A Private, Non-Profit Solution to Foster Care and Adoption

*An Analysis of Privatizing the Foster Care System in the United States*

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*Introduction*

 In September 2013, approximately 402,378 children were in the United States foster care system, and 101,840 of these children were waiting to be adopted (AFCARS 2014, p.1). The current government operated foster care system is inefficient in nature and does not provide the quality of services necessary to ensure the stability, permanency, and safety of the children involved. Its inability to efficiently allocate resources endangers children under its care and prevents children from experiencing the permanency and stability of a home. Children who do not experience adoption and remain in the foster care system until adulthood are an additional concern due to their contributions to social and public costs. Operating under an inefficient bureaucratic management system, the foster care system in the United States compromises the welfare of children and does not maximize the number of adoptions among waiting children.

Privatizing the foster care system is a solution proposed in the literature for better ensuring the protection of children, reducing the consequences and costs of children who remain in the foster care system, and increasing the rate of adoption among waiting children. Privatization efforts in the United States demonstrate the benefit of privatizing aspects of the foster care system and reveal that privatization increases the quality of services and the rate of adoption among waiting children. Still, the extent of government involvement in the foster care system creates a perverse incentive structure that relies on monetary incentives provided by the state to ensure the efficient placement of children. These incentives are unnecessary, however, as the foster care system would operate efficiently and ensure the timely placement of children under unhampered market conditions and in the absence of government involvement.

This paper proposes a private, non-profit model of the foster care system and adoption from foster care and explores to what extent a private model would lead to more adoptions. First, it will outline current issues in the state operated system and provide a review of the economics literature in the scope of privatizing the foster care system. After, it will evaluate characteristics of private models historically and internationally and outline private models states currently employ. Finally, it will propose a private model of foster care and adoption that operates in the absence of state oversight and state and federal monetary incentives.

Privatizing the foster care system would involve converting foster care from a bureaucratic, government operated entity to a non-profit institution funded primarily by donations and adoption payments and relying on charity and monetary incentive from foster care payments. In the scope of adoption, these non-profit agencies would seek to satisfy the preferences of their donors by placing children in safe, permanent adoptive homes. The market will reward efficient providers as donors will contribute money to agencies that are most successful in satisfying donors’ demands through achieving adoption placements or demonstrating potential for achieving this objective. A private adoption model would also involve the exchange and transfer of custodial parental rights from the state to a non-profit agency, and from a non-profit agency to the prospective adoptive parents. The benefits of attaining custodial parental rights would provide the economic incentive for prospective adoptive parents to adopt from a private foster care system. Based on the results of private models in the United States and efficient characteristics of a private, non-profit model, it is likely that a private model would lead to more adoptions among waiting children.

*Foster Care in the United States: State Operated and Privatized Systems*

Although a few states have attempted privatization or have privatized administrative aspects of their foster care programs, foster care remains a primarily bureaucratic entity operated by local governments and overseen by state child welfare agencies. When a court order or voluntary agreement removes a child from his or her home, the state child welfare agency assumes care for the child and is responsible for placing the child in temporary care with an approved relative or nonrelative foster family home or a child care institution (Duncan and Argys 2007, p.116). While in foster care, the child remains in the legal custody of the state (CWIG 2014). In some states, foster care agencies operate as intermediaries between the state agency and foster families. These agencies receive children in the foster care system from county governments and place these children with licensed families (ECI p.3.). Within states that have semi-privatized foster care and adoption programs, these intermediate agencies receive a monthly subsidy from the state per adoption placement in order to incentivize the efficient placement of children (Blackstone and Hakim 2003, p.490). Families that provide care for children also receive a monthly subsidy from the state that ranges from $217 to $913 per month (NRCFCPAPP 2008, p.2). These rates vary by state and may depend on the age of the child and the extent of the child’s medical and emotional needs (Duncan and Argys 2007, p.116). A child enters foster care with a long-term goal of permanency. Foster care is a temporary arrangement intended to end with either reunification with the child’s birth parents or adoption (CWIG 2014). However, in the current foster care system, not all children attain the goal of permanency.

 Each year, about 29,500 children age out of the foster care system when they turn 18 or 21 years old (Courtney 2010, p.1). Children remaining in and aging out of the foster care system is a governmental and societal concern because former foster care children experience poor life outcomes which contribute pubic and societal costs. According to Mark Courtney, former foster care children more often become involved in crime and more frequently experience homelessness (2005, p.1). In a longitudinal study of 732 former foster youths in Illinois, Iowa, and Wisconsin, Courtney found that 45 percent of men and 18 percent of women reported that they had been incarcerated since exiting foster care (Courtney 2010, p.7). Moreover, 37 percent of participants had been homeless or “couch surfed” since exiting foster care, only 48 percent were currently employed, and the median earnings of those employed was $8,000 (Courtney 2010, p.4-5). Consequently, former foster care children are also more likely to rely on public assistance (Courtney 2005, p.1.). In the same longitudinal study, Courtney reported that 70 percent of women, including 85 percent of custodial mothers, and 29 percent of men currently “received benefits from one or more need-based governmental programs” (2010, p.6). It is evident in their life outcomes that children who do not experience adoption and age out of the foster care system contribute to public costs through a high incidence of incarceration and circumstances that cause them to rely on public assistance. Increasing the rate of adoption from foster care would not only improve the life outcomes of former foster care children. It would also reduce the extent to which both children and society bear the costs of these outcomes.

It is evident that adoption from foster care is fiscally beneficial because it reduces child welfare spending and public costs associated with the life outcomes of former foster care children. In her comparative cost-benefit analysis of foster care and adoption, Mary Eschelbach Hansen asserts that adoption “reduces negative outcomes such as delinquency and welfare receipt” (2008, p. 70). Children adopted from foster care are 54 percent less likely to be delinquent or arrested and 32 percent less likely to become incarcerated than children who remain in foster care. Moreover, adopted children are 24 percent less likely to experience unemployment, and they earn an income 75 percent higher than those who remain in foster care long-term. Finally, 68 percent fewer adopted children are TANF recipients and 53 percent fewer are food stamp recipients (Hansen 2008, p. 71-72). Adoption clearly improves the life outcomes of children in foster care and reduces the incidence of behaviors that contribute to public costs.

As a result of her analysis, Hansen estimates “that each adoption nets between $88,000 and $150,000 in private benefits and $190,000 to $235,000 in total public benefits (in constant 2000 dollars). Each dollar spent on the adoption of a child from foster care yields between 2 and 3 dollars in benefits to society” (2008, p. 67). She cites that an adoption from foster care costs the state and federal government about $115,000, but saves about $258,000 in child welfare and human services costs. As a result, adoption from foster care contributes a net savings of $143,000 (Hansen 2008, p. 66-67). Hansen estimates that the net present value of government savings from reduced crime ranges from $43,192 for adopted children who entered care around three and were adopted around eight, to $86,383 for a child adopted at the “earliest possible time after entering care” (2008, p. 82). Moreover, net government savings in the scope of child welfare range from $143,002 to $167,581 (Hansen 2008, p.82). The fiscal benefits of adoption clearly outweigh the costs of long-term foster care. It is evident that the benefits of adoption extend beyond those accrued by the adopted child by experiencing a family and the stability of a permanent home. Adoption results in net fiscal savings and is beneficial to society at large because it reduces a contributor to the rate of crime, unemployment, and public assistance.

It is further evident that the current bureaucratic system is unable to efficiently allocate its resources to adequately provide for the children under its care. Consequently, government operated child welfare agencies are unable to ensure the safety and permanency of the children they are responsible for, endangering children as a result. Problems that characterize the current system are children remaining in foster care too long, being placed in multiple homes for short periods of time, foster-care family shortages, overcrowding in foster homes, shortages of foster care families, abuse in foster homes, children available for adoption that remain in foster care, large caseloads, poor investigation of child abuse cases, incomplete paperwork, and lost files and data (Snell 2000, p.4). According to a policy study conducted by Lisa Snell, “some children are dying because child-welfare agencies are overburdened and cannot adequately investigate all child-abuse reports” (Snell 2000 p.4). In the scope of adoption, it is evident that child welfare agencies use the majority of their available resources for placing children in foster families, investigating child-abuse cases, and providing other family services. As a consequence, they do not possess adequate additional resources for efficiently placing children in adoptive homes once they are available for adoption, depriving many children of the benefits a stable, permanent home provides (Snell 2000, p.2). The current government operated child welfare system is detrimental to the children involved due to its inability to ensure their safety and stability.

 A solution to the problematic, government operated system is privatizing the foster care system. The literature that specifically addresses privatizing foster care in the United States contains three articles which evaluate currently operating private models and propose efficient characteristics that would increase the number of adoptions among waiting children. Lisa Snell’s policy study regarding the privatization of child welfare services in the United States is the primary article that discusses the ramifications and results of privatizing foster care and adoption in the United States. In “Child-Welfare Reform and the Role of Privatization,” she argues that child welfare privatization “can change the child-protection system to a competitive, outcome-oriented system that focuses on specific performance measures such as increasing adoptions, ensuring child safety, and reducing the time children spend in foster care” (2000, p.25). She asserts that the current state operated foster care system is inefficient and compromises the best interests of children involved. Problems include a lack of permanency, compromised safety of children, a high number of placements, heavy caseloads, and high caseworker turnover (Snell 2000, p.6). Under the current system, children remain in foster care for too long and do not experience reunification or adoption. Moreover, “children are sent back to abusive homes or placed with abusive foster parents or in overcrowded conditions that jeopardize their safety” (Snell 2000, p.4). Due to high caseloads, social workers are unable to thoroughly supervise all cases and adequately investigate child abuse cases. Finally, Snell notes that children experience several placements within a short period of time which further compromises their stability and safety (2000, p.4). These problematic characteristics within the government operated model highlight its inefficiencies and inadequacy in providing care for children in the foster care system.

Snell demonstrates through outlining and evaluating private foster care models in Kansas and Florida that private contractors are able to move children through the foster care system at a faster rate, better ensure their safety, reduce their number of placements, and reduce the caseload for social workers compared to their state operated counterparts (2000, p.4). She writes that the privatized foster care system in Kansas greatly improved the quality and outcomes of foster care. In January 2000, 82 percent of foster care children were in family-based homes, compared to 69 percent under the state-run system in the previous year. Moreover, private contractors successfully increased the number of active foster homes, created a “baseline of data to measure improvement and to determine gaps in service,” created “higher visibility for children’s issues,” and established caseload guidelines for both public and private delivery systems (Snell 2000, p.10).

 In Florida’s privatized system, the average number of children per foster home was 1.6, compared to 2.7 in the state operated system, the average caseload was 18.9 cases, compared to 40.8 cases, and the average number of placements per child was 2.79, compared to 3.61 (Snell 2000, p.10). After adopting a private model in Saratosa County, Florida, a child’s length of stay in a foster home decreased from 20 months to 13 months, the number of adoptions doubled from 20 to 40 per year, and the caseload per social worker decreased from 41 to 19 (Snell 2000, p.11). Due to the reduced caseload per worker, social workers employed by a private agency were able to visit children’s homes four times a month, compared to one monthly visit provided by government employed social workers (Snell 2000, p.11). It is evident that the private models employed in Kansas and Florida improved and eliminated some of the problematic features found in the state operated models. Snell asserts that the successful results of privatization in Kansas and Florida demonstrate that private foster care agencies are able to better attain and ensure child safety and permanency.

 In the scope of adoption, Snell argues that state operated child welfare agencies do not have adequate resources for placing children in adoptive homes because they use the majority of their resources for investigating child abuse, foster care, and other family services (2000, p.2). She demonstrates through her evaluation of Kansas and Michigan’s private systems that allowing private agencies to focus exclusively on the adoption process increases the number of adoptions among waiting children. In the first year of Kansas’ private model, operated by Lutheran Social Services, the number of finalized adoptions increased 81 percent. Moreover, the private agency averaged over 46 adoptions per month in 1999, “compared to an average of 24 adoptions per month in before privatization” (Snell 2000, p.21). After Michigan’s privatization, a record number of special needs children found permanent homes through adoption in 1999. By narrowing the scope of its operations, privatization allows an agency to focus on efficiently placing children in adoptive homes and economize its resources in order to achieve its objectives. Snell’s analysis demonstrates the success of privatization in improving the efficiency of foster care and adoption services and creating outcomes that better ensure children’s safety, stability, and permanency.

In their article, “A Market Alternative to Child Adoption and Foster Care,” Erwin A. Blackstone and Simon Hakim similarly argue that a greater extent of privatization will improve the current bureaucratic system by increasing the rate of placement in adoptive homes. While they acknowledge that an extent of privatization within the foster care system would be beneficial, they advocate a “managed competition” model in which government employees compete with private providers (2003, p.488). They also evaluate the private models employed by Kansas and Michigan and analyze characteristics of these models in support of their argument. Blackstone and Hakim assert that Kansas’ private model is problematic because it replaced a public monopoly with a private monopoly (Blackstone and Hakim 2003, p.488). While privatization increased knowledge regarding the costs of providing foster care and adoption services among child welfare providers, the authors argue that Kansas’ private monopoly model restricted the potential level of competition. There were a sufficient number of firms to foster a greater extent of competition, and Blackstone and Hakim assert that allowing for greater competition would have further reduced the cost of providing child welfare services and increased the performance of the participating agencies (2003, p.488). Their model, however, does not advocate an unhampered competitive system. They recommend increasing the level of competition through allowing current government employees to compete with private service providers, as their managed competition model suggests. While their model would increase the extent of privatization of foster care and adoption services, the state maintains a significant role in managing competition and overseeing the provision of services.

Conversely, Michigan’s privatized foster care and adoption programs better reflect the authors’ proposed managed competition model. Blackstone and Hakim identify the “ubiquitous dispersion of information about the children available for adoption” through the Michigan Adoption Resource Exchange, the large number of agencies able to compete to place children, and inclusion of the Family Independence Agency in the market as advantages of Michigan’s privatized model (2003, p.491). The Family Independence Agency is Michigan’s child welfare department and is able to compete with 80 licensed private agencies to place any child available for adoption in adoptive homes (Blackstone and Hakim 2003, p.490). However, an inefficiency in Michigan’s model is the arbitrary price system established by the state government. The authors write that the subsidies Michigan provides to private agencies per adopted child per month “neither reflect the opportunity cost for government nor are they the result of market forces” (2003, p.491). Rather, allowing prices to adjust based on the number of children available for adoption and the demand for adoption services will ensure that only efficient providers survive in the market (Blackstone and Hakim 2003, p.492). Moreover, a pricing mechanism subject to the market will “ensure timely and best placement practice by providers,” and minimize shortages and surpluses of children in foster care (Blackstone and Hakim 2003, p.492, 493). Finally, the authors recommend that savings generated from easy-to-place children could provide additional resources to assist the placement of hard-to-place children, or those with special needs.[[1]](#footnote-1)

Blackstone and Hakim conclude with further recommendations for an efficient, privatized model of foster care and adoption. They propose that families approved for adoption could indicate the price they are willing to pay or how much they would have to be paid in order to adopt a particular child, in order to ensure that both easy-to-place and hard-to-place children find adoptive homes (Blackstone and Hakim 2003, p.493). Finally, they recommend that information on available children be disseminated nationally rather than by state. They write that converting “the adoption process to a nationwide market will improve the ‘quality’ and fit of the adopting parents, shorten time for adoption, and reduce costs for the states” (2003, p.494). They conclude that a market approach that operates under managed competition would shorten the duration of a child’s foster care experience and increase the efficiency of adoption placements (2003, p.492).

Erwin A. Blackstone, Simon Hakim, and Andrew J. Buck published an additional article positing and evaluating a private model of foster care and adoption. In “Privatizing Adoption and Foster Care: Applying Auction and Market Solutions,” they similarly assess Kansas, Michigan, and Illinois’s efforts to privatize the administrative aspects of foster care and adoption and propose an auction model for adoption from foster care. They argue that their auction model would reduce the number of children who remain in the foster care system long-term by providing resources that would facilitate the adoption of hard-to-place children (2004, p.1033). Moreover, their auction model would allow the market to allocate available children while “maintaining government oversight and supervision” (Blackstone et al. 2004, p.1041).

The authors propose an “all-pay simultaneous ascending auction with a bid cap” (2004, p.1044). By making the bidding process simultaneous, this model would eliminate the queue that exists in current models and reduce the cost of waiting borne by prospective adoptive parents. Moreover, the bid cap would encourage participation by low income families. During each round of the auction, prospective adoptive parents “would submit a sealed bid for the children they wish to adopt” (Blackstone et al. 2004, p.1044). The parent with the highest bid would win the right to adopt the particular child, and bidding would continue until all children are adopted (Blackstone et al. 2004, p.1045). Next, the proceeds from the auction would endow the hard-to-place children in order to incentivize prospective adoptive parents to adopt them. They argue that the endowment process would equalize the net cost of childrearing among healthy children and unhealthy children, thereby increasing their likelihood of becoming adopted (Blackstone et al. 2004, p.1046). The authors conclude that privatization would improve the efficiency of the adoption system by replacing government bureaucracy with market forces. Moreover, they argue that their auction model reduces the extent of government involvement, reduces the role of intermediaries, thereby simplifying the process, and generates resources that can facilitate the placement of hard-to-place children (Blackstone et al. 2004, p.1047). It is evident that the relevant literature recognizes the merit of privatization in the scope of efficiency and increasing the number of adoption placements. However, all of the models proposed and evaluated in the literature remain subject to state oversight and operate under monetary incentives provided by the government.

*Private Models Historically and Internationally*

Private models that existed historically and currently operate internationally demonstrate the feasibility of a private foster care system and reveal characteristics that contribute to their success. Historical examples of foster care demonstrate the value of charity in providing care for children. The Christian church and members of the Jewish faith were largely responsible for providing care for orphaned children (Martin 2000, p.16). In early America, most orphanages were affiliated with Protestant, Catholic, or Jewish religious groups (Askeland 2006, p.9.). In the history of foster care in the United States, it is evident that operating primarily through the charity of others was successful in providing adequate care for vagrant and orphaned children in a private system devoid of government involvement. The modern foster care system in the United States originated with Charles Loring Brace in 1853. Brace was a young minister and secretary of the New York Children’s Aid Society. After observing the large number of vagrant children in New York City, as many as 30,000 in the middle of the nineteenth century, Brace initiated his Placing Out System which sought to transport vagrant children from urban centers to rural communities (Martin 2000, p.17; Holt 2006, p.18). The practice of transporting children became known as “orphan trains” and other private agencies also adopted this practice (Holt 2006, p.17). Through appealing to Christian charity, the Society encouraged communities to which they transported children to establish a “committee of prominent citizens who had the responsibility to publicize the coming children, to encourage families to take them in, and to evaluate the suitability of families who indicated interest” (Martin 2000, p.18). According to Marilyn Irvin Holt, this system “relied heavily on their understanding of a social contract existing between the placing agency and receiving family, and there was a strong sense that Christian charity played a vital role” (2006, p.17). It is evident that care for vagrant children emerged and proved successful in the absence of government involvement and communities were able to provide services synonymous with those provided by government operated agencies in the current model. Furthermore, charity was significant to the success of Brace’s private model, and through the charity of others, as many as 150,000 children found free family foster care between 1854 and 1929 (Martin 2000, p.17).

 Internationally, private agencies and non-governmental organizations (NGOs) play a significant role in operating Scotland’s foster care system. Although Scotland’s private agencies are subject to an extent of government oversight since they have to be registered, have contracts with local authorities, and are subject to regular monitoring, most of the functions involved with providing foster care services are assumed by non-governmental and private agencies, in addition to local authorities (Laklija 2011, p.25). Both NGOs and private agencies perform the functions of promoting foster care, recruiting adoptive families, educating and licensing foster families, and monitoring foster parents (Laklija 2011, p.18). Foster care involves a contractual relationship with the agency through which a foster parent provides care, and they receive allowances to cover the cost of care (Laklija 2011, p.27, p.10). Maja Laklija notes in her study of foster care systems in Europe that independent agencies in Scotland pay foster parents higher rates than government operated agencies (2011, p.10). Moreover, NGOs and private agencies conduct marketing schemes to attract additional funds to pay foster parents. Laklija writes that the amount a foster parent receives is often “a reflection of their skills, abilities, length of experience or professional expertise” (2011, p.10). Scotland’s semi-privatized model reflects a system in which private agencies assume the same functions as local authorities in providing foster care services. Furthermore, private agencies and NGOs provide payments to foster families, rather than the state. Scotland’s model demonstrates that privatizing these functions is feasible in a functional foster care system.

*Current Private Models in the United States*

 Within the United States, Kansas, Michigan, Illinois, and Florida have privatized aspects of their foster care and adoption programs. Although these models contain private features, private agencies remain subject to significant government oversight and operate under monetary incentives provided by state governments. However, it is evident that these privatized models are an improvement over the previous, state operated systems. Kansas privatized foster care and adoption services beginning in 1996. In the scope of foster care, the state government divided Kansas into five regions and agencies within each region bid for a contract to provide foster care services. The state selects a contractor for a four year period. The state provides each contracted agency with a per child per month payment in order to incentivize prompt reunification or adoption (Blackstone et al. 2004 p.1038). It is evident in Snell’s analysis that Kansas’ privatized foster care system was more successful in placing children in family-based homes and increasing the number of active foster homes than its state operated counterpart (2000, p.10). In the scope of adoption, private agencies compete for one statewide contract. Like foster care, the duration of the contract is four years. At the end of four years, agencies rebid for the adoption contract. The state also provides private contractors with a subsidy that ranges from $1958 to $2200 per child per month in order to incentivize the efficient placement of children in adoptive homes (Blackstone et al. 2004, p.1039). Blackstone et al. argue that financial incentives were necessary for the success of Kansas’ private model (2004, p.1039).

 In 1996, Florida began pilot programs to privatize child protection services, including foster care. Their model operated through contracts with community-based agencies (Snell 2000, p.10). In Saratosa County, YMCA Children Youth and Family Services lead a coalition of 12 community agencies in privatizing foster care. The private agencies provided the same services as state agencies (Snell 2000, p.11). The state reimbursed the coalition $3 million, and the coalition also received money through community donations and Medicaid. The coalition utilized additional funding to pay for additional employees, which Snell asserts was significant to the private model’s success (Snell 2000, p.11). The additional workers decreased the caseload per social worker which allowed social workers to increase the frequency with which they visited children’s homes. Snell also notes that member agencies’ ties to the community also attributed to the model’s success (Snell 2000 p.11).

 In Michigan, the Family Independence Agency (FIA), or the foster care provider that initially manages the child, has six months exclusively to place the child in an adoptive home. Blackstone et al. write that this provides an incentive for the original agency to quickly place the child (2004, p.1037). If the agency does not place the child within this six month period, the state lists the child on the Michigan Adoption Resource Exchange, an online database accessible to 53 licensed private adoption agencies which then compete to place the children in adoptive homes. All foster care agencies licensed to provide adoption services and under contract with the FIA, as well as all non-profit adoption agencies, are offered an adoption contract (Snell 2000, p.21). Michigan’s monetary incentive structure consists of a payment system based on the outcome, time, and difficulty of the case (Blackstone et al. 2004, p.1037). For example, an agency that places a child on the exchange with a nonfoster or relative family receives $9325 from the state (Blackstone et al. 2004, p.1037). Blackstone et al. note that at the time of writing, there was no evident improvement in the adoption rate since privatization began (2004, p.1037). Both the number of adoptions and the number of children available for adoption increased. However, they acknowledge that the wide dissemination of information incentivized private agencies to locate a large number of high-quality foster families, and prospective foster and adoptive families had greater choice among agencies (Blackstone et al. 2004, p.1037).

Finally, Illinois began contracting with private agencies in 1997 to reduce the number of children in foster care and increase permanency. It employed a performance contracting model, and the privatization process took place in Cook County because it contained 75 percent of Illinois’s cases (Blackstone et al., 1040). Illinois paid a monthly rate of $394 per child to each contracted agency. Furthermore, the state set a 24 percent threshold that private agencies had to attain in order to continue to receive this rate and receive children from the state. The private agency had to achieve permanent placements for 24 percent of the children in its care per year (Blackstone et al. 2004, p.1040). As a result of implementing this model, the foster care caseload decreased 57 percent from 1997 to 2003. Moreover, adoptions and guardianships increased 94 percent over the same period and permanency increased by 200 percent after the first year of performance contracting (Blackstone et al. 2004, p.1040). Blackstone et al. note that Illinois’s model demonstrates the value of performance contracting in a private foster care system (2004, p.1041). Moreover, they assert that this was the most successful model employed by a state because performance contracting removed inefficient providers from the market (2004, p.1040). Although privatization efforts in the United States yielded beneficial results for children in the foster care system, it is evident that the literature perceives government oversight and a monetary incentive structure as crucial to the success of these models. However, a market operated foster care and adoption system demonstrates that government incentives are not necessary for an efficient and successful foster care system in the United States.

*A Private, Non-profit Model*

The private model proposed in this paper contains characteristics of successful historical and contemporary experiments in privatization. However, it extends beyond current experiments by positing a system that operates in the absence of government oversight. This paper proposes a private model that consists of three levels – the state government, non-profit foster care and adoption agencies, and the prospective foster care and adoptive parents. The model operates through the exchange and transfer of custodial parental rights between these three agencies, as adoption entails the attainment of custodial parental rights by the adoptive parent.

The current foster care system is inefficient because it operates under bureaucratic management and therefore cannot adequately assess the costs of providing foster care and adoption services. As Ludwig von Mises demonstrates in *Bureaucracy*, bureaucratic management operates through complying with rules and regulations and “cannot be checked by economic calculation” (1944, p.39). Economic calculation allows entrepreneurs to assess through money prices how to economize their resources in order satisfy the demands of consumers and reduce their costs of production (Mises 1944, p.22-23). However, the value of fulfilling the objectives of bureaucratic management “cannot be realized in a market transaction and consequently cannot be expressed in terms of money” (Mises 1944, p.39). Since a bureaucracy cannot value its services in terms of money prices, it cannot calculate its costs of production or determine the most efficient use of its resources. Therefore, it cannot evaluate its success according to profit and loss (Mises 1994, p. 40). Before Kansas initiated privatization efforts, Snell notes that there was no method by which to evaluate the pricing of foster care (2000, p.7). Due to the lack of money prices, Blackstone and Hakim assert that the state government did not adequately reimburse the private contractor to cover its costs. They write that actual costs were at least $125 million above projected costs and the private contractor, Lutheran Social Services, incurred substantial losses in its first two years (Blackstone and Hakim 2003 p.487-488). Due to the lack of money prices under the current bureaucratic system, states are unable to assess the cost of providing foster care and adoption. Therefore, they are unable to determine the appropriate allocation their resources through profit and loss calculation and are inherently inefficient.

Conversely, operating under market conditions allows money prices to reflect the preferences of consumers (Mises 1944, p.22). Under profit management, the profit motive guides the entrepreneur’s production decisions (Mises 1944, p.18). Through economic calculation, these market prices indicate to the entrepreneur how to most efficiently employ the factors of production in order to satisfy the demands of the sovereign consumers (Mises 1944, p.23). According to Mises, “The profit motive is precisely the factor that forces the businessman to provide in the most efficient way those commodities the consumers want to use” (1944, p.18). Through employing economic calculation and operating through the profit motive, profit management more efficiently provides goods and services than bureaucratic management.

In the scope of foster care and adoption agencies, agencies operate under the oversight of a bureaucratic system that provides monetary incentives to ensure their efficient operation. Converting these agencies to non-profit institutions will allow them to operate efficiently while preserving the incentive to efficiently place children with adoptive families. According to Murray N. Rothbard, non-profit institutions operate according to the same framework as profit management, except donors guide production decisions, rather than consumers (Rothbard 1997, p.62). Rather than operating under the profit motive, non-profit institutions seek to fulfill the purposes desired by donors (Rothbard 1997, p.60). Rothbard writes, “The organization will employ as much of its resources as the member-consumer-donors desire to contribute to the pursuit of their goals” (1997, p.60). Applying this analysis to adoption and foster care, non-profit foster care and adoption agencies’ primary source of income would be donations from those who desire to see children placed in foster and adoptive families. Satisfying the desires of donors will provide the economic incentive for non-profit agencies to place children in a timely and efficient manner. Moreover, operating under market conditions will allow agencies to employ economic calculation in order to determine the most efficient use of their resources in satisfying the demands of donors. If the donors desire that the agency place children quickly in safe foster care and adoption arrangements, then doing so would incite further donations from donors. Conversely, if an agency fails to meet the demands of donors, they will not receive donation payments and the market will remove inefficient providers. Therefore, converting the foster care system from a bureaucratic management system to a non-profit management system will ensure the efficiency of providing foster care and adoption services and provide the economic incentive for agencies to efficiently place children.

The literature also recognizes the value of non-profit entrepreneurship in the efficient operation of non-profit institutions. Robert D. Herman and Denise Rendina quote J. G. Dees who writes that a social entrepreneur, one who operates a non-profit institution, is one who adopts “a mission to create and sustain social value, recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation...acting boldly without being limited by resources currently at hand, and exhibiting a heightened sense of accountability to the constituencies served for the outcomes created” (2001, p.158). A non-profit foster care and adoption agency operated by an entrepreneur who possesses a mission to quickly place children in adoptive homes while ensuring their safety and stability would further contribute to the efficiency and success of a non-profit, private agency. The entrepreneur’s mission to find permanent, safe arrangements for children and desire to satisfy the preferences of donors would ensure that the agency achieves high quality foster and adoption arrangements for the children under its care.

The first step in a private foster care model would be to transfer the custodial parental rights of a child from the state to a non-profit agency. As in the current system, a child would enter the foster care system either by voluntary relinquishment or by court order. After the state takes custody of the child, the market would allocate the child’s custodial parental rights to a non-profit agency through an auction system. Employing an auction system would efficiently allocate a child’s custodial parental rights among the non-profit agencies. According to Lawrence M. Ausubel, auctions are efficient because they allocate the goods in question to the actor who values them most highly. He writes, “the highest bid corresponds to the highest valuation, and so the item is assigned efficiently for every realization” of the situation in question (Ausubel 2008). Through utilizing the donations they receive, non-profit foster care and adoption agencies could bid for the custodial parental rights of each child seized by the state. An agency’s optimal caseload would determine if the agency participates in an auction. If an agency has the maximum number of children under its care that allows it to efficiently and thoroughly manage each case, then an agency could choose to not participate in an auction until it places additional children. Furthermore, this system would remove inefficient providers from the market. If agencies are unable to acquire enough donations to successfully attain a child’s custodial parental rights, then they will be unable to provide foster care and adoption services in the market. Through this mechanism, the market allocates custodial parental rights to the most efficient providers.

After an agency attains a child’s custodial parental rights, they are responsible for efficiently placing the child in a foster or adoptive home. Agencies would be responsible for recruiting foster parents and prospective adoptive parents. The literature evaluating the incentive structure of the current foster care system indicates the significance of payments to foster care families in attracting families to care for children and for ensuring the stability of foster care placements. The results of a study of economic incentives in foster care conducted by Brian Duncan and Laura Argys indicate that the amount of financial compensation a family could receive to care for a child has a statistically significant effect on a family’s willingness to care for a child in the foster care system (2007, p.139). Their results also indicate that foster care payments are negatively related to the number of placements a child experiences (Duncan and Argys 2007, p.139). They conclude that the amount of financial compensation a family receives facilitates the placement of children in more desirable and stable foster care arrangements (Duncan and Argys 2007, p.115). Due to the significance of foster care payments in the current system, non-profit agencies may consider employing a payment system for foster families. If this would increase the number of available foster families or if donors desire the agency to offer foster care payments as a part of its services, this could be an additional service provided by a non-profit agency. However, as demonstrated in historical models, the charity of others may be sufficient for providing care and foster payments may not be necessary. In the unhampered market, some foster families may be willing to provide free child care while stipends may attract and incentivize other families to provide care. Whether an agency chooses to provide foster payments, non-profit agencies would provide a stipend to finance child care rather than the state, and donations would, in part, finance this service.

While donations would be the primary source of income for non-profit foster care and adoption agencies, payments from adoptive families would provide an additional source of income. When adopting a child, prospective adoptive parents would pay the agency to acquire the child’s custodial parental rights. The subjective preferences of the adoptive parents would determine the demand for services to adopt a particular child and the number of children in an agency’s care would determine the supply of available children. This supply and demand would determine the price that prospective adoptive parents would pay to assume the child’s custodial parental rights. Agencies could utilize these payments to finance the administrative costs of providing adoption services and the court costs for legally transferring parental rights to the adoptive parents. The benefits of assuming these rights and becoming a child’s parent would provide the economic incentive for parents to pursue adoption. Furthermore, market prices for adoption would facilitate the adoption of hard-to-place children. The extent of a child’s specials needs would lower the price of acquiring his parental rights, providing an additional incentive for prospective adoptive parents to adopt him. The exchange of custodial parental rights between the agency and adoptive parents is the final stage in achieving permanency for children in foster care.

In an unhampered market, private agencies separate from the non-profit foster care and adoption agencies could be responsible for licensing non-profit agencies and foster families and monitoring both agencies and foster care arrangements. A private agency could also provide the service of investigating child abuse cases. In current government operated models, a child welfare agency provides all of these services. As evident in Snell’s analysis, investigating child abuse cases, placing children in foster care, and providing additional services utilizes the majority of a government agency’s resources at the expense of efficiently placing children in adoptive homes (2000, p.2). Snell acknowledges that dividing these services among various agencies will allow each agency to focus on providing their respective service (2000, p.2). By privatizing these functions, agencies can ensure an efficient execution of their services, providing for the safety, stability, and permanency of children in the foster care system to a greater extent than the current government operated model.

Each year over 100,000 children wait to receive the love and stability of an adoptive family and over 20,000 never experience permanency. Under the current foster care system in the United States, many children remain in care long-term and experience poor life outcomes that increase public and societal costs. Moreover, the current bureaucratic system is unable to efficiently employ resources to provide for the best interests of children. Due to its inability to thoroughly investigate child abuse cases and insufficient resources for seeking adoptive families, a government operated system endangers the children in its care and does not increase their likelihood of experiencing permanency. Based on the success of privatized models within the United States and efficient characteristics of a private, non-profit model, it is likely that a private model of foster care and adoption would increase the number of adoptions among waiting children and reduce the consequences of the current problematic system. By satisfying the demands of sovereign donors, a private, non-profit model would better ensure the protection and safety of children, reduce the costs attributed by children who remain in foster care long-term, and increase the rate of adoption among waiting children.

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1. According to Child Welfare Information Gateway, special needs refers to any medical, physical, or emotional disabilities, as well as the child’s ethnic or racial background, age, membership in a sibling group, “risk of physical, mental, or emotional disability based on birth family history,” or any other condition that makes it difficult to place the child in an adoptive family (Special Needs, 2014). The literature often refers to children with special needs as “hard-to-place” children. It is these hard-to-place children that are most at risk for remaining in the foster care system long-term. [↑](#footnote-ref-1)