Macro Outsourcing: Evaluating Government Reliance on the Private Sector

Rachel Augustine Potter

Assistant Professor
Department of Politics
University of Virginia
Gibson Hall 183
1540 Jefferson Park Ave (JPA)
Charlottesville, VA 22903
rapotter@virginia.edu

January 2021

Forthcoming in the *Journal of Politics*

Short Title: Macro Outsourcing

Abstract

Government outsourcing of services to private sector entities is increasingly common. The conventional wisdom ties governments' outsourcing decisions to either an ideological preference for market-based solutions or to fiscal pressures; however, these conjectures have not been systematically subjected to empirical scrutiny. I develop an aggregate annual measure of U.S. state level outsourcing decisions—macro outsourcing—and explore whether the evidence supports these pathways. I also point to an under-appreciated political pathway by which potential losers—bureaucrats organized into public sector unions—affect the decision to outsource. The results offer little support for the received wisdom and instead demonstrate that states with strong unions are less likely to rely on private actors. I bolster this finding with preliminary analyses showing that states with laws that sap union power exhibit higher levels of outsourcing. Overall, these results show that outsourcing is a decidedly political phenomenon, albeit via an unexpected route.

Keywords: outsourcing, privatization, ideology, government spending, unions

Financial Support: Support for this research was provided by the Center for the Study of Democratic Politics at Princeton University.

Supplementary Information: Supporting information for this article is available in the appendix in the online edition.

Data and Replication: Replication files are available in the JOP Data Archive on Dataverse (`http://thedata.harvard.edu/dvn/dv/jop`).

Modern governance is shared governance, with policy implementation apportioned between government actors and private sector ones. Today, state governments routinely offload information technology, medical patient services, park management, prison management, maintenance of roads, bridges, and water treatment facilities, and numerous other government functions to the private sector. This trend is replicated at the federal level, where contractors help fight wars, run prisons, collect taxes, write regulations, render benefit decisions, and shape policy. Debates about whether the public or private sectors provide particular services more effectively or efficiently have been around since the founding of the republic (Michaels, 2017).[1] Yet, the trend toward private sector provision of government services has quietly gained momentum in recent years, leading one prominent scholar to declare the current state of affairs "Leviathan by proxy" (DiIulio, 2014, 6), another to describe the network of contractors employed in the government service as a "shadow government" (Light, 1999), and still others to bemoan it as the "hollow state" (Milward and Provan, 2000).

Do political factors systematically influence decisions about outsourcing? And, if so, which ones? While the tendency to privatizatize government services is ubiquitous, scholarly focus on government outsourcing typically centers on individual sectors (Avant, 2005; Cook et al., 2020; Page, 2011; Stanger, 2009; Ya Ni and Bretschneider, 2007) or on the broader consequences of the phenomenon (Brown, 2013; Freeman and Minow, 2009; Lerman, 2019; Michaels, 2017). These approaches do not allow for a deeper understanding of the underlying forces that give rise to and perpetuate this trend. Indeed, conventional wisdom—rather than theory or empirical evidence—guides much of our understanding of the political roots of outsourcing. For example, because outsourcing relies on market

[1]This article focuses on the outsourcing of *government services*—meaning that a service that has traditionally been performed by government is reallocated to a private sector entity, which can be a for-profit or a non-profit organization. Outsourcing is one component of privatization, a broader term which also describes a government's reliance on the private sector, but which encompasses other activities such as asset sales and public-private partnerships.

forces, it is often assumed to be a tool that is primarily pursued by Republican or conservative leaders. However, to date conjectures like this have not been subjected to rigorous empirical scrutiny.

In this paper, I consider outsourcing as an aggregate policy output and examine the political influences that lead governments to systematically prefer private sector actors over public sector ones. Following in the footsteps of those studying policy outputs on a macro level (Baumgartner and Jones, 2010; Caughey and Warshaw, 2016; Hall, 2017), I develop a measure of macro outsourcing that evaluates aggregate outsourcing decisions in the U.S. states over a 23-year period (1992–2015). I consider two commonly held explanations for outsourcing—that is the tool of conservative leaders and that it driven by fiscal need—and find that neither directly explains changes in outsourcing levels. Instead, I argue that much of the variation in outsourcing rates that we observe comes not from differences in the desire to implement it from the top, but rather from the concerted efforts of an organized interest with a vested stake in outsourcing: public sector unions. Put simply, blocking outsourcing is a matter of self preservation for these political actors.

This paper makes at least three significant contributions to the literature. First, I marry together two parallel strands of literature on outsourcing: a largely normative one on the effects of outsourcing and one more tightly focused on the causes and consequences of government outsourcing in individual sectors of government. In so doing, I tease out heretofore unexplored hypotheses about system level influences on outsourcing decisions. Second, the measure of macro outsourcing developed here allows me to quantitatively test hypotheses about institutional factors that influence outsourcing levels. The results point to the importance of public sector unions in affecting outsourcing, a finding which I support with initial analyses based on laws that limit the influence of unions in the public sphere. These findings complement a growing body of research that highlights the sizable political power of public sector unions (e.g., Anzia and Moe, 2014, 2016, 2019; DiSalvo, 2015; Flavin and Hartney, 2015; Marlow, 2013). Third, in emphasizing the political aspects

of outsourcing, rather than its agency or managerial components, I bring the discussion of who performs government work away from the realm of public administration and into the political science fold.

The March Toward Marketization

Many political accounts trace the origins of the outsourcing trend to the presidency of Ronald Reagan, who famously proclaimed that "government is not the solution to our problem; government is the problem." Reagan kick-started the outsourcing revolution with grandiose rhetoric, yet most of the actual outsourcing that was achieved during his tenure was primarily related to "mundane and ministerial responsibilities" (Michaels, 2017, 98). Instead, the real movement toward outsourcing gained momentum under a Democrat. President Clinton's "Reinventing Government" initiative promoted privatization based on the belief that government should "steer" and the private sector should "row" (see Osborne and Gaebler, 1992). This push was accompanied by a government-wide National Performance Review, which evaluated each individual agency's steering progress. President George W. Bush further entrenched outsourcing with a "competitive sourcing" initiative—which required some bureaucrats to compete with the private sector to retain their positions—along with other programs like his faith-based initiative, which encouraged reliance on private religious organizations.

Irrespective of its precise origins, most scholars agree that the trend towards relying on the private sector to perform government tasks has been on the rise in recent years (DiIulio, 2014; Light, 2008; Michaels, 2017; Verkuil, 2017). At the federal level, DiIulio (2014) points out that although the number of bureaucrats has remained relatively constant since 1960, the amount of dollars each one oversees has increased nearly fivefold in the intervening years. This disjuncture can be explained by a decided turn to contracting out government work to both for-profit and non-profit contractors. Light (2008) estimates that there are four contractors for every one federal bureaucrat. Although less often evaluated

at a systemic level, the trend is mirrored at the state and even the municipal levels (Verkuil, 2017).

Contemporary theorists often focus on the deleterious consequences of this trend. Outsourcing is associated with reduced accountability, as contractors bear no direct connection to voters (Brown, 2013), as well as reduced legitimacy and stability (Lerman, 2019; Milward and Provan, 2000). These concerns are exacerbated by the extent to which contracting has become entrenched: at one defense contracting agency, more than half of the procurement specialists—who oversee the management of contracts—were themselves contractors and the government's online database used to track contracts has also been outsourced (Stier, 2009). Others note the diminished transparency associated with outsourcing, since contractors are not bound by the same restrictions as government, such as judicial review, freedom of information and disclosure laws, and sundry laws designed to promote participation and rationality in decision-making (Freeman and Minow, 2009). Finally, some worry about the broader societal impacts associated with outsourcing, such as the ability of private contractors to "cream" the easiest to serve beneficiaries of social services (leaving the harder-to-serve to an uncertain fate) or the welfare losses associated with more workers employed in the private sphere, where wages are lower, benefits are less generous, and job security is more tenuous than for those in the public employ (Donahue, 2008).[2]

Other work that takes outsourcing seriously often focuses on individual sectors, such as the military and defense settings (e.g., Avant, 2005; Stanger, 2009), "e-services" and information technology (e.g., Ya Ni and Bretschneider, 2007), or individual services provided at the local level (e.g., Becker, Silverstein and Chaykin, 1995; Chandler and Feuille, 1991; Jerch, Kahn and Li, 2016).[3] While these studies offer deep insight into their areas of

[2]However, the effects of privatization may not be as deleterious as some have feared; recent work suggests that privatization—of charter schools at least—is not associated with lower levels of political participation (Cook et al., 2020).

[3]One notable exception is a study by Brudney et al. (2005) that relies on state bureaucrats' evaluations of

focus, given the particularities associated with individual sectors or agencies, it is difficult to generalize beyond them to outsourcing that happens in other sectors or other areas. Implicitly, this piecemeal approach treats outsourcing as an idiosyncratic phenomenon and divorces it from broader discussions of structural influences and political power.

Stepping back, it is clear that scholars have raised deep normative concerns that the trend towards increased outsourcing has the potential to undermine democratic governance. At the same time, the way that scholars have studied outsourcing has limited our understanding—particularly in an empirical sense—of outsourcing as a systematic phenomenon.

Teasing out the Conventional Wisdom

The conventional wisdom about why government chooses to outsource work can be distilled into two sources of potential pressure: ideology and fiscal need. Because these links are rarely made explicit, I begin by unpacking the logic underlying each.

From an ideological perspective, the connection between outsourcing and conservatism is direct. Arguments in favor of outsourcing regularly hinge on market principles and limited government, two cornerstones of conservative ideology.[4] This suggests a straightforward hypothesis that outsourcing will increase under conservative and/ or Republican leadership.

Yet, although this connection is straightforward, it is not immediately clear which leaders are ultimately responsible for outsourcing. For instance, focusing on the state level (the empirical focus of this paper), should the governor, the legislature, or some

outsourcing at their agency, as established in a survey. They find that individual agency factors relating to the agency's budget or to past experiences with contracting, and not institutional state-level factors, do a better job of explaining agency-level outsourcing decisions. However, agency level explanations do not speak to the broader trend happening across governments.

[4]Meanwhile, liberals and Democrats have closer ties with labor and unions.

other actor should be held to account for outsourcing? As a state's chief executive, the governor is influential in affecting policy, and spending decisions in particular (Kousser and Phillips, 2012). Since prior research suggests that the partisanship of leaders also can affect aggregate levels of spending (de Benedictis-Kessner and Warshaw, 2016), it is not a stretch to extend that logic to how monies are allocated. Indeed, one government report on privatization found that across a slew of states the governor was the "political champion" of outsourcing efforts (General Accounting Office, 1997, 9). However, state legislatures can also pass legislation promoting (or inhibiting) outsourcing. As Ya Ni and Bretschneider (2007) explain, "the dominant party affiliation of a legislative body can affect contracting out decisions as legislatures with more conservative values representing stronger ties to private sector businesses tend to favor contracting out, while political parties representing low-income workers and unions tend to oppose the practice." Theoretically, then, the ideology of both the legislative and executive branches may factor into outsourcing decisions.

Upon closer inspection, however, there are reasons why the conventional wisdom about ideology may not be not a satisfying explanation for broader trends. Foremost among these, on an aggregate level, outsourcing has increased in recent decades, while aggregate liberalism in the states has remained relatively stable (Caughey and Warshaw, 2016). Additionally, conservatives and the Republican Party by no means "own" outsourcing as a governance or management tool, as President Clinton's high profile push for privatization demonstrates. Indeed, some recent studies suggest that, while outsourcing may have had conservative roots, its ideological connection may have weakened over time as the method's reputation for efficiency and cost-savings have grown (Brudney et al., 2005; Gunderson, 2020). This points to an alternative logic for the incentive for political leaders to privatize that has little to do with ideology.

Fiscal need may provide this source of alternate variation. Arguments favoring private sector provision of government services focus on efficiency, often in terms of costs

(Boyne, 2002; Osborne and Gaebler, 1992). The private sector profit motive is an important component. Boyne (2002, 99) explains, "[in private organizations] managers themselves are likely to benefit from better performance, either because they own company shares or because their pay is linked to financial success," whereas in "[public sector organizations] managers do not usually obtain direct financial benefits from higher organizational efficiency." Another important component is competition for government contracts; by holding a procurement competition, getting bids from an array of vendors, and awarding a contract to the lowest bidder, market forces ensure that the government is getting a good deal for its money. As Freeman and Minow (2009, 8) explain "private companies are simply more effective than government—more 'nimble'—and therefore more capable of responding to rapidly changing events."

Efficiency and competition suggest that outsourcing may be a way for governments to save money when offering public services and, together, they point to a different explanation for outsourcing based on fiscal pressure. In recent years, state governments in particular have faced critical budget shortfalls; during times of fiscal distress the promise of cost savings via outsourcing may be particularly tantalizing to government leaders. A second hypothesis thus follows that governments may farm out work in times of fiscal crisis as a way of capitalizing on private sector efficiencies.

Public Sector Unions and Outsourcing

Although public sector unions are increasingly acknowledged as a powerful political force in American politics,[5] they are rarely included in the outsourcing conversation.[6] When it comes to the role of unions in the political sphere, the focus is often on whether public unions affect the overall *size* of government or, more specifically, whether strong unions lead to bloated government spending. Empirically speaking, the findings are mixed, with some arguing that unions are associated with higher spending levels (e.g., Anzia and Moe, 2014) and others suggesting they are not (e.g., Crowley and Beaulier, 2018; Paglayan, 2018). However, decisions to outsource are independent of the size of government; the decision to outsource is a decision about who will perform work, rather than whether the work will be performed in the first place.[7]

Ultimately, outsourcing is a choice between government bureaucrats and contracted workers in the private sector. When a task is outsourced there are clear winners (private sector contractors) and clear losers (bureaucrats who would otherwise have performed the work). Unionized public sector workers thus have an incentive to fight to keep their jobs and to prevent the government from further outsourcing work. In the words of Anzia and

[5]As membership in unions in the private sector has declined markedly in recent decades, membership in public sector unions has held steady and in some areas has even increased (Wolfe and Schmitt, 2018). An emerging literature highlights the skill these entities exhibit in a range of domains, including corralling their members to vote (Moe, 2006; Rosenfeld, 2010, 2014) and to participate politically (Feigenbaum, Hertel-Fernandez and Williamson, 2018; Flavin and Hartney, 2015). The organizing power of unions is effective too; for example, some studies suggest that unions can influence the outcome of elections through both increased turnout and endorsements of specific candidates (Moe, 2006, 2011).

[6]However, a handful of public administration scholars have made the case that unions serves as a counter-pressure to contracting out services, particularly at the municipal level (Becker, Silverstein and Chaykin, 1995; Chandler and Feuille, 1991; Ferris and Graddy, 1986). These observations are disconnected from broader arguments about ideology and political power.

[7]To wit, the measure of macro outsourcing I deploy later in this paper enjoys a relatively low level of correlation with total government spending ($\rho = 0.28$).

Moe (2019), these groups function as "interest groups on the inside." Operating from a vantage point *within* bureaucratic agencies, they are uniquely positioned to advance their particularistic interests.

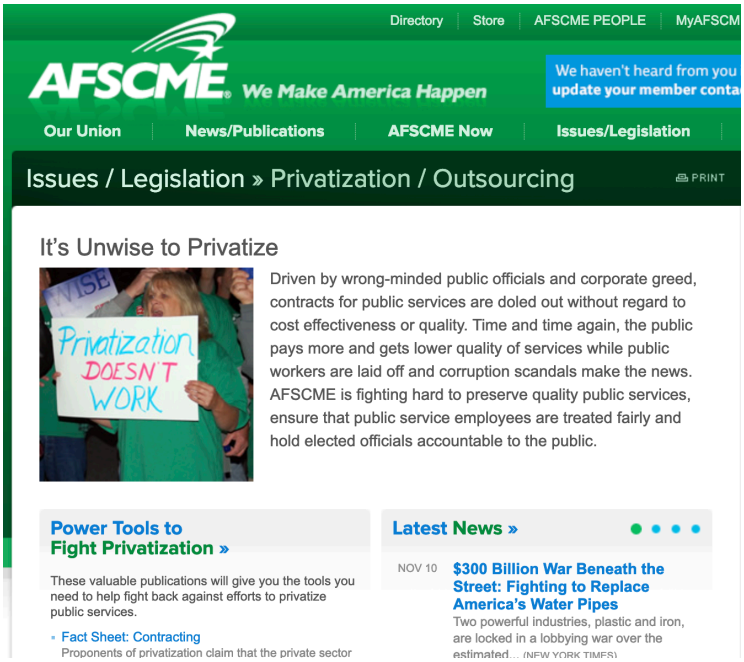
Because unions have been neglected in scholarship on outsourcing, it is worth considering the mechanisms by which they stand to potentially influence government outsourcing decisions. First, when unions negotiate contracts with government management they can include provisions that limit when government services can be contracted away from public employees, such as stipulations that grant unions special access to the government's decisionmaking process. For instance, the current contract between the Defense Finance and Accounting Service (DFAS), a federal agency, and its union, includes seven provisions pertaining to the contracting out of work. These provisions require the agency to allow the union to participate in any studies of the commercial potential for union work, to notify the union in advance of its decision to contract out, to alert the union about site visits by potential bidders and allow the union to participate in such visits, and, if work is contracted out, to give union employees the right of first refusal for employment openings created by the contractor (DFAS, 2014). These kinds of provisions are fairly standard in union-agency contracts.[8]

A second avenue by which unions can affect outsourcing decisions is through member mobilization. Many public sector unions consider fighting job outsourcing to be a key member action item. Figure 1, a screenshot of the webpage for one of the largest public sector unions, illustrates the position of unions with regard to outsourcing—one section heading reads "it's unwise to privatize" and includes a photo of a woman holding a sign stating "Privatization doesn't work." In addition to including links to facts sheets

[8]On an individual level, public employees may use their influence to steer government away from the private sector. Previous research suggests that public sector employees are disproportionately opposed to government privatization (Fernandez and Smith, 2006, but see Bhatti, Olsen and Pedersen (2009)). The personal beliefs of these employees may potentially infiltrate their professional activities, such as when they oversee contracts or engage in strategic organizational planning.

and news articles, the page also states the union's position on outsourcing: "contracts for public services are doled out without regard to cost effectiveness or quality. Time and time again, the public pays more and gets lower quality of services while public workers are laid off and corruption scandals make the news." Union members can take these agenda items and information points into rallies, meetings with government managers, agency officials and legislators, or interviews with the press.

Figure 1: Public Sector Unions Actively Lobby Against Outsourcing



Note: Screenshot of webpage from the American Federation of State, County and Municipal Employees, one of the largest public sector unions, showing member tools available to fight privatization.

Lobbying and campaign contributions present other avenues for public sector union influence. For instance, these unions regularly endorse candidates and give money in elections where their interests are at stake. As Crowley and Beaulier (2018) explain, "political contributions in support of candidates are perhaps the most direct method for influencing elections available to public unions; in other words, it is the union's way to ensure a preferred candidate is elected." While unions have historically been associated

with Democrats, public sector unions do give to legislators of both parties who sit on key committees relating to budgets and agency affairs (CRP, 2019). In turn, legislators that receive support from unions may be more inclined to oppose the outsourcing of services.

Finally, unions can rely on the courts as a way to block outsourcing efforts. Fernandez and Smith (2006, 360-1) explain, "the courts have awarded monetary damages and back pay to displaced employees when they have found that the government acted illegally or improperly when contracting out a service or function." The threat of a "prolonged and costly legal challenge" may therefore lead government to avoid pursuing further outsourcing opportunities if the threat of a union suit is likely.

The implication is clear: public sector unions have the means and the motive to counter outsourcing. However, these actors may not always have the same opportunity to engage in these activities. Not all public workers can join or choose to join unions and, even then, cultural norms or legal restrictions in the states may limit the power of unions. Thus, a third hypothesis is that when public sector union strength is relatively robust, outsourcing is expected to decrease.

Measuring Macro Outsourcing

The states provide the ideal venue to empirically assess arguments about outsourcing. Not only is there considerable variation in outsourcing levels among the states, there is also variation in their political leadership, economic health, and the extent to which public sector unions have clout. To leverage this variation, I develop a new annual measure of state government macro outsourcing decisions over a 23-year period (1992-2015).

My measure of macro outsourcing extends the "chipping away" approach developed by Minicucci and Donahue (2004).[9] Starting with a slice of annual state government

[9]While this measure has many advantages, what it lacks is consideration of the *numbers* or *types* of services that are being assigned to the private sector. With respect to type, recent work finds that state government spending is increasingly allocated toward redistribution and welfare-oriented goals (Grumbach, 2018),

expenditures, the measure deducts any spending not associated with services, as expressed in the following equation:

$$\text{Macro Outsourcing}_{it} = \frac{\text{Operating Spending}_{it} - \text{Compensation}_{it} - \text{Goods}_{it}}{\text{Operating Spending}_{it}} \tag{1}$$

where i indicates a state and t a particular year. The intuition behind this approach is that the residual represents the proportion of all state spending on services, or "macro outsourcing." The Organisation for Economic Cooperation and Development uses a variant of this approach to compare government outsourcing cross-nationally (OECD, 2011).

The base of current spending on operations includes consumption spending for employees, as well as spending on goods and contractual services.[10] It excludes spending on items like interest payments, inter-governmental transfers, construction and other investment spending. From this base, I deduct spending on salaries and benefits for state employees (Compensation_{it}), as well as spending on durable and nondurable goods, which removes purchases of things like fuel supplies and non-capital equipment. While the equation itself is intuitive, it relies on the collection of data from a variety of sources, including the Census Bureau, the Bureau of Labor Statistics, and the subsequent analysis of this data (e.g., determining the appropriate amount of funds spent on state employees including both benefits and wages); further details about the data and the measure can be found in Section A of the Supporting Information (SI).[11]

By way of illustration, consider how the transition from having a traditional public

suggesting that the growth in outsourcing may also be concentrated in these areas. Identifying particular sectors and services where outsourcing is more likely is a promising avenue for future research.

[10] The operating spending figure is from the Census of Governments. Specifically, it includes "direct [expenditures] for compensation of own officers and employees and for supplies, materials, operating leases, and contractual services except amounts for capital outlay."

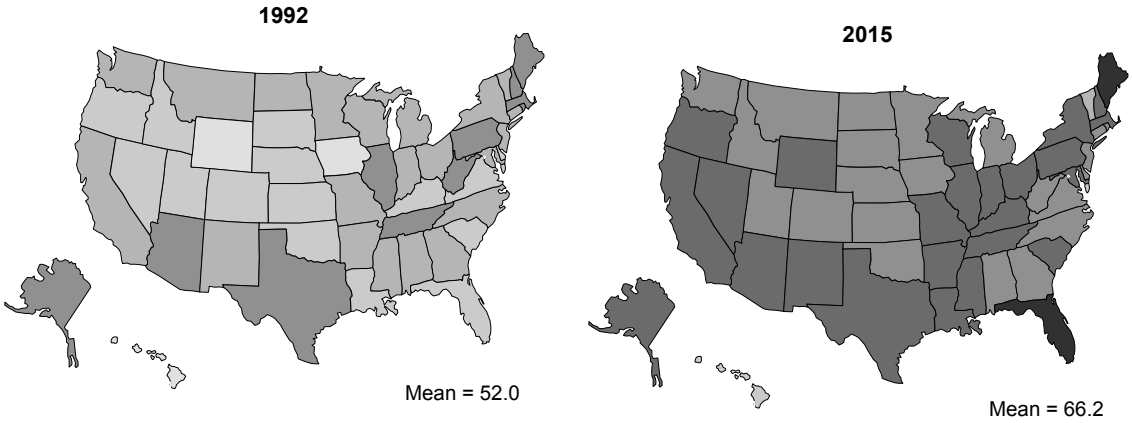
[11] All dollar amounts are expressed in real 1992 dollars.

school to having a charter school—one form of outsourcing—is treated in this method. If a state opts to keep the school public, meaning that the teachers remain public employees, then their salary and benefits will be deducted from the base (i.e., they will be counted under the Compensation term). Spending on textbooks and desks, for example, will also be deducted from the numerator, as durable goods under the Goods term. Now, consider what happens if that same school becomes a charter school. The teachers and other service providers are no longer public employees (strictly speaking), but now are private employees of the organization operating the charter. Under Equation 1, their salaries are no longer subtracted from the spending base, but instead are captured by a higher level of outsourcing. Similarly, the relevant goods spending would move to the lefthand side of the equation.

The resulting measure shows that states outsource a considerable amount of their services; the mean level of *Macro Outsourcing* across all states and years is 61.1% of services (std. dev. = 8.25%), with a low of 28.6% in Delaware in 2004 and a high of 86.3% in Nevada that same year. Figure 2 shows outsourcing levels across the states at two distinct points in time. As anticipated, the trend across the states is toward increasing levels of outsourcing over the study's time period, a finding that comports with that of many observers (DiIulio, 2014; Michaels, 2017; Verkuil, 2017).[12] This provides some reassurance in terms of face validity.

[12]See Figure A-2 in the SI for individual state-level trends.

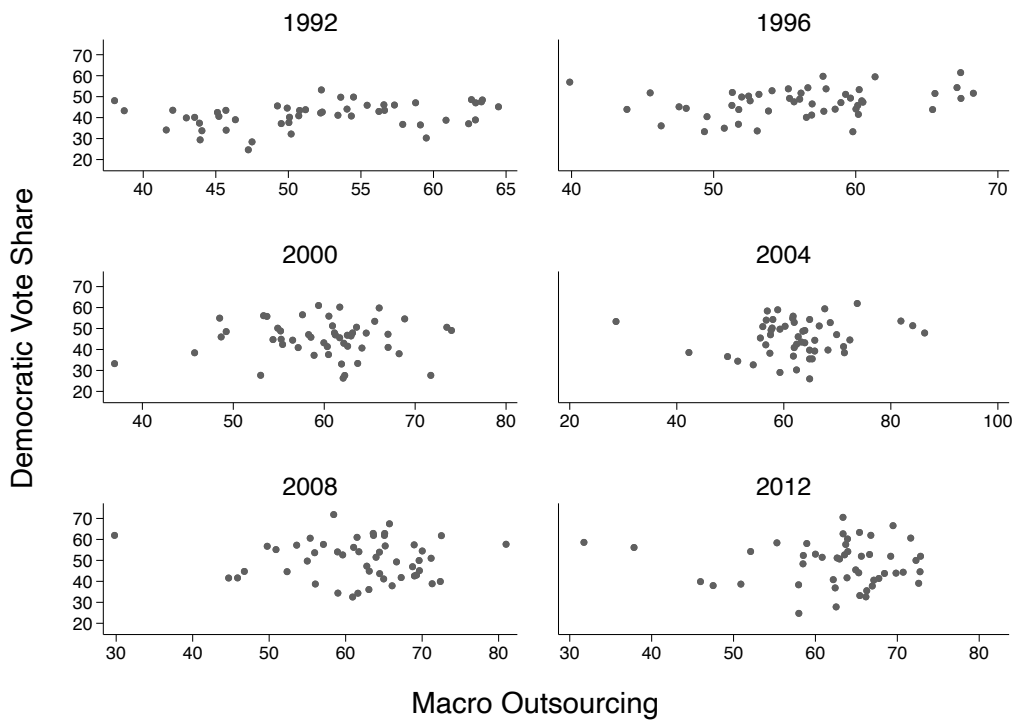
Figure 2: Macro Outsourcing in the States, 1992 and 2015



Note: The left map shows macro outsourcing levels in the states in 1992, while the right map shows levels in 2015. Darker shades indicate higher levels of outsourcing.

Figure 2 also reveals an interesting pattern with regard to macro outsourcing. So-called "red states" are not the only bastions of outsourcing. For instance, in 2015, Florida and Maine engaged in the highest levels of outsourcing; the following year, the former voted for President Trump—by a one point margin over Hilary Clinton—and the latter chose Clinton over Trump by a three point margin. Additionally, as shown in Figure 3 there is no systematic relationship between presidential vote share for Democratic presidential candidates and the level of observed outsourcing in a state in that year. This point is further reinforced by evaluating the relationship between the macro outsourcing measure and other policies that might be considered liberal or conservative; there is very little correlation ($\rho = 0.02$) between *Macro Outsourcing* and Caughey and Warshaw's (2016) measure of state economic policy liberalism, which is based on an aggregate evaluation of more than 150 individual state-level policies.

Figure 3: Outsourcing by Democratic Presidential Vote



Note: Scatterplots showing no systematic relationship between Democratic vote share and Macro Outsourcing for each of the presidential elections in the time series.

The regions have broadly followed the same pattern of increasing outsourcing, with some slight variations, as Figure A-3 in the SI illustrates. States in the Northeast were early adopters of outsourcing, while western states were late adopters and have lagged the other regions in more recent years. Notably, the South—which is often given special consideration in American politics and might be considered ripe for outsourcing given its conservative ties—does not stand out in an appreciable way.

The measure of *Macro Outsourcing* represents an improvement over prior measures of service outsourcing, few of which are of the same scope. Extant measures tend to focus on individual agencies or individual sectors (e.g., Cook et al., 2020). Often such studies rely on methods that are not replicable on a broader scale, such as surveys of bureaucrats (e.g., Brudney et al., 2005) or proprietary estimates of the number of contractors employed

(Light, 1999). A notable exception is a comparative study commissioned by the State of Nebraska in 2012 that examines state outsourcing of government services (Goss and Morse, 2012). The measure employed in that study relies on similar formula to the one employed here although it is based on total agency expenditures and focuses only on salary (excluding benefits and payments for goods). Despite these differences, as shown in Figure A-1 in the SI, the two measures correlate reasonably well ($\rho = 0.47$).

Data and Methods

With the measure of macro outsourcing in hand, it is possible to evaluate the three hypotheses about outsourcing decisions. To test whether conservative ideology explains state outsourcing decisions, I use partisanship as a proxy and focus on partisan control of both the executive and the legislative branches. *GOP Governor* is a dummy taking a value of "1" in years when a state's governor is a Republican, and "0" otherwise. *GOP House* and *GOP Senate* are similarly coded to represent partisan control of the state's lower and uppper chambers, respectively.

I gauge states' economic condition with two indicators of fiscal health: debt as a percentage of Gross State Product and the state's budget surplus (in millions of dollars).[13] Both measures are indicative of a state's fiscal standing: a state with a high debt to GSP percentage is one that has borrowed heavily and is in tough financial straits, while a state with a large budget surplus suggests the converse.

Finally, to capture the strength of public sector unions in a state, I include *Union Coverage*, the proportion of a state's public sector workers who are covered by a collective bargaining agreement.[14] While all states have public sector unions, the strength of those

[13]Both measures draw from Jordan and Grossmann (2020).

[14]These data are from Hirsch and MacPherson (2003); see `www.unionstats.com`. Rates of union coverage vary for many reasons. For instance, hiring freezes, budget shortfalls or surpluses, international events like the 2008 financial crisis, and secular trends like technological improvements and the aging of the public

unions varies in terms of the number of workers they represent. Unions that represent a greater proportion of workers are assumed to exercise more clout.[15]

To evaluate these political influences on outsourcing decisions, I estimate the following two-way fixed effect model with lagged dependent variables:

$$y_{it} = \beta_1 \text{Ideology}_{i,t-1} + \beta_2 \text{Fiscal Pressure}_{i,t-1} + \beta_3 \text{Union}_{i,t-1} + \sum_{l=1}^{L} \delta l y_{i,t-1} + \alpha_i + \xi_t + \epsilon_{it}, \quad (2)$$

where subscript i denotes the state, and t denotes the year. Here, β_1, β_2, and β_3 are regression coefficients, $y_{i,t-1}$ is a state's level of outsourcing in the prior year, the α_i are state fixed effects, the ξ_t are year fixed effects, and ϵ_{it} is an error term. I include lagged measures of the key independent variables, since I assume it will take time for political or economic actions to be reflected in state contracts, given the slow pace of the government contracting process.

This specification can be interpreted as comparing different years within the same state and estimating the difference in the yearly change in outsourcing with respect to changes in the key independent variables. I use ordinary least squares to estimate the models and cluster the standard errors by state to correct for autocorrelation within states over time.[16] This dynamic panel model approach offers an advantage over a model that

sector workforce can influence the total number of public sector workers (the denominator), while member drives and legal changes can affect the number of covered workers (the numerator).

[15]Three observations support this assumption. First, when they approach elected officials, unions that represent a larger share of constituents may garner greater deference (or at least more attention) from representatives. Second, compared to a public sector union that represents fewer workers, unions in states with high coverage are likelier to have more resources to devote to rallies, potential lawsuits, campaign contributions, etc. Third, when it comes to negotiating contracts with government, unions with greater coverage may have more influence as the repercussions for not reaching agreement may be higher.

[16]One potential concern with this approach is that the dependent variable *Macro Outsourcing* is bounded between 0 and 100. Yet, these bounds are not binding, as in no case does the measure approach them,

includes state fixed effects alone since past levels of outsourcing are likely to vary within state in ways that state-specific fixed effects cannot capture.[17]

Results

The results are shown in Table 1; broadly, they support the role of unions in countering outsourcing, and offer little evidence of a systematic role for either ideology or fiscal pressure.

While the ideology measures—*GOP Governor*, *GOP House*, and *GOP Senate*—all carry the expected positive sign, none approaches statistical significance in any of the models. Additionally, the relative magnitude of these variables is small, in most cases suggesting that a move from Democratic to Republican control in each institution is much less than a one percentage point increase in macro outsourcing. Similarly, the fiscal pressure indicators do not lend empirical support to conventional explanations. While *Debt % GSP* is positive (as expected), the coefficient is not statistically significant in any of the models. In contrast, the sign for *Budget Surplus* variable is unexpectedly positive and approaches statistical significance in several of the models. This provides an alternative explanation for how fiscal pressures may influence outsourcing decisions. Rather than fiscal distress being a driver for the choice to privatize a service (as the conventional wisdom suggest), times of fiscal prosperity may be more closely tied to outsourcing. That is, high temporary surpluses may be an attractive time to outsource as money can be spent without making longer-term commitments.[18]

In contrast, the models provide strong support for the expectation regarding union

making OLS an appropriate modeling technique.

[17]These models rely on an assumption of parallel trends meaning that there should be no time-varying confounders that affect states with weaker unions (and, therefore, those states' levels of outsourcing) differently than states with stronger public sector unions. I evaluate this assumption in greater detail in Section B of the SI.

[18]While beyond the scope of the current research, this alternate hypothesis is worthy of future research.

strength, showing that as unions become relatively stronger, outsourcing decreases in response. A substantial proportion of the variation in the data is absorbed by the inclusion of both the state and year fixed effects and the two lag terms; therefore, interpreting the substantive impact of this variable requires consideration of the within-unit variation (i.e., how much *Union Coverage* typically varies within, rather than across, states). Following Mummolo and Peterson (2018), I consider a plausible counterfactual scenario that takes into account the average within state-year variation in each variable.[19] This approach suggests that a change from one adjusted standard deviation below the mean level of *Union Coverage* to one adjusted standard deviation above the mean results in a reduction of approximately 0.6% in terms of *Macro Outsourcing* (Model 8). While this effect size may appear small on its face, it represents potentially major policy changes and financial windfalls. For example, in a large state like California, a change of this size in an average year is equated with approximately $3.4 billion moving from the public to the private sector; in a smaller state like Vermont, however, the change is much more modest in scale, amounting to about $137 million in any given year.[20]

[19] In other words, I adjust the calculation of the standard deviation to consider the types of movement in this variable that occurs within states, an adjustment which substantially narrows the variance compared to an analysis that considers the variation across all states and all years.

[20] Figures calculated based on mean values of Operating Spending for each respective state.

Table 1: Political Influences on State Macro Outsourcing

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Ideology								
GOP Governor$_{t-1}$	0.028				0.202	0.075	0.071	0.030
	(0.301)				(0.533)	(0.267)	(0.302)	(0.278)
GOP House$_{t-1}$		0.064			0.597	-0.093	0.097	-0.041
		(0.480)			(0.803)	(0.460)	(0.494)	(0.479)
GOP Senate$_{t-1}$		0.199			0.894	0.115	0.156	0.162
		(0.301)			(0.614)	(0.284)	(0.335)	(0.300)
Fiscal Pressure								
Debt % GSP$_{t-1}$			0.024		0.173	0.029	0.023	0.041
			(0.063)		(0.192)	(0.058)	(0.034)	(0.058)
Budget Surplus$_{t-1}$			0.120		0.133	0.111	0.051	0.113
			(0.062)		(0.089)	(0.058)	(0.045)	(0.058)
Union Strength								
Union Coverage$_{t-1}$				-0.099***	-0.202***	-0.081***	-0.143***	-0.086***
				(0.036)	(0.069)	(0.034)	(0.037)	(0.036)
Outsourcing$_{t-1}$	0.756***	0.752***	0.756***	0.750***		0.695***	0.740***	0.746***
	(0.044)	(0.046)	(0.044)	(0.044)		(0.031)	(0.042)	(0.047)
Outsourcing$_{t-2}$	-0.082	-0.078	-0.082	-0.085			0.012	-0.081
	(0.044)	(0.048)	(0.044)	(0.043)			(0.050)	(0.047)
Observations	1,100	1,078	1,100	1,100	1,127	1,127	1,078	1,078
R-squared	0.813	0.811	0.813	0.814	0.641	0.815	0.791	0.813
State FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	NO	YES
States	50	49	50	50	49	49	49	49

Note: *** p<0.001, ** p<0.01, * p<0.05. Robust standard errors clustered at the state level are in parentheses. FE = fixed effect. The number of observations varies across each model due to the inclusion of different lag structures. Additionally, models with measures based on legislative chambers exclude Nebraska, which has a unicameral legislature.

Robustness

Broadly, these results suggest that union strength offers a more consistent explanation for macro outsourcing than either ideology or fiscal pressure. However, all three concepts are expansive, and there are multiple ways to potentially operationalize them. In this section I explore whether alternate conceptionalizations of these variables affect the broader takeaways. The results for these analyses are summarized in Table 2, with the full results reserved for the SI.

Table 2: Alternate Operationalizations of Key Independent Variables

	Expected Sign	Coefficent	p value
Ideology			
Governor CF Score	+	0.027	0.90
Median Legislator Ideology (House)	+	-0.086	0.88
Median Legislator Ideology (Senate)	+	0.464	0.33
Economic Policy Liberalism	-	-1.243	0.32
Business Bias	+	-0.253	0.81
Party Control of Government			
Unified Republican	+	-0.005	0.99
Unified Democratic	-	-0.180	0.61
Divided Government		0.123	0.64
Share of Republican Seats (House)	+	-0.584	0.88
Share of Republican Seats (Senate)	+	2.503	0.27
Fiscal Pressure			
Unemployment Rate	+	- 1.153	0.94
Income per Capita	-	-0.094	0.29
Fraction ARC Paid	+	0.106	0.48
Union Strength			
Union Density	-	-0.071	0.05
Labor Spending	-	-0.001	0.01

Notes: Table summarizes the baseline model results from Table C-1 (Ideology), Table C-2 (Party Control of Government), Table C-3 (Fiscal Pressure), and Table C-4 (Union Strength) in the SI. The dependent variable in all cases is *Macro Outsourcing*. Independent variables are lagged by one year in all specifications.

To begin, I consider several alternate ways of conceptualizing the ideology of key actors. First, I include the conservatism of the governor using estimates of gubernatorial ideology from Bonica's (2013) campaign finance (CF) scores.[21] *Governor Ideology* is a continuous measure with positive (negative) values indicating a more conservative (liberal) leader. Next, I include measures of the ideology of the median legislator in the state House and Senate, respectively, using metrics developed by Shor and McCarty (2011).

[21] Bonica's widely-cited CF measures of ideology use millions of campaign finance contributions from across the political landscape to generate estimates of ideology for leaders at various levels of government.

The third measure of ideology builds from the insight that pressure for outsourcing may draw from the broader political environment, rather than from any specific political institution. To assess this, I include a dynamic state-year measure of the economic policy liberalism of the mass public. This measure, developed by Caughey and Warshaw (2018), is based on hundreds of public opinion polling questions and captures the extent to which a state's population is more supportive of economically liberal policies. If pressure to outsource is coming directly from voters themselves, we should see a negative and statistically significant coefficient for *Mass Economic Liberalism*.

Finally, I consider whether some states are just more open to business than others and whether that predilection explains outsourcing decisions. Specifically, I include a measure of the bias of a state's campaign finance system towards more organized and monied interests. This measure, developed by Witko (2017), is based on the difference in the number of for-profit high-income groups that gave campaign contributions to candidates for state office and the number of non-profit and labor groups that participate in that same way. Higher values of *Business Bias* suggest that a state's campaign finance system is more biased towards the former groups.

Of the five ideology measures, four are correctly signed, but none is statistically significant; these results are in keeping with the results from Table 1, corroborating the finding that ideology is not a key driver of outsourcing decisions.

Ideological preferences may not always translate into policy outcomes, however. Instead, party control of government can dictate the ability of conservative and liberal actors to turn their preferences into policy; for instance, Grumbach (2018) finds that with growing ideological polarization, the policy effects of party control of government have increased. To evaluate this, I consider whether government is under unified Republican, unified Democratic, or divided control and, alternatively, the share of seats held by the Republican party in the lower and upper chambers. The results indicate that party control is also not a key determinant of macro outsourcing.

Turning to the fiscal pressure measures, I include two new indicators of a state's economic well-being—the unemployment rate and income per capita—as well as a measure of fiscal health that is more closely tied to public sector unions. In recent years, retirement plans for public sector workers have become more underfunded, placing increasing pressure on state budgets (Anzia and Moe, 2019). Accordingly, I consider whether the financial stress imposed by state pension liabilities may deter states from additional reliance on bureaucrats. The variable *Fraction of ARC paid* represents the Annual Required Contribution (ARC)—the amount that the state must pay to amortize the existing pension obligations plus its outstanding pension debt—as a percentage of the state's revenues.[22] If daunting pension obligations make private sector options more attractive, then this variable should have a positive sign. These results fail to support an interpretation that fiscal pressure systematically drives states toward private sector outsourcing.

Finally, I consider alternate operationalizations of union strength. The first variable, *Union Density*, is another commonly used measure of union strength and represents the proportion of public sector employees who are members of the union compared to all public sector employees in the state. The second, *Labor Spending*, is the change in campaign contributions made by the labor sector to candidates for state office in the state over the prior year, according to the National Institute on Money in State Politics. While this measure includes financing by private sector labor unions in addition to public sector ones, private sector unions often work to counter the political influence of business interests, suggesting that in terms of outsourcing decisions both types of unions may share interests. For both variables strong unions are significantly associated with decreases in macro outsourcing. For *Union Density*, the results here suggest a small, but substantively meaningful effect; a change from one adjusted standard deviation below the mean level of *Union Density* to one adjusted standard deviation above the mean results in a reduction

[22]The ARC is calculated according to standardized accounting rules. Data are from the Public Plans Database from the Center for Retirement Research at Boston College. See Anzia and Moe (2019) for more insight into the politics of pension liabilities.

in *Macro Outsourcing* of approximately 0.5%. And for *Labor Spending* the substantive effect is again small but meaningful; moving from one within-unit standard deviation below the mean level of *Labor Spending* to one within-unit standard deviation above the mean results in a reduction in *Macro Outsourcing* of approximately 0.2%. This result is consistent with campaign contributions as one way that public sector unions can affect change. Overall, then, these models reinforce the prior findings and suggest that, irrespective of how the concepts are operationalized, public sector unions are influential in convincing state governments to keep work in-house.

These general findings are robust to a number of alternate interpretations and model specifications. Returning to the models from Table 1, I begin by exploring whether the effects of ideology may have decayed over time. The time series for this analysis begins in 1992 and it is possible that outsourcing had stronger connections to ideology in earlier years, but that over time outsourcing was a tool that spread from conservative ideologues to their liberal counterparts. In Table C-5 in the SI, I split the time span covered by the analysis into three equal periods and interact the partisanship of the governor with each of the time periods. If outsourcing has become less ideological over time, then one might expect it to have a positive association with Republican leadership in the earlier period, and a declining or null effect in later periods. I find no support for this hypothesis. In Table C-6 in the SI, I consider whether Republican governors turn to outsourcing when facing fiscal pressure. Specifically, I interact the governor's party with the fiscal measures; I find no evidence of an interactive relationship between the governor's party and any of these indicators.

In the main models the independent variables are each lagged by one year; in Table C-7 the SI I explore whether a different lag period is more appropriate (e.g., whether it takes two years for partisan governors to implement their outsourcing preferences). Adjusting the lag period does not affect the substantive takeaways. Next, in Table C-8, I explore whether the results are sensitive to focusing on differences in outsourcing rather

than levels; they are not. I also consider whether states that spend more are more likely to outsource, a tendency that might potentially bias against finding an effect for ideology. To consider this, I take two approaches in Table C-9; first I add the logged amount of total state spending in a year (i.e., not just operating spending) as a control variable to the main models and, second, I estimate separate models where the dependent variable, *Macro Outsourcing*, is logged in addition to the logged total spending measure. While states with higher spending are indeed associated with more outsourcing, this does not affect the key results with respect to ideology, fiscal need, or unions.

Finally, in Table C-10 I consider two potential modeling issues. First, to address possible trending within states, I add state-specific linear and quadratic trends to the models and, second, due to known issues with the inclusion of fixed effects with lagged dependent variables (e.g., Keele and Kelly, 2006), I reestimate the models using Arellano and Bond's (1991) Generalized Method of Moments (GMM) estimator. Importantly, across all of these different model specifications and estimation strategies the primary findings remain unaffected.

Discussion: Union Influence in Context

The results consistently show that a strong union presence is significantly and meaningfully tied to reduced outsourcing levels. This invites the question: just how do public sector unions do this? The earlier discussion identified five potential mechanisms by which unions might stymie government outsourcing efforts: contract provisions that give unions special access to government decisions about contracting out work; member mobilization though public pressure (e.g., rallies or protests); union lobbying of government officials; campaign contributions to government officials, and lawsuits that seek remediation for work that has been outsourced.

Public sector unions frequently pursue these strategies in tandem. For example, Page (2011) describes how a very powerful public sector union, the California Correctional

Peace Officers Association (CCPOA), successfully fought prison privatization, resulting in the "state's virtual monopoly on incarceration" (139). Page (2011) explains the union's strategy for targeting legislators: "in addition to sponsoring and opposing legislation, the union's lobbyists and officials inform lawmakers about what the CCPOA sees as the evils of private prisons" (138). However, the union's efforts did not stop there. Page notes that the CCPOA strategically targeted campaign funds to anti-privatization allies in both parties and also lobbied the governor to use budgetary means to block privatization. Finally, the union sued the state at least two times over attempts to privatize.

Similarly, when the Department of Developmental Services in Connecticut unveiled a plan to privatize group homes for people with intellectual and developmental disabilities, the two affected unions sprang into action. The unions' manifold strategy included filing a complaint with the state's Board of Labor Relations, filing an injunction in state court, and engaging in public protests that were conducted in partnership with clients' families who also opposed the proposed privatization (Becker and Phaneuf, 2016). Importantly, the basis of the legal actions was that the privatization efforts violated provisions in the unions' contracts that allowed for special protections for the states' workers. Following this blowback, the state subsequently retreated from its privatization plans (Kramer, 2017).

As these examples illustrate, union strategies are often jointly deployed. Therefore, empirically disentangling which strategies are the most effective in combatting outsourcing—and when—is an important next step for scholars. However, given the simultaneous nature, this is not a straightforward exercise.

The results raise another important question with respect to the role of ideology; while the findings do not identify a direct role for ideology in outsourcing, are there other avenues by which ideology might infiltrate outsourcing *indirectly*? After all, ideological divergence and political polarization are two of the defining characteristics of contemporary politics, and labor politics is often central to these battles (Grumbach, 2018; Hertel-Fernandez, 2019). This broader political contexts suggests another indirect

pathway by which ideology may infiltrate outsourcing decisions: labor law. Specifically, Hertel-Fernandez (2019) argues that a network of conservative actors has worked covertly to encourage states to adopt right-leaning policies. While the policy agenda this network advances is broad, it includes laws intended to rescind or limit the powers of public sector unions. Numerous states have responded to efforts like these by adopting laws aimed at limiting union power in recent years. Typically, these policies drain unions of their strength, by reducing union membership and sapping the organizing power of members (e.g., Ellwood and Fine, 1987; Feigenbaum, Hertel-Fernandez and Williamson, 2018).

Analyzing union retrenchment laws provides a potential avenue to explore the indirect role of ideology in outsourcing decisions. Because these laws are advanced by conservative activists (and opposed by labor unions), they have a clear ideological connection. However, unlike the earlier measures of ideology that were based on the ideological disposition and party affiliation of key political actors,[23] the adoption of these laws is a one-off; they need to happen only once, yet they have the potential to have a sustained impact on outsourcing in the long-run. In this sense, they are a "back door" for ideology. Additionally, because these laws attack union strength head-on, by the logic outlined previously, their adoption should be associated with higher levels of outsourcing.

I take two preliminary approaches to analyzing the effect of union retrenchment laws. First, I consider the impact of "Right to Work" (RTW) laws, a policy that prohibits unions from forcing all workers covered by a union agreement to join the union or pay dues, on state outsourcing levels (see Feigenbaum, Hertel-Fernandez and Williamson, 2018). Because RTW policies curb union power, their adoption should be associated with an increase in outsourcing levels. The analysis, which is presented in Table D-1 in the SI, shows that there is a positive, albeit noisy, relationship between the adoption of these laws

[23] Unions do not appear to systematically fare better (in terms of outsourcing) under Democratic leadership. In a series of interactive models, where Democratic leadership indicators (i.e., governor, House, Senate, unified Democratic government) were interacted with union strength, the effect sizes were small and not statistically significant.

and macro outsourcing.

Second, to further probe the effect of union retrenchment laws on state outsourcing decisions, I scrutinize another form of union retrenchment: Wisconsin's widely-publicized 2011 decision to limit collective bargaining for public sector workers. To evaluate the effect of the adoption of this law, known as "Act 10," I use the synthetic control method (Abadie, Diamond and Hainmueller, 2015) to compare observed levels of outsourcing in Wisconsin with outsourcing levels in a synthetically-constructed counterfactual scenario wherein Wisconsin did not change its collective bargaining law. The results of this analysis, which are presented in Section E of the SI, suggest that the adoption of Act 10 is associated with an increase over the state's predicted levels of outsourcing. While this law corresponded with a more general rightward tilt in the broader American electorate (e.g., Republican takeover of the House in the 112th Congress), the results show that the state's macro outsourcing levels exceeded expectations based on its past performance as well of that of its peers.

While only suggestive, the analyses of Wisconsin and of state RTW laws show that conservative attacks on unions (i.e., ideologically-motivated actions) may have downstream implications for outsourcing. They also serve as confirmatory evidence about the role of unions, underscoring the importance of these actors in countering pressure to outsource government services.

Conclusion

Whether individuals employed by the government or those employed by the private sector perform government functions is fundamental to questions of both government performance and government accountability. While the decision to outsource government work is often treated as an administrative one, this article has argued that is also a political choice. Although earlier arguments link outsourcing to a conservative ideology or times of fiscal distress, I find little systematic evidence to support these explanations.

Instead, I show that another political factor—public sector unions—can influence whether government outsources work.

These findings have implications for our understanding of both outsourcing and state politics. Recent research finds that, for highly ideological issues, states adopt polarized positions in line with the dominant party (Grumbach, 2018); however, for all other manner of economic and welfare issues, partisanship does not predict the direction of state policy (Leigh, 2008). My results suggest that outsourcing falls into the latter camp, as there do not appear to be strong divisions between Republican-led and Democratic-led states in terms of outsourcing levels. Before concluding that ideology does not affect outsourcing, however, it is worth noting that this study has largely focused on the *direct* relationship between ideology and outsourcing. There are very likely indirect routes by which ideology infiltrates outsourcing, such as pro-business laws—including RTW and collective bargaining restrictions—that are disproportionately adopted in more conservative states and worthy of future study.

There are at least three additional implications with respect to public sector unions. First, while there is ongoing debate about the ability of public sector unions to affect top-line government spending figures (e.g., Anzia and Moe, 2014; Paglayan, 2018), this research suggests that unions may be effective at influencing the allocation of monies *within* the public sector. It follows that when organized into public sector unions, unelected bureaucrats can have a powerful influence over the direction of public policy. Second, public sector unions are often vilified for producing generous pay packages and pensions for their members at the taxpayer's expense (e.g., DiSalvo, 2015). Yet, unions may play an important role in providing counter-pressure against private sector lobbying. While private sector contractors lobby to keep and extend individual government contracts, public sector unions offer a countervailing force to keep spending in-house. If unions indeed provide a counterweight against private sector lobbying, then a third implication of this research is that policies that scuttle public sector union power—such as the recent

Supreme Court ruling in *Janus v. AFSCME*[24]—stand to augment the ongoing trend of government reliance on the private sector to perform services.

While the results are robust, there are nonetheless important caveats to consider. First, this analysis of macro outsourcing is necessarily at an aggregate level and the findings may not travel downstream to specific industries or individual outsourcing decisions. For example, in a study of state prisons, Gunderson (2020) finds that high rates of prison guard unionization do not have a consistent association with states' decisions to privatize their prisons. Additionally, while the results potentially speak to both the federal and the municipal levels, other considerations surely factor into those contexts, such as agency structure at the federal level or the form of government at the local level.

Looking ahead, government outsourcing of services promises to be a core governance issue in the years to come. This article offers an important advance in understanding the role of politics in outsourcing; future work should continue the conversation.

References

Abadie, Alberto, Alexis Diamond and Jens Hainmueller. 2015. "Comparative Politics and the Synthetic Control Method." *American Journal of Political Science* 59(2):495–510.

Anzia, Sarah F. and Terry M. Moe. 2014. "Public Sector Unions and the Costs of Government." *Journal of Politics* 77(1):114–127.

Anzia, Sarah F. and Terry M. Moe. 2016. "Do Politicians use Policy to Make Politics? The Case of Public-Sector Labor Laws." *American Political Science Review* 110(4):763–777.

Anzia, Sarah F. and Terry M. Moe. 2019. "Interest Groups on the Inside: The Governance of Public Pension Funds." *Perspectives on Politics*, forthcoming. Available online: `https://doi.org/10.1017/S1537592718003468`.

Arellano, Manuel and Stephen Bond. 1991. "Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations." *The Review of Economic Studies* 58(2):277–297.

[24]See *Janus v. American Federation of State, County, and Municipal Employees, Council 31*, No. 16-1466, 585, U.S. _____ (2018).

Avant, Deborah D. 2005. *The Market for Force: The Consequences of Privatizing Security*. New York, NY: Cambridge University Press.

Baumgartner, Frank and Bryan Jones. 2010. *Agendas and Instability in American Politics*. Chicago, IL: University of Chicago Press.

Becker, Arielle Levin and Keith M. Phaneuf. 2016. "State Employee Unions Suing to Block Group Home Privatization." *The Connecticut Mirror*, Oct. 13. Available online: `https://ctmirror.org/2016/10/13/state-employee-unions-take-legal-action-to-block-group-home-privatization/`.

Becker, Fred W., Gail Silverstein and Lee Chaykin. 1995. "Public Employee Job Security and Benefits: A Barrier to Privatization of Mental Health Services." *Public Productivity & Management Review* 19(1):25–33.

Bhatti, Yosef, Asmus Leth Olsen and Lene Holm Pedersen. 2009. "The Effects of Administrative Professionals on Contracting Out." *Governance* 22(1):121–137.

Bonica, Adam. 2013. "Ideology and Interests in the Political Marketplace." *American Journal of Political Science* 57(2):294–311.

Boyne, George A. 2002. "Public and Private Management: What's the Difference?" *Journal of Management Studies* 39(1):97–122.

Brown, Kimberly N. 2013. "We the People, Constitutional Accountability, and Outsourcing of Government." *Indiana Law Journal* 88:1347–1403.

Brudney, Jeffrey L., Sergio Fernandez, Jay Eungha Ryu and Deil S. Wright. 2005. "Exploring and Explaining Contracting Out: Patterns Among the American States." *Journal of Public Administration Research and Theory* 15(3):393–419.

Caughey, Devin and Christopher Warshaw. 2016. "The Dynamics of State Policy Liberalism, 1936–2014." *American Journal of Political Science* 60(4):899–913.

Caughey, Devin and Christopher Warshaw. 2018. "Policy Preferences and Policy Change: Dynamic Responsiveness in the American States, 1936–2014." *American Political Science Review* 112(2):249–266.

Chandler, Timothy and Peter Feuille. 1991. "Municipal Unions and Privatization." *Public Administration Review* 51(1):15–22.

Cook, Jason B., Vladimir Kogan, Stéphane Lavertu and Zachary Peskowitz. 2020. "Government Privatization and Political Participation: The Case of Charter Schools." *Journal of Politics* 82(1):300–314.

Crowley, George R. and Scott A. Beaulier. 2018. "Public-sector Unions and Government Policy: Reexamining the Effects of Political Contributions and Collective Bargaining Rights." *Public Finance Review* 46(3):454–485.

CRP. 2019. "Public Sector Unions." Center for Responsive Politics. Available online: `https://www.opensecrets.org/industries/indus.php?ind=P04`.

de Benedictis-Kessner, Justin and Christopher Warshaw. 2016. "Mayoral Partisanship and Municipal Fiscal Policy." *Journal of Politics* 78(4):1124–1138.

DFAS. 2014. "AFGE-DFAS Master Collective Bargaining Agreement." American Federation of Government Employees. Available online: `https://www.afge.org/globalassets/documents/cbas/c171---dfas-contract.pdf`.

DiIulio, John. 2014. *Bring Back the Bureaucrats: Why More Federal Workers will Lead to Better (and Smaller!) Government*. West Conshohocken, PA: Templeton Foundation Press.

DiSalvo, Daniel. 2015. *Government against Itself: Public Union Power and Its Consequences*. New York, NY: Oxford University Press.

Donahue, John D. 2008. *The Warping of Government Work*. Cambridge, MA: Harvard University Press.

Ellwood, David T. and Glenn Fine. 1987. "The Impact of Right-To-Work Laws on Union Organizing." *Journal of Political Economy* 95(2):250–273.

Feigenbaum, James, Alexander Hertel-Fernandez and Vanessa Williamson. 2018. "From the Bargaining Table to the Ballot Box: Political Effects of Right to Work Laws." National Bureau of Economic Research, Working Paper 24259, Available online: `http://www.nber.org/papers/w24259`.

Fernandez, Sergio and Craig R. Smith. 2006. "Looking for Evidence of Public Employee Opposition to Privatization: An Empirical Study with Implications for Practice." *Review of Public Personnel Administration* 26(4):356–381.

Ferris, James and Elizabeth Graddy. 1986. "Contracting Out: For What? With Whom?" *Public Administration Review* 46(4):332–344.

Flavin, Patrick and Michael T. Hartney. 2015. "When Government Subsidizes its Own: Collective Bargaining Laws as Agents of Political Mobilization." *American Journal of Political Science* 59(4):896–911.

Freeman, Jody and Martha Minow. 2009. *Government by Contract: Outsourcing and American Democracy*. Cambridge, MA: Harvard University Press.

General Accounting Office. 1997. "Privatization: Lessons Learned by State and Local Governments." GAO Report #GAO/GGD-97-48, Washington, D.C. Available online: `https://www.gao.gov/assets/230/223757.pdf`.

Goss, Ernie and Edward Morse. 2012. "Right Sourcing in Nebraska: Growing Government or Private Industry?" The Goss Institute for Economic Research, Creighton University. Available online: `https://dspace2.creighton.edu/xmlui/bitstream/handle/10504/85061/Morse_RightSourcing2014.pdf?sequence=1`.

Grumbach, Jacob M. 2018. "From Backwaters to Major Policymakers: Policy Polarization in the States, 1970–2014." *Perspectives on Politics* 16(2):416–435.

Gunderson, Anna. 2020. "Why Do States Privatize their Prisons? The Unintended Consequences of Inmate Litigation." *Perspectives on Politics*, forthcoming.

Hall, Matthew E.K. 2017. "Macro Implementation: Testing the Causal Paths from US Macro Policy to Federal Incarceration." *American Journal of Political Science* 61(2):438–455.

Hertel-Fernandez, Alex. 2019. *State Capture: How Conservative Activists, Big Businesses, and Wealthy Donors Reshaped the American States–and the Nation*. New York, NY: Oxford University Press.

Hirsch, Barry T. and David A. MacPherson. 2003. "Union Membership and Coverage Database from the Current Population Survey: Note." *Industrial and Labor Relations Review* 56(2):349–352.

Jerch, Rhiannon, Matthew E. Kahn and Shanjun Li. 2016. "Efficient Local Government Service Provision: The Role of Privatization and Public Sector Unions." National Bureau of Economic Research working paper. Available online: `https://www.nber.org/papers/w22088.pdf`.

Jordan, Marty P. and Matt Grossmann. 2020. "The Correlates of State Policy Project v.2.2." East Lansing, MI: Institute for Public Policy and Social Research (IPPSR).

Keele, Luke and Nathan J. Kelly. 2006. "Dynamic Models for Dynamic Theories: The Ins and Outs of Lagged Dependent Variables." *Political Analysis* pp. 186–205.

Kousser, Thad and Justin H. Phillips. 2012. *The Power of American Governors: Winning on Budgets and Losing on Policy*. Cambridge University Press.

Kramer, Jack. 2017. "Privatization of Group Homes Is On Hold." *CT News Junkie*, Apr. 24. Available online: `https://www.ctnewsjunkie.com/archives/entry/privatization_of_group_homes_is_on_hold/`.

Leigh, Andrew. 2008. "Estimating the Impact of Gubernatorial Partisanship on Policy Settings and Economic Outcomes: A Regression Discontinuity Approach." *European Journal of Political Economy* 24(1):256–268.

Lerman, Amy E. 2019. *Good Enough for Government Work: The Public Reputation Crisis in America (and What we Can do to Fix it)*. Chicago, IL: University of Chicago Press.

Light, Paul C. 1999. *The True Size of Government*. Washington, D.C.: Brookings Institution Press.

Light, Paul C. 2008. *A Government Ill-Executed: The Decline of the Federal Service and How to Reverse It*. Cambridge, MA: Harvard University Press.

Marlow, Michael L. 2013. "Do Public Sector Unions Erode Business Climates?" *Applied Economics Letters* 20(15):1413–1417.

Michaels, Jon D. 2017. *Constitutional Coup: Privatization's Threat to the American Republic*. Cambridge, MA: Harvard University Press.

Milward, H. Brinton and Keith G. Provan. 2000. "Governing the Hollow State." *Journal of Public Administration Research and Theory* 10(2):359–380.

Minicucci, Stephen and John D. Donahue. 2004. "A Simple Estimation Method for Aggregate Government Outsourcing." *Journal of Policy Analysis and Management* 23(3):489–507.

Moe, Terry M. 2006. "Political Control and the Power of the Agent." *Journal of Law, Economics, & Organization* 22(1):1–29.

Moe, Terry M. 2011. *Special Interest: Teachers Unions and America's Public Schools*. Washington, D.C.: Brookings Institution Press.

Mummolo, Jonathan and Erik Peterson. 2018. "Improving the Interpretation of Fixed Effects Regression Results." *Political Science Research and Methods* 6(4):829–835.

OECD. 2011. "Government at a Glance." Organisation for Economic Cooperation and Development Report, Paris, France. Available online: https://www.oecd-ilibrary.org/governance/government-at-a-glance-2011_gov_glance-2011-en.

Osborne, David and Ted Gaebler. 1992. *Reinventing Government: How the Entrepreneurial Spirit is Transforming Government*. Reading, MA: Adison Wesley.

Page, Joshua. 2011. *The Toughest Beat: Politics, Punishment, and the Prison Officers Union in California*. New York, NY: Oxford University Press.

Paglayan, Agustina S. 2018. "Public-Sector Unions and the Size of Government." *American Journal of Political Science* https://doi.org/10.1111/ajps.12388.

Rosenfeld, Jake. 2010. "Economic Determinants of Voting in an Era of Union Decline." *Social Science Quarterly* 91(2):379–395.

Rosenfeld, Jake. 2014. *What Unions No Longer Do*. Cambridge, MA: Harvard University Press.

Shor, Boris and Nolan McCarty. 2011. "The Ideological Mapping of American Legislatures." *American Political Science Review* 105(3):530–551.

Stanger, Allison. 2009. *One Nation Under Contract: The Outsourcing of American Power and the Future of Foreign Policy*. New Haven, CT: Yale University Press.

Stier, Max. 2009. "Federal Contracting System In Serious Disrepair." *Washington Post*, Feb. 4. Available online: http://www.washingtonpost.com/wp-dyn/content/article/2009/02/04/AR2009020402605.html.

Verkuil, Paul R. 2017. *Valuing Bureaucracy: The Case for Professional Government*. New York, NY: Cambridge University Press.

Witko, Christopher. 2017. "Regulation and Upper Class Bias in Campaign Finance Systems." *Election Law Journal* 16(1):1–11.

Wolfe, Julia and John Schmitt. 2018. "A Profile of Union Workers in State and Local Government." Economic Policy Institute, June 7. Available online: https://www.epi.org/publication/a-profile-of-union-workers-in-state-and-local-government-key-facts-about-the-sector-for-followers-of-janus-v-afscme-council-31/.

Ya Ni, Anna and Stuart Bretschneider. 2007. "The Decision to Contract Out: A Study of Contracting for E-Government Services in State Governments." *Public Administration Review* 67(3):531–544.

Biographical Statement: Rachel Augustine Potter is an Assistant Professor of Politics at the University of Virginia, Charlottesville, VA 22903.

Acknowledgements: Earlier versions of this paper were presented at the 2019 Political Economy and Public Law Conference at Princeton University, the 2019 Visions in Methodology Conference at the University of Georgia, the 2019 meeting of the Midwest Political Science Association, and the Quantitative Collaborative at the University of Virginia. I thank Sean Farhang, Jeremy Gelman, Anna Gunderson, George Krause, Chris Witko, and Ling Zhu for helpful comments. Kristina Kelhofer provided superb research assistance.