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SECOND-ORDER DEVOLUTION, BUREAUCRATIC DISCRETION AND THE IMPLEMENTATION OF THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PROGRAM

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ABSTRACT OF DISSERTATION

Byungkyu Kim

The Graduate School
University of Kentucky
2008

SECOND-ORDER DEVOLUTION, BUREAUCRATIC DISCRETION AND THE
IMPLEMENTATION OF THE TEMPORARY ASSISTANCE FOR NEEDY
FAMILIES PROGRAM

ABSTRACT OF DISSERTATION

A dissertation submitted in partial fulfillment of the
requirements for the degree of Doctor of Philosophy in the
College of Arts and Sciences
at the University of Kentucky

By
Byungkyu Kim

Lexington, Kentucky

Director: Dr. Richard C. Fording, Professor of Political Science

Lexington, Kentucky

2008

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ABSTRACT OF DISSERTATION

SECOND-ORDER DEVOLUTION, BUREAUCRATIC DISCRETION AND THE IMPLEMENTATION OF THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PROGRAM

The passage of PRWORA in 1996 gave states the opportunity to engage in second-order devolution (SOD), which allows local governments to exercise more discretionary power in the implementation of welfare policies. Currently 14 states have engaged in significant SOD, with a number of other states practicing SOD to a lesser degree. Given this trend in TANF administration, it is important to explore if and how SOD affects the implementation of TANF work sanctions and work-related policies.

Opponents of welfare decentralization insist SOD may lead to a 'race to the bottom' in welfare generosity to avoid the immigration of the poor, the loss of business revenue, and financial burden due to fiscal relationship, while proponents of welfare decentralization insist that local governments better understand the needs of the poor and are therefore better able to provide more appropriate services to their welfare clients, thus improving program performance. Existing scholarship on SOD under TANF has focused on the increase in discretion to local government, and how this may enhance variation in policy outcomes or contribute to policy success or stringency across local jurisdictions (Cho et al. 2005 ; Fording, Soss and Schram 2007). However, these studies are limited by the fact that they examine a single state. To date there has been no systematic analysis of the impact of administrative structure on the implementation of welfare policy which compares centralized states with SOD states.

In this dissertation, I conduct an analysis of the effects of SOD across the states by exploring how differences in administrative structure due to SOD affect different implementation outcomes. First, I examine the impact of SOD on the implementation of TANF work sanctions, using individual-level administrative data combined with county level data. Second, I examine the impact of SOD on TANF work sanctions, caseload decline, and several work-related TANF outcomes with state-level data. Multilevel analysis and OLS with panel corrected errors are applied for the analyses. Specifically, I test the conventional wisdom that success and punitiveness in policy implementation is enhanced in second-order devolution states, compared to centralized states, due to increased discretion granted to local governments in SOD states.

KEYWORD: Second-Order Devolution, Bureaucratic Discretion, Policy Implementation,
Temporary Assistance for Needy Families, Race to the Bottom

Byungkyu Kim

July 30, 2008

SECOND-ORDER DEVOLUTION, BUREAUCRATIC DISCRETION AND THE
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PROGRAM

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Chapter 1: Introduction

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996 has resulted in a significant transfer of authority and responsibility for establishing and implementing welfare policies from the federal government to state governments, a process which is known as first-order devolution. However, scholars have increasingly begun to recognize that in designing their new welfare systems under the Temporary Assistance for Needy Families (TANF) programs, many states have engaged in second-order devolution by shifting important policy making discretion further downward to local governments (Whitaker and Time 2001; Gainsbrough 2003). Currently, fourteen states devolve significant authority and responsibility within the TANF program to local jurisdictions.¹ Thus, it is important to explore whether SOD affects the implementation of welfare policy, and if so, how.

SOD potentially influences the implementation of TANF through the discretionary power of local administrators and case managers. SOD allows more discretionary power², which is shaped by local environments to local administrators and case

¹Arkansas, California, Colorado, Florida, Maryland, Michigan, Minnesota, New York, North Carolina, Ohio, Texas, Tennessee, Utah, and Wisconsin devolve authority and responsibility in designing and implementing welfare policies to local governments or regional boards.

²Past research has shown that bureaucrats play an important role in the policy process. Street-level bureaucrats are especially important in the implementation process because they directly interact with clients in the course of their jobs and execute a significant amount of discretionary power in their decision-making (Lipsky 1980; Grubb 1984; Weissert 1994; Maynard-Moody and Musheno 2000; Keiser et al 2004; Riccucci 2005; Fording et al 2006; 2007). However, previous researches have not thoroughly addressed how local community characteristics affect the decision-making of local administrators and street-level bureaucrats. The prerequisite question addressed in this dissertation, therefore, is how SOD which allows more discretionary power to local governments influences the implementation of welfare policies through

managers by transferring authority and responsibility in designing and implementing welfare policies.

As with first-order devolution, the practice of second-order devolution under TANF has been the subject of debate. Proponents of welfare decentralization insist that local governments better understand the needs of the poor, along with the social and economic environments that surround them, and are therefore better able to provide more appropriate services to their welfare clients, thus improving program performance. However, opponents argue that decentralization to the local level may lead to a “race to the bottom,” much as is claimed to have occurred at the state level with respect to AFDC and TANF benefit levels, due to the actual or perceived need by local officials to avoid the immigration of the poor and the loss of business revenue (Bailey and Rom 2004; Peterson and Rom 1989). Rather than affecting benefit levels, for which state governments still remain responsible, SOD may lead to stricter TANF implementation among local governments within SOD states. This possibility may be enhanced due to the fiscal relationship between states and local implementing jurisdictions in SOD states³.

Existing scholarship on SOD under TANF has focused on the increase in discretion to local government, and how this may enhance variation in policy outcomes or contribute to policy success or stringency across local jurisdictions (Cho et al. 2005 ; Fording, Soss and Schram 2007). However, these studies are limited by the fact that they examine a single state. To date there has been no systematic analysis of the impact of administrative structure on the implementation of welfare policy which

discretionary power of local administrators and case managers, which is shaped by local environments (Keiser et al 2004; Riccucci 2005; Fording et al 2006; 2007).

³Block grant and bonus for welfare saving.

compares centralized states with SOD states. In this dissertation, I conduct an analysis of the effects of SOD across the states by exploring how differences in administrative structure due to SOD affect the implementation of three categories of important TANF outcomes often addressed in the welfare literature – sanctions for noncompliance with TANF work requirements, employment-related outcomes, and TANF caseload decline.

This research project proceeds in three parts. First, to test the impact of informal discretion on the implementation of policy, I examine welfare implementation in the states in which welfare administration is relatively centralized at the state level, with very little discretion given to local governments. Presumably, local administrators and case managers implement welfare policy following the intentions and the rules of the states because centralized states do not grant authority and responsibility in designing and implementing welfare policies to local governments. In other words, there is relatively little room for local and street-level bureaucrats to execute their formal discretion in the implementation process. Yet, several studies present evidence demonstrating that variation in local characteristics promotes variation in policy outcomes across counties, even within states with highly centralized administrative structures through the inherent discretionary power of local bureaucrats (Grubb 1984; Weissert 1994; Keiser et al 2004). This implies that the informal discretionary power of local administrators and case managers influences the implementation of policy. To examine the impact of informal discretion on welfare implementation in highly centralized states, I test the impact of local characteristics on the implementation of TANF sanction policy in twenty two centralized states while controlling for client-level characteristics.

Second, welfare reform in 1996 allowed states to grant authority and responsibility to local governments or regional boards. Currently, eight states devolve significant authority and responsibility in designing and implementing their welfare programs to

local governments, and six states devolve similar responsibility to local or regional boards composed of local administrators, private organizations, community representatives, and members of the local business community (Gainsbrough 2003). In brief, counties in second-order devolution states often have substantial power over welfare spending and other aspects of these programs including work requirements, time limits, and sanctions. In counties within SOD states, local governments have more authority, which allows local administrators and case managers to exercise greater discretionary power in the implementation of policy.

One study explores the impacts of local characteristics on sanction policy through the discretionary power of local administrators and case managers in a SOD state (Fording et al 2007). The authors argue that local characteristics influence the implementation of policy through the increased discretionary power of local administrators and case managers due to second-order devolution. Although many scholars insist that SOD gives more discretion to local governments, which should therefore produce more variation in policy outcomes across counties, no study has yet explored the impacts of administrative structure on the implementation of welfare policy by comparing centralized states with SOD states. Thus, I test the impact of administrative structure on the implementation of policy by comparing centralized states with the states that have engaged in significant SOD. Specially, I examine two hypotheses: the sanction variation and sanction stringency hypotheses.

The sanction variation hypothesis posits that the effect of local characteristics on sanction policy outcomes across counties is stronger within SOD states than it is within centralized states due to the increased discretionary power of local bureaucrats. The effects of local context will be greater in states that devolve authority and responsibility (both formal and informal discretion) to local governments or regional boards than in states that administer sanction policy directly (only informal) because

local administrators and case managers have more discretion in SOD states than those in centralized states. If the sanction variation hypothesis is correct (giving more authority allows local governments to enjoy more discretionary power), the impact of local characteristics on the implementation of policy in SOD states should be greater than that observed in centralized states after controlling for individual level-characteristics. If not, this suggests that SOD does not matter a great deal in the implementation of policy because the discretionary power of local administrators and case managers is inherent in the nature of their jobs.

The sanction stringency hypothesis implies that sanction rates in SOD states will be higher than those in centralized states due to potential financial constraint, political pressure, and competition across counties. Due to SOD, counties in SOD states such as Ohio and Colorado receive block grants from states and the authority to establish many important details of their welfare programs, including work requirements, time limits, sanctions, and good cause exemption rules. The adoption of block grants may create pressure to reduce welfare spending because the county must pay 100% of each dollar of welfare costs beyond the state contribution (Brueckner 2000)⁴. In this way, block grants may act as a financial burden for counties that are responsible for the all of the spending when the welfare caseload increases beyond a certain threshold. Hence, counties with SOD are likely to adopt stricter TANF policies and implement policies more strictly to reduce the potential financial burden. Political pressure and

⁴ Block grants may not be an actual constraint for counties to maintain or increase welfare spending because the caseload declined significantly since the 1996 welfare reform, and states and counties were still getting the same amount of money from higher levels of government. But the block grant itself may provide incentives for local administrators and case managers to maintain the welfare rolls at the status quo in SOD states, due to anticipated welfare savings.

competition among counties provides a possible alternative explanation as to why counties may implement sanctions more strictly, as they may wish to avoid the immigration of the poor and the loss of business.

Third, I examine the impact of SOD on state-level TANF outcomes to consider its effect on policy success and punitiveness of TANF programs, and to provide additional evidence of its effect on sanction stringency. Supporters and critics have their own arguments concerning the impact of SOD in policy implementation. Supporters argue SOD enables frontline workers to deliver more appropriate services to the clients in their constituency, while critics argue SOD induces a race to the bottom in the implementation process. To test these competing theses, caseload decline, work sanctions, and three employment outcomes are considered as dependent variables to examine policy success and punitiveness of TANF programs. I first test the impact of SOD on caseload decline to determine the impact of administrative structure on the implementation of TANF. After establishing that SOD experienced a greater decline in their caseloads in the post-reform era, I test two hypotheses to determine the causal mechanisms influencing caseload decline. First, I test the sanction stringency hypothesis (with state-level data) to determine if sanctioning rates are higher in SOD states than in centralized states, and therefore if administrative structure influences the implementation of sanction policy. Second, I test the employment improvement hypothesis to determine if welfare exit rates through employment, job retention rate, and earnings gain are higher in SOD states than centralized states (and therefore if administrative structure influences the implementation of employment-related policies).

Plan for the dissertation

Considerable research has been conducted on the subject of TANF sanctions, though most of those focus on similar topics⁵. Only two studies explore how the local environment influences the implementation of TANF work sanctions through the discretionary power of local administrators and case managers, and only three studies directly examine the potential effects of SOD on TANF implementation⁶. Despite these studies, as I discuss in more detail below, there has been no systematic study of how administrative structure (SOD) influences the implementation of policies by allowing more room for discretionary power to local bureaucrats.

In Chapter One, I begin with a theoretical review of the role of bureaucrats in delivering services to the clients, the nature of bureaucratic discretion, which is inevitable for local street-level bureaucrats in their decision-making in the implementation process, and the impact of administrative structure (second-order devolution) which allows a significant transfer of authority for designing and implementing welfare policies from state governments to local governments. In Chapter Two, I then offer a number of hypotheses concerning the factors (including SOD) which should affect how the discretion of local bureaucrats is used in the

⁵These include the measurement of sanction rates across states or counties, the number of families sanctioned for failure to comply with work requirements, the role of sanctions in caseload decline, the individual and family characteristics of sanctioned people, the obstacles to comply with work requirements or to find employment, and the well-being of sanctioned people who left welfare.

⁶Among these five, one studies a centralized state, Missouri (Keiser et al 2004), another studies a second-order devolution state, Florida (Fording et al 2007), the other two study a SOD state, North Carolina (Cho et al 2005; Kelleher and Yackee 2004), and the last studies SOD states: California, Colorado and Ohio (Beller 2005). Four of these studies focus on only a single state and one focuses on three SOD states.

implementation process.

In Chapter Three, I provide background on welfare reform, the role of sanctions under welfare reform and the logic of sanctioning. I also provide a literature review on sanctions which documents how sanctions (my main dependent variable) have been studied so far.

In Chapter Four, I begin my empirical analysis by examining how bureaucratic discretion, conditioned by centralization (SOD) influences the implementation of TANF sanctioning with individual-level data combined with county-level data. First, I test the effect of local contexts on sanctioning in centralized (non-SOD) states in order to explore the impact of informal discretion on the implementation of policies. Then I test the effect of SOD on sanctioning by comparing SOD with non-SOD states by applying several statistical approaches in order to explore how SOD might influence the implementation of sanctioning.

In Chapter Five, I present the results of the individual-level analyses and discuss what the results imply. In Chapter Six, I test the effect of SOD on policy success and punitiveness of TANF programs by considering caseload decline, sanctioning, and three employment-related policies with state-level data. Finally, in Chapter Seven, I summarize the findings and discuss their policy implications. I also consider what this research contributes to the public policy literature and to the political science literature more broadly. I conclude by discussing the direction of future study.

Chapter 2: Bureaucratic Discretion, Administrative Centralization (SOD), and Policy Implementation

I. Discretion and Policy Implementation

Before discussing second-order devolution, I begin with a more general discussion of the impact of bureaucratic discretion in the implementation process. Bureaucrats play an important role in the policy process because they are responsible for administering and implementing the majority of governmental decisions. They influence decision-making due to their knowledge, expertise, and unusually long-term career experience, unlike other actors in political system (Schneider and Jacoby 1996).

Street-level bureaucrats can play an especially important role in the implementation of welfare policy because they are largely responsible for delivering welfare services, client assessment, and have considerable discretion beyond the principal's supervision and monitoring (Lipsky 1980; Weissert 1994). In other words, street-level bureaucrats have considerable leeway in determining various decisions in the process of policy implementation (Ricucci 2005).

i. Case Manager Discretion

Before discussing the discretion of case managers, I briefly discuss the role of local administrators. Their main role is the supervising and monitoring of the activities of frontline workers (including case managers in many cases) to follow a policy goal. Some studies find that leadership and the role of supervisors can influence the behavior of social workers. In contrast, other studies are more pessimistic about the positive role of supervisors (Ricucci et al 2004). In their activities, case managers are influenced by their colleagues and clients rather than supervisors, and supervisors influence case managers in a minor way (Brehm and

Gates 2002). Case managers also influence local administrators. Hence, regardless of their position and role in a local office, I assume that characteristics of their local environments (including case managers) also influence local administrators. Fording et al (2006) also argue political characteristics of local environments affect policy outcomes through case managers, local policy makers, and advocacy groups. Thus, I assume that some combination of local policy makers, local administrators, advocacy groups and case managers may affect the exercise of local discretion⁷.

Due to the nature of their jobs, case managers as front line workers in welfare services have a great amount of discretionary power in the implementation process. They confront a variety of complex and unpredictable problems and situations in delivering services. For example, case managers may investigate a client who violated work requirements and could potentially conclude that other problems, such as threats to the client from a boyfriend, child abuse, a lack of child care, or transportation issues may be the cause for non-compliance. In this way, case managers always confront a variety of complex and unpredictable situations. They confront not only complex and unpredictable problems, but the problems themselves are intractable, and emotional. In the middle of these situations, case managers assess the situation and decide how they will handle a client's problem, which problem will be dealt with and who should be involved (Vinzant and Crothers 1998). In the course of decision-making, rules may or may not give the guidelines case managers should follow, nor can the law provide the guideline for every situation (Maynard-Moody and Musheno 2000). Thus, the decisions of case managers are influenced by community values, their superiors, and their own values. Hence, social street-level bureaucrats create

⁷ The term 'bureaucratic discretion' or 'discretionary power' through this dissertation also implies local discretion in a broad sense.

policy through its implementation process (Keiser and Soss 1998; Keiser 1999; Lipsky 1980).

The use of discretion by street-level bureaucrats may have positive and negative effects on the implementation of policy. If discretion is used by street-level bureaucrats to respond to clients' needs and to better understand clients' situations, welfare services are provided to clients at a high rate. In contrast, if case managers use discretion to decrease high caseloads due to resource shortages, to ignore proper procedures due to a lack of time, or to treat clients unequally due to their own values, the use of discretion results in inequality. Ultimately, clients who really need the help may be denied by the use of discretion (Lipsky 1980; Keiser and Soss 1998; Keiser 1999).

To constrain the misuse of discretion, several tools are used: supervision, administrative rules, and clients (Fording et al 2006)⁸. Supervision seems to be a weak constraint because supervisors have less information than case managers, they do not know the preferences or personal values of case workers, and they cannot determine case managers' activities (Brehm and Gates 2002). Case managers confront a variety of complex and unpredictable situations that are necessary to their judgments in the course of their jobs and may not make decisions following a supervisor's a prior directives (Vinzant and Crothers 1998; Fording et al 2006). A supervisor's capacity to monitor the activities of case managers by rewarding and punishing them may therefore work in a very limited way. The relationship with other peer case managers and clients may be more effective in monitoring the activities of case managers (Brehm and Gates 2002).

⁸ For example, clients can request a hearing against a denial or termination of cash assistance to the local office.

Administrative rules are another constraint to restrict misuse of discretion. But rules do not regulate every situation. Hence, street-level bureaucrats exercise significant discretion and are often unconstrained by rules, procedures, and law. Clients are also a weak constraint on the use of discretion by street-level bureaucrats. Although street-level bureaucrats are somewhat constrained by the demands of recipients and citizen groups (Lipsky 1980), their relationships are not equal because case managers have the power to decide whether clients receive benefits or not, and in some cases, whether to impose sanctions or not (Maynard-Moody and Musheno 2000).

In brief, constraints such as supervision, administrative rules, and clients are too weak to check or guide discretion of street-level bureaucrats. Their discretion is inevitable in the implementation process because of the nature of their work. In this situation, inevitable discretion gives rise to additional concern when authority and responsibility for implementing welfare policy is given to local governments. If the use of discretionary power varies across local governments, this variation may produce inequity in welfare outcomes; there is a possibility that certain types of recipients sanctioned in county A will not get sanctioned in county B (Keiser and Soss 1998; Keiser 1999).

There are several empirical studies which find that discretion of street-level bureaucrats produces variation in policy implementation across counties even within a highly centralized state (Grubb 1984; Weissert 1994; Keiser et al 2004; Riccucci 2005) and across counties within a decentralized SOD state (Fording et al 2006; 2007)⁹. However, only three studies explore how discretion influences the

⁹ Grubb (1984) found variation in welfare programs across counties in Texas, and argued this was caused by differences in the practice of local offices due to discretion. Weissert (1994) found variation in Medicaid spending and enrollment among the poor

implementation of TANF sanctions (i.e. penalties for noncompliance with TANF rules; see next chapter). One of these studies examines a highly centralized state, Missouri (Keiser et al 2004). The other studies examine sanctioning in a SOD state, Florida (Fording et al 2006; 2007). To date, no one has compared how sanctions are implemented under different administrative structures and how the degree of decentralization influences the implementation of TANF sanctions. This is a significant weakness in the sanctions literature because under TANF, local administrators and case managers may exercise a significant amount of discretionary power in the implementation process (Pavetti et al 2003). Case managers have the authority to impose sanctions or not to do so. In the implementation process, many factors such as their personal values, client characteristics which might influence behavior and community environments may affect their decisions when case managers apply sanction rules. I expect that regardless of the level of administrative centralization, there exists significant variation in the implementation of sanction outcomes across counties due to the discretionary power of local administrators and case managers. In addition, I expect this discretion is shaped by local environments¹⁰.

across counties, and argued office managers' responsiveness and attitudes, and the county environment matter in explaining variation. Keiser et al (2004) found racial context in a local area affects how sanction policy is implemented by influencing street-level bureaucrats. Riccucci (2005) found variation in street-level bureaucrats' perceptions concerning welfare priorities across the three counties within Michigan, despite the fact that Michigan's welfare system is highly centralized. This result is evidence of the discretionary power of street-level bureaucrats and how it influences the implementation of public policy, as well as the fact that state or agency officials often have little influence over the practice of street-level bureaucrats.

¹⁰ Similar to past studies, I assume bureaucratic discretion is shaped by the local environments in which bureaucrats work (Keiser et al 2004; Fording et al 2007).

II. Administrative Centralization (First and Second-Order Devolution)

The degree of administrative centralization has been a prominent issue since PROWRA was passed in 1996 due to the fact that it gives more discretion to state governments in designing and administering TANF (first-order devolution), and then allows states to transfer significant (second-order devolution) discretion to local governments. In this dissertation, I explore the impact of administrative centralization on policy outcomes by studying its impact on the implementation of TANF sanction policies and other TANF outcomes. Although a lot of studies have been conducted on TANF and TANF sanction policy¹¹, no one study has investigated the question that how administrative centralization, especially second-order devolution, impacts the implementation of sanction policy since the 1996 welfare reform.

i. Centralization vs. Decentralization

As American governments become bigger to handle the growing demand of populations, they share authority and responsibility with other levels of governments (Kettl, 2000; Agranoff and McGuire, 2001). In redistributive policy, the question of which government is better able to provide welfare services has been one of the more prominent debates since the passage of PROWRA in 1996 because the federal government gives more discretion to state governments in designing and implementing welfare policies. Proponents of devolution argue that the problems and the demands of constituencies vary by states and are conditioned by their own environments. Therefore, it is hard for the federal government to identify the problems and needs of a state to build policies meeting a state's own demands. States

¹¹I discuss details of the sanction literature in chapter 3.

need the flexibility given by decentralization (devolution) because they better understand their own problems, the demands of their residents, as well as the socioeconomic environments surrounding them. Therefore, proponents of devolution argue that states can provide more appropriate services by maximizing the use of their own resources (Whitaker and Time, 2001; Dye, 1990).

On the other hand, opponents of devolution argue that giving more discretion and responsibility to state or local governments in welfare policy design and implementation may result in a race to the bottom phenomenon. This is because state or local governments compete to reduce welfare generosity in benefit levels, eligibility, sanctions, and so on, to avoid the immigration of the poor and the loss of business revenue. Thus, devolution may lead to more punitive treatment of clients across jurisdictions. Many studies have investigated inter-state competition and the race to the bottom at the state level, and although there is some disagreement concerning the magnitude of the effect, most studies find some evidence of a race to the bottom (Peterson and Rom 1989; Enchautegui 1997; Kolpin, Figlio, and Reid 1999; Volden 2002; Berry, Fording and Hanson 2003; Bailey and Rom 2004; Bailey 2005)¹². If the race to the bottom works as insisted without concern for the well-being of welfare beneficiaries, devolution may result in an undesired outcome.

Both supporters and opponents of devolution predicted that granting more discretion and responsibility to state governments would result in second-order devolution (Whitaker and Time 2001; Gainsborough 2003). But how has this affected policy outcomes? The academic literature suggests that local factors affect policy

¹²Fransis (1998) argues states act independently to address the need of their welfare populations instead they follow the same pattern such as concurrent cutting of benefits due to federal competition and the mobility of the poor and business.

outcomes more strongly in a decentralized structure because first-order devolution increases state discretion and second-order devolution increases county discretion (Francis, 1998). In other words, local factors should produce more variation in policy outcomes both across states and within states through increased discretion because local factors are different from state to state and county to county. As discussed above, SOD also may induce a RTB in policies among local jurisdictions to avoid the immigration of the poor and the loss of business revenue.

In addition to providing more variation, there is reason to expect that TANF implementation may take a fundamentally different form in SOD states as well. Despite the potential significance of SOD under welfare reform, only a few studies directly examine the potential effects of SOD on TANF implementation. Both Cho et al. (2005) and Kelleher and Yackee (2004) examine the potential beneficial impact of SOD on TANF implementation in North Carolina. This state provides a unique opportunity evaluate SOD due to the fact that in North Carolina, counties had the option to design their own TANF program, or to rely on the state plan. The results of these two studies provide mixed support for the benefits of SOD. Although county officials in SOD counties were more likely to perceive that TANF implementation was effective (Cho et al. 2005; Kelleher and Yackee 2004), comparisons between SOD and non-SOD counties on objective measures of program success were much less conclusive (Kelleher and Yackee 2004). Finally, Beller (2005) examines the impact of SOD on TANF policies in California, Colorado and Ohio. Contrary to expectations, she finds SOD does not produce more conservative policies and that to the extent that counties within SOD states vary in their policy choices, this variation is essentially random with respect to traditional determinants of state policy choices (e.g. socioeconomic and political variables)..

ii. Second-Order Devolution

The Merriam Webster dictionary defines ‘devolution’ as “transference of (as rights, powers, property or responsibility) to another; especially: the surrender of powers to local authorities by a central government”. Though many studies and debates have focused on first-order devolution, relatively few studies have examined second-order devolution (Gainsbrough 2003; Fording et al 2006) ¹³. Despite its association with welfare reform, it is important to note that second-order devolution existed prior to welfare reform under the Aid to Families with Dependent Children (AFDC) program in the administration of welfare policy¹⁴. Fifteen states administered the AFDC program locally and thirty-five states administered AFDC at the state level (Gainsbrough 2003). Under TANF, states have the option to grant administrative authority and responsibility to local governments as the federal government grants authority and responsibility to state governments in designing and implementing welfare policy (Nathan 1997; Adkisson 1998). Due to the passage of PROWRA in 1996, second-order devolution accelerated (Fording et al 2007).

¹³Although Gainsbrough (2003) explores which state devolves the authority to local government at which degree and Fording et al (2006) explore how variation in local community affects the implementation of sanction process in Florida which second-order devolution occurs, no one has studied the effect of community variations on policy implementation process through the discretion of local administrators and case managers by comparing state administered sanction policy to county administered sanction policy to catch up impact of administrative structure on policy implementation.

¹⁴Under AFDC, states could choose between state administration and state-supervised administration. The former indicated that the state administered the policy directly while the latter indicated that local governments administered the policy under the supervision of a statewide welfare agency. However, federal funds were given to state governments and states had the responsibility to insure that the policy was administered according to federal guidelines under both structures (Adkisson, 1998).

Among the fifteen states that administered AFDC locally, seven states seem to have changed little in the division of authority between states and localities. These localities serve as functional administrative tools of states with little or no discretion. On the other hand, eight of the fifteen states grant significant authority and responsibility to localities under TANF: California, Colorado, Maryland, Minnesota, New York, North Carolina, Ohio, and Wisconsin (Pandey and Collier-Tenison 2001; Gainsbrough 2003).

In California, although the state government determines eligibility and benefits, counties were given more opportunities to decide rules of the program concerning the extension of time limits, the extension of the period for job search activities, the number of required work hours, and exemptions from work requirements. In Colorado, counties receive block grants from the state and the state requires a Maintenance of Effort (MOE) for counties. Counties also have a great deal of discretion in deciding other aspects of the program-particularly work requirements. In Maryland, counties are responsible for assessing applicants for additional or alternative benefits including welfare avoidance grants, child care and, medical assistance, and local governments influence in the state process by submitting the candidate list of local directors of social services. They are also rewarded for savings in their welfare program. In Minnesota, counties determine education and training services, and case management strategies including sanctions policies and time limits. Counties also requested cuts in relatively high benefits which could make it difficult to meet stricter TANF requirements for moving recipients into job. In New York, counties have discretion in designing work requirements and other rules affecting individual behavior. In North Carolina, some counties follow a state plan but can make decisions on which services are provided to recipients, while some can develop their own plan and define eligibility and benefit levels. In Ohio, counties receive block grants and can design

their own programs, including services and eligibility for services. In Wisconsin, responsibility for welfare devolved to the local level with a competitive bids system. In most counties, the county governments administer welfare reform (Gainsbrough 2003). In sum, although these states have variation in the degree of devolution, counties have considerable authority over spending, establishing some aspects of policies, and enjoy significant discretion over work requirements, time limits, additional benefit eligibility and sanctions (Fording et al 2007).

Among the thirty-five states that administered AFDC directly, twenty-three states continue to administer TANF directly without devolution. Six states give a small degree of devolution to the local level, but six states have created local or regional advisory boards, usually composed of local government representatives, local business representatives, community groups, and service providers rather than devolve responsibility to the local governments. These local or regional boards are responsible for designing and delivering TANF services. However, these boards often represent the local governments which appoint their representatives as members of the boards. In Arkansas, transitional employment assistance coalitions composed of local departments of human services, business representatives, chambers of commerce, service providers, and community development organizations can develop plans for funding and implementing welfare programs in their area. In Tennessee, local councils which are at least 60% composed of local employers to achieve the goal that training programs in each county should be designed to meet the need of the employers in that county, can advise on state on welfare reform. In Florida, regional boards are responsible for planning and coordinating the delivery of TANF services at the local level. They also have authority to determine exemption from work requirements. In Michigan, Michigan Works Agencies can use federal funds for services they feel are important to their clients. They also have discretion in the use of state funds, and

authority to contract with work first providers. In Texas, regional workforce boards develop a workforce system that is tailored to local labor market conditions. They also can organize and administer training and employment benefits. Like states devolving significant authority to counties, though there is variation in the power these boards have over TANF policy, they have considerable authority over designing and delivering TANF services (Gainsbrough 2003; Fording et al 2007).

Thus, combining the eight states that devolve significant authority to county governments, along with the six states that devolve significant policy discretion to regional workforce development boards, there are a total of fourteen states that currently devolve significant discretion in TANF implementation to local jurisdictions of some kind. These fourteen states are indicated in Figure 1 and are the states that I refer to as “SOD states” throughout this paper.

(Figure 1 about here)

As can be seen, SOD states are not concentrated in any particular region of the country, nor do they appear to be dominated by ideologically conservative or liberal states. However, SOD states do tend to be larger states, and include the four largest states (in population) among their ranks.

In their study of SOD in Florida, Fording, Soss and Schram (2007) examine the potential punitive effects of SOD by examining local variation in TANF sanctioning practices. They find that Florida sanctions TANF clients at a relatively high rate compared to other states, although there is considerable variation in sanctioning rates across counties. In addition, the local socioeconomic and political environments were found to exert strong effects on sanctioning outcomes. The authors attribute both the degree of punitiveness in implementation and the variation in implementation outcomes to the fact that Florida’s TANF program is characterized by significant decentralization, yet this conclusion is merely speculative due to the fact that they do

not explicitly examine sanctioning outcomes in other (non-SOD) states. In sum, there is good reason to believe that SOD may have a significant effect on TANF implementation, but relatively little systematic evidence exists which directly examines this question.

To explore how SOD affects the implementation of welfare policy, I hypothesize that SOD will influence the implementation of sanction policy in two ways through the increased discretionary power of local administrators and case managers. First, I expect SOD states to display greater variation in sanction outcomes than non-SOD states. Variation in sanction policy outcomes across counties should be greater because SOD gives more room for local administrators and case managers to exercise discretionary power, which in turn should be shaped by local environments in the implementation of sanction policy. This increased slack for the use of discretion will produce more variation in sanction policy outcomes across counties and result in stronger effects of local contexts on the implementation of sanction policy in counties within SOD states than in those within centralized states.

Second, I expect that SOD states will have higher sanction rates, on average, than non-SOD states. I expect this to be the case for several reasons. Political pressure and competition among counties may cause SOD counties to implement sanctions more strictly to avoid the immigration of the poor and the loss of business and important tax revenue. Hence, counties in SOD states are expected to produce more severe policy outcomes through the discretionary power of local administrators and case managers than counties in centralized states. Counties in some SOD states also receive block grants from the state and have authority to design important aspects of their welfare programs, including work requirements, time limits and sanctions. The use of block grants may exert pressure on welfare spending because the county must pay 100% of each dollar of welfare costs beyond the state contribution (Brueckner, 2000). In this

way, block grants may impose a financial burden for counties because counties are responsible for all spending when welfare recipients increase beyond some point. Hence, counties with SOD are likely to establish tougher TANF policies and implement policies more strictly to remove this potential financial burden.

In summary, due to the nature of welfare services, local administrators and case managers have significant discretion in their decision making, which should result in significant variation across local areas in sanction implementation. In addition, I expect that the impact of local characteristics on the implementation of sanctions (through the discretion of local administrators and case managers) will be stronger within SOD states than within non-SOD states because second-order devolution allows local governments or local boards to enjoy increased discretion over the implementation of welfare policies. Finally, I expect that counties in SOD states will produce stricter sanction outcomes than counties in centralized states do due to political pressure, financial pressure, and competition among counties.

III. Determinants of Discretion of Local Administrators and Case Managers

What factors should affect how the discretion of local administrators and case managers is used in the implementation process? Street-level bureaucrats occupy a unique position because they serve as brokers between the organization and clients. They translate the rules and deliver services to clients (Scott 1997), and as mentioned earlier, they exercise a great amount of discretion. What shapes their use of discretion? Schneider and Jacoby (1996) suggest four factors which affect bureaucratic decisions at the state level: elected political leaders, interest groups, structural influences, and environmental conditions. Among these, structural

influences are divided into two categories - the incremental nature of policy making and the division of responsibility (devolution) ¹⁵. With respect to street-level bureaucrats, many studies of the factors affecting discretion in street-level bureaucracies suggest three sets of variables: characteristics of clients, organizational characteristics and characteristics of service providers (Scott 1997). In addition to these factors, the environments (community characteristics) in which they work are often assumed to shape the use of discretion (Weissert 1994; Keiser and Soss 1998; Keiser 1999; Keiser et al 2004; Fording et al 2006)¹⁶.

(Figure 2 about here)

Summarizing these studies, the factors influencing the use of discretion can be collapsed into three categories:

- (1) the characteristics of social street-level bureaucrats themselves who carry out a policy,
- (2) the characteristics of clients which might influence client behavior, and
- (3) the environment in which social street-level bureaucrats exercise their discretion.

As mentioned earlier, second-order devolution is also an important factor influencing discretion (Schneider and Jacoby, 1996, Gainsbrough, 2003; Fording et al, 2006; 2007).

In my analyses, I consider all of these factors. In my analyses of TANF work

¹⁵Incremental nature of policy making implies that bureaucrats make decision based on what they used to do. Devolution influences the degree of discretion they can exercise in their decision making (Schneider and Jacoby, 1996).

¹⁶ Client behavior and environment of the county are important factors influencing the decisions of bureaucrats (Weissert 1994; Riccucci 2005).

sanction, I assume that the initiation of a sanction is a function of both bureaucratic discretion as well as client behavior. As I cannot observe the exercise of discretion directly, I assume that it is shaped by the environments in which street level bureaucrats work. As well, although I cannot observe client behavior directly, I assume that client behavior is influenced by various characteristics of clients which previous research has determined might lead to a sanction. It is important to clarify here that I do not measure bureaucratic discretion of social street level bureaucrats or client behavior directly, but assume that the discretion of street level bureaucrats is shaped by the environments in which they work. In other words, the question directly examined here is how local community environments influence the implementation of TANF work sanctions through the discretionary power of local administrators and case managers, after controlling for the characteristics of clients.

Theoretically, the basic tenet of this study is that bureaucratic discretion inherently influences the implementation of policies. From this tenet, when the characteristics of clients and environments of local administrators and case managers vary across counties, this variation produces variation in policy outcomes. In addition, the existence of SOD due to 1996 welfare reform should influence the use of discretion by allowing greater discretion, thus leading to a greater effect of these variables on policy outcomes.

The first research question I examine is if and how community based characteristics influence the implementation of sanction policies in centrally administered states through the discretion of local administrators and case managers. To answer this question, I examine the variation in sanction outcomes in centralized states that administer sanction policies uniformly and directly, utilizing individual-level data combined with county-level contextual data. The *discretion hypothesis* expects that there will be significant variation in sanctioning outcomes, even in states

with a highly centralized administrative structure. This variation is expected to be determined in part by the three factors influencing the use of discretion described above.

The second question is how second-order devolution influences the implementation of sanction policies through the (presumed) increased discretionary power of local administrators and case managers. I examine this question by comparing variation in sanctioning outcomes within SOD states to variation in state-administered states, utilizing individual-level data combined with county-level contextual data.

The effects of second-order devolution are examined in two different ways; by testing what I call the *sanction variation hypothesis* and the *sanction stringency hypothesis*. First, SOD gives more room for local administrators and case managers to use their discretion in implementing sanction policies. Hence, the sanction variation hypothesis predicts that the effects of community context on sanction outcomes in SOD states should be stronger than those in centralized (state-administered) states. Second, as explained above, counties in SOD states have more financial and political pressure than counties in centralized states, and they compete with one another to maximize their regional interests. Hence, they are likely to implement sanctions more strictly. Thus, the sanction stringency hypothesis predicts that sanction rates in counties in SOD states will be higher than sanction rates in counties in non-SOD states.

After testing these hypotheses at the individual level, I then move to examine the effects of SOD on state-level TANF performance by examining the effects of SOD on state caseload decline, state work sanction rates, and state employment outcomes. First, I hypothesize SOD states will experience greater caseload decline. This is a natural implication of the sanction stringency hypothesis presented above (and the

employment improvement hypothesis presented below). That is, if SOD results in greater rates of employment and sanction exits from TANF by welfare recipients, then it naturally follows that SOD states will experience greater caseload decline, all else equal.

As proponents of decentralization argue, local governments better understand the needs of their poor population as well as the social and economic environments which surround them. Policymakers in SOD states can provide more appropriate services for welfare recipients and perhaps modify program requirements in such a way to maximize their own community resources. Hence, the increased discretionary power granted local administrators and case managers may lead to greater program success in SOD states compared to non-SOD states. Although scholars have conceptualized TANF program success in a variety of ways, one of the most common outcomes of interest is successful job placement. I therefore test what I term the “employment improvement hypothesis,” which predicts that SOD states will have higher rates of successful welfare exits through employment, higher rates of job retention, and higher earnings gains, on average, than non-SOD states.

Figure 1. States Relying on Significant Second-Order Devolution in TANF Implementation

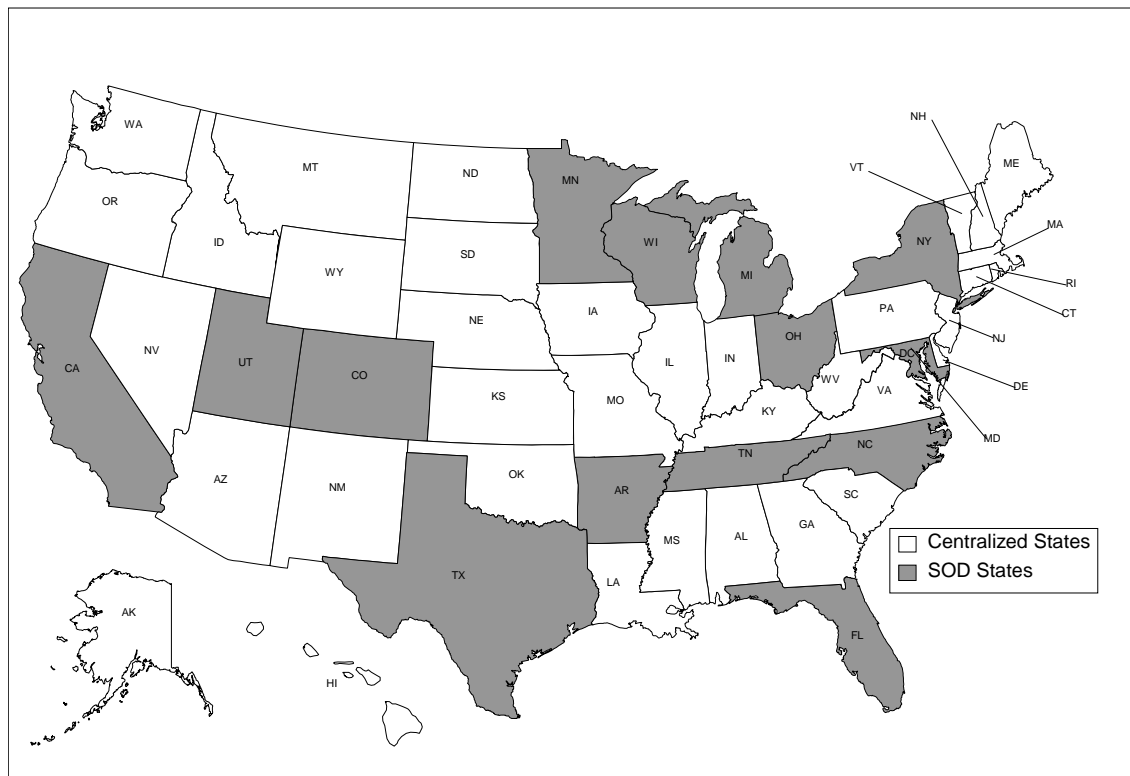
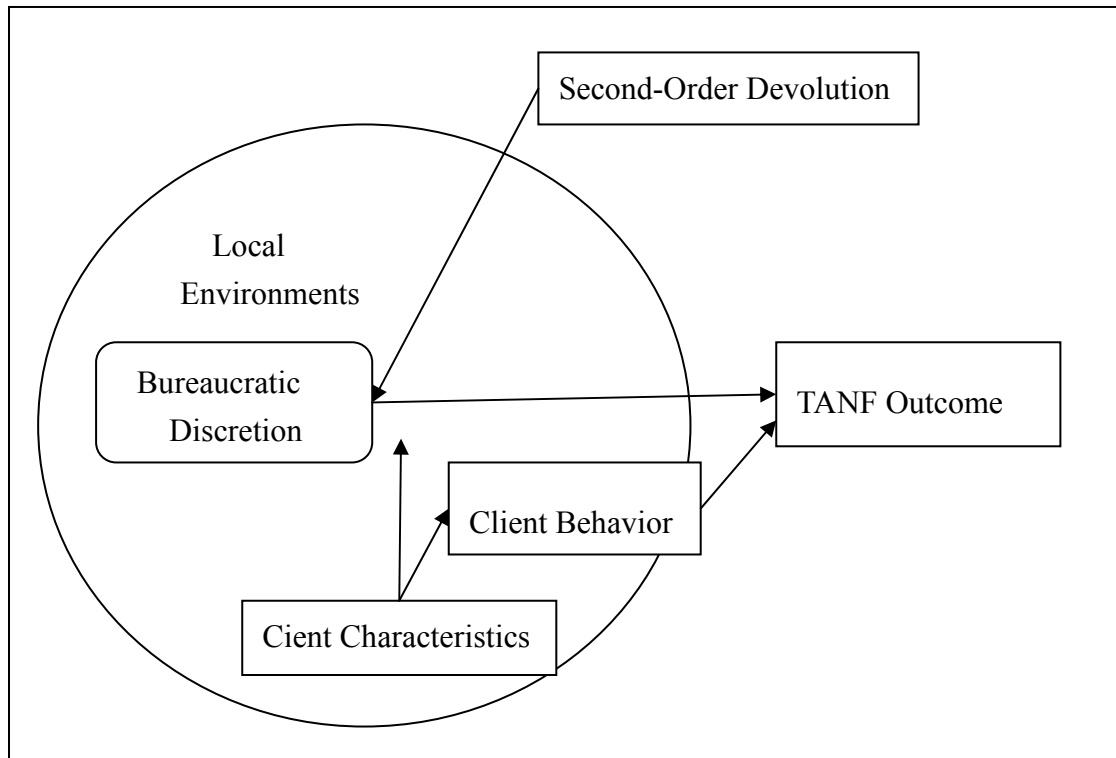


Figure 2. Factors Influencing the Use of Street-Level Bureaucratic Discretion in the Implementation of Policy



Chapter 3: Background and Literature Review

I. Welfare Reform and Sanctions

i. Work-Based Welfare Reform

The most controversial debate concerning welfare policy in recent years has focused on how to end dependency on public assistance and encourage welfare recipients to leave welfare through self-sufficiency. This emphasis was reflected in the creation of the TANF program, which in 1996 replaced the AFDC program as the primary federal cash assistance program targeting poor families and children. According to the goals of 1996 welfare reform, the main avenue through which welfare recipients are to escape welfare dependency is through employment, which is supported in the TANF program through work requirements and client participation in education and job training programs.

This emphasis on work is a significant departure from earlier decades. From the 1930s through the 1960s, AFDC operated based on the notion that the mother's primary "job" should be caring for her children. But public opinion shifted from this notion to work-based welfare with increasing public acceptance of working mothers (King and Mueser 2005). Since the 1960s, various reforms to AFDC such as the Work Incentive program (WIN) of 1967, the Family Support Act (FSA) of 1988, and the associated Job Opportunities and Basic Skills (JOBS) program have been established to encourage recipients to enter the workforce. However, WIN and JOBS were largely ineffective. Most researchers considered WIN a failure (Guerdon 1978), and JOBS had a minimal effect (Morgan and Kickham 1999), with a 30% caseload increase from 1989 to 1994 despite the initiation of JOBS program (Edelhoch et al 2000). Major program changes in AFDC did not occur until the 1990s when the federal government began encouraging states to apply for waivers that gave them discretion

to modify their AFDC program to encourage employment. These state-initiated policy changes finally resulted in major welfare reform with passage of Personal Responsibility Work Opportunity Reconciliation Act (PRWORA) in 1996.

PRWORA of 1996 abolished federal cash assistance and replaced the AFDC with the TANF program. This reform resulted in some critical modifications in welfare policies, giving states more discretion in designing their cash assistance programs. Some of the most significant changes included the replacement of matching funds under AFDC with a fixed block grant, and the introduction of work requirements, time limits, and the family cap. Perhaps the most important policy changes concern requirements that welfare recipients work, or participate in a work-related activity, to qualify for cash benefits. If welfare recipients fail to comply with work requirements, they may be sanctioned by having their benefits reduced or terminated. Although sanctions were used prior to welfare reform of 1996, they did not play a significant role under the JOBS program because many families were exempt from work requirements (Chi-Fang Wu 2004). In addition, sanctions did not remove the entire AFDC benefit but instead resulted in a partial benefit loss. When the federal government granted waivers of AFDC rules to state governments in the early 1990s, some states began to impose full-family sanctions. Under TANF, the federal government requires that states reduce or remove the entire welfare benefit if recipients fail to comply with work requirements, thus leaving states with the option to enforce partial or full-family sanctions. In sum, the role of sanctions increased under TANF because recipients are subject to stricter exemption policies, the severity of sanctions has increased, and all states use sanctions. The most significant change was the requirement that recipients must work or participate in a work-related activity regulated by state governments to receive welfare benefits. If they do not meet work requirements, they are subject to sanction.

ii. Sanction Policy under Welfare Reform

Although sanctions seem to play a critical role in the implementation of work requirements under TANF, they have been used far longer than since the initiation of TANF. During the existence of the WIN program, welfare mothers who did not comply with work or training requirements were subject to sanctions, but the sanctions were not severe and few clients were subject to work requirements (Mead 1997). The same was true for the JOBS program, as only partial sanctions were allowed, and they were imposed only for adults and certain groups of individuals who were subject to JOBS participation requirements (Edelhoch et al 2000; Kalil et al 2002). In brief, sanctions were used for a long time before TANF initiation, but they did not play an effective role in moving large numbers of welfare recipients into the workforce.

Under TANF, welfare recipients are required to comply with more stringent work requirements, as there is less eligibility for exemptions or good cause exceptions. In addition to wider application of work requirements, non-compliant recipients are subject to more severe sanctions (Fording et al 2006). States are permitted to adopt one of the following four types of sanctions under TANF: (1) partial: some portion of the cash benefit is reduced but clients still receive some portion of benefits; (2) gradual full family: some portion of the cash benefit is reduced for non-compliance. If the sanctioned client complies before the end of the duration of sanction, their benefits are restored, but if they remain non-compliant, they lose the entire benefits; (3) immediate full-family: the entire benefit is eliminated for non-compliance; (4) pay-for-performance: recipients receive assistance only for the hours they participate in required work activities. This is similar to the mix of partial and full-family sanctions

but the size of benefit is determined by the level of the recipient's compliance to work requirements. Fourteen states have adopted immediate full-family sanctions¹⁷, the most severe of the four. Families lose the entire cash benefit soon after non-compliance is recognized. Twenty- seven states have adopted gradual full-family sanctions that reduce some portion of benefits at the first incidence of noncompliance for a period of one to six months (depending on the state) ¹⁸. If the recipient complies with requirements, their benefits are restored, but if they remain non-compliant by the end of the period, they lose the entire benefit. Only one state, Wisconsin, has adopted pay-for-performance sanctions. Nine states and the District of Columbia have adopted partial sanctions, the least stringent form of sanctions (Rowe and Giannarelli 2006; Meyers et al 2006) ¹⁹. As for sanction duration and cure requirements, some states impose minimum duration, while some restore benefits with the sanctioned family's immediate compliance. Thirty-four states impose the minimum sanction duration for the most severe sanction by requiring recipients to remain in sanction status for a minimum period of time from one to twelve months. Nine states remove sanctions and restore benefits as soon as the sanctioned family complies with work requirements or reapplies for assistance (in the case of a full-family sanction). Most states impose more stringent sanctions for repeated non-compliance, and eight states

¹⁷ Florida, Hawaii, Idaho, Iowa, Kansas, Maryland, Michigan, Mississippi, Nebraska, Oklahoma, South Carolina, Tennessee, Virginia, Wyoming.

¹⁸ Alabama, Arizona, Arkansas, Alaska, Colorado, Connecticut, Delaware, Georgia, Illinois, Indiana, Kentucky, Louisiana, Massachusetts, Minnesota, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Utah, West Virginia, Wisconsin.

¹⁹ Washington, Vermont, Texas, Rhode Island, New York, New Hampshire, Missouri, Maine, California.

remove eligibility for cash assistance permanently for multiple non-compliance (Meyers et al 2006).

iii. The Logic of Sanctions

Sanctions are imposed when recipients do not comply with program requirements, especially work requirements, the most common reason for sanctioning. How do sanctions induce welfare recipients' compliance with work requirements?

Sanctions give financial incentives for recipients to comply with work requirements by removing their benefits when they do not meet those requirements. Hence, under the threat of sanction, recipients should be more likely to follow program requirements. Yet, this logic works only if we can assume that recipients are rational, and controlling for other barriers to compliance.

The metaphor of “carrots and sticks” is often used to explain the logic of work-based welfare policy. Governments support recipients by providing childcare subsidies, transportation assistance, and an increased Earned Income Tax Credit as carrots when they comply with work requirements, while their benefits are reduced or removed by sanction as sticks when they do not meet requirements. Thus, sanctions are supposed to teach recipients respect for the rules by imposing negative consequences for non-compliance (Kaplan 1999). This presumably results in behavioral changes among recipients who experience a sanction.

Another way that sanctions might influence clients' behavior is that the potential loss of benefits may be enough to motivate recipients to comply with requirements without even having to experience a sanction (Fein and Lee 1999). These theories of the effects of sanctions assume that recipients are rational and have the ability to calculate the benefit and cost of the consequences of their behavior. Under this assumption, recipients who lose their benefits by sanction will comply with

requirements to restore financial benefits if they truly need benefits and those who will not comply may have other income sources or they are not truly needy (Kalil et al 2002).

But can we assume that (controlling for other barriers to compliance) all or even most recipients are rational in the sense that they can calculate the costs and benefits of the consequences of their behavior? Even if they are assumed to have enough rationality, the question still remains if they have enough knowledge of welfare policy as it is currently implemented. Several studies have found that recipients may not have full knowledge of their state's sanction policies and their consequences when the requirements are not fulfilled by the recipients (Hasenfild et al 2004). The latter question is closely associated with the implementation of work requirements and sanction policy. Further, even if we assume that recipients are rational and have enough knowledge on policy details, they are likely to be affected by how local administrators and case managers implement sanctions.

II. Review of Sanction Studies

As sanctions became a central feature of the welfare reform of 1996, the number of welfare exits due to sanctions increased, which in turn induced concern about the effect of sanctions on welfare recipients. The goal of sanction policy is to make recipients' social status more stable by encouraging them to acquire education and skills, get a job, retain their job, and finally become independent of welfare and achieve self-sufficiency. From this perspective, the goal of sanctions should be to encourage welfare recipients' compliance with work requirements or job training programs, and ultimately, to achieve self-sufficiency through permanent employment. However, if sanction policies result in welfare exits without self-sufficiency, they do

little to further the stated goals of welfare reform.

In spite of the consensus that sanctions have been one of the most critical policy components of welfare reform, they are the least studied (Pavetti, Deer and Hesketh 2003). Scholars have investigated questions such as the amount of variation in sanction rates across states or counties in a state, the number of families sanctioned for failure to comply with work requirements, the role of sanctions in caseload decline, the individual and family characteristics of sanctioned people, the obstacles to comply with work requirements or to find employment, the well-being of sanctioned people, and the community-level social, economic and political factors associated with implementation of sanctions.

In studies of sanction rates, different methods are used to calculate the sanction rate and this difference makes it hard to understand and compare sanction rates across studies²⁰. Sanction rates will be higher when cases are observed over a longer period, when the denominator is restricted to closed cases (as compared to all cases), and cohorts are observed over a longer period of time. The most accurate measure could be the calculation of rates for cohorts of recipients including new entrants and former recipients over time because it captures long term recipients as well as new recipients that have different risks of being sanctioned (Myers et al 2006).

So far, studies show that large numbers of families have been sanctioned due to noncompliance with program requirements (Pavetti, Deer and Hesketh 2003; Pavetti et al 2004). Yet, there is no consensus concerning whether sanction severity is associated with caseload decline (Bloom and Winstead 2002). Rector and Youssef

²⁰Several calculation methods are used to estimate sanction rates: a percentage of caseload sanctioned in a given month; a percentage of all cases sanctioned or closed in a given time period; a percentage of all cases in an entering cohort that are sanctioned or closed over time (Pavetti et al 2003; Mayers et al 2006).

(1999) found severe sanctions and strong work requirements were highly associated with caseload decline, while Hofferth et al. (2001) found severe sanctions had no relationship with welfare exits. Although previous studies have not presented a clear conclusion on the relationship between sanction severity and welfare exits, sanction policy has played a critical role in encouraging welfare beneficiaries to participate in work-related activities.

As for the individual and family characteristics of sanctioned clients, numerous studies have found that client characteristics are associated with a higher risk of receiving sanctions. Studies have identified that lower levels of education and limited work experience are positively associated with the risk of being sanctioned. Age of clients and age of children are negatively associated with the risk of being sanctioned²¹. Race of clients matters in sanctioning; African-American and Hispanic are more likely to be sanctioned than their white counterparts because their education level is lower than whites, and they are less likely to have opportunities to get jobs than whites.

The number of children is positively associated with sanctions (Westra and Routry 2000; Born et al 1999; Brauner and Loprest 1999; Edelhoich et al 2000; Fein and Lee 1999; Hasenfeld et al 2004; Heidi Goldberg and Liz Schott 2000; Pavetti et al 2004; Cherlin et al 2001; Cherlin et al 2002; Koralek 2000; Kalil et al 2002). Several studies have also identified marital status²² (Edelhoich et al 2000; Westra and Routley 2000;

²¹However, age of youngest child has positive relationship with the risk of being sanctioned because clients who have a child under age one are usually exempt from work requirements.

²²Single clients are more likely to be sanctioned than married clients.

Korarek 2002; Pavetti et al 2004), longer welfare dependency²³ (Fein and Lee 1999; Edelhoich et al 2000; Pavetti et al 2003), and a lack of transportation (Fein and Lee 1999; Cherlin et al 2002; Hasenfeld et al 2004) as being associated with sanctions. Cherlin et al (2002) found that clients with communication problems originating from a lack of telephones were subject to sanction as a result of missed appointments.

In addition to these demographic client characteristics and physical and mental health problems, the use of hard drugs, exposure to domestic violence, and the absence of child care are also associated with sanctions (Pavetti et al 2004; Hasenfeld et al 2004; Kalil et al 2002; Cherlin et al 2002).

Finally, based on studies of the well-being of sanctioned people after they leave welfare, the results indicate that sanctioned people are less likely to be employed and to have earned income than non-sanctioned families (Westra and Routry 2000; Born et al 1999; Brauner and Loprest 1999; Edelhoich et al 2000). Sanctioned families are also more likely to experience some material hardships like utility shutoffs, as well as the subjective perception that they are experiencing economic hardship (Kalil et al 2002; Lee et al 2004; Reichman et al 2005).

Although these studies provide important insights into the individual and family-level correlates of sanctioning, scholars have paid little attention to the role of administrators and case managers who are responsible for implementing sanctions, and in turn how their behavior may be affected by the local implementation environment. Indeed, only two studies (Keiser et al 2004; Fording et al 2006; Fording et al 2007) have investigated the relationships between local economic and social

²³ Longer time on welfare dependency is associated with higher risk of sanctioning. But there has been no consistent conclusion on the relationship between the length of welfare dependency and the risk of being sanctioned.

conditions, local racial contexts, the local political context, and the implementation of sanctions while controlling for clients' individual characteristics. One studied a state (Missouri) in which welfare is state-administered, while the other studied a state (Florida) in which welfare administration is devolved to the regional level. Both studies found that racial context was associated with the sanction rate, with the risk of being sanctioned negatively associated with the size of the minority population. In other words, sanctioning was found to be lower in areas with large minority populations than in areas with relatively small minority populations. This finding supports theories which suggest that the mobilization of political power of minorities induces generous policy outcomes. The latter study found variation in local sanctioning practices to be strongly tied to local political values, even after controlling for individual characteristics in Florida. This finding could be evidence of variation in sanction practices that is due to administrative structure (decentralized second-order devolution) along with inherent bureaucratic discretion affecting the implementation of sanctions (Fording et al 2006; Fording et al 2007).

In this dissertation, I continue to investigate the individual and family characteristics that are associated with sanctioned families, and the obstacles they face for compliance using individual-level data. Beyond these traditional determinants of sanctions, however, I focus on the role of administrative discretion in the implementation of sanctions, and especially how discretion may be influenced by such factors as local economic and social conditions, the racial context, political ideology, and the mobilization of the poor. In addition to these local environments affecting the implementation of sanctions through the discretion of case managers and local administrators, I investigate how administrative structure may impact the implementation of sanction policy by distinguishing second-order devolution (locally-administered sanctions) from first-order devolution (state-administered sanctions)

using the dataset composed of individual-level data combined with county-level context data.

Chapter 4: Research Design (Sanction Implementation Study): Individual-Level

Analysis

I. Intra-State Variation in Sanctioning in Centralized States: The Discretion Hypothesis

i. Case Selection

To test the discretion hypothesis, I examine the thirty-six states that administer TANF directly. The discretion hypothesis predicts that community-based characteristics should influence the implementation of sanction policies through the discretion of local administrators and case managers. These states offer a good sample to explore the use of discretion by local administrators and case managers in the implementation of sanction policy because welfare administration in these states is relatively centralized at the state level. Thus, compared to many states which adopt SOD, there is less room for bureaucratic discretion in the design and implementation of sanction policies at the local level. If there exists variation in sanction outcomes in these states, it is therefore most likely caused by the exercise of discretion by street-level bureaucrats due to the nature of their work, or by differences in client behavior. Although some of the variation may be random, I expect that bureaucratic discretion will be systematically influenced by community conditions to a significant degree after controlling for client characteristics which are related to client behavior that might lead to a sanction.

ii. Statistical Method

The dataset is composed of individual-level characteristics (micro-level) combined with county-level contexts (macro-level). The purpose of this initial analysis is to assess the influence of SOD and contextual factors on the probability of a client being sanctioned. Therefore, applying standard estimation techniques such as logistic regression ignores the multi-level nature of the data. Applying standard estimation techniques to multi-level structural data produces exaggerated statistical significance for the coefficients of the explanatory variables (especially for macro-level variables) by underestimating standard errors of coefficients. This is due to the fact that there are multiple micro-level observations per macro-level unit, thus producing correlation (dependency) within macro-level units. In other words, observations are not independent, violating a basic assumption of regression that errors are independently and identically distributed (Luke 2004; Primo et al 2007).

To deal with this issue, I employ multi-level modeling for this study. Luke (2004) states that multi-level modeling is the most appropriate choice when the observations in the study are not independent and the errors are likely to be correlated. In this case, the level-one errors (individuals) are likely to be correlated within the level-two units (counties) because those individuals are being influenced by the same county-level factors.

To test my hypotheses, I use three different statistical approaches designed to overcome error clustering: (1) logit with robust (clustered) standard errors, (2) logit with fixed effects, and (3) multi-level logistic regression. Stata 8 is used for estimation methods 1 and 2, while Hierarchical Linear and Nonlinear Model (HLM 6.04) estimation is used for multi-level logit regression. Estimation with robust standard errors corrects for error correlation across the observations within a cluster, but it requires the assumption that observations across clusters are independent.

Robust (clustered errors) estimation accounts for a general form of heteroskedasticity as well as for any intra-cluster correlation (Primo et al 2007). Thus, the robust (clustered) standard error approach could be more suitable for multi-level structural data than standard logit regression because it allows intra-cluster correlations, but does not allow inter-cluster correlation. State fixed-effects also control for state-by-state variation in the dependent variable. This approach captures any clustering by level-two units because the dummy variables absorb the unique variation among the level-2 units and can be operated easily within a standard regression framework. But dummy variables are only indicators of level-two unit differences and they do not provide information about why the regression regimes for level-2 units are different (Steenbergen and Jones 2002). HLM allows me to avoid possible biases associated with estimation procedures that ignore the nested nature of multi-level data. HLM corrects for potential biases addressed above by estimating separate variance structures on each grouping of nested data and then includes these as estimates in the macro-level model so the standard errors are unbiased (Hutchison 2007). It also allows me to analyze the explanatory power of each level of variables on the dependent variable by estimating variance components.

Standard logit regression is the worst option to be applied to analyze multi-level data as it yields biased estimates of standard errors. Robust (clustered) standard error estimation seems to have some advantages over HLM in that it requires fewer assumptions than HLM, and it works with fewer clusters than HLM (Primo et al 2007). Fixed-effects estimation also controls for level-two unit variances but does not explain why they are different. However, HLM might be the most advanced and precise approach, and it corrects for all potential biases addressed above. It also provides information on how much of the variation in the dependent variable is explained by each-level of variables.

I use HLM 6.04 to estimate hierarchical nonlinear models in the analysis (Raudenbush, Byrk, and Congdon 2005) because the dependent variable is a dichotomous measure and the multi-level models are estimated using logistic regression. I apply clustered standard error, fixed-effects and HGLM to analyze the hypotheses, and compare the results of different approaches to one another. I think it is meaningful to see if different methodological approaches produce differences in results, and if so, how the results are different. However, my preferred approach is HGLM because I think it is the most suitable statistical approach for multi-level data structures, both theoretically and technically.

iii. Data and Hypotheses

The data for my test of the discretion hypothesis are drawn from several sources. Administrative data are acquired from the U.S. Department of Health and Human Services, and local contextual data are from several different sources: U.S. Census Bureau, Bureau of Labor Statistics, and Bureau of Economic Analysis. The dependent variable is dichotomous, and indicates whether an individual client's TANF case is closed due to a work sanction (1), or for some other reason (0)²⁴.

²⁴I restrict the analysis to TANF work sanctions as the dependent variable and exclude other types of (non-work) sanctions because SOD gives discretion in designing work requirement, required work hours and exemptions for work requirements which is related to work sanctions as well as in designing sanction policies, and I test the sanction stringency hypothesis with the dependent variable, TANF work sanction rates, at the state level analysis later. One of the most important changes in the 1996 welfare reform is initiation of work requirements across states. By considering whether the result of individual-level analysis is identified with that of state-level analysis or not, I can reconfirm the impact of SOD on the implementation of TANF work sanctions. Of course, SOD allows authority in designing work sanctions to local governments and regional boards in a significant degree, not other sanctions.

I consider only closed cases due to data constraints. There exist two different raw administrative datasets which contain information on client characteristics and sanction history. One dataset contains state samples of active cases, while the other consists of information on closed cases. By definition, the data for active cases provide information strictly for partial sanctions (due to the fact that partial sanctions do not close the case). The data for closed cases provide information about gradual full-family sanctions and immediate full-family sanctions, both of which can result in a closed case. It is impossible to integrate the two different datasets as the two samples are not really comparable. Under this data constraint, the dataset of closed cases might be the more appropriate dataset to use for an examination of the impact of bureaucratic discretion on the implementation of TANF work sanctions. This is due to the fact that sixteen states use partial sanctions exclusively, while thirty-four states use gradual full-family sanctions or immediate full-family sanctions (as of 2000, which is the beginning time point of my analysis). In addition, it is likely that local administrators and case managers take the sanction decision more seriously when the effect is to close the case²⁵. Thus, the sample consists of closed cases, and excludes individuals from several states as follows. First, I exclude individuals from the ten states where state policy does not allow for case closure due to work sanctions²⁶. I also exclude individuals from four states that did not close welfare cases due to work sanctions, even if they have policy rules which allow for closing welfare cases with

²⁵ Information about termination of cash assistance with TANF work sanctions is available from the State Policy Documentation Project (<http://www.spdp.org/>).

²⁶ Alaska, Indiana, Maine, Missouri, Montana, New Hampshire, Pennsylvania, Rhode Island, Vermont, and Washington.

work sanctions²⁷. I also restrict the sample to clients who are the head of the TANF household, as well as a member of eligible family receiving assistance over age seventeen because I consider work sanctions which usually apply to adult clients. As defined, the sample consists of such individuals in twenty-two centralized (non-SOD) states for six years (2000-2005), supplemented with community (county) level data identifying the local characteristics affecting the use of discretion in sanction implementation. Hence, the final sample consists of 75,735 clients whose welfare case was closed due to a work sanction, or some other reason, in twenty-two centralized states.

In this initial analysis, I test the effects of informal discretion on the implementation of sanctions in states with a highly centralized TANF program. In these states, states TANF sanction policies should be implemented uniformly across counties. Thus, if street-level bureaucrats exercise little discretion in the implementation of sanctions, there may be little variation in sanction outcomes across counties. On the other hand, if street-level bureaucrats exercise significant discretion, we may see significant variation in sanction outcomes across counties²⁸. If this is the case, how should variation in sanction rates across counties be explained? As

²⁷Iowa, North Dakota, Oklahoma, and Virginia.

²⁸ If we assume that sanctioning is a function of bureaucratic discretion as well as client behavior, we cannot conclude that significant bureaucratic discretion produces more variation in sanction outcomes without controlling for client behavior. Thus, just examining variation without controlling for the local environment and client characteristics may indicate that more discretion due to devolution produces more variation. But this may be incorrect because we do not control for client characteristics. Due to this reason, I argue the only way to measure the discretionary power of local administrators and case managers is using variance components in HLM because it provides information on the explanatory power of the local environment on variation in sanctioning after controlling for the explanatory power of client characteristics.

explained in the previous chapter, I expect the use of discretion to be shaped by the local context, and constrained by clients' attributes.

1) Discretion Hypothesis

H₁: The probability of clients leaving the rolls due to work sanctions will be related to characteristics of the local context, including political, social and economic characteristics, after controlling for individual (client) characteristics.

This hypothesis will be analyzed through the following equations:

Logit regression with clustered standard error (county):

$$\begin{aligned} \ln [P_{ic}/1-P_{ic}] = & \alpha + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \beta_3(\text{Number of Children})_{ic} + \\ & \beta_4(\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} \\ & + \beta_8(\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \beta_{10}(\text{Employment Status})_{ic} + \\ & \beta_{11}(\text{Earned Income})_{ic} + \beta_{12}(\text{Political Ideology})_{ic} + \beta_{13}(\% \text{Black})_{ic} + \\ & \beta_{14}(\% \text{Hispanic})_{ic} + \beta_{15}(\text{Income per capita})_{ic} + \beta_{16}(\text{Unemployment Rate})_{ic} + \\ & \beta_{17}(\text{Poverty Rat})_{ic} + \beta_{18}(\% \text{Highschool Graduate})_{ic} + \beta_{19}(\text{Lag Caseload})_{is} + \\ & \beta_{20}(\text{Unmarried Birth Rate in TANF Families})_{is} + \beta_{21}(\text{Sanction Severity})_{is} + \varepsilon \end{aligned} \quad (1)$$

i =individual

ic =individual in county c

is=individual in state s

Logit regression with State Fixed Effects:

$$\begin{aligned} \ln [P_{ic}/1-P_{ic}] = & \alpha + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \beta_3(\text{Number of Children})_{ic} + \\ & \beta_4 (\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} + \\ & \beta_8 (\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \beta_{10}(\text{Employment Status})_{ic} + \\ & \beta_{11}(\text{Earned Income})_{ic} + \beta_{12}(\text{Political Ideology})_{ic} + \beta_{13}(\% \text{Black})_{ic} + \\ & \beta_{14}(\% \text{Hispanic})_{ic} + \beta_{15}(\text{Income per capita})_{ic} + \beta_{16}(\text{Unemployment Rate})_{ic} + \\ & \beta_{17}(\text{Poverty Rat})_{ic} + \beta_{18}(\% \text{Highschool Graduate})_{ic} + \text{Dst}(1,2,\dots,22) \end{aligned} \quad (2)$$

i = individual

ic = individual in county c

Multilevel Logit Regression:

$$\begin{aligned} \text{Level 1: } \ln [P_{ic}/1-P_{ic}] = & \beta_0 + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \\ & \beta_3(\text{Number of Children})_{ic} + \beta_4 (\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \\ & \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} + \beta_8 (\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \\ & \beta_{10}(\text{Employment Status})_{ic} + \beta_{11}(\text{Earned Income})_{ic} \end{aligned} \quad ^{29}$$

²⁹The residual parameter variance for level-1 coefficient has been set to zero. The assumptions of linearity and normality are not realistic and no transformation can make them so in a binary outcome. The use of standard level-1 model in this case would be not appropriate for three reasons: “1. there are no restriction on the predicted values of the level-1 outcome in the standard HLM. In contrast, the predicted value of binary outcome must lie in the interval (0, 1). This constraint gives meaning to the effect sizes defined by the model. A nonlinear transformation of the predicted value, such as a logit or probit transformation, will satisfy this constraint; 2. Given the predicted value of outcome, the level-1 random effect can take on only one of two values and, therefore, cannot be normally distributed; 3. The level-1 random effect cannot have homogeneous variance. Instead, the variance of this random effect depends on the predicted values as specified.” (See Raudenbush and Bryk 2002 291-296).

$$\text{Level 2: } \beta 0_c = \gamma 0_0 + \gamma 1(\text{Political Ideology})_c + \gamma 2(\% \text{Black})_c + \gamma 3(\% \text{Hispanic})_c + \gamma 4(\text{Income per capita})_c + \gamma 5(\text{Unemployment Rate})_c + \gamma 6(\text{Poverty Rate})_c + \gamma 7(\% \text{Highschool Graduate})_c + \mu 0_c \quad (3)$$

c=county

The dependent variable (**Work Sanction**) is a dichotomous variable indicating whether the family's case was closed due to a work sanction (1) or for other reasons (0)³⁰. The independent variables comprise individual-level variables indicating client characteristics and county-level variables indicating county-community effects. To control for individual-level characteristics, I include *Gender, Age, Number of Children, Age of Youngest Child, Education, Marital Status, Citizenship, Employment Status, Earned Income* of Client, and Race of Client (*black* and *Hispanic*). *Gender* is coded as (0) for male and (1) for female. *Age* is measured as the actual age of clients, in years. The *number of children* is measured as the number of children for each client. *Age of youngest child* is actual age of youngest child for each client, in years. *Education* of clients is divided into three categories; less than high school (0), high school graduate (1) and more than high school graduate (2). *Marital status* is measured as (0) for married and (1) for single. *Citizenship* is measured as (0)

³⁰Other reasons comprise employment and/or excess earnings, marriage, federal five-year time limit, child support sanction, teen parent failing to meet school attendance requirements, teen parent failing to live in an adult setting, failure to finalize an individual responsibility plan, failure to meet individual responsibility plan provision or other behavioral requirements, state time limit, if different than federal, collection of child support, excess unearned income, excess resources, youngest child too old to qualify for assistance, minor child absent from the home for a significant time period, failure to appear at eligibility/ redetermination appointment, submit required verification materials, and/or cooperate with eligibility requirements, transfer to separate state MOE program, and family served by a tribal TANF program, tribal new program, family voluntarily closes the case, and other reasons not specified in the data.

for non-citizen and (1) for citizen. Race of Client is divided into two categories; **black** indicates (0) for non-African-American and (1) for **black**, and **Hispanic** indicates (0) for non-Hispanic and (1) for **Hispanic**. **Employment status** takes on a value of (0) for the unemployed and (1) for the employed. **Earned income** is the amount of earned income for the last month on assistance, in dollars.

Number of Children, Age of Youngest Child, Marital Status, Education, and Race of Client (**black** and **Hispanic**) are important client characteristics influencing sanctioning outcomes (Fein and Lee 1999; Born et al 1999; Brauner and Loprest 1999; Edelhoch et al 2000; Westra and Routry 2000; Heidi Goldberg and Liz Schott 2000; Koralek 2000; Cherlin et al 2001; Cherlin et al 2002; Kalil et al 2002; Hasenfeld et al 2004; Pavetti et al 2004; Fording et al 2006). Based on previous studies, I expect that being female will be associated with a higher probability of clients leaving the rolls due to work sanctions because women are less likely to have opportunities to find employment. The probability of leaving the rolls due to work sanctions should be higher for younger clients, single parents, clients who have more children, clients who have less education due to limited education, and clients who are black and Hispanic (compared to White).

The probability of leaving the rolls due to work sanctions should be lower for the clients who have a younger child because they are more likely to be exempt from work requirements. Clients who are citizens should have a higher probability of leaving the rolls due to work sanctions because they are more likely to have opportunities to find other sources of support living without assistance than non-citizens. I expect that clients who are employed will be less likely to leave the rolls due to work sanctions than the unemployed because they are more stable in their living than the unemployed, are meeting program requirements, and can maintain their employment. Maintaining employment is easier than getting a job or attending

job training programs. Clients who have more earned income will be less likely to leave the rolls due to work sanctions because they are more likely to leave welfare through employment and/or excess earnings than through sanctions.

To control for local community factors, I consider local political, demographic, economic, and social environments. Socioeconomic variables, political ideology, partisanship and public opinion have been the most significant factors influencing welfare policy outcomes at state level (Dawson and Robinson 1963; Hofferbert 1969; Jennings 1979; Dye 1979; Plotnick and Winters 1985; Wright, Erikson and McIver 1987; Wright, Erikson and McIver 1989; Brown 1995; Schneider and Jacoby 1996; Berry, Rinqvist, Fording and Hanson 1998; Burstein 2002; Berrilliaux, Holbrook and Langer 2002). Several studies also find that political environments influence policy implementation (Wood and Waterman 1993; Keiser et al 2004; Fording et al 2006). At the county level, several studies have included these environmental factors in multivariate models and have found them to be significantly related to policy outcomes (Grubb 1984; Weissert 1994; Keiser et al 2004; Fording et al 2006).

In this study, ***Political Ideology*** is conceptualized based on the traditional liberal-conservative dimension. Liberal environments are expected to promote more generous welfare outcomes through the activities of local administrators and case managers, while conservative environments are expected to drive local administrators and case managers to implement less generous sanction policies. To capture the effects of ***Political Ideology***, I utilize county presidential election data from 2000 to measure the share of the vote received by George W. Bush³¹. I use local presidential election data

³¹Fording et al (2006) build index of a county ideology with 18 ideologically relevant constitutional amendments in Florida and found their constructed index to be strongly correlated with local partisanship.

as an indicator of *Political Ideology* because it is available across all counties (and there is no other measure of political ideology that is available). I expect that the probability of clients leaving the rolls due to work sanctions will be higher across counties with conservative ideology than across counties with a predominant liberal ideology.

To capture the effects of racial context on sanction policy outcomes, I include the percentage of the black population and the percentage of the Hispanic population in a community. Local racial context might affect policy outcomes in two ways. First, the increased minority population may provoke antipathy by the white majority and this antipathy leads to a decrease in supporting policies that are beneficial for the minority (Key 1949; Hero 2001). On the other hand, a minority may use their increased political power to produce generous policies for the minority group (Radcliff and Saiz 1995; Avery and Peffley 2003). Two studies have applied racial context to explain variation in sanction policies and both provide evidence suggesting that sanctioning is lower in areas where the minority population is large (Keiser et al 2004; Fording et al 2006). I expect that the probability of clients leaving the rolls due to work sanctions will be higher across counties with smaller minority populations, assuming the minority political power overwhelms majority antipathy toward the minority group. As Key (1949) and Hero (1998) argued, increased minority population may provoke antipathy by the white majority and this antipathy leads to a decrease in supporting policies that are beneficial for the minority.

To capture the effects of economic conditions, local employment opportunities, and local labor markets, I also consider the effects of local socio-economic conditions such as *Unemployment Rates*, *Income per Capita*, *Poverty Rates* and *%Highschool Graduate* of a community. In counties where there are numerous employment opportunities and relatively prosperous economic environments, recipients are likely

to have an easier time finding employment opportunities and will therefore be more likely to avoid sanctions imposed for non-compliance for work requirements. In counties with higher poverty rates, local administrators and case managers may be more sympathetic to TANF recipients because they recognize recipients' environments and understand their need for help (Fording et al 2006). In counties with higher Education level (% of high school graduate), people are more likely to understand the environment around welfare recipients, and recognize the necessity of welfare. *%Highschool Graduate* should be negatively associated with probability of clients leaving the rolls due to work sanctions. I expect that the probability of clients leaving the rolls due to work sanctions will be positively associated with *Unemployment Rates* and negatively associated with *Income per Capita*. *Poverty Rate* should be negatively associated with the probability of clients leaving the rolls due to work sanctions. The *Poverty Rate* hypothesis may be tenuous, however, because higher poverty rates may associated with higher demand or eligibility for TANF, and therefore this may result in more sanctions due to increased demand or eligibility and more stringent sanctioning.

II. The Impact of Decentralization (SOD): The Sanction Variation and Stringency Hypotheses (22 centralized states VS. 7 SOD states)

i. Case Selection

As mentioned in the preceding sections, thirty-six states do not devolve authority and responsibility to local governments, but instead administer TANF policy at the state level. In contrast, eight states devolve significant authority and responsibility to local governments and six states devolve authority to regional boards composed of representatives from local government and private organizations. Thus, these fourteen SOD states serve as good cases to explore the impact of second-order devolution

(administrative decentralization) on the implementation of TANF policies by comparing sanctioning outcomes with the thirty-six states which administer TANF programs directly.

In brief, thirty-six states administer sanction policy uniformly and directly at the state level while fourteen states devolve authority and responsibility in designing sanctioning policies (including good cause exemptions) to local governments or regional boards due to second-order devolution. Hence, these states serve as good cases to explore the impacts of SOD on the implementation of sanction policies.

ii. Data and Hypotheses

Welfare reform in 1996 provides states with an opportunity to devolve authority and responsibility in designing and implementing TANF policies to local governments or regional boards. As a result, local administrators and case managers receive more discretion in SOD states than those in centralized states. Thus, second-order devolution may allow local characteristics to affect the implementation of sanctions more strongly through the increased discretionary power of local administrators and case managers (the sanction variation hypothesis). In addition, SOD may also drive local administrators and case managers to implement sanction policy more strictly due to financial and political pressures, and competition among counties (the sanction stringency hypothesis). To examine how second-order devolution influences the implementation of sanction policies, I test each of these hypotheses.

1) The Sanction Variation Hypothesis

H₂: The effects of local community context on the probability of clients leaving the rolls due to work sanctions will be greater in states that devolve authority and responsibility to local governments or regional boards than in states that administer sanction policy directly.

The strategy for the test of this hypothesis is to compare the coefficient estimates from the sample of centralized states (described above for the test of the discretion hypothesis) to the coefficient estimates for a model that includes the same variables, but instead relies on data from SOD states. Thus, to build my SOD sample, I proceed in a similar fashion. As before, I limit the sample to closed cases. I also exclude individuals from an additional six SOD states whose sanction policies do not allow for case closures due to work sanctions³², and one state that does not close welfare cases with work sanctions, even though they have policy rules which (seemingly) allow for it³³. The SOD state sample thus consists of individual-level administrative data for TANF clients, each of whom is a head of household, as well as a member of the eligible family receiving assistance over age seventeen, for six years (2000-2005). I supplement the individual-level data with community-level data identifying the local characteristics affecting the use of discretion in sanction implementation. Hence, the final sample for the seven additional SOD states is 23,471 clients whose welfare cases were closed due to a work sanction, or for other reasons.

This sanction variation hypothesis will be analyzed by comparing the coefficient

³²Arkansas, California, New York, Texas, Minnesota and Wisconsin.

³³North Carolina.

estimates from equations 1-3 above (i.e. for 22 centralized states) to the corresponding estimates from the following equations (for seven SOD states):

Logit Regression with clustered standard error (county):

$$\begin{aligned} \ln [P_{ic}/1-P_{ic}] = & \alpha + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \beta_3(\text{Number of Children})_{ic} + \\ & \beta_4(\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} + \\ & \beta_8(\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \beta_{10}(\text{Employment Status})_{ic} + \\ & \beta_{11}(\text{Earned Income})_{ic} + \beta_{12}(\text{Political Ideology})_{ic} + \beta_{13}(\% \text{ of Black})_{ic} + \\ & \beta_{14}(\% \text{ of Hispanic})_{ic} + \beta_{15}(\text{Income per capita})_{ic} + \beta_{16}(\text{Unemployment Rate})_{ic} + \\ & \beta_{17}(\text{Poverty Rat})_{ic} + \beta_{18}(\% \text{ Highschool Graduate})_{ic} + \beta_{19}(\text{Lag Caseload})_{is} + \\ & \beta_{20}(\text{Unmarried Birth Rate in TANF Families})_{is} + \beta_{21}(\text{Sanction Severity})_{is} + \varepsilon \quad (4) \end{aligned}$$

i = individual

ic = individual in county c

is = individual in state s

Logit Regression with State Fixed Effects:

$$\begin{aligned} \ln [P_{ic}/1-P_{ic}] = & \alpha + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \beta_3(\text{Number of Children})_{ic} + \\ & \beta_4(\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} + \\ & \beta_8(\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \beta_{10}(\text{Employment Status})_{ic} + \beta_{11}(\text{Earned} \\ & \text{Income})_{ic} + \beta_{12}(\text{Political Ideology})_{ic} + \beta_{13}(\% \text{ of Black})_{ic} + \beta_{14}(\% \text{ of Hispanic})_{ic} + \\ & \beta_{15}(\text{Income per capita})_{ic} + \beta_{16}(\text{Unemployment Rate})_{ic} + \beta_{17}(\text{Poverty Rat})_{ic} + \\ & \beta_{18}(\% \text{ Highschool Graduate})_{ic} + \text{Dst}(1,2,\dots,7) + \varepsilon \quad (5) \end{aligned}$$

i = individual

ic = individual in county c

Multilevel Logit Regression:

$$\text{Level 1: } \ln [P_{ic}/1-P_{ic}] = \beta_0 + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \beta_3(\text{Number of Children})_{ic} + \beta_4(\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} + \beta_8(\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \beta_{10}(\text{Employment Status})_{ic} + \beta_{11}(\text{Earned Income})_{ic}$$

$$\text{Level 2: } \beta_{0c} = \gamma_0 + \gamma_1(\text{Political Ideology})_c + \gamma_2(\% \text{ of Black})_c + \gamma_3(\% \text{ of Hispanic})_c + \gamma_4(\text{Income per capita})_c + \gamma_5(\text{Unemployment Rate})_c + \gamma_6(\text{Poverty Rate})_c + \gamma_7(\% \text{ Highschool Graduate})_c + \mu_{0c} \quad (6)$$

c = county

The dependent variable is a dichotomous variable reflecting whether a client's case is closed due to work sanctions, or for other reasons. The independent variables are the same as those used for the discretion hypothesis models (equations 1-3). My expectations for the direction of the effects of the variables in equations 4-6 are identical to what is anticipated for the discretion hypothesis models. I expect that the effects of local community characteristics, especially political ideology and racial context, on the probability of client leaving the rolls due to work sanctions will be greater in the SOD sample than those in twenty-two centralized states because local administrators and case managers in SOD states have more leeway to exercise their discretion, which I anticipate will be shaped by local community environments due to second-order devolution.

As explained in my discussion of statistical methods above, one of the benefits of multilevel model analysis using HLM is that we can calculate the collective explanatory power of each level of independent variables (i.e. individual-level and county-level). In other words, we can know that a certain percentage of the variability

in the probability of client leaving the rolls due to work sanctions is due to differences between counties, while another percentage is due to differences among clients. Comparing across different samples, I am therefore able to test an additional hypothesis regarding the effect of administrative structure on sanction implementation. That is, I expect the relative explanatory power of county-level variables on the probability of clients leaving the rolls due to work sanctions to be larger in SOD states than that in non-SOD states.

2) The Sanction Stringency Hypothesis

H₃: TANF clients in states with SOD are expected to have a higher probability of leaving the rolls due to work sanctions than clients in states with centralized administration.

To test the sanction stringency hypothesis, I simply combine the samples for the SOD and centralized (non-SOD) states. Thus, the sample consists of individual-level administrative data for TANF clients (as described above), supplemented with county-level data identifying the local characteristics affecting the use of discretion in sanction implementation, for twenty-nine states (twenty-two centralized states and seven SOD states for years 2000-2005). Hence, the final sample consists of 99,206 clients whose welfare cases closed due to work sanctions or for other reasons in twenty-nine states.

I examine the effect of administrative decentralization on sanction stringency by including a dummy variable in the equations below, where 0 = state administered sanction policy, and 1 = county or regional board-administered sanction policy (states with SOD). This is reflected in the equation below:

Multilevel Logit Regression:

$$\text{Level 1: } \ln [P_{ic}/1-P_{ic}] = \beta_0 + \beta_1(\text{Gender})_{ic} + \beta_2(\text{Age})_{ic} + \beta_3(\text{Number of Children})_{ic} + \beta_4(\text{Age of Youngest Child})_{ic} + \beta_5(\text{Marital Status})_{ic} + \beta_6(\text{Education})_{ic} + \beta_7(\text{Black})_{ic} + \beta_8(\text{Hispanic})_{ic} + \beta_9(\text{Citizenship})_{ic} + \beta_{10}(\text{Employment Status})_{ic} + \beta_{11}(\text{Earned Income})_{ic}$$

$$\text{Level 2: } \beta_{0c} = \gamma_{00} + \gamma_1(\text{Political Ideology})_c + \gamma_2(\% \text{ of Black})_c + \gamma_3(\% \text{ of Hispanic})_c + \gamma_4(\text{Income per capita})_c + \gamma_5(\text{Unemployment Rate})_c + \gamma_6(\text{Poverty Rate})_c + \gamma_7(\% \text{ Highschool Graduate})_c + \gamma_8 \mathbf{D(SOD)}_c + \mu_{0c} \quad (7)$$

c=county

I expect that counties in SOD states will have higher probability of client leaving the rolls due to work sanctions, on average, than counties in non-SOD states because local administrators and case managers in those states implement sanction policy more strictly with their increased discretionary power due to financial and political pressure and competition among counties.

Chapter 5: Results

I. Intra-State Variation in Centralized (Non-SOD) States: The Discretion Hypothesis

As I discussed in Chapter 4, I used three different estimation approaches to test the discretion hypothesis. These results are presented in Tables 1. Comparing the results, there is virtually no difference in the results for individual level characteristics across the different estimation methods. Yet, I ultimately rely on the results in Table 2 as the preferred model for my multilevel logit regressions because the HLM is the most appropriate one when using multilevel structural data to overcome violating classical regression assumptions of normality and individual-level error correlation in the same context (Luke, 2004).

(Table 1 is about here)

I begin by discussing the results presented in Table 1. The directions of coefficients for all individual-level characteristics are consistent with the expectations outlined in Chapter 4. In addition, all individual-level effects are consistently statistically significant except *Gender*. *Gender* is statistically significant only in the Logit with State Fixed Effect and Robust (Clustered) Standard Error approaches. The probability that clients who leave the rolls due to work sanctions instead of for other reasons is lower for clients who are older, have higher levels of *Earned Income*. As the *Education* level of clients increases, the likelihood that clients leave the rolls due to work sanctions decreases. As the *Age of Youngest Child* increases, and the *Number of Children* for clients increases, clients are more likely to leave the rolls due to work sanctions. *Black* and *Hispanic* clients are more likely to leave the rolls due to work sanctions than white clients, *Citizens* are more likely to leave the rolls due to work sanctions than non-citizens, the employed are less likely to leave the rolls due to work

sanctions than the unemployed, and single clients are more likely to leave the rolls due to work sanctions than married clients. All individual-level results confirm my expectations and are generally consistent with previous research.

As for the effects of county level context, the *Poverty Rate* matters across all different estimation approaches. Other economic factors matter as well, but the effects are not consistent across all estimation methods. The results suggest that the racial context does not matter, because *%black* is significant in only one model, and *%Hispanic* is significant in two of three models, but the direction of the effect is inconsistent across the two significant models.

As for the direction of the contextual effects, the *Poverty Rate* is positively associated with the probability that clients who leave the rolls due to work sanctions. Higher poverty rates may reflect the fact that more clients are demanding welfare assistance and this increased size of the welfare rolls may force case managers to use sanctions more strictly to control caseload, and may reflect limited economic opportunities for clients. As *Income per Capita* increases, the probability that clients who leave the rolls due to work sanctions increases. This result is inconsistent with expectations. As *Unemployment Rate* increases, the probability that clients who leave the rolls due to work sanctions decreases. Local administrators and case managers may be more sympathetic to clients in higher unemployment counties because they recognize clients' environment and understand they need help in a high unemployment economy. Racial contexts are statistically significant when using the Logit with Clustered Standard error and Logit with State Fixed-Effect approaches. As *%black* increases, the probability that clients who leave the rolls due to work sanctions decreases for one model (in Logit with State Fixed Effect approach). The effect of *%Hispanic* is inconsistent across different estimation methods. Indeed, the effect is negative and significant in the Logit with Clustered Standard error approach,

but positive and significant using the Logit with State Fixed-Effect approach. Given the lack of significance for several models, as well as the inconsistency in the effects for *%Hispanic*, the results for racial context are largely inconclusive.

(Table 2 is about here)

I now discuss the results for the HLM analysis of the discretion hypothesis, the results of which are presented in Table 2. The final model is Multilevel Logit Regression which is the most appropriate for multilevel structural data analysis.

In Hierarchical Generalized Linear Models, the variance component estimates are difficult to obtain because the results do not routinely show an estimate of the level-1 variance because it is impossible to estimate both the coefficient and the error variances. Therefore, the error variance is always fixed to the same number which is $\pi^2/3=3.29$. This rule is applied to multilevel models too, but only to the level-1 residuals (Sarkisian 2007). Hence, the explanatory power of level-2 models can be calculated as $\mu_0 / (3.29 + \mu_0)$. In the discretion hypothesis model reflected in Table 2, differences between county level characteristics explain 25.9% of variability in the probability of being sanctioned among clients.

As for the effects of the individual-level variables, all variables are statistically significant except for Gender, and the directions of coefficients are consistent with my expectations. I begin by discussing the effects of the individual-level variables, relying on the odds ratios calculated from the coefficient estimates. As *Age of Clients* increases by one, the odds that one leaves the rolls due to work sanctions instead of for other reasons decreases by 2.5%. As clients' *Earned Income* increases, the odds that one leaves the rolls due to work sanctions decreases by 0.2%. As the *Education* level of clients increases, the odds that one leaves the rolls due to work sanctions decreases by 25.8%. As *Age of Youngest Child* increases by one and the *Number of Children* for clients increases by one, the odds that one leaves the rolls due to work

sanctions increases by 5% and 10.5% respectively. **Black** clients are more likely to leave the rolls due to work sanctions than white clients, as the odds of leaving the rolls due to work sanctions are 34.6% higher. **Hispanic** clients are more likely to leave the rolls due to work sanctions than whites, with the odds of leaving the rolls due to work sanctions increasing by 21.7%. The odds of **Citizen** leaving the rolls due to work sanctions are 40.3% more than non-citizens. The employed are less likely to leave the rolls due to work sanctions than the unemployed, with the odds decreasing by 48.5%. Finally, the odds that one leaves the rolls due to work sanctions for single clients are 19% higher than married clients.

As for contextual variables, **Poverty Rate**, **Income per Capita** and **Unemployment Rate** are significant statistically and the directions of those are identified with my expectations. As the **Poverty Rate** increases by 1, the odds that one leaves the rolls due to work sanctions increases by 3.1%. As **Income per Capita** increases by 100 dollars, the odds that one leaves the rolls due to work sanctions decreases by 0.8%. As unemployment increases by 1, the odds that one leaves the rolls due to work sanctions decreases by 4.6%. Racial contexts and **Political Ideology** are not statistically significant.

In summary, concerning contextual effects, economic characteristics and **Poverty Rate** help to explain variation in sanction imposition in centralized states. This result supports the discretion hypothesis that *the probability of clients leaving the rolls due to work sanctions will be related to characteristics of the local context, including political, social and economic characteristics, after controlling for individual (client) characteristics*. Presumably, county economic characteristics and the **Poverty Rate** influence the implementation of work sanctions through the informal discretionary power of local administrators and case managers.

II. The Impact of SOD: The Sanction Variation and Stringency Hypotheses (22 centralized states VS. 7 SOD states)

i. The Sanction Variation Hypothesis

I begin by examining the unconditional variation in sanction outcomes. Interestingly, I find that there is no significant difference between SOD and non-SOD states with respect to the mean and standard deviation of the probability of a client leaving the rolls due to work sanctions. One possible reason for this lack of difference across the two sets of states may be that SOD simply has no effect implementation. A second explanation may be that the increase in local discretion in SOD states actually leads to convergence in policy outcomes, as has been argued by proponents of the “race to the bottom” thesis in state welfare benefit levels (Peterson and Rom 1989). But it is important to remember that this result is based on the unconditional mean and standard deviation, and therefore is obtained without controlling for client characteristics and the characteristics of local contexts.. At this point, I argue that the only way to measure the impact of SOD on the discretionary power of local administrators and case managers is to use variance components analysis in HLM because it provides information on the explanatory power of the local environment on variation in the probability of sanction after controlling for the explanatory power of client characteristics. To examine the sanction variation hypothesis, I therefore present results for identically-specified models as estimated in Tables 1 and 2, but I now estimate the models for clients in SOD states only. The test of the sanction variation hypothesis is then achieved by comparing the results in Tables 1 and 2 for centralized states to the results presented in Tables 3 and 4 for SOD states.

These SOD results presented in Tables 3 and 4 reflect the same order of presentation as followed in Tables 1 and 2. I begin by discussing the results in Table 3. Once again, there is very little difference in the results for individual-level

characteristics across different methodological approaches. The directions of coefficients for all individual-level characteristics are consistent with expectations, and all are statistically significant except for citizenship and marital status. Thus, there is little difference in the effects of the individual-level variables across SOD and centralized states.

(Table 3 about here)

As for county-level contexts, unlike the case for centralized states, the *Poverty Rate* of a community does not matter in work sanction imposition in SOD states, with the exception of the Logit with Clustered Standard Error approach. But *Income per Capita* and Racial Contexts do have consistently significant effects on the use of work sanctions, but the direction of coefficient of *Income per Capita* is inconsistent across different approaches. The local educational context (*%Highschool Graduate*) is significant in one of the approaches presented on Table 3 (the Logit with stated fixed-effect model). As the percentage of high school graduate increases, the probability that clients who leave the rolls due to work sanctions decreases. As *%Black* increases across communities, the probability that clients who leave the rolls due to work sanctions decreases. As *%Hispanic* increases across communities, the probability that clients who leave the rolls due to work sanctions also decreases in the seven SOD states. These results may imply that political power due to the mobilization of black and Hispanic populations overwhelms the increasing majority antipathy of whites toward black and Hispanic interests as the size of these minority populations increases.

(Table 4 about here)

I now move to the HGLM results presented in Table 4. The explanatory power of

the level-2 model is 46.5% in this model³⁴. Thus, differences between county level characteristics explain 45.9% of the variability in the dependent variable in SOD states. Compared to that of level-2 model in centralized states (25.9%), the explanatory power of county level characteristics is far stronger in SOD states than in centralized states.

The coefficient estimates presented in Table 4 are similar to those for the other statistical approaches, but education is statistically significant, income per capita is not significant, and the direction of coefficient for %**Black** is reversed. Based on the results, **Education**, and racial contexts have a significant impact on the use of work sanctions in these seven SOD states. As the percentage of high school graduate increases by 1, the odds that one leaves the rolls due to work sanctions decreases by 6.9%. As %**Black** increases by 1, the odds that one leaves the rolls due to work sanctions increases by 4.2%. This result is opposite the result obtained by the other approaches. Nevertheless, I place greatest confidence in the results of multilevel logit regression because it is the most appropriate method based on statistical theory, as I explained in the previous chapter. As %**Hispanic** increases by 1, the odds that one leaves the rolls due to work sanctions decreases by 3.1% in the seven SOD states. Together, these results may imply that majority (white) antipathy toward blacks overwhelms the mobilization of political power as black population increases, but majority (white) antipathy toward Hispanic citizens is relatively weaker than that which exists for black citizens. Or, it could be the case that the mobilization power of Hispanic citizens overwhelms the majority antipathy toward Hispanics.

Compared to the results for the twenty-two centralized states, **Income per Capita**,

³⁴ $\mu_0 / (3.29 + \mu_0) = 46.5$

Unemployment Rate and **Poverty Rate** matter in work sanction imposition in twenty-two centralized states, while **Education**, and racial contexts matter in seven SOD states³⁵. This result is consistent with what Fording et al (2007) found in their study on Florida. That is, racial context influences the implementation of sanction policy through the discretion of local administrators and case managers. These results, along with the stronger explanatory power of county-level characteristics in SOD states, provide some support for the sanction variation hypothesis that *the effects of local community context on the probability of clients leaving the rolls due to work sanctions will be greater in states that devolve authority and responsibility to local governments or regional boards than in states that administer sanction policy directly*. SOD allows more discretionary power to local administrators and case managers by giving authority and responsibility in designing TANF policies to local governments, and this increased discretionary power, which is shaped by local environments, influences the implementation of sanctions more strongly in SOD states than in non-SOD states.

ii. The Sanction Stringency Hypothesis

The results for my test of the sanction stringency hypothesis are presented in Table 5. As can be seen, the directions of the effects of the coefficients for all individual-level characteristics are consistent with expectations, and statistically significant with the exception of **Citizenship**. This is expected given the fact that this sample is

³⁵ Unfortunately, I cannot compare the relative effects of county characteristics on sanctioning between SOD states and non-SOD states because the variables that matter in sanctioning are different across non-SOD (Poverty rate, Income per capita and unemployment rate) and SOD states (Education, and Racial context). But the variance components in HGLM shows that the differences between counties do explain how much of the variability in the probability of clients leaving the rolls due to work sanctions.

identical to the samples used for the analyses presented in Tables 1-4, but pools clients across SOD and centralized states into one larger sample.

(Table 5 about here)

Single, female, **Black**, **Hispanic**, and unemployed clients are more likely to leave the rolls due to work sanctions. Clients who have higher **Education**, **Earned Income**, **Age**, younger **Age of youngest child** and fewer numbers of children are less likely to leave the rolls due to work sanctions. For county-level characteristics, **Income per Capita**, **Unemployment Rate**, %**Black** and **Second-Order Devolution** variables are all statistically significant. As **Income per Capita** increases by 100 dollars, the odds that one leaves the rolls due to work sanctions decreases 0.6%. As the **Unemployment Rate** increases by 1 across counties, the odds that one leaves the rolls due to work sanctions decreases by 3.9%. A %**Black** increases by 1, the odds that one leaves the rolls due to work sanctions increases by 0.7%. As we saw in the previous analyses, economic characteristics, and **Poverty Rate** of counties matter in centralized states, while **Income per Capita**, **Education** and racial contexts matter in SOD states. As for the racial context, the direction of the coefficient for %**Hispanic** is different between centralized states and SOD states. Hence, the effect of %**Hispanic** becomes insignificant in the combined sample of 29 states.

The most theoretically important variable in this analysis is **SOD**, which indicates the presence of SOD in a state. This variable is statistically significant and the direction of coefficient is consistent with the expectation. The odds that one leaves the rolls due to work sanctions instead of for other reasons are 56.3% higher in SOD states than in centralized states. This result lends support to the sanction stringency hypothesis, which states that *clients in states with SOD are expected to have a higher probability of being sanctioned than clients in states with centralized administration*. Local administrators and case managers in SOD states may therefore implement

sanction policy more strictly due to financial and political pressure, along with competition among counties, and as facilitated through their increased discretionary power. Although I cannot pinpoint the mechanism inducing this stricter sanction implementation exactly, SOD may lead to a race to the bottom and may allow people in counties would support sanctions to do so.

III. Summary

In this chapter, I presented the results from the discretion and sanction variation/stringency models. For the individual-level variables, nearly all of the results are consistent with my expectations (based on previous studies). In addition, there is relatively little variation in the strength of the results across different statistical approaches.

As for contextual variables, county-level economic variables and *Poverty Rate* matter in sanction implementation in centralized (non-SOD) states while county-level *education* and racial context matter in SOD states. The explanatory power of county-level characteristics in SOD states is about twice as strong as that in centralized states. Together, these results support both the discretion hypothesis as well as the sanction variation hypothesis.

For the sanction stringency model, the odds that one leaves the rolls due to work sanctions (compared to other reasons for exit) in SOD states is about 56 % higher than that for clients in centralized states. This result also confirms the sanction stringency hypothesis. SOD induces stronger county context effects in the implementation of sanction policies through bureaucratic discretionary power as well as stricter sanction implementation due to financial and political pressure and competition among counties.

Table 1: Discretion Hypothesis Model (Clustering and Fixed Effect)

	Logit with Clustered Standard Error	Logit with Fixed Effect	Logit with State Fixed Effect and Clustering
Independent Variable	Coefficient(S.E)	Coefficient (S.E)	Coefficient (S.E)
<i>Individual-Level</i>			
<i>Characteristics</i>			
Age	-.025** (0.001)	-.024** (0.002)	-.024** (0.002)
Gender	.046 (0.075)	.095 (0.058)	.095** (0.065)
Black	.672** (0.159)	.326** (0.036)	.326** (0.048)
Hispanic	.387** (0.106)	.199** (0.047)	.199** (0.079)
Citizenship	.484** (0.179)	.356** (0.106)	.356** (0.118)
Employment Status	-.386 (0.237)	-.687** (0.044)	-.687** (0.142)
Marital Status	.150** (0.041)	.190** (0.034)	.190** (0.040)
Education`	-.143 (0.090)	-.295** (0.021)	-.295** (0.032)
Age of Youngest Child	.050** (0.003)	.049** (0.003)	.049** (0.003)
Number of Children	.099** (0.015)	.101** (0.011)	.101** (0.012)
Earned Income	-.001** (0.000)	-.001** (0.000)	-.001** (0.000)
<i>County-Level</i>			
<i>Characteristics</i>			
% Highschool Graduate	.005 (0.015)	.001 (0.004)	.001 (0.007)

(Table 1 continued)

Poverty rate	.039* (0.020)	.041** (0.003)	.041** (0.007)
Income Per Capita	-.00001 (0.000)	.00003** (0.000)	.00003** (0.000)
Unemployment Rate	-.0387 (0.039)	-.021** (0.007)	-.021 (0.013)
Political Ideology	.530 (1.062)	.299 (0.197)	.299 (0.381)
% Black	.003 (0.005)	-.002* (0.001)	-.002 (0.003)
% Hispanic	-.020* (0.011)	.004* (0.002)	.004 (0.005)
<i>State-level Characteristics</i>			
Lag_Caseload	.007 (0.015)		
Unmarried Birthrate	-.007** (0.002)		
Sanction Severity	-.0004 (0.002)		
R squared	0.0841	0.2178	0.2178
N	75735	75735	75735

Note: Cell entries are logit regression coefficients, with clustered standard errors in parentheses in model 1 and 3. Cell entries are logit regression coefficients, with standard errors in parentheses in model 2. The dependent variable is based on the dichotomous variable, defined as whether a client's case is closed due to work sanctions or other reasons. Sample is 75,735 clients who leave the rolls due to work sanctions or other reasons in 927 counties in 22 non-SOD states. ** $p < .05$, * $p < .10$ (All tests one-tailed)

Table 2: Discretion Hypothesis Model (Multilevel Logit Regression)

	Multilevel Logit	
Independent Variable	Coefficient (S.E)	Odds Ratio
Intercept	-2.232 (0.996)	
<i>Individual-Level Characteristics</i>		
Age	-.024** (0.002)	0.975
Gender	.086 (0.066)	1.090
Black	.297** (0.048)	1.346
Hispanic	.196** (0.081)	1.217
Citizenship	.338** (0.121)	1.403
Employment Status	-.662** (0.144)	0.515
Marital Status	.174** (0.040)	1.190
Education`	-.297** (0.032)	0.742
Age of Youngest Child	.049** (0.004)	1.050
Number of Children	.100** (0.012)	1.105
Earned Income	-.001** (0.0002)	0.998
<i>County-Level Characteristics</i>		
%Highschool Graduate	.008 (0.008)	1.008
Poverty rate	.031** (0.012)	1.031
Income Per Capita	-.00007** (0.0002)	0.99992

(Table 2 continued)

Unemployment Rate	-.046** (0.019)	0.954
Political Ideology	.364 (0.496)	1.440
% Black	.004 (0.003)	1.004
% Hispanic	.003 (0.004)	1.003
Variance Component		
μ_0	1.15412**	
R	3.29 (fixed)	
Chi-Square/DF	14.51	
N	75735	

Note: Cell entries are restricted maximum likelihood coefficients, with robust standard errors in parentheses. The dependent variable is based on the dichotomous variable, defined as whether a client's case is closed due to work sanctions or other reasons. Sample is 75,735 clients who leave the rolls due to work sanctions or other reasons in 927 counties in 22 non-SOD states. ** $p < .05$, * $p < .10$ (All tests one-tailed)

Table 3: Sanction Variation Hypothesis (Clustering and Fixed Effect)

SOD states			
	Logit with clustered S.E (county)	Logit with state fixed effect	Logit with state fixed effect and clustered S.E (county)
Independent Variable	Coefficient (S.E)	Coefficient (S.E)	Coefficient (S.E)
<i>Individual-Level</i>			
<i>Characteristics</i>			
Age	-.017** (0.005)	-.017** (0.003)	-.017** (0.005)
Gender	.179* (0.107)	.250* (0.112)	.205** (0.103)
Black	.138* (0.072)	.135** (0.068)	.135** (0.067)
Hispanic	.159* (0.093)	.160* (0.083)	.160* (0.085)
Citizenship	-.114 (0.152)	-.071 (0.138)	-.071 (0.159)
Employment Status	-.634** (0.250)	-.645** (0.101)	-.645** (0.259)
Marital Status	.039 (0.057)	.063 (0.058)	.063 (0.057)
Education`	-.126** (0.041)	-.152** (0.036)	-.152** (0.038)
Age of Youngest Child	.031** (0.007)	.029** (0.006)	.029** (0.007)
Number of Children	.120** (0.027)	.129** (0.020)	.129** (0.027)
Earned Income	-.001** (0.0002)	-.001** (0.0001)	-.001** (0.0002)

(Table 3 continued)

% Highschool Graduate	.020 (0.017)	-.017* (0.009)	-.017 (0.013)
Poverty Rate	0.044* (0.025)	.006 (0.012)	.006 (0.018)
Income Per Capita	-.00004** (0.00001)	.00002* (0.00001)	.00002* (0.00001)
Unemployment Rate	-.072* (0.042)	.026 (0.025)	.026 (0.033)
Political Ideology	-.059 (0.638)	.222 (0.301)	.222 (0.342)
% Black	-.023** (0.004)	-.007** (0.002)	-.007** (0.003)
% Hispanic	-.007* (0.003)	-.014** (0.002)	-.014** (0.002)
<i>State-Level Characteristics</i>			
Lag_Caseload	-.030** (0.010)		
Unmarried Birthrate	-.222** (0.021)		
Sanction Severity	.090** (0.007)		
R squared	0.2423	0.2577	0.2577
N	23471	23471	23471

Note: Cell entries are logit regression coefficients, with clustered standard errors in parentheses in model 1 and 3. Cell entries are logit regression coefficients, with standard errors in parentheses in model 2. The dependent variable is based on the dichotomous variable, defined as whether a client's case is closed due to work sanctions or other reasons. Sample is 23,471 clients who leave the rolls due to work sanctions or other reasons in 374 counties in 7 SOD states. ** p<.05, * p<.10 (All tests one-tailed)

Table 4: Sanction Variation Hypothesis (Multilevel Logit Regression)

SOD states		
Independent Variable	Multilevel Logit	
	Coefficient (S.E)	Odds Ratio
Intercept	3.268 (2.647)	
<i>Individual-Level Characteristics</i>		
Age	-.016** (0.005)	0.983
Gender	.220** (0.103)	1.246
Black	.114* (0.065)	1.121
Hispanic	.133* (0.076)	1.142
Citizenship	-.086 (0.151)	0.916
Employment Status	-.647** (0.257)	0.523
Marital Status	.075 (0.058)	1.078
Education`	-.143** (0.038)	0.866
Age of Youngest Child	.028** (0.007)	1.029
Number of Children	.124** (0.027)	1.132
Earned Income	-.001** (0.0002)	0.998
<i>County-Level Characteristics</i>		
% of high school graduate	-.071** (0.022)	0.931
Poverty Rate	-.052 (0.039)	0.948

(Table 4 continued)

Income Per Capita	-0.000002 (0.00004)	0.99999
Unemployment Rate	-.013 (0.071)	0.986
Political Ideology	1.931 (1.333)	6.896
% Black	.041** (0.009)	1.042
% Hispanic	-.031** (0.013)	0.969
Variance Component		
μ_0	2.86667**	
R	3.29 (fixed)	
Chi-Square/DF	12.26	
N	23471	

Note: Cell entries are restricted maximum likelihood coefficients, with robust standard errors in parentheses. The dependent variable is based on the dichotomous variable, defined as whether a client's case is closed due to work sanctions or other reasons. Sample is 23,471 clients who leave the rolls due to work sanctions or other reasons in 374 counties in 7 SOD states. ** $p < .05$, * $p < .10$ (All tests one-tailed)

Table 5: Sanction Stringency Hypothesis

Independent Variable	Multilevel Logit Regression	
	Coefficient (S.E)	Odds Ratio
Intercept	-1.319 (0.964)	
<i>Individual-Level characteristics</i>		
Age	-.022** (0.002)	0.977
Gender	.120** (0.058)	1.127
Black	.256** (0.044)	1.292
Hispanic	.180** (0.064)	1.197
Citizenship	.173 (0.117)	1.189
Employment Status	-.662** (0.129)	0.515
Marital Status	.150** (0.035)	1.162
Education`	-.253** (0.029)	0.776
Age of Youngest Child	.044** (0.003)	1.045
Number of Children	.105** (0.011)	1.110
Earned Income	-.001** (0.0002)	0.998
<i>County-Level Characteristics</i>		
% of high school graduate	-.005 (0.007)	0.994
Poverty Rate	.017 (0.013)	1.017
Income Per Capita	-.00005** (0.00002)	0.99994

(Table 5 continued)

Unemployment Rate	-.039* (0.020)	0.961
Political Ideology	.457 (0.495)	1.580
% Black	.007** (0.003)	1.007
% Hispanic	-.003 (0.005)	0.996
<i>SOD</i>	.446** (0.123)	1.563
Variance Component		
μ_0	1.64388	
R	3.29 (fixed)	
Chi-Square/DF	12.98	
N	99206	

Note: Cell entries are restricted maximum likelihood coefficients, with robust standard errors in parentheses. The dependent variable is based on the dichotomous variable, defined as whether a client's case is closed due to work sanctions or other reasons. Sample is 99,206 clients who leave the rolls due to work sanctions or other reasons in 1,301 counties in 22 non-SOD and 7 SOD states. ** $p < .05$, * $p < .10$ (All tests one-tailed)

Chapter 6: Extending the Analysis to Other Implementation Outcomes (Caseload Decline, Sanction Stringency, Employment Improvement Hypotheses)³⁶

In chapters 4 and 5, I explored the impact of SOD on the implementation of TANF work sanctions with individual-level data, combined with county-level data, by testing the discretion hypothesis, the sanction variation hypothesis, and the sanction stringency hypothesis. I now move to a state-level analysis of TANF implementation. By moving to the state level, I am able to strengthen my analysis in two important ways. First, individual-level analyses, as I describe below, I can provide an additional test of the sanction stringency hypothesis by considering the effect of SOD on a different measure for sanction outcomes. Second, I can go beyond sanctioning outcomes to examine the impact of SOD on other implementation outcomes within the TANF program. And third, by examining other implementation outcomes I can include the full set of SOD states in my sample. In the sanction variation and stringency models, which are individual-level analyses, I included 22 of 36 centralized states and 7 of 14 SOD states in my sample because some states use only partial sanctions or do not close the case due to a sanction.³⁷

In this chapter, we examine the impact of SOD on several different implementation outcomes to test for the effects of SOD on TANF implementation beyond work sanctions with state-level data. We examine the effects of SOD on TANF policy success as well as state punitiveness by examining caseload decline, the use of work

³⁶ This chapter is co-authored with my advisor, Richard C. Fording.

³⁷ I consider clients leaving the welfare in this analysis. Thus, I miss information on client who get sanctioned but still on welfare.

sanctions, and several employment-related measures of TANF performance. We also examine the direct and indirect impact of SOD on caseload decline by investigating the causal paths through which SOD operates to influence caseload decline. Past research suggests that SOD may influence the implementation of TANF through the increased discretionary power of local administrators and case managers. The key to understanding exactly how this discretion may affect TANF outcomes lies in identifying the differences between SOD and non-SOD states in the implementation environment. The literature on intergovernmental relations suggests there are several distinguishing features of SOD which may lead welfare implementation to take a different form than non-SOD states.

The first consideration is the fact that local actors have greater flexibility in designing local programs in SOD states. As proponents of decentralization argue, local governments better understand the needs of their poor population as well as the social and economic environments which surround them. Policymakers in SOD states can provide more appropriate services for welfare recipients and perhaps modify program requirements in such a way to maximize their community's resources. Hence, the increased discretionary power granted local administrators and case managers may lead to greater program success in SOD states compared to non-SOD states. We term this potential effect of SOD the "efficiency thesis" and test this hypothesis by examining the impact of SOD on several TANF outcomes commonly studied as indicators of successful implementation in the TANF literature.

Critics of decentralization in welfare administration argue that rather than fostering program success, SOD is likely to lead to a more punitive approach to TANF implementation (Fording, Soss and Schram 2007; Soss, Fording and Schram 2008). We refer to this possibility as the "stringency thesis." This outcome may occur for a couple of reasons already discussed in chapter 2.

To test for the effects of SOD on TANF implementation, we first examine the impact of SOD on caseload decline. Then, we move to an examination of the impact of SOD on four different implementation outcomes that influence caseload decline: the state work sanction rate (to test the stringency thesis), the rate at which welfare clients exit TANF due to employment, the job retention rate among TANF recipients, and earnings gains among TANF recipients (to test the efficiency thesis).

I. Caseload Decline Model

i. Data and Hypothesis

First, we hypothesize that SOD states will experience greater caseload decline. This is a natural implication of both the efficiency thesis and the stringency thesis presented above. According to the efficiency thesis, SOD may result in higher rates of successful employment exits from TANF by welfare recipients due to the enhanced ability of local administrators to tailor implementation styles to local labor markets. If this is the case, then it naturally follows that SOD states will experience greater caseload decline (all else equal).

The stringency thesis also leads to a prediction of greater caseload decline under SOD, but for very different reasons. According to the stringency thesis, local administrators and case managers may have greater incentive to rely on formal policy tools, such as sanctions, to discourage current welfare recipients from continuing to receive TANF benefits. In addition, if SOD does indeed result in a more punitive style of TANF implementation, it is likely to be reflected not just in sanctions, but in the inherent use of discretion by frontline welfare staff who rely on other (less formal) strategies to discourage TANF receipt. If this is the case, then in addition to the indirect effects of SOD on caseload decline predicted by the stringency and efficiency hypotheses, we might also expect SOD to have direct and negative impact on the size

of the TANF caseload by encouraging welfare exits for other reasons other than sanction or employment. We therefore test the “caseload decline hypothesis,” which predicts that SOD states will have higher caseload decline, on average, than non-SOD states under welfare reform.

H4: SOD States are expected to have higher caseload decline than states with centralized administration (The Caseload Decline Hypothesis).

We test this hypothesis by utilizing state panel data for forty seven states over the period 1980-2003, estimating the coefficients for equation 8 below.³⁸ As we utilize state panel data, the model is estimated by relying on panel corrected standard errors and includes fixed effects for states and years.

$$\begin{aligned}
 \text{Welfare Recipient Rate}_{i,t} = & \alpha_i + \gamma_t + \beta_1 \text{SOD}_{i,t} + \beta_2 \text{TANF Eligibility Index}_{i,t} \\
 & + \beta_3 \text{TANF Flexibility Index}_{i,t} + \beta_4 \text{Restrictive Waiver}_{i,t} \\
 & + \beta_5 \text{Earnings Disregard Waiver}_{i,t} + \beta_6 \text{Government Ideology}_{i,t-2} \\
 & + \beta_7 \text{Per Capita Income}_{i,t-1} + \beta_8 \text{Unemployment Rate}_{i,t-1} \\
 & + \beta_9 \text{State Minimum Wage}_{i,t} + \beta_{10} \text{Welfare Recipient Rate}_{i,t-1} + \varepsilon_{i,t} \quad (8)
 \end{aligned}$$

i =state
 t =year

The dependent variable, *Welfare Recipient Rate*, is based on the AFDC/TANF recipient rate and is measured in two ways. For our first model, we rely on the simple recipient rate, which is calculated as the number of AFDC/TANF cases per 1000 state population. As an alternative, we also estimate equation 1 using the log of the recipient rate as the dependent variable (Blank 2001; Ziliak et al. 2000). As we

³⁸We exclude Alaska, Hawaii and Nebraska due to a lack of data for one or more variables.

describe below, this choice does little to alter our substantive conclusions.

Our hypothesis of interest concerns the impact of SOD on the welfare caseload. We measure SOD using an indicator of significant second-order devolution as defined by Gainsborough (2003) and reflected in Figure 1. For the fourteen SOD states, *SOD* is defined as the proportion of the year during which TANF was implemented. Consequently, this variable takes on a value of 1 for all state-years during which TANF was in place throughout the entire year, a value of 0 for all state-years during which AFDC was in place the entire year, and a value between 0 and 1 for state-years during which TANF was implemented in mid-year.³⁹

Although several states devolved some financial responsibilities to counties prior to welfare reform, our measurement strategy effectively assumes that SOD is unlikely to have had significant caseload effects in the absence of the policy tools (e.g. sanctions, time limits, etc.) available to local administrators and frontline staff under TANF. Therefore, the remaining thirty-six centralized (i.e. non-SOD) states are coded as 0 for the entire period of the analysis. As our model includes state and year fixed-effects, we are thus able to control for state-specific trends in caseload levels, as well as the effects of national forces affecting caseload dynamics in SOD and centralized states alike. This lends a quasi-experimental dimension to our design, thus mitigating concerns over causality.

The remainder of equation 1 consists of variables which control for various social, economic and political determinants of caseload dynamics (e.g. Blank 1997, 2001; Fording 2001; Ziliak et al. 2000). To capture state economic need, we include the *Unemployment Rate*, and state *Per Capita Income*. For each of these indicators, we

³⁹ Implementation dates for TANF are provided by Crouse (1999).

expect that as the state's economic health improves, caseload decline should accelerate. To control for the state political environment, we include a measure of state *Government Ideology*, as constructed by Berry et al. (1998). Consistent with past research on welfare generosity, we expect that government liberalism will have a positive effect on the recipient rate.

We also include several state policy variables which might be expected to influence AFDC/TANF caseload dynamics. To control for differences in state approaches to welfare reform under TANF, we include two summary measures of state TANF policy constructed by Fellowes and Rowe (2004). The *TANF Eligibility Index* is an additive index of 28 separate eligibility policy choices introduced under TANF. The index is coded so that higher values reflect more punitive, restrictive programs. Thus, we expect this measure to be negatively related to the recipient rate. The *TANF Flexibility Index* is an additive index reflecting 12 state policy choices concerning the flexibility of TANF work requirements. For this measure, higher values reflect more permissive programs; therefore we expect this variable to be positively related to the recipient rate.⁴⁰

Although TANF reflected a significant departure from the AFDC program, during the early 1990s, many of the reforms implemented under TANF were being implemented in states through federally-granted AFDC waivers. While the magnitude of their effect has been debated, past studies have consistently found that the implementation of AFDC waivers led to a decrease in the caseload (e.g. U.S. Council of Economic Advisors 1997; Ziliak et al. 2000). Therefore, we include *AFDC Restrictive Waivers*, which is measured for all states as the cumulative number of

⁴⁰ For states in which TANF was implemented mid-year, we multiply the eligibility or flexibility score by the proportion of the year that TANF was in place.

restrictive AFDC waivers implemented in that state (until the termination of AFDC in 1996). For our analysis, restrictive waivers include changes to AFDC that (1) limited exemptions for work requirements, (2) introduced time limits for welfare receipt, (3) strengthened sanctions for violations of program rules, (4) introduced a family cap on benefits for children born while in welfare, or (5) strengthened work requirements. We also include a separate dummy variable (*Earnings Disregard Waiver*) for waivers designed to strengthen work incentives by increasing the earnings disregard for AFDC clients. We expect that restrictive waivers should have a negative effect on the caseload, while the effect of earnings disregard waivers should be positive.⁴¹

Finally, we include the *State Minimum Wage* and a lag of the dependent variable (*Welfare Recipient Rate_{i,t-1}*). The former takes on the value of the state minimum wage for state-years in which a state minimum wage is in place, and is equal to the federal minimum wage for state-years in which a state minimum wage does not exist. This variable is expected to be negatively related to the welfare recipient rate. A lag of the dependent variable is included to model dynamics, as we expect that the effects of the independent variables may persist through time (e.g. Ziliak, et al. 2000).

ii. Results

Preliminary tests confirmed that our dependent variable (the AFDC/TANF recipient rate) is nonstationary. Indeed, the coefficient for the lagged dependent variable is approximately .90 when the model is estimated in levels (results not shown). Our concerns were also validated by more formal tests of stationarity

⁴¹ As with our measures of TANF policies, our waiver variables are measured as the proportion of the year in which a waiver was implemented. Waiver implementation dates are provided by Crouse (1999).

designed for panel data.⁴² To deal with nonstationarity, we follow Ziliak et al. (2000) and estimate equation 1 in first-differences. We retain our fixed effects for states and years, which in the first-differenced version of the model now account for trends in welfare caseloads that are either state-specific or driven by national forces. After converting our model to first-differences and adding a lagged dependent variable, the estimation period now encompasses the years 1982-2003.

The coefficient estimates for this modified version of equation 8 are presented in Table 6. All coefficient estimates are generated by OLS, with panel corrected standard errors in parentheses (Beck and Katz 1995). The coefficients in the second column of results are multiplied by 100 for ease of interpretation. As the dependent variable for this model is the log of the recipient rate, these coefficients thus represent the expected percentage change in the dependent variable given a one-unit increase in the independent variable of interest.

As expected, caseloads appear to have been greatly affected by economic conditions, as both indicators of state economic health (*Unemployment Rate*, *Per Capita Income*) are significantly related to the welfare recipient rate. Caseload dynamics also appear to be sensitive to the state political environment, as *Government Ideology* is positive and significantly related to caseload change, but only when the dependent variable is measured as the log of the recipient rate.

(Table 6 about here)

The effects of the policy measures are generally significant as well, and in the predicted direction. As expected, the implementation of restrictive AFDC waivers had a negative impact on the AFDC caseload, confirming the findings of past studies of

⁴² We utilize the test introduced by Hadri (2000).

caseload decline (Ziliak et al. 2000). The stringency of state TANF policies has also had an important effect on caseload dynamics. This is reflected in the effects of *TANF Eligibility* and *TANF Flexibility*, each of which is found to be statistically significant and in the predicted direction. In contrast, neither of the policies designed to increase work incentives (*Earnings Disregard Waiver* and *State Minimum Wage*) had a significant effect on caseload change. However, the coefficients are in the predicted direction.

We now move to the hypothesis of interest – the effect of *SOD*. Regardless of how the dependent variable is measured, we reach the same conclusion – the implementation of *SOD* has had a negative effect on the AFDC/TANF recipient rate, thus contributing to a greater degree of caseload decline in *SOD* states. When we examine the simple (unlogged) recipient rate, the estimated effect of *SOD* is -.749. This suggests that holding other variables constant, the implementation of *SOD* in a state resulted in a decrease of .749 in the number of welfare recipients per 1000 state residents. When we examine the model which utilizes the logged recipient rate, the estimated effect of *SOD* is -5.701, which translates to a 5.7% reduction in the TANF recipient rate. To help put this effect into perspective, based on the results reported in Table 6 it would take an increase of approximately 3.5 percentage points in the state unemployment rate, or a decrease of nearly \$3,000 in a state's per capita income, to produce a decrease in the welfare recipient rate that is equivalent to the decrease that is attributed to *SOD*.

Of course, the degree of decentralization (i.e. *SOD*) is only one dimension of TANF policy. States were responsible for many other important decisions in designing their TANF programs, as reflected in the variation in the eligibility and flexibility

indexes included in equation 8.⁴³ Thus, it is difficult to discern the net impact of TANF, and the contribution of SOD to that net impact, from a mere visual inspection of the results in Table 6. In addition, it is important to remember that the coefficients in Table 6 represent the immediate effects of the TANF variables (due to the presence of the lagged dependent variable). The total effect is thus significantly larger. We therefore present Figure 3, which provides a more detailed picture of the total impact of SOD and the TANF program more generally.

(Figure 3 about here)

Figure 3 presents the predicted net effect of the implementation of TANF on a state's welfare caseload (based on the results for the logged version of the dependent variable in Table 6). The net impact, as we define it, is the sum of the effects of the three TANF variables in our model (*SOD*, *TANF Eligibility Index*, *TANF Flexibility Index*). We calculate the net impact for three hypothetical states, each of which reflects a different approach to welfare reform. A "restrictive" state is defined as a state with a flexibility value at the 10th percentile (4) and an eligibility value at the 90th percentile (19). Examples of such states in our data include Georgia, Oklahoma and Wyoming. A "typical state" is defined as a state with a flexibility value at the 50th percentile (7) and an eligibility value at the 50th percentile (14). A number of states fit this description. Finally, a generous state is defined as a state with a flexibility value at the 90th percentile (11) and an eligibility value at the 10th percentile (8). New York, Massachusetts and Rhode Island are examples of states which come close to these values. For each of these hypothetical states, we calculate the total effect of the implementation of TANF (taking into account the effects distributed through the

⁴³ Descriptive statistics for these variables, as well as all the variables in our analyses are provided in the appendix.

lagged dependent variable), assuming either SOD or centralized administration.

The results of this simulation provide some interesting insights into the ultimate impact of SOD and the TANF program on the welfare recipient rate. For the hypothetical restrictive state, TANF had a statistically significant negative impact on the caseload, resulting in either a 26% or 35% decrease in the caseload, depending on the state's choice regarding SOD. For a typical state, the impact of TANF was significant and negative (a decrease of 16%) if a state chose SOD, yet the effect of TANF was insignificant if a state chose to implement TANF in a centralized fashion. For a hypothetical generous state, the implementation of TANF is actually predicted to have resulted in an increase in the TANF recipient rate, but even in the case of centralized administration the effect is not statistically significant ($p = .12$).⁴⁴ In summary, this illustration suggests that while SOD states experienced greater caseload decline than non-SOD states, the overall impact of the TANF program on the caseload varied greatly, depending on a state's approach to welfare reform.

II. Second-Order Devolution and TANF Implementation

Based on the preceding analysis, we find strong evidence that SOD has contributed to a reduction in welfare caseloads in the welfare reform era. However, recall that both the stringency thesis and the efficiency thesis predict that such an effect should

⁴⁴ When we replicate Figure 3 using the results from the version of the model which uses the unlogged welfare recipient rate, we find a very similar pattern, however the positive net effects of TANF on the caseload are statistically significant. This is not terribly surprising and suggests that in the absence of strong punitive policies, poor families may have been attracted to TANF by the provision of childcare, job training, and other supportive services that were more likely to be provided under TANF. For an example of such an argument in the context of waivers implementation, see Moffitt (1996).

exist. Thus, while the caseload analysis suggests that one of these theories may be correct, it does little to help determine the causal mechanism underlying the SOD effect. That is, does SOD reduce caseloads due to greater stringency in TANF implementation, or does caseload decline result from greater success in moving TANF clients into the workforce?

To answer this question, we move to an analysis of state TANF outcomes. We begin with a state-level analysis of TANF sanctioning as measure of implementation stringency. Then we estimate the effects of SOD on three measures of TANF performance in employment outcomes - employment exits, job retention, and earnings gains.

i. The Sanction Stringency Hypothesis

1) Data and Hypothesis

We also examine the impact of SOD on four additional TANF implementation outcomes which represent different causal paths for the possible effect of SOD on caseload reduction. The stringency thesis predicts that under SOD, local TANF administrators are more likely to rely on punitive policy tools to reduce TANF caseloads. To test this proposition, we examine the impact of SOD on the use of TANF work sanctions, which represent one of the most significant punitive policy tools available to case managers under welfare reform. Federal law requires that TANF clients be subject to penalties, or sanctions, if they fail to meet TANF work participation requirements. States have some flexibility in determining the severity of TANF sanctions, and these penalties can range from a minimum of a partial benefit reduction for the head of the household, to a temporary cessation of all TANF benefits (and optionally Food Stamps) for the entire TANF family. We test what we term the “sanction stringency hypothesis.” which predicts that SOD states will sanction TANF

clients at a higher rate than centralized states.

H5: SOD States are expected to have higher sanction rates than states with centralized administration (Sanction Stringency Hypothesis).

If SOD influences the implementation of sanctions as expected, sanction rates in SOD states should be higher than those in centralized (non-SOD) states. We test this hypothesis by estimating the coefficients for equation 9 below. As we utilize state panel data, the model is estimated by relying on panel corrected standard errors and a GLS correction to overcome autocorrelation across panels. We also include fixed effects for years and region (based on the 4-region Census definition).

$$\begin{aligned}
 \text{Sanction rates}_{i,t} = & \alpha_{i,t} + \beta_1 \text{SOD}_{i,t} + \beta_2 \text{Sanction Severity}_{i,t} + \\
 & \beta_3 \text{Other Sanction Rates}_{i,t} + \beta_4 \text{Citizen Ideology}_{i,t} + \beta_5 \text{Government ideology}_{i,t} + \\
 & \beta_6 \text{Unemployment Rate}_{i,t} + \beta_7 \text{Per Capita Income}_{i,t} + \beta_8 \text{Welfare Recipient Rate}_{i,t-1} \\
 & + \beta_9 \text{Unmarried Birthrate}_{i,t} + \beta_{10} \text{Non-White Caseload\%}_{i,t} + \beta_{11} \text{Poverty Rate}_{i,t} \\
 & + \varepsilon_{i,t}
 \end{aligned} \tag{9}$$

i =state
 t =year

The dependent variable is the state **sanction rate**, calculated for each state and year as the number of closed cases due to work-related sanctions, divided by the average monthly TANF caseload. We use data extracted from the Annual Report to Congress from 2000 to 2003. A number of states (Alaska, Arkansas, California, Indiana, Maine, Minnesota, Missouri, Montana, New Hampshire, New York, Rhode Island, Texas, Vermont, and Washington) do not terminate a case for non-compliance with work

requirements. In addition, Wisconsin implements a pay-for-performance sanction policy (per-hour reduction). Hence, we exclude these states from the analysis as it is not possible for sanction exits to occur. We also exclude Oregon due to a lack of sanctions data. Thus, we are able to observe thirty three of fifty states over a four year period to test the sanction stringency hypothesis.

We examine the effect of administrative decentralization on sanction stringency by using a dummy variable to measure SOD, where (0)= a state administered TANF program (centralized), and (1)= a locally administered TANF program with significant devolutionary power (states with relatively strong SOD, as described above). If the stringency hypothesis is correct, we anticipate that SOD states will have higher sanction rates, on average, than centralized states.

As with our recipient rate model, we include a number of controls. We include *Sanction Severity* as a measure of the state's sanction policy, as we expect that the more severe a state's sanction policy, the more likely TANF recipients will leave the program. This variable is measured as the percentage of the TANF benefit that is deducted due after the first instance of non-compliance. We also include *Other Sanction Rates*, which is defined as the sanction rate for violations of other (non-work-related) TANF rules. These include child support sanctions, sanctions for teen parent failing to meet requirements, and sanctions issued for failure to meet an individual responsibility plan. Expectation is that as the use of other sanctions increases, there will be fewer opportunities to sanction clients for violations of work requirements. This is due to the likelihood that recipients who have a high risk to be sanctioned due to work-related requirements are also likely to have a high risk to be sanctioned due to other reasons. We anticipate that *Sanction Severity* will be positively associated with state sanction rates, while *Other Sanction Rates* will be negatively associated with state sanction rates.

We also consider various dimensions of a state's political, economic, and social environments. To capture the effects of political ideology, we once again rely on the measures of state *Government* and *Citizen Ideology* developed by Berry et al. (1998). As both variables are measured so that higher values reflect greater liberalism/Democratic strength, we expect that state partisanship and citizen ideology will be negatively associated with state sanction rates.

To capture the effects of race on sanction policy outcomes, we include *Non-White Caseload%*, defined for each state-year as the percentage of the TANF caseload that is either black or Hispanic. Past research has shown that racial resentment has played a key role in shaping whites' attitudes toward welfare, and racial resentment of whites has been found to influence redistributive policy choices (Gilens 1999; Schram, Soss and Fording 2003; Soss et al. 2001). Thus, we expect to find stricter sanction implementation in states where non-whites comprise a higher percentage of the TANF caseload.

To control for "paternalistic pressure" (Mead, 1997; Soss et al, 2001; Fellowes and Rowe, 2004), we include the *Welfare Recipient Rate* (lagged on year) and *Unmarried Birthrate* (of TANF recipients). We expect that as paternalistic pressure increases (due to rising caseloads and increasing unmarried births), so too will the stringency of sanction implementation due to fact that local administrators and case managers are under more pressure to achieve the dual goals of decreasing caseloads and the unmarried birthrate among TANF families.

To capture the effects of economic conditions, local employment opportunities and local labor markets, we also consider the effects of state *Unemployment rates*, *Per Capita income*, and state *Poverty Rates*. In states where there are numerous employment opportunities and relatively prosperous economic environments, recipients are likely to have an easier time finding work and will therefore be more

likely to avoid sanctions imposed for non-compliance for work requirements. Yet, in states with higher poverty rates and generally poorer economic health, local administrators and case managers may be more sympathetic to TANF recipients because they recognize recipients' environments and understand their need for help (Fording, Soss and Schram 2007). Thus, while we expect that state economic environments should matter, we have no clear expectation regarding the direction of the effect.

2) Results

The coefficient estimates for equation 9 are presented in Table 7 below. Consistent with our expectations, we find that as the percentage of TANF clients that are Black or Hispanic (*Non-White Caseload%*) increases, sanction rates also increase. Unexpectedly, the size of the *Welfare Recipient Rate* is negatively associated with sanctions, despite the fact that we measure the caseload in the year prior to the observation of the dependent variable.

(Table 7 about here)

One explanation for this finding is that during this period, states were not experiencing caseload pressures due to unprecedented caseload decline that occurred after the passage of PRWORA. Thus, by the early 2000's, the size of the TANF caseload may be more reflective of states with higher numbers of "hard to serve" TANF clients who would qualify for an exemption from TANF work requirements, and thus be immune from work-related sanctions.

The use of sanctions for other reasons (*Other Sanction Rate*) is significantly related to a state's use of work-related sanctions, and in the anticipated (negative) direction. *Sanction Severity* is positively related to the sanction rate as expected, but is not significant. Although a stronger sanction policy is more likely to lead to a sanction

exit, it may be less likely to be used by case managers due to the anticipated consequences for clients. This may serve to diminish the effect, leading to the lack of significance we observe in Table 7. As for economic conditions, we find that *Per Capita Income* is negatively related to the sanction rate, while other indicators of state economic health (*Poverty Rate*, *Unemployment Rate*) are unrelated to sanctions. And finally, and most importantly for our purposes, we find strong support for the sanction stringency hypothesis. Second-order devolution states display significantly higher sanction rates than centralized states, even after controlling for several dimensions of state political and socioeconomic environments. Based on the results, the sanction rate in SOD states is estimated to be nearly 6 percentage points (5.756) higher in SOD states than in centralized states. Given that the mean sanction rate across all state-years is only 9.49 (with a standard deviation of 12.00), the SOD effect would appear to be substantively significant as well.

ii. The Employment Improvement Hypothesis

1) Data and Hypothesis

According to the efficiency thesis which implies another path reducing welfare caseload, we should expect TANF implementation to be more successful in SOD states than in states utilizing a more centralized implementation process. Although scholars have conceptualized TANF program success in a variety of ways, by far the most common outcome of interest is successful job placement. We therefore test what we term the “employment improvement hypothesis,” which predicts that SOD states will have higher rates of successful welfare exits through (1) a higher rate of TANF exits due to employment, (2) a higher level of job retention for TANF clients, and (3) a larger gain in earnings among TANF clients, on average, than non-SOD states.

H6: SOD States are expected to experience higher welfare exit rates through employment, higher levels of job retention, and larger earnings gains, on average, than states with centralized administration (Employment Improvement Hypothesis).

We examine variation in TANF success by testing the employment improvement hypotheses. In these models, we examine three dependent variables - the ***Employment Exit Rate***, the ***Job Retention Rate***, and the ***Average Earnings Gain***. The ***Employment Exit Rate*** is measured as the number of welfare exits through employment divided by the average monthly TANF caseload (X 100). This data are obtained from the TANF Annual Report to Congress and are available for 49 states (excluding Oregon) from 2000 through 2003. ***Job Retention Rate*** is the percentage of employed adult recipients in a given performance year who were employed for two consecutive quarters and ***Average Earnings Gain*** is the rate of change in earnings of employed adult recipients who were employed for two consecutive quarters. These data are also obtained from the ARC and are available for years 1998 through 2002⁴⁵. We also include fixed effects for years and region (based on the 4-region Census definition). For each of these three dependent variables, we estimate the same model, as given below in equation 10.

⁴⁵ Alabama, California, Nebraska, New Mexico, New York and Virginia are excluded due to a lack of data.

$$\begin{aligned}
\text{Employment Performance}_{i,t} = & \alpha_{i,t} + \beta_1 \text{SOD}_{i,t} + \beta_2 \text{Sanction Severity}_{i,t} \\
& + \beta_3 \text{Citizen Ideology}_{i,t} + \beta_4 \text{Government ideology}_{i,t} + \beta_5 \text{Unemployment Rate}_{i,t} \\
& + \beta_6 \text{Per Capita Income}_{i,t} + \beta_7 \text{Welfare Recipient Rate}_{i,t-1} \\
& + \beta_8 \text{Unmarried Birthrate}_{i,t} + \beta_9 \text{Non-White Caseload\%}_{i,t} + \beta_{10} \text{Poverty Rate}_{i,t} \\
& + \varepsilon_{i,t}
\end{aligned} \tag{10}$$

i =state
 t =year

The independent variables in the employment performance models are defined as above for the sanction stringency model. However, for this model we do not include a measure of non-work sanctions. The expectations are as follows. We expect that **Sanction Severity** will be positively related to employment performance because stringent sanction policies may provide TANF recipients with greater incentives to comply with work requirements, thus improving employment outcomes. We expect that the **Welfare Recipient Rate** will be positively associated with employment performance due to increased pressure to decrease the caseload through employment in states where the caseload is relatively high. **Citizen** and **Government Ideology** are expected to be negatively associated with employment performance due to the (presumably) less stringent style of welfare implementation in liberal states, which in turn may result in longer welfare spells for TANF clients. State economic prosperity (as measured by **Unemployment Rate**, **Per Capita Income**, and **Poverty Rate**) is expected to be positively associated with employment performance because a robust economy provides more opportunities to be employed. **Unmarried Birth Rates** and **Non-White Caseload%** should be negatively associated with welfare exits through employment and job retention rates because single mothers and Black and Hispanic clients face greater barriers to successful employment. And finally, TANF programs in

SOD states are expected to display superior employment outcomes compared to centralized states due to their ability to better match services to client needs.

2) Results

The coefficient estimates for each of the three measures of employment performance are presented in Table 8.

(Table 8 about here)

As before, the effects of several control variables confirm to the expectations. For example, stricter sanction policies lead to increased performance for two of the three employment measures – *Employment Exits* and the *Job Retention*. Higher percentages of Black and Hispanic clients on welfare lead to lower rates of employment exits and lower average earnings gain, but lead to higher job retention rates. One possible explanation for this combination of results is that white clients may have more opportunities to obtain jobs, increase their earnings, and then finally leave welfare through employment. Nonwhite clients, on the other hand, may have more difficulty finding good-paying jobs, but once they find a job, may be more likely to keep it and stay on TANF, due to either a lack of opportunities for advancement, or a greater dependence on the supportive services available through TANF.

The *Welfare Recipient Rate* is positively related to the *Job Retention Rate* (as predicted), but as in the model of state sanction rates, the *Welfare Recipient Rate* displays an (unexpected) negative relationship with two measures of employment performance – *Employment Exits* and *Average Earnings Gain* - despite the fact the caseload is measured in the year prior to observation of the dependent variable. As in the previous analysis, we attribute this to the lack of caseload pressure due to historically declining caseloads, and the likely association between caseload size and “hard to serve” TANF recipients. *Unmarried Birthrates* have no impact on

Employment Exit Rates, and *Citizen Ideology* and state *Government Ideology* are likewise insignificant. Finally, measures of state economic prosperity (income, poverty, unemployment) are largely insignificant⁴⁶.

Moving to effects of *SOD*, overall we find moderate support for the employment improvement hypothesis. After controlling for several socioeconomic and political variables, we find that TANF programs in SOD states display significantly better employment outcomes for two of our three measures of performance – *Employment Exits* and *Average Earning Gain*. The effect of SOD on *Job Retention Rates* is estimated to be positive (as predicted) and p-value is close to the significant level, however the effect is not statistically significant. Thus, it would appear that the relationship between SOD and caseload decline can, to some degree, be accounted for by each of the competing causal mechanisms outlined above – greater stringency, as well as greater efficiency.

⁴⁶ There could be two reasons resulting in no impact of economic prosperity. First, the period of analysis is only four years (welfare exit through employment) and five years (job retention rate and earnings gain) due to data availability. There is relatively little variation in income per capita and unemployment over this short time period. Second, we would still expect variation across states to reflect a relationship between TANF employment outcomes and state economic context. But since the model uses regional dummy variables, the model is restricted to explaining variation within regions. Since state economic conditions tend to be similar within regions, there may therefore be little cross-state variation left to explain as well. One way to test for this possibility is to drop the regional dummies and see if the economic variables become significant as expected. When we do this, income per capita becomes significant in welfare exit through employment model and job retention rate model, but the direction of coefficient is opposite with our expectation.

III. Summary

Based on the results of caseload decline analysis, we find that decentralization has led to a nontrivial reduction in the welfare caseload in SOD states, as predicted by both critics and supporters of SOD. This reduction in the caseload appears to be driven by different forces. On the one hand, we find that SOD is associated with a greater reliance on punitive policy tools in the form of TANF sanctions. Although we cannot pinpoint the causal mechanism driving this relationship, this result is consistent with either a race to the bottom or fiscal incentives introduced by shifting some of the financial responsibility for TANF implementation to the local level.

At the same time, we also find SOD to be associated with higher levels of success for two important TANF employment outcomes - welfare exits due to employment and earnings gains among TANF recipients. As these are two of the more important goals of TANF, these outcomes are consistent with arguments made by proponents of decentralization who argue that SOD should result in more successful implementation.

However, as with the case of the SOD effect on sanctions, we cannot be entirely sure of the causal mechanism underlying this effect. It may well be due to greater efficiency in implementation in a decentralized environment, as proponents of SOD would claim. Yet, it is also possible that like the sanction effects, the employment and earnings effects also result from greater stringency in implementation due to SOD. This possibility is mitigated to some extent due to the fact that we directly control for both sanction stringency and government ideology in our employment models. Nevertheless, the possibility remains and thus additional research is needed to unpack the causal linkages between SOD and TANF.

Table 6. Effect of Second-Order Devolution on AFDC/TANF Caseload Decline, 1982-2003

<i>Independent Variables</i>	<i>Change in Per Capita Caseload</i>	<i>Change in Per Capita Caseload (Logged)</i>
<u>Welfare Reform Effects</u>		
Second Order Devolution	-0.749** (0.207)	-5.701* (2.745)
TANF Eligibility Index	-0.054* (0.025)	-1.356** (0.340)
TANF Flexibility Index	0.146** (0.046)	1.958** (0.758)
Restrictive Waiver	-0.230** (0.054)	-1.541** (0.568)
Earnings Disregard Waiver	0.361 (0.264)	0.205 (2.859)
<u>Control Variables</u>		
Government Ideology	0.002 (0.002)	0.049** (0.019)
Per Capita Income	-0.150** (0.068)	-2.048** (0.777)
Unemployment Rate	0.211** (0.049)	1.616** (0.494)
State Minimum Wage	-0.073 (0.063)	-0.905 (0.773)
Welfare Recipient Rate_{t-1}	0.409** (0.057)	32.441** (8.687)
R-squared	.74	.66
N	1034	1034

Note: Cell entries are OLS coefficients, with panel-corrected standard errors in parentheses. The dependent variable is the change in the welfare recipient rate, defined as the number of AFDC or TANF recipients per 1000 state residents. The coefficients for the logged version of the dependent variable are multiplied by 100, so that for each independent variable, the coefficient can be interpreted as the expected percentage change in the welfare recipient rate given a one unit increase in the independent variable. Each model includes fixed effects for states and years.

** p<.01, * p<.05 (All tests one-tailed)

Table 7. Effects of Second-Order Devolution on TANF Work Sanctions, 2000-2003

<i>Independent Variable</i>	<i>Sanction Stringency</i>
Second Order Devolution	5.756** (2.708)
Other Sanctions	-0.200** (0.083)
Citizen Ideology	0.094 (0.070)
Government Ideology	-0.007 (0.033)
Sanction Severity	0.044 (0.029)
Non-White	0.137** (0.045)
Caseload (t-1)	-0.378** (0.092)
Unemployment Rate	-1.302 (0.979)
Per Capita Income	-0.001** (0.000)
Poverty Rate	0.166 (0.372)
Unmarried Birth Rate	0.029 (0.034)
R-Squared	.19
N	132

Note: Cell entries are OLS coefficients, with panel corrected standard errors in parentheses. The dependent variable is based on the welfare exit rate due to work sanction, defined as the number of closed family cases due to work related sanction divided by the number of average monthly TANF families. The model includes fixed effects for regions and years.

** p<.05(All tests one-tailed)

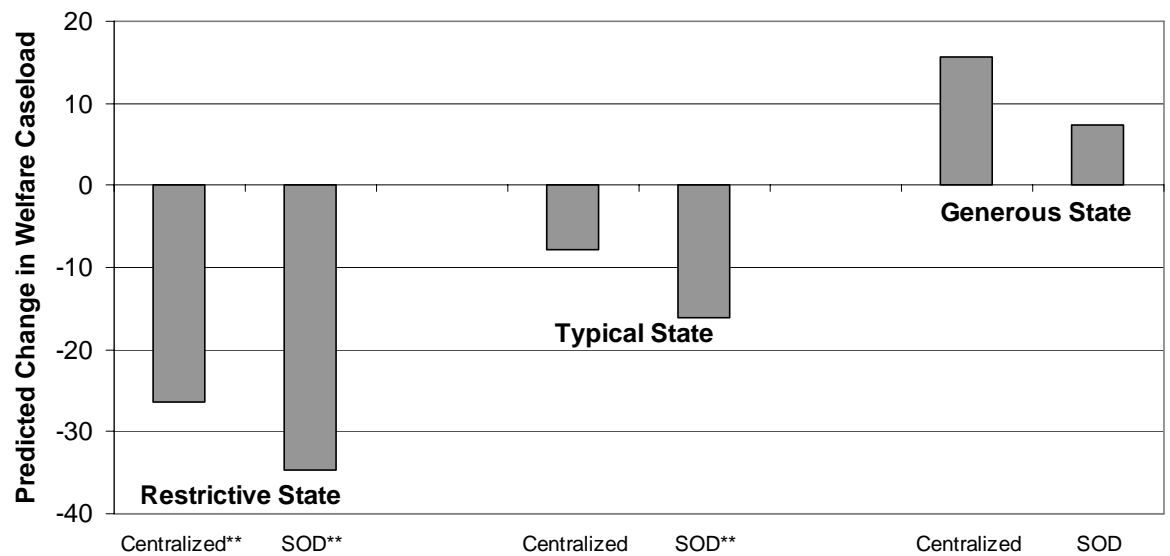
Table 8. Effects of Second-Order Devolution on TANF Employment Outcome

<i>Independent Variable</i>	<i>Employment Improvement, 2000-2003</i>	<i>Job Retention, 1998-2002</i>	<i>Earnings Gain, 1998-2002</i>
Second Order Devolution	2.877* (1.504)	2.597 (1.793)	3.179** (1.482)
Citizen Ideology	0.012 (0.091)	0.006 (0.069)	-0.080 (0.061)
Government Ideology	-0.068 (0.042)	0.040 (0.036)	-0.034 (0.026)
Sanction Severity	0.083** (0.020)	0.044** (0.020)	-0.0009 (0.015)
Non-White	-0.080** (0.033)	0.062* (0.034)	-0.041 (0.052)
Caseload (t-1)	-0.328** (0.095)	0.143** (0.072)	-0.757** (0.079)
Unemployment Rate	-0.5783 (0.965)	-0.921 (0.748)	-1.55 (1.093)
Per Capita Income	-0.0007* (0.000)	-0.000 (0.000)	-0.0001 (0.000)
Poverty Rate	0.441 (0.556)	-0.117 (0.209)	0.328 (0.425)
Unmarried Birth Rate	0.037 (0.038)	-0.010 (0.209)	0.048 (0.150)
R-Squared	.36	.86	.40
N	196	220	220

Note: Cell entries are OLS coefficients, with panel corrected standard errors in parentheses. The dependent variable is based on the welfare exit rate through employment rate, defined as the number of closed family cases due to employment divided by the number of average monthly TANF families. Job retention is the percent of the sum of the unduplicated number of employed adult recipients in each quarter of the performance year who were also employed the first and the second subsequent quarters, and earnings gain is the rate of change in earnings of employed adult recipients who were employed in both an initial and the second subsequent quarter in each of the four quarters of the performance year (See TANF Annual Report to Congress-Appendix chapter 5). Each model includes fixed effects for regions and years.

** p<.05, * p<.10 (All tests one-tailed)

Figure 3. Predicted Net Effect of TANF on Welfare Caseload, by Different Combinations of TANF Policies



Note: The vertical axis represents the net effect of the introduction of TANF on the welfare caseload, expressed as the percentage change in the caseload (based on the second column of results in Table 6). The predicted effect is the total effect, and reflects the effects of TANF as they are distributed through time (through the lagged dependent variable). A restrictive state is defined as a state with a flexibility value at the 10th percentile (4) and an eligibility value at the 90th percentile (19). A typical state is defined as a state with a flexibility value at the 50th percentile (7) and an eligibility value at the 50th percentile (14). A generous state is defined as a state with a flexibility value at the 90th percentile (11) and an eligibility value at the 10th percentile (8).

*p < .05, **p < .01

Chapter 7: Discussion and Conclusion

For many years now, scholars and policymakers alike have debated the proper degree of decentralization (versus centralization) in the provision of welfare benefits and services. Many scholars have studied first-order devolution, which is defined as a transfer of authority and responsibility in designing and implementing welfare policies from the federal government to state governments. Yet, only a few studies have been executed to study the impact of SOD on the implementation of welfare policies, despite the fact that fourteen states have engaged in second-order devolution since the passage of PROWRA in 1996. These studies have focused on how SOD increases the discretionary power of local administrators and case managers, how this increased discretionary power produces more variation in policy outcomes, and whether SOD contributes to policy success or stringency across local jurisdictions. However these studies have the limitation of focusing on only a single SOD state. There has been no systematic research on the impact of second-order devolution on the implementation of welfare policies across states. Hence, it is valuable to know if, and how SOD influences the implementation of TANF outcomes by comparing SOD states with non-SOD states.

In this dissertation, I contribute to this literature by conducting several analyses which aim to provide greater generalizability concerning the effects of SOD. Based on my analyses, individual-level characteristics of clients affect the probability of clients leaving the rolls due to work sanctions as previous research has shown. Age, gender, marital status, education, employment statuses, earned income, race, citizenship, the number of children and, the age of youngest child of clients are significant factors influencing the probability of clients leaving the rolls due to work sanctions. Yet, those characteristics are not only factors determining the probability of

being sanctioned. The discretionary power of local administrators and case managers, as shaped by community contexts, also plays an important role in the implementation of policy even in the centralized states which allow relatively little room for the discretionary power that local administrators and case managers execute. The probability of leaving the rolls due to work sanctions for clients is the function of their individual characteristics as well as the discretionary power of local administrators and case managers, which is shaped by local environments.

Since the passage of PRWORA in 1996 and the subsequent implementation of TANF, the practice of second-order devolution under TANF accelerated and allows more room for discretionary power to local governments. The adoption of SOD by fourteen states thus raised the question of how SOD influences the implementation of TANF policies through increased discretionary power of local administrators and case managers. I find that county-level economic factors and poverty rates matter in the implementation of TANF work sanctions in non-SOD states, while education and racial context matter in SOD states. At the same time, the effect of local environments on the probability of clients leaving the rolls due to work sanctions in SOD states is stronger than that in non-SOD states: the percentage of explained variability in the probability of clients leaving the rolls due to work sanctions due to differences between counties in SOD states is about twice as large as that in non-SOD states. These results imply SOD allows for more discretionary power for local administrators and case managers.

I also find SOD states to have higher sanction rates than non-SOD states. This implies that local administrators and case managers implement sanctions more strictly with their increased discretionary power, perhaps to avoid the immigration of the poor, the loss of business revenue, or increased financial burden. When we consider the fact that the migration of the poor across counties is far easier than that across states due to

geographical proximity, and the local financial burden and benefit due to block grants and bonuses for welfare savings, this finding is conclusive.

To confirm the impact of SOD on the implementation of TANF work sanctions, and examine as well as generalize the potentially beneficial impact of SOD on TANF implementation, I test the impact of SOD on caseload decline. I then test the stringency (TANF work sanctions), and the efficiency thesis (welfare exits through employment, job retention rates, and earnings gain) with state level data. As expected, SOD contributes to caseload decline, SOD states have higher sanction rates than non-SOD states, and SOD states display higher welfare exit rates through employments. In summary, SOD contributes to caseload decline indirectly through work sanctions and employment exits. SOD may also contribute to caseload decline directly, through other less formal mechanisms (such as informal discretion), however, the analyses presented here do not allow me to test this possibility.

As I have shown in the individual level analyses, bureaucratic discretion, as shaped by local environments, plays an important role in the implementation of TANF work sanctions in addition to client attributes, and SOD increases the impact of discretionary power inducing stronger impacts of local environments on the implementation of TANF work sanctions. This study therefore contributes to the literature on bureaucratic discretion and implementation of policies by suggesting that decentralization can lead to greater use of local bureaucratic discretion in the implementation of policies in one dimension.

In another dimension, as I have shown in individual-level and state-level analysis, SOD is also associated with a greater reliance on punitive policy tools in the form of TANF sanctions. Although I cannot pinpoint the exact causal mechanism driving this relationship, this result is consistent with either a race to the bottom or fiscal incentives introduced by shifting some of the financial responsibility for TANF

implementation to the local level. This study therefore makes a valuable contribution to the literature on the race to the bottom (intergovernmental study) by suggesting that decentralization can lead to a race to the bottom not just in policy choice, such as benefit levels or other TANF rules, but that it may also have an important impact on the implementation of policies.

At the same time, I also find SOD to be associated with higher levels of welfare exits due to employment of TANF recipients. As this is one of the most important goals of TANF, this outcome is consistent with arguments made by proponents of decentralization who argue that SOD should result in more successful implementation. However, I must offer one important caveat to this conclusion. It is important to recognize the possibility that employment exits may not necessarily be an appropriate measure of TANF success, especially if the jobs in which TANF clients are being placed do not provide the income necessary to lift welfare recipients out of poverty. Given this possibility, along with our findings concerning the relationship between SOD and sanction rates, the effect of SOD on employment exits might simply be another manifestation of a race to the bottom.

Until now, there has been no systematic research testing the impact of SOD on the implementation of TANF policies by comparing SOD states with centralized states. I applied several different statistical approaches and find few differences in the results between different statistical approaches. I use multilevel logit regression with individual-level and county-level characteristics in 29 states, and OLS with panel-corrected standard errors with state-level data in 47 states. This study therefore makes a valuable contribution to the intergovernmental relations literature by providing important evidence to support the untested arguments by various scholars.

I find that SOD induces more successful policy outcomes as well as a race to the bottom (though increased punitiveness). A race to the bottom is not desirable because

it may result in inequitable treatment for clients across jurisdictions, and may not reflect the median voter's preferences for the style of implementation. Regardless, SOD (decentralization) may still be a more efficient model of implementation because of the beneficial aspects of decentralization. As I show in this dissertation, SOD induces more successful employment outcomes and a greater rate of caseload decline. This could not be achieved without strict sanction policy as a policy instrument to motivate clients to comply with work requirements, attending training programs, and finally leave the rolls due to employment. However, the well-being of clients after leaving welfare must ultimately be considered in rendering a final judgment concerning whether SOD is desirable or undesirable.

Future Research

While many studies have executed on the impact of first-order devolution on welfare policy so far, only a few studies executed on the impact of second-order devolution. As I emphasized, this is the first and only systematic study on the impact of SOD on policy outcomes by considering most of states. There still left a lot of room for SOD to be studied.

First, this study can be extended by examining the impact of SOD on other dependent variables which are outcome of TANF programs. The perception of local bureaucrats, poverty rates, caseload, workforce participation for welfare recipients (Cho et al 2005; Kelleher and Yackee 2004), TANF work sanctions (Fording et al 2007), and three employment-related measures have been studied with respect to SOD (including my study). All the studies except mine studied a single state. We are able to get close to confirm how SOD influences the implementation of welfare policies by replicating the analysis with other outcomes across states or in more states, and accumulating the volume of studies.

Second, it would be useful to investigate other important questions concerning SOD, such as why some states have engaged in second-order devolution, and what kind of states adopt second-order devolution. My study and the previous studies focus on policy impact; how SOD influences policy implementation, whether SOD induces more stringency, or SOD also induces more efficiency in the policy implementation. All of four studies focus on implementation or evaluation stage of policy process. We can extend this restriction by focusing on the initial stage of policy process.

Appendix

Table A1: Definition and Sources for Variables used in Discretion Hypothesis, Sanction Variation and Stringency Model

<i>Independent Variables</i>	<i>Definition and Sources</i>
<i>Individual Characteristics</i>	Administrative data from HHS department
Gender	0=male, 1=female
Age	client age (in years)
The number of children	number of children
Age of Youngest Child	age of youngest child
Marital status	0=married, 1=single (divorced and widowed are considered as single)
Race	Black; 1=black, 0=otherwise Hispanic; Hispanic=1, 0=otherwise
Education	-1=less than high school years 0=high school graduate 1=more than high school
Employment status	1=employed, 0=otherwise
Citizenship	1=citizen, 0=otherwise
Earned Income	the amount of earned income
<i>Community Characteristics</i>	
Political Ideology	% of Presidential vote turnout for Bush (Election Archive)
Local Racial Context	% of Black population in county of client % of Hispanic in county of client (US census bureau, 2000)
Local Unemployment Rates	Unemployment rate in a county of client (US bureau of labor statistics, 2002)
Income per Capita	Income per capita in county (US census bureau, 2000)
Poverty Rates	County poverty rate (US census bureau, 2002)
Education	% of high school graduate in county (US census bureau, 2000)
SOD (Administrative structure dummy)	0=counties in a centralized state, 1=counties in SOD states

Table A2: Descriptive Statistics for Analyses Presented in Table 1 and 2.

<i>Independent Variables</i>	<i>Mean</i>	<i>Std</i>	<i>Min</i>	<i>Max</i>
<i>Individual Characteristics</i>				
Gender	.93	.23	0	1
Age	29.68	8.23	18	87
The number of children	1.73	1.12	0	12
Age of Youngest Child	4.42	4.41	0	17
Marital status	.78	.41	0	1
Black	.32	.47	0	1
Hispanic	.13	.34	0	1
Education	.76	.64	0	2
Employment status	.31	.46	0	1
Citizenship	.97	.16	0	1
Earned Income	237	465	0	5000
<i>Community Characteristics</i>				
Political Ideology	.58	.12	.12	.88
Black Pct	14.04	19.19	0	86.89
Hispanic Pct	5.14	9.76	.08	80.76
Local Unemployment Rates	5.25	2.94	.7	27.5
Income per Capita	16858	3942	7463	38350
Poverty Rates	16.78	7.45	2.5	51
Education	76.53	9.15	49.44	96.33

Table A3: Descriptive Statistics for Analysis Presented in Table 3 and 4.

<i>Independent Variables</i>	<i>Mean</i>	<i>Standard Error</i>	<i>Min</i>	<i>Max</i>
<i>Individual Characteristics</i>				
Gender	.94	.23	0	1
Age	29.48	8.12	18	80
The number of children	1.76	1.16	0	11
Age of Youngest Child	4.34	4.39	0	17
Marital status	.77	.41	0	1
Black	.38	.48	0	1
Hispanic	.12	.32	0	1
Education	.75	.65	0	2
Employment status	.29	.45	0	1
Citizenship	.97	.16	0	1
Earned Income	191	411	0	4998
<i>Community Characteristics</i>				
Political Ideology	.54	.10	.14	.81
Black Pct	6.50	9.78	0	65.95
Hispanic Pct	5.20	8.94	.37	67.89
Local Unemployment Rates	4.62	2.02	1.1	13
Income per Capita	18632	4306	10562	35684
Poverty Rates	13.97	5.24	2.9	37.9
Education	79.17	8.40	51.54	96.96

Table A4: Descriptive Statistics for Analysis Presented in Table 5.

<i>Independent Variables</i>	<i>Mean</i>	<i>Standard Error</i>	<i>Min</i>	<i>Max</i>
<i>Individual Characteristics</i>				
Gender	.93	.23	0	1
Age	29.63	8.21	18	87
The number of children	1.74	1.13	0	12
Age of Youngest Child	4.40	4.40	0	17
Marital status	.78	.41	0	1
Black	.34	.47	0	1
Hispanic	.13	.34	0	1
Education	.76	.64	0	2
Employment status	.31	.46	0	1
Citizenship	.97	.16	0	1
Earned Income	226	453	0	5000
<i>Community Characteristics</i>				
Political Ideology	.57	.12	.12	.88
Black Pct	11.87	17.36	0	86.89
Hispanic Pct	5.16	9.53	.08	80.76
Local Unemployment Rates	5.07	2.72	.7	27.5
Income per Capita	17368	4127	7463	38305
Poverty Rates	15.97	7.00	2.5	51
Education	77.29	9.02	49.44	96.96
SOD (Administrative structure dummy)	.28	.45	0	1

Table A5. Variable Definitions, Sources, and Descriptive Statistics for Analyses Presented in Table 6.

<i>Variables</i>	<i>Definition (Sources)</i>	<i>mean</i>	<i>S.D.</i>
Welfare Recipient Rate	The yearly change in the number of AFDC/TANF cases per 1000 population. Source: University of Kentucky Center for Poverty Research (UKCPR). “State-Level Data of Economic, Political, and Transfer-Program Information for 1980-2007.” (www.ukcpr.org)	-.033	.127
SOD	Significant devolution=1, 0=all other states (see Figure 1). Source: Gainsborough (2003).	.124	.330
Government Ideology	Government liberalism. Source: Berry et al (1998)	49.271	23.643
Per Capita Income	State per capita income in 2003 dollars (adjusted for state cost of living using state price deflator developed by Berry, Fording and Hanson, 2000). Source for nominal income data: UKCPR. “State-Level Data of Economic, Political, and Transfer-Program Information for 1980-2007.” (www.ukcpr.org)	26.051	3.887
Unemployment Rate	State unemployment rate. Source: UKCPR. “State-Level Data of Economic, Political, and Transfer-Program Information for 1980-2007.” (www.ukcpr.org)	5.998	2.064
State Minimum Wage	For state-years with a state minimum wage, measured as the that wage. Coded as the federal minimum wage for all other state-years. Source: UKCPR. “State-Level Data of Economic, Political, and Transfer-Program Information for 1980-2007.” (www.ukcpr.org)	4.058	0.962
AFDC Restrictive Waivers, AFDC Earnings Disregard Waivers	For each state, the cumulative number of AFDC waivers implemented prior to 1997. Source: Gil Crouse, “State Implementation of Major Changes to Welfare Policies, 1992 – 1998.” Office of Human Services Policy Assistant Secretary for Planning and Evaluation U.S. Department of Health and Human Services http://aspe.hhs.gov/hsp/Waiver-Policies99/policy_CEA.htm	0.145	0.638
TANF Eligibility Index	Defined in Fellowes and Rowe (2004). Source: Matthew Fellowes.	3.925	6.484
TANF Flexibility Index	Defined in Fellowes and Rowe (2004). Source: Matthew Fellowes.	2.131	3.617

Table A6: Variable Definitions, Sources, and Descriptive Statistics for Analysis Presented in Table 7

<i>Variables</i>	<i>Definition (Sources)</i>	<i>Mean</i>	<i>S.D.</i>	<i>Minimum-Maximum</i>
Sanction Rate	Welfare exit rates due to work related sanctions= number of closed cases due to work-related sanctions divided by average monthly TANF caseload*100 (TANF Annual Report to Congress)	9.49	12.00	0-55.80
Other Sanctions	Welfare exit rates due to other sanctions= number of cases closed due to other sanctions divided by average monthly TANF caseload (TANF Annual Report to Congress)	5.42	11.21	0-70.82
Caseload	Caseload per 1,000 population (TANF Annual Report to Congress)\	15.52	7.79	1.65-45.61
Sanction Severity	% of reduction in benefits for initial sanction	56.45	38.41	0-100
Government Ideology	Government liberalism Berry et al (1998)	40.73	26.93	0-97.5
Citizen Ideology	Citizen liberalism Berry et al (1998)	44.97	14.88	8.44-81.37
SOD	0=Non-SOD,1=SOD (Gainsborough, 2003)	0.24	0.43	0-1
Non-White	100%-% TANF families that are White (TANF Annual Report to Congress)	61.38	20.94	9.4-88.1
Unmarried Birthrates	% of all births to unmarried women on TANF (TANF Annual Report to Congress)	66.47	28.87	0-90.6
Poverty Rates	Poverty Rates (U.S. Census Bureau)	11.46	3.02	6.7-19.3
Unemployment Rates	Unemployment Rates (Bureau of Labor Statistics)	4.66	1.10	2.3-7.1
Income Per Capita	Per capita income (Bureau of Economic Analysis)	29,121	4,832	21005-42930

Table A7: Variable Definitions, Sources, and Descriptive Statistics for Welfare Exit Due to Employment Analysis Presented in Table 8

<i>Variables</i>	<i>Definition (Sources)</i>	<i>Mean</i>	<i>S.D.</i>	Minimum- Maximum
Welfare Exits through Employment	Welfare exit rates due to employment=number of cases closed due to employment divided by the average monthly TANF caseload (TANF Annual Report to Congress)	23.22	14.55	0-66.60
Caseload	Caseload per 1,000 population (TANF Annual Report to Congress)	17.98	9.50	1.65-54.04
Sanction Severity	% of reduction in benefits for initial sanction	44.54	36.23	0-100
Government Ideology	Government liberalism Berry et al (1998)	44.15	26.59	0-97.5
Citizen Ideology	Citizen liberalism Berry et al (1998)	47.11	15.21	8.44-95.84
SOD	0=Non-SOD,1=SOD (Gainsborough, 2003)	0.28	0.45	0-1
Non-White	100%-% TANF families that are White (TANF Annual Report to Congress)	58.22	22.68	2.5-88.1
Unmarried Birthrates	% of all births to unmarried women on TANF (TANF Annual Report to Congress)	68.60	26.38	0-99.2
Poverty Rates	Poverty Rates (U.S. Census Bureau)	11.36	3.11	4.5-19.8
Unemployment Rates	Unemployment Rates (Bureau of Labor Statistics)	4.75	1.12	2.3-7.7
Income Per Capita	Per capita income (Bureau of Economic Analysis)	29,409	4,409	21005-42930

Table A8: Variable Definitions, Sources, and Descriptive Statistics for Job Retention and Earnings Gain Analyses Presented in Table 8

<i>Variables</i>	<i>Definition (Sources)</i>	<i>Mean</i>	<i>S.D.</i>	Minimum- Maximum
Job Retention	The percentage of employed adult recipients in a given performance year who were employed for two consecutive quarters.	65.84	12.13	12.21-88.56
Earnings Gain	The rate of change in earnings of employed adult recipients who were employed for two consecutive quarters.	35.60	13.34	3.66-83.21
Caseload	Caseload per 1,000 population (TANF Annual Report to Congress)	18.57	9.52	1.65-55.08
Sanction Severity	% of reduction in benefits for initial sanction	43.40	36.00	0-100
Government Ideology	Government liberalism Berry et al (1998)	43.49	26.77	0-97.91
Citizen Ideology	Citizen liberalism Berry et al (1998)	48.30	15.60	8.44-95.84
SOD	0=Non-SOD,1=SOD (Gainsborough, 2003)	0.27	0.44	0-1
Non-White	100%-% TANF families that are White (TANF Annual Report to Congress)	55.01	23.99	2.5-88.1
Unmarried Birthrates	% of all births to unmarried women in a state(TANF Annual Report to Congress)	32.35	5.46	16.7-47.1
Poverty Rates	Poverty Rates (U.S. Census Bureau)	11.19	3.00	4.5-19.8
Unemployment Rates	Unemployment Rates (Bureau of Labor Statistics)	4.41	1.07	2.3-7.7
Income Per Capita	Per capita income (Bureau of Economic Analysis)	27,840	4,365	19,545-42,921

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