being sanctioned for non-compliance are 89 percent or nearly two times (odds ratio = 1.89; p < .05) greater than clients that are not African American. Put another way, for every non-African American TANF client that is sanctioned in Florida, there are nearly two African Americans sanctioned.

Table 3. Pooled HLM Analysis Odds Ratios for Open Cases, 2000-2005		
IVs	***WorkPart***	***Sanction***
Individual Level		
Female	**.536******	**1.07**
	(.076)	*(.505)*
LTHS	**.959******	**1.11***
	(.005)	*(.005)*
Single	**.443******	**.938**
	(.007)	*(.241)*
Black	**.647******	**1.89*****
	(.021)	*(.519)*
Latino	**1.10**	**.851**
	(.081)	*(.340)*
Contextual Level		
ForProfit	**1.05**	**1.49**
	(.090)	*(.668)*
NonProfit	**.923**	**-.684**
	(.078)	*(.054)*
N	4624; 67	4624
Note: Odds ratios in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.		

Tables 4 and 5 contain the baseline logistical regression results (Table 4) and subsequent odds ratios (Table 5) of the pooled HLM estimations for closed TANF cases in Florida. Once again, the individual-level variables largely behave in an expected fashion. In the pooled closed case results found in Tables 4 and 5, lacking a high school education is negatively associated with case closure due to employment or earnings, and low educated clients earn slightly less monthly income from employment (-15.94; $p < .01$). Female and unmarried clients also earn less monthly income, and females are also 1.6 times (odds ratio = 1.63) more likely to have their case closed due to sanction for non-compliance (see Table 5).

Once again, the *Latino* variable proves insignificant to the estimations, but race continues to be a significant predictor in the models. The odds that African American clients exit TANF due to employment are 21.5 percent less than for non-African Americans in this sample. Put another way, for every five non-African American TANF clients exiting due to employment or earnings, there are fewer than four African American clients exiting due to employment. Furthermore, African American identity is associated with a 16 percent increase in the odds of being sanctioned off the welfare rolls. This relationship is not as strong as the one observed among open TANF cases yet remains consistent with the initial open cases findings and with previous research (See Fording et. al., 2006).

Table 4. Pooled HLM Analysis of TANF Privatization and Client Outcomes for Closed Cases, 2000-2005

IVs	***CloseEmpl***	***CloseSanct***	***Earnings***
Individual Level			
Female	**-.079**	**.489****	**-43.77****
	(.145)	*(.124)*	*(19.08)*
LTHS	**-.247*****	**.018**	**-36.61*****
	(.086)	*(.063)*	*(9.84)*
Single	**-.011**	**.014**	**-17.97**
	(.087)	*(.073)*	*(11.44)*
Black	**-.241****	**.146****	**-3.76**
	(.087)	*(.074)*	*(11.59)*
Latino	**-.062**	**.039**	**-7.02**
	(.105)	*(.091)*	*(14.43)*
Contextual Level			
ForProfit	**-.025**	**.279***	**-24.57****
	(.093)	*(.083)*	*(8.55)*
NonProfit	**-.081**	**.104**	**-7.02**
	(.101)	*(.078)*	*(13.68)*
N	4341, 67	4341	4341

Note: Odds Ratios in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.

Table 5. Pooled HLM Analysis Odds Ratios for Closed Cases, 2000-2005		
IVs	***CloseEmploy***	***CloseSanct***
Individual Level		
Female	**.999**	**1.63*** **
	(.145)	*(.202)*
LTHS	**.781****	**1.02**
	(.058)	*(.064)*
Single	**1.11**	**1.01**
	(.097)	*(.074)*
Black	**.785****	**1.16****
	(.068)	*(.085)*
Latino	**.941**	**1.04**
	(.099)	*(.093)*
Contextual Level		
ForProfit	**.975**	**1.32****
	(.091)	*(.110)*
NonProfit	**.922**	**1.11**
	(.092)	*(.086)*
N	4341; 67	4341
Note: Odds Ratios in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.		

Directing attention to the county level provider type (level-2) variables in Tables 4 and 5, the administrative environment does not seemingly impact TANF clients in consistently superior ways. Clients served by profit seekers and non-profits are *no more likely* to exit TANF due to employment or earnings, and clients in for-profit settings have a 32 percent *greater* odds of having their case closed due to sanction. Once again, It is unclear if this is due to underperformance among for-profit firms, or the notion that for-profits are more likely to appear in disadvantaged settings, but the findings should give the reader pause[26]

[26] For the sake of brevity and parsimony, control variables including county unemployment, ideology, and year dummy variables are not included in the tables. The ideology measure (county vote for Gore) is insignificant to the estimations. Future research should develop different and more valid measures of political ideology that get beyond mere electoral returns. The unemployment variable is only significant in the closed case models. Being from a high unemployment county is inversely associated with case closure due to employment and monthly earnings from employment.

Analyses of Interactive Privatization Effects across Client Groupings

There is a fear among opponents of social policy privatization that certain disadvantaged clientele groups will be treated inequitably by private (especially for-profit) vendors leading to inferior program outputs. This is simply not the case for low-educated clients that lack a high school education. No significant interactions were found for low-educated clients and thus these estimations are not discussed further in the paper. The employment, earnings, and sanction outcomes of low-educated clients do not vary significantly across differing administrative arrangements. Low-educated clients are seemingly no worse off when served by profit-seekers and no better off when served by non-profits and public agencies.

Program outcomes of African American clients are found to differ significantly across administrative arrangements, but there is little evidence to suggest that privatizing welfare services inevitably leads to systematically inferior outcomes for this historically disadvantaged group of clients. The interaction terms for open cases found in Table 6 are largely insignificant to the estimations, but there remain some interesting findings in need of discussion. The *Profit*Black* coefficient is negative in column 1 indicating that African American clients served by profit-seekers are less likely to exit TANF due to employment, but the coefficient does not achieve accepted levels of statistical significance, so the null hypotheses (i.e., administrative arrangements have zero effect on client outcomes) cannot be rejected[27].

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[27] Although African American welfare clients vary throughout the state and are found in every Florida county, they are disproportionately represented in urban centers. Nearly a quarter of African American clients live in Miami-Dade County. Almost eleven percent live in Orange County (Orlando), nine percent in Broward County (Fort Lauderdale), and approximately seven percent reside in Duval (Jacksonville) and Hillsborough (Tampa) Counties respectively.

Table 6. Pooled Interactive HLM Analysis of TANF Privatization and Client Outcomes for Open Cases, 2000-2005			
IVs	***WorkPart***	***Earnings***	***Sanction***
Individual Level			
Female	**-.615*****	**-15.07***	**.073**
	(.028)	*(8.94)*	*(.472)*
LTHS	**-.041*****	**-52.31*****	**.093***
	(.005)	*(15.07)*	*(.053)*
Single	**-.817*****	**-4.71**	**.065**
	(.015)	*(4.79)*	*(.241)*
Black	**-.317****	**14.34**	**-.941***
	(.144)	*(10.12)*	*(.049)*
Latino	**.105**	**10.01**	**.107**
	(.021)	*(6.63)*	*(.406)*
Contextual Level			
ForProfit	**-.163**	**-9.20**	**.075**
	(.126)	*(8.94)*	*(.054)*
NonProfit	**-.102**	**12.01**	**-.321**
	(.123)	*(8.71)*	*(.504)*
Interaction			
Prof * Black	**-.212**	**-7.27**	**.694**
	(.172)	*(12.14)*	*(.605)*
NonPr *Black	**.347****	**9.46**	**-.071**
	(.171)	*(12.04)*	*(.061)*
N	4624 ; 67	4624	4624

Note: Multi-level logit and regression (Earnings) coefficients in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.

Table 7. Pooled Interactive HLM Analysis Odds Ratios for Open Cases, 2000-2005		
IVs	***WorkPart***	***Sanction***
Individual Level		
Female	**.541***** *(.063)*	**1.07** *(.508)*
LTHS	**.921***** *(.114)*	**1.01*** *(.005)*
Single	**.442***** *(.031)*	**.937** *(.226)*
Black	**.729**** *(.105)*	**.392*** *(.004)*
Latino	**1.13** *(.057)*	**.898** *(.365)*
Contextual Level		
ForProfit	**.849** *(.107)*	**1.08** (.543)
NonProfit	**.903** *(.111)*	**.725** *(.381)*
Interaction		
Prof * Black	**1.24** *(.213)*	**.725** *(.381)*
NonPr *Black	**1.42**** *(.241)*	**.499** *(.302)*
N	4624 ; 67	4624
Note: Odds Ratios in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.		

On the other hand, the *NonProfit*Black* variable is positive and statistically significant suggesting that African Americans served under non-profit administration are more likely to exit TANF due to employment or earnings. The positive and significant *Black* coefficient suggests that African Americans are also more likely to exit TANF due to employment when served by public agencies (the reference category). Similarly, African American clients served by public agencies are less likely to be in sanction for non-compliance with program rules. The open case interactive estimations highlight that African American clients do fair well within government agencies, but clients do not necessarily experience inferior outcomes when served by privatized welfare bureaucracies. Indeed, there are no significant negative racial effects among profit-seekers, and the odds of African American TANF clients participating in full-time work activities is 42 percent (1.42 – 1.00) greater when served by non-profit organizations (see Table 7).

The closed case interactive coefficients and calculated odds ratios are found in Tables 8 and 9 further corroborate the notion that African Americans outcomes differ significantly across administrative arrangements but not in any systematically inferior manner. The positive and significant *NonProfit*Black* interaction terms in Table 8 indicate that African American identity in non-profit settings is associated with an *increased* likelihood of exiting TANF due to employment and increased monthly income vis-à-vis African Americans served by public agencies (the reference category).

Indeed, African American clients served by non-profits are 1.45 times more likely (45 percent increased odds) of exiting TANF due to employment relative to their for-profit and public peers. Next, the insignificant *ForProfit*Black* coefficients in the first two columns of Table 8 suggest that for-profit African American clients are no more or less likely to exit due to employment or be sanctioned off the rolls than their public counterparts. The positive and significant coefficient in the earnings model (column 3 in Table 8) unexpectedly suggests that African Americans served by profit-seekers earn *more* monthly income after they exit the TANF program. Even as privatized administration is not found to consistently induce superior program outcomes, disadvantaged African American clients are oftentimes working and earning more when served by private, especially non-profit administration.

Table 8. Pooled Interactive HLM Analysis of TANF Privatization and Client Outcomes for Closed Cases, 2000-2005			
IVs	***CloseEmploy***	***CloseSanct***	***Earnings***
Individual Level			
Female	**-.011**	**.486*****	**-43.61****
	(.146)	*(.124)*	*(19.09)*
LTHS	**-.241*****	**.019**	**-37.56*****
	(.074)	*(.063)*	*(11.14)*
Single	**-.087**	**.014**	**18.51**
	(.088)	*(.073)*	*(11.44)*
Black	**-.341****	**.221**	**-43.87****
	(.039)	*(.151)*	*(23.67)*
Latino	**.024**	**.026**	**-9.93**
	(.119)	*(.092)*	*(14.38)*
Contextual Level			
ForProfit	**-.171**	**.363****	**-39.26***
	(.149)	*(.143)*	*(20.67)*
NonProfit	**-.174***	**.144**	**-28.59**
	(.162)	*(.132)*	*(22.29)*
Interaction			
Prof * Black	**.151**	**-.192**	**61.78****
	(.207)	*(.167)*	*(24.52)*
NonPr *Black	**.374***	**-.092**	**51.82****
	(.042)	*(.156)*	*(26.35)*
N	4341; 67	4341	4341

Note: Multi-level logit and regression (Earnings) coefficients in bold, with robust standard errors clustered by county in parentheses. ***p<.001, **p<.05, *p<.10.

Table 9. Pooled Interactive HLM Analysis Odds Ratios for Closed Cases, 2000-2005		
IVs	***CloseEmploy***	***CloseSanct***
Individual Level		
Female	**1.01**	**1.63*****
	(.146)	*(.202)*
LTHS	**.786*****	**1.02**
	(.058)	*(.064)*
Single	**1.11**	**1.01**
	(.097)	*(.074)*
Black	**.711****	**1.25**
	(.111)	*(.188)*
Latino	**.966**	**1.02**
	(.103)	*(.094)*
Contextual Level		
ForProfit	**.843**	**1.44****
	(.126)	*(.205)*
NonProfit	**.841**	**1.15**
	(.136)	*(.153)*
Interaction		
Prof * Black	**1.16**	**.789**
	(.241)	*(.144)*
NonPr *Black	**1.45***	**.918**
	(.315)	*(.161)*
N	4341 ; 67	4341

Note: Odds ratios in bold, with robust standard errors clustered by Workforce Region in parentheses. ***p<.001, **p<.05, *p<.10.

Summary

Privatizing the administration of public policies through contracting with for-profit and non-profit service providers is a popular tool of governance, yet the implications of contracting decisions across human support policy remain understudied and relatively unknown. One recent case in need of study involves welfare policy in America. The latest wave of reform legislation devolved administrative authority to states and localities that have instituted privatized bureaucratic approaches at the street-level, in the hopes of achieving improvement in service quality (GAO, 2002 and

Winston, 2002). It is well documented that sub-national jurisdictions are privatizing welfare implementation under PRWORA, yet researchers have accumulated very modest knowledge about how variation in privatized administration affects the TANF program outputs experienced by clients.

This analysis principally seeks to empirically connect administrative arrangements to TANF program outcomes through utilizing methodologically appropriate multi-level models that simultaneously incorporate and estimate both individual-level and contextual factors within the state of Florida. The primary expectation is to observe that both client-level factors and administrative arrangements affect TANF outcomes and to observe superior program outcomes among clients served under privatized administration vis-à-vis public agencies. On one hand, the individual-level variables do display consistent and expected relationships with TANF outcomes. Clients that are female, single, low-educated, and African American are found to generally participate in work activities at lower rates, earn less in monthly earnings from employment, and are sanctioned at higher rates. Unlike level-1 predictors, there is little consistency among level-2 provider type variables and little evidence of privatized superiority in the initial pooled estimations.

More often than not, the provider type variables are insignificant to the pooled open and closed case models (Tables 2 and 4), meaning that the likelihood of participating in full-time work activities or the likelihood of leaving TANF due to employment is *no more likely* in for-profit and non-profit settings than in public settings. When variables are statistically insignificant, the null hypothesis that privatization has no appreciable effect on TANF outcomes cannot be rejected. In this case, nine of the twelve ownership coefficients found in Tables 2 and 4 are statistically insignificant, and the significant coefficients indicate unexpectedly that clients served in for-profit environs are earning less monthly income and are being sanctioned at higher rates. In short, there is little empirical evidence of privatized superiority in these models.

One possible reason for the prevalence of null findings could likely pertain to the system of transparent "performance based" contracting that exists in the state of Florida. Although workforce regions within Florida are at liberty to contract-out welfare administration to private sector stakeholders, they are not at liberty to design unique contracts that outline desired performance objectives. Performance benchmarks related to work-participation rates and wage ratios, for instance, are centrally and uniformly developed at the state-level by the Florida Department of Children and Families.

Regardless of administrative ownership, all welfare providers in Florida are held to uniform performance standards, and performance outcomes are publicly scrutinized in quarterly "red" and "green" reports that rank how various regions are performing in terms of work participation and the like[28]. The uniformity of performance pressures inherent in the Florida contracting system likely mitigates any main effects of administrative ownership. When public agencies and non-profits must compete alongside profit seekers for similar performance-based contracts, the efficacy of privatization is seemingly decreased. Privatization is not an administrative panacea.

[28] Top performing regions are put in the "green" while underperforming regions are put in the "red", and these summary TANF performance reports are distributed throughout the state. Having performance publicly scrutinized likely incentivizes welfare providers to optimize program outputs, irrespective of organizational form and ownership.

Future research should proceed in several directions. This analysis presented here utilized dummy variables (0 to 1 coding) to denote administrative ownership but there are likely other agency-level variables that matter to TANF employment outcomes. Factors found within different welfare agencies, such as organizational culture or managerial expertise, could theoretically impact TANF program outcomes and need to be explored in future research. In addition to agency-specific variables, other contextual variables, such as county-level business activity and other economic measures (poverty rates, county wealth, etc.) should also be explored.

Another possible avenue for future research involves the incorporation of qualitative or descriptive evidence that augments statistical analyses. The research presented here collected and coded administrative ownership in Florida across several years, but did not flesh out what exactly administrative ownership entails. Through interviewing local TANF administrators in various privatized settings or observing the actual daily operations taking place, researchers can develop a more complete account of the contracting process and innovative operations taking place across administrative settings .

Future research would also benefit from moving beyond the state of Florida. All current systematic quantitative endeavors connecting TANF administration to employment outputs are undertaken in Florida, thus the generalizability of any findings is incomplete until other states are examined. This research expands and largely confirms Crew and Lamothe's previous assertions about the inadequacies of TANF privatization in Florida, but researchers and policymakers require a more general understanding of the relationship between contracting and outcomes. This can only be accomplished by extending multi-level analyses to other state-level contexts.

Although privatized welfare providers are not found to consistently induce superior employment outcomes among the general TANF population in Florida, the evidence in the final section of this report suggests that privatizing welfare administration also does not have deleterious effects on disadvantaged clientele. On the contrary, the outcomes of clients lacking a high school education were *not* found to differ significantly across administrative arrangements. In the case of another disadvantaged group, African American clients, it appears that being served by profit-seekers does *not* decrease the likelihood that these clients will be working full-time and exiting due to employment.

Furthermore, there is evidence that opening up welfare administration to private, non-profit organizations can assist African American clients. African American clients served in non-profit organizations are more likely to be participating in full-time work activities, more likely to exit TANF due to employment, and also earn more in monthly income than African American peers served by for-profits and public agencies. Although no steadfast causal claims can be put forth at this juncture, the exploratory findings presented in this study set the stage for continued research into the consequences of welfare contracting.

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Appendix

Summary of Variables

State-Level Dependent Variables:

TVPrivate – Range = 0 to 74, Total-value of TANF contracts to private service providers as a percentage of total TANF spending. Source: The General Accounting Office, 2002. Mean = 15.16, standard deviation = 16.31
NonProfit - Range = 0 to 100, The percentage of privatized TANF funding afforded to non-profit organizations, weighted by the total value of TANF contracts. Source: The General Accounting Office, 2002. Mean = 74.45, standard deviation = 27.94
ForProfit – Range = 0 to 100, The percentage of privatized TANF funding afforded to private organizations, weighted by the total value of TANF contracts. Source: The General Accounting Office, 2002. Mean = 25.55, standard deviation = 26.06

State-Level Independent Variables:

LogPop – Range = 5.69 to 7.54, The log (base10) of state population. Source: The University of Kentucky Center for Poverty Research State-Level Database, available at www.ukcpr.edu, 2000. Mean = 6.53, standard deviation = .453
LogBus – Range = 1.44 to 2.94, The log (base 10) of service business establishments. Source: Statistical Abstract of the United States, 2000. Mean = 2.27, standard deviation = .491
FTE PerCap – Range = 420 to 806, State government's full-time equivalent (FTE) employment per 10,000 population. Source: Statistical Abstract of the United States, 2000. Mean = 558.62, standard deviation = 68.06
GovtID – Range = 5.38 to 97.5, Ideological score of state governments constructed by Berry, et. al., 1996. Higher scores indicate greater amounts of state government liberalism. Mean = 44.45, standard deviation = 27.06
***Capacity* –** Range = 54 to 149, Fiscal capacity index developed by Yatiz et al. Mean = 101.96, standard deviation = 20.56
***CasePop* –** Range = .11 to 2.87, Percentage of total state population that is receiving welfare benefits. Source: The University of Kentucky Center for Poverty Research State-Level Database, 2000. Mean = .681, standard deviation = .421
Poverty – Range = 6.1 to 20.3, Percentage of total state population that has incomes below the federal poverty line. Source: Statistical Abstract of the United States, 2000. Mean = 12.11, standard deviation = 3.22
UC-Turnout – Range = 129.09 to 216.87, Percentage of the upper class that voted in a state divided by the percentage of lower class that did so, multiplied by 100. Constructed by Avery and Peffley, 1996. Higher scores indicate greater upper-class turnout vis-à-vis lower class voters. Mean = 172.23, standard deviation = 20.04
AA-Caseload – Range = 0.3 to 83.8, Percentage of state welfare caseload that is headed by African Americans. Source: The University of Kentucky Center for Poverty Research State-Level Database, 2000. Mean = 34.57, standard deviation = 27.12

Individual-Level Dependent Variables:

***Work Participation* –** Range = 0 to 1, Coded 1 if meeting federal TANF work participation requirements. Mean = .256, standard deviation = .483 (open cases)
***Sanction* –** Range = 0 to 1, Coded 1 if case has previously received or is currently sanctioned for non-compliance with program rules. Mean = .187; standard deviation = .315 (open cases)
***Earnings from Employment* –** Range = 0 to 2,416, Reported monthly earnings from employment. Mean = 83.05, standard deviation = 249.67 (open cases); Mean = 94.67, standard deviation = 293.68 (closed cases)
***Reason for Closure Employment/Earnings* –** Range = 0 to 1, Coded 1 if exit TANF due to employment or earnings. Mean = .205; standard deviation = .404 (closed cases)
***Reason for Closure Sanction* -** Range = 0 to 1, Coded 1if closed due to sanction for non-compliance with program rules. Mean = .283, standard deviation = .451 (closed cases)

Individual-Level Independent Variables:

Black – Range = 0 to 1, Coded 1 if African American. Mean = .518, standard deviation = .499 (open cases); Mean = .513, standard deviation = .499 (closed cases)
Latino – Range = 0 to 1, Coded 1 if Hispanic/Latino. Mean = .191, standard deviation = .393 (open cases); Mean = .208, standard deviation = .406 (closed cases)
Female – Range = 0 to 1, Coded 1 if female. Mean = .933, standard deviation = .249 (open cases); Mean = .926, standard deviation = .262 (closed cases)
Single – Range = 0 to 1, Coded 1 if single. Mean = .747, standard deviation = .471 (open cases); Mean = .731, standard deviation = .444 (closed cases)
***LTHS* –** Range = 0 to 1, Coded 1 if have less than 12 years of formal education. Mean = .529, standard deviation = .474 (open cases); Mean = .599, standard deviation = .491 (closed cases)

County-Level Independent Variables:

Public – Range = 0 to 1, Coded 1 if TANF is administered by government agencies. Mean = .103, standard deviation = .304
ForProfit – Range = 0 to 1, Coded 1 if administered by for-profit firms. Mean = .411, standard deviation = .492
NonProfit – Range = 0 to 1, Coded 1 if administered by non-profit organizations. Mean = .391, standard deviation = .488
Unemployment – Range = 1.9 to 11.1, County unemployment rate. Mean = 3.89, standard deviation = 1.36
Ideology – Range = .239 to .674, County percentage of votes for Al Gore in the 2000 Presidential Election. Mean = .495, standard deviation = .086