

# Privatizing Participation?

An analysis of the impact of private welfare provision on democratic accountability

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## ABSTRACT

For many citizens, public services are the most direct and tangible output of the democratic process, and yet in the past thirty years policymakers have privatized a broad swath of these services. This paper asks whether this privatization of state services changes citizens' willingness to use the ballot box to hold governments to account for service performance. It argues that citizens can hold governments to account for privatization, but only if they have genuine political alternatives. Where quality falls with privatization and citizens can vote for an anti-privatization party, what we call a *clear signal*, privatization can mobilize citizens to sanction incumbents. By contrast, where quality falls but there are few anti-privatization alternatives, a *mixed signal*, privatization reduces sanctioning behavior. To test this theory, the paper draws on a panel difference-in-difference analysis of disability reform from the United Kingdom, leveraging a geographically varied introduction of private provision across two political contexts.

**Keywords:** Privatization; political preferences; accountability; policy feedbacks; welfare state.

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## **Introduction**

For many citizens, public services are the most direct and tangible output of the democratic process. It is in schools, benefit offices, and even the department of motor vehicles, that the bulk of citizens' interactions with the state occur. In the last thirty years, however, policymakers have radically reformed many public services, reshaping both the conditions and choices citizens have in receiving benefits and allowing new private actors to provide them. Today, countries as varied as the United States, Sweden and the Netherlands contract out to private actors a range of services that once were the remit of the state.<sup>1</sup>

Despite the centrality of public services to citizens' democratic experiences, we know little about the effect that these shifts have had on citizens' ability to make democratic choices. Does the privatization of the delivery of state services change what citizens want from government? Their willingness or ability to use the ballot box to hold governments to account? Answering these questions offers both a theoretical and empirical challenge.

First, at a theoretical level, why might the identity of a service provider matter to citizens' ability to make democratic choices? The idea that voters are able to hold governments accountable for policy is at the core of many theories of representative government, which often equate democracy precisely with the ability of citizens to select and sanction leaders in line with their preferences.<sup>2</sup> Yet, much work on the rise of so-called 'neo-liberal' or marketized practices within the state implicitly or explicitly suggests that they hollow out electoral accountability, reducing both the scope of elected leaders' democratic control and the capacity of citizens' to exercise electoral choice. For example, recent literature in American politics argues that citizens have less knowledge of "submerged" or low-visibility programs, particularly those provided non-publicly, making it harder for them to demand changes to these services through the ballot box.<sup>3</sup>

The underlying assumption of this work is that citizens' capacity to exercise political 'voice' falls with privatization.<sup>4</sup>

Second, evaluating the claims about why the privatization of public service delivery might matter for voters' choices is empirically complex. A fruitful line of research in recent years has looked to reverse the causal arrow between democratic demands and public policy, asking whether and to what extent public policy shapes the nature of democratic politics and 'feeds back' into public life.<sup>5</sup> However, disentangling the causes of policies from their effects has proven empirically difficult. Positive findings suggesting large feedback effects from institutions to attitudes often suffer from serious identification problems<sup>6</sup> while other work shows inconsistent or null results with respect to policy feedback.<sup>7</sup> These inconclusive results stem from a broader problem in this research agenda: many studies lack the over-time data to assess whether changes in ideology or voting cause, or are caused by, privatization.

This paper offers a novel theoretical and empirical examination of these questions. It argues that privatization does indeed affect the ability of voters to hold governments to account for changing services, but not in a uniform way. When citizens consider their experiences of service provision in casting a ballot, they need to balance two sets of considerations: an evaluation of who is responsible for the service and an ideological belief about how services should be organized. Where the message they receive from their service experience about whether to punish or reward the incumbent is congruent with the ideological positioning of the incumbent, what we call a *clear signal*, changes in services, including privatization, can mobilize citizens and increase voters' ability to reward/sanction incumbents. By contrast, where citizens' experiences push them to reward or punish an incumbent who is relatively ideologically at odds

with this choice, a *mixed signal*, privatization is likely to reduce reward/sanction behavior but not necessarily participation.

To put this argument more concretely, if privatization reduces quality, citizens can hold governments to account if they have an anti-privatization alternative, but cannot where they lack such alternative. Where privatization is opposed by a strong anti-privatization party, citizens using the service receive a strong clear signal to vote for the opposition. By contrast, if this same quality-reducing privatization is introduced by a left-government without a clear anti-privatization alternative, then citizens need to balance the signal they receive from their evaluation of the service (to punish the incumbent) and the ideological signal they receive from increased vulnerability at the hands of the private sector (to vote for the left). In this ambiguous situation, we argue that voters are likely to weigh their ideological consideration above the desire to punish governments. The converse logic applies with quality improvements.

In order to test this theory, we draw on a panel difference-in-difference analysis of disability reform in the United Kingdom. From 2003 to 2007, the left-of-center Labour government expanded work requirements for the disabled and privatized the delivery of work support to non-state actors. However, the central government rolled out privatization in geographically variable stages, providing a rare window into an exogenously imposed benefit reform provided by public providers in some regions and private providers in others. We examine the implication of this shift using longitudinal survey data of recipients that enables us to examine different reactions to the changing benefit structure. We further test differences in England, where the core opposition party was pro-privatization, and in Scotland, where the electorally viable Scottish National Party competed to the left of Labour.

In line with expectations, we find that in England, disability recipients received a mixed signal from the privatization experience, becoming more pro-Labour than their counterparts receiving public services, despite a steeper decline in service quality. By contrast, in Scotland voters experiencing private services received a clear signal. These voters became more anti-Labour, and pro-SNP, than their public counterparts. These findings suggest that, at least in the short-run, citizens can hold governments to account for worsening private services, but only when they have genuine political choices over the scope of privatization.

The paper is organized as follows. The first section of the paper reviews the literature on policy feedback and our own theorization of the effects of privatization on attitudes. We then provide background on the British reforms before turning to our data and identification strategy. We then present our main findings as well as a series of robustness checks. We conclude by reflecting on steps forward.

## **Privatization and Accountability: do changes in the state affect how voters behave?**

Classic models of voting often assume that citizens can and do sanction and reward government for performance. This work generally focuses on macro-economic performance rather than specific policies<sup>8</sup>; however, the claim that voters both select and sanction politicians on the basis of the performance of public services is both at the heart of a number of models of the democratic process and empirically supported in a number of cases.<sup>9</sup>

In practice, though, the degree to which voters both *can* evaluate whether a service is performing well and actually *draw on* this retrospective policy evaluation in voting is controversial.<sup>10</sup> A first problem is that voters, who often have low-levels of information and face

competing demands on their attention, cannot evaluate each and every public service or policy that affects them. Second, and more fundamentally, most voters cast only one ballot, but inhabit a complex policy space. Even when voters have strong views about the quality of a public service or given policy they always need to balance a desire to punish or reward governments for it with a desire to select ideologically proximate parties.

When can voters evaluate policy performance? How do they balance these evaluations with ideological concerns? We draw on a large literature on policy feedbacks to argue that the structure of policy itself is not neutral with respect to these dual calculations. Different policies offer different cues to voters as to how to a) evaluate their experiences and b) connect these experiences to mainstream parties.

*Two channels for policy feedbacks: an evaluative channel and an ideological channel*

First, in order for citizens to vote retrospectively on policy performance, they need to make an evaluative judgment—that is, they need to judge the quality of a service and identify who is responsible for it. A large body of work on economic voting suggests that where there are clearer institutional lines of accountability voters place more weight on retrospective evaluations.<sup>11</sup> Much work on public services also suggests that the structure of policies themselves can also send cues to voters about political responsibility, easing, or making more difficult, the burden of connecting performance to voting.

Recent work on Latin American democracies, for instance, has examined whether voters reward incumbent politicians for the expansion of cash-transfer programs. These studies show that program expansion does yield a short-term pro-incumbent effect and in contrast to more targeted and locally delivered programs, which voters tend to associate with local ‘patrons’, the

centralized and bureaucratic structure of these programs encourages voters to reward incumbents rather than a single party.<sup>12</sup> Put differently, the design of the program leads voters to associate improvements in their well being with the incumbent government, mobilizing turnout among lower-income recipients.

Similarly, a number of studies of policy feedback in the United States look to trace the effects of receiving benefits on the likelihood of participating in politics. This work, which is not primarily aimed at studying retrospective voting, nonetheless has implications for it. Suzanne Mettler finds that the GI Bill, which provides education benefits for veterans, helped to promote more civic participation among beneficiaries, something Andrea Campbell also finds in her work on older voters receiving social security.<sup>13</sup> In both cases, citizens receiving high quality services both have additional resources that facilitate participation and receive clear cues from the program structure that government activity has consequences for their everyday lives. In contrast, Joe Soss finds that receiving more punitive and targeted welfare benefits reduces participation and trust among recipients;<sup>14</sup> here, citizens know that government matters to their lives, but have fewer resources to participate and receive fewer cues that their vote will actually affect services. Program design affects whether citizens can easily identify them as a public responsibility and associate program performance with democratic control of the state itself. Where this burden is eased, citizens are more likely to mobilize around their evaluation of the program, and vice versa.

Second, existing literature suggests that citizens do not just vote to reward and sanction politicians, they also vote based on their ideological beliefs about the proper role of government, something policy also affects. A long line of work on policy feedback has argued that policies might directly shape attitudes, with more generous programs breeding both higher levels of

support and lower societal conflict than less generous programs.<sup>15</sup> Studies of these claims have yielded mixed empirical support; yet more recent work, employing experimental designs or panel data, has found that changing circumstances can shape voters' ideology.<sup>16</sup>

Cross-sectional analysis suggests that individuals with higher levels of risk or lower income tend to be less economically and politically conservative.<sup>17</sup> However, at any given moment in time, citizens' develop their ideological stance based on past experiences and prospective concerns about the future.<sup>18</sup> Policies that change future risk can produce ideological shifts. Yotam Margalit's work on the Great Recession, for instance, finds that as individuals feel more economically insecure (from losing a job), they tend to become less conservative; in contrast, Ben Ansell finds that as individuals become more economically secure (from rising house prices) they become more conservative.<sup>19</sup> While these changes in income or risk are indirectly related to policy, work by Erickson and Stoker finds a direct long-lasting effect to policy change on attitudes towards the state. They examine the effects of the Vietnam draft on voters' preferences, finding that men with more risk of being drafted became less conservative and more likely to vote for the Democrats than men with a lower draft risk.<sup>20</sup> In each case, policy change, by indirectly altering individual risk or directly altering future costs, had a feedback effect on core attitudes, prompting ideological shifts.

Policy design then, can both affect how citizens *evaluate* government performance and what they want from it – their basic *ideological* stance.

### *Privatization: Sanctioning the Service and Selecting the Politicians*

Drawing upon these literatures, we argue that understanding the impact of privatization on voting requires examining how it both affects two calculations that citizens must make in



voting: a) the way they evaluate incumbent politician's performance over service quality and b) their ideological preferences over the role of the state in service delivery.

First, when it comes to *evaluating* a service, simple models of retrospective accountability suggest that the effects of privatization on party support will largely follow from their impact on quality. In this logic, voters evaluate private services in an equivalent manner to public services, rewarding governments for quality improvements and punishing them for quality erosion. Although scholars debate whether the privatization of service delivery is likely to improve or worsen services, most agree that managing services via competitive or contractual mechanisms has the potential to change service quality.<sup>21</sup> Even where the public sector mandates a particular level of service provision, private providers have incentives to differentiate the way they provide services. Supporters of privatization argue that this diversification will increase effectiveness and responsiveness to client needs; by providing better (health, education, job placement) quality services, the private provider is effectively providing more to the client.<sup>22</sup> By contrast, others argue that where contracts provide relatively fixed levels of remuneration and leave aspects of quality underspecified, profit-oriented providers may reduce quality.<sup>23</sup>

In the domain of job-seeking services, those examined in this paper, a major risk to quality comes from incentives for providers to engage in so-called 'creaming and parking'. Creaming occurs where providers select 'easy' cases (those with a low cost of placement), excluding or providing lower quality services to others, so-called 'parking'.<sup>24</sup> While concerns about creaming and parking occur for public and private providers alike - as both may be sensitive to financial incentives - these risks are likely to be amplified among private providers who have more direct financial considerations based on their ownership structure. Creaming and parking effectively cut benefits for certain groups, who receive less intense service provision.

On a simple reading of retrospective accountability, if private provision leads to more creaming and parking, it should also lead to more sanctioning by voters, who look to punish the incumbent for poor quality services. However, privatization might not only affect the way services are provided but also citizens' ability to connect private provision to the democratic process. Recent work on public attitudes in the United States suggests that privatization is likely to limit the information recipients have about public responsibility; affecting their capacity to connect their experiences to the political process. Suzanne Mettler argues that within the American context, social programs vary in their 'submergence.'<sup>25</sup> Where benefits are largely provided through the tax system, she shows that citizens have much lower levels of knowledge than when they are receiving a direct benefit. Andrea Campbell and Kimberly Morgan show similar patterns on the delivery side, examining the overall structure of public-private mixes in the US health care system. They emphasize that the complexity of the privatized, "delegated welfare state" reduces the information citizens have about who is responsible for social provision. Crucially, Campbell and Morgan argue that even where benefits changes make a substantial direct material difference for recipients, *who* delivers these changes matters. The lack of clarity as to whether a service or benefit is public or private limits voters' ability to reward or punish incumbents for performance. Campbell and Morgan, for instance, find that the 2003 Medicare reforms, a signature policy of President Bush that expanded benefits for seniors, had little effect on public support for the Republican Party.

The implication of both Mettler and Campbell and Morgan's work is that at a given level of quality, citizens experiencing private services will have less information about government responsibility than those using publicly provided services, even when the service itself is quite visible to recipients. To use our language, there is a weaker evaluative feedback from

privatization. Taking these points together, we argue that privatization is likely to push voters to reward or punish incumbents largely based on its impact on quality, but that all else equal, the effects of quality changes on voting are likely to be weaker for private than public services.

Second, crucially, shifts in quality do not just affect whether voters wish to reward or punish incumbents, but also recipients' attitudes, a change that need not be congruent with the reward-punishment calculus. Whereas privatization has the potential to weaken the evaluative signal, it can in fact, strengthen this ideological signal. Privatization is not uniformly information reducing. Voters experiencing newly better or worse services – now provided by the private sector – have new information about the efficacy of private services. Where services deteriorate, voters are likely to feel more vulnerable and insecure. Where this shift occurs alongside privatization, citizens are also more likely to blame the private sector – pushing them to the left of the political spectrum. By contrast, where private services increase quality, citizens both feel more secure and are likely to support the private sector, pushing them to the right. Here, privatization increases the strength of the ideological signal.

Taking these points together, we make the following predictions. Privatization, like changes in public services more generally, has the potential to affect both retrospective evaluations of incumbents and the ideological selection of parties. Where privatization reduces quality, citizens simultaneously look to blame incumbents and move to the left. Where the incumbent is right-wing, and there is a clear anti-privatization alternative, then the newly worse private service provides voters with information that *clarifies* the connection between their service experience and their political choices. They blame the private sector for worse performance and thus are more ideologically attracted to the state, positions that are congruent with an anti-incumbent vote. Compared to public recipients, who are caught between

simultaneously blaming the state for worsening conditions and the incumbent, performance erosion provides a clearer signal to private recipients to sanction the incumbent.

By contrast, in an identical situation where the incumbent is a left-wing party, recipients have a less clear signal. Here, the recipients' negative evaluation of private providers again pushes them to left, yet voting left would imply rewarding the incumbent for worse performance. In the case of a *mixed signal*, given the potential informational erosion about public responsibility, we hypothesize that the ideological signal is likely to be stronger than the evaluative signal, leading to more left voting than a similar quality erosion delivered by the public sector.

The reverse is true in a situation of quality improvement. Where a private actor improves quality and the incumbent is to the right, voters receive a clear to reward the incumbent. By contrast, quality improvements by the private sector during a left incumbency deliver a more ambiguous signal to voters. Figure 1 summarizes our expectations.

	<b>Incumbent</b>	<b>Evaluative Signal</b>	<b>Ideological Signal</b>	<b>Outcome</b>
<b>Quality Down</b>	Left	Punish	Move Left	<i>Mixed Signal:</i> Privatization reduces signal clarity, reduced sanctioning
	Right	Punish	Move Left	<i>Clear Signal:</i> Privatization heightens signal clarity, more sanctioning
<b>Quality Up</b>	Left	Reward	Move Right	<i>Mixed Signal:</i> Privatization reduces signal clarity, reduced rewarding
	Right	Reward	Move Right	<i>Clear Signal:</i> Privatization Heightens signal clarity, more rewarding

**Figure 1: Theoretical Argument**

The net effect of privatization then, depends first on whether it leads to a negative or positive evaluation of the incumbent and then second whether the signals are ideologically congruent with the positioning of incumbent. This theorization contrasts to both models suggesting that voters reward/sanction incumbents for quality changes in public and private services in an equivalent way as well as those that suggest private services uniformly reduce voters' ability to reward/sanction. Instead, we argue that privatization both affects how citizens evaluate incumbent responsibility and how they position themselves ideologically; where these two calculations go together, it enhances sanctioning by private recipients and where they do not, it reduces it. More concretely, where the incumbent is on the Right, we expect recipients to respond to quality decreases from privatization by engaging in more sanctioning than they would have for an equivalent quality reduction by the public sector, but we expect less sanctioning if

the incumbent is on the Left. Where privatization improves quality, we expect an incumbent Right government to reap more rewards than they would for an equivalent improvement in public services, with an incumbent Left government to be less rewarded than they would have done for public providers.

In the following pages, we describe the setting in which we test our predictions—the privatization of disability benefits in the UK—and outline our empirical strategy. Because our expectations about voter behavior in any given setting depend both on the political context and on the direction of quality change under private provision, we provide evidence that private provision was associated with lower quality and outline the different political contexts that existed in England/Wales (mixed signal) versus Scotland (clear signal). This sets the stage for the presentation of our empirical test of the argument.

## **The Setting: Reshaping Disability Benefits in the UK**

Our paper explores the consequences of privatization through the lens of the introduction of privatized employment services to the disabled in the United Kingdom. Over the past three decades, successive UK governments have introduced a number of dramatic changes in the structure of policy aimed at supporting the disabled, including both work-based welfare conditionality and private provision.<sup>26</sup>

In the UK, people with disabilities were traditionally eligible for a number of income support programs, the core being a partially contributory fund called Incapacity Benefit (IB). Until the early 2000s, eligibility for IB followed from a relatively loose medical assessment, and did not include work conditionality. The Labour government (1997-2010), motivated by substantial increases in the number of individuals receiving IB between 1985 and 1995, pledged

to reduce by one million the number of individuals claiming IB and reintegrate many people with disabilities into the workforce.<sup>27</sup> In 2003, it introduced the Pathways to Work (PTW) program, which entailed a radical departure from the previous model of government support for IB clients; introducing both greater benefit conditionality and new support services. We focus on these shifts in structure, which were partially privately delivered.<sup>28</sup>

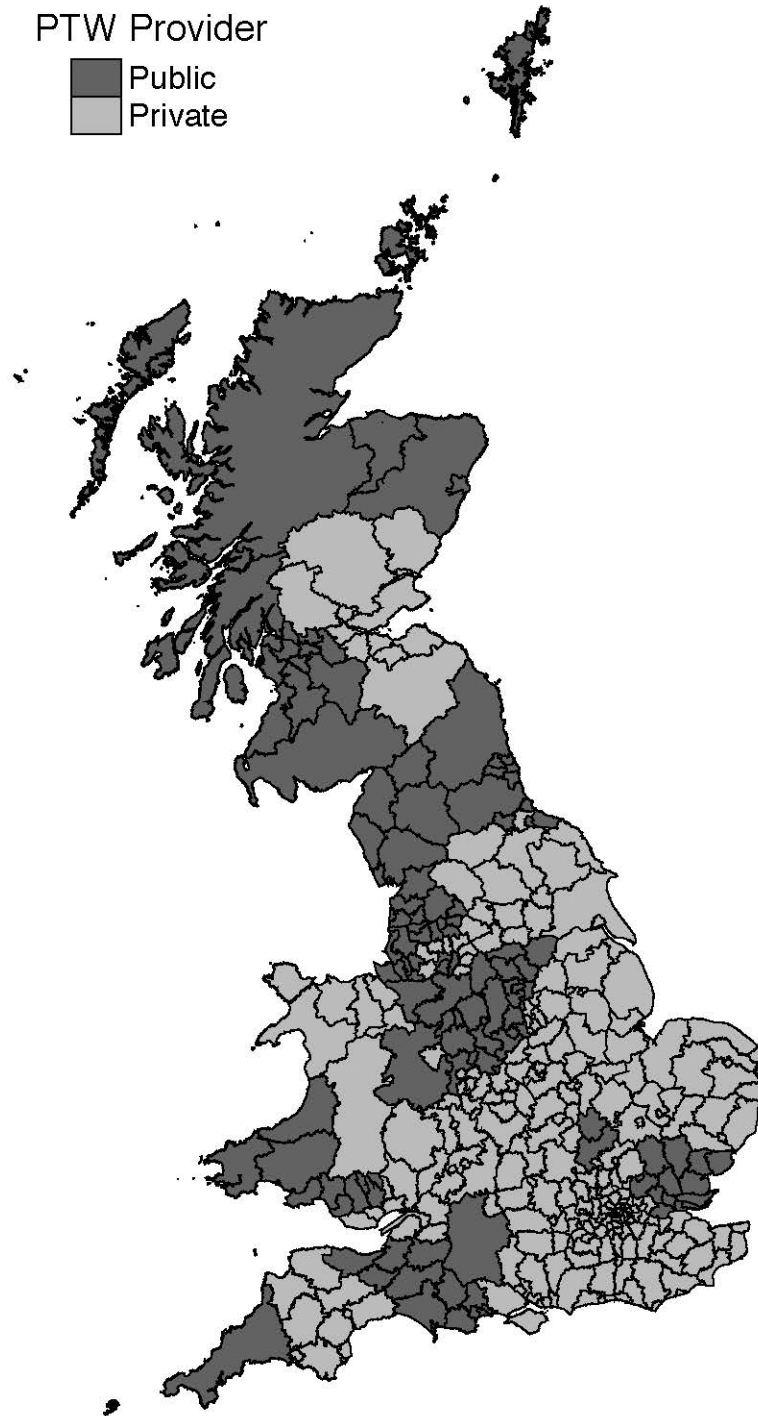
The Pathways program (as it is known) required all new and returning IB claimants aged 18 to 65 to attend a series of six mandatory Work Focused Interviews (WFIs) with an advisor during their first or second year on the benefit. In these meetings they were expected to cooperate with a personal advisor about their prospects for obtaining work, and to identify activities and training which would help them attain that goal.<sup>29</sup> In addition to the mandatory WFI program, participants were also offered voluntary forms of support services aimed at reintegrating them into the labor market. Following the rollout of Pathways, in 2008, the Labour government further reformed IB, replacing it with the Employment Support Allowance (ESA) which introduced a more rigorous medical assessment for benefits.

These changes were substantial from the vantage point of recipients. Many recipients of IB/ESA had little additional income beyond state benefits and limited contact with the labor market. Making these benefits more conditional and requiring interaction with new employment services then, was a direct and highly noticeable change for benefit recipients, with potentially major ramifications for their well-being.

The Pathways program was extended nationally in several phases. In a first phase, starting in 2003, provision was implemented through Britain's public-sector employment agency, known as Jobcentre Plus (JCP). In December 2007, following the initial rollout of the public Jobcentre Plus model to 40 percent of the UK, a new Provider-Led' (i.e. private) version of

Pathways was extended to the remainder of the country. Thus, from 2007 onwards, nearly all IB (later ESA) claimants participated in Pathways, but for some these services were administered by the private sector and for others by the public sector. The central government – not the local populations themselves - chose the regions for privatization. All recipients in a given region received Pathways services from the public or private sector; there was no local competition or choice among providers. In all regions, a public (JCP) officer contacted citizens before accessing services, and informed those in private regions that a private provider would provide them with subsequent services. Private provision then, was exogenously imposed in some areas and not others, and the program structure made recipients aware of whether they were receiving public or private services. Figure 2 outlines the geographic variation.





**Figure 2: Public and Private Providers across the UK**

Source: Table G.1, Knight et al, 2013.

The basic shift towards more conditional benefits affected both public and private recipients. However, private providers had a relatively freer hand as to how to provide services.

The government contracted private providers through a so-called ‘black-box’ approach, granting them a considerable degree of autonomy in administering the program. In contrast to publicly provided Pathways programs, in which central regulators required caseworkers to offer consistent packages of services, private providers were largely free to decide which services they would offer in order to place disability clients back into work and off the benefit. The government paid providers through a mix of monthly service fees (30% of total pay) and performance pay (70%); the latter followed from both the number of claimants they moved into work and the number remaining in a job through a fixed period of time.

In late 2011, the Conservative-Liberal government (2010-2015) merged a variety of existing programs, both for those with disabilities and other labor market groups, under the rubric of the Work Programme (WP). The government now contracts all WP services to private providers using an outcome based contracting model, allowing providers a significant degree of discretion over sanctioning and other aspects of performance and outcome based pay.

We thus use the common experience of greater conditionality from 2007-2010 but its varied delivery by public and private actors to tease out the relationship between privatization and citizens’ scope to hold governments to account.

## **Data and Empirical Strategy**

Our core interest is in investigating whether privatization had an effect on the nature of citizens’ political support for mainstream parties. In order to disentangle the effects of privatization of services on political preferences from shifts in the broader polity, our paper uses data from two longitudinal surveys and a panel difference-in-difference (DiD) framework, with and without matching. This section describes our data and empirical strategy in more detail.

Our primary sources of data are the British Household Panel Survey (BHPS) and the United Kingdom Household Longitudinal Survey (UKHLS).<sup>30</sup> The BHPS ran from 1991 to 2009, and was incorporated into the larger successor survey, the UKHLS, from the second wave of interviews in 2010 onward. These surveys are nationally representative random samples of British households that contain both exceptionally detailed information on individual demographic characteristics, social welfare benefits received, and partisan preferences. The benefit information in both surveys allows us to precisely identify different groups of benefit recipients affected by privatization. We discuss the details of identifying our sample in the appendix.

Our central dependent variables of interest are support for the incumbent Labour party and, in Scotland, for the Scottish National Party, both coded as dummy variables.<sup>31</sup> Given our theoretical framework, we would have liked to analyze a series of policy preferences (e.g. support for privatized services), and directly explored vote choices. Unfortunately, this analysis was not possible due to the timing of our quasi-experiment,<sup>32</sup> items in the BHPS/UKHLS on preferences about public versus private services are available only in the pre-privatization waves, and the survey did not ask vote choice information for 2010 of a large portion of the sample. For this reason, we limit our analysis to partisan support.

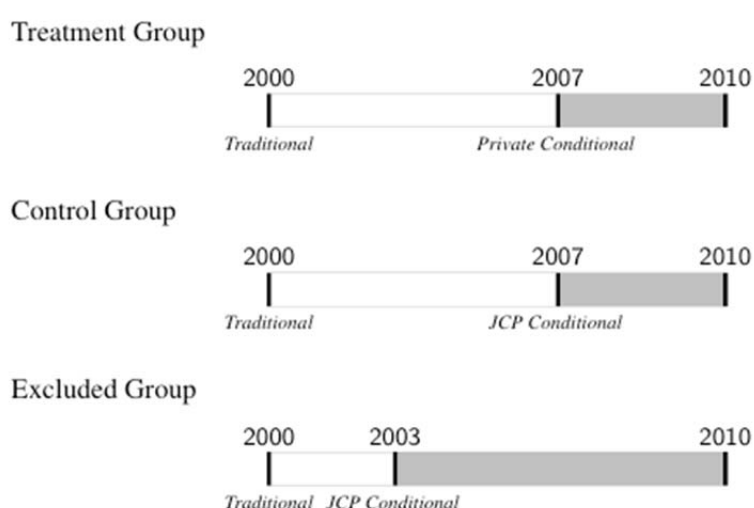
The central independent variable is a dummy variable indicating whether or not an IB recipient resides in an area eventually affected by privatization, interacted with a dummy for the year in which privatization was implemented. For all models, we include the change in household income as a control variable, as well as dummies for region and for the year recipients entered treatment. Most other potential control variables, such as sex, religion, and years of schooling, are relatively time-invariant and were therefore excluded.

When looking for causal relationships, political scientists are increasingly aware of the centrality of attending to research design rather than, say, saturating models with large numbers of control variables or dismissing possible unobservables as unimportant.<sup>33</sup> The concern about causal inference is particularly an issue in many studies of policy feedbacks. Although it seems plausible that the nature of individuals' experiences with the state should have political consequences, the vast majority of existing studies rely on cross-sectional data and are hence open to charges of endogeneity. In contrast, our paper is part of this new wave of 'design-based research' that directly addresses the question of causal inference/research design, both by exploiting longitudinal data and by paying careful attention to the construction of appropriate counterfactual comparison groups.

In exploring the effect of privatization on accountability, we leverage a panel difference-in-difference (DiD) research design. The basic logic behind the DiD estimator is to model causal effects by estimating the difference between outcome measures at multiple time points for both treated observations and a control group (those affected by privatization and those not), and then comparing the difference between the two groups over time. Because we have access to individual-level panel data and a reasonable-sized N, we implement our DiD framework in a panel setting, examining how the shift into disability benefit *changes* political preferences from pre- to post-benefit receipt, before and after the onset of privatization.<sup>34</sup>

An important consideration in a difference-in-differences analysis is the choice of comparison group, whose purpose is to provide an estimate of the change in outcomes that the group exposed to privatization would have experienced had privatization not been introduced. The ideal comparison group here would be individuals entering conditional programs in regions that remained public throughout the time period under examination. In constructing our sample,

however, we faced two obstacles. The first was that the regions that eventually implemented privatization simultaneously imposed conditional welfare-to-work requirements; that is, there was never any publicly-administered conditional program in eventually-private districts during the pre-privatization period. The second issue was that conditional work requirements were introduced in some always-public regions as early as 2004.<sup>35</sup>



**Figure 3: Difference in Difference Research Design**

To address these problems, we adopted two strategies, highlighted in Figure 3. First, we excluded from our sample all individuals who entered conditional public programs between 2000 and 2007. That is, we use as our pre-treatment ‘control’ group only individuals receiving traditional (non-conditional) public sector provision in the pre-2007 period. For our ‘post’ period, we compare individuals in conditional programs in regions which remained public and

individuals in conditional programs in regions in which privatization was introduced. We believe that this is a sensible strategy, as arguably what differed between public and private regimes were not formal requirements related to conditionality but rather the incentives related to the intensity/quality of service provision across public versus private. For example, all disability recipients were expected to meet with an advisor (caseworker) to discuss work-readiness approximately every other month. But whereas public advisors had a mandate to offer a similar suite of services to all beneficiaries, this was not the case for private advisors, who exercised high levels of discretion in the degree of assistance they offered to clients.

Because we rely on observational data, another relevant question with respect to inference relates to the assignment rule for public versus private provision, and the extent to which this may introduce bias into our results. To be sure, private provision within Pathways to Work was not introduced on an experimental basis. Existing literature suggests that the program was first implemented in the public sector, in areas with particularly high levels of unemployment and/or disability receipt while private provision tended to be initiated in areas with better labor market opportunities. These differences in labor market conditions across public versus private areas do introduce potential confounding conditions, making it (for example) more plausible that private clients could locate paid work and hence that they might be more willing to reward the incumbent Labour party. Although we actually found the opposite in our sample—ie, private providers were less successful in placing clients into paid work—as we will describe in more detail subsequently, we attempt to deal with this problem, first, by using matching techniques, based on local labor market characteristics, to help improve the quality of the comparison group; and second, by assessing behavior among a placebo group of beneficiaries not affected by privatization.

In the end, our baseline estimation sample is comprised of 1036 individuals, approximately one-third of which were surveyed in the post-privatization era.<sup>36</sup> Approximately 60 percent of recipients live in regions that would, after 2007, be administered by private providers while the other 40 percent reside in public JCP districts; this distribution is in line with reports from the Department for Work and Pensions (DWP) about the distribution of the Pathways population.

### **Quality in Pathways: Should We Expect Recipients to Reward or Punish?**

Recall that we have theorized that privatization is likely to shape patterns of political preferences and support for the incumbent through an initial quality mechanism. In order to make a prediction about whether citizens are likely to reward or punish politicians, it is therefore important to address what we know about the relationship between privatization and the quality of service provision in the Pathways. Here, we review both secondary studies as well as evidence from our sample in the BHPS/UKHLS, and provide evidence that the quality of services was lower in privately-provided regions.

#### *Quality in Public vs Private: Secondary Evidence*

Quality in job seeking services is a complex concept. From the perspective of the government or provider, what we call ‘objective’ quality, quality often means the success of the program at getting a client into a stable job (or simply off the public benefit). From the perspective of clients however, what we call subjective quality, quality may be less tangible, and many reflect the degree of support they receive and respectful interactions with staff.

Given that all IB recipients, whether public or private, received newly conditional services, we need to assess both general trends in objective and subjective quality across

recipients and any relative differences between sectors. The secondary evidence suggests that while conditionality does not have straightforward effects on either subjective or objective quality, in the worsening British economy, most Pathways recipients (post-2007) did experience less success at job-seeking and had worsening well-being.

First, in terms of objective quality, the effect of the Pathways program (both public and private) was modest in terms of labor force activation. While early work suggested that caseloads fell after its introduction, further studies showed that much of this reduction followed from a more stringent medical assessment, not improved services for work re-integration.<sup>37</sup> A comprehensive review by the DWP of the Private Led Pathways (PLP) compared to JCP (public) providers further yields ambiguous results. This study shows improved performance among the PLP compared to similarly composed JCP in terms of a six-month off-flow from benefit into work, lowering the number of benefit recipients. However, the same study shows no real differences in net employment.<sup>38</sup> Moreover, Summerfield et al (from the National Audit Office) suggest that private providers were substantially weaker in placing non-voluntary clients than voluntary clients.<sup>39</sup>

Although extant studies are in many instances neutral with respect to objective quality differences between public and private, in some areas of provision, there is simply no evidence about performance, due to the contracting structure. DWP initially contracted for a ‘prime’ provider in a region (who were largely major for-profit corporations) and these prime providers then sub-contracted to other local providers including for-profit and not-for-profit providers. This process allowed significant heterogeneity in the character of provision and oversight. DWP has no direct information about the performance of subcontractors beyond aggregate claimant data. There is some evidence that subcontractors faced strong financial incentives. For instance,



Summerfield et al's survey of sub-contractors did not find large differences in the caseload of providers, but did find substantially more financial risk.<sup>40</sup> Whereas DWP provided additional funding to prime contractors to cover some of their financial risks, many contractors paid subcontractors largely based on outcomes, opening up the scope for heavy losses. Whether these financial incentives shaped delivery is hard to assess, as the DWP chose not to investigate such issues deeply.

Given the weak structure of oversight, black-box contracting, and strong financial incentives for sub-contractors, there is some evidence that creaming and parking of disability clients was more likely to take place in private regions. For example, qualitative studies of the private regions report that management pressured IB advisors to 'traffic light' clients based on their readiness for work.<sup>41</sup> Providers prioritized green-light customers – those already ready to work—while giving 'Amber' and 'Red' customers a bare minimum of services beyond mandatory WFIs.<sup>42</sup> Recent evidence from the similarly structured Work Programme provides further evidence that private providers commonly cream and park clients, focusing their energies only on individuals most likely to re-enter work in a timely fashion.<sup>43</sup>

### *Quality in Public vs Private: Evidence from the BHPS*

If the secondary literature suggests that services to assist the disabled in returning to work were in many instances of lower quality in private than in public regions, what evidence do we have about quality within across respondents in the BHPS/UKHLS sample with regards to quality? The BHPS has several measures that we can use to compare public versus private provision within our sample. Broadly speaking, the findings here also suggest that private providers were of lower quality than their public counterparts.

As a first step, we consider three measures related to the search for work, the *raison d'être* of the Pathways To Work program: success in moving into work; success in moving off benefit; and also success in moving off and into paid work. Table 1 shows these results, where the effect of privatization is given by “PLP x Post;”<sup>44</sup> plots of these trends are presented in the appendix. Here, it is clear that, after 2007, both public and private providers struggled with placing the disabled into employment. Given that the onset of private provision in PTW coincided with the 2008 financial crisis, this outcome is not particularly surprising. Nevertheless, the results suggest that the performance of private providers were generally worse than that of their public counterparts, compared to the pre-2007 period. For example, we see substantial differences in the success of public versus private in placing recipients into paid work; moreover, although private providers were slightly better at getting recipients off benefit, fewer individuals in private ended up off benefit and in work, suggesting that more were becoming discouraged and leaving benefit entirely.

**Table 1: Private Provision and Objective Quality**

	(1) Found Job	(2) Off Benefit, In Work	(3) Off Benefit
PLP x Post	-0.152 <sup>***</sup> (0.05)	-0.083 <sup>*</sup> (0.05)	0.012 (0.06)
Private-Led Provider	0.109 <sup>***</sup> (0.04)	0.098 <sup>**</sup> (0.04)	0.005 (0.04)
Post	-0.359 <sup>***</sup> (0.07)	-0.266 <sup>***</sup> (0.06)	-0.343 <sup>***</sup> (0.07)
Year, Region dummies	Y	Y	Y
Observations	1156	1093	1296
Adjusted $R^2$	0.116	0.135	0.062

Note: Difference-in-difference models where the effect of private provision is given by PLPxPost. Dependent variables: “Found Job”: the percentage of individuals starting benefit who found work within 2 years; “Off Benefit”: “The percentage of individuals starting benefit who move off benefit within 2 years.” “Off Benefit and Working”: the percentage of beneficiaries who had both

moved into work and off disability benefit during this same period. All specifications report heteroskedasticity-robust standard errors clustered by district. Statistical significance: \*10% ; \*\*5% ; \*\*\*1%. Source: BHPS and UKHLS, 2000-2010.

In sum, Table 1 presents evidence that is consistent with qualitative evidence about declining quality among private providers. That is, in the context of a declining economy and weak support services, providers were requiring ‘creamed’ and ‘parked’ individuals to participate in WFI and other programs that actually did little to reintegrate them into the economy.

Given the desire among IB recipients for support, where services created a new burden of participation without actual employment support, the lower levels of service provision which existed under private provision were likely to be detrimental to recipients’ subjective experience of quality.<sup>45</sup> As a final step at assessing quality differences between public and private, we therefore consider a series of more subjective well-being measures.

In order to ascertain how privatization affected benefit recipients’ subjective well-being, our ideal survey instrument would have asked recipients about their satisfaction with employment services, and probed the relationship between these experiences and a range of efficacy variables. Unfortunately, the BHPS/UKHLS does not contain these tailored questions, so we rely instead on a series of more general measures: self-reported happiness, internal efficacy and external efficacy.<sup>46</sup> For IB recipients, it is not a stretch to claim that the quality of services were likely highly noticeable and central to their well-being – as the benefits core to this group’s economic livelihood now depended on participation in Pathways. For these various subjective measures we have both pre- and post-data available for each respondent and in Table 2 examine how they *change* as individuals move into public versus private provision.<sup>47</sup> The point estimates for private provision are all negative, although they do not pass the threshold of

statistical significance. In substantive terms, however, they suggest that, compared to those shifting into public provision, the effect of shifting into private PTW reduces both internal and external efficacy by approximately eight percent at the mean.

**Table 2. Private Provision and Subjective Well-Being**

	(1) Happy	(2) Internal Effic.	(3) External Effic.
$\Delta$ PLP Participation x Post	-0.042 (0.12)	-0.116 (0.09)	-0.050 (0.08)
$\Delta$ PLP Participation	-0.055 (0.05)	0.043 (0.05)	-0.007 (0.04)
Post	0.033 (0.14)	0.058 (0.10)	-0.055 (0.08)
$\Delta$ HH Income	0.001 (0.00)	0.001 (0.00)	0.002* (0.00)
Region, Year Dummies	Y	Y	Y
Observations	987	991	991
Adjusted $R^2$	-0.009	-0.009	-0.002

*Note:* Summary results from panel difference-in-difference estimates where the effect of privatization is indicated by the term  $\Delta$  PLP Participation x Post. Dependent variables are as follows: ``Happy: change (from pre-benefit to post-benefit) in feeling happy''; ``Internal Efficacy: change in able to overcome and face problems''; and ``External Efficacy: change in plays useful role and no difficulties making decisions''. All specifications report heteroskedasticity-robust standard errors clustered by district. Statistical significance: \*10% ; \*\*5% ; \*\*\*1%. Source: BHPS and UKHLS, 2000-2010.

Overall, then, the evidence from both secondary sources and from our sample of recipients suggests that while all respondents might have reasons to punish the incumbent – due to tightening conditionality in a worsening labor market – private providers were generally of lower quality than their public counterparts.<sup>48</sup> Equally important, it is important to highlight that there is substantial reason to believe that IB recipients living in private regions were aware that they were receiving services from private providers. This is because, once an individual was

determined eligible for IB, all recipients living in private regions first met with a public (Jobcentre Plus) advisor, who then told the client that for all future work-focused interviews they would be referred to a private provider in the area.

## **Do voters punish Labour?**

If privatization affects party support purely through retrospective voting based on quality, the previous sections—which provided evidence that private provision is associated with lower-quality services—suggests that we should expect a decline in support for the incumbent Labour party for all voters, with a particularly severe decline for recipients of private services. By contrast, if as we outlined in our theoretical section, privatization both affects the evaluative and ideological judgment processes, the predictions are different, as the ability of voters to hold politicians accountable for policy depends crucially on the political choices available to voters. Where the service experience and the broader political context provide congruent information, what we call a *clear signal*, changes in privatization can increase voters' ability to sanction incumbents. By contrast, where the information citizens' experiences provide them is incongruent with the political choices being offered, a *mixed signal*, privatization is likely to reduce punishment behavior.

Below, we describe in greater detail the political background of England and Wales (our mixed signals case) and Scotland (our clear signals case) with respect to privatization and the political alternatives available to voters, and then test the plausibility of our theory by examining patterns of incumbent reward/punishment behavior in the two cases. After establishing that voters in the different regions exhibit the expected behaviors—that is, that Scottish voters punish

the incumbent Labour party whereas English/Welsh voters do not—we then provide a series of robustness checks aimed at establishing the validity of our results.

### *England/Wales and Scotland as Instances of Mixed vs Clear Signals*

The empirical analysis presented below compares voting behavior in England/Wales and Scotland, which we argue represent two different political contexts in which voters make decisions about how to reward or punish incumbent politicians. Although the privatization of the PTW program was implemented by a Labour government, there existed quite different patterns of political competition and discourse over privatization in England and Scotland. Before proceeding to our analysis, we therefore provide justification for our claim that patterns of political discourse and mobilization surrounding privatization differed substantially in the two regions, offering a distinctive set of political choices for voters.

In England, our example of a *mixed signals* context, the main opposition party, the Conservative party, competed to the right of Labour in the lead up to the 2010 election. The Conservatives supported strengthening both conditionality and privatization, advocating a new integrated Work Programme for job-seekers delivered entirely by the private sector (reforms that it subsequently introduced).<sup>49</sup> The Liberal Democrats, a party traditionally to the right of the Labour Party, had moved left through the 2000s, but remained largely silent on welfare reform and was uncompetitive in many parliamentary constituencies. Voters in England therefore had few anti-private or pro-state alternatives to Labour.

In Scotland, the situation was substantially different; it provided to voters what we call a *clear signal*. Although the Scottish National Party (SNP) had competed in the center of the political spectrum on economic issues in the early 2000s, by the end of the decade it had taken a

strong pro-state and anti-privatization stance. In its 2010 manifesto, the party called for “More Nats Less Cuts.” While it is doubtful that many voters had specific policy knowledge of the SNP’s proposals on disability recipients, it is likely that the pro-state message percolated through to the electorate. Both the Chapel Hill Expert Survey and Benoit and Laver’s survey of party positions place the SNP slightly to the left of Labour (in 2010 and 2006 respectively); similarly, Scottish respondents in the 2005 British election study, on a 11 point Left-Right scale, placed the SNP at an average of 4.64 and Labour at 5.13.<sup>50</sup>

Given these differences, we posit that English voters were facing a mixed signal and Scottish voters a clear signal. We view the situation in Wales as between the English and Scottish scenarios. Plaid Cymru, the Welsh nationalist party, also adopted a left-wing stance, however, in contrast to the SNP it was less electorally viable, having received half the vote share of the SNP in Westminster elections since at least the early 1990s. We therefore see Wales as more equivalent to England; however, our results hold up with its exclusion.

#### *Empirical Results: England/Wales vs Scotland*

We start by testing whether privatization mattered for Labour support in the English and Welsh sample. If voters do not care about services or do not notice any private/public differences, we expect no differences. By contrast, if voters sanctioned Labour purely based on quality, given the slightly worsening in private regions, we would expect a negative coefficient on the DiD estimator. Finally, if as we predict, privatization creates a mixed signal when the incumbent is left and quality goes down, we would expect an ideological response among voters, meaning a positive Labour vote.

In Table 3 we explore these predictions. In columns (1) and (2) we consider only individuals residing in England and Wales. The dependent variable is an individual's change in support for the Labour party, before versus after starting disability benefit; the effect of privatization is given by the coefficient “ $\Delta$ PLP Participation x Post.” Here, we see that the experience of private social provision results in a substantial increase in support for the Labour government.<sup>51</sup> Individuals who enter PTW in private regions saw a .20 increase in the Labour support.

**Table 3. Incumbent Labour Support, England and Wales**

	Unmatched Sample		Matched Sample	
	(1) Labour Support	(2) Labour Support	(3) Labour Support	(4) Labour Support
$\Delta$ PLP x Post	0.203*** (0.05)	0.196*** (0.05)	0.204*** (0.06)	0.197*** (0.06)
$\Delta$ PLP Participation	-0.086*** (0.03)	-0.089** (0.04)	-0.074** (0.04)	-0.084** (0.04)
Post	-0.075** (0.04)	-0.071 (0.06)	-0.073 (0.05)	-0.072 (0.07)
$\Delta$ HH Income	-0.001 (0.00)	-0.001 (0.00)	-0.001 (0.00)	-0.001 (0.00)
Region, Year Dummies	N	Y	N	Y
Observations	815	815	738	738
Adjusted $R^2$	0.017	0.023	0.018	0.021

*Note:* Panel difference-in-difference estimates where the effect of privatization is indicated by the term  $\Delta$ PLP Participation x Post. Dependent variables are as follows: “Supports Labour Party: change in support for the Labour Party”; All specifications report heteroskedasticity-robust standard errors clustered by district, and include dummies (not reported) for Government Office Region and the year that the respondent entered treatment. Statistical significance: 10% ; \*5% ; \*\*1%. Source: BHPS and UKHLS, 2000-2010.

The DiD has clear analytic advantages over simple pre/post estimates in that it uses a comparison group to provide a counterfactual to participation in private programs, but one concern in our setting is that there may be pre-existing differences in labor market conditions



across private and public regions which could shape differences in political behavior. Private Pathways providers tended to be implemented in urban areas where local labor market conditions were superior and where benefit duration was lower. It is plausible that the greater support for the incumbent Labour government in private districts might follow from these more positive job prospects rather than the private service delivery.

We attempt to deal with the issue of local differences by including region dummies (not reported), but as a further check we follow the strategy of Knight et al in their program evaluation of Pathways and also report results using a dataset which implemented nearest neighbor matching on several local labor market characteristics.<sup>52</sup> In addition to the natural experiment logic of the DiD, the use of matching allows us to deal with potential selection issues stemming from the external environments facing each group. Reassuringly, the results using the matched dataset, reported in columns (3) and (4) of Table 3 are similar to those using the unmatched data. Although the sample size is somewhat smaller, the estimated effects of private provision on Labour support in the matched data are slightly stronger.<sup>53</sup>

**Table 4. Scotland vs England/Wales**

	Unmatched Sample		Matched Sample	
	(1) Labour Support	(2) SNP	(3) Labour Support	(4) SNP
$\Delta$ PLP x Post x Scotland	-0.367*** (0.11)		-0.408*** (0.13)	
$\Delta$ PLP Participation x Post	0.197*** (0.05)	0.105 (0.11)	0.196*** (0.06)	0.196* (0.10)
Post x Scotland	0.179** (0.08)		0.212* (0.12)	
$\Delta$ PLP Participation x Scotland	0.116** (0.06)		0.134** (0.07)	
$\Delta$ PLP Participation	-0.089** (0.04)	0.057 (0.03)	-0.084** (0.04)	0.030 (0.04)
Post	-0.074 (0.06)	-0.108 (0.09)	-0.073 (0.07)	-0.205** (0.08)
Scotland	-0.094** (0.05)		-0.113 (0.07)	
$\Delta$ HH Income	-0.001 (0.00)	-0.001 (0.00)	-0.001 (0.00)	-0.001 (0.00)
Region, Year Dummies	Y	Y	Y	Y
Observations	1036	221	935	197
Adjusted $R^2$	0.014	0.019	0.014	0.013

Note: Panel difference-in-difference estimates in which the effect of privatization is indicated by the term  $\Delta$ PLP Participation x Post. Dependent variables are “Labour Support: change in support for the Labour Party”; “SNP Support: change in support for the Scottish National Party.” All specifications report heteroskedasticity-robust standard errors clustered by district, and include dummies (not reported) for Government Office Region and the year that the respondent entered treatment. Statistical significance: \*10% ; \*\*5% ; \*\*\*1%. Source: BHPS and UKHLS, 2000-2010.

We next turn to Scotland, where there was a similar quality decline in the private sector, but as argued above, a clearer signal about punishment. We expand the above analysis, adding the Scottish respondents to our sample and an interaction term indicating residence in Scotland. In order to interpret these results, consider first the coefficient in row 2 of Table 4, “ $\Delta$ PLP Participation x Post”. The point estimate here is identical to that in column (2) of Table 3; it tells us the effect of entering private provision in England and Wales results in a .19 increase in the likelihood of supporting the Labour party. In contrast, the coefficients reported in the first row of Table 4 shows ( $\Delta$ PLP Participation x Post x Scotland) tell us that the *additional* effect of being a Scottish resident implied results in a .4 decrease in Labour support. Columns (2) and (4) of Table 4 suggest that private recipients' flight to the SNP drove this decline. The coefficients for both the whole sample and matched sample are substantially positive for SNP support, although power is low due to the small sample size. Nevertheless, this finding is consistent with the claim that in Scotland, those who experience private provision were willing to abandon Labour because they had another viable left-wing party, the SNP, as an option.

As outlined above, our interpretation of these results are that English and Welsh voters prioritize the ideological over the evaluative signal in a moment of uncertainty, and thus are less willing to punish the incumbent Labour party than are their Scottish counterparts. It is possible, however, that English voters could be punishing Labour by disengaging from politics. We find relatively little evidence for such a dynamic. As a first cut, we looked at how patterns of support for “no party”, meaning respondents who refused to select a party, changed as individuals entered private provision. In results reported in the online appendix, we found that English and Welsh voters in private areas were in fact *less* likely to report that they supported “no party” than were their public counterparts in England. Moreover, they were also less likely to support no

party than their Scottish private counterparts.<sup>54</sup> We also checked whether the results in England versus Scotland were driven by differential attrition rates across public and private regions, but rates were very similar across the two groups.<sup>55</sup> In sum, if anything, we found that the experience of privatization in England mobilized individuals.

Together then, these results show a striking pattern. In response to worsening quality, voters in England and Wales seemed to reward the incumbent Labour party while voters in Scotland punished them. These results cannot be easily explained by either a simple logic of accountability or ideology alone, as in this reading, voters should behave similarly in the two contexts. Instead, in order to understand this pattern, we argue that we need to understand the way the evaluative and ideological signals from worsening quality come together differently based on the political context.

### *Robustness: Placebo Test Using Unemployment Benefit Recipients*

As a further check on the robustness of our results, we also implement a placebo test using another group: recipients of unemployment benefits. Like disability beneficiaries, unemployment beneficiaries were also subject to a conditional welfare-to-work regime during this period, but employment services were not privatized for this group until late 2011. Using the behavior of recipients of unemployment benefits (known in the UK as Jobseekers Allowance, or JSA) as a control group allows us to address several potential objections to our findings.

First, we can assess whether individuals living in private regions responding to the experience of private provision or to local labor market conditions. We made an initial effort to address this issue through the use of matching above, but we can further allay this potential concern by examining JSA recipients who are affected by labor market trends but not by

privatization. Second, looking at the sub-sample of JSA recipients also enables us to explore whether the outcome we see in Scotland of rising SNP rather than Labour support is merely a story about the SNP's rise in the post-2008 period more generally. If JSA recipients living in private regions also show higher rates of SNP support than do their public counterparts, this would suggest that our interpretation of the Scottish outcome as being about accountability (ie, punishing Labour for low-quality services) is less plausible.

**Table 5. Unemployed (JSA) Placebo**

	Unmatched Sample		Matched Sample	
	(1) Labour Support	(2) Labour Support	(3) Labour Support	(4) Labour Support
$\Delta$ PLP Participation x Post	0.000 (0.07)	-0.031 (0.07)	0.024 (0.07)	-0.007 (0.07)
$\Delta$ PLP Participation	0.006 (0.03)	0.004 (0.04)	-0.005 (0.04)	-0.017 (0.04)
Post	-0.019 (0.05)	0.019 (0.09)	-0.046 (0.06)	-0.002 (0.09)
$\Delta$ HH Income	-0.001 (0.00)	-0.001 (0.00)	-0.000 (0.00)	-0.000 (0.00)
Region, Year Dummies	N	Y	N	Y
Observations	614	614	588	588
Adjusted $R^2$	-0.005	0.008	-0.005	0.002

*Note:* JSA is the unemployment benefit program in the UK. Models report panel difference-in-difference estimates, where the effect of privatization is indicated by the term  $\Delta$ PLP Participation x Post. Sample includes JSA recipients residing in England and Wales. Dependent variables are “Labour Support: Change in Support for Labour Party.” All specifications report heteroskedasticity-robust standard errors clustered by district, and include dummies (not reported) for Government Office Region and the year that the respondent entered treatment. Statistical significance: \*10% ; \*\*5% ; \*\*\*1%. Source: BHPS and UKHLS, 2000-2010.

In order to address both of these issues, we created a pre/post dataset similar to the one described above for PTW participants for new entrants to JSA, and then ran models in which we regress the change in Labour support on the a interaction term indicating whether an individual shifted into receipt of JSA in a privatized PTW region.<sup>56</sup> The results for residents of England and Wales are shown in Table 5. Here, in contrast to the findings among Pathways participants of a shift to Labour support among those who experienced private provision, we see almost no change in Labour support. This suggests that the positive relationship between the experience of private provision and support for the Labour party that we saw among the disabled is not a function of differing labor markets facing public versus private recipients.

**Table 6. JSA Placebo: Scotland**

	Unmatched Sample		Matched Sample	
	(1) Labour Support	(2) SNP	(3) Labour Support	(4) SNP
$\Delta$ PLP x Post x Scotland	-0.259 (0.18)		-0.312 (0.19)	
$\Delta$ PLP x Post	-0.035 (0.06)	-0.209 (0.15)	-0.011 (0.07)	-0.206 (0.15)
Post x Scotland	0.208** (0.10)		0.265** (0.11)	
$\Delta$ PLP x Scotland	-0.016 (0.06)		0.011 (0.06)	
$\Delta$ PLP Participation	0.006 (0.04)	0.002 (0.06)	-0.015 (0.04)	-0.000 (0.07)
Post	0.014 (0.08)	0.081 (0.09)	-0.012 (0.08)	0.085 (0.09)
Scotland	-0.013 (0.09)		0.005 (0.11)	
$\Delta$ HH Income	-0.000 (0.00)	-0.001 (0.00)	-0.000 (0.00)	-0.001 (0.00)
Region, Year Dummies	Y	Y	Y	Y
Observations	774	160	732	144
Adjusted $R^2$	0.023	-0.000	0.018	-0.002

*Note:* JSA is the unemployment benefit program in the UK. Models report panel difference-in-difference estimates, where the effect of privatization is indicated by the term  $\Delta$ PLP Participation x Participation. Dependent variables are “Change in support for Labour Party”; “Change in support for SNP.” All specifications report heteroskedasticity-robust standard errors clustered by district, and include dummies (not reported) for Government Office Region and the year that the respondent entered treatment. Statistical significance: \*10% ; \*\*5% ; \*\*\*1%. Source: BHPS and UKHLS, 2000-2010.

When we turn to the Scottish results, reported in Table 6, we see that although the sign on Labour support among the unemployed is also negative, the estimate is not significant. Moreover, Scottish recipients of JSA living in private regions, unlike their PTW counterparts, did not shift toward the Scottish National Party; instead we see a substantial *decline* in support

for this party. Here again we note that, although the point estimates are not statistically significant, this is likely due to low power.

## **Conclusion**

This paper shows that the privatization of UK disability benefits did affect party support, both via the quality of services and the way citizens were able to connect their experiences in the private sector to the political choices at hand. Although our study is limited to a single case, in analyzing a reform introduced in a geographically variable way that was largely exogenous to local democratic decision-making process with high quality panel data, it offers a rare window into assessing the political consequences of privatization. Given our careful efforts to construct an appropriate counterfactual comparison group for those affected by privatization, as well as our use of panel data to deal with potential unobservable, time-invariant characteristics of individuals that might be driving patterns of political support, the findings here are suggestive of real effects. Moreover, in comparing these dynamics to unemployment benefit recipients, who were unlikely to be affected by this particular privatization reform, we have added confidence in our results.

These results, then, speak to a broader and more profound transformation in the way citizens interact with the state than just the case of UK disability benefits. The idea of a ‘public’ service, while never entirely straightforward, has become increasingly complex as a varied range of providers now deliver state services. In era in which the stakes of welfare policy remain high – indeed, in labor markets characterized by growing inequality and insecurity, social programs are fundamental to the livelihood of many citizens – their democratic nature seems uncertain. Can citizens navigate this new landscape and hold their elected leaders to account for the services they receive?



We offer a both an optimistic and pessimistic answer to this question. On the one hand, contrary to critics of privatization, private providers did not privatize participation; citizens receiving private benefits reacted in substantial ways to them, both by identifying with non-incumbent parties in some contexts while also shifting leftward. In Scotland, this took the form of private recipients quite dramatically punishing Labour for worsening private services. In short, voters *can* hold governments to account for declining quality in the private sector.

On the other hand, voters in England and Wales faced a tougher choice. With worsening private services and few strong anti-privatization choices, these recipients turned towards Labour. This latter limitation suggests a darker side of privatization for democracy. Where privatization becomes the dominant policy paradigm it may undercut accountability not by limiting the democratic capacity of citizens but their political choices. The irony of our theoretical argument is that Left wing parties face few costs to privatization where they lack real competitors (but also few gains), as it leaves voters dissatisfied with private services with nowhere, politically, to go.

In the empirical case examined here, privatization was implemented by the center-left Labour party. With the 2010 formation of a coalition Conservative-Liberal Democrat government under the leadership of David Cameron, however, it is the center-right which has overseen a dramatic expansion of privatized employment services. This raises the question of whether we would expect to see a similar logic at play when the right holds the reins of power. Assuming that privatization is accompanied by similar declines in the quality of service provision, we believe that voters' response will once again depend on whether or not they face a context of clear or mixed signals, which in turn will be contingent on how the now-opposition parties position themselves via privatization.

The most obvious question relates to the potential positioning of the social democratic left. If the center-left distances itself from its previous championing of privatization then we are back in the clear signals world, and would expect voters experiencing a lower-quality private benefit to punish the incumbent center-right and to express their ideological preference for the left at the ballot box. On the other hand, if the center-left continues to support the privatization of welfare services, voters would arguably be in receipt of a mixed signal. Our argument suggests that, here, to the extent that the center-left remains barely distinguishable from the center-right in terms of policy prescriptions, we should see little punishment of the incumbent center-right, but also no clear embracing of the center-left. Indeed, if the unpalatable choice facing voters is between a right-wing party pursuing privatization and a social democratic party that has ceded substantial ideological ground on what was once its core issue (state provision of services), perhaps the most plausible medium-run scenario is one of widespread disengagement and withdrawal from the political arena—of a privatization of participation.

One dimension we have not explored in this paper but which may become increasingly salient is the positioning of radical right wing parties vis-à-vis privatization. For example, the United Kingdom Independence Party (UKIP) did not enjoy strong electoral support during the period of our study, but it has seen a dramatic increase in support since 2010. Like its mainstream competitors, it supports the broad premise of getting welfare recipients back to work. In contrast to those other parties, however, its discourse surrounding social protection also contains a substantial pro-statist/anti-privatization tilt, albeit a highly nativist one.<sup>57</sup> The meteoric rise of UKIP suggests that England and Wales may be shifting to a “clear signals” context, insofar as there is now a viable party actively campaigning against the privatization of key aspects of the British welfare state, but the implications of this choice are somewhat

disheartening. To be sure, (white) voters in those areas may be increasingly able to hold their leaders—be they from a Conservative or Labour government—to account by voting for genuine alternative in the area of privatization; but if in so doing voters must also support a party with strong xenophobic tendencies, the normative implications are more complex. In this context, we also think it plausible that many voters, feeling caught between Scylla and Charybdis, may choose to disengage politically.

Privatization, then, may be more a symptom of weak democratic accountability than its cause. Where political parties fail to offer citizens genuine choices, democratic accountability falls. Where these choices are in place, citizens remain able to connect their experiences with the state and its intermediaries to the democratic process.

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<sup>1</sup> There is an appendix accompanying this paper available at [ADD URL HERE]. The appendix includes information on data sources, the construction of the recipient sample, and the estimation strategy.

<sup>2</sup> Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New York: Routledge, 2013); Robert Alan Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1973). Other interpretations of democracy offer a thicker perspective on participation. Fung and Olin-Wright look at participation in public services as a form of deepening, contrasting the democratic potential of participatory experiments to the more isolating arm-lengths experiences of market provision. Archon Fung and Erik Olin Wright, ““Deepening democracy: innovations in empowered participatory governance,”” *Politics & Society* 29, no. 1 (2001): 5-42.

<sup>3</sup> Suzanne Mettler, *The Submerged State: How Invisible Government Policies Undermine American Democracy* (Chicago: University of Chicago Press, 2011); Kimberly J. Morgan and Andrea Louise Campbell, *The Delegated Welfare State: Medicare, Markets, and the Governance of Social Policy* (New York: Oxford University Press, 2011).

<sup>4</sup> Others argue that as service providers face new incentives that are less directly linked to the democratic process, politicians have less ability to control them. A more optimistic variant stresses the substitution of ‘exit’ for ‘voice’, with citizens effectively using consumer choice rather than the ballot box to achieve their ends; a more pessimistic variant suggests such changes often provide citizens few exit options leaving citizens out. See, for instance, Michael J. Sandel, *What Money Can't Buy: the Moral Limits of Markets* (New York: Macmillan, 2012); Ezra N. Suleiman, *Dismantling Democratic States* (Princeton, NJ: Princeton University Press, 2013).

<sup>5</sup> Stefan Svalfors, “Public attitudes,” in Francis G. Castles, Stephan Leibfried, Jane Lewis, Herbert Obinger, and Christopher Pierson, eds *The Oxford Handbook of the Welfare State* (London: Oxford University Press, 2010); Staffan Kumlin and Isabelle Stadelmann-Steffen, eds. *How Welfare States Shape the Democratic Public: Policy Feedback, Participation, Voting, and Attitudes* (London: Edward Elgar Publishing, 2014).

<sup>6</sup> Svalfors, “Public attitudes.”

<sup>7</sup> Joe Soss and Sanford F. Schram, “A Public Transformed? Welfare Reform as Policy Feedback,” *American Political Science Review* 101, no. 01 (2007): 111-127; Julia Lynch and Mikko Myrskylä, “Always the Third Rail? Pension Income and Policy Preferences in European Democracies,” *Comparative Political Studies* 42, no. 8 (2009): 1068-1097.

<sup>8</sup> Raymond M. Duch and Randolph T. Stevenson, *The Economic Vote: How Political and Economic Institutions Condition Election Results* (New York: Cambridge University Press, 2008).

<sup>9</sup> For instance, Michael M. Bechtel, and Jens Hainmueller, “How Lasting Is Voter Gratitude? An Analysis of the Short and Long Term Electoral Returns to Beneficial Policy,” *American Journal of Political Science* 55, no. 4 (2011): 852-868. See also footnote 11.

<sup>10</sup> Larry M. Bartels, *Unequal Democracy: The Political Economy of the New Gilded Age* (Princeton: Princeton University Press, 2009); Michael S. Lewis-Beck and Mary Stegmaier, “Economic models of voting” in Russell J. Dalton and Hans - Dieter Klingemann. eds., *The Oxford Handbook of Political Behavior* (London: Oxford University Press, 2007): 518-537.

<sup>11</sup> G. Bingham Powell Jr, and Guy D. Whitten, “A Cross-national Analysis of Economic Voting: Taking Account of the Political Context,” *American Journal of Political Science* 37, no. 2 (1993): 391-414.

<sup>12</sup> Simeon Nichter. “Vote Buying or Turnout Buying? Machine Politics and the Secret Ballot.” *American Political Science Review* 102, no. 1 (2008): 19-31; and Ana L. De La O, “Do Conditional Cash Transfers Affect Electoral Behavior? Evidence From a Randomized Experiment in Mexico,” *American Journal of Political Science* 57, no. 1 (2013): 1-14; Cesar Zucco, “When Payouts Pay Off: Conditional Cash Transfers and Voting Behavior in Brazil, 2002–10,” *American Journal of Political Science* 57, no. 4 (2013): 810-822.

<sup>13</sup> Suzanne Mettler, *Soldiers to Citizens: The GI Bill and the Making of the Greatest Generation*, (New York: Oxford University Press, 2005). See also. Staffan Kumlin. *The Personal and the Political: How Personal Welfare State Experiences Affect Political Trust and Ideology* (New York: Palgrave Macmillan, 2004); Andrea Louise

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Campbell, *How Policies Make Citizens: Senior Political Activism and the American Welfare State*, (Princeton: Princeton University Press, 2003).

<sup>14</sup> Joe Soss, “Lessons of Welfare: Policy Design, Political Learning and Political Action,” *American Political Science Review* 93, no. 02 (1999): 363-380; Joe Soss, Richard C. Fording, and Sanford Schram, *Disciplining the Poor: Neoliberal Paternalism and the Persistent Power of Race*, (Chicago: University of Chicago Press, 2011).

<sup>15</sup> E.g. Gøsta Esping-Andersen, *Politics Against Markets: The Social Democratic Road to Power*(Princeton: Princeton University Press, 1985).

<sup>16</sup> Svalfors, “Public attitudes.”

<sup>17</sup> Philipp Rehm, “Social Policy by Popular Demand,” *World Politics* 63, no. 02 (2011): 271-299.

<sup>18</sup> Philipp Rehm, Jacob S. Hacker and Mark Schlesinger, “Insecure Alliances: Risk, Inequality, and Support for the Welfare State,” *American Political Science Review* 106, no. 02 (2012): 386-406.

<sup>19</sup> Yotam Margalit, “Explaining Social Policy Preferences: Evidence from the Great Recession,” *American Political Science Review* 107, no. 01 (2013): 80-103; Ben Ansell, “The Political Economy of Ownership: Housing Markets and the Welfare State,” *American Political Science Review* 108, no. 02 (2014): 383-402.

<sup>20</sup> Robert S. Erikson and Laura Stoker, “Caught in the Draft: The Effects of Vietnam Draft Lottery Status on Political Attitudes,” *American Political Science Review* 105, no. 02 (2011): 221-237.

<sup>21</sup> Jane R. Gingrich, *Making Markets in the Welfare State: the Politics of Varying Market Reforms* (New York: Cambridge University Press, 2011).

<sup>22</sup> See for instance the classic statement by David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming Government* (Reading, MA: Adison Wesley ,1992).

<sup>23</sup> Oliver Hart. “Incomplete Contracts and Public Ownership: Remarks, and an Application to Public-Private Partnerships,” *The Economic Journal* 113, no. 486 (2003): C69-C76.

<sup>24</sup> Els Sol and Maria Westerveld, *Contractualism in Employment Services: a New Form of Welfare State Governance* (The Hague: Kluwer Law International, 2005).

<sup>25</sup> Suzanne Mettler, *The Submerged State*; Morgan and Campbell, *The Delegated Welfare State*.

<sup>26</sup> Joachim Clasen and Daniel Clegg describe changes in UK labor-market benefits as a process of triple integration: towards a homogenous and mean-tested benefits structure (as opposed to contributory logic); towards activation through heavy conditionality; and through widening the concept of unemployment to include groups previously targeted through other programs (e.g. the disabled, lone parents). See Jochen Clasen and Daniel Clegg. *Regulating the Risk of Unemployment: National Adaptations to Post-Industrial Labour Markets in Europe* (London: Oxford University Press, 2011).

<sup>27</sup> Steve Fothergill and Ian Wilson. “A Million off Incapacity Benefit: How Achievable is Labour's Target?” *Cambridge Journal of Economics* 31, no. 6 (2007): 1007-1023.

<sup>28</sup> The Labour government began these shifts in 2000 with non-disabled workers, contracting with private providers in a series of “Employment Zones” (EZs) to provide more intensive services for young clients who had been out of the labor market for more than 18 months.

<sup>29</sup> DWP, “Decision Maker’s Guide, Vol. 1 (2013).” <http://www.dwp.gov.uk/publications/specialist-guides/decision-makers-guide/#vol1>.

<sup>30</sup> University of Essex. ISER and NatCen Social Research, *Understanding Society: Waves 1-4, 2009-2013, 6th Edition* (Colchester, Essex: UK Data Archive [distributor], November 2014), SN: 6614; University of Essex. ISER, *British Household Panel Survey: Waves 1-18, 1991-2009* [computer file], 7th Edition (Colchester, Essex: UK Data Archive [distributor], July 2010), SN: 5151. For geographical identifiers we also used BHPS and UKHLS Special License Access Datasets (SN 5151 and SN 6666) available from the UK Data Archive.

<sup>31</sup> This variable was constructed using three survey questions on partisan support. The first was, “Do you support a political party?” For respondents who responded no, the interviewer then followed up with two further questions

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aimed at eliciting partisan support: “Do you feel closer to one party than another?” and “If there were a General Election tomorrow, which party do you think you would be most likely to support?” From these questions we constructed a dummy variable indicating support for the Labour party. We coded all missing and proxy responses, as well as all respondents who refused to answer the questions or who reported “don’t know” as missing.

<sup>32</sup> For example, none of the policy preference questions were available for the “post” period; and because the UKHLS asked the retrospective voting variable to less than one-third of the wave 2 sample, we had a very small N for partisan vote choice in 2010.

<sup>33</sup> Jared Diamond and James Robinson, eds., *Natural Experiments of History* (Cambridge, MA: Harvard University Press, 2011); Thad Dunning, *Natural Experiments in the Social Sciences: A Design-Based Approach* (New York: Cambridge University Press, 2012); Dawn Teele, ed., *Field Experiments and their Critics* (New Haven: Yale University Press, 2014).

<sup>34</sup> The validity of the differences-in-differences estimator in estimating causal effects is based on two key assumptions—constant composition and parallel trends. We provide evidence for meeting both assumptions in the appendix, where we also discuss various other issues related to sample construction, estimation strategy, and additional specifications.

<sup>35</sup> More specifically, this raises the question of our capacity to parse out the effect of private provision from conditional welfare requirements, and also the comparability of our pre- and post-treatment groups.

<sup>36</sup> The sample excludes Northern Ireland due to an inability to link individuals to specific Jobcentre Plus districts.

<sup>37</sup> Lee Summerfield et al., *Support to Incapacity Benefits Claimants through Pathways to Work* (London: National Audit Office, 2010).

<sup>38</sup> Genevieve Knight et al., *Provider-Led Pathways to Work: Net Impacts on Employment and Benefits* (London: Department for Work and Pensions, 2013).

<sup>39</sup> Summerfield et al., *Support to Incapacity Benefits Claimants through Pathways to Work*, 9.

<sup>40</sup> *Ibid*, 13.

<sup>41</sup> Maria Hudson, Joan Phillips, Kathryn Ray, Sandra Vegeris, and Rosemary Davidson, *The Influence of Outcome-Based Contracting on Provider-Led Pathways to Work* (London: Department for Work and Pensions, 2010), 4; Oliver Hayllar et al., *Pathways to Work: The Experiences of New and Repeat Customers in Jobcentre Plus Expansion Areas* (London: Department for Work and Pensions, 2010).

<sup>42</sup> Hudson et al., *The Influence of Outcome-Based Contracting on Provider-Led Pathways to Work*, 50-51.

<sup>43</sup> Pippa Lane et al., *Work Programme Evaluation: Procurement, Supply Chains and Implementation of the Commissioning Model* (London: Department for Work and Pensions, 2013).

<sup>44</sup> In contrast to the other models presented in this paper, Table 1 uses results from repeated cross-sectional, rather than panel, data. This is because it does not make sense to think about the within-individual change, before and after starting benefit, in finding a job or in leaving benefit.

<sup>45</sup> When it comes to subjective quality, it remains an open question as to whether disabled client groups regard conditional welfare-to-work programs as ‘help’ or ‘harassment.’ Although we cannot investigate this directly, there is evidence to suggest that many disabled individuals responded positively to participation in public conditional programs emphasizing work-readiness. Evidence from qualitative focus group studies suggest that, in general, although the disabled supported funding through traditional IB, many also welcomed a focus on labor market reintegration and the counseling and other personalized services aimed at job-seeking that Pathways offered. Similarly, in comparing the response of the disabled and lone parents to the onset of public welfare-to-work programs in the UK, Watson (2015) found that whereas lone parents responded in a highly negative fashion to such programs, the disabled responded far more positively. Compared to their counterparts in non-conditional public programs, disability recipients participating in public welfare-to-work programs in the pre-2008 period reported higher levels of personal and political efficacy, as well as higher levels of trust in government. Sara Watson, “Does Welfare Conditionality Reduce Democratic Participation?,” *Comparative Political Studies*, 48, no. 5 (2015): 645-686.



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<sup>46</sup> Because many factors other than one's participation in a welfare-to-work program are likely to influence these outcomes, and because in the pre-period we do not have ideal parallel trends, we note that these results should be interpreted with caution.

<sup>47</sup> The sample size fluctuates somewhat, due to different degrees of missing/refusal responses to (here) the subjective quality indicators and, in section 6, the political preference questions.

<sup>48</sup> Oliver Hayllar and Martin Wood, *Provider-led Pathways to Work: The Experiences of New and Repeat Customers in Phase One Areas*, (London: Department for Work and Pensions, 2011), 21.

<sup>49</sup> Conservative Manifesto, "Invitation to join the government of Britain," *London: Pureprint Group* (2010).

<sup>50</sup> See Ryan Bakker, Catherine de Vries, Erica Edwards, Liesbet Hooghe, Seth Jolly, Gary Marks, Jonathan Polk, Jan Rovny, Marco Steenbergen, Milada Vachudova, "Measuring Party Positions in Europe: The Chapel Hill Expert Survey Trend File, 1999-2010," *Party Politics* 21, no. 1 (2015): 143-152; Kenneth Benoit and Michael Laver, *Party Policy in Modern Democracies* (London: Routledge, 2006); P.F. Whiteley and D. Sanders, *British Election Study, 2010: Face-to-Face Survey* [computer file] (Colchester, Essex: UK Data Archive, 2014). We note that the 2010 British election study only asks a limited number of respondents about left-right placement, and these respondents place the SNP to the right of Labour but to the left of center. However, given the economic crisis, and overall placement of the SNP to the left, we feel confident in stating that the SNP was perceived by many voters as a legitimate left-of-center contender.

<sup>51</sup> In this table and all that follow, we include the change in household income as a control variable, as well as dummies for region and for the year individuals entered the IB program. Most other potential control variables, such as sex, religion, and years of schooling, are relatively time-invariant and are therefore excluded. In the online appendix, we report models that exclude the year dummies; substantive results are similar.

<sup>52</sup> More specifically, following the strategy outlined in Knight (2008), we perform matching with replacement between the treated and control subjects on the following pre-treatment district-level criteria: annual claimant rates in the local authority district; annual job density; and annual off-flow rates. Knight et al., *Provider-Led Pathways to Work*, 28-29.

<sup>53</sup> Given the extant evidence about how private providers tend to separate client groups into 'easy' and 'difficult' to place, and their likelihood of providing assistance to those different groups, we would have liked to have investigated whether, consistent with our theory, those most likely to have experienced quality declines under private provision did in fact exhibit different behavior in England vs Scotland. Unfortunately, questions about the extent of an individual's disability were not asked until 2009-2010, and even the sub-optimal questions on health status from the BHPS, which one might have used as a proxy, were not asked in a similar way in the UKHLS.

<sup>54</sup> We note, however, that in both cases we could not reject the null of no effect, as none of the coefficients on "No party" were statistically significant.

<sup>55</sup> Some 11.93 percent of public recipients and 11.05 percent of private refuse to answer the question and/or fall out of the survey after they go on benefit. Moreover, rates of attrition are similar across England/Wales and Scotland.

<sup>56</sup> The sample is somewhat smaller due to fewer individuals entering JSA as compared to IB, probably due to the much higher intensity of job-search requirements for the former.

<sup>57</sup> For example, the party's manifesto explicitly opposes the contracting out of certain disability-related services to private actors and more generally emphasizes the importance of maintaining generous social benefits to those who made contributions over the course of their working life. That said, the party is not entirely coherent on privatization and the welfare state; for example, although it remains formally committed to the NHS, party leader Nigel Farage has publicly suggested that the NHS will need to be privatized. See [http://www.ukip.org/suzanne\\_evans\\_set\\_out\\_ukip\\_s\\_position\\_on\\_welfare](http://www.ukip.org/suzanne_evans_set_out_ukip_s_position_on_welfare); accessed December 10<sup>th</sup>, 2015; Andrew Grice, "Nigel Farage: NHS might have to be replaced by private health insurance," *The Independent* 19 January 2015.