

**Working Paper of
The Project on the
Public Economy of Work**

**Contracting Welfare Reform:
Uncertainties of Capacity-Building
Within Disjointed Federalism**

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EXECUTIVE SUMMARY

Under the banner of devolution, welfare reform legislation enacted in 1996 gave states broad latitude to reorganize welfare delivery in order to make work its focal point. The law established *what* states must do (require work), but largely left to them the question of *how* to do it. Since TANF's implementation began in 1997, there has been a substantial shift in welfare-to-work responsibilities from public welfare agencies to private intermediaries. Yet, nearly five years later, we know remarkably little about how these changes have occurred and whether they are leading to the creation of a new system of provision organized to support work.

The Analysis

This paper presents findings on contracting as a capacity-building strategy for providing welfare-to-work services. Our inquiry aims to give specific contours to the new institutional arrangements emerging from this strategy and to assess the challenges of capacity-building within disjointed federalism. This analysis represents one part of a larger project using Chicago as an urban laboratory to investigate changes in institutional arrangements and agency practices occurring the aftermath of welfare reform.

For this analysis, we collected all contracts and grants awarded to intermediaries serving Chicago welfare recipients over a four-year period from FY '98 - '01. In addition, we conducted in-depth interviews with key state and local administrators and with selected service providers. These data document a virtual "contracting explosion" and provide a foundation for examining its dynamics and character, including: trends in the scope and amount of contracting, the relative role of non-profits and for-profits, patterns of continuity and instability, and the structure of performance-based contracting. Although contracting clearly provided a quick response strategy for expanding service provision, our analysis suggests that its unevenness and uncertainties raise questions about its viability as a strategy for building service capacity over the longer-term.

Key Findings

- Contracting welfare reform has occurred within a context of "disjointed federalism", producing a complicated and only loosely-aligned configuration of policy responsibilities and resources. Arrangements for providing welfare-to-work services in Chicago are quite complex, involving four separate governmental units and three independent levels of government, each nominally autonomous with respect to its contracting choices and practices. Service provision also involves separate, but inter-related, federal policy initiatives and funding streams.

- Welfare reform produced an explosion in contracting to intermediaries. Between FY '98 and '01:
 - ✓ The number of organizations receiving contracts to provide welfare-to-work services in Chicago nearly doubled.
 - ✓ Government spending for welfare-to-work contracting rose from \$14.4 statewide to \$115.7 m. in Chicago alone, a 700 percent increase.
- The great majority of contracting to intermediaries was to private organizations, both non- and for-profit.
- Both state and city agencies distributed the bulk of their contract dollars to non-profit agencies. However, they did so by different proportions. A four-year comparison indicates that the city agency, MOWD, allocated 43 percent of its funding for private intermediaries to for-profits, while the state agency, IDHS, allocated 23 percent.
- Contract dollars received over the four-year period by individual private intermediaries ranged from \$20,000 to just over \$14 million. The median for-profit firm received 32 percent more in public funds than the median non-profit and was contracted to provide 25 percent more job placements for welfare recipients.
- The big bang in contracting to private intermediaries occurred in FY 1999, with government expenditures increasing by 300 percent from the prior year, largely fueled by the infusion of new funds from the federal Welfare-to-Work Block Grant. By FY 2001, only one TANF dollar was being allocated to intermediaries for every three WtW dollars.
- There is marked instability in new contracting arrangements. Over the four-year period examined, two-year contracts were relatively common, comprising 57 percent of all awards. Only one-third of contracts covered more than two years; but some intermediaries obtained extensions and multiple contracts which allowed for more sustained involvement.
- There is a mismatch between performance-based contracting, focusing on job placement targets, and incentives needed to advance quality and capacity-building in the provision of welfare-to-work services. Rudimentary performance measures sets the stage for a numbers game in which intermediaries are rewarded for obtaining placement targets at the lowest marginal cost and in which investments in building capacity for service quality are rewarded only indirectly if at all.
- Dramatic changes in Chicago's newly-built contracting regime are likely to occur, unless the federal government refinances or replaces the Welfare-to-Work Block Grant or the state uses TANF or other funds to sustain contracting arrangements

beyond FY '02. WtW supplied nearly two-thirds of funding for Chicago's private intermediaries in FY '01. It now appears that those funds will be depleted within the next year and most programs relying on those funds closed down. If that occurs, much of the investment made in building institutional capacity over the past four years will be lost.

- The state welfare agency remains the largest service provider, despite the substantial increase in contracting. Private intermediaries accounted for only about 13 percent of the welfare recipients entering the paid labor market in Chicago. This underscores the continued importance of public welfare agencies in the implementation of a work-centered welfare policy.
- Capacity-building for the long haul—in private agencies, public bureaucracies and public-private collaborations—is jeopardized by inconsistency in policy and administrative practice. Capacity-building for the longer-term requires more than a short-term infusion of funds. It also requires sufficient financial and policy stability, as well as carefully-structure performance measures, that support organizations in developing the staff expertise, administrative infrastructure, relationships to area employers, and opportunities to learn through experience.

INTRODUCTION¹

Under the banner of devolution, welfare reform legislation enacted in 1996 gave states broad latitude to reorganize welfare delivery in order to make work its focal point. Although TANF (Temporary Assistance for Needy Families) allowed states to enforce work simply through policy mandates, such as time limiting benefits or demanding work as a condition for cash assistance, it also included provisions encouraging states to create services linking welfare recipients to the paid labor market.² In short, TANF established *what* states must do (require work), but largely left to them the question of *how* to do it.

States had experience with work programs under prior welfare policies. But the 1996 law brought new challenges in the form of rapidly rising quotas for work participation and time limits that would eliminate welfare as a source of family support after five years. If states were to meet these challenges and support the efforts of individuals to make it as workers, they would need to substantially increase their capacity to provide work-related services and do it quickly.

Although there is no template for building service capacity, states have generally followed two routes. One involves maintaining existing institutional arrangements, but seeking to change how they operate. For example, in the case of the JOBS program that preceded TANF,³ many states sought to build capacity by establishing welfare-to-work units within their welfare bureaucracies and steering routine casework toward job preparation and placement. Alternatively, states can shift responsibilities for welfare-to-work, distributing "nontraditional" welfare functions outside their own bureaucracies and building capacity by contracting those functions to private agencies.

Contracting, as a form of privatization, is hardly a new strategy for social service provision. In the sixties, it was fueled by the presence of new federal funding (Derthick, 1975; Young et al, 1981) and, in the seventies, by fiscal strains and the search for greater "efficiency," or at least lower fixed costs (Brodkin and Young, 1989; Kramer, 1994). The institutional consequences for the social services system, however, have been mixed. While contracting created a foundation leading to a permanent institutional role for non-profits in some areas, for example, in child welfare services (Young et al, 1981), other contracting arrangements have proved ephemeral and uneven (Sosin, 1990). On the whole, the consequences of contracting for efficiency and effectiveness remain a subject of debate (Kramer, 1994).

In the case of welfare reform, the picture that is emerging is one of a marked shift toward private provision. However, the precise character and scope of this shift is unclear. After 1997, state responses to the new welfare law took a variety of forms, ranging from large-scale privatization in Texas and Florida to a mixture of public-private provision elsewhere. Nearly five years into the law's implementation, we still know remarkably little about how these changes have occurred and whether they are leading to the creation of a new system of provision organized to support work. Are efforts to build capacity through contracting creating a new and permanent role for private

organizations, as they did in the case of child welfare? Or are new arrangements more fragmented and unstable, as in the case of provision for the homeless? Are non-profits in the vanguard of new institutional arrangements or are for-profit firms assuming a larger role in social service provision?

We seek to shed light on these critical issues by mapping the emergence of a new contracting regime in a complex, urban environment and by assessing the interplay between federal law, state welfare administration, and local institutions in its evolution. Our analysis of contracting as a capacity-building strategy in Chicago focuses on four key dimensions of institutional change: 1) the extent of the shift from public to private provision; 2) the distribution of public resources and responsibilities between non-profit and for-profit agencies; 3) indicators of stability and instability that have bearing on capacity-building over the longer-term; and 4) the structure of performance-based contracting. A close look at recent experience provides an opportunity to consider both the future of a work-centered welfare law, in which services play a significant role, as well as the broader prospects for contracting as a capacity-building strategy.

Mapping the Emerging Contracting Regime

There have been a variety of efforts to describe evolving service arrangements around the country. However, in the absence of defining federal administrative requirements and monitoring, these inquiries necessarily proceed state-by-state, county-by-county, even city-by-city. To date, what little we know about varieties of service strategies must be compiled from point-in-time snapshots of selected sites, each looking from a slightly different angle and using varied methodologies—from a survey of prospective state plans, to a close-up look at how nonprofit organizations figure into one county's service strategy.⁴

We seek to contribute to understanding this emerging picture through a somewhat different approach. We examine the evolution of welfare-to-work contracting as a capacity-building strategy in one big city. In adopting this approach, we take the long view that institutional change evolves over time and cannot be captured in a moment's snapshot. Instead, we use Chicago as an "urban laboratory" in which to investigate the dynamics of changing service delivery. To our knowledge, this is the only study tracing these developments over time.

This study is part of a larger project assessing changing arrangements and practices within and across the key organizations—public agencies, private service providers, and employers—at the nexus of welfare-to-work policy. Although institutional change tends to attract less attention than more visible aspects of welfare reform, such as declining caseloads or recipient work performance, the content and quality of formal policy depends in large measure on *how* it is delivered and *who* is delivering it (Brodkin, 1997, 1999). Welfare reform implicitly assumed that states would build the capacity to make the law work. Efforts to build such capacity through contracting constitute an important part of this unfolding story.

For this analysis, we have collected all contracts awarded over a four-year period to intermediaries providing welfare-to-work services in Chicago.⁵ In addition, we have conducted in-depth interviews with key state and local administrators and with selected service providers. As we will describe, the administrative arrangements for providing these services are quite complex, involving four separate governmental units and three independent levels of government, each nominally autonomous with respect to its contracting choices and practices. They also involve separate, but inter-related, federal policy initiatives and funding streams. We use the term "disjointed federalism" to refer to this complex and only loosely aligned configuration of policy responsibilities and resources.

This structural complexity presents challenges, both for administrators and for researchers seeking to examine it. There is no central repository for contract information, and government administrators did not themselves have a composite picture of contracting arrangements. In acquiring and interpreting contract data for Chicago, we depended substantially on the assistance of state and local officials, whose guidance was crucial in tracking down and understanding contracting documentation.⁶ Even with the cooperation of public officials, it took nearly two years and three Freedom of Information requests to assemble contract data.⁷

DISJOINTED FEDERALISM: THE CONTEXT FOR CAPACITY-BUILDING

Devolution as a term oversimplifies the institutional environment for implementing welfare policy. This term generally refers to a decentralized form of policy provision—in the case of welfare, the federal delegation of administrative authority to the states. But actual arrangements are more complicated. Welfare reform involves multiple federal authorities and laws at the "top" of the policy chain, as well multiple governmental authorities at the "bottom" where policy is delivered. These interact in complicated ways.

Our examination of contracting in Chicago reveals a complex set of arrangements best characterized as disjointed federalism. There is no master design for a welfare-to-work *system* as such. Decisions about contracting, distribution and contract management occur across levels and units of government—even within a single city. Funds for contracting come through two major federal sources: TANF and the Welfare-to-Work Block Grant. TANF funding for services in Chicago is distributed through the Illinois Department of Human Services (IDHS), the state agency responsible for public assistance. Welfare-to-Work Block Grant (WtW) funds for Chicago are distributed through three different levels of government: the U.S. Dept. of Labor (DOL competitive grants), the Governor's Discretionary Fund (administered by the state's workforce and employment security agencies), and the Mayor's Office of Workforce Development (MOWD). (See Appendix for a summary of funding sources, administering agencies, and their programs.)

Divided authority and responsibility are common features of federalism, features that impart considerable complexity to the administration of U.S. social programs. In fact, the arrangements we will describe seem to offer an apt illustration of the "ambivalent" and "conflicting" trends much-noted in contemporary studies of intergovernmental relations.⁸ However, constitutional divisions structured into the American state do not fully determine policy design. In practice, policy may be designed to be administered in a variety of ways, from uniform federal administration (e.g., social security) to highly decentralized administration with expansive state and local discretion (e.g., education). The choice of policy design, while not always politically apparent, has political consequences in that it directs resources and authority to different levels of government that are differently situated in terms of their constituencies and interests.

Further complicating this picture, divided public authority may be coupled with a delegation of responsibilities to private organizations, both non-profit and for-profit. In the welfare case, not only do government agencies contract with an assortment of private providers, but private organizations may hold contracts with more than one public agency and provide services under different legislative mandates. The combination of devolution and delegation creates a complex and dynamic matrix of relationships. Under these circumstances, it should not be surprising that it is difficult to get a clear picture of contracting as a strategy for providing welfare services.

Nationally, states have adopted a variety of capacity-building strategies, ranging from broad administrative consolidation to more modest interagency cooperation and from extensive to limited privatization. A study of early administrative responses to welfare reform indicated that some states, among them Utah and Wisconsin, consolidated administration of employment-related services within their employment bureaucracies. In Illinois and other states, such as Florida, Missouri and Ohio, administration of workforce activities were split between agencies serving primarily welfare and non-welfare constituencies. Many states have since sought to bridge these divisions by improving interagency coordination through formal and informal means, with Florida having gone so far as to turn its entire welfare system over to its Work Development Board (Gais et al, 2001).

Research at the early stages of welfare reform also indicated that states were commonly using contracting to private providers as a key services strategy, but differing in how they used it (Gais et al, 2001; Pavetti et al, 2000).⁹ For example, Florida and Los Angeles County contracted with for-profit firms for both income maintenance and services (Sanger, 2001). Mississippi initially launched a broad privatization effort, but subsequently returned to public provision after encountering difficulties monitoring the performance of outside contractors (Breux et al, 2000). More common was the strategy, adopted in Illinois and elsewhere, of limiting contracting to specialized services and maintaining a strong public agency role in most other aspects of service delivery. These snapshots provide a valuable glimpse of the variety of state responses at the outset of welfare reform's implementation.

In this paper, we seek to move beyond these snapshots and to illuminate the structure and dynamics of change. We focus here on one big city at the locus of efforts to build service capacity through contracting in a context of disjointed federalism. Our examination of welfare-to-work contracting over a four-year period in Chicago analyzes: 1) the scope of change in public vs. private provision, 2) the distribution of functions between non-profit and for-profit contractors, 3) signs of stability and instability in the emerging contracting regime and 4) the structure of performance-based contracting. We use this analysis to highlight concerns about the viability of contracting as a capacity-building strategy and the future of services in the next phases of welfare reform.

THE CONTRACTING EXPLOSION

The distinguishing feature of the so-called "welfare explosion" of the 1970s was a dramatic increase in caseloads, as poor families increasingly sought relief from public agencies, and those agencies opening the doors to assistance, albeit with a fair measure of reluctance (Piven and Cloward, 1993). In the late 1990s, we began to witness a new "welfare explosion," but one with a very different character. Welfare reform produced a virtual explosion in contracting to intermediaries, as state and local government agencies sought to quickly build service capacity to help reduce caseloads and meet work quotas.

In Illinois, the target of this explosion was Chicago, which has the largest concentration of the state's welfare population.¹⁰ Although intermediaries previously had a role in service provision, that role was modest prior to 1996. Services intended to prepare and place welfare recipients in paid employment had been conducted largely in-house within the state welfare agency. After TANF, there was a substantial shift in these responsibilities to intermediaries. The number of organizations receiving contracts nearly doubled, and, more significantly, the amount of public funds going to contractors increased more than eight-fold. Clearly, contracting has played a major part in capacity-building.

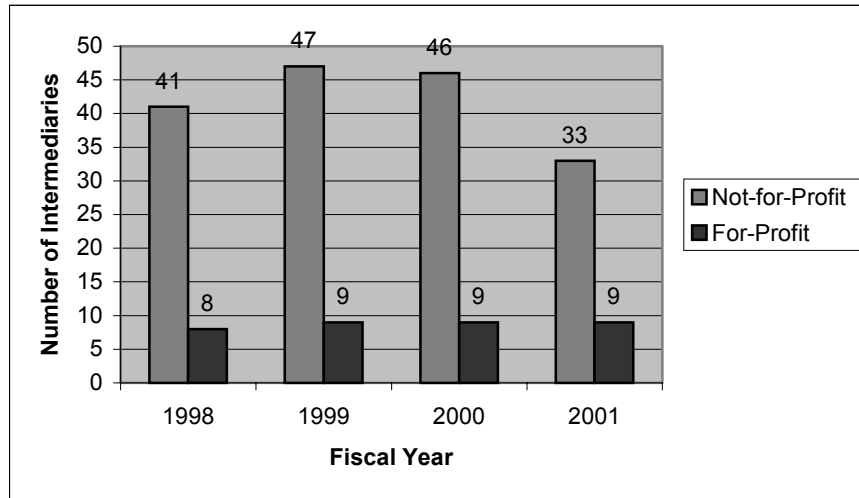
Scope of Change

In the period immediately preceding TANF, from FY 1993 through FY 1996, the state of Illinois used only 40 different intermediaries *statewide* to provide welfare-to-work services. During the first four years of TANF implementation (FY 1998-2001),¹¹ the state turned to 72 intermediaries to provide welfare-to-work services in Chicago alone. This figure, representing the number of contracts, somewhat understates the scope of the contracting explosion, as it does not count intermediaries providing services as subcontractors or partners to primary contractors.

In building new capacity, state and city agencies relied heavily on non-profits, with as many of 47 involved in welfare-to-work provision in the peak year of FY 1999. Despite the surge in contracting, the relative distribution of shares within the contracting

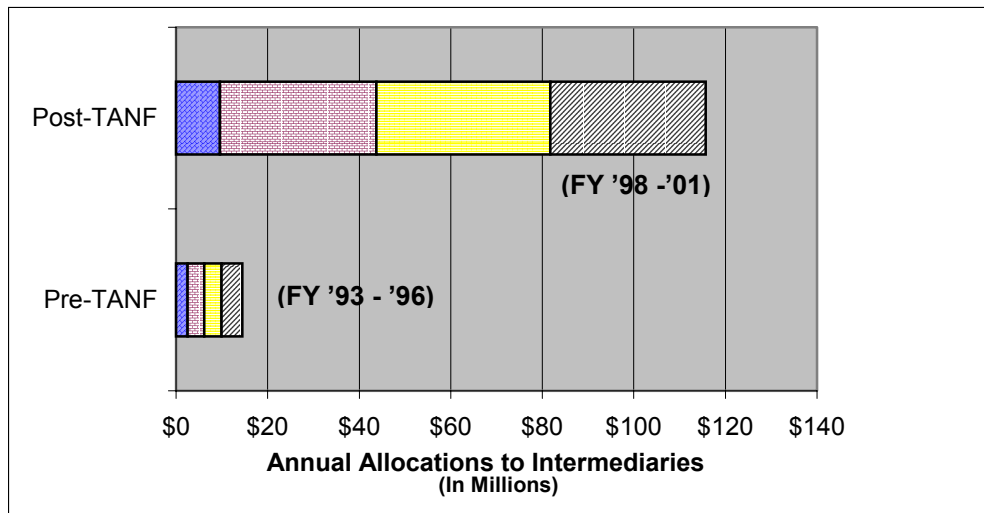
universe remained stable. Private, non-profits constituted 83 percent of outside providers in the four years before TANF and 82 percent in the four years after.

Fig. 1.
Number of Private Welfare-to-Work Intermediaries: FY 1998 - 2001



The importance of contracting as a capacity-building strategy is most strikingly evident in increased public spending. In the four years prior to TANF, government contracts and grants to intermediaries totaled \$14.4 m. *statewide*.¹² In contrast, the four years following TANF saw government spending rise to \$115.7 m., a remarkable 700 percent increase, for service provision *in Chicago alone*. (See Fig. 2.)

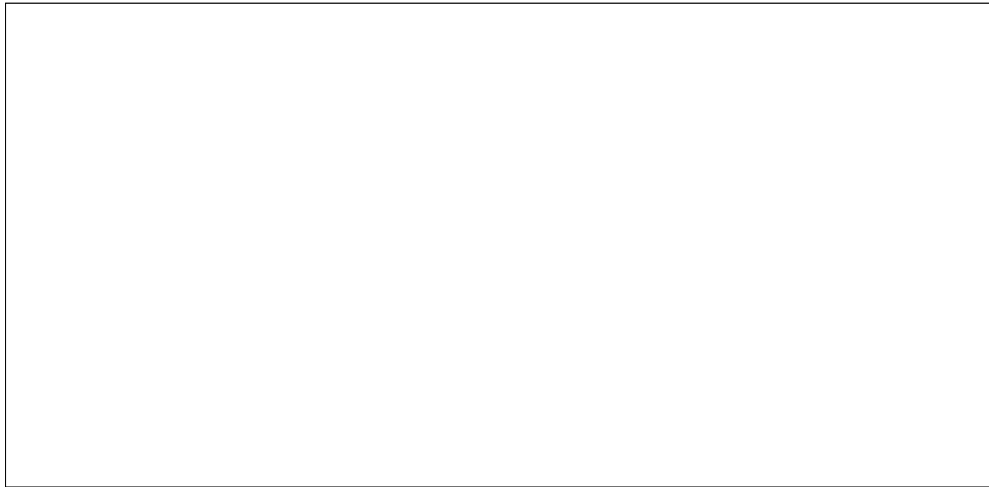
Fig. 2.
Pre- v. Post-TANF Allocations to All Intermediaries



The big bang in private contracting occurred in FY 1999, with government expenditures increasing by 300 percent from the prior year, largely fueled by the

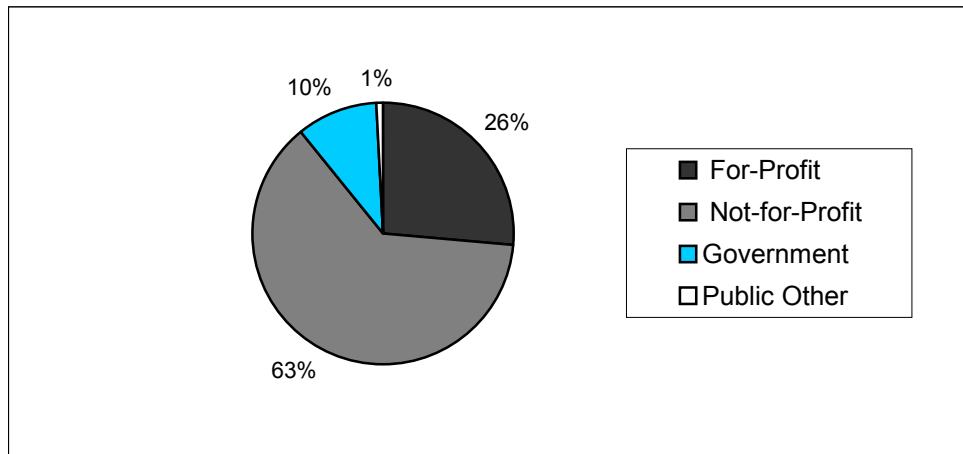
infusion of new funds from the Welfare-to-Work Block Grant. After that, the level of investment was relatively stable, partly due to multi-year contracts. Between FY 1999 and 2001, the annualized allotment of funds to private intermediaries hovered between \$29 and \$34 million.¹³ (See Fig. 3.)

Fig. 3.
Public Funds to Private Intermediaries: FY 1998 - 2000



Private intermediaries received the bulk of contracting dollars. Eleven percent went to public or quasi-public institutions, including special welfare-to-work projects operated by two municipal authorities (Chicago Housing Authority and Metropolitan Pier Authority) and the state's own higher education institutions. Twenty-six percent of contract funds went to for-profit agencies. (See Fig. 4.) The for-profit share was disproportionate to their organizational numbers, as they comprised only 17 percent of the intermediary universe.¹⁴ However, these shares were distributed in rough proportion to the number of job placements they were contracted to provide.¹⁵

Fig. 4.
Public Funds to Intermediaries, By Type: FY 1998 - 2001



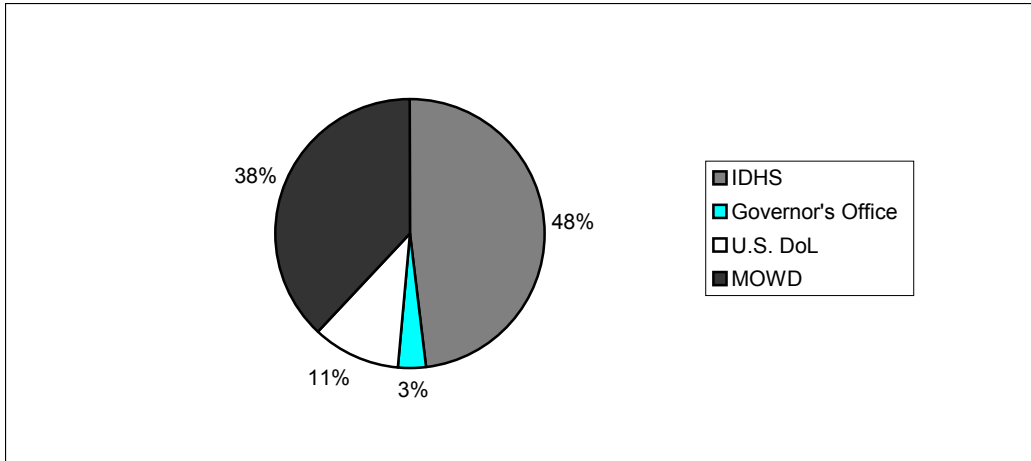
Change Within Disjointed Federalism

Under AFDC, the Illinois Department of Human Services (IDHS) was the primary contractor for welfare-to-work services for its public assistance clients, routinely awarding a small number of contracts each year, largely to local non-profit agencies. With the advent of TANF, the state agency remained the dominant player in the distribution of funds provided under the auspices of the U.S. Dept. of Health and Human Services. IDHS maintained responsibility both for public assistance functions performed by its own bureaucracy and for contracting out services that supplemented its own activities. However, Chicago's workforce agency assumed a new and substantial role in the years following reform. Using federal Welfare-to-Work (WtW) Block Grant funds, the Mayor's Office of Workforce Development (MOWD) made a large investment in private intermediaries, a development with significant consequences for capacity-building.

TANF contracting shot up in FY 1999 - 2000, with IDHS contracts to private intermediaries growing from \$8 m. to \$17.6 m. Yet, IDHS no longer dominated the new contracting regime. The U.S. Dept. of Labor, as administrator of the new WtW Block Grant, provided a separate stream of funds for service expansion. When the city began issuing contracts with these funds in FY 1999, MOWD, Chicago's workforce agency, emerged as an equally significant player. It moved into contracting with \$10.8 million, rising to \$12.8 m. in FY 2000 and \$15.7 m. in FY 2001. Contracting to private intermediaries constituted a fairly obvious choice for the city, given that (unlike IDHS) it did not have its own bureaucracy that could provide services directly.

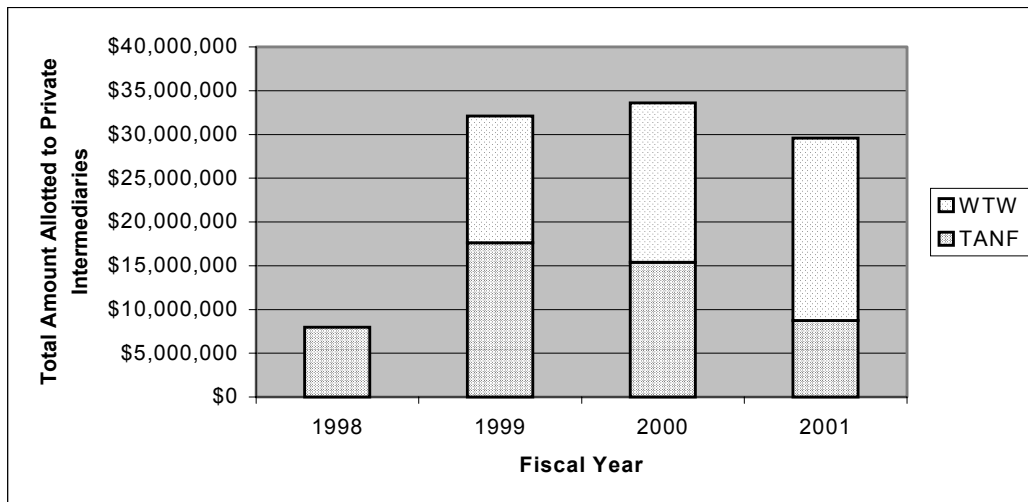
There are different pictures one may draw of this divided contracting authority. Examining total public spending for private intermediaries in Chicago over four years post-TANF, the state's welfare authority (IDHS) controlled 48 percent, the city 38 percent. Another 11 percent of private contracts and grants were disbursed by the federal government under terms of the WtW Block Grant. Three percent of contract dollars—in the form of WtW Governor's Discretionary Grants—were administered by other Illinois state agencies.¹⁶ (See Fig. 5.) In the Chicago area, the WtW awards to intermediaries actually outstripped the state's investment of TANF funds (\$53.5 million v. \$49.7 million).

Fig. 5.
Contracting to Private Intermediaries, By Public Agency: FY 1998 – 2001



A year-by-year breakdown provides a more dynamic view. The dramatic increase in contracting to private intermediaries is clearly tied to the infusion of federal WtW funds. As Figure 6 indicates, WtW constituted a significant and increasing proportion of total funding going to private intermediaries beginning in FY 1999. By FY 2001, only one TANF dollar was being allocated to intermediaries for every three WtW dollars.

Fig. 6.
Funds to Private Intermediaries, By Federal Funding Source: FY 1998 -2001



The federal block grant clearly played an important part in fashioning a rapid response to the demand for increased welfare-to-work services. However, its contribution to capacity-building over the longer-term is less certain, as the block grant is currently scheduled to expire at the end of FY 2004, leaving TANF as the primary source of fiscal support for service provision. A new federal initiative, the Workforce

Investment Act (WIA) may fill in some of the gaps. However, like its predecessor, the Job Training and Partnership Act (JTPA), it is not targeted to welfare recipients and does not reach the same client base.

REDISTRIBUTING RESPONSIBILITIES: THE ROLE OF NON-PROFITS AND FOR-PROFITS

Beyond questions of its scope, social service contracting to private agencies raises difficult questions about the benefits and risks of using non-profit and for-profit organizations to perform public functions. While privatization offers the much-discussed benefits of rapid deployment, flexibility, and functional specialization, it also raises issues of control and accountability. Analysts of public sector contracting contend that the benefits of market competition are hard to capture in an environment where political preferences and problematic measures of performance constrain choice.¹⁷ From that perspective, some analysts prefer contracting to non-profits, reasoning that they have stronger incentives to operate in the public interest, making government control less critical. Others question that reasoning and caution against reliance on non-profits, in part, because contracting may reduce the autonomy of the independent sector and undermine its vitality.¹⁸ It is in this uncertain environment that public agencies faced the challenge of ramping up their welfare-to-work services.

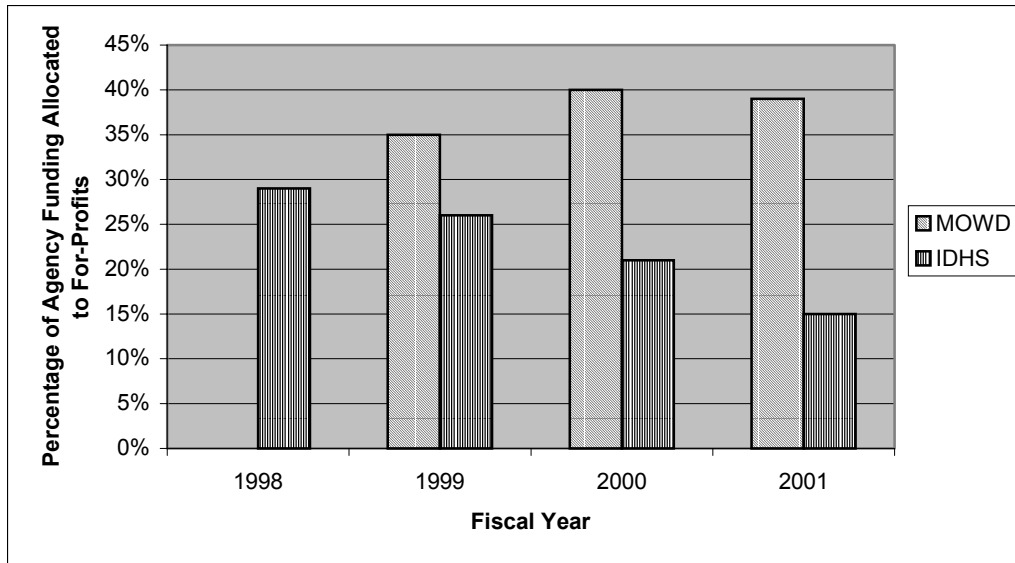
As we have discussed, the contracting explosion occurred across multiple levels of government, units within levels, and over time. Within the context of disjointed federalism, there were many informal efforts to coordinate state and local efforts. Nonetheless, units of government had independent authority to enter into contracting arrangements, were subject to different requirements depending on which funding streams they used, and brought different institutional experiences and interests to their contracting practices.

Under these circumstances, variations in contracting arrangements are to be expected. Our analysis shows that federal, state and city agencies differed, not only in the extent to which they used contracting as a strategy, but also in their reliance on non-profit and for-profit providers. We also found that contracting practices across levels and units of government differed in the degree and continuity of support provided to private intermediaries. Our data offer some intriguing glimpses into this multi-layered, continuously changing contracting picture.

Although state and city agencies both fueled Chicago's contracting explosion, their choices about types of intermediaries—whether to rely on non-profits or for-profits—varied significantly. Both state and city distributed the bulk of their contract dollars to non-profit agencies. However, they did so by different proportions. When it began welfare-to-work contracting in FY 1999, the city agency, MOWD, allocated a greater share of its funds to for-profits (35 percent) than did IDHS (26 percent). (See Fig. 7.) The gap between state and city increased steadily, so that by FY 2001, the city was allocating more than twice as large a proportion of its funds to for-profits as the

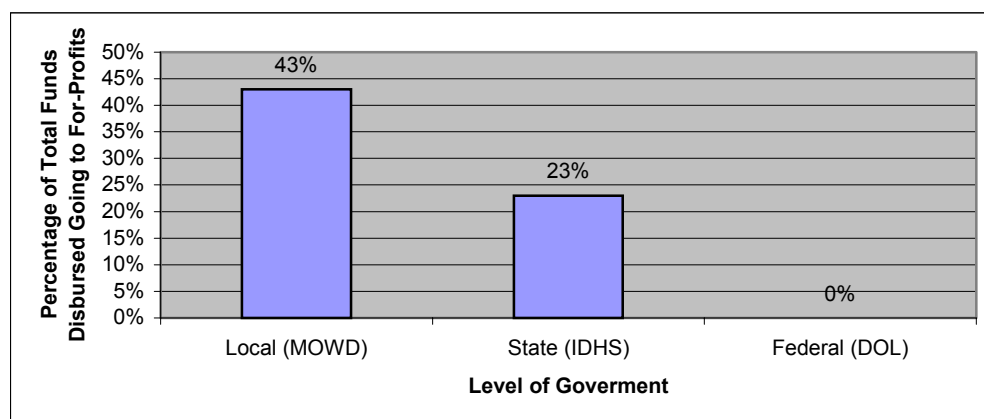
state welfare agency. A four-year comparison of state and city contracting shows MOWD allocating 43 percent of its funding for private intermediaries to for-profits and IDHS allocating 23 percent. These differences were generally consistent with prior contracting patterns, as government agencies seemed to rely, when they could, on organizations with which they had existing relationships.

Fig. 7.
Share of Public Funding for Private Intermediaries to For-Profits,
By Year and Level of Government: FY 1998 –2001



While city contracting choices raised the overall share of for-profits in Chicago, direct allocations from the federal government provided a counterweight. (See Fig. 8.) Each of the three competitive grants the U.S. DOL awarded to private intermediaries in Chicago went to non-profit agencies, although the competition was open to both non-profit and for-profit applicants. (DOL also made awards to government agencies.)

Fig. 8.
The Proportion of City, State, and Federal Contract/Grant Dollars
Going to *For-Profit* Intermediaries: FY 1998 - 2001



Core and Peripheral Players

The aggregate picture shows capacity-building heavily focused on non-profit organizations. In a sense, it follows the familiar model of provision through the "independent sector." This is an approach that resonates to normative notions of civic engagement and community responsiveness (Alexander, Nank and Stivers, 1999; Salamon, 1993), but also provokes concern about the penetration of the independent sector by government (Kramer, 1994; Smith and Lipsky, 1993).

The general dominance of the non-profit sector in the aggregate, however, reveals little about the relative position of individual intermediaries, whether they were core or peripheral players. Yet, such insight is vital to an analysis of capacity-building for the obvious reason that government investment scattered in small and intermittent amounts across a large number of intermediary organizations has different implications than investment of greater size and duration in a targeted set of providers. Our detailed contracting data provide a rare opportunity to examine patterns across organizations and over time.

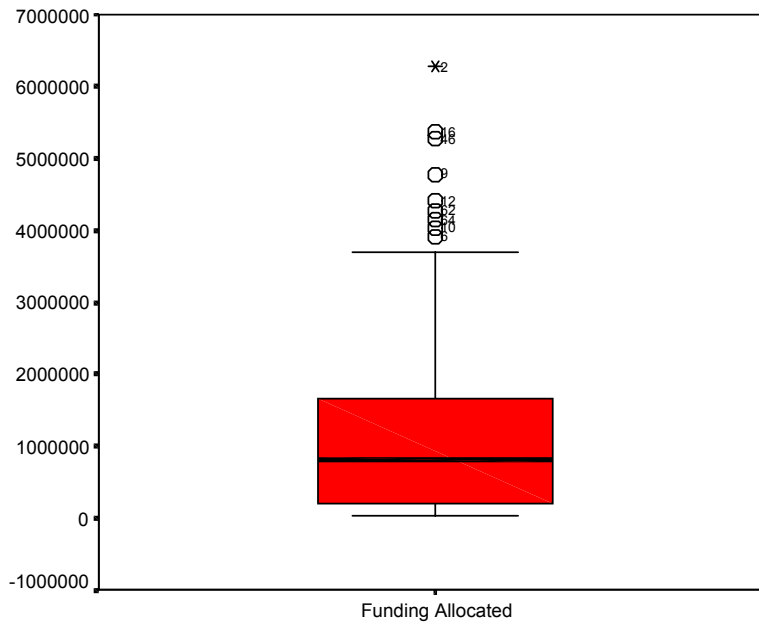
In Chicago, we found wide variation in the total amounts of contract funding allocated to individual intermediaries—from virtual token amount to millions of dollars. This reflects disparities in both the size of individual contracts and in the number of contracts obtained by specific organizations. Contract dollars received over the four-year period by individual organizations ranged from \$20,000 to just over \$14 million. (See Table 1.)

Table 1.
Levels of Funding to Private Intermediaries: FY 1998 - 2001

	Private Intermediaries
Mean	\$1,540,905
Median	\$824,274
Minimum	\$20,000
Maximum	\$14,256,747
Percentiles 25%	\$195,000
75%	\$1,725,511

The skewed character of the distribution, as evidenced by the disparity between the mean and median amounts, is partly due to the amount of funding received by one locally-based for-profit firm, Employment & Employer Services (E&ES). This firm received more than twice as much funding as the second most heavily-funded intermediary—Abraham Lincoln Center, a large, well-established not-for-profit—and received 1600 percent more than the median intermediary. We reanalyzed the data with E&ES removed as an outlier. A box plot depicting the distribution of contracting dollars indicates that most agencies received between \$200,000 and \$1.7 million, while a small handful received several times as much. (See Fig. 9.)

Fig. 9.
Distribution of Contract Dollars to Private Intermediaries (excluding E&ES):
FY 1998 - 2001



The success of E&ES in obtaining contract funding points to a more general characteristic of the funding distribution. For-profits comprised a minority of the intermediary universe but tended to receive more contract dollars than their non-profit counterparts. Individual non-profits received between \$20,000 and \$6.2 million in public funding, while for-profits received from \$70,000 to \$14.3 million. The median for-profit firm received 32 percent more in public funds than the median non-profit and was contracted to provide 25 percent more job placements for welfare recipients. (See Table 2.)

This suggests that a more complete picture of the emerging contracting regime requires examination, not only of relative shares allocated to different categories of providers, but also the relative importance of individual players. On the whole, the pic-

Table 2.
Levels of Funding to Private Intermediaries, By Type: FY 1998 – 2001

	Not-for-Profit	For-Profit
Mean	\$1,320,281	\$2,552,097
Median	\$688,800	\$911,121
Minimum	\$20,000	\$70,000
Maximum	\$6,279,546	\$14,256,747
Percentiles 25%	\$159,200	\$576,707
75%	\$1,647,856	\$3,787,515

ture is mixed. The city's independent sector held a dominant—if slightly declining—role in building capacity for welfare-to-work services between FY 1998 and 2001. However, the dominance of non-profits in the aggregate did not necessarily translate into a major role for most non-profit players. In fact, a relatively small number of them have had substantial and sustained involvement over time as core players. For-profits, although small in number, carried a share of service responsibilities exceeding their numbers. In terms of contract dollars and clients served, three for-profits were among the top ten and one firm, E&ES, ranked first.

We do not make a judgment here about the distinction between core and peripheral players. Short-term and small-scale involvement by some agencies may allow for diversity and flexibility, although it presents drawbacks in terms of stability and organizational development. In terms of building systemic capacity, our analysis strongly suggests that the distinctive role of core players merits closer attention than it has received to date. A more immediate policy concern is that core players, especially large for-profits, were heavily dependent on short-term federal WtW Block Grant funds. This raises serious concerns about the prospects for sustaining service capacity over the longer-term.

CONTRACTED CAPACITY: HOW STABLE IS IT?

Clearly, contracting to private intermediaries produced a rapid expansion in service capacity. However, aggregate data cannot reveal change and fluidity within the contracting universe. How stable are these arrangements? A certain degree of flexibility is regarded as a positive feature of privatization. But, instability, if too widespread, can mean high transaction costs for providers who must invest resources in pursuing government contracts and starting up new ventures. It also can mean lost opportunities for institutional learning and development.¹⁹ If contracting within disjointed federalism allows policy implementers to hit the ground running, the question remains: where will they be at the end of the race?

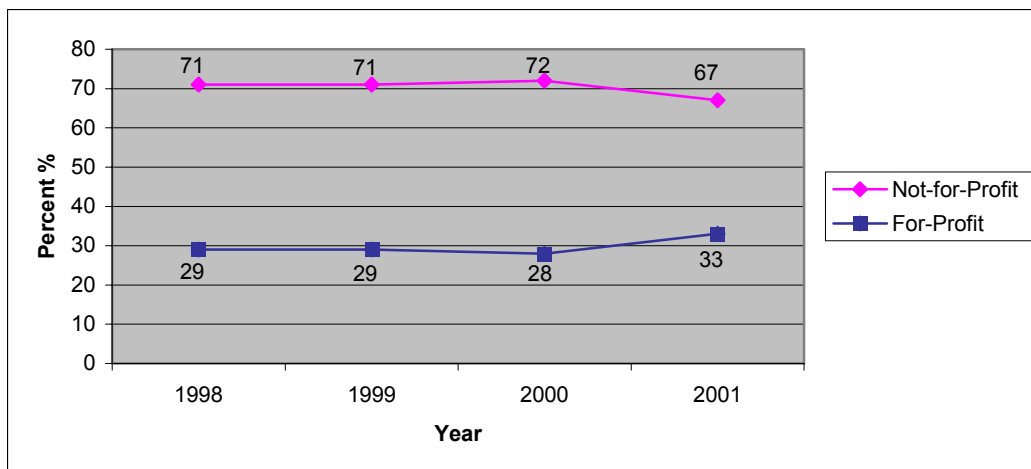
Our multi-year contract data allow us to take a first cut at examining the stability and consistency of contracting arrangements over a four-year period in order to assess whether a new set of enduring arrangements—in effect, a new system—is emerging. Are we witnessing a significant transformation in the structure of welfare provision? If so, what are its contours and are they firmly lodged or only temporary? Our analysis at this point can be only preliminary. But it suggests both the outlines of a new contracting regime and its fragility.

Trends in Contracting Arrangements

As we have discussed, aggregate data indicate a big bang in contracting beginning in FY 1999 with the infusion of WtW Block Grant funds. Private intermediaries seemed to have developed a sustained and relatively significant role in service provision through at least FY 2001, although dropping slightly in the most recent period. However, the apparent stability of emerging arrangements looks somewhat different when one examines variation over time more closely. One small but obvious change can be seen in the numbers. The involvement of contracted private intermediaries peaked at 56 in FY 1999, but had declined to 42 by FY 2001.

As noted, non-profits consistently captured the greatest share of public contract dollars (about 70 percent). But as the size of the contracting universe began to shrink in FY 2001, so too did the non-profit share. (See Fig. 10.) As expenditures declined from their peak, for-profits increased their share of the contracting pie by 5 percent, receiving 33 percent of all private contract dollars.

Fig. 10.
Percentage of Funds to Private Intermediaries, By Type: FY 1998 - 2001



The number of for-profits, while small, was less subject to fluctuation, indicating that a few of the largest found a stable niche as core players in the new contracting regime. Again, we note that this is unlikely to continue to be the case after the federal Welfare-to-Work Block Grant ends, the city's participation in welfare-to-work contracting diminishes or ends, and overall funding for contracting declines. More likely, the uneven dynamics of disjointed federalism coupled with intermittent federal and state fiscal support for service provision will produce further changes in the organizational distribution of responsibilities between non-profits and for-profits.

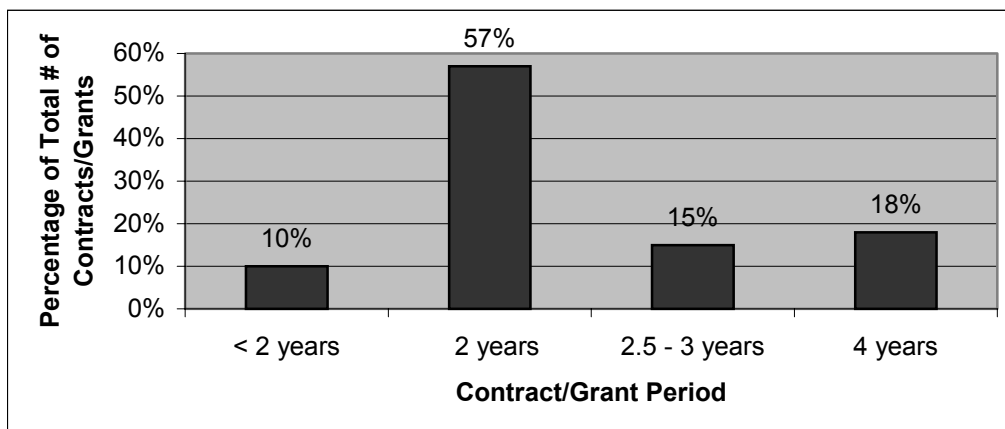
Disjointed Federalism and Stability

Despite the centrifugal forces of federalism and changing policy arrangements, our analysis discovered some structural continuities between the "old" and the "new" public economy of work in Chicago. Efforts to build service capacity through contracting did not start from scratch. Rather, they built on the prior experience of state and city agencies. Thirty-seven percent (or 13) of those private intermediaries serving welfare recipients during the last years of AFDC also received allocations under the new welfare-to-work regime. In effect, the state welfare agency (IDHS) continued to rely, when it could, on some familiar private organizations as contracting for services expanded.

In contrast, the city had little direct involvement in service provision to welfare recipients prior to TANF, but it did manage workforce development contracting under the terms of JTPA (the now-defunct Job Training and Partnership Act). That Act provided for services that included some welfare recipients, but were not targeted toward them. As the federal Welfare-to-Work Block Grant enlarged the city's responsibilities for providing services to welfare recipients, MOWD also turned to some of the contractors it had dealt with through JTPA. Of the 22 different intermediaries to whom MOWD let WtW contracts, six (27%) had received contracts from the agency under JTPA.²⁰

Although prior experience offered some continuity in building capacity through contracting, on the whole, we found evidence of marked instability in emerging arrangements. Over the four-year period examined, two-year contracts were relatively common, comprising 57 percent of all awards. Only one-third of contracts extended more than two years, a rather short horizon for organizational development and capacity-building. (See Fig. 11.) In view of the degree instability built into the system, it is not surprising that that the average number of non-overlapping funding quarters received by intermediaries was 10.4 (out of a possible 16).

Fig. 11.
Contract and Grant Awards by Duration: FY 1998 - 2001



Yet some intermediaries managed to counteract the structural limitations of short-term contracts to acquire more sustained support. In the case of certain IDHS contracts, the state agency maintained discretion under the contracting terms to extend or supplement the contract provisions without going through a new application process. Overall, nearly 25 percent of private intermediaries obtained continuous funding over the four-year period, most of them through these types of processes. Those organizations funded most continuously tended to be well-established, local non-profits.

A small minority of intermediaries was able to navigate the shoals of disjointed federalism, obtaining multiple contracts from different programs and levels of government. Among the 67 private intermediaries receiving contracts between FY 1998 - 2001, 13 organizations (19 percent) received both TANF funding from the state and WtW funding from the city. But only four organizations (six percent of the private intermediary universe) were able to use this strategy of cobbling together multiple contracts to achieve funding continuity for the full four years. With more than half of intermediaries receiving funding for 2 years or less, the overall picture is one of considerable fluidity.

Although disjointed federalism created opportunities for some providers to obtain sustained funding from multiple levels of government, this strategy was not without its costs. Intermediary organizations following this path had to prepare multiple applications and respond to divergent program and administrative rules, at times requiring that they deliver different services to somewhat different populations under the terms of each award. Moreover, multiple contracts did not necessarily mean funding continuity, as some were concurrent, not sequential. Consequently, organizations might be intensively involved in welfare-to-work services at one point and disengaged at another.

Even greater instability is likely, as WtW Block Grant funds are depleted and the authorizing legislation itself expires in FY '04.²¹ Current estimates are that by the end of FY '02 Illinois will have little money remaining under its WtW appropriation. Programs contracted with those funds were preparing to shut down operations as early as the winter of 2002. Unless Congress provides a new infusion of federal funds or the state enlarges its commitment of TANF funds for contracted services, there are likely to be dramatic changes in the contracting regime constructed over the past five years and much of the investment made in building institutional capacity will be lost.

CONTRACTING CAPACITY: WHAT ABOUT PERFORMANCE?

In the wake of welfare reform, state and local officials sought to ramp up quickly, and contracting provided a rapid response strategy. Although previous experience offered some guidance, overall, officials had limited knowledge of which organizations could best advance welfare-to-work policy or what they would need in order to do it. Under these circumstances, performance-based contracting provided a tool for

structuring the government's relationship with intermediaries, allowing public agencies to set production targets and largely leaving it to private contractors to find the ways to meet them.

This type of contracting is commonly used when processes of production are difficult to specify but firms can be held accountable for delivering products to meet specifications. It provides an alternative to standard purchase-of-service arrangements or to public management strategies of bureaucratic "command and control." While superior to these approaches in many ways, this form of contracting can be tricky to use in social services, where both the processes of production and the products themselves are notoriously difficult to specify.²²

In contracting welfare reform, federal TANF legislation established the framework for defining production. The law set progressively rising quotas for states to meet in putting welfare recipients to work. If welfare-to-work contractors were to help the state meet its targets, they would need to deliver job placements. The state and local contracts issued to providers in Chicago were designed—and periodically redesigned over the four years of this study—to meet federal targets by creating financial incentives for placing welfare recipients into paid work. Contracts were pegged to the terms on which federal law "counted" individuals as working (an escalating standard that began at 20 hours per week, rising to 30 hours for a single-parent and 35 hours for an adult in a two-parent household). Contracts used financial incentives ranging from \$700 to \$1,300 per capita to "reward" individual work placements while also allowing basic per capita expenses for case management, job preparation and other services.

In the first years of welfare reform's implementation, contracts "credited" providers for placements if clients worked at minimum wage for a specified number of hours ranging from 30 (MOWD) to 90 consecutive days (IDHS). Later contracts redefined placements, adding what was termed a "job retention" feature, requiring individuals to work a minimum of 90 consecutive days or 150 nonconsecutive days. Job retention is something of a misnomer as the requirement could be satisfied if individuals worked either at a single job over the time period or at multiple jobs for a shorter time. Some IDHS contracts provided higher per capita payments for placements with higher than minimum wage or for placements of clients categorized as "hard-to-serve."²³

Performance-Based Contracting

Performance measurement is primarily a strategy for achieving accountability in service delivery. Performance-based contracting ties performance measurements to the payment structure, rewarding contractors for specified aspects of production, in this case, for work placements. While not its direct objective, this form of contracting indirectly influences capacity-building by creating incentives for organizations to invest their resources—among them staff time, expertise, and material supports—in those activities seen to contribute most directly to the "bottom line." Thus, it is important to closely examine performance-based contracting to consider what kind of capacity it is building.

In recent years, political pressures for accountability in the provision of public policies have led to increased reliance on the use of performance measurement and performance-based contracting. However, in the management of social services, this can be a daunting, even hazardous, enterprise because of the much-discussed difficulties of specifying the policy product.²⁴ As recent battles over educational testing in public schools demonstrate, the application of this managerial technique, at times, can be highly controversial. Performance measures, if too broadly defined, cannot be easily quantified and may leave too much room for bureaucratic discretion. If too narrowly defined, measures can distort policy delivery, leading to the all-too familiar problems of creaming, goal displacement, and tradeoffs between service quality and quantity.

On its face, designing contracts to target work placements would seem an obvious choice, as this implies that intermediaries will have incentives to build their capacity to link clients to the labor market. However, placements may be best characterized as a form of "rudimentary performance measurement." "Placement" specified an easily quantifiable product - namely, work of limited duration at designated wages and hours - but it did not measure or hold contractors accountable for qualitative dimensions of performance relating to either services provided or to outcomes in terms of job quality or the future prospects of workers. In practice, rudimentary performance measurement set the stage for a "numbers game"—frustrating to both public agencies and private contractors—in which intermediaries were rewarded for obtaining placement targets at the lowest marginal cost and in which investments in building capacity for service quality were rewarded only indirectly if at all.

Our Chicago research, while not definitive, shows evidence of the types of problems associated with rudimentary performance measurement previously noted, namely, creaming, goal displacement, and quality/quantity tradeoffs.²⁵

Creaming. In our interviews and field research, we found intermediaries competing for assignment to those local welfare offices thought to have recipients most appealing to employers and where local office staff were reputed to pre-screen recipients, referring only the most "employable" (within targeted categories) to intermediaries. As one official put it, intermediaries "all wanted to work on the north side." To counter that type of creaming, state administrators developed a matrix of assignments linking intermediaries to specific welfare offices, among them south-side offices where concentrated poverty and limited employment options made it more difficult to reach placement targets. As one official recounted the response from some intermediaries: "They would say, 'oh no! We can't work with those people.'" Other forms of creaming took place within local offices, as staff used informal strategies to encourage enrollment among recipients perceived to be most promising and to discourage others.

Goal Displacement. Placement-based contracts have been a target of considerable complaint, especially among the city's non-profit intermediaries. Some

community-based organizations that had a history of providing education and training to local residents, as contractors found themselves limited by federal and state TANF rules and contract provisions to only a few weeks of basic work preparation activities. On the other hand, their payments depended on meeting placement targets. In effect, contracts created incentives for them to shift their programs from favoring human capital development to fitting clients into available jobs. Such shifts in organizational focus are consistent with other research indicating that, under pressure of contract requirements, "non-profit agencies will constrain their service practices ... even if their own internal ideologies may contradict it" (Hasenfeld and Evans, 2000).

Tradeoffs. Although there is a popular perception that lower-skilled jobs are generally "bad," in fact, not all of these jobs are alike. Lambert and her colleagues, as part of their research for the Project on the Public Economy of Work, have been examining the structural characteristics of lower-skilled jobs (Lambert et al, 2002). They found that jobs vary greatly on key dimensions of quality beyond the obvious element of wage rates, among them:

- stability - high turnover rates are more common to some jobs and firms than others.
- access to benefits - there are variations both in eligibility for benefits and also access to benefits (contingent on employment status and duration).²⁶
- regularity of work hours - jobs may require shift changes or involve informal layoffs, especially problematic for parents depending on childcare or trying to meet weekly work hour requirements for TANF.
- opportunities for learning and advancement - firms may structure their lower-skilled jobs to allow for internal mobility or as virtual "dead-end jobs."

Rethinking Performance

The design of contracts to Chicago intermediaries allowed them to satisfy performance requirements by placing welfare recipients in jobs ranking at the bottom on nearly all features of quality and opportunity—jobs that were short-term, minimum wage, and provided no benefits and no advancement opportunities. This did not mean that intermediaries have not tried to do better or to accomplish more. Some intermediaries, by virtue of their history and long-standing industry relationships, were better positioned and more motivated than others to link welfare recipients to jobs offering real opportunity to learn and to advance.

What is troubling, from a systemic perspective, is that contracting using rudimentary performance measurement, does not support intermediaries in the difficult work of either building human capital or in identifying and developing relationships with employers that can offer better opportunities for workers. Inadvertently, Chicago's performance-based contracts were almost perfectly designed to reward intermediaries for placing clients in lower-wage jobs with the least to offer, jobs, not surprisingly, which are in relatively constant demand, due to their volatility. Even the state's minimal

"retention" measure (150 non-consecutive days of work) can be satisfied by churning individuals through a sequence of low-wage, dead-end jobs.

Performance-based contracting is widely regarded as a substantial advance over more simplistic purchase-of-service contracting and, in certain aspects, it probably is. However, as even this brief discussion indicates, it is not a panacea for bringing accountability to a privatized service system and may even undermine efforts to build capacity.²⁷ If contracting is to become an effective strategy for capacity-building, methods of performance-based contracting will merit careful reconsideration.

A NEW SYSTEM? DEVELOPING INSTITUTIONS FOR THE NEW PUBLIC ECONOMY OF WORK

Welfare reform heralded a new direction in poverty policy, one emphasizing paid work and minimization of cash assistance. The provisions of law restricting and time limiting cash relief have required substantial changes in bureaucratic practice.²⁸ But, for the most part, the law required few if any structural changes, with administrative responsibilities remaining largely (but not exclusively) within the domain of existing state welfare agencies.

Yet, there is considerable evidence of institutional restructuring that represents a change, not only in what government does about poverty, but how it does it. Loose overarching terms like "devolution" and "privatization" are suggestive of the shifts taking place, but provide relatively little purchase for discerning their character, variation, or content with any precision. If the old, much maligned welfare system is being disassembled, is there a new "system" emerging in its place? As welfare reform advances toward reauthorization, what have we learned about building institutional capacity to do the job the law envisions?

From "Big Bang" to What?

The dimensions and dynamics of efforts to build a new contracting regime are far from transparent or easy to ascertain. In Chicago, as elsewhere, welfare reform appears to have precipitated an explosion in the privatization of welfare delivery through efforts to extend service capacity by contracting with private intermediaries. However, the scope, and character of this capacity-building strategy were uneven and its permanence uncertain. In fact, the institutional changes we documented in Chicago are neither simple nor linear. Instead, we have offered a complex portrayal revealing layers of change, each proceeding at a different pace and in a different way.

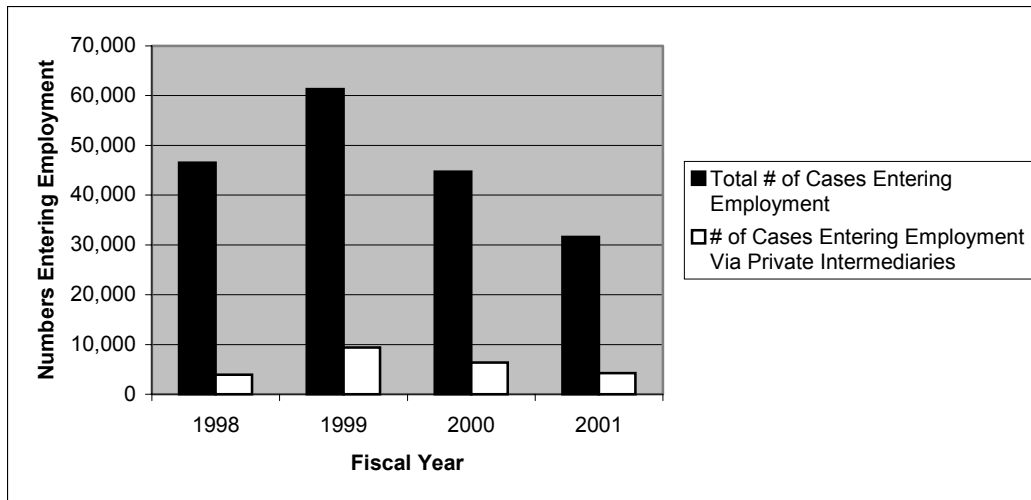
At an aggregate level, we have documented a big bang in contracting for services, beginning, not with the inception of welfare reform, but in FY 1999 with the infusion of millions of dollars into the city and state from the Welfare-to-Work Block Grant. In combination, TANF and WtW fueled a dramatic expansion in the number of private organizations doing the public's business and in the amount of public dollars channeled to both non-profit and for-profit agencies.

At a disaggregated level, the picture is more dynamic and also more unstable. Instead of a developing system with a relatively consistent set of players, responsibilities and support, we see a fluid set of arrangements with a changing array of organizational actors and a distinction between core and peripheral players. Different types of private agencies are favored by different public authorities, receive contracts for varied durations and amounts, and move in and out of the contracting regime. If capacity-building requires a measure of sustained and targeted investment in organizations, then the prospects for achieving this in a context of disjointed federalism are cloudy at best.

Ultimately, it is uncertain how much to make of the emerging private agency role in welfare reform. Certainly, private intermediaries, both non-profit and for-profit, have become more important players in the provision of welfare-to-work services over the last five years. However, even at their peak involvement, they accounted for only a small share of the welfare-to-work effort in Chicago. Between FY 1998 - 2001, private intermediaries were charged with placing a total of 23,934 welfare recipients in paid work. But during the same period, the number of adult welfare recipients in Cook County (Chicago and near suburbs) to enter paid employment was 184,087.²⁹ Even though our figures are only very rough approximations, the magnitude of difference is unmistakable.³⁰ Private intermediaries accounted for only about 13 percent of the welfare recipients entering the paid labor market in Chicago.

Clearly, the state's welfare bureaucracy (and to a considerable extent, individual welfare recipients themselves) retained the primary responsibility for the integration of welfare recipients into the formal labor force. (See Fig. 12.) These figures underscore the continued importance of public welfare agencies in the implementation of a work-centered welfare policy. They also illustrate the complexity of building a services strategy that must adjust to changing levels of federal support and service needs.

Fig. 12.
TANF Recipients Entering Employment: FY 1998 - 2001



Arguably, the big expansion in service provision was keyed to caseloads that, over four years, dropped dramatically. However, contracting as a strategy for capacity-building involved more than simply an expansion in numbers. It also ostensibly sought to take advantage of the functional specialization of private agencies that were thought to be able provide services beyond those available in the public sector. As one official pointed out, some contracted services were aimed at those recipients facing the greatest difficulties making it in the labor market. If, as many analysts contend, smaller caseloads include a disproportionately larger number of recipients needing specialized services, then a reduction in private capacity may increase the burden on public agency service capacity, despite lower caseloads.

Building for the Future: The Challenges Ahead

When public dollars and responsibilities shift to the private domain, such a shift bears careful examination. Privatization as a strategy for building capacity to provide social services offers both possibilities and hazards—for service consumers, public managers, and for the organizations themselves, among them the non-profits that contract to act in behalf of the state. Certainly, the post-reform period has witnessed the movement of private intermediaries into an enlarged and more visible role in the provision of welfare policy in Chicago and elsewhere in the country. Yet, our map of changing institutional arrangements shows few fixed points on the horizon. Federal funding for welfare-to-work services has shaped many of the contours of this map, but the landscape is likely to undergo further changes with the ending of the Welfare-to-Work Block Grant and the legislative outcome of the TANF reauthorization debate, a debate that now seems destined to occur in a period of renewed fiscal pressures.

Unless the Congress refinances or replaces the WtW Block Grant or the state substantially increases its financial commitment to private intermediaries, there is no

obvious source of funding to maintain anything close to current levels of contracted service provision. WtW supplied nearly two-thirds of funding for Chicago's private intermediaries in FY '01. With the state's WtW nearly depleted, many intermediaries have been preparing to shut down their programs. Unless Congress channels more funds directly to cities, their on-going role in service provision seems likely to diminish as well.

Under these conditions, the next phase of welfare reform is likely to see more intense competition for remaining state contract dollars. It is difficult to predict which of the intermediaries now engaged in service provision will survive in a shrinking contracting regime. But it is easier to foresee that one result of these shifting funding tides is that many of the potential benefits of state and federal dollars already invested in building capacity through a new contracting regime will be lost. If the Bush Administration succeeds in increasing work requirements in the next phase of welfare reform, states will face this added pressure with fewer service alternatives.

Capacity-building for the longer-term requires more than a short-term infusion of funds. It also requires sufficient financial and policy stability to support the types of development that enable intermediaries to build staff expertise, administrative infrastructure, organizational learning through experience, and, most critically, to develop relationships with employers that have better jobs to offer. Capacity-building for the long haul—in private agencies, public bureaucracies and public-private collaborations—is jeopardized by inconsistency in policy and administrative practice. It is also undermined by a mismatch between contracting terms that emphasize the quantity of work hours produced at the expense of the quality of work opportunities provided.

These are not new problems nor ones unique to welfare policy. Institution-building for public purposes has an uneasy history in the US, one regarded at times with suspicion, especially in an era of anti-"big government" sentiment. Ironically, it is this sentiment that has helped fuel privatization as an alternative to public provision. However, privatization through contracting "blurs the lines" (Kramer, 1994) without necessarily addressing the fundamental problem, that is, the problem of building capacity to deliver social policy. Fragmentation, instability, and rudimentary performance measurement are likely to be as damaging to organizational development in the private sector as bureaucratization and entrenchment can be in the public sector (Brodkin, 2001).

There remains considerable uncertainty about the benefits of privatization. Kramer (1994) has suggested that the benefits to government may derive, not from improved service delivery, but from government's "reduced visibility and responsibility for direct provision of services." Certainly, the great complexity of the arrangements we have detailed, while justifiable in the abstract as a strategy for enhancing diversity and flexibility, present obvious practical difficulties in terms of management, accountability, and institution-building. In the case of welfare policy, the potential benefits of this unfolding strategy may be difficult to realize given the unevenness of governmental

support for services contracting and cross-pressures on local contractors involved in service provision.

Contracting welfare reform may prove to be a hazardous enterprise in the context of disjointed federalism, one that comes at a high social price. Thousands of families depend on the prospect that some combination of public and private services will improve their chances of making it as workers. The extent to which either services or the private market can offer sufficient opportunities for economic inclusion is highly debatable. But without services or the assurance of income support, there is only the market.

Although we see evidence that a new public economy of work is emerging in the aftermath of welfare reform, it has yet to be institutionalized. As we have discussed, welfare reform was constructed with relatively clear policy features, but an uncertain institutional foundation. In this respect, it has similarities to prior welfare reforms that put policy first and institutional practice later (Brodkin, 1999). Discussions about TANF reauthorization offer an opportunity to seriously reconsider institutional strategies. The challenge remains to create policy provisions and institutional arrangements that can enhance the capacity of organizations—both public and private—to deliver policy and then can hold them accountable for the content and quality of what they do.

APPENDIX

Funding Sources and Administering Agencies

Funding Stream	Program (Fiscal Year)	Government Agency with Oversight Responsibility
Temporary Assistance to Needy Families Block Grant (TANF)	Job Placement ('98) Illinois Job Advantage ('98) Work First ³¹ ('98-'00) "Redesigned" Work First ('01) "Independent" Contracts ³² ('00-'01) Advancing Opportunities ('98-'01)	Illinois Department of Human Services (IDHS) IDHS IDHS IDHS IDHS IDHS/Illinois Community College Board (ICCB)
Welfare-to-Work Block Grant (WtW)	Welfare-to-Work Formula ('98/'99) Governor's Discretionary Grants ('98) Federal Competitive Welfare-to-Work Grants ('98/'99)	Chicago Mayor's Office of Workforce Development (MOWD) Illinois Department of Commerce and Community Affairs (DCCA)/Illinois Department of Employment Security (IDES) U.S. Department of Labor (U.S. DOL)

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NOTES

¹ An earlier version of this working paper was presented at the Annual Research Conference of the Assn. for Public Policy Analysis and Management, Washington, DC, November 1-3, 2001.

² TANF's "maintenance of effort" provisions provided a fiscal incentive for states to apply funds to work-related services. The separate Welfare-to-Work Block Grant provided funding to supplement those efforts.

³ The JOBS (Job Opportunities and Basic Skills) program provided education and training for work under the Family Support Act of 1988.

⁴ Informative multi-site studies of contracting and the role of private intermediaries include: APHSA (1998), Pavetti et al (2000), and Sanger (2000). For studies of significant aspects of contracting and private provision in specific locations, see Hasenfeld and Evans (2000), and Liebschutz (2000).

⁵ Our study focuses on contracting to private labor market intermediaries. Thus, when we refer to "welfare-to-work" services, we explicitly mean training and placement services directly intended to connect welfare recipients to paid work. We do not include contracts to providers for employment services to non-recipients (for example, services under the Workforce Investment Act) or to providers whose *sole* function is to provide "supportive services," such as transportation or childcare.

⁶ The authors are grateful for the cooperation and generous assistance of officials at the Illinois Dept. of Human Services, Dept. of Transitional Services, and the Mayor's Office of Workforce Development.

⁷ Our database is comprised of all state and city contracts to private intermediaries for the four-year study period, as well as federal grant awards. Our documentation review was supplemented by extensive interviews with state and city officials.

⁸ Walker (1995) offers an interesting view of contemporary federalism as "highly conflicted," buffeted by "antagonist impulses" toward centralization and decentralization, cooperation and competition, regulation and discretion. For a discussion of the management implications of federalism's cross-cutting complexities, see Agranoff and McGuire (2001).

⁹ In the 20 localities examined by Pavetti et al (2000), the number of intermediaries involved in service provision to welfare recipients ranged from zero to 29. Although urban localities tended to rely more heavily on intermediaries than their rural counterparts, among urban sites there was little correlation between caseload size and the number of intermediaries a site employed. While San Diego, a city with a TANF caseload of 38,000 people contracted with three intermediaries, the cities of St. Paul, MN and Little Rock, AK, both with caseloads a fraction of the size of San Diego's, each contracted with seven intermediaries.

¹⁰ Cook County, which includes Chicago and adjoining suburbs, comprised 60 percent of the state's welfare caseload (or 127,572 cases) in 1997.

¹¹ Our analysis of the post-TANF period examines FY 1998-2001. Though the TANF's authorizing legislation, the Personal Responsibility and Work Opportunity Reconciliation Act, was enacted in August 1996, states were given close to a year to develop their implementation plans. FY 1998—which began July 1, 1997—represents the first year for implementation of Illinois' state plan. In a sense, the prior transition year is neither reflective of the "old" AFDC system nor of the "new" arrangements to emerge under TANF.

¹² Actual expenditures.

¹³ Allocations to intermediaries of *all* types ranged from \$33 to \$37 million over this period.

¹⁴ As previously noted, some private for-profit intermediaries used a portion of their funds for subcontracts or partnerships with non-profits.

¹⁵ All placement figures cited are “unsubsidized,” that is, involve paid work, not workfare. For contract purposes, agencies receive credit for unsubsidized placements only if recipients meet quotas for weekly work hours set by TANF legislation. State and city contracts varied in the duration of employment necessary to meet contract terms, with city (MOWD) contracts requiring 30 days and state (IDHS) contracts requiring 90 days of continuous employment or an extended period of intermittent employment.

¹⁶ The contracts were initially administered by the Illinois Department of Commerce and Community Affairs. Oversight was later transferred to the state’s Department of Employment security.

¹⁷ For a discussion of these issues, see: Dicke and Ott (1999), James (1989), Kettner and Martin (1995), Salamon (1993), Salamon and Anheier (1996), and Weisbrod (1988).

¹⁸ For discussion of these views, see: Alexander, Nank and Stivers (1999); Kramer (1994); Smith and Lipsky (1993).

¹⁹ For discussions of these and other potential drawbacks to privatization, see, for example: Breaux et al (2000); Brodtkin (2001); Hasenfeld and Evans (2000); Sanger (2000); and Smith and Lipsky (1993).

²⁰ We are grateful to Carolyn Heinrich for data regarding JTPA contracting in the Chicago area, 1984-1994.

²¹ The legislation had been set to expire in 2002, but was extended without additional appropriation to allow states that had not yet used their full appropriation to continue to tap into remaining funds.

²² For a discussion of these issues, see for example, Brodtkin (2001), Hasenfeld (1992); Lipsky (1980); and Muetzelfeldt and Briskman (2001).

²³ Contractors operating workfare programs that supervised recipients working off their welfare benefits in unpaid jobs received more of their income from case management, but also received placement bonuses of \$1000 per person. These contracts were redesigned in FY '01 with slightly different features, but retaining bonuses for placing participants in 90 days of paid work at minimum wage.

²⁴ See note 21, above.

²⁵ Findings from our field research will be discussed in greater detail forthcoming papers.

²⁶ According to Lambert et al (2002), “workers entering lower-skilled jobs ... often stand a low probability of remaining in a particular job for even a few months, let alone a full year.” However, access to benefits usually depends on holding a job beyond a three to six month probation period.

²⁷ Some of the public administrators we interviewed said that they tried to moderate the limits of performance-based contracting by informally taking account of a broader range of performance criteria. Where they could, these administrators said they gave more latitude and support to those organizations they regarded as doing more to raise wages and retention. However, administrative interest in these dimensions of performance were not reflected in the contracting structure.

²⁸ Although requiring few structural changes, these provisions do require significant changes in practice within existing welfare bureaucracies. These changes and the street-level response to them are the subject of forthcoming papers from the Project on the Public Economy of Work. For a preview of some of the issues arising in efforts to redirect caseworker practice in a discretionary environment, see Brodtkin (1999 and 2001).

²⁹ This number captures what is better described as *instances* of employment. An individual moving in and out of employment would be counted multiple times. This is in contrast to the figures for private intermediaries in which count only one placement per individual, although individuals may move in and out of jobs. In addition, the state's "entered employment" figure includes individuals finding jobs through intermediaries.

³⁰ Calculations were made using data from the IDHS Monthly TANF Historical Data Update, June 2001. This datum and the data in Figure 13 were calculated by extrapolating from what IDHS terms "cases with budgeted new earnings". These are individuals who enter unsubsidized work having not reported earnings the previous month. This category does not include those individuals whose new earnings were high enough to remove them from the TANF caseload. For only a single year, FY 2001, was data available for this combined count. Using the ratio between the two numbers—cases with new budgeted earnings and cases entering employment—available data were adjusted, providing a rough estimate of the total number of recipients to enter employment in each fiscal year.

³¹ Although we secured contract documents for the four-year period of our analysis, the contracts themselves were insufficient to fully determine allocations for contracted services. We discovered that a substantial proportion of funds to Work First contractors were not for services, but were simply a passthrough for TANF cash benefits going to recipients enrolled in workfare activities. The state's so-called "Pay-After-Performance" provisions for its Work First program required contractors to place recipients who did not find paid work into unpaid jobs where they "work off" their welfare benefits. Required work hours are calculated dividing the amount of the recipient's grant by the minimum wage. We reviewed contracts for FY 1998 to estimate the proportion of contract funds that constituted a passthrough of cash assistance. Our review indicated that from 20 to 80 percent of Work First contract dollars were for cash benefits rather than services. In the absence of more precise figures from IDHS allowing us to determine the actual amount of Work First dollars allotted specifically to services for each contractor, we used a rough estimate of 50 percent for our calculations.

³² These were nine contracts let individually by the Department to organizations submitting unsolicited proposals.