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A Comparative Study of the Factors Influencing the Level of State Government Privatization

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A COMPARATIVE STUDY OF THE FACTORS INFLUENCING THE LEVEL OF STATE GOVERNMENT PRIVATIZATION

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ABSTRACT

A COMPARATIVE STUDY OF THE FACTORS INFLUENCING THE LEVEL OF
STATE GOVERNMENT PRIVATIZATION

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Since the1980s, privatization has gained increasing acceptance among state

governments. Yet, few empirical studies have investigated the factors influencing the

level of state government privatization focusing on a multitude of programs and

services aggregated across departments. Most prior state level empirical research has

emphasized single cases or programs but has not addressed the aggregate level of

privatization undertakings across the states. The paucity of empirical research that

investigated the amount of state privatization and the drivers thereof created an

important gap in the literature that this study attempted to fill. Drawing on historical

and contemporary privatization literature, this research examined the influences of

variables related to socioeconomic, economic, political, and ideological factors on the

level of state government privatization.

This study employed ordinal logistic regression and tested fourteen hypotheses

and four state comparative models (socioeconomic, economic, political, and

ideological) and developed a fifth model of best fit. The bivariate results show that all

but state pension spending and political culture variables were insignificant. The

multivariate results indicate that in the socioeconomic model only state pension

spending variable was significant in the expected direction and the hypothesis was

supported. In the economic model, state per-capita spending, state fiscal capacity, and state deficits were significant in the opposite direction than expected and the hypotheses were not supported. With the exception of the political culture, all the variables in the political model were insignificant. The traditionalistic political culture was significant at both the bivariate and multivariate level, but in the opposite direction than expected and the hypothesis was not supported. The moralistic political culture was significant in the expected direction, but its significance disappeared in the model of best fit. All the variables in the ideology model failed to achieve statistical significance. In general, the analysis reveals that a large part of the variance in the dependent variable remained unexplained.

Overall, the findings of this study suggest that socioeconomic, political, and ideological factors are less likely to influence state government privatization. On the other hand, the findings do suggest that economic factors matter; although the influences of the significant variables in the economic model were in the opposite direction than expected, the findings nonetheless appear to provide tentative support to the argument in the literature that economic factors are more likely to influence the level of privatization by state governments.

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Writing a dissertation on a topic of privatization has been a daunting task. It is a subject matter that has been researched thoroughly from every possible angle and perspective, left and right. Finding a gap to fill in the literature and finding the appropriate state privatization data for the particular type of research question that I sought to investigate appeared to be a "herculean task" that, at times, made me wonder whether pursuing this line of inquiry was worth the stress I was enduring. On many occasions the temptation to abandon the entire enterprise reached a critical juncture only to be reversed with the personal intervention of my long-time friend, professor, and mentor, Dr. Berhanu Mengistu. It was Dr. Mengistu who encouraged and supported my desire to pursue a doctoral study by creating the opportunity for me to join the Department of Urban Studies and Public Administration at Old Dominion University in the first place. Since I joined the program, Dr. Mengistu has been a constant source of inspiration and support and was instrumental in making my transition from work to academic life smooth and easy. He made immense contribution to my educational experience that I found to be enjoyable and gratifying. Of course, the few words in this acknowledgment would not suffice to express the depth of my indebtedness to him. I simply say thank you, Dr. Mengistu, for all the great things you have done for me.

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Selover. I owe them a large debt of gratitude. Especially my committee chair, Dr. John Lombard, deserves special recognition. I am indebted to him for his support and advice that anchored and guided me through the difficult process of writing this dissertation. Dr. Lombard worked hard and provided detailed substantive comments at every stage of the writing process and had the patience in putting up with endless revisions of many chapter drafts. I am very grateful to him for his thorough and insightful reading, editing, and rereading of numerous drafts. I was able to reach the finishing line of this dissertation with his support, encouragement, dedication, and unwavering commitment to the successful completion of this doctoral project. I certainly owe Dr. Lombard a large debt of gratitude that can hardly be captured in this short acknowledgment. Thank you for your continued and unwavering support, patience, and guidance.

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CHAPTER I

INTRODUCTION

> After more than a century in which the worldwide trend has been toward the
> growth of government, a strong movement has emerged in the past decade to
> reduce government.... This movement is best known as the privatization
> movement.... Current political and economic trends will make privatization a
> policy direction of fundamental social significance for the future (Report of the
> President's Commission on Privatization, 1988, p. 229).

The study by the Council of State Government (CSG) reveals the following.

> The topic of privatization...seems to have re-emerged recently as a
> controversial management issue for state policymakers. Governors, agency
> directors and legislatures in many states are asking for either further promotion
> or curtailment of such public-private partnership cooperation to deal with the
> faltering economy and dwindling revenues in the past two to three years. There
> appears to be no consensus as to the effectiveness of privatization in part due
> to the lack of empirical data as well as the complexity of the issue" (Chi,
> Arnold, & Perkins, 2004, p.466).

The above quotations aptly describe the controversies surrounding

contemporary privatization and further underscore the importance of continuing the

empirical investigation to understand not only the drivers of privatization policy but

also how pervasive privatization has been in the United States since privatization

began in earnest in the early 1980s; these controversies set the background for this

research study, which seeks to analyze and synthesize the development and evolution

of privatization policy in the historical and contemporary contexts as well as to

examine empirically the factors that are likely to influence the level of state

government privatization.

Background of the Study

The concept of privatization is multidimensional with important social, economic, political, and ideological implications. Indeed, the stakes involved in the contemporary or modern privatization movement involve, among other things, reducing the size and role of government in society. (The terms contemporary and modern are used interchangeably in the literature and are used likewise in this study). The debates over the relative size and role of government have been recurrent themes in the federal structure of the United States since the beginning of the Republic, and the debates over the current privatization policy are, in many ways, a reflection of these competing but enduring American political and intellectual traditions (Kaplan and Cuciti, 1986).

The contemporary privatization movement has nonetheless created a new intellectual undercurrent that seeks to reorient government policies away from the interventionist policies of the Keynesian orientation to a new strategy that emphasized the market approach (Boix, 1997; Box, 1999). But the current privatization movement has further intensified the blurring lines between the public and private sectors (Chi, Arnold, & Perkins, 2004; Leavitt and Morris, 2004) and has raised fundamental questions regarding the proper relationships between government and the private sector. As conceived by the eighteenth century classical economists, the private sector refers to an environment where free and individual economic activities were regulated by the market forces of supply and demand free from government intervention (Midgley and Livermore, 2009). In the classical period, the terms "free" and "individual" were the defining characteristics of privatization (Florio, 2004, p.5).

Historical accounts, however, reveal that, in the context of the United States, the role of the federal government changed in the last half of the nineteenth century during the Progressive Era giving rise to active government intervention in the social and economic affairs of society (Milkis and Mileur, 2005; Midgley and Livermore, 2009; Kaplan and Cuciti, 1986). The Progressive Era changes and subsequent reforms altered the scope and structure of governance by reorienting government policies to address issues of national scope. Over time the interventionist role of the federal government increased leading to the expansion and growth of the public sector. Guided primarily by demand-side economic theory or Keynesian economic thought, fiscal policy became an important policy tool to stimulate and stabilize the economy especially during the periods that included the Great Depression, World War II, the Cold War, the Vietnam War, and the Civil Right movement of the 1960s. The resulting intervention, growth, and expansion of the public sector set the stage for the emergence of the contemporary privatization movement (Kaplan and Cuciti, 1986; Milkis and Mileur, 2005; Midgley and Livermore, 2009).

The Report of the President's Commission on Privatization (1988) asserted that the emergence of the contemporary privatization movement in the United States was essentially "a reaction against the themes and results of Progressive thought" (p.230) that led to subsequent growth and expansion of the public sector. Ginsberg (2009) contends that the contemporary privatization movement represents a resurgence of conservative ideology; the author further states that "conservatism" refers to the belief in the laissez-faire political and economic ideology that includes "the free-market economic system, the family, and the traditional religious and

cultural beliefs" (p.195). Nonetheless, modern privatization appears to have little resemblance with the classical political and economic thoughts that only assign a minimal role for government.

Contemporary privatization appears to be incompatible with conservative ideology largely because the contemporary usage of the term privatization is taken to mean delegation of services to the private sector that "involve a substantial role for government" (Savas, 1987, p.278). The traditional meaning of privatization assigns no role for government, but the modern definition assumes the existence of some degree of government involvement in the privatized arrangement. This inherent inconsistency of the contemporary privatization theory has generated controversies and debates about the proper relationships between government and the private sector. The multiple and somewhat contradictory meanings and practices of modern privatization have spawned claims and counterclaims about the benefits and detriments of privatization and have complicated the efforts of scholars to delineate the actual drivers of privatization policy.

However, largely inspired by microeconomic-based theories, the use of privatization policy has been justified primarily on grounds of economic efficiency. Economic drivers are widely cited in the literature as the primary determinants of privatization, but the empirical evidence is somewhat ambiguous. Studies show that, in addition to economic factors, privatization policy is also influenced by socioeconomic, political, and ideological factors as well. While the debates over privatization policy remain unsettled, privatization nonetheless continues unabated at all levels of government, and research has yet to unravel the breadth and scope of

privatization undertakings as well as the factors that drive the level of state government privatization across the country.

Drawing on historical and contemporary literature on privatization, this research investigates the level of state government privatization by examining the socioeconomic, economic, political, and ideological factors. The rest of this chapter presents the statement of the problem, the purpose of the study, the significance of the study, the contribution of the study, and the research question. Also included in this chapter are: definition of key terms, methodology, data analysis, potential determinants of state government privatization, research hypotheses, assumptions, limitations, and delimitations of this study. This chapter concludes with an outline of the organization of the study.

<div align="center">Statement of the Problem</div>

There is little empirical research in the literature that investigated the factors influencing the level of state government privatization focusing on a multitude of programs and services simultaneously. As indicated in the introductory quotations, in 1988 the President's Commission on Privatization predicted that privatization would be a new policy direction with "fundamental social significance" (Report of the President's Commission on Privatization, 1988, p. 229). While the prediction cannot be confirmed or denied conclusively based on the available empirical evidence, state officials have nonetheless expressed concerns about the recent direction and effectiveness of privatization (Chi, Arnold, & Perkins, 2004).

Literature shows that, in the United States, the contemporary privatization movement gained momentum after the election of Ronald Reagan in 1980 where the Reagan administration "pressed hard for increased use of the private sector in delivering public services at all levels of government" (Allen et al., 1989, p.2). Subsequently, state governments embraced privatization due largely to unfunded federal mandates, new and increased services, and the Federal Government's shift of functions to the states (General Accounting Office (GAO), 1997; Featherstun, Thornton II, and Correnti, 2001).

Faced with expanded budget deficits, many states adopted privatization policy and began organizing and managing their previously ad hoc privatization efforts; state legislatures enacted statutes to encourage privatization and civil service reform and to make it easier to implement privatization initiatives (GAO, 1997; Featherstun, Thornton II, and Correnti, 2001). The GAO's 1997 report indicated that governments needed "to enact legislative and/or resource changes to encourage or facilitate the use of privatization. These changes …are necessary to signal to managers and employees that the move to privatization is serious and not a passing fad" (p.11). GAO's report also noted that in addition to enabling legislations, budget cuts and management reductions prove to be effective in encouraging privatization.

Although prior to the 1980s the use of privatization existed on an ad hoc basis, the idea of expanded privatization efforts was somewhat unacceptable in many state governments (Auger, 1999). However, the emphasis on the economic dimension of privatization as an efficient means to provide public services eventually attracted the attention of state policymakers and privatization gained increasing acceptance among

states and local governments as a means of providing efficient and quality services to the public at low cost to taxpayers (Henton and Waldhorn, 1984; Donahue, 1989; Pouder, 1996).

The GAO report also noted that, apart from the goals of cost savings and better quality, lack of the necessary skills and resources in the public sectors was a motivating factor to introduce privatization. State governments also engaged in the privatization scheme for a number of other reasons including the desire to reduce the size and role of government (GAO, 1997; Featherstun, Thornton II, and Correnti, 2001). Government was to be made smaller, less intrusive and less proactive in the affairs of both individuals and the private sector. The underlying force behind this movement was a strong belief in the fundamental superiority of the private sector as an agent for the provision, production, and delivery of many goods and services, both public and private (Savas, 1987; President's Commission on Privatization, 1988; Chi, Arnold, & Perkins, 2004).

But privatization decisions take place in a political environment, and political considerations serve to impede or expand privatization initiatives. For example, studies show that Republican governors and legislatures favor more privatization than their Democratic counterparts. Public employee unions resist privatization because of fear of losing their jobs. Studies also point to several instances where public employee unions launch legal challenges to state efforts to privatize government services based on state civil service laws. Employee unions also use collective bargaining agreements to block privatization projects that impact public employees. In some cases politicians take sides with the unions and favor in-house provision of services to

garner political support from public employees (GAO, 1997; López-de-Silanes,

Shleifer, and Vishny, 1997; Featherstun, Thornton II, and Correnti, 2001).

Furthermore, critics of privatization policy contend that the economic benefits

and the quality services from privatization are illusory because of the existence of

hidden costs. They point out that there is transaction costs associated with the

preparations and specifications of contracts as well as with monitoring performances.

According to the critics, at least in the context of contracting out, these hidden costs

are not accurately estimated and considered in evaluating the cost savings from

privatization (Featherstun, Thornton II, and Correnti, 2001).

Scholars also oppose privatization arguing that privatized arrangements may

create "pathologies" that "combine elements of government and market failures"

(Morris, 2007, p. 319) as well as "loss of accountability" and recommend using the

"public authorities" as an alternative arrangement "that may take advantage of private-

sector efficiencies while maintaining public accountability" (Leavitt and Morris, 2004,

p.154). Other researchers have also suggested using managed competition to induce

efficiency in the public sector by allowing both the public and private sectors to

compete in providing services (Featherstun, Thornton II, and Correnti, 2001).

As the preceding discussion indicates, privatization has been widely embraced

by state governments, but its effectiveness has been questioned even by state officials.

In the early years of the first decade of the 21st century, privatization again re-emerged

as a controversial management issue prompting state policymakers to look for more

empirical research whether to promote or curtail privatization initiatives (Chi, Arnold,

& Perkins, 2004). But the CSG study noted that, in spite of the lack of consensus

about the effectiveness of privatization, "state officials have continued to privatize due to the perceived efficiency the private sector might have demonstrated" (Chi, Arnold, & Perkins, 2004, p. 476).

While economic factors are widely recognized as important drivers of privatization, the empirical evidence appears to provide weak support to the economic argument; this raises questions as to whether there are other factors lurking behind the economic argument that have the potential to influence privatization decisions. The logical question to ask therefore is: Are there non-economic factors that are likely to drive state privatization efforts as well? In view of the opportunities and challenges that privatization offers, it is certainly appropriate and logical to investigate the level and drivers of state government privatization; but little attention has been paid in this regard. Apart from two studies – GAO's (1997) study and the 2002 survey conducted by CSG, a review of the literature shows that there is no previous study that has investigated the level or amount of state government privatization.

Similar to the proposed research, the GAO (1997) studied the extent of privatization efforts in six governments (Georgia, Massachusetts, Michigan, New York, Virginia, and the city of Indianapolis, Indiana). But a six-state study focusing on selected projects is not comprehensive enough to explain the drivers of state government privatization and the extent of privatization efforts across the United Sates. On the other hand, the CSG's study of 2002 which was published in the Book of the States 2004 was relatively more extensive than the study conducted by the GAO. The CSG's study involved surveying the "most popular privatized programs and services" by five departments (correction, education, health & human services, personnel,

transportation) and covered all the 50 states. The CSG's study is broad in scope and comprehensive in approach and is much in tune with the proposed investigation in this study. But the CSG study appeared to have a singular focus involving only the economic dimension of privatization and has not addressed other potential determinants of privatization policy such as socioeconomic, political, and ideological factors in its 50-state survey.

Apart from the two studies mentioned above, most prior state level empirical research that employed variables related to socioeconomic, economic, political, and ideological factors has emphasized single cases or programs but has not addressed the extent of the spread of government privatization across the states that are accounted for by the aforementioned factors. To properly gauge the amount or level of state government privatization, it is necessary to consider privatized services by a state government in aggregate and examine the likely drivers; the paucity of empirical research in this regard creates an important gap in the literature that this study attempts to fill.

The Purpose of the Study

The purpose of this study is to examine the determinants of the level of state government privatization. As indicated in the preceding section, the controversies surrounding privatization policy are many and varied, and claims and counterclaims about the benefits and detriments of privatization abound the literature; nonetheless, states continue to privatize. Therefore, the proposed study draws on historical and contemporary literature to understand the social, economic, political, and ideological

root of contemporary privatization; building on the literature, this study examines the

level of state government privatization using socioeconomic, economic, political and

ideological factors.

The Significance of the Study

This study attempts to examine the factors that influence the level of

privatization undertakings by state governments. This study is significant because the

information gained will provide new insights about the factors that are likely to

influence privatization decisions by state government policymakers. Privatization is

likely to have society wide consequences, both negative and positive, and the lessons

learned in this research can help researchers and policymakers alike to frame the

issues in the proper context. More often than not, the discussions of contemporary

privatization in the United States refer to the role of governments in the provision of

goods and services in a privatized arrangement and the policy choices governments

make are likely to have significant implications, among other things, for accountability

and democratic governance.

Governments are representative of the people and reflect the collective

identity of the citizenry; as such they are expected to respond to diversity as well as to

promote social equity in privatization decisions (Box, 1999). Hefetz and Warner (2004)

emphasize the need for governments to promote democracy, community building, and

a more socially equitable system of urban service provisions. Proponents of

representative democracy stress the importance of having public workforce that

closely resembles the demographic characteristics of the citizenry it serves arguing

that inclusiveness would provide legitimacy to government practices (Oldfield, 2003). However, government policies are not free from controversies. For example, advocates of social equity express their concerns by arguing that government agencies give less attention to the interests of disadvantaged groups while they tend to provide better services to citizens of higher social, economic, and political status (Oldfield, 2003).

Governments make important decisions about what services to privatize and the circumstances under which privatization should occur (Featherstun, Thornton II, and Correnti, 2001). Seemingly, many programs targeted for privatization are perceived to affect the lives of millions of people, and the policy choices governments make can undermine or promote social justice, equality, as well as trust in government. In view of the concerns about the impact of privatization on society, investigating the factors that drive the level of state government privatization is certainly warranted.

<div align="center">The Contribution of the Study</div>

This research will fill the previously highlighted gaps in the literature and will contribute to state comparative literature in general and the theory of privatization in particular. The research will contribute to our knowledge base in privatization theory by empirically investigating the level of state government privatization that is accounted for by socioeconomic, economic, political, and ideological factors. By developing and using a composite privatization index for the level of state government privatization, the dependent variable, this research will examine the relationships

between the dependent variable and the independent variables related to socioeconomic, economic, political, and ideological factors.

The use of a privatization index that takes into account several types of services that states privatize is a new approach of investigation; if this empirical investigation provides support to the hypothesis that privatization policy is significantly influenced by non-economic factors, the information learned in this study may then stimulate new questions or new hypotheses for subsequent studies. Over time, a body of research evidence would accumulate from which less ambiguous general conclusions about the determinants of privatization policy can be drawn. Furthermore, if the findings of this study show that non-economic factors have statistically significant associations with the level of government privatization at state level, then the findings would dispel the notion that privatization is solely an economic phenomenon.

The Research Question

This study seeks to examine the factors driving the level state government privatization. Recent trends in devolutionary government gave greater responsibility to the states for policy creations and service provisions. As a result states have concentrated their efforts in providing public services to their citizens using privatization with varying degrees of intensity (Featherstun, Thornton II, and Correnti, 2001). Even though privatization has gained increasing acceptance among the states (Featherstun, Thornton II, and Correnti, 2001), the level of privatization initiatives by state governments is expected to vary because of the unique characteristics of each state.

Studies reveal that states possess unique characteristics that can be attributed to their respective political cultures, social and economic systems, demographic makeup, ideological beliefs, religious traditions, as well as institutional capacities (see Elazar, 1984; Bowman & Kearney, 1988; Berry & Berry, 1992; Erikson, Wright, & McIver, 1993; Dresang & Gosling, 2008). Therefore, building on historical and contemporary privatization theory, this research study examines the factors influencing the level of privatization by state governments. The overarching research question that this study attempts to answer is: What factors predict the level of state government privatization?

Definition of Key Terms and Constructs

Key terms

States – refer to the forty-eight contiguous states and Alaska and Hawaii. District of Columbia and other US territories are excluded.

Services – this term refers to both goods and services. Following Savas (1987; 2000) usage, the terms goods and services or simply services are used interchangeably.

Provision of services – refers to provision, production, and delivery of goods and services unless otherwise indicated to mean something else, in which case the meaning of the term should be understood in the context in which it is used.

Level of State Government Privatization – the level of privatization that a state government has undertaken.

Constructs

The following four categories of constructs will be used in this study. The constructs will be operationalized as supported by the literature as shown in Chapter II.

Socioeconomic factor – this term is used as a generic reference to social class, social equity, and socioeconomic status and related terms. Oldfield (2003) used some variant of these terms to examine the role of social class in understanding government responses arguing that "Although, technically, the terms *social class, socioeconomic status, class,* and similar terms have slightly different meanings, they all entail notions of *comparative rank,* usually based on income, education, and wealth" (p.441; italics in original). This study employs social, social equity, and socioeconomic terms interchangeably to examine the relationships between social factors and the level of state government privatization. The socioeconomic concept will be operationalized using three variables: state healthcare spending, state pension spending, and state per capita personal income.

Economic factor – this term is used to refer to fiscal policy of taxing and spending as well as to other economic indicators such as the unemployment rate. Economic and fiscal factors are used interchangeably. The economic concept is operationalized using four variables: labor costs, state per capita spending, fiscal capacity, and deficit.

Political factor – this is expressed in terms of the responses of politicians to different pressure groups such as labor unions, environmental groups, think tanks and the like. As such the political factor accounts for the political environment that is likely to promote or constrain the level of state government privatization. For example, the Republican Party is perceived to favor more privatization than the Democratic Party; strong public employee unions resist privatization than weak unions.

Political culture also plays a role in politics as, for example, Elazar (1984) asserts: "Political culture is particularly important as the historical source of differences in habits, perspectives, and attitudes that influence political life in the various states" (p. 110). Elazar conceptualized and identified three political cultures: individualistic, moralistic, and traditionalistic each of which will be detailed in a latter section. Political factor is operationalized using four variables: union power (union laws), the party of the governor controlling state government, the party controlling the legislature, and political culture.

Ideology factor – is defined as the need to reduce the size and scope of government; noninterference in the free market economy; belief in the superiority of the private sector relative to the public sector. Since the political and ideological concepts are multidimensional, some of the measures of these two constructs appear to overlap. Political culture is a case in point. Political cultures refer to "habits, perspectives, and attitudes" (Elazar, 1984, p.110) which are acquired over a long period of time and assume meanings relevant to measure the ideology construct. For example, the belief in the superiority of the marketplace is believed to be an ideological concept, which is also a "perspective" derived from the 18th century laissez-faire economic and political philosophy which has come to be a habit, attitude, or a belief system over time.

Likewise institutional capacity may well serve as a measure of political construct. One of the reasons why governments privatize services is lack of skilled personnel in the public sector and is reflected in the decisions of governments to privatize services; this is essentially an issue related to institutional capacity. However,

in this study institutional capacity is used to measure the ideology construct because of the fact that institution building is fundamentally based on and informed by the underlying ideology of a given society. The ideology factor is operationalized using three variables: state policy liberalism, state ideology index, and state institutional capacity. State policy liberalism is another name for government policy. On the other hand, the term state ideology refers to the ideology of the citizens of the states.

Methodology

The objective of this study is to examine the factors that are likely to influence the level of state government privatization. The overarching research question this study attempts to answer is: What factors predict the level of state government privatization? To answer this question, secondary data from various sources are collected. The variable of interest, that is, the dependent variable is the level of state government privatization (LSGP) across the states and is measured at ordinal level. LSGP is defined and operationalized based on the 2002 Council of State Governments (CSG) survey responses for four classes of services: corrections, education, health and human services, and transportation. That is, the conceptual definition is operationalized using the responses of state agency heads to the CSG's question: "How many services and programs in your agency are currently privatized?" The answers to this question for the four classes of services are used to operationalize the dependent variable.

The four services were selected out of the five classes of services that the CSG identified in its 2002 survey as "the most popular privatized services" and published in

The Book of the States (Chi, Arnold, & Perkins, 2004, p.477). However, the fifth,

personnel programs and services, has over 30% missing data on the responses to the

aforementioned question and is not included in this study. Based on the values for the

four classes of services, an index of the level of state government privatization is

constructed using summated rating scales, which in turn are transformed into three

ordinal levels of low, medium and high level of privatization. This study also uses 14

independent variables measured at interval/ratio, ordinal, and nominal scales.

Data Analyses

Ordinal regression is used to analyze and test the hypothesized relationships

between the level of state government privatization (LSGP) and the explanatory

variables. Appropriate model fit indices will be used to evaluate each factor. Ordinal

regression is used because of the ordered nature of the constructed dependent variable.

States serve as the unit of analysis.

Potential Determinants (IVs) of the Level of State Government Privatization

Researchers have employed a number of variables related to socioeconomic,

economic, political, and ideological factors to empirically investigate privatization

programs in different contexts. Likewise, in this study, several economic and non-

economic variables are utilized to investigate the level of privatization undertakings at

state level. Fourteen variables are used as independent variables. The variables are:

labor costs (compensation of public employees), state per capita spending, state deficit, state fiscal capacity; per capita personal income; state health care spending, and state pension spending; state union laws, state political culture, party affiliation of the governor controlling state government, the party controlling state legislature; state policy liberalism, state ideology , and state institutional capacity; based on these variables, fourteen hypotheses are developed and tested in this study. This study also models how well four general factors of socioeconomic, economic, political, and ideology explain variation in the level state government privatization.

Research Hypotheses

H1: States with higher health care expenditures are more likely to have higher level of state government privatization than states with lower health care expenditures.

H2: States with higher pension spending are more likely to have higher level of state government privatization than states with lower pension spending.

H3: States with higher per capita personal income are more likely to have lower level of state government privatization than states with lower per capita personal income.

H4: States with higher labor costs are more likely to have higher level of state government privatization than states with lower labor costs.

H5: States with higher per capita spending are more likely to have higher level of state government privatization than states with lower per capita spending.

H6: States with higher fiscal capacity are more likely to have lower level of state government privatization than states with lower fiscal capacity.

H7: States with higher deficits are more likely to have higher level of state government privatization than states with lower deficits.

H8: States with weak union laws are more likely to have higher level of state government privatization than states with strong union laws.

H9: States with individualistic/traditionalistic political culture are more likely to have higher level of state government privatization than states with moralistic political culture.

H10: States with Republican governors are more likely to have higher level of state government privatization than states with Democratic governors.

H11: States with Republican-controlled legislature are more likely to have higher level of state government privatization than states with Democratic-controlled legislature.

H12: States with conservative government policy are more likely to have higher level of state government privatization than states with liberal government policy

H13: States with conservative state ideology are more likely to have higher level of state government privatization than states with liberal state ideology.

H14: States with higher institutional capacity are more likely to have lower level of state government privatization than states with lower institutional capacity.

Assumptions

"*Assumptions* are statements that are taken to be true even though the direct evidence of the truth is either absent or not well documented" (Plichta and Garzon, 2009, p.15; italics in original). For the variable of interest, that is, the dependent variable, this study uses pre-existing survey data collected by CSG between October 2002 and December 2002 (Chi, Arnold, & Perkins, 2004). However, the survey is silent about the specific procedures followed to apply/implement the survey instrument in conducting the survey and does not provide information on the collection, aggregation, and interpretation of the data; if these issues are addressed by the researchers, then the documentation is not made available for this study, and several attempts to contact the researchers directly at the Council of State Government (CSG) by email and telephone ware not successful.

Therefore, this study assumes that: 1) common terms and concepts associated with privatization of public goods and services are used correctly, 2) the selected participants in the survey understood the concepts and responded accurately to the survey questions, 3) the data collected in each state measure accurately the public services provided in that state, 4) the interpretation of the data accurately reflect the perceptions of the respondents, 5) the data collection process is not unduly influenced by politicians, bureaucrats, and other stakeholders, and 6) appropriate procedures are used to check for response biases.

Limitations

"*Limitations* are weaknesses…that potentially limit the validity of the results" (Plichta and Garzon, 2009, p.15; italics in original) and "are not under the control of the researcher" (Irby & Lunenburg, 2008, p.133). This study uses secondary data from multiple sources, but the accuracy of the data cannot be verified, raising questions of validity. Welch and Comer (1988) made an important observation pertaining to the problem of testing the validity of measures in research studies especially in the social sciences including policy research saying "that there are no hard and fast rules for testing whether a measure is valid" (p.42). However, a number of steps can be taken to check the validity of the measures, including using simple common sense or intuition to check for face validly; to review the literature to find out whether the measures have been used in other studies to measure the same concepts that this study attempts to measure (Welch & Comer, 1988).

Sample size may be an issue. The CSG survey covered all the 50 states, but only the data for 34 states are usable. The remaining 16 states have incomplete, missing, and outlier data and are excluded from the analysis; this is a threat to external validity in that the results cannot be generalized to all the 50 states. However, the characteristics of the 16 excluded states are compared with the characteristics of the 34 states included in this study using a t-test for sample bias. As Appendix D shows there is only one variable that demonstrates a significant mean difference between the two groups. Also history may affect external validity because the data collected for both the dependent and independent variables are for 2002, and some of the measures may have changed (O'Sullivan, Rassel, and Berner, 2003). Moreover, confounding variables may also impact the validity of the conclusion of this study; for example, while the selfish actions of politicians and bureaucrats are assumed to exist, their influences on the level of state government privatization cannot be directly detected, measured, and assessed. That is, the indirect influence of the utility maximizing behaviors of the actors may have altered to a certain degree the relationships between the independent variables and the dependent variables leading to a conclusion with questionable validity. As Creswell (2009) suggests, this study addresses the limitations and potential spurious results in the conclusion.

Delimitations

"Delimitations are boundaries in which the study was deliberately confined" (Plichta and Garzon, 2009, p.15; italics in original). This study is confined to an investigation of privatized services aggregated by four departments (correction,

transportation, education, and health & human services) and does not attempt to examine specific services or programs that are likely to be privatized by each department. Also for the dependent variable, the study is confined by data collected in 2002 and does not attempt to look beyond the prescribed one-year time frame.

Organization of the Study

This study is organized in five chapters. Chapter I provided an introduction and background of the study followed by the statement of the problem, the purpose of the study, the significance of the study, the contribution of the study, and the research question. Chapter I also included the definition of key terms, the methodology, the data analysis, the potential determinants of state government privatization, the research hypotheses, the assumptions, the limitations, and the delimitations of this study. Chapter II presents the literature review followed by the discussion of the methodology in Chapter III. Chapter IV provides the results, and Chapter V covers the conclusions.

CHAPTER II

REVIEW OF THE LITERATURE

Introduction

This chapter reviews the privatization literature to provide the background

information and the rationale for conducting research on the factors that influence the

level of state government privatization by state governments. Specifically, this study

examines the extent to which variables related to socioeconomic, economic, political,

and ideological factors drive the level of state government privatization. While

evidence in the literature shows the existence of wide variations in the level of state

government privatization (GAO, 1997; Chi, K., Arnold, K., & Perkins, H., 2004),

there is little empirical research that investigates the factors influencing the level or

amount of privatization undertaken by state governments. Most prior state level

empirical studies that employed variables related to socioeconomic, economic,

political, and ideological factors have focused on single cases or programs, and have

not examined the aggregate level of state government privatization accounted for by

the aforementioned factors.

Indeed, after more than three decades of experimentation in privatization, the

level of state government privatization, the contributing factors thereof, and the

implications for society have yet to be understood and explained based on empirical

evidence. To properly gauge the level of state government privatization, to identify the

potential factors that are likely to drive the level of privatization by a state government,

and to draw evidence-based conclusion about the implications of privatization policy

for society, it is essential to conduct a comprehensive research that takes into account several classes of programs and services simultaneously. The lack of empirical research on the level of state government privatization accounted for by variables related to socioeconomic, economic, political, and ideological factors creates an important gap in the literature that this study attempts to fill.

This is a state comparative research, but the subject matter to be examined – privatization – is global in scope. It is therefore essential to understand the roots and philosophical background of contemporary privatization in order to grasp clearly the meaning and the context in which it is applied by state governments. This study therefore draws on historical and contemporary privatization literature to understand and explain the origin of the philosophical assumptions that inform the development of contemporary privatization theory in the global context in general and the United States in particular. Underlying the rationale for reviewing the privatization literature from a historical perspective is the belief that contemporary privatization is a derivation of the classical market model, the development of which was based on and informed by the neoclassical economic theory (Sclar, 2000).

Reviewing the historical as well as the contemporary privatization literature provides useful insights to identify the factors that are most likely to be associated with level of state government privatization, and to answer the main research question of this study, namely, what factors predict the level of state government privatization? This chapter therefore summarizes the literature, identifies the potential factors that are expected to influence the level of state government privatization, and concludes with the development of research hypotheses.

The chapter is organized into six major sections which includes several sub-sections. Section one provides an overview of the historical context for the contemporary privatization movement and highlights the philosophical assumptions underpinning privatization; this section includes discussions of laissez-faire economic thought, the Welfare state as a precursor of contemporary privatization movement, arguments against the interventionist policies with an emphasis on the United States of America; also the ideological, political, and economic arguments including the demand-side and supply-side perspectives are summarized in this section. Section two reviews the background of contemporary privatization in the United States. Section three covers the definition of privatization. Section four presents a detailed discussion of the theory of privatization which includes the characteristics of goods, the arguments for and against privatization, and the reasons why governments privatize. Section five presents an overview of selected empirical studies. The final section discusses the factors influencing the level of state government privatization and concludes with the development of fourteen research hypotheses.

The Historical Context and the Philosophical Basis of Privatization

Historical accounts link modern privatization theory to the laissez-faire political and economic philosophy that dominated most of the first hundred years of the Republic. But the dominant philosophy came under attack in the second half of the 19th century as a result of growing social and economic problems spawned by the industrialization of the economy, the urbanizations of society, and the growth of the population (Kaplan and Cuciti, 1986; Milkis and Mileur, 2005). The economic and

social changes of the nineteenth century transformed the political landscape of the United States giving rise to what is referred to in the literature as the Progressive movement; the changes of that period demanded a strong, centralized government that could provide a "path to social peace, class equilibrium, and industrial democracy" (Milkis and Mileur, 2005, p. 87).

The Progressive Era changes and subsequent reforms created the conditions for government to play an active role in society. According to historical accounts, the role of government was broad in scope and involved the initiation and development of many programs that gradually led to the growth and expansion of the public sector, which, in turn, set the stage for the emergence of contemporary privatization movement (Milkis and Mileur, 2005; Midgley and Livermore, 2009; Kaplan and Cuciti, 1986). These historical developments as they relate to the privatization movement are reviewed in the pages that follow.

<p align="center">Historical Context: The Laissez-Faire Economic Thought</p>

Sclar (2000) noted that "privatization as a method of providing competitive public service is derived from modification of the standard market model, the core element in neoclassical economic theory" (p.6). To understand this linkage, it is perhaps important to review the historical root of privatization and the philosophical assumptions upon which it is built. The genesis of the contemporary privatization movement can be traced to the eighteenth century laissez-faire economic thought that is commonly attributed to Adam Smith's work *The Wealth of Nations* (1776) (Moe, 1987). Adam Smith "propounded the notion of laissez-faire economics and was an

early advocate of free enterprise.... Smith believed that an invisible hand governs financial interactions and that free economic pursuits build economies and create wealth" (Midgley and Livermore, 2009, p. 196).

Individuals, not groups, are the foundation of the laissez-faire economic thought, which asserts that "a large number of buyers and sellers engage in market exchanges of goods and services with any individual actions having little or no appreciable impact on the price, quantity, or quality of the product" (Sclar, 2000, p. 6). The laissez-faire economic thought or more commonly known as the classical economic theory further assumes that the private sector does not have "organizational size larger than a single individual" (Sclar, 2000, p.15), and that individuals enjoy free and unimpeded entry to or exit from the market.

The eighteenth century economic philosophy suggests that the private sector is essentially an environment with a self-correcting market system where individual entrepreneurs pursue their economic activities to maximize their individual profits without the interference or coercion of the state. In an effort to maximize their individual profits, the invisible hand of the entrepreneurs also benefits the national economy, leading generally to the creation and accumulation of national wealth. This simple but elegant economic principle characterized the early period of capitalist ideology, which continues to inform the beliefs, customs, and practices of many Western societies.

For over two centuries, the values of individual freedom, personal liberty, the preeminence of the private sector, the free market system, and limited government have been the defining ethos of the Western liberal democracies and remain to be the

case to this day. Certainly in the United States of America, "Smith's ideas remain widely accepted and popular today. They are fundamental to American economic activity and law, which attempt to guarantee competition, the pursuit of free economic development, the avoidance of monopolies, and relatively little government interference" ((Midgley and Livermore, 2009, p. 196).

Indeed, laissez-faire capitalism created unprecedented levels of wealth and transformed the social, economic, and political landscapes of many Western societies, but it also produced undesirable consequences such as monopolies, social dislocations, and instabilities (Sclar, 2000). Beginning in the last quarter of the nineteenth century, Europe and the United States began experiencing the impacts of the industrialization of the economy, the rise and influence of corporate power, the urbanization of society, and the growth of population and its concomitant social problems (Kettl, 2002; Sclar, 2000).

The self-correcting mechanism that the classical economists attributed to the laissez-faire economic model either didn't exist or faltered so much that a belief in the power of governments to serve as agents of positive social changes became widespread. For example, in the United States, "Citizens came to see the national government as generally benign and competent – a force for constructive change and a healthy offset to market failures" (Sclar, 2000, p.viii). Over time, as a reaction to the social and economic malaise that engulfed societies on both sides of the Atlantic, many governments adopted interventionist policies, which gradually led to the development of what is now commonly referred to in the literature as the welfare state

(Kuttner, 1987; McAllister and Studlar, 1989; Sclar, 2000; Boix, 1997; Milkis and
Mileur, 2005; Midgley and Livermore, 2009; Kaplan and Cuciti, 1986).

The Welfare State: the Precursor of Contemporary Privatization Movement

Governments began exerting considerable effort to overcome the economic

difficulties and social instabilities brought on largely by the market forces operating in

the private sector that was deeply enthroned with the capitalist ethos of individual

freedom, self-correcting market system, personal liberty, and minimal government

interference. Although the interventionist policies varied from country to country, in

general, however, many governments responded to the economic and social realities of

the first half of the twentieth century by subjecting industries to strong regulations,

nationalizing key industries, and expanding social welfare (McAllister and Studlar,

1989; Boix, 1997; Kettl, 2002: Sclar, 2000; Kuttner, 1987). For example, from 1945-

51, the Labor government in Britain nationalized many industries and expanded social

welfare. In 1951, the nationalized industries employed 28 percent of the workforce,

which represented a significant government involvement in the economy (McAllister

and Studlar, 1989). McAllister and Studlar (1989) made an apt observation when they

said: "From being the primary exponent of laissez-faire economics in the nineteenth

century, Britain moved in the twentieth century to ever-increasing levels of

government involvement in the economy" (p.159).

In the United States, partly as a reaction to the Progressive movement, the

responses involved not nationalization of industries but "strong government

regulation" to curb the power of the corporate trusts as well as to promote efficiency

and accountability, which Woodrow Wilson argued could be accomplished by

separating politics from administration (Kettl, 2002, p.81). Over time the

interventionist role of the federal government expanded especially during the periods

that included the Great Depression, World War II, the Cold War, the Vietnam War,

and the Civil Right movement of the 1960s. During these periods, on the domestic

front, unprecedented demands were placed on government to play a more active role

in the socioeconomic sphere, and the federal government introduced massive

programs, especially the New Deal programs of the 1930s and the Great Society

programs of the 1960s (Kaplan and Cuciti, 1986; Milkis and Mileur, 2005; Midgley

and Livermore, 2009).

The New Deal programs of the 1930s and the Great Society programs of the

1960s represented the largest initiatives undertaken by the federal government since

the founding of the Republic (Kaplan and Cuciti, 1986). The New Deal programs were

enacted essentially to cope with the economic disaster that was largely believed to

have been caused by the Great Depression. Although a host of programs were put in

place during the period that was largely associated with the Great Depression, none of

the programs involved nationalization of private enterprises. Most of the major

programs appeared to have been designed to provide purchasing (spending) power to

people in order to pull the economy from the depths of the Great Depression. While no

nationalization of industries took place in the United States of America, government

intervention nonetheless became necessary to correct market failures. In due course of

time, however, the public sector began experiencing significant growth and continued expanding throughout the Great Society era.

The Great Society programs were far more expansive and focused primarily on ending poverty and racial injustices by creating opportunities for the poor (Ylvisaker, 1986; Gifford, 1986). The creation of opportunities involved providing resources and skills for the poor as well as outlawing various types of discrimination (Kaplan and Cuciti, 1986). In essence, the progress made in the early sixties reinforced the beliefs of prior generations going as far back as the Progressive Era in the problem-solving abilities of government and provided optimism about the positive role that government can play in society. These beliefs enhanced government involvement and expanded the type and scope of the programs created during the Great Society era (Kaplan and Cuciti, 1986; Midgley and Livermore, 2009).

Indeed, the political and economic philosophy of the Progressive Era that sought to legitimize active government role in the social and economic lives of society reached its peak during the Great Society era, culminating in what is today known as the welfare state. However, the Progressive Era political and economic thoughts in general and the legacy of the Great Society in particular were challenged not only on the basis of fiscal and economic issues but also on political and ideological grounds as well. The oppositions, in part, came by way of the privatization movement (Kaplan and Cuciti, 1986; Midgley and Livermore, 2009).

Literature reveals that the growth and expansions of government that led to the creation of the welfare state were believed to be the underlying causes of the economic problems of the 1970s that included economic inefficiency, chronic fiscal

imbalances (large budget deficits), and huge national debt (Donahue, 1989; Hodge, 2000; Kuttner, 1987; 1997; Savas, 1987; 2000). Research further shows that the regimes of the welfare state have been characterized by lack of public confidence and trust in government. These developments in turn led many governments around the world to abandon the interventionist policies in favor of limiting the size and scope of government and promoting privatization policy (Boix, 1997).

While much of the contemporary research alludes to the public sector inefficiencies and slow economic growth of the 1970s as reasons for the emergence of the contemporary privatization movement (Boix, 1997), historical accounts offer broader explanations, at least in the context of the United States, that appear to be much more in tune with the long secular changes that had taken place since the Progressive Era (Report of the President's Commission on Privatization, 1988).

Viewed in the historical context, therefore, the contemporary privatization movement is not only a strategy for cost savings or for correcting fiscal imbalances governments faced, but it is also an attempt to resurrect an ideology that is based on laissez-faire political and economic thoughts. In other words, the movement toward privatization is essentially an attempt not only to reorient the fiscal side of government but also to alter the political and economic philosophy that gave rise to the interventionist policies in the first place. In many cases, the ideological battle manifests itself in the increasing calls by conservative politicians and economists for limited government and for the transfer of public services to the private sector. Thus, the arguments against the interventionist policies and in favor of privatization must be considered within the context of the long secular developments of the last hundred

years that have altered the political and economic orientations of governments around the world. These themes are the subject of discussions in the next few pages.

Arguments against the Interventionist Policies

For several decades after the turn of the twentieth century until the late 1970s, the interventionist policies became the national strategies for many advanced countries including the United States of America to spur economic growth, to promote stable economic policy, to redistribute wealth, to provide public goods and services, and to improve the welfare of workers and the least well-off sectors of society (Kuttner, 1987; Sclar, 2000; Kaplan and Cuciti, 1986). However, research shows that most developed countries began shifting their domestic economic policies from the interventionist policies of the Keynesian orientation to a new strategy that emphasized the market approach (Boix, 1997; Box, 1999). Studies further reveal that privatization began to gain salience both in the political debates and in governmental agendas because of renewed enthusiasm about the virtues of the competitive markets and the belief in the efficiency of the private sector (Boix, 1997; Mitchell, 1988).

The arguments against the interventionist policies were essentially a reaction against the economic slowdown of the 1970s, the fiscal imbalances and the related revenue shortfalls, the growing budget deficits, and the stagflation crisis (Boix, 1997). While the specific policy prescriptions vary from country to country, in general, however, the economic malaise of the 1970s "certainly put into question the political-economic institutions of the Keynesian post-war consensus and triggered, among state elites, a search for new approaches to governing the economy" (Boix, 1997, p.477). But

Boix (1997) also offered a contrasting view regarding the extent to which economic

difficulties and the failure of "the expansionary policies of the late 1970s to solve the

stagflation crisis" served as a catalyst for the emergence of the privatization movement

around the world (Boix, 1997, p. 474).

In reviewing the experiences of some of the Organization for Economic Co-

operation and Development (OECD) countries, Boix (1997) noted that "lower growth

rates and larger public deficits did not mechanically trigger the privatization of public

businesses" (p.477-478). He argued that there was no evidence to show that

privatization strategies were implemented only among countries that experienced bad

economic performances and harsh stagflation crises. "While it is true that several

countries suffering long-term economic stagnation, such as New Zealand and the United

Kingdom, engineered vast privatization packages, nations like Japan or Portugal, with

growth rates well above OECD average, engaged in sizeable sales of state assets as

well" (Boix, 1997, p. 478). Moreover, budget deficits/public debt played very little role

in approving privatization packages in many nations. For example, countries such as

Belgium, Italy, Ireland, with huge levels of public debt, sold hardly any public

corporations (Boix, 1997), which underscores the fact that, in some of the advanced

economies, fiscal imperatives play at best a marginal role in the privatization decisions.

According to Boix (1997), privatization decisions in OECD countries are

political and institutional in nature, but the author emphasized that the responses of

individual countries depend largely on the alignment of political forces and institutional

arrangements available at the domestic level. That is, "the privatization movement was

mainly driven by the political actors in power at the time, constrained by the institutional

settings in which they operated – Conservative governments privatized and left-wing cabinets did not" (Boix, 1997, p.476). For example, privatization has been the "centerpiece of Margaret Thatcher's three Conservative governments, reflected in the sale of publicly-owned industries to the private sector and in the sale of council houses to their tenants" (McAllister and Studlar, 1989, p.157).

The argument that conservatives privatize more than left-wing politicians or liberals suggests that political and ideological preferences figure prominently more than fiscal concerns in the privatization decisions. In some cases, in an apparent attempt to project a stance of ideological neutrality, proponents of privatization invoke arguments saying that voters demand the privatization of public enterprises; but these claims also become matters of empirical investigations. For example, in Britain, McAllister and Studlar (1989) conducted an empirical study to determine the extent to which voters demand privatization of public enterprises. They tested two models – the median voter and the elite interests model – to examine voters' choices about privatizing public enterprises. The median voter model argues that privatization policy is a policy demanded and initiated by voters. In contrast, the elite interests model argues that privatization decision is government initiated and there is no popular demand for it. The authors concluded: "The evidence confirms the elite interests model and shows that public opinion has generally accepted the status quo on the public ownership of industry" (McAllister and Studlar, 1989, p.157).

The Case of the United States of America

In the United States of America, the anti-interventionist policy was also triggered by the economic conditions of the 1970s; much of the recent literature describes the contemporary privatization movement as a reaction to the fiscal crisis, growing budget deficits, and overall macroeconomic problems associated primarily with the welfare state that was spawned by the Great Society programs (Kaplan and Cuciti, 1986; Milkis and Mileur, 2005). It is true that the poor economic performance of the 1970s had considerable impact on government policies, but there is no unequivocal evidence to suggest that it was the only factor that contributed to the development of anti-interventionist policies and in favor of privatization policy.

In fact, numerous scholars argue that in the United States, as in Europe, the political and ideological factors account for much of the shift in public policies and for the adoption of privatization policy as a result of the conservative ascendancy to power in the early 1980s (Savas, 1987; Donahue, 1989; Kuttner, 1997; Sclar, 2000). Thus, in the United States of America, explaining the anti-interventionist policies in general and the movement toward privatization in particular entails, among other things, understanding the ideological, political, and economic arguments in a historical context. These arguments are addressed in the next section.

The Ideological Arguments

Studies show that the contemporary privatization movement in the U.S. is "a reaction against the themes and results of Progressive thought" (Report of the President's Commission on Privatization, 1988, p. 230), and represents a resurgence of

conservative ideology; as noted elsewhere, conservatism is essentially a belief in the

laissez-faire political and economic ideology including the family, the neighborhood,

the small republic, as well as the cultural beliefs (Ginsberg, 2009). As indicated earlier,

the Progressive movement emerged in the 19th century as a reaction against this

conservative ideology that dominated the early period of the Republic and sought the

development of strong central government and the promotion of true national

community in the U.S. (Report of the President's Commission on Privatization, 1988;

Kaplan and Cuciti, 1986; Brinkley, 1995; Midgley and Livermore, 2009). In many

ways, the Great Society programs represented a concrete expression of the Progressive

thought (Kaplan and Cuciti, 1986; Brinkley, 1995; Midgley and Livermore, 2009).

From the economic perspective, as noted elsewhere in this paper, the Great

Society programs spawned the welfare state setting the stage for the emergence of the

contemporary privatization movement. With the election of Ronald Reagan in 1980,

the New Federalism policy that subscribed to the laissez-faire political and economic

ideology began shaping the conservative direction of the nation (Schambra, 1986;

Sclar, 2000; Kuttner, 1987; Brinkley, 1995; Midgley and Livermore, 2009). The

resurgence of the conservative ideology and the desire to change the legacy of the

Great Society and the Progressive vision eventually led to the emergence of

contemporary privatization movement (Report of the President's Commission on

Privatization, 1988).

Thus, as the preceding discussion clearly illustrates, the privatization movement

was not solely an economic phenomenon or a cost-savings strategy, but it also had an

ideological dimension (Schambra, 1986). While the ideological reasoning against the

Progressive thought emphasizes a smaller government and a return to the traditional, small republican values (Ginsberg, 2009), the political argument, at its core, appears to be developing strategies for attaining or maintaining party control of the institutions of government, that is, political power. This political perspective is reviewed below.

The Political Arguments

In discussing the political aspect of the privatization movement, recent literature focuses largely on the demands made on governments for actions in an environment of sever fiscal constraints; but this is only part of the argument, and it plays a marginal role when viewed in the context of the broad reforms associated with the Great Society era and prior decades. Historical accounts unravel the racial and class or socioeconomic implications inherent in the privatization movement, which largely became prominent in the 1980s following the decline of the political and economic thoughts associated with the Progressive Era.

Studies that focused particularly on the Great Society era provide useful insights that shade some light about the political dimension of privatization. According to some studies, the Great Society programs were efforts, among other things, to reduce poverty by providing services through private agencies (Piven and Cloward, 2005; Reisch, 2009); using private agencies was believed to be important in order to curtail the influences of local bureaucracies (Piven and Cloward, 2005; Reisch, 2009). Also, the financial burdens of state and local governments were reduced because "the traditional grant-in-aid practice of requiring states and localities to match federal contributions was reduced, to as low as 10 percent in the case of poverty

programs, and eliminated altogether in the case of programs funded under the

Manpower Development and Training Act" (Piven and Cloward, 2005, p. 258). The

Manpower Development and Training Act was designed "primarily for reasons of cost

efficiency and out of reluctance to expand public assistance benefits" (Reisch, 2009,

p.159).

In view of the strategy highlighted here, one would expect the Great Society

programs to garner broad national support. In fact, it would be difficult to invoke the

privatization argument on grounds of insufficient funding and increased demand for

services because of the fact that there was no supporting evidence for such claims. The

problem, however, was that most of the Great Society programs were targeted to the big

cities, especially to the inner-city populations that were black and poor (Piven and

Cloward, 2005). According to Piven and Cloward (2005), the focus on race, ethnicity,

and class did not bode well for the political future of the Democratic Party; yet, the

Democratic administration at the time sought to strengthen the allegiance of urban

blacks because their electoral participation had become particularly important in terms

of determining the outcome of presidential elections. The political strategy of the

Democratic Party in the 1960s was to line up the interests of the Democratic Party with

the policies that promoted antipoverty programs (Piven and Cloward, 2005).

Likewise, the Nixon and Reagan administrations were acting in their political

interest when they reversed the pattern of the Great Society and began channeling

program authority and funds back to the states and encouraged greater business

participation (Reisch, 2009). For example, according to Donahue (1989), "One of the

Reagan administration's earliest, biggest and most-relished budget cuts was the

elimination of CETA's [Comprehensive Employment and Training Act] public service

employment component. When the program came up for reauthorization in 1982, it was

restructured to enlarge the role of the private sector"(p.181-182).

The preceding analysis suggests that the contemporary privatization argument

that is premised solely on cost effectiveness rationale appears to be less plausible. The

implication of the political argument is that, even in the absence of budgetary constraints,

fiscal issues become a rallying point for some conservative groups to oppose federal

programs to the extent that those programs target race, ethnicity or class perhaps because

these groups are perceived to be allies of the Democratic Party. The political dimension

further underscores the fact that political party interest plays a significant part in

defining intergovernmental relationships; that is, shifting program authority and funds to

states and/or localities are likely to occur to the extent that the change of venues serves

the interests of the governing political party. The implication here is that competing

party interests play a part in privatization decisions. As Boix (1997) argued in the

context of European governments where conservatives privatized and their liberal

counterparts did not, in the United States, at least in theory, the Republican Party tends

to privatize and the Democratic Party seeks to restrict it (Sclar, 2000; Savas, 1987; 2000;

Donahue, 1989).

While the political argument discussed above highlights the intricacies inherent

in the privatization policy, the economic perspective offers an argument how the private

sector can expand the economic pie for all to get maximum benefit. However, it is

worth noting that, although political and economic arguments can be differentiated

theoretically, the degree to which political and economic considerations can be separated

unambiguously, at least in the context of privatization discussion, is very much an open

question. More often than not, economic arguments overlap with political and

ideological arguments, and this limitation is evident in this study. The next section

focuses on the economic argument.

The Economic Arguments

Recent privatization literature alludes to decreasing public resources and

citizens increasing demand for services as the underlying factors driving the

contemporary privatization movement; while this may be partly the case in the past

thirty years or so, the major cause that underpins the movement towards privatization

is deeply rooted in competing economic philosophies. Much of the debate over the

privatization policy from an economic perspective has reflected differences between

those who support government intervention and those who support theories of a

market economy.

Although the extreme case of government intervention involving

nationalization of industries did not occur in the United States (Kolderie, 1986; Moe,

1987; Donahue, 1989), government nonetheless employed regulatory and managerial

strategies as well as fiscal tools as it assumed an active role in the economy (Brinkley,

1995). But, in the 1980s, the conservative regime sought to promote economic growth

through restrictive monetary policy, deregulation, tax cuts, private saving, and

investment. In essence, conservative regimes sought to alter the direction of

government policies towards privatization. The difference was thus, in pure economic

terms, between demand-side and supply-side macroeconomic doctrines (Midgley and Livermore, 2009).

The Demand-Side Perspective

The demand-side economic theory, also called Keynesian economics, focuses on increasing the demand for goods and services in order to stimulate economic growth. The demand-side economic policy utilizes fiscal tools (spending and taxing) to promote high employment with stable price level or inflation. The idea central to demand-side or Keynesian economic thought is that government can stabilize the economy by spending more and taxing less during recession; and taxing more and spending less during period of high employment and sustained price increases (inflation); the graphical representation of this strategy is what is known in economic literature as the "Philips curve," and involves essentially a "trade-off between unemployment and inflation" (Ackerman, 1982, p.11). The demand-side idea is essentially an expression that reflects a belief in the ability of government to manage the economy effectively, efficiently, and responsibly using the tool of fiscal policy.

Indeed, fiscal policy became the major economic tool to stimulate economic growth, to promote mass consumption, and to expand social programs for nearly three decades after the end of WWII (Ackerman, 1982). Summarizing America's social and economic experience in the aftermath of WWII, Ackerman (1982) noted the steady expansion of the welfare state that started in the 1930s with the New Deal program (social security, for example). The author further claimed that, in the 1960s, the welfare state expanded so much that public expenditures on programs such as

unemployment compensation, food stamps and welfare were growing steadily. Yet, according to Ackerman (1982), in the face of growing public expenditure, "inflation was unknown, wages climbed at a fairly steady pace, and spells of high unemployment were brief" (p.2). Indeed, some scholars assert that the United States enjoyed the most dramatic period of economic growth in its history in the first thirty years after World War II, and liberal economic policies were believed to be instrumental in sustaining and accelerating that growth (Brinkley, 1995).

However, Brinkley (1995) wrote: "The effort to create economic growth and full employment through consumer-oriented fiscal policies floundered after 1973 in the face of global competition, environmental degradation, and deindustrialization" (p.270). Moreover, Ackerman (1982) asserted that the "levels of inflation, interest rates and unemployment that would have been called catastrophic a few years ago are now commonplace. In the 1970s, Republicans and Democratic administrations alike seemed powerless to reverse [America's] declining fortunes" (p. 2). Although, the demand-side economic doctrine informed much of the economic policies of the postwar period, "the postwar expansion nonetheless came to a close and was replaced by an erratic and often stagnant economy, increasing inequality, and growing social instability" (Brinkley, 1995, 271). It is against this social and economic background that the "New Federalism" also called "Reaganomics" or "supply-side" economics emerged (Ackerman, 1982; Lowe, 1984; Brinkley, 1995).

The Supply-Side Perspective

As noted above, in the aftermath of WWII, the Keynesian strategy or otherwise known as demand-side economic doctrine was widely embraced, and as a result, the

1960s saw a more aggressive fiscal policy. Nevertheless, studies show that in the 1970s supply-side economic doctrine was growing in importance; in particular, monetary policy was recognized as an important policy tool to combat inflation, and even became more evident in the 1980s with the emergence of the New Federalism or Reaganomics (Kaplan and Cuciti, 1986; Ackerman, 1982; Lowe, 1984). Scholars note that the shift in the relative roles of fiscal and monetary policies was essentially a reflection of the growing influence of the supply side economic theory (Kaplan and Cuciti, 1986; Ackerman, 1982; Ulmer, 1984).

The supply side economic thought subscribes to the notion that private sector production (supply) of goods and services is the primary engine of growth. According to supply-side perspective, economic policy should focus on fostering economic growth through high private savings, investment, and production. Lower corporate-income taxes, liberal depreciation schedules, cutting capital gains taxes, and reducing marginal tax rates on high personal income are central to the supply-side theory (Kuttner, 1987). In the United States, the supply-side economic thought gained acceptance and prominence with the election of Ronald Reagan in 1980. As Kuttner (1987) noted, "With Ronald Reagan's election, the capital-supply school of economics came fully of age" (p. 52). Ulmer (1984) also asserted that

> [T]he 'supply-siders' moved to center stage with the Reagan administration. The more extreme among them favor the market over government almost to the point of old-time laissez-faire. Substantial inequalities in income, allowing incentives for effort and ambition, are in their eyes essential not only for industrial progress but for individual freedom (p. 10).

In general, the supply-side policy prescription calls for restrictive money supply, lower wages, budget cuts, less regulation, and lower taxes.

Upon assuming power, the Reagan administration followed pro-business economic policy and encouraged restrictive monetary policy, tax cuts, budget cuts, and deregulation (Ackerman, 1982). However, the results were not encouraging. The tax cuts did not achieve the intended goal. "The actual personal savings rate declined from an average of 7 percent in the 1970s to about 5.5 percent under Reagan, and investment declined sharply between 1980 and 1983" (Kuttner, 1987, p.52). Overall, tight monetary policy discouraged investment, and the tax cuts widened the deficit. In the ensuing period, concern over the budget deficit led Congress to enact a series of tax legislations, and the budget deficit "served the crusade against the public sector" (Kuttner, 1987, p. 52).

Literature reveals that the federal government sought to reduce its load by devolving programmatic authority and responsibility to the states without providing resources, which in turn constrained states' ability to meet citizens increasing demand for public services (Posner, 1998). For example, Posner (1998) cited studies that showed that "counties spent $4.8 billion in fiscal year 1993 for twelve unfunded federal mandates, or over 12 percent of locally raised revenues" (p.5). The financial difficulties of states and localities were further compounded by lack of public support for tax increases to fund the additional services demanded by citizens.

Some skeptics took unfunded mandates as the federal attempt to get rid of some programs that were meant to serve the poor. The skeptics claim "that the President's [President Reagan] aim was to rid Washington of its most troublesome domestic programs [by shifting the responsibilities to] the states in the expectation that

many would soon die there" (Nathan, 1984, p, 36). While this argument might have some resonance in some circles, it was not widely believed to be the case.

Aside from the interests of the Republican political party, the Reagan economic policy was far deeper than the superficial argument suggested by the skeptics. The Reagan economic policy (and hence the supply-side theory that informed it) was deeply rooted in laissez-faire political and economic ideology that was discussed at length earlier. The essence of the economic policy was to reduce the role of government and narrow the size and scope of the public sector in many areas including social programs at all levels of government so that the private sector would be able to take over functions that were previously performed or provided in the public sector. "The fundamental belief of the Reagan team is that private enterprise will work wonders as soon as the government leaves it alone" (Ackerman, 1982, p.3). Thus, in line with the supply-side theory, state governments sought to alleviate their financial difficulties by privatizing some of their public services.

However, different state governments are likely to respond to federal policy changes in different ways, depending on a number of factors such as the socioeconomic condition, the economic situation, and the political culture of the state as well as the ideological orientation of the citizens and state policymakers. The challenge for researchers who want to understand the level of state government privatization is to identify the relevant factors and explain the extent and variations of their influences on the aggregate level of state government privatization efforts. In reviewing the root of the privatization history of the past hundred years, this research has revealed the existence of a link between contemporary privatization theory and the

conservative ideological, political, and economic thoughts of the 18th century. Conservative ideological, political, and economic thoughts are assumed to exert considerable influence on privatization decisions at all levels of government, but the extent of their influence on the level of state government privatization is a matter of empirical investigation that this study attempts to undertake.

To understand the level of state government privatization, identifying the factors that are likely to impact privatization policy is certainly a necessary condition but not a sufficient condition. Understanding the meaning of contemporary privatization and the perspectives that inform it are also essential in order to make a meaningful assessment of the influence of each of the factors mentioned above. The review of the literature from a historical perspective has clearly established the conservative root of privatization, but the historical narration nonetheless offers little insight into the conceptualization and meaning of contemporary privatization in the context of the United States in particular.

The rationale for providing an account of the background of contemporary privatization in the United States in a separate section as opposed to privatization in the global context is to tackle the theoretical and analytical challenges that are likely to arise in discussing privatization policy in the United States. There is a difference in the conceptualization of the term privatization between the United States and other developed economies. In the United States, privatization does not involve complete severance of government intervention in the privatized services, whereas in most advanced economies, privatization means primarily selling assets completely (Donahue, 1989).

Moreover, as indicated in the review of the historical literature, the United

States of America has had a mixed economy for a long time, and did not nationalize

any industries even during the height of the Great Depression (Donahue, 1989). In

view of these unique U.S. circumstances, the conceptualization of privatization is

fundamentally different from other economically advanced countries, and its meaning

is certainly intriguing and warrants separate discussion. Thus, the background of

contemporary privatization in the United States is reviewed in the pages that follow.

Background of Contemporary Privatization in the United States of America

In the United States of America, the use of privatization as a means of

providing public goods and services gained ground after the California voters passed

in 1978 Proposition 13, a major fiscal containment act (Allen et al., 1989). The

privatization movement gained further momentum after the election of Ronald Reagan

in 1980 where the Reagan administration "pressed hard for increased use of the private

sector in delivering public services at all levels of government" (Allen et al., 1989,

p.2). All government initiatives that involved public-private collaborations and

coordination constituted privatization because of government reliance in varying

degrees on the private sector to provide the services that the citizens needed (Report of

the President's Commission on Privatization, 1988). But prior to the 1980s,

privatization had existed on an ad hoc basis in a limited scope and had not been a

source of major controversies that characterized the 1980s and beyond (Featherstun,

Thornton II, and Correnti, 2001).

The privatization movement that emerged in the 1980s became controversial because of concerns in some circles that privatization has gone far beyond the issue of simple economic efficiency and has become deeply ideological and political at its core (Savas, 1987). For example, one of the staunch advocates of privatization, E.S. Savas described the controversies surrounding the concept of privatization in the following manner.

> The very word of *privatization* unfortunately summons forth images from a deep reservoir and causes misunderstanding, premature polarization, and shrill arguments.... Some read into the word a plot to restore a completely free market, with overtones of dog eat dog, exploitation of weakest, and survival of the fittest. Others interpret the word as an attack on government and the things government has been doing; direct beneficiaries of government programs, including employees, may therefore defend their self-interest by attacking privatization. Still others are provoked by the term because they see it as an attack on the ideals they cherish. Public to them denotes brotherhood, sharing, and community, and they mistakenly interpret private to mean the negation of these important values (Savas, 1987, p.277; italics in original).

Also, the following quotations from a speech by James C. Miller III, former director of the Office of Management and Budget (OMB) under the Reagan administration, provide a vivid illustration of the problem associated with the concept of privatization.

James C. Miller III wrote:

> While I was at the OMB, I had the temerity to suggest that the Post Office be privatized. Well, that triggered considerable resistance.... I immediately had congressional inquiries down my neck, and one of the labor unions produced 'WANTED' posters of 'Postal Enemy Number One' which featured an unflattering caricature of me.

He further observed:

> Opposition to privatization is entrenched on Capitol Hill, and those that are threatened by privatization lobby very hard to retain their privileged position. The concept of privatization is generally hard to sell to the American people. (We looked long and hard for an alternative word to 'privatization,' because it sounds somewhat commercial and selfish, but we didn't find anything) (Miller, 1992, p. 3-4).

It was not only on Capitol Hill in Washington, D.C. that the term privatization

became provocative, but it also sparked vigorous rejection in state legislatures in the

early 1980s (Auger, 1999). In fact, privatization was so viewed as anathema to public

concerns that many leaders around the world sought to use a different term, as E.S.

Savas reported as follows.

> Numerous public officials throughout the world have told me, in great
> frustration that they wished another word could be found. Indeed, the
> euphemism *productivity enhancement* was employed early in the Reagan
> administration to minimize reflexive employee opposition, and *alternative
> service delivery* is the term of art often used in municipal government circles in
> the United States. In fact, I devised this term specifically for that audience as a
> circumlocution to avoid using *privatization* (Savas, 1987, p.277; italics in
> original).

The ambiguity of the term privatization also raised questions of motivation in the

sense that some advocates of privatization wanted to eliminate "worthy goods"

arguing that they were private goods and should not be provided by collective

financing (Savas, 1987, p.277). Thus, as Savas (1987) candidly acknowledges,

privatization, in its contemporary usage, is controversial because of the fact that the

concept is subject to different interpretations. A detailed discussion of the definition

of privatization is in order.

Definition of Privatization

Privatization has been defined in many different ways in the literature.

Historically, the concept of privatization refers to human economic actions in the

pursuit of their individual self-interests in the market place (Florio, 2004). Elaborating

the concept of privatization further, Florio (2004) notes: " The personal responsibility

of the entrepreneur is in fact an essential ingredient of the line of reasoning that, from Adam Smith onward, sees free individual economic action as a requirement of social order – free, but also *individual*" (p.5; italics in original). As a concept, privatization traces its origin to Adam Smith's (1776) book *the Wealth of Nations*, and "free" and "individual" economic activities underpin privatization in the early period of industrialization.

In view of the definition offered by Florio (2004), public companies, that is, stock companies that are owned by shareholders do not fit the definition of privatization. Florio (2004) further writes: "Many 'public' companies were in fact private companies in disguise. Private ownership in the larger firms no longer bore any resemblance to that of the individual entrepreneur" (p.5). In the historical context, the terms "free" and "individual" were the defining characteristics of privatization, which is rarely applicable in the current global economic environment.

A more recent conceptualization of privatization is somewhat broader. According to Donahue (1989), "Two concepts share the same word – *privatization*. The first concept involves removing certain responsibilities, activities, or assets from the collective realm…. The second [concept involves] retaining collective financing but delegating delivery to the private sector" (p.215; italics in original). The terms "removing" or "retaining" are two critical elements that allow differentiation between privatization as selling off government assets and privatization as the provision of services that involves some sort of arrangement between government and the private sector.

Donahue (1989) further explained that the first concept "is the chief meaning of privatization in countries retreating from postwar, postcolonial experiments with socialism, as they separate factories, mine, airlines, and railroads from public control" (p.215). This definition implies complete termination of governmental functions or public ownership of assets in favor of private ownerships, which can take the form of individual entrepreneur or private firms or public companies.

The concept of privatization, in the sense of selling off assets to the private sector, has been widely used in most countries around the world but is less common in the United States. In Britain, for example, under Prime Minister Thatcher, the government sold several enterprises ranging from large scale industries such as telecommunications, oil, and steel to public housing units. While the scale of privatization was much greater in Britain, many other countries have also sold government assets to the private sector. For example, France, Italy, Spain, Japan, and other less developed economies such as Turkey, Malaysia, Argentina, Singapore, Mexico, and Brazil have sold state owned enterprises (SOE) but at a much lower scale than Britain (Donahue, 1989; Marsh, 1991; Savas, 1987; 2000).

In the United States, selling off assets to the private sector is uncommon with the exception of the sale of the National Consumer Cooperative Bank in 1982 and the sale of Conrail in 1987 (Report of the President's Commission on Privatization, 1988; Donahue, 1989); in these two cases, like the countries mentioned above, the assets were completely transferred to the private sector and were consistent with the meaning of privatization in which the relationship of government and the private entities was completely severed (see first definition of Donahue, 1989 cited earlier; Dominy, 1999).

Apart from the two examples mentioned above, selling off assets to the private sector

is not practiced in the United States.

In the United States, the meaning of privatization is much less precise, and is

somewhat consistent with Donahue's (1989) "second meaning of privatization:

retaining collective financing but delegating delivery to the private sector" (p.215).

This is so because, as Donahue (1989) pointed out: "America has never had all that

many government enterprises and assets.... America had kept private in the first

place....Aside from a strictly limited number of asset sales, it [privatization] meant

(and continues to mean) enlisting private energies to improve the performance of tasks

that would remain in some sense public" (p.7). Similarly, Moe (1987) argued: "From

the outset of the Republic, the government has relied on the private sector to provide

commercial services and to own utilities....Thus, today, compared to most other

nations, developed and less developed, relatively few candidates are available for full

divestiture by the United States government" (p.454).

With the few exceptions noted above, large scale sale of assets that parallels

other industrialized countries is practically unknown in the United States; this

prompted some critics to question the meaning of privatization arguing that if assets

cannot be sold off to the private sector, then it would be a misapplication or misuse of

the term privatization to refer to public-private sector arrangements as privatization.

Dominy (1999), for example, argued that "the asset sale is the single defining act of a

true privatization" (p.347). However, scholars point out that in the 1980s,

privatization appeared to be less contentious at the federal level, but the idea of

privatization especially in the form of service shedding or asset selling to the private

sector was politically unpalatable proposition in many state governments (Auger, 1999).

Nonetheless, other scholars offered definitions of privatization that take into account the relationships between government and the private sector. Kuttner (1987) referred to privatization as "the idea that public services will be provided more efficiently if they are contracted out to private-sector providers....Subsidizing services by means of tax incentives or vouchers" (p.258). This definition is more in line with Donahue's (1989) second concept of privatization as "retaining collective financing but delegating delivery to the private sector" (p.215). Also Kolderie (1986) defined privatization as "government turning more to private producers for services for which government remains responsible and which government continues to finance. It has become simply a new name for contracting" (p.287).

Savas (1987) offered an ambiguous definition by referring to privatization as "Relying more on the private institutions of society and less on government to satisfy the needs of the people....The act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets" (p.3). This definition is somewhat imprecise and can lead to different and often competing or conflicting interpretations. Kettl (2002) also referred to privatization, in an ambiguous manner, as a condition where "Government has come to rely heavily on for-profit and nonprofit organizations for delivering goods and services ranging from antimissile systems to welfare reform" (p.120). Unless Kettl is talking about the degree of "reliance," government has always depended, in varying degrees, on the private sector

for delivery of goods and services. Kettl's observation sheds little light in terms of clarifying the concept of privatization.

The U.S. General Accounting Office (1997) provides an all-encompassing definition by referring to privatization "as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector" (p.1). Similarly, the Council of State Governments (CSG) offers a range of definitions that include:

- The transfer of government functions or assets to the private sector.

- The shifting of government management and service delivery to private providers.

- A shift from publicly-to privately-produced goods and services.

- Government reliance on the private sector to satisfy the needs of society.

- A movement from collective action to private control (Chi, Arnold, & Perkins, 2004, p.2).

The definitions of privatization described in the preceding section are certainly overlapping, but imperfectly matching. Some of the definitions are too ambiguous to be useful in clarifying the meaning of privatization and have contributed to the confusions and controversies surrounding the debate over privatization. Yet restructuring the relationships between the public and the private sectors appears to be central to all of them. Another important and comprehensive definition of privatization that can perhaps capture and reconcile the discrete ideas that characterized most privatization definitions is offered by Morris (1999). He argued that "the term *privatization* refers to a range of potential service arrangement available to public decision makers" (Morris, 1999, p.153; italics in original). This definition is

consistent with the usage of the term in much of the recent literature of privatization, and is broad enough to include various public-private arrangements.

Recent developments in privatization have certainly expanded the range and scope of involvement of private firms in the public sector, requiring a definition or re-definition of privatization broad enough to include a variety of new activities and new methods of privatization. McNamara and Morris (2008) further offered a useful definition of privatization that allows considering different forms of service arrangements between the public and the private sectors. The authors thus wrote: "In a broad sense, privatization refers to a variety of service arrangements linking the public, private, and nonprofit sectors in different ways" (p. 569). Again, this definition is consistent with the evidence in the literature as, for example, Auger (1999) noted: "Privatization techniques in use today span a broad area ranging from contracting of services to use of vouchers, from volunteerism to use of asset sale or sale/leaseback arrangements involving governmental property or enterprises" (p. 436-437).

As controversial as it is, privatization has been gaining acceptance as a public policy tool at all levels of government in the United States, especially since the 1980s. Prior to the 1980s, the term privatization was largely unknown in the United States, though Peter Drucker has been cited as having used the term "reprivatization" as far back as 1968 (Savas, 1987; Donahue, 1989). As far as its current usage is concerned, according to Donahue (1989), privatization has a foreign origin. Donahue (1989) provides the following account.

> Privatization, as today's fiscally ambitious, ideologically charged phenomenon, began as a British import. English academics and Conservative party officials

prepared a sweeping privatization agenda as Margaret Thatcher took office in 1979, and the British government shed major assets and responsibilities throughout the 1980s. Conservative intellectuals in the United States set out to emulate the British example (p.4).

The British experience might have been influential on ideological grounds, but the method of privatization employed in Great Britain has little resemblance with the privatization scheme followed in the United States. Because of the absence of nationalized enterprises, the American economic structure required a public-private sector arrangement with government retaining some degree of involvement. Nonetheless, the contemporary privatization movement has the same intellectual origin regardless of the mode of privatization used in different countries.

The Theory of Privatization

Characteristics of Goods

In advanced economies, drawing a line between the government and the market system in supplying goods and services is somewhat difficult because of the differing nature of goods and services that are available for human use. According to E. S. Savas, "the nature of good determines the conditions needed to supply it" (Savas, 2000, p.45). E.S. Savas classified goods and services based on exclusion and consumption characteristics. These characteristics allow "[distinguishing] private goods, public goods, and two intermediate kinds of goods – toll goods and common-pool goods" (Mikesell, 2007, p.3) as shown in Figure 2.1 below. Based on these intrinsic characteristics, it is possible to make privatization decisions and to choose the appropriate method of privatization.

Private goods and services have several attributes: they are available for

individual use, the quantities diminish as they are used, once they are sold to one

individual, they cannot be made available to other individuals, payment must be made

to use the good or service, those who do not pay are excluded. Goods and services

with these properties are appropriate for market transactions. They can be supplied

according to market principles of voluntary exchange between buyers and sellers. In a

competitive market, ceteris paribus, the market forces of demand and supply

determine the market clearing (equilibrium) price resulting in an efficient allocations

of resources.

		Consumption	
		Exhaustible	Non-exhaustible
Exclusion	Feasible	Private Example: cars, food, television set.	Intermediate (Toll Goods) Example: Turnpikes, toll roads, motion pictures
	Not feasible	Intermediate (Common-Pool Resources) Example: fishing grounds, aquifers	Public Example: National defense, justice system

Figure 2.1. Innate Characteristics of Goods and Services

Source: adapted with minor modification from Savas (2000); Mikesell (2007).

Examples of private goods and services include: cars, food, and hair cut (Savas, 1987;

2000; Mikesell, 2007).

Public goods and services, on the other hand, are the polar opposite of private

goods; they can be used by many people concurrently at the same time without

affecting the quantity and quality of the goods or services. Furthermore, no one can be excluded from using the goods or services once they are provided; these features of the public goods and services create incentives for free riders. Thus public goods and services pose transaction difficulties in fully functioning markets. Essentially, when non-payers cannot be excluded from using the good or service, a private business cannot successfully charge a price. People not paying (free-riders) would use the good or service as completely as those who paid leading to market failure. For this reason, the public realm (government) appears to be the appropriate venue for the transaction of public goods and services. Examples of public goods are: national defense, mosquito abetment, pollution control (Savas, 1987; 2000; Mikesell, 2007).

Toll goods and common-pool goods have one public-good characteristic but not both. Toll goods combine feasibility of exclusion and joint consumption attributes. Toll goods nonetheless are easier for market transactions. An individual can consume the service without reducing the amount or quality of service available for someone else, but nonpayers can certainly be excluded. Examples include drive-in movies and toll roads (Savas, 1987; 2000; Mikesell, 2007). Common-pool goods or services are natural resources that can be consumed individually and are exhaustible; but exclusion is not feasible. It is difficult to exercise exclusive ownership control over natural resource, and when used, the resource becomes unavailable for others, and it may be rapidly exhausted. Common-pool good or service requires government intervention because there is an element of market failure. Examples are: aquifers, oil and gas deposits, and fisheries (Savas, 1987; 2000; Mikesell, 2007).

The above classification scheme provides useful prototype to determine which goods and services to privatize and how to privatize them. But also political factor plays a role in the privatization decisions, in which case the innate characteristics of the good may have less significance than what is suggested by the classification scheme. Savas (1987; 2000) pointed out that society might consider some goods or services worthy and other goods or services not worthy.

Worthy Goods

According to Savas (1987;2000), worthy goods are certain private and toll goods, such as food, education, and mass transit that society considers providing them to the public regardless of the ability to pay. The exclusion feature of the private goods and toll goods in this case doesn't matter because government decides to provide the good or service either through direct production or subsidies. An example of a private good that is redefined or designated as a worthy good is food. Food is distributed to the poor at collective expenses in order to avoid starvation of people who do not have the financial wherewithal to take care of themselves.

Although the worthy good argument contravenes the innate characteristics argument as the basis for privatization decisions, the classification scheme nonetheless offers clarity about the types of goods that state governments are heavily involved in providing them. E.S. Savas thus claims that "the big growth in government has taken place in expenditures for individual and toll goods" that are designated as worthy goods (Savas, 2000, p.62). Furthermore, identifying the nature of goods and services allows a role for government as a provider or producer of the good or service in

question. The issue of production verses provision is an important theme in the debate over privatization.

Production versus Provision

Practical and political reasons are offered to explain the inherent implications of privatizing production and privatizing provision based on the distinction made between the two concepts: production and provision. Kolderie (1986) differentiated the two concepts and the role government plays in the privatization decisions. He argued that production decision is less complicated because it involves "operating, delivering, running, doing, selling, administering" (p. 286), whereas provision decision is more complicated and political in nature because it involves "policy making, deciding, buying, requiring, regulating, franchising, financing, subsidizing" (p. 286). Kolderie contends that "While [privatizing production] has its ideological side, most of it is intensely practical. It is very much a clash between competing producers, both of which want the government's business" (Kolderie, 1986, p.287).

Kolderie saw privatizing production from the perspective of competition. But it is also possible to conjecture other practical reasons; production is perhaps much easier to write the contract because specification of the good and its quantity and quality is less complicated. Politically, it is less controversial and perhaps less value-laden because it involves no distributional decisions. On the other hand, privatizing provision is tantamount to selling assets to the private sector, which is one of the definitions of privatization, and allows no role for government. The scope for privatization that severs the relationship between government and the private sector in

the privatization arrangement is very limited and even less applicable in the U.S. because of the absence of nationalized industries (Kolderie, 1986; Donahue, 1989). Moreover, providing public goods and services or what E.S. Savas called "worthy goods" has significant social and political implications, and for this reason, perhaps, provision decision remains in the public realm.

Since financing or payment regardless of preferences or consumption is a unique feature of government provision, decision regarding provision involves distributional decisions that include what to provide, how much to provide, to whom to provide, where and when to provide; these are certainly value decisions, and, in a democratic society, only government has the legitimate authority to make such distributional decisions. Therefore, provision of some types of goods, especially public goods and services, or worthy goods, cannot be left to the vagaries of the market without government intervention. Here the government certainly has a role to play.

As Kolderie (1986) pointed out: "Here privatization has come to mean mainly the government turning more to private producers for services for which government remains responsible and which government continues to finance" (p. 287). The author further underscores the fact that it is privatization of production not provision that allows government to maintain "its role as buyer, regulator, standard setter, or decision maker" (Kolderie, 1986, p.288). While this study does not emphasize the differences between the two concepts – production and provision – understanding the distinction between the two concepts is useful in order to have conceptual clarity, to avoid unnecessary confusion and analytical difficulties, and to appreciate the theoretical

arguments between supporters and opponents of privatization. It appears from the literature that the debate involves, by and large, privatization of production not provision of goods and services, and powerful arguments are offered by both proponents and opponents of privatization.

<div align="center">The Arguments For and Against Privatization</div>

The review of the historical literature offers useful insights into the conservative nature of the privatization movement. The conservative ideological, political, and economic root of privatization certainly underpins the debates over privatization policy between supporters and opponents of privatization. Nonetheless, in this section, this study highlights the arguments of the recent past, particularly since privatization became the prominent feature of the national policy agenda under the Reagan administration.

Arguments for Privatization

Proponents of privatization invariably point to poor government performance and public dissatisfaction with government activities as the major reasons underlying the movement toward privatization. While acknowledging that public "complaints about poor government performance are commonplace throughout the world," E.S. Savas asserts that "there is ample evidence that much of the dissatisfaction is justified" (Savas, 2000, p.111). The author listed several indicators of poor performance ranging from government inefficiency to theft and corruption.

According to Savas (2000), poor performances reflect "the fact that many government activities are performed by monopolies, which have little incentive to use resources efficiently or to use labor-saving practices and suffer no penalty for poor performance" (p.112). Advocates of privatization thus argue that government should privatize most public services to overcome the problems listed above, to break government monopoly, as well as to reduce the size and scope of government. Savas (1987) further argued that "privatization is the key to both limited and better government...in that society's need are satisfied more efficiently, effectively, and equitably" (p.288).

The argument in favor of the private sector is premised on the existence of competition in the marketplace. Competition is central to supporters of privatization; they assert that "the issue" that divides supporters and opponents "was not public versus private but monopoly versus competition [and] called for more competition in the public services" (Savas, 2000, p. xiv). Supporters of privatization often invoke the efficiency and effectiveness attributes of the private sector to underscore the advantages of privatizing public services. According to proponents of privatization, the major advantages of private over public organizations include: "*less red tape and bureaucracy*" (another way of saying less government), "*more competition,*" and more quality services (Allen, et al., 1989, p.4; italics in original); all these translate into lower costs to taxpayers, effectiveness in service delivery, responsiveness to the needs of the citizenry, and, of course, efficient allocations and utilizations of public resources. Certainly proponents of privatization make a powerful argument on theoretical grounds. They even point to some empirical evidence to support their

claims of the benefits of privatization. Likewise, opponents are equally persuasive in their arguments.

Arguments against Privatization

Opponents of privatization emphasize the frequent market failures that necessitate government intervention to stabilize the market and the economy as a whole. They point to many problems with privatization ranging from corruption to private monopoly, from higher costs to poor services, from creating market pathologies to diminishing accountability of government, from lower morale of government employees to lower wages, reduced benefits, and fear of losing their jobs (AFSCME, n.d.; Morris, 2007; Kuttner, 1987; Sclar, 2000; Hodge, 2000).

According to critics of privatization, the major problems of using the private sector include: *"potential for corruption, incentives to reduce service quality, increased chance of service interruptions, and possible reduced access to services for the disadvantaged"* (Allen, et. al, 1989, p.5-6; italics in original). Critics further question the wisdom of heavy reliance on the private sector (the marketplace) for the provision of public goods and services that are traditionally the domain of governments, arguing that the limitations and difficulties that are associated with government failures apply to the marketplace as well (Sclar, 2000; Hodge, 2000).

In fact, studies show that there was opposition to privatization from many circles including the public at large. One of the ardent advocates of privatization, E.S. Savas himself noted that supporters of privatization "encounter only four sources of opposition – to put it whimsically: workers, public officials, business interests, and the

general public" (Sava, 2000, p.286). Nonetheless, with the ascendance of the conservative regime in the 1980s, the advocates of privatization managed to have considerable sway and their arguments and positions prevailed. The question however is that, in the albescence of consensus about the benefits and effectiveness or privatization, why do governments want to privatize?

To frame the question slightly differently: what objectives do advocates of privatization want government to accomplish through privatization? Privatization is global in scope, and the objectives that governments seek to accomplish through privatization are likely to vary from country to country and from government to government within a country, depending, in large part, on the ideology of the party in power (Boix, 1997). In general, however, privatization programs have several objectives, and governments seek to accomplish one or more of these objectives. Savas (2000) offered a long list of objectives of privatization programs that even include a foreign policy component (see Appendix A). The objectives are many and varied, but, at least in the context of the United States, a few of them stand out clearly as the primary factors that motivate policymakers to privatize at all levels of government. Some of the reasons are discussed next.

Reasons Why Governments Privatize

Multiple reasons are offered why governments privatize. In the United States, in large part, state and local governments adopt privatization policy for pragmatic reasons, that is, to alleviate their fiscal crises (Donahue, 1989). For example, Allen et al. (1989) noted that state and local governments "use the private sector [as] one

potential way to contain costs and improve services" (p.2). Similarly, focusing on

prison privatization, Price and Riccucci (2005) sought to understand the reasons why

state governments privatize. They asked: "Why do state policy makers decide to

privatize their prisons?" (p. 231). The authors found out that "The conventional

response by political and appointed policy leaders has consistently and unequivocally

been to save costs" (p.231).

In general, studies show that state and local governments' privatization

schemes focus primarily on few critical areas. Allen et al. (1989) provided six reasons:

1. *to obtaining special skills or supplement staff for short periods, 2. to meet demands*

beyond current government capacity, 3. to reduce costs, 4. to improve service quality,

5. to provide clients with more choice of providers and levels of service, and 6.

ideology (p.4; italics in original). Survey information also shed some light regarding

the reasons why governments privatize. For example, in the context of local

governments, the International City/County Managers Association (ICMA) conducts a

national survey every five years to find out why governments privatize. Table 2.1

below presents the results of surveys for 1997, 2002, and 2007.

Table 2.1   Reasons Why Local Governments Are Interested In Privatization*

Reason	Percent of local governments reporting reasons for considering privatization for the three different survey years		
	1997	**2002**	**2007**
External fiscal pressures, including restrictions placed on raising taxes, e.g., Proposition 13	44	50	50
Internal attempts to decrease costs of service delivery	87	88	87
State or federal mandates tied to intergovernmental financing	11	10	10
Changes in political climate emphasizing a decreased role for government	25	16	14
Active citizen group favoring privatization	7	6	4
Unsolicited proposals presented by potential service providers	21	21	16
Concerns about government liability	12	13	10
Other	10	13	12

*The table information is compiled from aggregate survey results of local government service delivery choices for 1997, 2002, and 2007. Percentage is rounded to a whole number. A fraction less than .5 is dropped, but a fraction of .5 or more is rounded to the next whole number.
Source: Alternative Service Delivery in Local Government, Aggregate Survey Results, International City/County Managers Association (ICMA). Retrieved June 12, 2011 from http://icma.org/en/results/surveying/survey_research/survey_results

The results of the surveys show that internal efforts to reduce costs are cited as the main reasons why local governments privatize, accounting for 87% in 1997, 88% in 2002, and 87% in 2007. External fiscal pressures are the second strongest reason (about 50 %). On the other hand, federal mandates account for less than 11%, and active citizens favoring privatization declined from 7% in 1997 to 4% in 2007. As the survey results suggest, overall, cost savings figures prominently as the principal reason why governments privatize. Although ICMA's survey does not address state level

privatization, the survey results nonetheless provide useful information pertaining to the primary reasons why governments privatize.

Also, at state level, many studies reveal that cost savings is the main reason for privatization. For example, the Council of State Governments (CSG) conducted a nationwide survey of state government officials in 2002 and found cost savings to be the principal reason why governments privatize. The results of the survey showed that cost savings accounted for 68.4% followed by lack of state personnel or expertise, which accounted for 53.9% of the responses from state budget and legislative staffs (Chi, Arnold, & Perkins, 2004). Another study in 1997 by the General Accounting Office (GAO) of six governments showed cost reductions to be largely the primary reason for government-wide privatization efforts. See Table 2.2 below.

Table 2.2 Primary Reasons for Government-wide Privatization Efforts

Government	Primary reasons
Georgia	Limit growth of government Reduce scope of government Improve government efficiency
Massachusetts	Reduce state budget deficit Reduce costs of government services Improve quality of government services
Michigan	Reduce the state's budget deficit Shrink size and scope of government
New York	Reduce size and scope of government Reduce cost and improve the quality of government services
Virginia	Improve services and productivity of government services Reduce cost of operations
Indianapolis (Indiana)	Reduce size and scope of government Increase the quality and decrease the cost of services

Source: GAO (1997). PRIVATIZATIONS: Lessons Learned by State and Local Governments, GAO/GGD-97-48, p. 26-32

The survey results summarized above are consistent with the core argument in the literature that, as Van Slyke (2003) notes, "States and municipalities have privatized services in an effort to improve their cost-effectiveness and quality" (p.296). These studies are just part of a plethora of research studies that provide support to the claims that cost reduction is the main reason, if not the only reason, why governments privatize.

The question is, how efficient and effective has privatization been in reducing costs? To address this question, a summary of selected empirical studies is presented below.

An Overview of Selected Empirical Studies

Many program-specific empirical studies that sought to estimate the gains from privatization can be found in the literature. The types of programs investigated in the literature are too numerous to cover here, and mentioning only a few major studies will suffice for the purpose of this study. With this caveat, this researcher looks at a few major studies that have been cited repeatedly in many books and scholarly journal articles dealing with the issue of efficiency, effectiveness, as well as the cost differentials between the public and the private sectors in the provision of goods and services.

Kettl (1993; 1988) has examined both the efficiency and effectiveness of privatization at the federal level. For example, he cites the case of the "Divad," an anti-aircraft weapon procured by the Pentagon in the early 1980s to protect armored vehicles on the battlefield from enemy aircraft and helicopters (Kettl, 1988). Even though the weapon failed to meet most of the requirements issued by the Army, the

contractor rigged the tests and falsified data to suggest the weapons system would work better than it actually did. The Army invested $1.8 billion in the program and bought some 65 of the guns before cancelling the program. In another case, Kettl (1988) describes the 1985 crash of a contracted airplane carrying 248 soldiers that crashed in Gander, Newfoundland, killing all aboard. A subsequent investigation showed that not only did the airplane's operators ignore important safety regulations; they also discovered that the aircraft had a history of severe maintenance problems that would have grounded a commercial passenger airliner.

In a third case, Kettl (1993) describes the illegal disposal of nuclear waste by Rockwell International at the Rocky Flats, Colorado weapons production facility. In this case, the FBI raided the facility and seized records from both Rockwell and the US Department of Energy, the responsible government agency. Rockwell later paid huge fines to clean up the radioactive waste. While these examples do not speak directly to efficiency and cost savings, they do reflect an important question of value—did government get its money's worth through these arrangements? Whether there was any cost savings involved, the evidence suggests that the broader goals of government were not well served. One may reasonably argue that the effectiveness of the goods or services purchased was, at best, compromised. Weapons that cannot meet their mission requirements, poorly maintained private aircraft that crash and kill soldiers, and companies that pollute important groundwater sources with deadly radiation are not examples of effective service.

Heilman and Johnson (1992) also addressed the questions of efficiency and effectiveness in their study of seven privatized wastewater treatment plants in the US.

They reported mixed results; the construction costs for four of the seven plants were above estimates. A closer examination of their data reveals that a variety of factors work simultaneously to increase and reduce costs, making any specific determination of cost savings problematic. In terms of the effectiveness question, Heilman and Johnson report that the most important factor in the operation of the privatized treatment plants was the specificity of the contract regime that governed the overall satisfaction (a proxy for effectiveness) of the partners in the arrangement.

Savas (1987; 2000) provides summaries of several empirical investigations ranging from specific programs to a general survey of public officials. Two of these studies reported by E.S.Savas are included herein. The first involves a summary of program-specific nine major empirical studies conducted over a period of ten years, most of them prior to the 1980s. The studies covered "the United States, Canada, Switzerland, and Japan, as well as regional studies in Connecticut, California, and the Midwestern United Sates" (Savas, 1987, p. 124). Two researchers, Savas and Stevens, conducted the study in the United States using a 1974 data for city sizes ranging from 2,500 to 720,000. The study investigated the relative efficiency between municipal and private residential refuse collection and found that contract collection for cities larger than 50,000 residents cost 29% to 37% less than municipal collection (Savas and Stevens 1975; cited in Savas 1987, p.126). Savas summarized the findings as follows:

- A municipal budget director has to allocate 35 percent more money for municipal collection than for contract collection of equivalent quality.

- A resident has to pay 58 percent more for municipal collection than for contract collection, after taking into consideration the tax rebate he receives indirectly from the contractor.

- It costs the municipal agency 88 percent more to perform the same work; that is, the agency is much less productive. (Savas 1987, p.124).

The next case involves a summary of a 1987 nationwide survey of public officials of local governments. According to Savas (2000), three-quarters of U.S. local governments had saved money by contracting out services to the private sector providers. Savas summarized the responses of 450 respondents and reported the following figures: "11 percent reported savings of 40 percent or more, 41 percent reported savings of 20 percent or more, and 80 percent reported savings of at least 10 percent" (P.148).

In 1984, a study sponsored by the Department of Housing and Urban Development (HUD) found that private contractors were 50 percent more efficient than municipal agencies (Sclar, 2000; Savas, 1987; 2000; Donahue, 1989). The HUD-sponsored 1984 study, led by economist Barbara J. Stevens, examined twenty cities of comparable size within metropolitan Los Angeles. Ten of these cities were served by municipalities and the other ten were served by private contractors. Then the study compared the efficiency of these two categories of cities on eight different services ranging from building janitorial services to asphalt overlay construction. The results revealed that private contractors provided services at a much lower cost than the direct services provided by municipal agencies. The reported cost savings range from 96 percent for asphalt overlay construction to 37 percent for street tree maintenance.

These savings represent about 5 percent of the municipal budgets (Sclar, 2000). Some scholars have questioned the validity and generalizability of the findings of this study on methodological grounds (Sclar, 2000; Donahue, 1989).

The results of the above studies do not appear to support unequivocally the gains from privatization in terms of cost reductions. However, the 2002 nationwide survey conducted by the Council of State Governments (CSG) provides a different picture about the gains in cost savings. On cost savings, Chi, Arnold, & Perkins (2004) reported the responses of two groups of officials–state budget and legislative staffs and line agency heads from the 2002 CSG survey. According to this study, "Most budget and legislative service agency directors reported on savings from privatization to be 5 percent or less. But many of them could not answer whether privatization saved their state agency money or not, while 18 percent said it has resulted in no savings.... [Also] 29 percent of agency heads reported cost savings to be more than 15 percent, and 33 percent of the agency heads reported no savings from privatization" (Chi, Arnold, & Perkins, 2004, P.14).

Cost savings also varies from program to program or from agency to agency. For example, about 39 percent of the transportation agency directors who responded to the survey said their cost savings from privatization was less than one percent, while 36.5% percent said they did not know; 2.4 percent reported cost savings between 11 and 15 percent, and another 2.4 percent said their cost savings was over 15 percent. The cost savings trend for all other agencies covered by the survey is similar to the responses given by transportation agency directors, with only minor variations (see Chi, Arnold, & Perkins, 2004, p.17-18). Also, in their empirical investigation of the

determinants of state prison privatization decisions, Price and Riccucci (2005) found

that "the fiscal and economic variables are not determinants of prison privatization....

Rather, the factors that seem to better explain why states privatize their prisons relate

more to politics and ideology" (p. 229).

The empirical studies reviewed in the preceding sections provide conflicting

results. Some of the findings provide compelling evidence about cost savings and

confirm the advantages of the private contractors. The weight of the evidence in favor

of privatization is so overwhelming as to render the debate over privatization mute.

Taking the findings of the studies at face value, one would conclude that state and

local governments have much to gain from privatization. Privatization can indeed be a

panacea to cure all their financial problems. However, other studies throw doubts

about the efficiency of the private contractors. Even the validity and generalizability of

the findings confirming cost savings have been questioned on methodological grounds.

The bottom line, however, is that the empirical studies are at variance with the

theoretical argument that advocates often employ to support privatization. Brudney et

al.(2005) point out that "empirical studies differ substantially in regard to the amount

of cost savings achieved and, in some instances, whether any savings (or even cost

increases) might be forthcoming" (p.395). In fact, in some situations, "direct public

service" can provide better services at low cost (Brudney et al., 2005). In light of this

empirical ambiguity, it is perhaps reasonable to question the wisdom of continuing

debating the efficiency gains from privatization. But advocates of privatization argue

that the "appropriate policy environment must be in place in order to achieve the

intended objectives.... The elements of an ideal policy environment are the familiar

ones of a competitive market economy" (Savas, 2000, p.124). Savas (2000) then

provided a long list of the elements of an ideal policy environment that would induce

efficient and effective privatization as shown in Table 2.3 below.

Table 2.3 Elements of an Ideal Policy Environment

- Market prices without price controls or subsidies
- The right to own property and to exercise property rights
- No government barriers to entry by competitors and no protectionism
- Equal application and enforcement of laws, including the tax code and contract law, within a fair, comprehensive, independent legal system
- No favoritism by government in providing access to credit and foreign exchange
- No favoritism by government in selling raw materials or purchasing products
- Market-based interest rates, not preferential rates on government loans
- Freedom for the newly privatized firm to hire and fire employees, subject to equal application of labor laws and the privatization agreement
- Freedom for the private firm to restructure or change the business, subject to the privatization agreement
- Political stability
- Currency stability and control inflation

Source: Savas, 2000, p.124-125.

These are elements that few countries can achieve. E.S. Savas was certainly

aware of the impossibility of achieving these elements of an ideal policy environment

when he said: "Needless to say, nowhere is such an ideal policy fully in place" (Savas,

2000, p.125). While some of the elements are less applicable in the context of U.S.

privatization, the existence of market competition is nonetheless central to the

efficiency, effectiveness, and cost savings arguments. The belief in the existence of

competition in the private sector underpins the push for privatizing public services.

The cost savings argument is based primarily on the premise that the private sector is

more efficient and effective than the public sector in allocating resources through the

market mechanism of competition. The key assumption here is the existence of

competition. As Van Slyke (2003) noted, "Each of the arguments for privatization is grounded in an assumption that competition exists" (p.297).

Competition is certainly the cornerstone of private sector economy. In an ideal competitive environment, prices are regulated in the marketplace through the supply of and demand for goods and services leading to an efficient allocation of resources. In a market where competition exists, a given output can be produced or attained at the lowest possible cost (McNamara and Morris, 2008). Hence, governments engage in a variety of privatization arrangements to take advantage of the competitive environment in the private sector in order to achieve the public goals at the lowest possible cost to taxpayers.

Yet critics point out that the existence of competition is questionable for a number of reasons including: environmental constraints, actions by private organization, network relationships, and government-enacted barriers (Van Slyke, 2003; Morris, 2007). Developing competition is further complicated because of the fact that the public and private sectors appear to have conflicting values – divergent goals, competing incentives, political and bureaucratic realities (McNamara and Morris, 2008; Van Slyke, 2003); these issues undermine the abilities of agencies " to manage contract relationships and provide meaningful oversight that mitigates fraud, waste, and abuse" (Van Slyke, 2003, p.307).

Furthermore, Morris (2007) argues that privatization may create pathologies that "combine elements of government and market failures". By adding new "pathologies" to existing pathologies that characterize government and market failures, privatization complicates the nature of the principal-agent relationship, the manner

outputs are measured, and the flexibility of the private actor. In a case study involving

prison privatization in the state of Mississippi, the author identified three pathologies

(Morris, 2007). First, privatization added a new level of complexity to the principal-

agent arrangement that forces the principal to assume the roles of both principal and

agent simultaneously. Government serves as an agent to the people and as a principal

to the private contractor; this additional layer of principal-agent arrangement creates a

new pathology, complicating monitoring problems such as opportunistic and rent-

seeking behaviors normally associated with agents and principals respectively; it

further complicates problems related to accountability such as information asymmetry.

The second pathology that privatization creates refers to the problem of

measuring output. While some services such as clients served, potholes filled are

relatively easy to measure, other services such as quality and effectiveness do not lend

themselves to easy measurement that can readily be reduced to numerical indices.

The difficulty in valuing output is unlikely to be solved in the privatized arrangement.

The third pathology refers to government's imposition of strong accountability

mechanism (rules and regulation) on the privatized arrangement to prevent

opportunistic behavior on the part of the agent. The imposition of rules and

regulations can undermine the market efficiency that the government hopes to take

advantage of through the privatized arrangement. These three pathologies reinforce

each other and blur the lines between government and market failures (see Morris,

2007, p.318-335). The implication of the study by Morris (2007) is that privatization

may not necessarily produce the desired results not only because of the obvious

existence of government and market failures, but also because of the addition of "hybrid" pathologies that privatization arrangement creates.

In short, creating all the elements of an ideal policy environment for privatization to work, as suggested by Savas (2000), seems to be an impossible task. As far as competition is concerned, scholars have argued that many factors including environmental constraints, interest groups, and other related factors complicate the development of competitive market (Van Slyke, 2003; Morris, 2007; McNamara and Morris, 2008). Privatization could not produce an unambiguous result in terms of cost reductions because of the fact that the appropriate environment, namely, competitive marketplace did not exist.

The mixed results of the empirical studies reviewed underscore the fact that the perceived benefits and superiority of the private sector/the marketplace could not be confirmed consistently. This means in effect that the mixed empirical evidence cannot be fully relied on as a guide for privatization decisions, which leads one to ask: In the absence of unequivocal empirical evidence to support the cost savings arguments, why do state governments continue to privatize? The literature reviewed thus far provides useful insights to identify the potential answer to the aforementioned question.

Indeed, the review of the literature suggests that socioeconomic, economic, political, and ideological factors may have been the likely drivers of privatization policy. Yet states show wide variations in their privatization efforts, and it is not clear the extent to which these factors influence the levels of state government privatization. There is little empirical research that examined the influence of socioeconomic, economic, political, and ideological factors on the level of state privatization

initiatives. As mentioned earlier, this study seeks to contribute to state comparative research in general and to the contemporary privatization theory in particular by filling this gap in the literature. The factors that have been identified in the literature as the potential drivers of privatization are summarized below; their expected relationships with the level of state government privatization are also described and working hypotheses are developed.

Factors Influencing the Level of State Government Privatization

The major concepts employed in this study for predicting the levels of state government privatization are derived from the review of the literature. Based on the review of the literature, 14 variables have been identified and classified under four major categories of factors: socioeconomic, economic, political, and ideological factors. Following the definitions in Chapter I, the concepts are further described and operationalized using measures for each of the above factors, and the relationships between these measures and the dependent variable are hypothesized. One dependent variable and 14 independent variables are employed to develop several research hypotheses to be tested by this study.

Research Hypotheses

Socioeconomic Model

Socioeconomic factors are operationalized using three variables: state health care spending, state pension spending, and state per capita personal income. According to Oldfield (2003), socioeconomic is a term used interchangeably with

social class or class since these terms "entail notions of comparative rank, usually based on income, education, and wealth" (p.441). And discussions of socioeconomic factors often involve understanding and explaining the effects of socioeconomic status (SES) on the wellbeing of individuals in society. Oldfield (2003) cited several studies in the literature showing the connection between socioeconomic status and various life outcomes in many areas such as health care, education, income and wealth, and highlighted numerous government programs to help the lower classes and "to assure greater social equity" (p.451).

As the review of the literature reveals, the U.S. government created many entitlement programs to address the plight of the poor and the disadvantaged people including the elderly during the New Deal years of the 1930s (for example, Social Security, Unemployment Compensation, Aid to Families with Dependent Children [AFDC], Aid to Aged, Blind, and Disabled, now called Supplemental Security Income or SSI) and the Great Society years of the 1960s (for example, food stamps, Medicare, Medicaid) (Dye, 1998). However, the proliferations of entitlement programs led to the growth and expansion of the public sector that became a target of criticism and spawned the contemporary privatization movement that sought to reduce the size and scope of the public sector as well as to reduce costs of providing goods and services.

Over the past several years, privatization was embraced by state governments, among other things, to reduce costs as well as to reduce the role of government in the provision of goods and services; but the extent to which these goals are achieved through privatization still remains an empirical question that needs to be investigated. Thus, to determine the level of state government privatization that are likely to be

accounted for by socioeconomic factors, state health care spending, state pension

spending and state per capita personal income are employed to test the relationship

between socioeconomic factor and the levels of state government privatization .

State Health Care Spending

As noted earlier, one of the legacies of the Great Society era was the

development of health care system (Medicare and Medicaid) to alleviate the

socioeconomic hardships of people of lower socioeconomic status. Both Medicare

and Medicaid were enacted in 1965 as an amendment to the Social Security Act of

1935 (Dye, 1998). While Medicare is designed for the aged (elderly) and is directly

under the purview of the federal government, "Medicaid is a combined federal and

state program, [and] states exercise fairly broad administrative powers and carry about

half of the financial burden" (Dye, 1998, p.134); Medicaid is a welfare program

designed for needy people and the money is paid from the general tax revenues; states

establish the eligibility requirements as well as the level of benefits to be paid to

recipients (Dye, 1998).

Over time, however, the growth of state health care expenditures raised

concerns about the rising costs of providing health care services. For example,

according to Levit et al. (2003), state Medicaid expenditures represented "an average

of 20 percent of spending" resulting in a significant "budgetary shortfalls in fiscal year

2001 for state governments" (P.156). Also, U.S. Census, Statistical Abstract of the

United States (2004-2005) reported that the combined state and local government

medical care expenditures rose from $24.9 billion in 1980 to $258.7 in 2002, which is

an increase of about 939 percent. Medicaid accounted for much of the increase in

expenditures rising from \$23.9 billion in 1980 to \$250.0 billion in 2002 representing a

change of 949 percent in 22 years (Statistical Abstract of the United States, 2004 -

2005).

Health care became a target of reform to control the rising costs as well as to

expand access (Dye, 1998), and many states privatized some of their health care

services as a cost saving mechanism (Chi, Arnold, & Perkins, 2004). But empirical

studies are scant regarding the influence of health care expenditures on the levels of

state privatization efforts. This study therefore tests the extent to which heath care

expenditures predict the level of state government privatization.

Hypothesis 1: States with higher health care expenditures are more likely to have
higher level of state government privatization than states with lower health care
expenditures.

State Pension Spending

State pension systems also began taking root during the Great Depression to

provide retirement security to elderly Americans (Almeida and Boivie, 2009).

According to Almeida and Boivie (2009), state and local public sector employees were

not included in the 1935 Social Security system, and states established their own

retirement system to provide a secure source of income for their retirees; "45 states

had retirement systems in place by 1961" (Almeida and Boivie, 2009, p. 154).

Today, state and local pension coverage is widespread, and many teachers,

public safety personnel, and other public employees count on state and local

government pension systems for a secure source of income for retirement (Almeida

and Boivie, 2009; Munnell, Aubry, and Muldoon, 2008). Public sector pensions are

primarily defined benefit plans and cover a significant number of workers. For example, in 2006, almost 80 percent of the state and local workers age 25-64 were covered by some type of pensions of which defined benefit plans accounted for a full 80 percent of public sector participants (Munnell, Aubry, and Muldoon, 2008).

Some studies show that in the last couple of decades, many state and local governments have expanded generous retirement benefits to their workers (Edwards, 2010), which help retirees maintain a standard of living similar or close to their pre-retirement level. From the perspective of social equity advocates, state pension plans provide additional safety net to prevent some retirees from falling into poverty. Edward (2010), however, contends that since defined benefit pensions are essentially differed payments, policymakers have been able to expand benefit packages over the past several years with little short-term budgetary impact; but the expanded benefits have been largely unfunded and "have built up large liabilities in employee pension plans" (p. 92), eventually adding to the growth of state budget shortfalls in the long run.

Also, the Council of State Governments (CSG) reported that the majority of public pension plans are underfunded or unfunded and have constrained states' ability to finance their public pensions and health care expenditures (CSG, 2007). Growing pension liabilities and increasing health care expenditures have exasperated state budget crises requiring major budget reforms and cuts. Although the state employee pension system has been designed to alleviate the financial hardships of retirees and has been an integral part of state programs since the Great Depression, it has

nonetheless been found to contribute to the fiscal crises that government faced in the last 20 or 30 years.

As a response to the growing fiscal crises, state officials have adopted many strategies such as trimming employee pension benefits, moving employee benefits away from defined benefit plans to defined contributions such as 401(k) plan, delivering public services more efficiently, privatizing services when feasible, cutting staffing levels, and terminating low-value programs (CSG, 2007; Edwards, 2010). Yet, existing empirical studies have not tested the impact of pension spending on the level of state government privatization in the literature, which this study seeks to accomplish.

Hypothesis 2: States with higher pension spending are more likely to have higher level of state government privatization than states with lower pension spending.

State Per-Capita Personal Income

Writing as far back as 1974, David O. Porter and Teddie Wood Porter noted the views of the time that "by transferring more governmental services and goods to those with lower incomes, [government can serve as] the vehicle for smoothing out gross inequalities of opportunity" (Porter and Porter, 1974, p. 36). Aside from smoothing out inequalities, politicians appear to respond to the demands of voters if politicians perceive that the outcomes of their election or reelection efforts are likely to be swayed or influenced by those voters who demand changes.

For example, as detailed in the literature review, during the Great Society years, the Democratic administration sought to line up the interests of the Democratic Party with the policies that promoted antipoverty programs for urban blacks at the time

because the Democratic Party saw that urban blacks had become important in terms of determining the outcome of presidential elections (Piven and Cloward, 2005). As Porter and Porter (1974) succinctly put it: "On the self-interest side, politicians have found it profitable to respond to large or new blocks of voters demanding redistributions of resources" (p. 36). Recent studies have also supported the argument that politicians respond to the needs of low-income voters to garner their votes in an election (see Soss et al., 2001; Breaux et al., 2007).

The theoretical arguments suggest that per capita personal income can be used as an indicator of state policy decisions; and there is an extensive empirical research in the literature that examined the association of per capita personal income and state policy outcomes. Many researchers in state comparative studies have conducted empirical studies to test the relationships between per capita personal income and state policy decisions in many areas of public policy, such as tax policy, privatization policy, health care policy, welfare policy, and education policy (Berry and Berry, 1992; Price and Riccucci, 2005; Soss et al., 2001; Breaux et al., 2007). For example, Berry and Berry (1992) tested four tax adoption models using probit maximum likelihood estimates. The models included per capita personal income as one of the predictor variables and four dependent variables for four different time periods (income-tax for 1919-37, gasoline tax for 1919-29, any tax for 1919-39 and any tax for 1960-71).

The authors found a positive association between per capita personal income and tax adoption for "any tax" variable for the 1960-71 time periods, supporting their hypothesis that greater state per capita personal income results in a greater likelihood of a tax adoption by state policymakers. For the three other variables and time periods, the

statistical results show negative associations between per capita personal income and tax adoptions, which suggest that "greater per capita personal income is associated with a lower probability of a tax adoption" (Berry and Berry, 1992, p.734).   .

Other studies have also examined the association between per capita personal income and state policy decisions. For example, in their study of the determinants of state privatization decisions, Price and Riccucci (2005) found per capita personal income not to be a significant determinant of prison privatization decision. Nonetheless, both the theoretical arguments and the empirical results demonstrate the validity of per capita personal income as a measure of state policy outcomes. Assuming everything else being equal, it can be argued that states with higher per capita personal income are more likely to collect more money in taxes and have greater capacity to provide more goods and services to its citizens without resorting to privatization. On the other hand states with lower per capita personal income are less likely to generate sufficient revenues to meet the needs of its citizens and may resort to privatization scheme. Thus, the association between per capita personal income and the level of state government privatization can be hypothesized as follows.

Hypothesis 3: States with higher per capita personal income are more likely to have lower level of state government privatization than states with lower per capita personal income.

<center>Economic Model</center>

The economic factor is operationalized using state labor costs, state per capita spending, state fiscal capacity, and state deficits variables.

State Labor Cost

Public employees' compensations have been partly blamed for growing budget

crises that states continue to face. According to the U.S. Census Bureau data, the

payrolls of state employees increased from $4.29 billion in 1980 to $14.84 billion in

2002 representing an increase of 245.92 percent. For the same time period, the

payrolls for local governments increased from $10.45 billion in 1980 to $37.49 billion

in 2002, a change of 258.76 percent. Over all, the combined state and local payrolls

increased by about 255 percent (Statistical Abstract of the United States, 2006). While

these figures appear to be large in absolute terms, it is not necessarily correct to

conclude that they are excessive if the growth of population and the adjustment for

inflation are factored in the calculation.

However, when employee benefits such as retirement benefits that include

defined pension plans discussed earlier are added to the payrolls, the contributions of

employee compensations to state budget shortfalls could be considerable. Furthermore,

some researchers contend that unions push the costs of the state and local workforce

because there are more unions in the public sector than the private sector (Edwards,

2010). In his study of the costs of unionizations for states, Edwards (2010) found that

"California's 62 percent unionization rate translated into a statewide boost in public

sector compensation costs of more than 10 percent" (p.109). Similarly, Kodrzycki

(1998) conducted an empirical study where she found that privatization in the form of

contracting out was more prevalent in cities and towns paying high wages to their own

employees. Sawicky (1998) also highlighted that "higher labor costs point more

explicitly to increased level of public spending and taxes" (p.107).

The growing budgetary crises have constrained states' ability to provide goods and services to their citizens, and as indicated earlier, state policymakers have sought to curtail the growth of labor costs by adopting strategies that included, but not limited to, changing labor laws that contain collective bargaining provisions, cutting staffs and benefits, and privatizing services when possible (Edwards, 2010). Although privatization of services is invariably invoked as a means to tackle state financial crises, there is no empirical study that examined the association between labor costs and the level of state government privatization. Given the argument that labor costs (public employee compensations) contribute to budget shortfalls, the following hypothesis can be tested.

Hypothesis 4: States with higher labor costs are more likely to have higher level of state government privatization than states with lower labor costs.

State Per Capita Spending

In 2002, the aggregate direct general expenditures on state and local government functions amounted to $6.01 billion on per capita basis, which is almost twice the level spent in 1990 ($3.36 billion) (Statistical Abstract of the United States, 2006). Compared to the level of 1990, the 2002 per capita spending represents nearly 79 percent increase in just 12 years. However, the aggregation conceals the existence of wide variations in per capita spending among the states. For example, in fiscal year 2007, state per capita spending ranges from a low of $3,831 for Texas to a high of $13,508 for Alaska (U.S. Census, Tax Foundation, 2007). The data show that per capita spending has grown significantly over time and its effect on privatization decisions has been investigated empirically. In her study of the impact of fiscal

pressures on the privatization of local services, Kodrzycki (1998), for example, found

that "High and/or rising per capita expenditures on police and fire were associated

with a *lower* tendency to privatize service delivery, all else equal" (p.46; italics in

original). Since police and fire services are not targets of privatization, the result does

not invalidate the basic hypothesis that higher per capita spending is likely to lead to

more privatization.

Hypothesis 5: States with higher per capita spending are more likely to have higher
level of state government privatization than states with lower per capita spending.

State Fiscal Capacity

Many studies have examined the impact of fiscal capacity on privatization

decisions (Berry and Berry, 1992; Price and Riccucci, 2005; Kodrzycki, 1998). More

often the assumption is that higher fiscal capacity may mean greater state capacity to

provide goods and services without incurring budget deficits; a corollary to this is that

low fiscal capacity is likely to lead to additional costs that might require raising taxes

or cutting services. Because of the unpopularity of tax increases, politicians are less

likely to adopt new taxes and may resort to privatization as an alternative to raising

taxes in order to control the costs associated with the provision of goods and services

to citizens.

There are many empirical studies that have examined the associations between

fiscal capacity and state policy decisions. Among these are two studies cited earlier;

one by Berry and Berry (1992) and the other by Price and Riccucci (2005). For

example, Berry and Berry (1992) found a negative association between fiscal capacity

and tax adoption supporting their "proposition that the poorer the fiscal health of a

state's government, the more likely it is to adopt a new tax" (p.732). Intuitively, the

conclusion appears to be logical, but, as indicated earlier, for many politicians raising

taxes is in many cases politically unpalatable.

Also, Price and Riccucci (2005) examined the effect of fiscal capacity on state

prison privatization and found fiscal capacity to be insignificant. Although the authors

concluded that "fiscal conditions and economic factors do not explain why states may

choose to privatize" (p.229), their investigation is confined to prison privatization and

their conclusion cannot be safely generalized to other types of privatization including

corrections other than prisons. In fact, numerous studies have found both positive and

negative associations between fiscal/economic factors and state privatization decisions

(Nicholson-Crotty, 2004; Pouder, 1996; Kodrzycki, 1998; Brudney et al., 2005). For

example, in a study that involved a two-stage process of corrections privatization,

Nicholson-Crotty (2004) examined the impact of different variables that included

various measures of economic factors on state correction privatization decisions.

The first model tested the factors that influence the adoption of enabling

legislations by state legislatures or governors, and the second model tested the factors

influencing administrators and managers to make decisions to privatize corrections;

the researcher found that in the first case "not a single economic factor has a

significant influence on the privatization decision…whereas in the second stage

[e]conomic factors play a significant role in the corrections privatization process" (p.

52).

Indeed, fiscal imperatives have been the most widely cited reasons for the rise

of privatization; and governments have continued to justify their decisions to privatize

on the basis of fiscal imperatives. Yet there is little research that examined the level of

state government privatization on a comprehensive manner that takes into account

several classes of services simultaneously. This study will test the following

hypothesis.

Hypothesis 6: States with higher fiscal capacity are more likely to have lower level of
state government privatization than states with lower fiscal capacity

State Deficits

Although subtle differences can be discerned between deficits and fiscal

capacity, the two concepts are intertwined or closely related, and variables used to

define and operationalize fiscal capacity can also be used to operationalize deficits. In

view of this, the quantitative research and results cited for fiscal capacity variable

above are equally valid to the discussion of the impact of deficits on privatization

decisions. With this caveat, some of the theoretical arguments about deficits are

highlighted below.

Literature reveals that governments at all levels incur budget deficits for at

least three main reasons: 1) slow economic growth or recession, 2) increased demand

for services by the public, and 3) lack of public support for tax increases; these factors

create fiscal imbalances often leading to large budget deficits; this is particularly the

case in state and local governments (Henton and Waldhorn, 1984). The increasing

public demands for more services without additional costs coupled with the unfunded

mandates from the federal government intensify the budget shortfalls that

governments face. As a result, in some cases, governments resort to privatization as a

means to reduce costs and to balance their budgets (Henton and Waldhorn, 1984; Chi, 1998; Kettl, 2002; Van Slyke, 2003).

Evidence exists in the literature in which researchers have investigated the effects of budget deficits on privatization decisions. Lopez-de-Silanes and Vishny (1997) conducted an empirical study on the factors driving privatization by county governments using variables that included measures of budget constraints. The authors found "that factors that increase the cost of government spending, such as state laws restricting government financing and measures of the state's financial trouble, make privatization more likely" (Lopez-de-Silanes and Vishny, 1997, p.468).

Related studies have found a positive association between deficits and privatization decisions in the context of local governments. For example, Kodrzycki (1998) noted that "Rising deficits (or falling surplus) between 1987 and 1992 were significant spurs to increasing a locality's reliance on outside contractor" (p.46). While these empirical studies do not focus directly on the deficits at state level, the studies nonetheless support the validity of using deficit as a variable to measure the impact of economic factor on state privatization decisions. Therefore, the impact of state deficits on the level of state government privatization is hypothesized as follows.

Hypothesis 7: States with higher deficits are more likely to have higher level of state government privatization than states with lower deficits.

<center>Political Model</center>

Numerous studies have shown that political factors influence privatization decisions (López-de-Silanes, Shleifer, and Vishny, 1997; Nicholson-Crotty, 2004; Pouder, 1996). The theoretical argument about the influence of political factors on

privatization decision is extensive, but there is a paucity of empirical research that investigated the impact of political factors on the general levels of state government privatization in a comprehensive manner, which this study attempts to accomplish. In so doing, the following four variables are used to operationalize the political factor: state union laws, state political culture, party affiliation of the governor controlling state government, the party controlling the state legislature.

State Union Laws

A plethora of research is available in the literature that shows that political opposition particularly from public employee unions impede privatization efforts; unions resist privatization of services that they have traditionally performed (Hirsch and Osborne, 2000; Chi, Arnold, & Perkins, 2004; Sawicky, 1998; Pouder, 1996; Nicholson-Crotty, 2004; Price and Riccucci, 2005; Lopez-de-Silanes and Vishny, 1997). For example, Nicholson-Crotty (2004) noted that public employee opposition can impede privatization efforts. Similarly, Sawicky (1998) and others highlight the power of relatively high levels of unionization to oppose privatization. Studies further indicate that "state employees in several states filed lawsuits against their government to oppose privatization" (Chi, Arnold, & Perkins, 2004, p. 476).

However, evidence exists in the literature that shows that the presence of unions and the level of unionization in a state fail to predict state privatization decisions. Nicholson-Crotty (2004) empirically investigated the extent of union influence on state corrections privatization decisions and found that "the degree of unionization…within a state did not have a significant impact on the decisions to privatize corrections management" (p.52). The author offered two explanations for the

lack of the empirical support for the presence of union influence on state privatization decisions.

The first explanation has to do with what the author calls "construct invalidity," which suggests that "the percent of public employee unionization within a state may not be a suitable proxy for the power of employee unions" (p.53). The second potential explanation refers to the fickleness of the theoretical argument that is premised on the assumption of unions having the power to thwart state decisions to privatize services; the author concluded that the "public employee unions simply do not wield the power over the privatization process that researchers had previously suspected" (p.53).

Other researchers use state's labor law as an indicator of union power arguing that the presence of unions or the degree of unionization is not necessarily a valid measure of the power of unions. For example, Price and Riccucci (2005) argued that "Although the presence or absence of unions has typically been used as a measure of union strength, it does not accurately reflect potential union power...state's public sector labor law would be a more accurate indicator" (p. 227). In their empirical study on the determinants of state prison privatization decisions, Price and Riccucci (2005) used state's labor laws as a measure of union power in their model. Their findings also showed that unions were not significant predictors of state prison privatization decisions.

However, other empirical studies have found results that support the theoretical argument that powerful labor unions can deter privatization decisions. Indeed, some researchers argue that strong unions are more likely to influence privatization

decisions in their favor. For example, Lopez-de-Silanes and Vishny (1997) conducted an empirical study on the determinants of local government privatization decisions and found that "the fraction of county employees represented by bargaining units [collective bargaining] comes out highly significant and negative, indicating that strong unions deter privatization" (p.457); in the statement cited here strong unions can be taken to mean strong union laws. Also, Hirsch and Osborne (2000) contend that "high levels of unionization in municipal labor force continue to create opportunities for municipal labor to effectively oppose privatization" (p.324).

While the first group of researchers found results that fail to support the theoretical argument that unions deter privatization, the results of the second group of researchers appear to be consistent with the proposition that strong unions deter privatization. Nonetheless, the discussion above clearly shows that the variable state union law is a valid indicator of the strength or power (weak union power or strong union power) of public employee unions. Essentially, the concept weak union power is used to refer to states that have the right to work laws in their books, and the concept strong union power is used to refer to states that do not have the right to work laws and the unions can be represented by collective bargaining units. As such, the following hypothesis can tested.

Hypothesis 8: States with weak union power are more likely to have higher level of state government privatization than states with strong union power.

State Political Culture

Political culture has been used as a variable in state comparative studies to investigate state policy outcomes. Elazar (1984) defined political culture as "the

historical sources of differences in habits, perspectives, and attitudes that influence

political life in the various states" (p.110). The author maintains that political culture

combined with what he calls "*sectionalism*" and "*frontier*" shape "the individuals

states' political structures, electoral behavior, and modes of organization for political

action" (Elazar, 1984, p.109; italics in original).

Based on the conceptualization of Elazar (1984), Dresand and Gosing (2008)

offer a more elaborate definition of political culture as the "combined effects of

historical experiences, tradition, pattern of immigration and migration, and religious

identities that shape political attitudes, views of the appropriate role of government in

society, the relative priorities placed on public programs, and avenues for political

participation" (P.21); this definition is likely to capture the many dimensions that

political culture entails including the impacts of immigration and migration Elazar

(1984) identified three political cultures which the author thought define the American

society. These are: individualism, moralistic, and traditionalistic.

Individualistic political culture focuses largely on the instrumentality of

government policies as a means to promote individual self-interest; if individuals view

the market place as the best means to allocate values that benefit them, then

government is to be restrained by keeping it out of the way of the marketplace. At

other times, individuals support government policies, such as tax breaks, to extent that

those policies are believed to be beneficial to them. In either case, from the

perspective of individualistic political culture, tangible benefits must be realized from

government inaction or action (Elazar, 1984; Dresand and Gosing, 2008).

Moralistic political culture appears to embrace liberal philosophy in that it accords government a positive role in advancing the collective welfare over narrow individual interest. According to the moralistic political culture, as a representative of the people, government is expected to promote the interests of those who are disadvantaged in the economic and political marketplace as well as to encourage broad participation of common folks in determining what is in the public interest. From the perspective of moralistic political culture, issues are more important than individual interests or personalities (Elazar, 1984; Dresand and Gosing, 2008).

Traditionalistic political culture seeks to advance elite interests and embraces values that appear to have definite class overtones. According to Elazar (1984), the traditionalistic political culture seeks "to confine real political power to a relatively small and self-perpetuating group drawn from an established elite who often inherit their right to govern through family ties or social position" (p. 119). Dresand and Gosing (2008) also assert that traditionalistic political culture "is oriented toward protecting the interests of traditional elites and that often entails preserving the status quo" (p.22). The three political cultures are essentially "rooted in colonial America" (Dresand and Gosing, 2008, p. 22) and are presumed to be stable over a long period of time. Although the notion of political culture being stable over time for all states is challenged by some scholars (see Berry et al., 1998), it is still being used as a measure of state ideology in state comparative studies in many areas of public policy such as welfare, corrections and other related programs (Soss et al., 2001; Breaux et al., 2007; Price and Riccucci, 2005; Breaux et al., 2002).

Specifically, however, political culture is used as a variable to operationalize citizen ideology as distinct from state government ideology; Berry et al. (1998) argue that citizen ideology and state government ideology are different and point to previous studies that have used political culture as "a surrogate for citizen ideology" (p. 328). In the context of privatization policy, evidence exists in the literature in which scholars have used political culture as a variable to state privatization decisions. For example, Price and Riccucci (2005) included political culture in their empirical investigation of the determinants of state prison privatization. The authors operationalized political culture using measures developed by Erickson, Wright, and McIver (1993) and found a statistically significant association between conservative political culture and state prison privatization. This study will test the influence of political culture on the level of state government privatization as hypothesized below.

Hypothesis 9: States with individualistic/traditionalistic political culture are more likely to have higher level of state government privatization than states with moralistic political culture.

The Party Affiliation of the Governor Controlling State Government

The General Accounting Office ([GAO], 1997) states that "privatization can best be introduced and sustained when a political leader champions it" (p.8). But privatization decision, like similar other decisions, is made in a political environment and the political ideology of the legislators or governors may have the most influence when enabling legislations for privatization are considered and privatization decisions are made (Nicholson-Crotty, 2004; Price and Riccucci, 2005; Breaux et al., 2002). More often "ideological conservatism creates an environment that is more supportive of privatization" (Nicholson-Crotty, 2004, p.46).

As the review of the literature shows, ideological conservatism is associated with the Republican Party, and liberal ideology is associated with the Democratic Party; this ideological distinction between the two parties is believed to be generally true to this day. In view of this distinction, it is safe to argue that a Republican governor is more likely than his/her Democratic counterpart to promote privatization. Some recent studies support this general theoretical proposition. For example, in their study of welfare reform related to the implementation of the 1996 Personal Responsibility and Work Opportunity Act in the state of Mississippi, Breaux et al. (2002) found that the conservative Republican governor, Kirk Fordice, chose to privatize the Temporary Assistance for Needy Families (TANF) program.

Breaux et al.(2002) offered a detailed analysis that revealed that the conservative Republican governor managed to have "direct control over the state's Department of Human Services (DHS), the state agency charged with the implementation of welfare programs after the state legislature abolished a bipartisan governing board that had served as a buffer between the governor and the DHS" (Breaux., 2002, p.96). Having direct control of DHS, the governor was able to fill "all top-level management positions with party faithful and those who shared his ideological beliefs on the direction of the agency; soon after heavy use of privatization followed" (Breaux et al., 2002, p. 96).

Other studies offer a rather tenuous account of the ideological divide between Republican and Democratic governors as a determinant of a governor's privatization decision. For example, the 2002 Council of State Government (CSG) study summarized the views of six state governors about the implementation of privatization

initiatives in their respective states. The governors were three Republicans and three

Democrats, and their rationales for undertaking privatization efforts were essentially

their beliefs in the efficiency and effectiveness of the private sector. The opinions of

both the Republican and Democratic governors were not fundamentally dissimilar and

did not reflect the ideological divide when pushing for privatization (Chi, Arnold, &

Perkins, 2004).

Also an empirical study by Price and Riccucci (2005), cited earlier repeatedly,

examined the impact of the political ideology of a governor on prison privatization

decision; they referred to evidence in the literature that showed "the importance of the

governor's political party in state-level decision making" (p.328). Their findings

however did not show the political ideology of the governor to be a significant

determinant of state prison privatization decision (Price and Riccucci, 2005). The

conclusion to be drawn from the studies cited above is certainly contradictory, but this

mixed conclusion cannot invalidate the basic theoretical argument that privatization is

more in tune with conservative ideology than with liberal ideology. At best, the results

point to the need to conduct further research. The studies however show that the

political ideology of the governor controlling state government is a valid measure to

operationalize the influence of political factors on privatization decisions.

Hypothesis 10: States with Republican governors are more likely to have higher level
of state government privatization than states with Democratic governors.

The Party Controlling the State Legislature

Writing in 1957, political scientist David Easton described the functions of

politics in the following terms: "The study of politics is concerned with understanding

how authoritative decisions are made and executed for a society" (Easton, 1957,

p.384). Since the appearance of Woodrow Wilson's essay *The Study of*

Administration (1887) and later Frank Goodnow's book *Politics and Administration*

(1900), the politics-administration dichotomy model was believed to have served the

nation well until the middle of the twentieth century in terms of setting the boundaries

between policy making and policy execution; that is between the legislative and the

executive branches, although the claim is "rejected on empirical grounds" (Svara,

1998, p.51).

Central to the dichotomy model is the idea that the lines of responsibilities of

the legislatures and the chief executives must be demarcated clearly so that the

legislatures set policies and the chief executives execute policies. For example,

Goodnow (1900) "classified government actions in terms of two functions – the

expression of popular will through legislation and the execution of that will through

administration" (Svara, 1998, p.51). While the distinction Easton's (1957) made

between "authoritative decisions" and "executions" appears to be an affirmation of the

dichotomy model, literature shows that political ideology matters more than the

institutional separations in many policy areas (Svara, 1998; Freire, 2008; Nicholson-

Crotty, 2004).

Although the legislative and the executive branches are separate entities

institutionally and serve, along with the judiciary, to check and balance each other, the

notion of separating the legislatures from the chief executives in terms of developing

policy proposals appears to be tenuous when ideological motivations are considered;

in this connection, Freire (2008), writing in the context of European political

orientation, asserts that it is the "left-right political cleavage [that] functioned as a

device to classify ideologies...by which parties categorize political orientations and

policy proposals" (p.180).

Similarly, Nicholson-Crotty (2004) stressed the importance of political

motivations when legislators and/or governors consider the adoption of enabling

legislations for privatization or other policy areas. Thus, it can safely be assumed that

political ideology determines the relationship between the legislative body and the

executive body in many policy areas not the institutional separation per se. It is

commonly assumed that the political party controlling or dominating the state

legislature is more likely to affect state policy decision than the minority counterpart.

Since the Republican and Democratic parties are the only two major parties

represented in state legislative branches (as well as in the U.S. Congress), the

competition between the two parties essentially reflects their respective ideological

persuasions.

The Republican Party is assumed to espouse conservative ideology and the

Democratic Party is assumed to subscribe to liberal ideology. As reiterated in the

review of the literature, conservative ideology is largely associated with the

privatization movement, and by implication, the Republican Party is believed to be the

major promoter of privatization. Whereas the Democratic Party is commonly

associated with liberal ideology and is assumed to exercise restraint when making

privatization decisions. In view of these ideological distinctions, researchers have

examined the link between political ideology and legislative decisions in public policy

(Berry and Berry, 1992; Nicholson-Crotty, 2004; Price and Riccucci, 2005; Soss et al., 2001; Breaux et al., 2007).

For example, the study of the welfare reform in the state of Mississippi by Breaux et al. (2007) provides useful insights regarding the influence of ideology in state politics. The authors' analysis showed how abolishing the bipartisan governing body by the state legislature allowed the conservative Republican governor to privatize the Temporary Assistance for Needy Families (TANF) by exercising direct control over the Department of Human Services (DHS), the state agency responsible for the implementation of the welfare programs (see Breaux et al., 2007). Although the study does not speak directly to the party configuration in the state legislature, the analysis nonetheless sheds some light on the influence of ideology in state policy making.

Another study by Price and Riccucci (2005) examined specifically the extent of influence that Republican controlled state legislatures exert on prison privatization. The authors summarized some previous theoretical studies that link privatization to conservative ideology and the Republican Party. Based on the theoretical arguments in the literature they tested a hypothesis to determine the effect of Republican-controlled legislatures on state prison privatization decisions; the results indicate that the "political party of governor" was not a significant predictor of prison privatization decisions (Price and Riccucci, 2005, p.231). The findings run contrary to the theoretical argument that conservative ideology drives privatization. But this conclusion may not hold for the level of state government privatization in general. Therefore this study tests the following hypothesis.

Hypothesis 11: States with Republican-controlled legislature are more likely to have higher level of state government privatization than states with Democratic-controlled legislature.

Ideology Model

Literature shows that ideological factors influence many areas of state public policy including privatization policy (Morris, 1999; Hodge, 2000). Whiles many studies point to fiscal imperatives as the primary driver of privatization initiatives at state and local levels (Henton and Waldhorn, 1984; Donahue, 1989; Boyne, 1998), some scholars contend that "The context of privatization is inherently ideological" (Hodge, 2000, p.17). For example, Morris (1999) argues that "Privatization is and ideological choice requiring one to determine the particular set of values to be maximized as well as to understand the inherent value tradeoffs" (p.155). In fact some scholars have devised measures related to ideology that have been used in state comparative studies to assess the impact of ideological factors on many areas of public policy (Wright, Erikson, and McIver, 1985; Berry and Berry, 1992; Erikson, Wright, and McIver, 1993; Berry, Ringquist, Fording, and Hanson, 1998). In light of this theoretical argument, this study examines the impact of ideology on the level of state government privatization using three variables: state policy liberalism, state ideology, and state institutional capacity.

State Policy Liberalism

As indicated above, many researchers have constructed indices to measure variables related to ideology. One such variable is state policy liberalism, which is another name for government ideology. For example, Erikson, Wright, and McIver

(1993) developed a government ideology index which they labeled "policy liberalism" by summing the standardized scores of the responses of 47 states to eight policy items which include: education (public educational spending per pupil), Medicaid (eligibility for Medicaid beyond the minimum levels required by federal regulations), AFDC (eligibility analogues to the Medicaid measure), consumer protection, criminal justice, legalized gambling, Equal Rights Amendment, and tax progressivity (p. 75-76). According to the authors, "the eight policy variables represent one single dimension of policy liberalism." They maintain that "The index should be an accurate reflection of the liberal-conservative tendencies of states' policies" (Erikson, Wright, and McIver, 1993, p. 77).

Similarly, Berry, Ringquist, Fording and Hanson (1998) used the scores from Americans for Democratic Action (ADA) and the AFL-CIO Committee on Political Education (COPE) from 1960 to 1993 to create a composite measure of citizen and government ideology for each of the 50 states; the composite measure is constructed based on an average score of interest group ratings of members of Congress, supplemented by congressional election outcomes, the roll-call voting scores of state congressional delegations, the partisan division of state legislatures, and the party of affiliation of the governor (Berry et al., 1998). The composite measure "runs from zero representing the most conservative government ideology to 100 representing the most liberal government ideology" (Berry et al., 1998, p.334).

Some scholars have utilized the above government ideology measures to assess state policy decisions (Soss et al., 2001; Breaux et al., 2007; Price and Riccucci, 2005). For example, Soss, Schram, Vartanian, and O'Brien (2001) used the measures

developed by Berry et al.(1998) to examine the impact of government ideology on the choices state officials make when implementing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, commonly known as the Temporary Assistance for Needy Families (TANF). Their findings reveal that states with more conservative government ideology had stricter sanctions for welfare recipients. "The states that acted quickly to impose tough welfare policies were those in which conservative governments held sway" (Soss et al., 2001, p. 389).

Also, Price and Riccucci (2005) examined the influence of government ideology on state prison privatization using the measure developed by Berry et al.(1998). The results support their hypothesis that "states are more likely to privatize their prisons when the government ideology is more conservative as compared with more liberal" (p.228). While the theoretical arguments and the empirical studies reviewed here suggest that governments with conservative ideology are more likely to promote privatization, the extent to which conservative government ideology influences the level of state government privatization is not addressed. Therefore, the following hypothesis is tested in this study.

Hypothesis 12: States with conservative government policy are more likely to have higher level of state government privatization than states with liberal government policy.

State Ideology

Erikson, Wright, and McIver (1993) and others maintain that government ideology is different from state ideology in that state ideology reflects the policy preferences of the citizens of a state. State ideology or "*state citizen ideology*" or simply "citizen ideology" is "generally conceived as the mean position on a liberal-

conservative continuum of the 'active electorate' in a state" (Berry et al., 1998, p. 327-328; italics in original). Erikson, Wright, and McIver assert that states vary in their policy choices even though they appear to exhibit similarities in the policies they enact; the differences are largely reflected in the policy preferences of the citizens of each state (Erikson, Wright, and McIver, 1993). Therefore, the authors made a distinction between government ideology, which they call state policy liberalism and state ideology, which represents the preferences of the "state electorate's ideological taste" (p.74).

Based on the theoretical distinction reviewed above, Erikson, Wright, and McIver (1993) devised indicators to measure state ideology. The authors used the CBS/New York Times national surveys of more than 167, 000 respondents for the 48 states conducted between 1976 to 1988 and aggregated the responses to construct a single measure of state ideology based on the mean ideological identifications of the respondents who classified themselves as liberal, moderate or conservative; however, " the correlation between state's mean ideological identification and the composite policy index are highly correlated (r = .82)" (Erikson, Wright, and McIver,1993, p.78). This strong correlation suggests that both indicators explain 82% of state policy variations.

Berry et al. (1998) argued that the two concepts (state ideology and policy liberalism or government ideology) as constructed by Erikson, Wright, and McIver (1993) are difficult to operationalize. They developed indicators that measure citizen ideology and government ideology as described above. The authors claim that their citizen ideology and government ideology measures are dynamic and capture the

ideological changes of citizens and elites over time and represent an improvement over the static measures of current indicators of ideology such as the one developed by Erikson, Wright, and McIver (1993). While acknowledging the importance of static measures in cross-sectional studies, the authors nonetheless argue that over time "a static measure of ideology cannot account for changes in policy" (Berry et al., 1998, p. 328).

Numerous state comparative studies have utilized state/citizen ideology to assess state policy outcomes under varying circumstances (Brudney et al., 2004; Nicholson-Crotty, 2004; Berry and Berry, 1992; Price and Riccucci, 2005; Soss et al., 2001; Breaux et al., 2007). For example, Brudney et al. (2004) conducted an empirical investigation of the determinants of state contracting out and its impact on the quality and costs of service delivery using variables that included citizen ideology in their model. The authors used the measure developed by Berry et al. (1998) to operationalize the citizen ideology variable; the finding indicated that the "political and ideological variables included in the model failed to achieve statistical significance" (Brudney et al., 2004, p. 413).

Similarly, in a study that examined the factors that motivate state-level privatization decisions in the area of corrections, Nicholson-Crotty (2004) used Berry and his colleagues' (1998) measure of citizen ideology in order to capture the political conservatism of a state. The empirical results show that "state liberalism is significant and negatively correlated with contracting" (p.51). The finding supported the author's expectation that "states that are ideologically conservative are more likely to adopt legislation that facilitates corrections management contracting" (p.46). Another study

by Price and Riccucci (2005) examined the extent to which state ideology predicts

state prison privatization using political culture as a surrogate for state ideology.

As mentioned earlier, Berry et al. (1998) noted the difficulty of

operationalizing the two concepts (government ideology/state policy liberalism and

state/citizens' ideology) and point to some studies that used "political culture as a

surrogate for citizen ideology" (p.328). Likewise, Price and Riccucci (2005) included

political culture (read state ideology) in their model as one of the indictors of prison

privatization; the finding indicated that state ideology is significant. The authors thus

concluded: "the factors that seem to better explain why states privatize their prisons

relate more to politics and ideology....The two political and ideological variables that

are statistically significant include government ideology and the political culture of the

state" (Price and Riccucci, 2005, p.229). In this study, the influence of state ideology

on the level of state government privatization is tested as hypothesized below.

Hypothesis 13: States with conservative state ideology are more likely to have higher level of state government privatization than states with liberal state ideology.

State Institutional Capacity

Although, as noted earlier, the conservative-liberal ideological divide plays a

part in the policy preferences of state governments, state institutional capacity

becomes pertinent in the decision and implementation process and has been

operationalized and tested as one of the determinants of state policy decisions in many

areas of public policy (Travis, Morris, and Morris, 2004). Essentially, the assumption

here is that state institutional capacity has the potential to constrain or enhance the

ability of a state government to adopt and implement the desired program; and scholars have defined and devised indicators to measure state institutional capacity.

Bowman and Kearney (1988) cited previous studies that defined capacity in relation to the ability of citizens and their government to develop political and administrative institutions that have the capacity to provide responsive, effective, and efficient public services. The authors also note that the concept of institutional capacity is "multidimensional [and] is composed of variables long associated with state institutional modernization" (Bowman and Kearney, 1988, p.347). Yet long secular development of political and administrative institutional arrangements are most likely to be influenced by the ideological preferences of citizens; and the concept of institutional capacity, broadly defined, can be assumed as having an ideological construct. However, noting the difficulty of reaching a consensus on the definition of capability/capacity and realizing that the concept is too broad to be adequately captured in a single factor," Bowman and Kearney (1988) devised "measures that operationalize the concept capacity or capability in the context of state government institutions" (Bowman and Kearney, 1988, p.343).

Bowman and Kearney (1988) developed an operational definition of capacity that takes into account "measures that are commonly associated with institutional reform (adaptability, decision making, and conflict management)" (P.347). They also included "accountability, centralization, representation, coordination, and staffing and spending" (p.359) to account for the multidimensionality of institutional capacity in constructing their measures. Using these indicators the authors developed empirically derived separate scores for four factors: staffing and spending, accountability and

information management, executive centralization and representation (see Bowman

and Kearney, 1988). The authors claim that the scores of the four factors together

measure state institutional capacity.

Some studies have utilized the measures developed by Bowman and Kearney

(1988) to operationalize state institutional capacity in many state comparative studies.

For example, in a study that examined the factors that influence state leveraging

decisions in the implementation of federal environment policy related to Clean Water

State Revolving Loan Fund (CWSRF) program, Travis, Morris, and Morris (2004)

used Bowman and Kearney's (1988) measures of state institutional capacity. They

investigated empirically the leveraging decisions process, using three models that

included institutional capacity as one of the variables in a two-stage decision process

(the decision to leverage and how much to leverage).. The authors aggregated the

interval-level scores for the four factors (staffing and spending; accountability and

information management; executive centralization; and representation) to arrive at a

single measure of institutional capacity.

With the institutional capacity variable included in the model, the authors

tested their hypothesis that "states with stronger institutional capacity to be more

likely to leverage" (Travis, Morris, and Morris, 2004, p.471). The results indicated

that institutional capacity was found not to be significant in the first stage of the

process, but it was significant in the second stage of the decision process leading to the

conclusion that "states with greater institutional capacity are more willing to pursue

larger leveraging programs" (Travis, Morris, and Morris, 2004, p.472). In this study,

it is assumed that greater institutional capacity (which implies having, among other

things, adequate resources, skilled manpower, and expert staffs) is likely to enhance a state's ability to provide services to citizens without the need to resort to privatization. As such, it can be hypothesized that higher institutional capacity is expected to lead to lower level of state government privatization.

Hypothesis 14: States with higher institutional capacity are more likely to have lower level of state government privatization than states with lower institutional capacity.

Summary

This study examines the factors that influence the level of state government privatization across the states by drawing on the historical and contemporary privatization literature. While the historical account offers useful insights about the philosophy that underpins the contemporary privatization movement, a review of the modern literature on privatization reveals the rationales for the emergence and rise of contemporary privatization policy across the United States and around the world. The review of the contemporary literature further reveals that the factors that drive privatization are many and varied and are largely related to socioeconomic, economic, political, and ideological factors. The variables identified and discussed above are supported by theory and empirical studies and have received considerable attention in the literature as the likely drivers of contemporary privatization. Yet, the extent of influence these various factors exert on the level of state government privatization has received little attention in the literature. This study attempts to fill this gap in the literature. A summary of the four models is presented in Figure 2.2 below.

Socioeconomic Model
- State Health Care Spending (+)
- State Pension Spending (+)
- State Per Capita Personal Income (-)

Economic factor
- State Labor Costs (+)
- State Per Capita Spending (+)
- State Fiscal Capacity (high -)
- State Deficits (+)

Political factor
- State Union Laws (weak +)
- Political Culture (Ind/Trad +)
- Governor Control Govt. (R+)
- Party Control Legislature (R +)

Ideological factor
- State Policy Liberalism (Conservative +)
- State Ideology (Conservative +)
- State Institutional Capacity (high -)
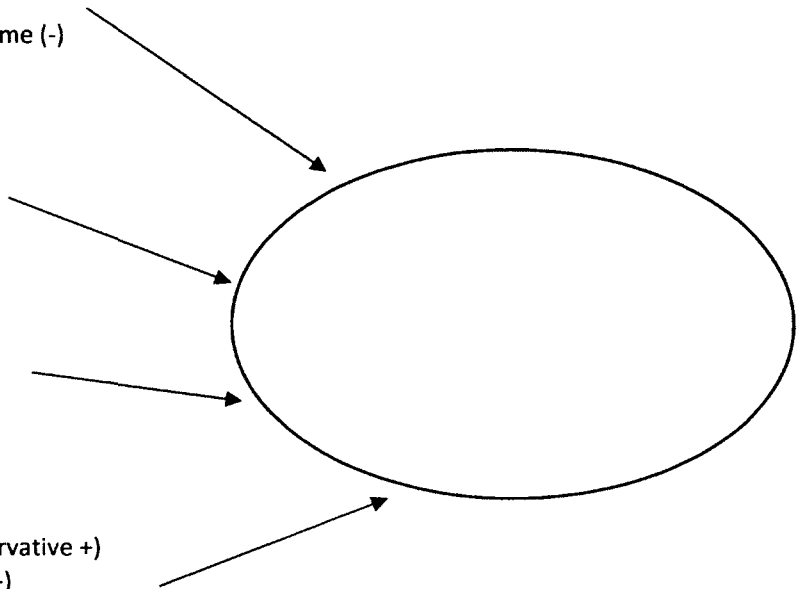
Figure 2.2. Summary of the Four Models

The 14 hypotheses discussed above are summarized below.

H1: States with higher health care expenditures are more likely to have higher level of state government privatization than states with lower health care expenditures.

H2: States with higher pension spending are more likely to have higher level of state government privatization than states with lower pension spending.

H3: States with higher per capita personal income are more likely to have lower level of state government privatization than states with lower per capita personal income.

H4: States with higher labor costs are more likely to have higher level of state government privatization than states with lower labor costs.

H5: States with higher per capita spending are more likely to have higher level of state government privatization than states with lower per capita spending.
H6: States with higher fiscal capacity are more likely to have lower level of state government privatization than states with lower fiscal capacity.

H7: States with higher deficits are more likely to have higher level of state government privatization than states with lower deficits.

H8: States with weak union laws are more likely to have higher level of state government privatization than states with strong union laws.

H9: States with individualistic/traditionalistic political culture are more likely to have higher level of state government privatization than states with moralistic political culture.

H10: States with Republican governors are more likely to have higher level of state government privatization than states with Democratic governors.

H11: States with Republican-controlled legislature are more likely to have higher level of state government privatization than states with Democratic-controlled legislature.

H12: States with conservative government policy are more likely to have higher level of state government privatization than states with liberal government policy

H13: States with conservative state ideology are more likely to have higher level of state government privatization than states with liberal state ideology.

H14: States with higher institutional capacity are more likely to have lower level of state government privatization than states with lower institutional capacity.

Chapter III presents the methodology for this study; the dependent variable and each

of the independent variables are operationalized and the various data sources for each

model are discussed.

CHAPTER III

METHODOLOGY

Introduction

Chapter I provided an introduction to this study summarizing the background

information and the rationale for examining the factors that influence the level of state

government privatization. Chapter II presented the review of the literature and

provided a detailed analysis of privatization in the historical and contemporary

contexts; established the philosophical foundation of privatization, identified the

potential factors that are likely to influence the level of state government privatization,

and developed 14 testable hypotheses to answer the main research question in this

study. This chapter presents the methodology detailing the research design, the

definitions and measurements of variables, the data analysis, the limitations and

delimitations of this study.

The Research Design

This is a state comparative cross-sectional study designed to answer the

research question: What factors predict the level of state government privatization

(LSGP)? LSGP is the variable of interest, and states serve as the unit of analysis.

According to Sharkansky and Hofferbert (1971), "Scholars who want to explain policy

differences use policies as dependent variables and try to identify the economic, social,

or political characteristics of each state that shape those policies" (p.317). Cross-

sectional study is appropriate for this research since cross-sectional studies usually investigate the relationships among several variables and are suited for answering questions such as "how much," "how many," "what happened" and related questions (O'Sullivan, Rassel, and Berner, 2003, p.27).

There are additional advantages of using cross-sectional secondary data. Essentially, the use of secondary data saves time as well as costs that researchers might otherwise incur in collecting primary data; and researchers with different interests can work with data from a single cross-sectional study (O'Sullivan, Rassel, and Berner, 2003, p.27). However cross-sectional studies have disadvantages as well. Cross-sectional studies do not allow measuring changes over time. Furthermore, although cross-sectional studies may uncover some potential relationships that may lead to future experimental studies, they cannot be used to establish cause-effect relationships between the outcome and the predictor variables (O'Sullivan, Rassel, and Berner, 2003). Nevertheless, cross-sectional secondary data are useful for conducting non-experimental research studies, such as the proposed study, that are otherwise impossible or unfeasible due to the amount of time and costs involved in "instrument design, data collection, and compilation" (O'Sullivan, Rassel, and Berner, 2003, p.265).

Every effort has been taken to collect cross-sectional secondary data from the same time period (2002) for the independent variables. In some cases where data are not available for the same time period, data from different years are used. One consistent year for the data collection was chosen because the purpose of this study is to measure differences in the level of state government privatization accounted for by

a variety of variables at a given point in time. As such this study uses static measures and does not attempt to measure changes in the level of state government privatization over time.

However, the use of data for a single year is problematic in terms of accounting for the effect of data lag on the dependent variable. As mentioned in the previous chapters, the 2002 survey data by the Council of State Governments (CSG) were used for the dependent variable in this study, and addressing the data lag effect is essential in order to enhance the validity of the dependent variable. Underlying the case for lag effect is the argument that prior economic conditions and fiscal decisions might have unduly influenced the responses provided in the target year (2002). To get around this problem data for four years prior to 2002 were collected, and the data for each individual year was used to examine its relationship with the dependent variable.

Specifically, data from 1998 to 2001 were collected for state health care spending, state pension spending, state per-capita personal income, state labor cost, state per-capita spending, state fiscal capacity, and state deficits. Each of the four individual years were used to examine their influence on the dependent variable, and the results were compared to the results of the 2002 data. A careful examination of the results of the five data set revealed that the results were very similar. Furthermore, the data for the four years were compiled to estimated data for 2002 and compared with the 2002 actual data. The computation of the data is explained below.

Four separate forecasting techniques, namely, simple moving average (SMA), exponential smoothing (EXS), transformation moving average (TMA) and regression against time (Regression) (see Wang, 2010) were used and compared with each other

to get a relatively accurate estimate for 2002 for the aforementioned ratio level variables. The transformation moving average (TMA) forecasting technique provided an estimate that is close to the 2002 actual data. To determine the reliability of the accuracy of the forecast, the absolute percentage error (APE) and the mean absolute percentage error (MAPE) measures were used. "A smaller actual-versus-forecast difference indicates more accurate forecasting" (Wang, 2010, p.11). On both measures, TMA was found to be relatively more accurate than the other three techniques. A t-test was performed to determine if there is a significant mean difference between the two sets of data. A significant difference was not found, and the 2002 estimated data were used for subsequent statistical analyses.

<div align="center">Variables: Definition and Measurement</div>

Dependent Variable

As noted, the dependent variable is the level of state government privatization (LSGP) which is measured using the 2002 Council of State Governments (CSG) data[*]. LSGP is thus defined as the level of state government privatization in four service areas based on the CSG survey responses of state agency heads for the four classes of services: corrections, education, health and human services, and transportation (Chi, Arnold, and Perkins, 2004). The secondary data were obtained directly from the Council of State Governments (CSG). "Since the early 1980s, The Council of State Governments (CSG) has monitored and disseminated information on privatization trends in state government" (Chi, Arnold, & Perkins, 2004, p. 466).

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[*] A request was made to obtain an updated or a recent survey data, but the data were unavailable because CSG has not conducted similar surveys in recent years.

In 2002, CSG conducted a 50-state national survey of state officials to identify the privatization trends. According to CSG statement, "The survey was sent to 450 state budget and legislative service agency directors and heads of five executive branch agencies: personnel, education, health and human services, corrections and transportation. The survey yielded an overall response rate of nearly 77 percent" (Chi, Arnold, & Perkins, 2004, p. 466). The 2002 CSG survey provided the data to measure the level of state government privatization (LSGP). That is, the conceptual definition is operationalized using the responses of state agency heads to the CSG's question: "How many services and programs in your agency are currently privatized?" The responses are given in the following order: 0; <1%; 1-5%; 6-10%; 11-15%; >15%.

The four services were selected out of the five classes of services that the CSG identified in its 2002 survey as "the most popular privatized services" and published in *The Book of the States* (Chi, Arnold, & Perkins, 2004, p.477). However the fifth, personnel programs and services, has a large number of missing data on the responses to the aforementioned question and is dropped from the study. The ordered responses for the four classes of services are coded into the following six levels: $0 = 0$; $<1\% = 1$; $1-5\% = 2$; $6-10\% = 3$; $11-15\% = 4$; $>15\% = 5$. Based on these values the total scores for each state included in this study are calculated; using these summated scales, an index of the level of state government privatization (LSGP) is constructed. The values range from 0 indicating no state government privatization to 20 indicating high level of state government privatization; but there is no case with scores lower than six and higher than 16, which in turn are recoded and transformed into three ordinal levels: $6-10 = 0$ (low); $11-13 = 1$ (medium); $14-16 = 2$ (high).

Independent Variables

The data for the independent variables are collected from a variety of sources including professional organizations, government databases and websites, and from pre-existing studies that have previously developed and published indices. As explained in the previous section, the data for the ratio level independent variables for 2002 were estimated based on the figures collected from 1998 to 2001. The year 2002 is retained as the target year in order to coincide with the data year for the dependent variable. The use of a consistent year allows for the independent variables to reflect the socioeconomic, economic, political, and ideological environment of all states at the same point in time regardless of variations in the levels of state government privatization.

For the few variables for which comparable data are unavailable for the same time period, other years are used. In this study the variables state political culture (Elazar, 1984), state policy liberalism (Erikson, Wright, McIver, 1993), state ideology (Berry & Berry, 1992), and state institutional capacity (Bowman & Kearney, 1988) are from different years. As noted, the data for these variables are from different years and are less likely to be a threat to reliability because their values are assumed to be fairly stable over time (Erikson, Wright, McIver, 1993). The definition and measurement for each of the independent variables are given below.

State Health Care Spending

State health care spending is the amount of 2002 estimated state expenditures on health care services and is measured as a percentage of state budget/total

expenditures. Health care spending is expected to be associated with the level of state government privatization because of the fact that many states privatized some of their health care services as a cost saving mechanism (Chi, Arnold, & Perkins, 2004). The data for this variable are collected from State and Local Government Finance, U.S. Census website.

State Pension Spending

State pension spending is the amount of 2002 estimated state expenditures on pension benefits and is measured as a percentage of state budget/ total expenditures. Many state officials have adopted some strategies including privatization of services to reduce costs associated with employee pension benefits (CSG, 2007; Edwards, 2010). Therefore, state pension spending may affect the level of state government privatization. The data are collected from State and Local Government Finance, U.S. Census website.

State Per-Capita Personal Income

State per-capita personal income is calculated by dividing the 2002 estimated gross state product by the total population of the state; the amount is measured in U.S. dollars. Extensive theoretical and empirical studies have shown per capita personal income to be associated with many areas of public policy including privatization (Berry and Berry, 1992; Price and Riccucci, 2005). The data are collected from State and Local Government Finance, U.S. Census website.

State Labor Cost

State labor cost refers to public employees' compensations excluding defined pension benefits; the amount refers to the 2002 estimated state expenditures on its public employees and is measured as a percentage of state budget/total expenditures. State labor costs have been partly blamed for growing budget crises that states continue to face (Edwards, 2010). Studies have shown that labor costs are associated with the privatization of services (Kodrzycki, 1998; Sawicky, 1998). The information is collected from State and Local Government Finance, U.S. Census website.

State Per-Capita Spending

State per-capita spending is calculated by dividing the 2002 estimated total state expenditures by the total number of population of a state. The amount is in U.S. dollars. Evidence in the literature has shown that rising per capita expenditure is associated with the privatization of services (Kodrzycki, 1998). The information is collected from State and Local Government Finance, U.S. Census website

State Fiscal Capacity

Fiscal capacity is defined as the ability of a state government to finance its public services (Price and Riccucci, 2005). Numerous studies have found associations between fiscal/economic factors and state privatization decisions (Nicholson-Crotty, 2004; Lopez-de-Silanes and Vishny, 1997; Pouder, 1996; Kodrzycki, 1998; Brudney et al., 2005). Following the instrument developed by the Advisory Commission on Intergovernmental Relations (ACIR) and updated by Tannenwald and Cowan (1997)

and utilized by Price and Riccucci (2005) in their study of the determinants of state

prison privatization, the measure for the fiscal capacity variable for this study is

calculated in three steps (see Price and Riccucci, 2005).

First, per-capita tax revenue is calculated by dividing the tax revenue of each

state by the population in that state. Second, the average value of per-capita tax

revenue is calculated by adding the per-capita tax revenue of each state and dividing

the total by the 50 states. Third, the per-capita tax revenue is again divided by the

average per-capita tax revenue and multiplied by 100 to arrive at the value/measure for

state fiscal capacity variable. Based on this composite measure, anything below 100 is

considered low capacity, and anything over 100 is considered high capacity. In this

study, 100 and below is coded as 0 to indicate low fiscal capacity, and 101 and above

is coded as 1 to indicate high fiscal capacity. The data for tax revenue are collected

from State and Local Government Finance, U.S. Census website, and the population

data are collected from U.S. Census Bureau website.

State Deficits

Deficit refers to a level of expenditures that are not matched by a

corresponding amount of revenues in a given fiscal year. As it is commonly known,

deficit occurs when expenditures on government programs exceed the amount of tax

receipts. The amount is calculated based on the 2002 estimated deficits and is

measured as a percentage of state budget/total expenditures. Evidence in the literature

has shown that deficits are associated with privatization of services (Lopez-de-Silanes

and Vishny, 1997). The deficit for each state for the 2002 estimated data is calculated

from the spending and revenue data collected from State and Local Government

Finance, U.S. Census website.

State Union Laws

Studies have used state union laws as proxy to measure the strength of state

public employee unions. It is argued that in a state where there is a strong union law,

public employee unions are strong and deter privatization. Whereas in a state where

union law is weak, unions are weak as well and encourage privatization (Lopez-de-

Silanes and Vishny, 1997). Strong or weak union laws refer primarily to the presence

or absence of collective bargaining protection in a given state. States where employee

unions have collective bargaining protection usually have strong union laws. The

"right to work" states usually have weak union laws. As such strong union laws are

coded as 1 and weak union laws are coded as 0. The information for this variable is

collected from the National Rights to Work Legal Defense Foundation website.

State Political Culture

Elazar (1984) defined political culture "as the historical sources of differences

in habits, perspectives, and attitudes that influence political life in the various states"

(p.110). The author identified three political cultures: moralistic, individualistic, and

traditionalistic. These political cultures are shown to influence state policymaking

(Breaux et al., 2000; Breaux and Morris, 2001; Soss et al., 2001; Breaux et al., 2007;

Price and Riccucci, 2005). Moralistic political culture embraces liberal philosophy,

and seeks to advance the collective welfare over narrow individual interest. On the

other hand, individualistic political culture is assumed to have conservative orientation and focuses largely on promoting individual self-interest, and view the market place as the best means to allocate values that benefit them; similarly, traditionalistic political culture is assumed to have conservative leanings and seeks to advance elite interests (Elazar, 1984; Dresand and Gosing, 2008). As such, moralistic culture is expected to discourage privatization, and individualistic culture is expected to promote privatization. Traditionalistic culture focuses on maintaining the status quo, but it can also be assumed to favor privatization. In this study, individualistic political culture is coded as 0, moralistic political culture is coded as 1, and traditionalistic political culture is coded as 2. These three categories are further recoded with two dummy variables in the runs of the ordinal logistic regression (OLR). Categorization of state political culture is taken from Elazar (1984).

Party Affiliation of the Governor Controlling State Government

Studies have shown that the governor controlling state government is associated with the level of state government privatization (GAO, 1997). Republican governors tend to follow conservative ideology and are shown to be more likely to encourage privatization than their Democratic counterparts who are commonly associated with liberalism (Nicholson-Crotty, 2004). Republican governor is coded as 0 and Democratic governor is coded as 1. The information for this variable is collected from the National Governors Association website, which includes information about party affiliation of the governor and terms of office for each state governor in 2002.

The Party Controlling the State Legislature

It is commonly assumed that the political party controlling or dominating the state legislature is more likely to affect state policy decision than the minority counterpart ((Freire, 2008; Nicholson-Crotty, 2004). The Republican Party is assumed to espouse conservative ideology and is largely associated with the privatization movement (Sclar, 2000). On the other hand, the Democratic Party is assumed to subscribe to liberal ideology and discourages privatization. In this study, Republican Party is coded as 0, Democratic Party is coded as 1, and split control is coded as 2. These categories are further recoded with two dummy variables in the runs of the ordinal logistic regression (OLR).The information for this variable is collected from the National Conference of State Legislatures.

State Policy Liberalism

The measure for this variable is taken from Erikson, Wright, and McIver (1993). State policy liberalism is defined as the policy preferences of state governments and is another name for government ideology; Erikson, Wright, and McIver (1993) developed state policy liberalism (government ideology) index by summing the standardized scores of the responses of 47 states to eight policy areas. The index runs from negative (-) 1.54 for most conservative to positive (+) 2.12 for most liberal.

State Ideology

State ideology (state citizens' ideology) reflects the policy preferences of the

citizens of a state, and it is found to have association with state policy choices (Berry

and Berry, 1992; Soss et al., 2001; Breaux et al., 2007). Scholars have developed a

measure of state ideology, which is "generally conceived as the mean position on a

liberal-conservative continuum of the active electorate" (Berry, Ringquist, Fording,

and Hanson, 1998, p. 327-328). Conservative states are coded as 0 (for all Southern

states) and liberal is coded as 1 (for all non-Southern states). This information is taken

from Berry and Berry (1992).

State Institutional Capacity

State institutional capacity refers to the ability of a state government to develop

and implement policy decisions, and is shown to be one of the determinants of state

policy decisions (Travis, Morris, and Morris, 2004). The information for this variable

is taken from Bowman and Kearney (1988) who developed measures of institutional

capacity based on factor scores in four categories: "accountability, centralization,

representation, coordination, and staffing and spending" (p.359). The factor scores in

the four categories are added to arrive at a composite measure for state institutional

variable. The composite index ranges from negative (-) 3.326 indicating very low

capacity to positive (+) 4.282 indicating very high capacity. The variable names,

abbreviations, sources, measurements and coding of variables are summarized in

Table 3.1 below

Table 3.1 Summary of Dependent and Independent Variables

Variable Name	Abbreviation	Source	Measurement (Coding of Variables)
Dependent Variable			
Level of State Government Privatization (2002)	LSGP	Council of State Governments (CSG)	Low (0), Medium (1), High (2) (Ordinal)
Independent Variables			
State Health Care Spending (2002)	SHCS	State & Local Govt Finance, US Census	Percentage of state budget/ total expenditure (Ratio)
State Pension Spending (2002)	SPS	State & Local Govt Finance, US Census	Percentage of state budget/ total expenditure (Ratio)
State Per-Capita Personal Income (2002)	SPCPI	State & Local Govt Finance, US Census	Dollar amount (Ratio)
State Labor Cost (2002)	SLC	State & Local Govt Finance, US Census	Labor cost as a percentage of state budget/total expenditure (Ratio)
State Per-Capita Spending (2002)	SPCS	State & Local Govt Finance, US Census	Per-capita dollar amount (Ratio)
State Fiscal Capacity* (2002)	SFC	State & Local Govt Finance, US Census	$100 <= 100$ Low (0), > 100 High (1) (Ordinal)
State Deficits (2002)	SDEF	State & Local Govt Finance, US Census	Percentage of state budget/ total expenditure (Ratio)
State Union Laws	SUL	National Rights to Work Legal Defense Foundation website	Weak (0); Strong (1) (Ordinal)
State Political Culture	SPC	Elazar (1984)	DSPC_IND = 0; other = 1 DSPC_MOR = 0; other = 1 (Nominal)
Party of Governor Controlling State Government (2002)	GCSG	National Governors Association website	Republican (0), Democratic (1) (Nominal)

Table 3.1 Continued

Variable Name	Abbreviation	Source	Measurement (Coding of Variables)
Party Controlling State Legislature (2002)	PCSL	National Conference of State Legislatures	DPCSL_R = 0; other = 1 DPCSL_D = 0; other = 1 (Nominal)
State Policy Liberalism	SPL	Erikson, Wright, McIver (1993)	Index ranges from -1.54 (most Conservative) to +2.12 (most Liberal) (Interval)
State Ideology	SID	Berry & Berry (1992)	Conservative (0), Liberal (1) (Nominal)
State Institutional Capacity	SIC	Bowman & Kearney (1988)	Index runs from -3.326 to +4.282 (Interval)

[*] State fiscal capacity is calculated in three steps. 1. Per-capita tax revenue (PCR)= total tax revenue divided by state population; 2. Average per-capita tax revenue (AVG.PCR) = the sum of all the per-capita tax revenue divided by 50 states. 3. Fiscal capacity is calculated by dividing per-capita tax revenue (PCR) by the average per-capita tax revenue (AVG.PCR), and then multiplying the result by 100. Based on this computation, 100 or less is considered to be low fiscal capacity and is coded as 0; 101 and above is considered to be high capacity and is coded as 1 (source: Price & Riccucci, 2005).

Data Analyses

The data collected and assembled are analyzed using SPSS program[*]. Four separate state comparative models (socioeconomic, economic, political, and ideology) and a combined model are tested using the ordinal logistic regression technique. Ordinal logistic regression is appropriate for this study because of the ordered nature of the dependent variable. Ordinal logistic regression model predicts the probabilities

[*] Statistical Packages for Social Sciences (SPSS) program version 20.0 has been used to run the statistical tests.

of outcomes for each case using the maximum likelihood method to estimate the

model's parameter coefficients without losing the information contained in the

ordering of the dependent variable. The Model Fitting Information, the Goodness-of-

Fit and the test of significance will be examined to determine the model fit and the

significant predictor variables. While ordinal logistic regression does not have an

equivalent to the R-squared that is found in OLS regression (the proportion of variance

of the dependent variable explained by the predictors), there is a number of pseudo-R-

squared statistics which need to be interpreted with caution. In this study, Nagelkerke

Pseudo R-Squared[*] will be examined to estimate the variance explained by each of the

models.

Data Screening

Prior to conducting multivariate analysis, the data has been screened for

possible errors. Data screening is the process of carefully reviewing and cleaning the

data to ensure quality so that valid conclusions can be drawn from the data; data

screening increases the likelihood of reducing data errors (Hatcher & Stepanski, 1994).

The data have been examined using frequency distributions for categorical variables

and descriptive statistics for quantitative variables. A frequency distribution

aggregates the number of cases with a given value and provides information about the

percentage or relative frequency distributions of the cases.

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[*]The Nagelkerke Pseudo R-Squared is selected because it has values between 0 and 1 and indicates whether the full/fitted model is a far better fit than the intercept/null model. In other words, if the full model (the model that included the predictor variables) perfectly predicts the outcome and has a likelihood of 1, then Nagelkerke R-Squared = 1. In contrast, Cox and Snell would have a maximum R-Squared value that is less than 1, and McFadden's R-squared is not commonly used because negative R-Squared is possible. Hence, the Nagelkerke Pseudo R-Squared is commonly used and is the most reported R-Squared estimate in logistic regression (Burns & Burns, 2008; Meyers, Gamst & Guarino, 2006).

For categorical variables, the values that correspond to the coded values for the possible categories were examined for accuracy. "When reviewing a frequency distribution, it is useful to think of these different values as representing categories to which a subject may belong" (Hatcher & Stepanski, 1994, p. 106). For quantitative variables, descriptive statistics were performed on each quantitative variable to generate the means, standard deviations, the minimum and maximum values. The ranges of values were examined to ensure that no cases had values outside the range of possible values (Mertler &Vannatta, 2010).

Missing Values

Missing values can bias the results of the data analyses because of loss of legitimate information that should be available (George & Mallery, 2001). Missing values were identified and corrected accordingly. Frequency table and descriptive statistics provided useful information in identifying missing values for both categorical and quantitative variables. Frequency table was used for categorical variables and descriptive statistics was used for quantitative variables. SPSS provides several options to replace missing data, such as replacing with median value or with the mean score of all other cases. However, replacing many missing values can bias the results and the replacement should be kept to a small number of cases; replacing a small number of cases has little influence on the outcome of the analyses (George & Mallery, 2001; Mertler &Vannatta, 2010). In this study, an investigation of the state data has shown that 15 of the 50 states had a large number of missing values and were

excluded from the study. Another case, Alaska, had an outlier and was deleted from the data set. The remaining 34 states had usable data and were used in this study.

Outliers

Ordinal logistic regression is sensitive to outliers, and data with extreme values were identified using frequency table and descriptive statistics. Outliers are extreme scores at one or both ends of a sample distribution and can adversely affect the results of the analyses (Mertler &Vannatta, 2010). "Outliers can exist in both univariate and multivariate situations, among dichotomous and continuous variables, and among IVs as well as DVs" (Mertler &Vannatta, 2010, p.27). The frequency table and the descriptive statistics allow deciphering the general distributions of values in the data cleaning process, and extreme values were identified and corrected either by deletion of cases or by recoding and transforming the data (Mertler &Vannatta, 2010). As indicated above Alaska was deleted from the data set because it had one variable (state per capita spending) that was found to be an outlier.

Normality

In this study ordinal logistic regression technique is employed to analyze the data. One of the advantages of using ordinal logistic regression is that it is flexible in its assumptions; "the predictors do not have to be normally distributed, linearly related, or have equal variances within each group" (Mertler &Vannatta, 2010, p. 290). However, in the data cleaning process, distribution diagnosis was made using frequency tables and descriptive statistics as well as graphical methods. For

categorical variables, bar graphs were generated, and for continuous variables, histograms were generated.

Multicollinearity

The data will be examined for multicollinearity. Correlations will be computed between the independent variables to identify the variables that are highly correlated (intercorrelations of .80 or higher) (Mertler &Vannatta, 2010). "Multicollinearity is a problem that arises when moderate to high intercorrelations exist among predictor variables to be used in a regression analysis" (Mertler &Vannatta, 2010, p. 163). The existence of highly correlated independent variables indicates that the two variables are measuring essentially the same thing; one of them can be deleted without losing real information (Mertler &Vannatta, 2010).

Limitations

This study employed pre-existing data from multiple sources to examine the factors that predict the level of state government privatization. There are a number of limitations to this study. One of the limitations involves the sample size; the data for the dependent variable are collected from a 50-state survey conducted by the Council of State Governments (CSG) in 2002. While the survey covered all the 50 states, only the data for 34 states are usable; the remaining 16 states have incomplete, missing, or outlier data and are excluded from the analysis. This limitation raises questions of external validity or generalizability because of the fact that results of the analysis for the 34 states cannot be generalized to all the 50 states.

However, using eight variables measured at interval/ratio scale, a t-test was performed to determine if there was a significant mean difference between the 16 excluded states and the 34 states that were included in this study; the result revealed that there was a statistically significant mean difference in per-capita personal income between the two groups. On the other seven measures, statistically significant difference was not found (see Appendix D). Since there was no systematic difference between the two groups and evidence of sample selection bias was not found, it is safe to assume that the results of this study can be generalized to all the 50 states.

Second, the data used are secondary and come from different sources, and the accuracy of the data cannot be verified. Third, history may affect external validity because the data collected for both the dependent and independent variables are for 2002, and some of the measures may have changed over time (O'Sullivan, Rassel, and Berner, 2003). Fourth, confounding variables may also impact the validity of the conclusion of this study; for example, while the selfish actions of politicians and bureaucrats are assumed to exist, their influences on the level of state government privatization cannot be directly detected, measured, and assessed.

Reliability of measures is also an issue in this study. While the data for the dependent variable and the 10 independent variables are from 2002, data for four independent variables are collected from different time periods; that is, data for state political culture, state policy liberalism, state ideology, and state institutional capacity variables are from 1984, 1993, 1992, and 1988 respectively; in this case the reliability of the measures become questionable. These limitations point to some of the potential weaknesses of this study. Although political culture, state policy liberalism, and state

ideology have been shown to change slightly over time, they are largely assumed to remain fairly consistent for a long period of time (Berry & Berry, 1992). State institutional capacity is expected to change over time as well, but for lack of recent data, the Bowman & Kearney (1988) index is utilized; while these variables may be assumed to change slightly over time, the focus of this study is to examine the level of state government privatization at a given point in time (2002) and is static in nature and does not attempt to measure changes over time. This static approach therefore minimizes the problem associated with the reliability of measures.

Delimitations

The scope of the statistical analysis of this study is limited to privatized services aggregated by four departments (correction, transportation, education, and health & human services) and does not investigate specific services or programs that are likely to be privatized by each department. Furthermore, this study simply focuses on the level of state government privatization, and the statistical investigation will not address the nature of the privatized services, the modes of privatization, the reasons why they were privatized, and whether the desired results were achieved or not. Also the study is confined by data collected in 2002 and does not attempt to look beyond the prescribed one-year time frame. Chapter IV provides the results of the data analyses. Chapter V presents the conclusions, the limitation of this study, and suggestions for future research.

CHAPTER IV

RESULTS OF THE DATA ANALYSIS

Introduction

Chapter III laid out the research design, the data collection method, and the analytical technique. This chapter presents the results of the data analyses in four separate sections. The first section provides an overview of the data diagnosis results, the second section reports the frequencies and descriptive statistics that included univariate and bivariate statistics and individual hypotheses tests. The third section presented the multivariate analyses of the four state comparative models (socioeconomic, economic, political, and ideological models) and a model of best fit that combined the significant predictor variables from each of the four models. The last section provides the chapter summary

Data Diagnosis Results

To determine the extent of missing values, outliers, and multicollinearity, frequency distribution and descriptive statistics were performed on both the dependent and independent variables using SPSS 20.0 program. The data screening process showed a missing value for one nominal independent variable, party controlling state legislature (PCSL), for Nebraska; this is so because the state of Nebraska has a unicameral legislature with nonpartisan control. The missing value represents less than three percent of the variable in question, namely, party controlling the state

legislature, and is not expected to affect the statistical test significantly. In fact, a preliminary statistical test of the political model, which contains the party controlling state legislature variable, was run with the missing value and then compared with the result of the model that was run without the missing value. The results were identical, and the case with the missing value (in this case Nebraska) is left in the dataset without further action.

The data screening analysis also revealed that two ratio level independent variables were positively skewed; state labor cost (SLC) (skew = 1.725) and state per-capita spending (SPCS) (skew = 3.445) were skewed in a positive direction. A log transformation of the variable state labor cost corrected the skew to the normal limit of between 0 and 1 (skew = .712). However, neither the log-transformed nor the non-transformed state labor cost variable was found to be a significant predictor of the dependent variable, and the original (the non-log transformed) form was kept in the dataset for ease of interpreting the coefficients (which are in log-odds units) generated by the ordinal logistic regression.

The log transformation of the state per-capita spending (SPCS) variable failed to correct the skewness to its normal limit. The skewness still remained slightly higher (skew = 1.762) than the normal limit. Alaska was the case that contributed to the positive skew with its state per-capita spending being $11,111.87 compared to the maximum state per-capita spending of $6,037.25 and the mean value of $4,292.67 for all other cases. The economic model that contains the state per-capita spending variable was run using the original value (the non-log transformed form) for Alaska. Then the model was run again using the log-transformed value. The results of the two

models were compared. In the former case, only the state deficit was significant; state fiscal capacity, state per-capita spending, and state labor cost were not significant. However, fiscal capacity and state per capita spending approached significance in a two-tailed test with a p-value of .050 and .088 respectively at p <.05. In the latter case, that is, with the log-transformed variable, only state labor cost was found not to be significant. The other three variables (state fiscal capacity, state deficit, and state per-capita spending) became unambiguously statistically significant.

However, the log-transformation did not completely remove the skewness of the state per-capita spending variable, and its use or inclusion in the model is expected to distort the results of the statistical test. In addition, the log-odds unit of the transformed variable poses difficulty in terms of interpreting the coefficients generated by the ordinal regression analysis because of the fact that the coefficients are also in log-odds units. To get around these two problems, the case that contributed to the skewness (Alaska) was removed from the dataset. A t-test was performed on state per capita spending by creating two dichotomous groups (one with Alaska included and another with Alaska removed) to determine if there are significant mean differences between the two groups in terms of their influence on the dependent variable. No significant difference was found.

While a significant influence did not exist between the two groups, Alaska was nonetheless removed from the dataset for subsequent statistical analysis. This was done because outliers can unduly influence the results of the statistical test causing some variables to be insignificant when in fact they are significant or vice versa (Mertler & Vannatta, 2010). As indicated above, the retention of Alaska caused two

out of the four variables in the economic model to be insignificant when in fact they were significant; for this reason Alaska is removed from the dataset. The undesirable consequence of this action is that the sample size would be reduced to 34 cases (states).

The diagnostic analysis of the continuous variables did not reveal problems with multicollinearity with collinearity statistics showing levels of tolerance ranging from .281 to .810 and variance inflation factor (VIF) ranging between 1.234 and 3.565. Values of tolerance greater than 0.1 and values of VIF less than 10 indicate that multicollinearity is not a problem (Mertler & Vannatta, 2010).

Descriptive Statistics

This section reports the frequencies and descriptive statistics for all the variables that include univariate and bivariate statistics. First, the frequency distributions and the associated percentages for the dependent variable are reported. Second, the summary statistics for all quantitative independent variables are reported. Third, the frequency distributions and percentages for all categorical variables are presented. Fourth, the bivariate results are presented.

Dependent Variable

The dependent variable is coded with three categories (low, medium, high), and the extent of the distributions are shown in Table 4.1 below. Out of the 34 states included in this study, twelve (35.3%) states are engaged in a low level of state government privatization, thirteen (38.2.0%) states are engaged in medium level of

state government privatization, and nine (26.5%) states are engaged in high level of

state government privatization.

Table 4.1
Dependent Variable: Level of State Government Privatization (LSGP)

Category	Frequencies (N)	%
Low	12	35.3
Medium	13	38.2
High	9	26.5
N (Total)	34	100.00

Quantitative Independent Variables

Summary statistics for all quantitative variables are presented in Table 4.2 below.

Table 4.2
Summary Statistics for Quantitative Independent Variables

Variable	Mean	Std.Dev.	Min.	Max.
Healthcare Spending % expend	3.43	1.22	1.70	5.84
Per-capita Personal Income	$32,.828.00	$4,394.00	$24,830.00	$43,980.00
Pension Spending % expend	7.11	1.96	3.68	12.04
Labor Cost % expend	15.55	3.49	10.06	27.90
Per-capita Spending	$4,292.67	$752.07	$3,174.31	$6,037.25
Deficit % expend	-4.13	11.14	-24.16	15.96
State Institutional Capacity	-0.15	1.80	-2.62	4.22
State Policy Liberalism	-0.16	0.88	-1.54	1.49

Categorical Independent Variables

Table 4.3 below presents the descriptive statistics for categorical independent variables. The frequency distribution reveals that eighteen (52.9 %) states have weak union laws and sixteen (47.1 %) states have strong union laws. The distribution of political culture shows that fourteen (41.2%) states are moralistic, ten (29.4%) states are individualistic, and ten (29.4%) states are traditionalistic. The distribution of party affiliation of governor controlling state government shows that sixteen (47.1%) states are Republican controlled and eighteen (52.9%) states are Democratic controlled. The distribution of the party controlling state legislature shows that sixteen (47.1%) states had Republican controlled legislatures, nine (26.5%) states had Democratic controlled legislatures, and eight (23.5%) states had split controlled legislatures. One state, Nebraska, has a missing value, which accounts for only 2.9%; Nebraska has a unicameral legislature with nonpartisan control and is not classified as Republican or Democratic. The state ideology distribution shows that eleven (32.4%) states are ideologically conservative and twenty three (67.6%) states are ideologically liberal.

Table 4.3
Summary Statistics for Categorical Independent Variables

Variable		% (N)	List of States
State Fiscal Capacity	Low	61.8 (21)	AZ, AR, FL, GA, ID, IL, IN, IA, KS, LA, MO, NE, NV, NH, OK, PA, SC, TN, TX, UT, WA
	High	38.2 (13)	CA, KY, MI, MT, NJ, NM, ND, OR, RI, SD, VT, WV, WY
State Union Laws*	Weak	52.9 (18)	AZ, AR, FL, GA, ID, IA, KS, LA, NE, NV, ND, OK, SC, SD, TN, TX, UT, WY
	Strong	47.1 (16)	CA, IL, IN, KY, MI, MO, MT, NH, NJ, NM, OR, PA, RI, VT, WA, WV
State Political Culture	Moralistic	41.2 (14)	CA, ID, IA, KS, MI, MT, NH, ND, OR, SC, SD, UT, VT, WA
	Individualistic	29.4 (10)	IL, IN, KY, MO, NE, NV, NJ, PA, RI, WY
	Traditionalistic	29.4 (10)	AZ, AR, FL, GA, LA, NM, OK, TN, TX, WV
Party of Governor Controlling State Government	Republican	47.1 (16)	AR, FL, GA, ID, LA, MT, NE, NV, NH, ND, RI, SC, SD, TX, UT, VT
	Democratic	52.9 (18)	AZ, CA, IL, IN, IA, KS, KY, MI, MO, NJ, NM, OK, OR, PA, TN, WA, WV, WY
Party Controlling State Legislature	Republican	47.1 (16)	AZ, FL, ID, IA, KS, MI, MO, MT, NH, ND, OR, SC, SD, TX, UT, WY
	Democratic	26.5 (9)	AR, CA, IL, LA, NM, OK, RI, TN, WV
	Split	23.5 (8)	GA, IN, KY, NV, NJ, PA, VT, WA
State Ideology	Conservative	32.4 (11)	AR, FL, GA, KY, LA, MO, OK, SC, TN, TX, WV
	Liberal	67.6 (23)	AZ, CA, ID, IL, IN, IA, KS, MI, MT, NE, NV, NH, NJ, NM, ND, OR, PA, RI, SD, UT, VT, WA, WY,

* Weak and strong union law categories are based on the states that have "the right to work" laws and states that do not have "the right to work" laws respectively.

Bivariate Analyses

Categorical Independent Variables

The bivariate relationships between the categorical variables and the dependent variable were computed using cross tabulations and measures of strength of association statistics. Cross-tabulations provide in tabular format the relationship between two or more categorical variables and allow a comparison of the proportion of subjects in different groups and their relative impact on the response variable (Plichta & Garzon, 2009; George & Mallery, 2001). Also, the strength of associations between each of the categorical independent variable and the dependent variable is examined using the measure that is appropriate for the level of measurement (ordinal or nominal). As such, in this study, the strength of associations between ordinal independent variables and the dependent variable, which is also ordinal, is measured using Sommer's d coefficients. The Sommer's d measure is used when both the dependent and independent variables are measured at ordinal level (Jones and Olson, 2005). The Sommer's d measure is also chosen because it is appropriate for use with a table of any size and can be used for hypotheses that specify directional relationships (Jones and Olson, 2005).

Similarly, Cramer's V can be used to measure the strength of associations between nominal predictor variables and ordinal dependent variable (George & Mallery, 2001; Jones and Olson, 2005). For example, Jones and Olson (2005) suggest using "this measure [Cramer's V] with any size table if at least one of the variables in a particular contingency table is nominal" (p.280). According to Jones and Olson

(2005), the measures of associations assume values ranging "from 0 to 1.0 for nominal-level data and from -1.0 to 1.0 for ordinal and metric levels of data" (p.278).

While the existence, direction, and strength of the relationships between the independent and the dependent variables are examined, the chi square test of significance is not performed because the data is not a probability sample. Jones and Olson (2005) note that "Statistical significance tests are premised on probability theory" (p.286). The data used for this study represent all the cases in the population of interest (in this case the 50 states), and "it is inappropriate to use statistical significance tests when [working] with the entire population in lieu of a sample of the population" (Jones and Olson, 2005, p.286); with this caveat, the results of the bivariate analyses are presented in the pages that follow.

State Fiscal Capacity

State fiscal capacity variable is measured at ordinal level and has low and high categories. The results of the bivariate analysis are shown in Table 4.4 below. An examination of the results of the column percent entries for low fiscal capacity shows that 42.9 percent of the states have low levels of state government privatization, 28.6 percent have medium levels of state government privatization, and 28.6 percent have high levels of state government privatization. Similarly, and examination of the column percent entries for high fiscal capacity show that 23.1 percent of the states have low levels of state government privatization, 53.8 percent have medium level of state government privatization, and 23.1 percent have high levels of state government privatization.

The percentages suggest that there is a strong association between state fiscal capacity and the levels of state government privatization, as measured by Sommer's d coefficient value of .543. According to Jones and Olson (2005), the coefficient value of .50 or higher is interpreted as having "substantial/strong or very strong relationship" (p.280) in a positive or negative direction between the independent and the dependent variables. As noted above, the Sommer's d measure is asymmetrical and allows considering the direction of the relationships when interpreting the values of the coefficients for ordinal variables. In this study, it was hypothesized that states with low fiscal capacity were more likely to have higher levels of state government privatization. The results show that, for most of the states, the associations were in the opposite direction than suggested by the hypothesized relationship.

As shown in Table 4.4 below, a majority of states (42.9 percent) with low fiscal capacity were associated with low level of state government privatization compared to only 23.1 percent of states with high fiscal capacity. Also, only 28.6 percent of states with low capacity were associated with medium level of state government privatization compared to a majority of states (53.8 percent) with high fiscal capacity. However, for the higher level of state government privatization category, the result appeared to be consistent with the hypothesized relationship; 28.6 percent of states with low fiscal capacity were associated with high level of state government privatization compared to only 23.1 percent of states with high fiscal capacity. Overall, however, the majority of states appeared to have relationships with the levels of state government privatization in the opposite direction than expected.

Table 4.4
Level of State Government Privatization (LSGP) by State Fiscal Capacity

Level of State Government Privatization	State Fiscal Capacity		
	Low N (%)	High N (%)	Total N (%)
Low	9 (42.9)	3 (23.1)	12 (35.3)
Medium	6 (28.6)	7 (53.8)	13 (38.2)
High	6(28.6)	3 (23.1)	9 (26.5)
Total	21 (100.0)	13 (100.0)	34 (100.0)

Somer's d = .543

State Union Laws

The state union laws variable is measured at ordinal level and has two

categories: weak and strong. As shown in Table 4.5 below, the results of bivariate

analysis indicate that 38.9 percent, 27.8 percent, and 33.3 percent of states with weak

union laws have low, medium, and high levels of state government privatization

respectively. On the other hand, 31.2 percent, 50.0 percent, and 18.8 percent of states

with strong union laws have low, medium, and high levels of state government

privatization respectively. The Somer's d coefficient value of .921 suggests that there

is a very strong association between state union laws and the levels of state

government privatization.

The direction of associations for state union laws variable is similar to that for

state fiscal capacity variable. It was hypothesized that weak union laws/power would

lead to higher levels of state government privatization; but, as shown in Table 4.5

below, the results suggest that 38.9 percent of states with weak union laws were

associated with low level of state government privatization compared to 31.2 percent

of states with strong union laws, which is in the opposite direction than expected. Also,

only 27.8 percent of states with weak union laws were associated with medium level

of state government privatization compared to 50.0 percent of states with strong union

laws. However, 33.3 percent of states with weak union laws were associated with high

levels of state government privatization compared to only 18.8 percent of states with

strong union laws, which is consistent with the stated hypothesis. Overall, for the

majority of states, the relationships with the levels of state government privatization

were in the opposite direction than suggested by the stated hypothesis.

Table 4.5
Level of State Government Privatization (LSGP) by State Union Laws

	State Union Laws		
Level of State Government Privatization	Weak N (%)	Strong N (%)	Total N (%)
Low	7 (38.9)	5 (31.2)	12 (35.3)
Medium	5 (27.8)	8 (50.0)	13 (38.2)
High	6(33.3)	3 (18.8)	9 (26.5)
Total	18 (100.0)	16 (100.0)	34 (100.0)

Somers'd = .921

State Political Culture

The state political culture variable has three categories: moralistic,

individualistic, and traditionalistic. The results of the bivariate analyses are presented

in Table 4.6 below. Looking at the percentages of column entries for state political

culture, the results indicate that 50.0 percent, 40.0 percent, and 10.0 percent of states

with individualistic political culture have low, medium, and high levels of state

government privatization respectively. The column percent entries for moralistic

culture show that 42.9 percent, 35.7 percent, and 21.4 percent of the states have low,

medium, and high levels of state government privatization. Similarly, the percent

entries for traditionalistic culture indicate that 10.0 percent, 40.0 percent, and 50.0

percent of states with traditionalistic culture have low, medium, and high levels of

state government privatization. Cramer's V value of .214 suggests that there is a weak

association between state political culture and the levels of state government

privatization.

Table 4.6
Level of State Government Privatization (LSGP) by State Political Culture

| Level of State Government Privatization | State Political Culture | | | |
	Individualistic N (%)	Moralistic N (%)	Traditionalistic N (%)	Total N (%)
Low	5 (50.0)	6 (42.9)	1 (10.0)	12 (35.3)
Medium	4 (40.0)	5 (35.7)	4 (40.0)	13 (38.2)
High	1(10.0)	3 (21.4)	5 (50.0)	9 (26.5)
Total	10 (100.0)	14 (100.0)	10 (100.0)	34 (100.0)

Cramer's V = .214

Party Affiliation of the Governor Controlling State Government

The party affiliation of the governor controlling state government variable has

two categories: Republican and Democratic. The results of the bivariate analyses are

presented in Table 4.7 below. The column percent entries for Republican show that

37.5 percent, 43.8 percent, and 18.8 percent of states with Republican governors have

low, medium, and high levels of state government privatization respectively. Similarly,

the column percent entries for Democratic governors show that states with an equal

percentage of 33.3 percent each have low, medium, and high levels of state

government privatization respectively. The Cramer's V value of .686 suggests that

there is a strong association between the party of governor controlling state

government and the levels of state government privatization.

Table 4.7
Level of State Government Privatization (LSGP) by Party of Governor
Controlling State Government

Level of State Government Privatization	Party of Governor Controlling State Government		
	Republican N (%)	Democratic N (%)	Total N (%)
Low	6 (37.5)	6 (33.3)	12 (35.3)
Medium	7 (43.8)	6(33.3)	13 (38.2)
High	3(18.8)	6 (33.3)	9 (26.5)
Total	16 (100.0)	18 (100.0)	34 (100.0)

Cramer's V = .686

The Party Controlling State Legislature

The party controlling state legislature variable has three categories: Republican,

Democratic, and split controls. As shown in Table 4.8 below, the column percent

entries for Republican category show that 37.5 percent of states with Republican

governors have low levels of state government privatization, and another 37.5 percent

and 25.0 percent have medium and high levels of state government privatization

respectively. The Democratic category shows that states with an equal percentage of

33.3 percent each have low, medium, and high levels of state government privatization

respectively. Also, the column percent entries for split control show that 37.5 percent

of states are in the low category of state government privatization, another 37.5

percent of states are in the medium category, and 25.0 percent are in the high category

of state government privatization. The Cramer's V value of .994 indicates that there is

a very strong relationship between party controlling state legislature and the level of

state government privatization.

Table 4.8
Level of State Government Privatization (LSGP) by Party Controlling State Legislature

| Level of State Government Privatization | Party Controlling State Legislature | | | |
	Republican N (%)	Democratic N (%)	Split Control N (%)	Total N (%)
Low	6 (37.5)	3 (33.3)	3 (37.5)	12 (36.4)
Medium	6 (37.5)	3 (33.3)	3 (37.5)	12 (36.4)
High	4(25.0)	3 (33.3)	2 (25.0)	9 (27.3)
Total	16 (100.0)	9 (100.0)	8 (100.0)	33 (100.0)

Cramer's V = .994

State Ideology

The state ideology variable has two categories: conservative and liberal. The

results of the bivariate analyses are presented in Table 4.9 below. The column percent

entries for conservative category show that 27.3 percent, 45.5 percent, and 27.3

percent of states with conservative ideology have low, medium, and high levels of

state government privatization respectively. Similarly, the column percent entries for

liberal category show that 39.1 percent, 34.8 percent, and 26.1 percent of states with

liberal ideology have low, medium, and high levels of state government privatization

respectively. The Cramer's V value of .896 suggests that there is a very strong

association between state ideology and the levels of state government privatization.

Table 4.9
Level of State Government Privatization (LSGP) by State Ideology

Level of State Government Privatization	State Ideology		
	Conservative N (%)	Liberal N (%)	Total N (%)
Low	3 (27.3)	9 (39.1)	12 (35.3)
Medium	5 (45.5)	8 (34.8)	13 (38.2)
High	3 (27.3)	6 (26.1)	9 (26.5)
Total	11 (100.0)	23 (100.0)	34 (100.0)

Cramer's V = .896

Hypotheses Tests of Independent Variables

This section presents the results of the statistics for fourteen hypotheses that

were operationalized using both quantitative and categorical measures. Ordinal

logistic regression with a logit link function was run to test the hypotheses. A

summary of the parameter estimates is provided for all the independent variables in

Table 4.10. The results of other statistical analyses are reported in the context of the

stated hypotheses. For the parameter estimates, the coefficients returned from an

ordinal logistic regression (OLR) are in log-odds units, and the interpretation of the

effect of a predictor variable on the dependent variable is also based on the ordered

log-odds estimate. However, the interpretation of the log-odds estimates of the

coefficients is not straightforward; for this reason, the odds ratio (exp (β)) estimate is

used to interpret the coefficients for statistically significant predictor variables.

Hypothesis 1: States with higher health care expenditures are more likely to have higher level of state government privatization than states with lower health care expenditures.

The model fitting information for the final model, the parameter of the model

for which the model fit is calculated, is not significant ($\chi2$ = .599, df = 1, p-value =

.439) at .05 level; this suggests that the inclusion of the state health care expenditure

variable in the model did not show an improvement over the intercept only model.

However, the Pearson and deviance statistics chi-square distributions (the goodness-

of-fit tests) were not statistically significant suggesting that the model adequately fits

the data (Pearson $\chi2$ = 58.626, df = 59, p-value = .489; Deviance, $\chi2$ = 63.953, df =

59, p-value = .307). Overall, only 2% (Nagelkerke Pseudo R^2 = .020) of the variation

in the dependent variable is explained by the predictor variable. Furthermore, with a

chi-square test value of .130 for the general model and an associated p-value of .729,

the test of parallel lines failed to reject the null hypothesis which states that there is no

difference in the coefficients across response categories. The result indicates that the

proportional odds assumption is not violated.

The results of the parameter estimates are shown in the summary Table 4.10. A

Wald statistics of .526 and associated p-value of .468 indicates that the state health

care expenditure variable is not found to be a statistically significant predictor of the level of state government privatization. However, the negative coefficient shows that the state health care expenditure variable has an inverse relationship with the low level of state privatization, which is consistent with the stated hypothesis. The result nonetheless suggests that the hypothesis is not supported.

Hypothesis 2: States with higher pension spending are more likely to have higher level of state government privatization than states with lower pension spending.

Although the model fitting information for the final model is not completely significant, it can be stated that it approaches significance ($\chi 2$ = 3.83, df = 1, p-value = .066) at .05 level. Nonetheless, the statistical result indicates that the inclusion of the state pension spending variable in the model did not show an improvement over the intercept only model. The Pearson and deviance statistics chi-square distributions were not statistically significant which indicate that the model adequately fits the data. (Pearson $\chi 2$ = 61.846, df = 63, p-value = .517; Deviance, $\chi 2$ = 67.760, df = 63, p-value = .318). Also about 11% (Nagelkerke Pseudo R^2 = .107) of the variation in the dependent variable is explained by the predictor variable. The chi-square test value of 2.128 for the general model and an associated p-value of .145 shows that the test of parallel lines failed to reject the null hypothesis and the proportional odds assumption is not violated.

The summary Table 4.10 presents the results of the parameter estimates. A Wald statistics of 3.012 and associated p-value of .083 indicates that the state pension spending variable approached significance at .05 level, but is not quite significant; this result is for a two-tailed test of significance; however, the hypothesis is directional,

and the variable state pensions spending is significant at p-value of .042 (.083 divided

by two) for a one-tailed test. Furthermore, the negative sign of the coefficient shows

that the influence of the state pension spending variable on the level of state

government privatization is in the expected direction as suggested by the hypothesis.

The result thus indicates that the hypothesis is supported. As such, the finding

suggests that states with higher pension spending, compared to states with low pension

spending, have .736 times more chances of having higher level of state government

privatization than lower level of privatization.

Hypothesis 3: States with higher per capita personal income are more likely to have
lower level of state government privatization than states with lower per capita personal
income.

The results of the OLR test shows that the model fitting information for the

final model is not significant ($\chi2$ = .841, df = 1, p-value = .359) at .05 level, which

suggests that the state per capita personal income variable did not show an

improvement over the intercept only model. The Pearson and deviance statistics chi-

square distributions were not statistically significant which indicate that the model

adequately fits the data. (Pearson $\chi2$ = 67.546, df = 65, p-value = .390; Deviance, $\chi2$ =

73.075, df = 65, p-value = .230). However, only 2.8% (Nagelkerke Pseudo R^2 = .028)

of the variation in the dependent variable is explained by the predictor variable. Also,

the chi-square test value of .002 for the general model and an associated p-value

of .967 shows that the test of parallel lines failed to reject the null hypothesis and the

proportional odds assumption is retained.

The summary Table 4.10 shows the results of the parameter estimates. A Wald statistics of .770 and associated p-value of .380 indicates that the state per capita personal income variable is not significant. However, the positive sign of the coefficient shows that the influence of state per capita personal income variable on the level of state government privatization is in the opposite direction than expected, and the hypothesis is not supported.

Hypothesis 4: States with higher labor costs are more likely to have higher level of state government privatization than states with lower labor costs.

The results of the model fitting information shows that the model is not significant ($\chi2$ = .077, df = 1, p-value = .782) at .05 level; this suggests that the state labor cost variable did not show an improvement over the intercept only model. The Pearson and deviance statistics chi-square distributions were not statistically significant which indicate that the model adequately fits the data. (Pearson $\chi2$ = 63.317, df = 63, p-value = .396; Deviance, $\chi2$ = 71.067, df = 63, p-value = .227). Only 0.3% (Nagelkerke Pseudo R^2 = .003) of the variation in the dependent variable is explained by the predictor variable. Also, the chi-square test value of .668 for the general model and an associated p-value of .414 shows that the test of parallel lines failed to reject the null hypothesis and the proportional odds assumption is not violated.

The summary Table 4.10 shows the results of the parameter estimates. A Wald statistics of .092 and associated p-value of .795 indicates that the state labor cost variable is not significant; and the negative coefficient shows that the state labor cost variable is inversely related to the level of state government privatization which is in the opposite direction than expected. The hypothesis is not supported. .

Hypothesis 5: States with higher per capita spending are more likely to have higher level of state government privatization than states with lower per capita spending.

Overall, the model is not significant ($\chi 2$ = .351, df = 1, p-value = .574) at .05 level; the result indicates that the state per capita spending variable did not show an improvement over the intercept only model. The Pearson and deviance statistics chi-square distributions were not statistically significant which indicate that the model adequately fits the data. (Pearson $\chi 2$ = 67.711, df = 65, p-value = .385; Deviance, $\chi 2$ = 73.601, df = 65, p-value = .217). Only 1% (Nagelkerke Pseudo R^2 = .010) of the variation in the dependent variable is explained by the predictor variable. Also, the test of parallel lines with the chi-square test value of .269 and p-value of .604 failed to reject the null hypothesis. As shown in the summary Table 4.10, a Wald statistics of .290 and a p-value of .590 indicate that the state per capita spending variable is not significant; and. the hypothesis is not supported.

Hypothesis 6: States with higher fiscal capacity are more likely to have lower level of state government privatization than states with lower fiscal capacity.

The statistical result shows that the state fiscal capacity variable has a direct relationship with the dependent variable, which is in the opposite direction than suggested by the hypothesis above. The influence of state fiscal capacity variable on the dependent variable is however insignificant. As shown in Table 4.10, a Wald test statistics of .308 with an associated p-value of .579 indicates that fiscal capacity variable is not found to be a statistically significant predictor of the level of privatization, and the hypothesis is not supported. Also, only 1.1% (Nagelkerke Pseudo R^2 = .011) of the variation in the dependent variable is explained by the

predictor variable. Overall, the model is not significant ($\chi2$ = .320, df = 1, p-value = .572) at .05 level; the result indicates that the state fiscal capacity variable did not show an improvement over the intercept only model. Similarly, the Pearson and deviance statistics chi-square distributions were not statistically significant indicating that the model fits the data adequately (Pearson $\chi2$ = 2.027, df = 1, p-value = .154; Deviance, $\chi2$ = 2.016, df = 1, p-value = .156). Also, the test of parallel lines with the chi-square test value of 2.016 and p-value of .156 failed to reject the null hypothesis and the proportional odds assumption is not violated.

Hypothesis 7: States with higher deficits are more likely to have higher level of state government privatization than states with lower deficits.

The result of the model fitting information for the final model shows that the model is not significant ($\chi2$ = .906, df = 1, p-value = .341) at .05 level, which suggests that the state deficits variable did not show an improvement over the intercept only model. The Pearson and deviance statistics chi-square distributions were not statistically significant indicating that the model fits the data adequately (Pearson $\chi2$ = 68.636, df = 65, p-value = .355; Deviance, $\chi2$ = 73.010, df = 65, p-value = .232). However, only 3% (Nagelkerke Pseudo R^2 = .030) of the variation in the dependent variable is explained by the predictor variable. Also, the chi-square test value of .001 for the general model and an associated p-value of .977 shows that the test of parallel lines failed to reject the null hypothesis and the proportional odds assumption is not violated. As shown in the summary Table 4.10, a Wald statistics of .977 and associated p-value of .327 indicates that the state deficits variable is not found to be a

statistically significant predictor of the level of state government privatization. The

result indicates that the hypothesis is not supported.

Hypothesis 8: States with weak union power are more likely to have higher level of
state government privatization than states with strong union power.

The model fitting information for the final model is not significant (χ^2 = .042,

df = 1, p-value = .838) at .05 level. The inclusion of the state union power variable in

the model did not show an improvement over the intercept only model. The Pearson

and deviance statistics chi-square distributions were not statistically significant

suggesting that the model adequately fits the data (Pearson χ^2 = 1.876, df = 1, p-value

= .171; Deviance, χ^2 = 1.893, df = 1, p-value = .169). Overall, only 1% (Nagelkerke

Pseudo R^2 = .001) of the variation in the dependent variable is explained by the

predictor variable.   A chi-square test value of 1.893 for the general model and an

associated p-value of .169 indicate that the test of parallel lines failed to reject the null

hypothesis and the proportional odds assumption is not violated.

The results of the parameter estimates are shown in the summary Table 4.10. A

Wald statistics of .042 and associated p-value of .838 indicates that the state union

power variable is not found to be a statistically significant predictor of the level of

state government privatization. However, the negative coefficient shows that the state

union power variable has an inverse relationship with the low level of state

government privatization which is consistent with the stated hypothesis. The result

nonetheless suggests that the hypothesis is not supported.

Hypothesis 9: States with individualistic/traditionalistic political culture are more likely to have higher level of state government privatization than states with moralistic political culture.

The model fitting information for the final model is significant ($\chi2$ = 6.071, df = 2, p-value = .048) at .05 level. The inclusion of the state political culture variable in the model showed an improvement over the intercept only model. The Pearson and deviance statistics chi-square distributions were not statistically significant suggesting that the model adequately fits the data (Pearson $\chi2$ = .400, df = 2, p-value = .819; Deviance, $\chi2$ = .405, df = 2, p-value = .817). Overall, 18.4 % (Nagelkerke Pseudo R^2 = .184) of the variation in the dependent variable is explained by the predictor variable. Furthermore, a chi-square test value of .405 for the general model and an associated p-value of .817 indicate that the test of parallel lines failed to reject the null hypothesis and the proportional odds assumption is not violated.

The results of the parameter estimates are shown in the summary Table 4.10. With a Wald statistics of 4.896 and an associated p-value of .027, the individualistic political culture was found to be a statistically significant predictor of the level of state government privatization, but in the opposite direction than expected and the hypothesis was not supported. The significant result suggests that states with an individualistic political culture, compared to traditionalistic political culture, have 7.42 times decreased chances of having a higher level of state government privatization than a lower level of state government privatization. Similarly, with a Wald statistics of 3.624 and associated p-value of .057, the moralistic political culture approached significance at .05 level of significance. Therefore, the hypothesis is supported, and states with a moralistic political culture, compared to traditionalistic political culture,

have 4.768 times greater chances of having a lower level of state government

privatization than a higher level of state government privatization.

Hypothesis 10: States with Republican governors are more likely to have higher level of state government privatization than states with Democratic governors.

The model fitting information for the final model is not significant ($\chi2$ = .451,

df = 1, p-value = .502) at .05 level. The inclusion of the governor controlling state

government variable in the model did not show an improvement over the intercept

only model. The Pearson and deviance statistics chi-square distributions were not

statistically significant suggesting that the model adequately fits the data (Pearson $\chi2$ =

.526, df = 1, p-value = .468; Deviance, $\chi2$ = .528, df = 1, p-value = .467). Overall,

only 1.5% (Nagelkerke Pseudo R^2 = .015) of the variation in the dependent variable is

explained by the predictor variable. The test of parallel lines with a chi-square test

value of .528 and an associated p-value of .467 was not found to be significant and

failed to reject the null hypothesis and the proportional odds assumption is retained.

As shown in the summary Table 4.10, the results of the parameter estimates with a

Wald statistics of .426 and associated p-value of .504 indicates that the governor

controlling state government is not found to be statistically significant, and the

hypothesis is not supported.

Hypothesis 11: States with Republican-controlled legislature are more likely to have higher level of state government privatization than states with Democratic-controlled legislature.

The model fitting information for the final model was not significant ($\chi2$ =

.152, df = 2, p-value = .927). The inclusion of the party controlling state legislature

variable in the model did not improve the intercept only model. The Pearson and

deviance statistics chi-square distributions were not statistically significant indicating

that the model adequately fits the data (Pearson χ^2 = .264, df = 2, p-value = .876;

Deviance, χ^2 = .264, df = 2, p-value = .876). Overall, only .5% (Nagelkerke Pseudo R^2

= .005) of the variation in the dependent variable is explained by the predictor

variable. The test of parallel lines with a chi-square test value of .264 and an

associated p-value of .876 was not found to be significant and failed to reject the null

hypothesis and the proportional odds assumption was not violated; the summary Table

4.10 shows the results of the parameter estimates. With a Wald statistics of .003 and

associated p-value of .953, the Republican Party was found to be insignificant

compared to the split control. Similarly, with a Wald statistics of .083 and a p-value of

.773, the Democratic Party was insignificant compared to a split control. Therefore,

the hypothesis is not supported.

Hypothesis 12: States with conservative government policy are more likely to have higher level of state government privatization than states with liberal government policy.

The result of the model fitting information for the final model shows that the

model is not significant (χ^2 = .246, df = 1, p-value = .620) at .05 level, which suggests

that the inclusion of state (government) policy liberalism variable in the model did not

show an improvement over the intercept only model. The Pearson and deviance

statistics chi-square distributions were not statistically significant indicating that the

model fits the data adequately (Pearson χ^2 = 68.658, df = 61, p-value = .234;

Deviance, χ^2 = 73.670, df = 61, p-value = .128), but only .8% (Nagelkerke Pseudo R^2

= .008) of the variation in the dependent variable is explained by the predictor

variable. As shown in the summary Table 4.10, a Wald statistics of .263 and

associated p-value of .608 indicates that the state (government) policy liberalism

variable is not found to be a statistically significant predictor of the level of

privatization which also indicates that the hypothesis is not supported.

However, with a chi-square test value of 7.024 and an associated p-value

of .008, the test of parallel lines was significant, which indicates that the null

hypothesis is rejected and the proportional odds assumption is violated. A multinomial

regression was run to test the hypothesis, but the variable failed to achieve statistical

significance and the result is similar to that for ordinal logistic regression; therefore

the result of the ordinal logistic analysis is retained.

Hypothesis 13: States with conservative state ideology are more likely to have higher
level of state government privatization than states with liberal state ideology.

The result of the model fitting information for the final model was not

significant ($\chi2$ = .223, df = 1, p-value = .637) at .05 level, which suggests that the

inclusion of the state ideology variable in the model did not show an improvement

over the intercept only model. But the Pearson and deviance statistics chi-square

distributions were not statistically significant which indicate that the model fits the

data adequately (Pearson $\chi2$ = .309, df = 1, p-value = .578; Deviance, $\chi2$ = .307, df =

1, p-value = .580). Overall, only 0.7% (Nagelkerke Pseudo R^2 = .007) of the variation

in the dependent variable is explained by the predictor variable. The test of parallel

lines with a chi-square test value of .307 and an associated p-value of .580 was not

found to be significant and failed to reject the null hypothesis and the proportional

odds assumption was not violated. Also, the summary Table 4.10 shows the results of the parameter estimates. With a Wald statistics of -.316 and associated p-value of .641, the state ideology variable is not found to be a statistically significant predictor of the level of privatization, and the hypothesis is not supported.

Hypothesis 14: States with higher institutional capacity are more likely to have lower level of state government privatization than states with lower institutional capacity.

The statistical result shows that the state institutional capacity variable has a negative relationship with the dependent variable as expected, but its influence on the dependent variable was insignificant. As shown in the summary Table 4.10 below, a Wald test statistics of .015 and an associated p-value of .902 suggest that the state institutional capacity variable is not found to be a statistically significant predictor of the level of state government privatization, and the hypothesis is not supported. The model fitting information also shows that the final model that included the predictor variable was not significant; this suggests that the inclusion of the state institutional capacity variable in the model did not show an improvement over the intercept only model. Likewise, the goodness-of-fit test result shows that the model fits the data adequately; the Pearson and deviance statistics chi-square distributions were not statistically significant (Pearson $\chi2$ = 68.108, df = 65, p-value = .372; Deviance, $\chi2$ = 73.901, df = 65, p-value = .210). However, only .1% (Nagelkerke Pseudo R^2 = .001) of the variation in the dependent variable is explained by the predictor variable.

The test of parallel lines turned out to be significant with a chi-square test value of 4.192 and an associated p-value of .041. The result suggests that the null hypothesis is rejected and the proportional odds assumption is violated. A multinomial

regression was run to test the hypothesis for state institutional capacity variable, but the test failed to achieve statistical significance as predictor of the level of state government privatization. Therefore, the ordinal logistic regression result is retained.

Table 4.10
Bivariate Ordinal Logistic Regression: Parameter Estimates of Independent Variables

Hypotheses	Variable	β	S.E.	Wald	df	Sig.	Exp(β)
H1	Health Care Spending	-.193	.268	.526	1	.468	.824
H2	Per-Capita Personal Income	.065	.075	.770	1	.380	1.067
H3	Pension Spending	-.306	.176	3.012	1	.083[**]	.736
H4	Labor Cost	-.024	.092	.068	1	.795	.976
H5	Per-Capita Spending	-.023	.043	.290	1	.590	.977
H6	Fiscal Capacity (High)	-.363	.653	.308	1	.579	.696
H7	State Deficit	-.029	.029	.977	1	.323	.971
H8	State Union Law (weak)	-1.30	.634	.042	1	.838	.273
H9	Political Culture (Ind.)	2.004	.905	4.896	1	.027[*]	7.42
	Political Culture (Mor.)	1.562	.821	3.624	1	.057[**]	4.768
H10	Governor of State Govt.(R)	.426	.638	.447	1	.504	1.531
H11	Party Cont. State Legist.(R)	.046	.770	.003	1	.953	1.047
	Party Cont. State Legist (D)	-.251	.870	.083	1	.773	.778
H12	Policy Liberalism	.188	.367	.263	1	.608	1.207
H13	State (Citizens) Ideology	-.316	.677	.217	1	.641	.729
H14	Institutional Capacity	.022	.178	.015	1	.902	1.022

* Significant at .05 level (two-tailed); ** significant at .05 level (one-tailed).

Multivariate Analyses

This section reports the results of the four comparative models (socioeconomic, economic, political, and ideology) and a fifth model of best fit that combined all the significant predictor variables from each of the four models. As noted, the level of state government privatization is the dependent variable and is coded with three ordinal levels: 0 = low, 1 = medium, 2 = high. However, since OLR takes the highest number as a reference category be default, the dependent variable is recoded to 0 = high, 1 = medium, and 2 = low for ease of interpreting the ordinal logistic regression analysis.

Before constructing each factor model, correlation analysis was performed for the interval/ratio level independent variables. The results of the correlation analysis did not reveal serious problem of multicollinearity (where $r = >.80$). While there is no serious multicollinearity among the independent variables, a close examination of the correlation results shows the existence of low to moderate correlations between some of the independent variables. As shown in Table 4.11 below, the following variables have low to moderate correlations.

The state deficit (SDEF) variable is negatively correlated with a relatively low level of significance with the state health care spending (SHCS) variable ($r = -.367$, $p< .05$). The state (government) policy liberalism (SPL) variable is positively correlated with the per capita personal income (SPCPI) variable with a relatively low level of significance ($r = .376$, $p < .05$), the state per capita spending (SPCS) variable with a relatively modest level of significance ($r = .460$, $p<.01$), and the state institutional capacity (SIC) variable with a relatively modest level of significance (r

=.597, p<.01). In addition, state institutional capacity variable is slightly significantly correlated positively with state per-capita personal income (r = .441, p < .01), and negatively with the state labor cost (SLC) (r = -.393, p < .05).

Table 4.11
Correlations Matrix: Quantitative Independent Variables

	Health Care Spending % Expend.	Per-Capita Personal Income	Pension Spending % Expend	Labor Cost % Expend	Per-Capita Spending	Deficit % Expend	Policy Liberalism	Institutional Capacity
Health Care Spending % Expend.	1							
Per-Capita Personal Income	.139	1						
Pension Spending % Expend	-.093	.198	1					
Labor Cost % Expend	.023	-.258	-.034	1				
Per-Capita Spending	-.122	-.034	-.117	-.077	1			
Deficit % Expend	-.367* (.05)	-.016	.268	.040	.148	1		
Policy Liberalism	.198	.376* (.05)	.092	-.119	.460** (.01)	.032	1	
Institutional Capacity	.268	.441** (.01)	-.100	-.393* (.05)	.157	-.020	.597** (.01)	1

*. Correlation is significant at the 0.05 level (one-tailed).
**. Correlation is significant at the 0.01 level (one-tailed).

Results of the Model Analyses

The ordinal regression results of each of the four factor models and the model of best

fit are presented below.

Socioeconomic Model

The socioeconomic model examined the joint effects of state healthcare

expenditure, state pension expenditure, and state per capita personal income variables.

The model fitting information (the likelihood ratio) provided a chi-square test value of

7.155 with an associated p-value of .067 for the final model (the model that included

the three predictor variables) and approached significance at .05 level of significance,

two-tailed test. However, the hypothesis is directional, and the model is significant

with a p-value of .034 at.05 level of significance, one-tailed test. The result indicates

that the combined model is better than the intercept only model. The Pearson and

deviance statistics chi-square distributions (the goodness-of-fit tests) were not

statistically significant suggesting that the model adequately fits the data (Pearson $\chi 2$ =

63.516, df = 63, p-value = .458; Deviance, $\chi 2$ = 66.761, df = 63, p-value = .349).

Overall, 21.4% (Nagelkerke Pseudo R^2 = .214) of the variation in the dependent

variable is explained by the predictor variables included in the model. Furthermore,

with a chi-square test value of 2.129 for the general model and an associated p-value

of .546, the test of parallel lines failed to reject the null hypothesis which states that

there is no difference in the coefficients across response categories. The result

indicates that the proportional odds assumption is not violated. As shown in Table

4.12 below, only state pension spending is significant by controlling for health care spending and per capita income variables.

Table 4.12
Ordinal Logistic Regression: Socioeconomic Model

Variable	β (Estimate)	S.E.	Wald	df	Sig.	Exp(β) ODDS RATIO
Health Care Spending	-0.343	.284	1.465	1	.226	.709
Pension Spending	-0.423	.195	4.717	1	.030*	.655
Per-Capita Income	0.122	.080	2.319	1	.128	1.129

$R^2 = .214$; * P ≤.05

Economic Model

The economic model examined the joint effects of state labor cost, state per capita spending, state fiscal capacity, and state deficits variables. The likelihood ratio chi-square test value of 8.556 with an associated p-value of .073 indicate that the model approached significance at .05 level, two-tailed test, but it is unambiguously significant for a one-tailed test. The result suggests that the combined model is an improvement over the intercept only model. The Pearson and deviance statistics chi-square distributions were not statistically significant suggesting that the model adequately fits the data (Pearson $\chi2$ = 69.723, df = 62, p-value = .234; Deviance, $\chi2$ = 65.360, df = 62, p-value = .361). Overall, about 25% (Nagelkerke Pseudo R^2 = .251) of the variation in the dependent variable is explained by the predictor variables included in the model. Furthermore, a chi-square test value of 2.129 for the general

model and an associated p-value of .546 indicate that the test of parallel lines failed to reject the null hypothesis and the proportional odds assumption is not violated. As shown in Table 4.13 below, state per capita spending, state fiscal capacity, and state deficit turned out to be significant when each is evaluated by controlling for the other three variables in the model.

Table 4.13
Ordinal Logistic Regression: Economic Model

Variable	β (Estimate)	S.E.	Wald	df	Sig.	Exp(β) ODDS RATIO
Labor Cost	-.062	.097	.402	1	.526	.939
Per-Capita Spending	.180	.078	5.391	1	.020*	1.197
Fiscal Capacity (High)	-3.714	1.470	6.383	1	.012*	.024
Deficit	.100	.045	4.874	1	.027*	1.105

$R^2 = .251$; *$P \leq .05$

Political Model

The political model examined the joint effects of four variables: state union laws, state political culture, the party of governor controlling state government, and the party controlling state legislature. The likelihood ratio chi-square test value of 8.963 and a p-value of .176 for the final model suggest that the combined model is not better than the intercept model. However, the model fits the data adequately (Pearson $\chi2 = 30.346$, df = 30, p-value = .448; Deviance, $\chi2 = 34.995$, df = 30, p-value = .243), and about 26% (Nagelkerke Pseudo $R^2 = .261$) of the variation in the dependent

variable is explained by the predictor variables included in the model. The test of

parallel lines with a chi-square test value of 10.077 and an associated p-value of .121

is insignificant and failed to reject the null hypothesis, and the proportional odds

assumption is not violated. As shown in Table 4.14 below, only the political culture

variable (both individualistic and moralistic) is significant by controlling for the other

predictor variables included in the model.

Table 4.14
Ordinal Logistic Regression: Political Model

Variable	β (Estimate)	S.E.	Wald	df	Sig.	Exp(β) ODDS RATIO
Union Laws (Weak)	.575	.857	.450	1	.502	1.777
Political Culture (Individualistic)	3.120	1.212	6.621	1	.010*	22.646
Political Culture (Moralistic)	2.236	1.099	4.136	1	.042*	9.356
Party of Governor (R)	.626	.772	.656	1	.418	1.870
Party Controlling Legislature (R)	.606	.989	.376	1	.540	1.833
Party Controlling Legislature (D)	1.474	1.128	1.908	1	.191	4.367

$R^2 = .261$; *P $\leq$ 05

Ideology Model

The ideology model examined the joint effects of state (government) policy

liberalism, state (citizens) ideology, and state institutional variables. With a likelihood

ratio chi-square test value of 1.052 and an associated p-value of .789, the model turned

out to be insignificant, suggesting that the combined model did not show an

improvement over the intercept only model. The Pearson and deviance statistics chi-

square distributions were not statistically significant, which indicates that the model

fits the data adequately (Pearson $\chi2$ = 70.407, df = 63, p-value = .244; Deviance, $\chi2$ =

72.864, df = 63, p-value = .185). Overall, only 3.4 % (Nagelkerke Pseudo R^2 = .034)

of the variation in the dependent variable is explained by the predictor variables in the

model. However, with a chi-square test value of 16.401 and an associated p-value

of .001, the test of parallel lines rejected the null hypothesis which states that there is

no difference in the coefficients across response categories. The result thus indicates

that the proportional odds assumption is violated. Furthermore, as shown in Table

4.15 below, all the variables included in the model failed to achieve statistical

significance.

Table 4.15
Ordinal Logistic Regression: Ideology Model

Variable	β (Estimate)	S.E.	Wald	df	Sig	Exp(β) ODDS RATIO
State Policy Liberalism	-.446	.512	.759	1	.384	.640
State Ideology (Conservative)	-.711	.797	.796	1	.372	.491
State Institutional Capacity	.031	.224	.019	1	.890	1.031

R^2 = .034

Model of Best Fit

The chi-square test value of 17.764 and an associated p-value of .007 indicates

that the combined model of best fit showed an improvement over the intercept only

model. The Pearson and deviance statistics chi-square distributions were not

statistically significant, indicating that the model fits the data adequately (Pearson $\chi2$ =

64.364, df = 60, p-value = .326; Deviance, χ2 = 56.153, df = 60, p-value = .617). Also, with a chi-square test value of 7.157 and an associated p-value of .307, the test of parallel lines failed to reject the null hypothesis, suggesting that the proportional odds assumption is not violated. Furthermore, as shown in Table 4.16 below, in the combined model of best fit, state pension spending (Wald = 5.359, p = .021), and state fiscal capacity (Wald = 5.595, p = .018), were significant in the expected direction.. Also, state deficits (Wald = 4.775, p = .029), and individualistic political culture (Wald = 3.901, p = .048) were significant, but in the opposite direction than expected.. But the moralistic political culture and the state per-capita spending variables were insignificant in the combined model of best fit. Overall, about 46% (Nagelkerke Pseudo R^2 = .459) of the variations in the dependent variable is explained by the model of the best fit, which is much higher than the variations explained by each of the four previous models.

Table 4.16
Ordinal Logistic Regression Model: Model of Best Fit

Variable	β (Estimate)	S.E.	Wald	df	Sig.	Exp (β) ODDS RATIO
Pension Spending	-.502	.217	5.359	1	.021*	.605
Per-Capita Spending	.140	.084	2.777	1	.096	1.150
Fiscal Capacity(High)	-3.587	1.516	5.595	1	.018*	.028
Deficit	.112	051	4.775	1	.029*	1.119
Political Culture (Individualistic)	2.019	1.022	3.901	1	.048*	7.531
Political Culture (Moralistic)	1.034	.954	1.175	1	.278	2.812

R^2 = .459; *P ≤05

Chapter Summary

The introduction section of this chapter laid out the statistical tests to be performed and the order in which the results would be presented. Accordingly, the first section provided the results of the data diagnostic test followed in the second section by the report of the frequencies and descriptive statistics that included univariate and bivariate statistics and individual hypotheses tests. The third section presented the multivariate analyses of the four state comparative models.

The data diagnostic analysis showed one missing value and one outlier, and these problems were corrected for subsequent bivariate and multivariate analyses. The crosstab analysis revealed the existence of strong relationships between the state fiscal capacity categories and the level of state government privatization, as measured by Sommer's d coefficient value of .543; but for most of the states, the relationships were in the opposite direction than suggested by the hypothesized relationship. Similarly, state union law categories were found to have very strong relationships with the level of state government privatization, as measured by Somer's d coefficient value of .921. Overall, for the majority of states, the relationships were in the opposite direction than expected.

However, with Cramer's V value of .214, the relationships between the state political culture categories and the level of state government privatization were found to be weak. Also, the Cramer's V value of .686 showed the existence of strong relationships between the categories of the party of governor controlling state government and the level of state government privatization. As measured by the

Cramer's V value of .994, the relationships between the party controlling state legislature categories and the level of state government privatization were very strong. The relationships between the state ideology categories and the level of state government privatization were also very strong as measured by the Cramer's V value of .896. The results of the hypotheses tests for individual variables revealed that all the variables, with the exception of state pension spending and individualistic political culture, were insignificant. The state pension spending variable was significant at .05 levels of significance in one-tailed test in the expected direction. The individualistic political culture was also significant, but in the opposite direction than expected. The hypotheses and the test results are summarized in Table 4.17 below.

Also, the multivariate analyses of the socioeconomic, economic, political, and ideology models and a model of best fit were examined. The results revealed that the socioeconomic model was better than the intercept/base model, and explained about 21.4% of variations in the dependent variable. The economic model also showed an improvement over the intercept/base model, and explained 25% of the variations in the dependent variable. However, both the political model and the ideology model were not better than the intercept/base only model; the political model explained about 29% of the variations in the dependent variable, but only 3.4% of the variations in the dependent variable were explained by the ideology model. Furthermore, a combined model of best fit that included the significant variables from the previous four models was run. The combined model was significant and showed an improvement over the intercept/base model and explained about 46% of the variance in the dependent variable.

Table 4.17

Summary of the Hypotheses Testing and Findings

	Hypotheses	Test Result	Supported/Not Supported
1	States with higher health care expenditures are more likely to have higher level of state government privatization than states with lower health care expenditures.	Insignificant	Not Supported
2	States with higher pension spending are more likely to have higher level of state government privatization than states with lower pension spending.	Significant	Supported
3	States with higher per capita personal income are more likely to have lower level of state government privatization than states with lower per capita personal income.	Insignificant	Not Supported
4	States with higher labor costs are more likely to have higher level of state government privatization than states with lower labor costs.	Insignificant	Not Supported
5	States with higher per capita spending are more likely to have higher level of state government privatization than states with lower per capita spending.	Insignificant	Not Supported
6	States with higher fiscal capacity are more likely to have lower level of state government privatization than states with lower fiscal capacity	Insignificant	Not Supported
7	States with higher deficit are more likely to have higher level of state government privatization than states with lower deficits.	Insignificant	Not Supported
8	States with weak union power are more likely to have higher level of state government privatization than states with strong union power	Insignificant	Not Supported
9	States with individualistic/traditionalistic political culture are more likely to have higher level of state government privatization than states with moralistic political culture.	Significant	Not Supported
10	States with Republican governors are more likely to have higher level of state government privatization than states with Democratic governors	Insignificant	Not Supported
11	States with Republican-controlled legislatures are more likely to have higher level of state government privatization than states with Democratic-controlled legislatures.	Insignificant	Not Supported

Table 4.17 Continued

	Hypotheses	Test Result	Supported/Not Supported
12	States with conservative policy (government ideology) are more likely to have higher level of state government privatization than states with liberal policy	Insignificant	Not supported
13	States with conservative state ideology (citizens' ideology) are more likely to have higher level of state privatization than states with liberal state ideology.	Insignificant	Not Supported
14	States with high institutional capacity are more likely to have lower level of state government privatization than states with low institutional capacity	Insignificant	Not Supported

CHAPTER V

CONCLUSION

Introduction

This study examined the factors that influence the level of state government

privatization. Chapter IV reported the results of the statistical analyses that included

frequencies, descriptive statistics, bivariate and multivariate analyses. This chapter

presents a summary of the study, summary and discussion of the findings, policy

implications, limitations and delimitations, contribution of this study, as well as

recommendations for future study and the conclusion.

Summary of the Study

This study attempted to answer the research question: What factors predict the

level of state government privatization? The survey conducted by the Council of State

Governments (CSG) in 2002 provided the data for the dependent variable, which was

constructed based on the responses of state agency heads to the CSG's question: "How

many services and programs in your agency are currently privatized?" The responses

were ordinal in nature, and the dependent variable was transformed and recoded with

three ordinal levels of low, medium, and high. The literature review guided the

selection of the factors that were thought to be the likely drivers of the amount of

privatization that state governments undertake. As such, socioeconomic, economic,

political, and ideological factors were theorized as having considerable influences on

the level of state government privatization, and fourteen hypotheses were tested. Also

four models were developed and tested and analyzed using quantitative method. Specifically, data for eight quantitative and six categorical variables were compiled and analyzed for each of the final 34 states included in this study.

After the data were collected, assembled, and cleaned, bivariate and multivariate analyses were conducted. Correlation and crosstab statistics were performed on quantitative and categorical variables respectively, and ordinal logistic regression was employed for the multivariate analysis to answer the overarching research question of this study, namely, what factors predict the level of state government privatization? The purpose was achieved by developing and testing fourteen hypotheses and examining four models: socioeconomic, economic, political, and ideology models. A fifth model of best fit that included five significant variables from the four models was run to determine the variables that reemerge as significant predictors of the level of state government privatization (the dependent variable).

Summary and Discussion of the Findings

Fourteen hypotheses were developed and tested using ordinal logistic regression to answer the overarching question: What factors predict the level of state government privatization? The bivariate ordinal regressions indicated that only two (state pension spending and state political culture) of the 14 explanatory variables were found to have statistically significant associations with the level of state government privatization (the dependent variable), but individualistic political culture was significant in the opposite direction than expected; thus only state pension

spending hypothesis was supported. These results are summarized and discussed below.

Hypothesis 1: States with higher health care expenditures are more likely to have higher level of state government privatization than states with lower health care expenditures.

The statistical results failed to support this hypothesis. As indicated in the review of the literature, state policymakers sought to reform health care services to control the rising costs as well as to expand access to citizens (Dye, 1998); as a result many states privatized some of their health care services as a cost saving mechanism (Chi, Arnold, & Perkins, 2004). But the hypothesis in this study was not supported perhaps because the negative impact of health care expenditure on state fiscal conditions might have been mitigated by the support states receive from the federal government.

The data used for the state health care expenditure variable are the aggregate expenditure on health care services, and does not distinguish between Medicaid and other types of services that states might be providing to their citizens. However, it is commonly known that Medicare is designed for the aged (elderly) and is directly under the purview of the federal government; whereas, in the case of Medicaid, both the federal and state governments share the financial burden of the program; that is, the federal government is responsible for about half of the cost of the program (Dye, 1998). Moreover, since the program (Medicaid) was designed for the needy or poor people, some politicians, advocates for the poor, and other interest groups might have expressed concerns that the recipients of the benefits might not be well served by

private providers; as such, policymakers might have recognized the need to exercise caution in terms of engaging in large scale privatization of health care services to avoid undesirable social and political consequences. This reasoning perhaps explains why there were fewer services privatized in the Health and Human Services (HHS) category compared to corrections, education, and transportation categories.

Hypothesis 2: States with higher pension spending are more likely to have higher level of state government privatization than states with lower pension spending.

This hypothesis was supported by both the bivariate and multivariate analyses. The review of the literature revealed that the majority of public pension plans is underfunded or unfunded and has constrained states' ability to finance their public pensions and health care expenditures (CSG, 2007). As a response to the growing fiscal crises, state officials have been engaged, among other things, in the privatization of services when feasible (CSG, 2007; Edwards, 2010). The result of this statistical test supports the hypothesis that pension spending is indeed positively and significantly associated with the level of state government privatization. Although the state employee pension system has been designed to alleviate the financial hardships of retirees and has been an integral part of state programs since the Great Depression (Boivie and Almeida, 2009; Munnell, Aubry, and Muldoon, 2008), the result of this study suggests that the growth in pension spending may require state policymakers to rethink their priorities and focus their attention on alleviating the fiscal crises.

Hypothesis 3: States with higher per capita personal income are more likely to have lower level of state government privatization than states with lower per capita personal income.

This hypothesis was not supported. The result is consistent with previous studies that examined the impact of per capita income on state policy making in general and privatization policy in particular (Berry and Berry, 1992; Price and Riccucci, 2005). For example, in their study of the determinants of state prison privatization decisions, Price and Riccucci (2005) found per capita personal income not to be a significant determinant of prison privatization decision.

In this study, the result of insignificant association between per capita personal income and the level of state privatization can perhaps be understood in terms of the pressures that state policymakers face from different groups of citizens. Assuming other things such as tax collection effort being equal, it can theoretically be argued that states with higher per capita personal income are more likely to collect more in tax revenue and are less likely to face financial crises warranting privatization of services. However, some scholars have argued that citizens in states with higher per capita personal income are more likely to demand privatization of services because they want more choices (Savas, 1987). It is also possible to argue theoretically that, in states with low per capita personal income, the need to prevent some people from falling into poverty might have constrained the desire of elected state official to privatize most services. It is common for opponents of privatization to argue that privatization creates "a harsh state where only the fittest survive and the poor and sick are left to cope as better they can" (Savas, 1987, p.3). Thus, a multitude of reasons can be offered to justify the insignificant

associations between higher per capita personal income and the level of state government privatization.

Hypothesis 4: States with higher labor costs are more likely to have higher level of state government privatization than states with lower labor costs.

This hypothesis was not supported. Previous empirical studies, at least at local level, have found that privatization in the form of contracting out was more prevalent in cities and towns paying high wages to their own employees (Kodrzycki, 1998). The privatization trend in the 1980s and 1990s did not resonate well with the public sector employees because of their perceived fears of losing their jobs. This perception might have mitigated the aggressive demand by public employees for wage and salary increases, which in turn might have contributed to less aggressive privatization of services by state governments.

Hypothesis 5: States with higher per capita spending are more likely to have higher level of state government privatization than states with lower per capita spending.

The hypothesis was not significant at the bivariate level. In the economic model, the statistical result was significant by controlling the other predictor variables in the model. But the significance was in the opposite direction than expected, and the hypothesis was not supported. Moreover, the significance disappeared in the model of best fit after controlling for the other variable included in the model.

Hypothesis 6: States with higher fiscal capacity are more likely to have lower level of state government privatization than states with lower fiscal capacity.

This predictor was not significant at the bivariate level, and the hypothesis was not supported; the multivariate analysis indicated that it was significant, but in the opposite direction than suggested by the hypothesized relationship, indicating that the hypothesis was not supported. The result appeared to be consistent with previous studies that have found state fiscal capacity to be insignificant at least in the context of a single service such as prison privatization (Price and Riccucci, 2005).

Hypothesis 7: States with higher deficit are more likely to have higher level of state government privatization than states with lower deficits.

Higher deficit was found to be insignificant in the bivariate analysis. In the combined economic model and the model of best-fit, the state deficit variable was significant when controlled for other predictor variables, but the significance was inconsistent with the relationship suggested by the hypothesis, which indicates that the hypothesis was not supported. The failure of the state deficit variable to achieve statistical significance in the expected direction appear to reject or contradict the argument in much of the privatization literature that governments resort to privatization as a means to reduce costs and to balance their budgets (Henton and Waldhorn, 1984; Chi, 1998; Kettl, 2002; Van Slyke, 2003).

Hypothesis 8: States with weak union power are more likely to have higher level of state government privatization than states with strong union power.

This hypothesis was not supported by the statistical tests at either the bivariate or multivariate level. The insignificant result is consistent with some prior studies that

found state union laws not to be significant predictors of state privatization decisions

(Price and Riccucci, 2005). The result further suggests that the drive toward

privatization in the 1980s and 1990s might have restrained or reduced the power of

unions to thwart state decisions to privatize services; in this sense it can be concluded

that contemporary privatization serves as a counterweight against activist and

powerful public employee unions and that, as Nicholson-Crotty (2004) observed,

"public employee unions simply do not wield the power over the privatization process

that researchers had previously suspected" (p.53).

Hypothesis 9: States with individualistic/traditionalistic political culture are more likely to have higher level of state government privatization than states with moralistic political culture.

This variable was significant at both the bivariate and multivariate levels.

However, the hypothesis was not supported by the results because of the fact that the

influence was in the opposite direction than suggested by the stated hypothesis. The

moralistic political culture was found to be significant in the expected direction in the

bivariate analysis as well as in the political model; but its significance disappeared in

the model of best fit after controlling for state pension spending, state per-capita

spending, state fiscal capacity, state deficit, and individualistic political culture. Given

the mixed statistical results, unambiguous conclusion cannot be drawn. At best, the

results suggest conducting further empirical investigation.

Hypothesis 10: States with Republican governors are more likely to have higher level of state government privatization than states with Democratic governors.

As indicated in the review of the literature, some scholars argue that contemporary privatization follows conservative ideology (Ginsberg, 2009; Hodge, 2000), and privatization policy is associated primarily with the Republican governors who are assumed to promote conservative agendas in government (Sclar, 2000; Savas, 2000; Donahue, 1989). It is therefore hypothesized that states with Republican governors are more likely to have higher level of state government privatization. However, the statistical result failed to support this hypothesis and is consistent with some of the results of prior studies that found neither the Republican governor nor the Democratic governor as having significant effect on the decision to privatize services; while both Republican and Democratic governors have privatized services, their decisions whether or not to privatize were less swayed by their respective ideological beliefs than by pragmatic considerations (see Price and Riccucci, 2005). Likewise, the failure of the statistical result in this study is indicative of the fact that the level of state government privatization is not dependent on the party affiliations of state governors.

Hypothesis 11: States with Republican-controlled legislature are more likely to have higher level of state government privatization than states with Democratic-controlled legislature.

The result failed to support the hypothesis. The result suggests that party affiliations, based on the Republican and Democratic configuration, were not significant. As shown in the literature, at state level, pragmatism appeared to overshadow political and ideological considerations (Donahue, 1989; Allen, et. al., 1989). The result also confirmed previous findings that the party controlling state

legislature was not a significant predictor of privatization decisions at least in the context of prison privatization (Price and Riccucci, 2005).

Hypothesis 12: States with conservative government policy are more likely to have higher level of state government privatization than states with liberal government policy.

The statistical result was not significant at both the bivariate and multivariate levels, and the hypothesis was not supported. The result in this study contradicted both the theoretical argument and the empirical evidence in the literature. The review of the literature has revealed that the conservative-liberal spectrum or the right-left cleavage serves as a functional device to categorize government political orientations and policy proposals (Freire,2008); that is, political motivations figure prominently when legislators and/or governors consider the adoption of enabling legislations for privatization or other policy areas (Nicholson-Crotty, 2004). While this argument has merit on theoretical grounds, the statistical result in this study raises questions about the validity of the argument especially when combined with the empirical evidence, which was found to be insignificant.

For example, previous empirical studies have found that "states are more likely to privatize their prisons when the government ideology is more conservative as compared with more liberal" (Price and Riccucci, 2005, p.228), but this result is contradicted by the findings in the current study. While the comparison made between the statistical results of a single privatized program and the aggregate amount of privatization appears to be somewhat tenuous, it can safely be assumed that the

comparison does not necessarily alter the fundamental distinction inherent in the conservative-liberal ideological spectrum.

The failure of the statistical findings to support the hypothesis has perhaps one possible explanation which is essentially not dissimilar to the explanations offered in the preceding two hypotheses (hypotheses 10 and 11). That is, state policymakers are more likely to take a pragmatic path, and the conservative-liberal cleavage does not appear to play a significant role in terms of government decisions regarding the amount of privatization that states undertake.

Hypothesis 13: States with conservative state ideology are more likely to have higher level of state government privatization than states with liberal state ideology.

This hypothesis was not supported by the statistical result, and the findings supported some prior empirical studies and contradicted others. Many state comparative studies have utilized state ideology variable to assess state policy outcomes under varying circumstances (Brudney et al., 2004; Nicholson-Crotty, 2004; Berry and Berry, 1992; Price and Riccucci, 2005; Soss et al., 2001; Breaux et al., 2007). For example, Brudney et al. (2004) conducted an empirical investigation of the determinants of state contracting out using variables in their model that included state ideology variable as developed by Berry et al. (1998). Their findings indicated that the "political and ideological variables included in the model failed to achieve statistical significance" (Brudney et al., 2004, p. 413), an outcome supported by the current study.

On the other hand, studies that examined the factors that motivate state level privatization decisions in the area of prison and corrections have found political and

ideological variables (used as a proxy for state ideology) to be significant (Price and

Riccucci, 2005; Nicholson-Crotty, 2004), an outcome contradicted by the results of

this study. These conflicting results are perhaps a reflection of the differences in the

target or outcome variables; one of the studies focused on the method of privatization,

which was contracting out and the other two focused on prison and corrections

privatization. While the current study utilized the same variable that the three studies

mentioned above used, this study is however different from the previous studies

because of its focus on the aggregate level of state government privatization; this shift

of focus from individual program to an aggregated level of privatization may have

altered the results of the statistical analysis.

Hypothesis 14: States with higher institutional capacity are more likely to have lower
level of state government privatization than states with lower institutional capacity.

The statistical result failed to support the hypothesis and the finding was not

significant. State institutional capacity variable has been used in empirical studies as

one of the determinants of state policy decisions in many areas of public policy

(Travis, Morris, and Morris, 2004). Essentially, the assumption is that state

institutional capacity has the potential to constrain or enhance the ability of a state

government to adopt and implement the desired program. But there are no prior

studies that have examined the effect of state institutional capacity on the level of state

government privatization. In the current study, state institutional capacity variable was

employed in the ideology model as one of the determinants of the level of state

government privatization, and it was found to be insignificant.

One possible explanation for the finding to be insignificant is that implementation of privatization decisions perhaps involves negotiations with outside contractors or providers, and the task is likely to demand a considerable amount of time, resources, staff, and experts; this requires high not low institutional capacity to undertake time-consuming, back and forth negotiations, bargaining, and writing complex contracts to avoid or minimize risks that might otherwise affect the government in the future; when considering scenario of this nature, it appears plausible to hypothesize a direct relationship between high institutional capacity and higher level of state government privatization. Indeed, the findings of this study appear to be at variance with the assumption that states with high institutional capacity have the flexibility and ability to implement programs and provide services without necessarily adopting a privatization strategy. Thus, as the result indicates, associating high institutional capacity with lower level of state government privatization and low institutional capacity with higher level of state government privatization may not hold much sway.

<div align="center">Study Implications</div>

In the 1980s and 1990s many states began embracing privatization as a strategy to deal with their fiscal crises. As indicated in the review of the literature, by and large, microeconomic-based theories provided the intellectual rationale for and informed the development of privatization policy (Savas, 1987; Sclar, 2000). Numerous studies point to the superiority of the private sector (the market system) as an effective and efficient means of providing goods and services, and the use of

privatization was justified largely on grounds of economic efficiency (Savas, 1987;

Henton and Waldhorn, 1984; Donahue, 1989; Pouder, 1996). Privatization was thus

viewed by state policymakers primarily as a "management issue" devoid of political

and ideological considerations (Chi, Arnold, & Perkins, 2004, p. 466). As such, state

governments began adopting privatization policy to promote economic efficiency and

to save costs (Donahue, 1989; Allen et al., 1989; GAO, 1997; Price and Riccucci,

2005).

As noted, the belief in the fundamental superiority of the private sector/the

market system as an engine of economic growth is rooted in microeconomic-based

theories, the philosophical/ideological origin of which is traced to the classical

political and economic thoughts of the 18th century. The analysis of the historical

literature in this study established the connection between contemporary privatization

theory and the conservative political and ideological beliefs that dominated the social

and economic thoughts of the 18th century. While the social, political and economic

realities of the late 20th century are fundamentally different from that of the 18th

century, advocates of privatization and in particular some economists of the classical

persuasion appear to be less convinced about the influences of politics and ideology on

the privatization policy. Nevertheless other scholars question the argument that

privatization is undertaken solely for economic reasons and contend that politics and

ideology are also factors that are likely to influence the decisions to privatize services

(Boix, 1997; Morris, 1999; Hodge, 2000; Sclar, 2000).

These competing claims set the background for investigating the drivers of the

level of state government privatization in this study. As such, this study conducted an

empirical investigation to determine the extent to which variables related to socioeconomic, economic, political, and ideological factors influence the level of state government privatization. The results are discussed and summarized in the preceding section. The implications are presented below.

In the socioeconomic model, only state pension spending variable was found to be a statistically significant predictor of the level of state government privatization in the expected direction. This variable was also statistically significant in the model of best fit after controlling for other variables. Many studies have shown that growing pension liabilities and increasing health care expenditures have exasperated state budget crises requiring major budget reforms and cuts (Edward, 2010; CSG, 2007). Given the findings of this study, policy initiative to privatize some pension programs is not unwarranted. Identifying areas of state pension programs that can be privatized to save costs without increasing the financial hardships of retirees might prove to be challenging, but it appears to be the desirable course of action from the perspective of state policymakers.

The results of the economic model and the model of best fit showed that most of the economic variables had statistically significant influence on the level of state government privatization; however, the influences were in the opposite directions than suggested by the stated hypotheses. The contradictory results in terms of the direction of the influence suggest that the hypotheses were not supported. The policy implications are thus not readily apparent. At best, the findings can be interpreted as providing tentative support to the argument in the literature that economic factors are

more likely to influence privatization of goods and services by state government; the findings further suggest the need to conduct a follow up study.

The political model failed to demonstrate significant associations between the political variables and the level of state government privatization with the exception of individualistic and moralistic political cultures. The findings of this study showed that both individualistic and moralistic cultures were significant, but the significance of the moralistic culture disappeared in the model of best fit when controlling for other variables. The significance of the individualistic political culture was in the opposite direction than expected and the hypothesis was not supported. Similarly, the results of the statistical analyses failed to link Republican governors and legislatures to higher level of state government privatization relative to their Democratic counterparts, supporting previous studies that state government privatization is rather dependent on pragmatic consideration than on the party affiliation of the governor and/or legislature (Donahue, 1989). Also, the results of the political model supported previous findings that showed that public employee unions do not exert significant influence on privatization decisions (Nicholson-Crotty, 2004). In general, the implication of the results of the political model is that political factors are less likely to inform policy development at least in the area of privatization.

By far, the ideology model appeared to have the weakest explanatory power with only 3.4% of the variance in the dependent variable accounted for by the model, and none of the predictor variables was found to be significant. The results failed to link ideology to the level of state government privatization and contradicted previous empirical studies that found ideology to be significantly associated with privatization

(see, for example, Price and Riccucci, 2005). The results of the ideology model indicate that ideology is less likely to play a significant role in terms of influencing policy decisions with regard to privatizing public services.

Overall, the findings of this study suggest that state policymakers are less likely to be swayed by socioeconomic, political and ideological factors in making policy decisions at least in the area of privatization. Although the influences of the significant variables in the economic model were in the opposite direction than expected, the findings nonetheless provide tentative support to the argument in the literature that economic factors matter; the implication is that economic factors are more likely to influence state government privatization decisions.

Limitations and Delimitations of This Study

Limitations

Limitations are essentially weaknesses that have the potential to limit the validity of the study (Plichta and Garzon, 2001). This study has limitations that can be attributed to a number of factors that include: small sample size, history, confounding variables, and the secondary nature of the data; these possible limitations are discussed in detail below.

One of the limitations of this study is the small sample size. Sample size is an important issue because it has the potential to diminish or enhance the validity of the results (Irby & Lunenburg, 2008). While the sample size required for credible research depends on the nature of the study (O'Sullivan, Rassel, & Berner, 2003), researchers who seek to undertake state comparative studies are usually constrained by the

existence of a maximum sample size of 50 cases (states) only. In this study, the problem related to the small sample is essentially two-fold: first, as noted, state comparative studies normally use 50 states as the maximum sample size, but this study employed only 34 cases/states for lack of usable and valid data for the remaining 16 states. The smaller sample size is an obvious weakness that limits the validity and generalizability of the results to all the 50 states.

However, in general, the characteristics of the 16 states were found to be similar to the characteristics of the 34 states based on the t-test of the mean difference between the two groups that was performed using eight interval/ratio level data (see Appendix D); the result of the t-test provides limited support to the validity and generalizability of the results of this study to the 16 states that were not included in this study as well. Second, many of the variables used in this study failed to be significant, and the inadequate sample size may have been a factor in the failure of those variables to achieve statistical significance; according to Irby & Lunenburg (2008), "Inadequate sample size…can bias the results of a quantitative study" (p.230).

History may have been another factor limiting the external validity of this study because some of the measures may have changed over time (O'Sullivan, Rassel, and Berner, 2003). While the data for the dependent variable and the 10 independent variables were from year 2002, data for state political culture, state policy liberalism, state ideology, and state institutional capacity variables were from 1984, 1993, 1992, and 1988 respectively; in this case, the reliability of the measures become questionable and point to some potential weaknesses of this study. Although political culture, state policy liberalism, and state ideology are believed to be fairly consistent for a long

time, they have nonetheless been shown to change slightly over time (Berry & Berry, 1992). Likewise, state institutional capacity is expected to change over time as well, but for lack of recent data, Bowman & Kearney (1988) index has been utilized.

Essentially, this study focused on investigating the factors that influence the level of state government privatization at a given point in time (2002) and did not attempt to measure changes over time and was static in nature. Nonetheless, the use of data from different time periods ranging from nine to eighteen years represented quite a significant time lag and may have been a factor for the failure of many of the variables to achieve statistical significance in the current study. In addition, state governors and the majority party in state legislatures can change from one political party to another in a year or two. If at all one or more changes had taken place between political parties prior and during the year the CSG conducted its privatization survey (2002), these changes were not accounted for, and this deficiency may have been a factor for the party affiliation of the governor and the party controlling state legislature variables to be insignificant.

Moreover, confounding variables may have impacted the validity of the conclusion of this study. Events other than the independent variables such as the behaviors of politicians and bureaucrats may have limited the validity of this study. While spurious results are not suspected in the current study, the rational utility maximizing behaviors of politicians and bureaucrats (Buchanan, 1978) are nonetheless assumed to exist, but their behaviors could not be directly detected, measured, and assessed in quantitative studies. As such, the indirect influence of the utility maximizing behaviors of the actors many have altered the influences of some of the

measures on the level of state government privatization. Furthermore, this study used secondary data from multiple sources and the accuracy of the data could not be verified and may have influenced the results of this study in ways that are hard to detect.

Delimitations

Delimitations are essentially the boundaries that limit the scope of the investigation (Plichta and Garzon, 2009). The scope of this study is confined to investigating the factors that are expected to influence the amount of privatized services aggregated by four departments (correction, transportation, education, and health & human services), and did not attempt to examine specific services or programs that may have been privatized by each department. Also, as the review of the literature has indicated, state governments privatize services primarily for economic reasons, that is, to achieve economic efficiency and cost savings (Donahue, 1989; Allen et al., 1989; GAO, 1997). However, evaluating and analyzing the privatized services to determine whether or not the stated economic goals were achieved is beyond the scope of this study. Furthermore, the current study did not attempt to look beyond the prescribed one-year time frame.

Contribution of This Study

This study has contributed to state comparative research in general and the theory and practice in privatization theory in particular in two major ways: First, this study has taken a macro approach/model that allows investigating the aggregate level

of state government privatization as opposed to investigating individual services. Investigating the aggregate level of state privatization is one important area that has received little attention in the literature. Second, the results raise new questions and provide new information that future researchers can build on. These are explained in detail below.

First, as indicated in the review of the literature, competing theoretical arguments were offered as explanations for the adoption of privatization policy by state governments, and a considerable amount of empirical research has been conducted either to support or refute the theoretical claims. Many variables with different social, economic, political, and ideological dimensions were used in a number of empirical studies to determine the significant predictors of state privatization efforts. Yet, in much of the empirical research, case studies were largely the focus of the investigation with the aim of determining whether or not the services privatized have achieved the intended goals, be it cost savings, efficiency gains, and/or quality services. While the focus on single cases is appropriate under certain circumstance, the approach is less useful in terms of understanding the factors that drive the aggregate level of state government privatization at a macro level.

However, building on the multidimensional approach used in single case studies, this study adopted a macro level strategy and examined the extent to which variables related to socioeconomic, economic, political, and ideological factors influence the level of state government privatization aggregated by departments. No previous studies have investigated simultaneously a broad range of privatized services aggregated by corrections, education, transportation, and health and human services

departments. This approach is the first of its kind and provides an umbrella framework that can serve as a guide for future research in the area of privatization; in this sense, this study is fundamentally different from prior approaches and is an important contribution to research in state comparative studies.

Second, the results of this study suggest that further research is warranted. Essentially, the results of this study have generally shown the existence of statistically significant associations between some variables, largely economic variables, and the level of state government privatization, but the hypotheses were not supported by the statistical analyses; these conflicting results raise new questions that other researches may try to answer. Future research can build on the findings of this study and resolve the conflicting results; this is as an important contribution to the privatization literature. On the other hand, the findings with regard to the political and ideological factors provide new information that may serve as a useful contribution to future research. In general, the political and ideological variables included in this study, with the exception of political culture, which was found to have mixed results, were refuted as having significant influence on the level of state government privatization; this is an important finding because it provides a less ambiguous general conclusion about the extent to which political and ideological factors influence the level of state government privatization. Overall, the findings add to our knowledge base in privatization theory and contribute to the body of research and scholarship in public administration.

Recommendation for Future Research

This study empirically examined the factors that drive the level of state government privatization by developing and testing 14 independent hypotheses and four state comparative models (socioeconomic, economic, political, and ideological models) and a model of best-fit. The bivariate analyses showed that only one of the 14 hypotheses was found to be statistically significant in the expected direction, suggesting that the hypothesis was supported. The multivariate analyses showed that most of the variables in the economic model were significant, but the hypotheses were not supported because of the fact that the significances were in the opposite direction than suggested by the stated hypotheses. Also, most of the variables in the socioeconomic, political, and ideology failed to achieve statistical significance. Some of the significant variables were in the opposite direction than expected, and a large part of the variance in the dependent variable (the level of state government privatization) remained unexplained; this result points to the limitation of this study and suggests the need to conduct further research. Below are two suggestions for future research.

First, researchers may build on the current study by conducting new privatization survey across the 50 states; this provides complete data for all the 50 states and avoids the problems associated with small sample size as was the case in this study. While this approach is likely to be costly and complex for individual researchers, it is certainly doable if conducted or sponsored by an institution, such as a university or other organization. The use of new privatization data that covers all the

50 states will perhaps shade new lights and fill the gap created by the small sample size used in the current study.

Second, a research design is one important consideration that needs to be addressed upfront when conducting future research similar to the current study. It is commonly known that different research designs can be used to investigate the same phenomenon and produce similar or different results. This study employed cross-sectional quantitative method, which is a static and time bound design, but, as indicated earlier, the data used for some of the categorical independent variables were from different time period, which may have weakened the findings of this study. Cross-sectional design may be suitable to the extent that the data collected are from the same time period. However, other research designs that allow capturing changes of variable values over time such as longitudinal design (time-series or panel studies) may be suitable and may uncover important information that extends or improves the current study.

Conclusion

The purpose of this study was to examine the factors that influence the level of state government privatization. Specifically, this study attempted to answer the research question: What factors predict the level of state government privatization? Literature has shown that privatization is a multidimensional concept with social, economic, political, and ideological implications. Therefore, to answer the research question, fourteen hypotheses were developed and tested along with four state comparative models and a model of best-fit. Bivariate and multivariate analyses were

conducted, and most of the economic variables at the multivariate level were found to be negatively but statistically significant predictors of the level of state government privatization; although the negative relationships are inconsistent with the stated hypotheses and warrant further investigation, the statistically significant results nonetheless provide limited support to the argument in the literature that state governments privatize services for pragmatic reasons, that is, to achieve economic efficiency and cost savings. And the statistically insignificant findings of most of the variables in the socioeconomic, political, and ideology models may be interpreted in ways that support the views that alleviating the fiscal problems that states face takes precedence over social, political, and ideological concerns.

A concluding remark that can be inferred from this study but does not speak directly to the findings is that, political and ideological orientations and social concerns aside, state policymakers need to promote privatization policies that encourage the development of management strategies to achieve the optimal level of economic efficiencies and cost savings. This could mean looking for alternative management approaches to the current public-private partnerships. As indicated in the review of the literature, previous studies have suggested using alternative management that include fostering in-house competitions, promoting managed competition to induce efficiency in the public sector by allowing both the public and private sectors to compete in providing services (Featherstun, Thornton II, and Correnti, 2001), or using the "public authorities that may take advantage of private-sector efficiencies while maintaining public accountability" (Leavitt and Morris, 2004, p.154).

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APPENDICES

Appendix A

LIST OF OBJECTIVES OF PRIVATIZATION PROGRAMS

- Reduce the cost of government

- Generate revenue, both by selling assets and then by collecting taxes from them

- Reduce government debt, for instance, through debt-equity swaps

- Supply infrastructure or other facilities that government cannot otherwise provide

- Bring in specialized skills needed for technologically advanced activities

- Initiate or expand a service quickly

- Lessen government interference and direct presence in the economy

- Reduce the role of government in society (build or strengthen civil society)

- Accelerate economic development

- Decentralize the economy and broaden the ownership of economic assets

- Show commitment to economic liberalization and increase business confidence

- Promote the development of capital markets (by creating and selling shares)

- Attract new foreign and domestic investment and encourage return of flight capital

- Satisfy foreign lenders (including international bodies such as the World Bank)

- Improve living standards

- Gain popular support (by getting rid of malfunctioning bureaucracies)

- Reward political allies

- Weaken political opponents (for example, labor unions)

Source: Savas, 2000, p.119-120.

Appendix B

LIST OF STATES INCLUDED AND EXCLUDED IN THIS STUDY

	States Included	**States Excluded**
1	Arkansas	Alabama
2	Arizona	Alaska [*]
3	California	Colorado
4	Florida	Connecticut
5	Georgia	Delaware
6	Idaho	Hawaii
7	Illinois	Maine
8	Indiana	Maryland
9	Iowa	Massachusetts
10	Kansas	Minnesota
11	Kentucky	Mississippi
12	Louisiana	New York
13	Michigan	North Carolina
14	Missouri	Ohio
15	Montana	Virginia
16	Nebraska	Wisconsin
17	Nevada	
18	New Hampshire	
19	New Jersey	
20	New Mexico	
21	North Dakota	
22	Oklahoma	
23	Oregon	
24	Pennsylvania	
25	Rhode Island	
26	South Carolina	
27	South Dakota	
28	Tennessee	
29	Texas	
30	Utah	
31	Vermont	
32	Washington	
33	West Virginia	
34	Wyoming	

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[*] Alaska had an outlier and was excluded from the data set.

Appendix C

CASE SUMMARIES: LOW, MEDIUM, AND HIGH LEVEL OF STATE GOVERNMENT PRIVATIZATION

	Low	Medium	High
1	Arkansas	Florida	Arizona
2	California	Iowa	Georgia
3	Idaho	Kentucky	Kansas
4	Illinois	Michigan	Louisiana
5	Indian	Montana	New Mexico
6	Missouri	Nebraska	Oklahoma
7	Nevada	New Hampshire	Oregon
8	North Dakota	New Jersey	Pennsylvania
9	South Carolina	Rhode Island	South Dakota
10	Utah	Tennessee	
11	Washington	Texas	
12	Wyoming	Vermont	
13		West Virginia	

Appendix D

A COMPARISON OF THE MEAN DIFFERENCE BETWEEN THE 34 STATES INCLUDED AND THE 16 STATED NOT INCLUDED IN THIS STUDY

Variables	Mean (n=34)	Mean (n=16)	df	2-tailed t-test	p-value
State Labor Cost	15.551	15.456	24	0.940	.05
State Health Care Spending	3.416	3.703	24	0.532	.05
State Per-Capita Spending	4292.665	4934.475	18	0.186	.05
State Pension Spending	7.107	8.064	26	0.164	.05
State Per-Capita Personal Income	**32885.601**	**38576.544**	**19**	**0.020***	.05
State Deficits	-4.120	-5.734	22	0.721	.05
State Policy Liberalism	-0.165	0.3285	25	0.124	.05
State Institutional Capacity	-0.152	0.331	26	0.439	.05

* Significant at $p \leq .05$

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Dissertation Fellowship - Old Dominion University, Norfolk, VA, 2008 – 2009
Graduate Research Assistant - Old Dominion University, Norfolk, VA, 2009 -2010
Dissertation Fellowship - Old Dominion University, Norfolk, VA, 2010 – 2011
Dissertation Fellowship - Howard University, Washington, D.C., 1981-1982
Graduate Research Assistant - Howard University, Washington, D.C., 1980-1981

Selected Professional Experience

Instructor – Old Dominion University, Norfolk, VA, August, 2011 to Present

Independent Contractor – contracted translation projects with the Office of Bilingual Education (OBE), District of Columbia Public School System (DCPSS), 2003 – 2007

Fundraising Coordinator---Byte Back, Inc., Washington, D.C., 2000 – 2002

Site Administrator – Byte Back, Inc., Washington, D.C., 1998 – 2000

Operations Specialist— Riggs National Bank, Washington, D.C., 1988-1997