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RETHINKING THE WELFARE STATE

Three leading scholars outline a worldwide shift away from the traditional welfare state towards a market-oriented approach to social policy and protection

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CONTENTS

EXECUTIVE SUMMARY

The sustainability and desirability of the traditional welfare state has been widely called into question. In South Africa, the minister of finance, Trevor Manuel, has expressed concern that current trends in welfare expenditure cannot be sustained, and has advocated the desirability of reducing general dependency on social grants and promoting self-reliance among citizens. How, and on what basis, one should proceed to achieve these ends are questions we urgently need to address.

A number of very useful publications on this subject have recently appeared in the developed world. In this monograph, we highlight some of the most pertinent ones in an effort to advance the quality of the South African debate. The publications reviewed are *The transformation of the welfare state: the silent surrender of public responsibility*, by Prof Neil Gilbert of the University of California, Berkeley; *Motivation, agency and public policy: of knights and knaves, pawns and queens*, by Prof Julian Le Grand of the London School of Economics, and adviser to the British Cabinet Office; *Creating a marketplace for social welfare services: using vouchers and other forms of bottom-up decision making to give clients choice and to improve services*, an article written by Prof Douglas Besharov of the University of Maryland, and the American Enterprise Institute; and a special edition of the journal *Economic Affairs* on welfare reform.

> *These works demonstrate clearly that the traditional welfare state is rapidly becoming outmoded*

Gilbert is one of the most thoughtful contemporary analysts of social welfare policy. After examining welfare systems in a number of countries, largely in the developed world, he concludes that they have shifted away from broad-based state entitlements and automatic benefits to a new approach marked by greater individual responsibility, more targeted benefits, and a bigger role for private sector service providers. He characterises this as a shift from the 'welfare state' to the 'enabling state', marked by a new emphasis on the value of work, and economic inclusion over passive protection.

Gilbert argues that the 'enabling state' changes the nature of social cohesion, diluting the role of government, and 'thickening the glue' of civil society. In an era of market capitalism, therefore, social policy has been reshaped to work with the grain, logic, and ethic of the market. Thus, instead of welfare services being provided via monolithic state bureaucracies, provision has become more competitive, with independent providers competing for customers in market-type settings.

According to Gilbert, disenchantment with large state bureaucracies, notably because of their inefficiency and unresponsiveness, began to influence the direction welfare states adopted from the 1980s onwards. Even in Sweden, consumers increasingly expressed their dissatisfaction with welfare services. Specifically, citizens in their roles as clients, patients, and parents felt that they had no choice of types of service, or ways of accessing them.

Disenchantment with large state bureaucracies began to influence the direction welfare states adopted from the 1980s onwards

The 'enabling state' emerged in response to these pressures, and provided solutions to these problems along several avenues. The most direct of these involved financing private delivery of social welfare services through purchase-of-service contracts, on the basis that the private sector performed more efficiently and offered greater consumer choice than the public sector. Simultaneously, the market-oriented approach favoured social welfare in the form of cash and vouchers over in-kind provision, as these innovations empowered individual recipients to exercise consumer sovereignty, and benefit from competitive market forces. By promoting a market-oriented approach to social protection, the enabling state sought to check the rise of direct public expenditure and foster an increased sense of fairness in how public funds were spent. Gilbert presents these developments in a largely positive light, but he is also concerned about states losing the ability to provide 'a life of honourable dependence for those who may be unable to work'. He therefore pushes for a 'healthier balance between the enabling state and market forces, one that incorporates the self-serving vitality of private enterprise, and the humanity of shared public purpose'.

While Gilbert's book focuses on outlining the developments that led to the emergence of the enabling state, the works of Le Grand and Besharov focus more directly on why and how market-based mechanisms can be used to deal more effectively with welfare issues. Le Grand's book in particular is a milestone in the analysis and development of welfare policy. He meticulously lists the pathologies of the traditional approach to welfare in the 20th century: it offered too little choice, tolerated standards of service that were too low, and often delivered services in a patronising fashion. Moreover, it tended to misread professionals, assuming that doctors, nurses, teachers, and social workers were motivated primarily by their professional ethics and hence were concerned only with the interests of the people they were serving, rather than their own self-interest. Nor was the old model particularly egalitarian. By contrast, policies that offer choice and competition within public services such as education and health can deliver both excellence and equity. In short, markets can be empowering as well as efficient.

Drawing on theory, case studies, and a wide scan of the literature, Le Grand concludes that markets often perform better than the methods socialists and social democrats tend to favour. Successful systemic change is dependent on people, and people respond to incentives. Le Grand contrasts intrinsically public-spirited persons ('knights') with those who simply follow their self-interest ('knaves'). He questions the assumption that public sector professionals – doctors, nurses, teachers, social workers, and so on -- are altruistic 'knights', and argues instead that both altruistic and self-interested motivations exist alongside each other; we are a mixture of 'knight' and 'knave'. In this view an important value emerges, namely that 'users of services ought not to be treated as passive recipients of welfare largesse, but should have the lead role in determining the quantity and quality of the services they receive'. Policy should thus be designed to empower users of public services, but also to properly balance motivation and agency.

Le Grand concludes that markets often perform better than the methods socialists and social democrats tend to favour

Citizens should not, however, have unrestricted choices over services and resources. For example, a case for government intervention in individuals' savings and insurance decisions can be made based on various forms of market failure: information problems, transactions costs, and the fact that all relevant interests – notably future selves – are not represented in the market.

In a similar fashion, Besharov maintains that many welfare programmes would improve if market-based services such as vouchers were used to put 'purchasing power' directly in the hands of clients. Avoiding specific programmatic prescriptions, Besharov presents general factors that should be considered in deciding whether to create or encourage a market for a particular welfare service. He argues that a wise policy in one programme area might be foolhardy in another, and that an approach that might work well in some countries could be catastrophic in others. Regional differences are also important; what might be accepted in one location could well be disdained in another.

All the books reviewed make a very powerful case for incorporating the logic and institutions of the market into state-run welfare programmes

Choosing the most appropriate market mechanism for a specific programme area requires considering the needs and capacities of recipients, as well as local service structures or markets (or potential markets). Besharov wants policy-makers to proceed carefully, but he shows convincingly that there are many circumstances under which voucher systems provide a preferable alternative to traditional means of providing welfare services. Underpinning his approach are the aims of maximising choices and pushing welfare service providers into competing with one another. Cash assistance may allow individuals maximum choice about how to improve their standard of living, but cash may not be appropriate when large amounts are involved as it discourages beneficiaries to work and save. In these circumstances vouchers will provide recipients with choices, force welfare providers to compete for the services of beneficiaries, and avoid introducing unnecessary distortions into the wider incentive structure.

As Besharov's article makes clear, better welfare policies need to take into account specific circumstances and problems. But all the books reviewed here, and the experience of the developed world as a whole, make a very powerful case for incorporating both the logic and the institutions of the market into state-financed welfare programmes.

RETHINKING THE WELFARE STATE

Neil Gilbert is Chernin professor of social welfare and social service at the University of California, Berkeley. His publications include *The enabling state: modern welfare capitalism in America* (1984); and *Welfare justice: restoring social equity* (1995).

Julian Le Grand is the Richard Titmuss professor of social policy at the London School of Economics. He has acted as advisor and consultant to the World Bank, the European Commission, the World Health Organisation, and numerous British governmental institutions, including the Cabinet Office, the Treasury, the departments of health and social security, and the National Audit Office.

Douglas Besharov is the Joseph J and Violet Jacobs scholar in social welfare studies at the American Enterprise Institute, and a professor at the University of Maryland School of Public Affairs. He is the author of several books, including *Recognising child abuse: A guide for the concerned* (1990), *When drug addicts have children: Reorienting child welfare's response* (1994), and *Family and child wellbeing after welfare reform* (2003).

The traditional welfare state is receding. Changing demographic patterns, growing pressures on state funds, and a shift in emphasis from paternalism to individual responsibility have induced governments to explore new ways of providing social welfare services, and have put traditional notions of 'welfarism' up for debate.

In the 1970s, following the first pressures on large-scale state social welfare progammes, a debate began about the 'crisis of the welfare state'. More recently, following significant new initiatives by numerous governments, primarily in the developed world, analysts have begun to ask whether the welfare state has in fact been dismantled, or whether it has merely been restructured – and if so, to what extent, and with what consequences. Is the 'welfare state', in its pure form, in terminal retreat?

A great deal has been written on this subject. In this review, we will focus on recent works by three leading scholars in the field of social welfare policy:

- In his book *The transformation of the welfare state: the silent surrender of public responsibility*,[1] Neil Gilbert provides a comprehensive overview of the paradigm shift in approaches to social welfare, and provides a definite answer to the question of whether the traditional 'welfare state' is dead or has merely been changed;
- in his book *Motivation, agency and public policy: of knights and knaves, pawns and queens*,[2] Julian le Grand closely examines the motivations of actors in the old and new social welfare delivery systems, and contribues important new ideas for empowering the hitherto passive recipients of welfare services; and
- In an influential article entitled *Creating a marketplace for social welfare services: using vouchers and other forms of bottom-up decision-making to give clients choice and to improve services*,[3] Douglas Besharov explores the idea of using market-based devices to put welfare procurement directly in the hands of consumers.

Analysts have begun to ask whether the welfare state has in fact been dismantled, or whether it has merely been restructured

We will also draw on a special edition of the journal *Economic*

Affairs entitled 'Welfare Reform', published in March 2002.[4]

These works demonstrate clearly that the traditional welfare state is rapidly becoming outmoded. In London, Stockholm, Washington, and a number of other capitals, social welfare policies are increasingly built on the principles of individual instead of government responsibility for social welfare; the value of work; targeted instead of general benefits; and the involvement of the private sector in service delivery. Countries have adopted this approach in their own particular ways, suited to their particular circumstances, and interpret and apply these principles in different ways. Moreover, these types of reforms have invariably been controversial; indeed, in some countries, attempts have even been made to reverse them. But these have invariably been rearguard actions, occurring more at the level of rhetoric than reality,[5] and the principles of greater individual responsibility, privatisation, and targeting are increasingly informing public policies as well as the public debate.

In an era of market capitalism, social policy has been reshaped to work with the grain, logic, and ethic of the market

At this stage, these initiatives are largely restricted to the industrialised world, and very little material is available on developments outside it. Nevertheless, the debate raises some very important issues for a developing country such as South Africa.

In the first decade since this country's transition to democracy, the South African government has built up an extensive, largely non-contributory, state social welfare system. The question now is whether this will be the best approach to follow in the second decade of democracy. Indeed, senior government spokespersons have expressed concern about aspects of the social welfare system (see box: *The minister of finance is worried*, page 9).

WORKING WITH THE MARKET

How much has really changed in the world of welfare? A great deal, according to Neil Gilbert, one of the most thoughtful contemporary analysts of social welfare policy. Do these changes amount to a paradigm shift? According to Gilbert, they do – the new initiatives in Europe and the United States do not merely amount to a tinkering with the borders of the welfare state; rather, they represent a fundamental shift in both the principles and practice of social protection.

After examining welfare systems in a number of countries, largely in the developed world, Gilbert concludes that they have shifted away from broad-based state entitlements and automatic benefits to a new approach marked by greater individual responsibility, more targeted benefits, and a bigger role for private sector service providers. He characterises this as a shift from the 'welfare state' to the 'enabling state', marked by a new emphasis on the value of work, and economic inclusion over passive protection.

One important manifestation of this is a move away from outright income support;[6] instead, in the United States and the United Kingdom, for example, some social welfare provisions are now being transferred through work incentives and tax benefits, thus encouraging individuals to assume some responsibility for their welfare. Also, rather than providing all welfare services through public agencies, governments now make extensive use of competing private sector agencies to deliver them. In doing so, Gilbert argues, the 'enabling state' changes the nature of social cohesion, diluting the role of government, and 'thickening the glue' of civil

THE MINISTER OF FINANCE IS WORRIED[7]

Numerous spokespersons for the South African government have expressed concern about the fact that state expenditure on social welfare has increased sharply.

In his medium-term policy statement in October 2004, the minister of finance, Trevor Manuel, expressed concern about the steep upward trend in social grants, particularly ballooning increases in disability and foster care grants, both of which had climbed by 30 per cent or more during each of the previous two fiscal years.[8] He said he was worried that such a rate of increase could not be sustained.

He also expressed concern that some recipients of grants were not really entitled to them, and added that steps should be taken to prevent the social security system from being abused by people who violated and misused the welfare laws.

In his 2005 budget speech, Manuel stated that, during the next decade, greater contributions should be made to improving the quality of education, housing, and health services. Contributions to productive opportunities and skills improvement would reduce dependence on social grants, and result in citizens becoming more self-reliant.[9]

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society. In an era of market capitalism, therefore, social policy has been reshaped to work with the grain, logic, and ethic of the market.

The fact that the welfare state as we have known it is 'being left behind somewhere along the path of institutional evolution'[10] does not mean the end of social welfare: 'No one imagines that social security, health insurance, disability benefits, public assistance, unemployment insurance, day care, and the rest will be jettisoned.'[11] However, social welfare policies are increasingly being designed to encourage more people to work, and to enable the private sector to broaden its activities.

The 'enabling state' changes the nature of social cohesion, diluting the role of government, and 'thickening the glue' of civil society

Importantly, this is not a framework in terms of which private sector providers are meant to take over the role of the state: the latter still has a major role to play. Traditionally, states financed all social welfare benefits, and delivered them as well. In terms of the new paradigm, the state is still financing the benefits, but has begun to pull back from service provision. Thus, instead of welfare services being provided via monolithic state bureaucracies, provision has become more competitive, with independent providers competing for custom in market-type settings. One example of this is where a state gives beneficiaries vouchers with which to purchase certain services. The shift is from an essentially statist method of providing key services to a more market-oriented method – which amounts to a dramatic policy change.[12]

Gilbert notes that Tony Blair's New Labour government has 'shown no hesitation' in privatising the delivery of public services in the United Kingdom; the Social Democrats in Sweden have partially privatised old-age pensions; the German government has introduced significant incentives for citizens to open private pension accounts; and, throughout Europe and the United States, changes in unemployment, disability, and other social assistance programmes have demonstrably qualified historic rights to public aid by emphasising people's responsibility to work, and provide for their own welfare.[13] According to Gilbert, liberal and conservative opinions on this issue have converged significantly – certainly in the United States, and perhaps elsewhere as well, amounting to a consensus that 'work incentives are necessary, that some degree of privatisation is desirable, and that the projected levels of welfare costs cannot be upheld'.[14]

A decade ago, the defining image of the American social welfare system was a single mother 'on welfare', living entirely on federal assistance. Today, recipients of public assistance are also required to work, and – with few exceptions – no one can spend more than five years on welfare. As a result, welfare rolls have diminished by more than half since the early 1990s, and the amount of public money available for the non-working poor has fallen sharply.[15] On the other side of the Atlantic, British welfare planners believe that the welfare system should be based on the principle of 'empowerment, not dependency', given practical expression in a drive to get people off benefits and into jobs. Indeed, Julian Le Grand – whose contribution will be discussed below – consults to Blair's cabinet office at no 10 Downing Street.

Gilbert quotes an OECD report on social welfare in the Netherlands as stating that: '[There are] clear indications that the generosity of social benefits and high effective marginal tax rates implicit in income dependent subsidies create strong disincentives to work, and underlie the exceptionally high dependency ratio in the Netherlands, where one employed person supports almost one person on social benefits.'[16] To combat this dependence on social grants, termed the 'Dutch disease', the Netherlands government made it more difficult to qualify for disability grants, reduced the value of benefits, and required single mothers to start working when their children reached the age of five.

British welfare planners believe the welfare system should be based on the principle of 'empowerment, not dependency'

According to Gilbert, the experiences of the Dutch are not unique. In Sweden, for example, the paragon of the modern welfare state, prime minister Carl Bildt acknowledged in the early 1990s that benefits had reached levels which reduced the incentive to work.[17]

Indeed, in numerous countries, public welfare policies have changed dramatically in recent years as cumulative experience have lent support to the charge that social welfare has been unintentionally creating disincentives to work. To what extent has the welfare state encouraged potentially competent individuals to see themselves as in need of welfare? Gilbert's account and others show that social policy has become increasingly laden with checks and balances aimed at dealing with 'work-shy' 'loafers', or 'welfare cheats'. Indeed, the view has grown that overgenerous welfare policies encourage people not to work, and reduce economic productivity (see box: *Not quite what was planned, surely… page 12).*

Thus Gilbert quotes the OECD report on the situation in the Netherlands as concluding that: 'Without calling into question its central tenets, the welfare system should be refocused, and made less generous in terms of eligibility and benefits.'[18] Given this important finding, Gilbert pointedly asks: 'If designs for eligibility and benefits – who gets what – are not among the central tenets of the welfare system, what is left?'[19]

Of course, the shift from welfare to work also creates its own problems. For example, those who leave welfare face barriers to employment including child care, transport costs, and education deficits. For example, for many poor women, child care – a heavily labour-intensive activity – is the biggest hurdle to work.

Turning to old-age pensions, Gilbert shows that, 'without much fanfare', a number of countries are 'marching on a steady course of incremental privatisation'. In the United States, the private compo-

NOT QUITE WHAT WAS PLANNED, SURELY …[20]

Does the welfare system destroy incentives to work? In many countries it is more lucrative to be on welfare than to work. Since welfare benefits are tax-free, recipients often get more, in terms of purchasing power, from welfare benefits than they would from a wage cheque. In nine of the 50 United States, for example, welfare benefits are greater than the average first-year salary for a teacher. In 29 states, welfare benefits are higher than the average starting salary for a secretary. And in six states, welfare recipients have more purchasing power than do entry-level computer programmers.

What is the long-term effect of this curious incentive system? A poverty specialist at Harvard University, David Ellwood, has found that, in 1986, a single mother with two children who received $8 459 a year in welfare cheques would have gained only $2 000 and lost her family's health insurance if she had taken a full-time job. In 1997, by contrast, she would have gained $7 000 from working full-time, and would have kept her health insurance.

CDE 2005

nent of public and private retirement benefits increased from 25 per cent to 33 per cent between 1976 and 1992,[21] and in Denmark, from 20 per cent to 30 per cent between 1980 and 1992.

This trend is mirrored in the medical sector. Today, 7 million Britons have private medical insurance, and another 7 million are covered by private health cash plans.[22] In Belgium, two thirds of hospital beds are in the independent sector; in Germany and Spain, half of hospital beds are independent; and in Austria, France, Greece, and Italy, more than one third of hospital beds are independent.[23]

Turning to old-age pensions, Gilbert shows that, 'without much fanfare', a number of countries are 'marching on a steady course of incremental privatisation'

Gilbert also charts changes in public spending on social welfare. From the 1960s to the 1980s, social welfare spending in western democracies nearly doubled as a proportion of gross domestic product (GDP), and, among 21 member nations of the OECD, social welfare expenditure rose from an average of 12,3 per cent of GDP in 1960 to 23,3 per cent in 1980. He notes that:

> … despite occasional criticism, the value of social welfare schemes financed and produced by the state during this period was largely taken for granted as a useful corrective for the vicissitudes of the market economy. Rising on a tide of public approval, these schemes expanded in political environments that rarely questioned the mounting costs and functions of the welfare state.[24]

However, from the 1970s onwards public expenditure on social welfare grew more slowly – not least as a result of the oil crises that rocked the world in 1974 and 1979 – and actually started to decline in 1993. Data from Eurostat (the Statistical Office of the European Communities) show that in the early 1990s average social expenditure by the 15 countries of the European Union increased by about 1 per cent of GDP a year, topping out at 29 per cent in 1993, followed by a slow decline.

A similar trend is evident in the OECD data, in which social expenditure is defined more narrowly than in Eurostat's. Gilbert suggests that this trend is 'partly accounted for' by the rising rate of unemployment in the European Union, which peaked in 1994 and then started to fall.

Not only has social expenditure flattened off; social welfare policies have also been increasingly criticised. As Gilbert notes:

> Rather than being seen as a remedy for the flaws and insecurities of capitalism, welfare programs have been repeatedly recast as part of the very problem they were designed to solve. Critics claim that the welfare state promises more than can be delivered without creating deleterious effects on the market economy by undermining incentive, hampering competitiveness, inhibiting savings, and increasing national debt.[25]

According to Gilbert, 'by the 1980s, after decades of welfare state expansion, romance with the public sector began to cool.'[26]

Driving forces

Why has this shift occurred? Aging populations, the emergence of 'dinkies', growing costs, and some unintended consequences, to name a few.

According to Gilbert, the policy environment in which social welfare programmes evolve will be constrained by 'a set of demographic and market conditions and informed by normative assumptions that are fundamentally different than those underlying the development of social welfare programmes through the early 1980s'.[27] His comments on the demographic revolution are worth repeating at some length:

Social welfare has been unintentionally creating disincentives to work. Has the welfare state encouraged potentially competent individuals to see themselves in need of welfare?

> When Otto von Bismarck introduced the first state-sponsored social security scheme in 1889, life expectancy was only 45 years, and retirement was at age 65. Since then life expectancy has climbed to 76 years in OECD countries. Along with people living longer, these societies are getting older. In most OECD countries, for example, between 1960 and 2040 the proportion of people over age 65 is expected to more than double, from an average of 9, 7 per cent to 22, 2 per cent of their populations, with about half of those elderly over 75. At the same time the average rate of retirement has declined. In the United States, for example, men and women retired in the 1990s at the average age of 63,5, about five years earlier than the average retirement age in 1940, and workers in the United States retire at a later age than those in most, if not all, of Europe.[28]

While demography is playing a major role in the move way from welfarism, a number of other factors are also prominent. Probably the most important of all is the widespread pressure on governments to use increasingly scarce fiscal resources more efficiently; critics often highlight the lamentable quality of old-style state welfare programmes. Another is evidence which points to the risks of creating dependencies among welfare recipients. All these arguments are contributing to prescriptions for 'privatisation'. This growing movement has been bolstered by a general belief that non-governmental agencies and private sector providers provide better services at lower costs than government agencies do.[29]

Non-governmental agencies and private sector providers provide better services at lower costs than government agencies do

However, demographic factors are also very important, and they are not confined to greater longevity alone.[30] Some analysts have argued that the changes in the ages of populations and family structures since the 1960s are so extensive that they constitute a 'second demographic transition'.[31] (The first, associated with pre-modern times, was characterised by high birth and death rates, and slow population growth.)

For example, the growing numbers of elderly people in industrialised countries require increasing public spending on retirement benefits, health services, and other forms of social care – and these rising costs associated with aging populations are exacerbated by other demographic trends. Extramarital births and divorce rates, for example, are at 'almost record heights'[32] In the decade from the early 1980s to the early 1990s, the number of single-parent families increased by 25 per cent on average in the 21 OECD countries for which data are available, and, as a proportion of all families, by an average of 17 per cent.[33]

The proliferation of two-income households (including 'dinkies', or dual-income-no-kids) as well as single-parent families has, according to Gilbert, 'reduced the modern family's capacity to provide in-person care for children, the elderly and other infirm relatives. This situation creates additional demands on the state to supply child care, financial assistance and other supportive services.'[34]

Aging populations and increasing family breakdown will require higher levels of public support. And new medical procedures as well as longer life spans will, according to Douglas Besharov, raise medical costs, while the demand for a more highly skilled workforce will raise post-secondary education costs.[35]

There are only a few ways in which governments can address the precipitous increase in the ratio between people older than 65 and those who are employed. The most obvious are to raise taxes, or diminish benefits – neither of which would be politically popular. Between 1965 and 1980, average tax rates in all OECD countries climbed by more than a quarter, from 25,8 per cent to 32,8 per cent of GDP. From 1980 to 1997, however, the rate of increase slowed considerably, creeping up from 32,8 per cent to 36,9 per cent of GDP, and was even reversed in a few countries. This leads Gilbert to argue that 'there may still be wiggle room for government to manoeuvre', but 'the plateauing of taxes after 1980 lends weight to the observation that many governments are approaching a tax ceiling that will be difficult to raise for political and economic reasons'.[36]

Disenchantment with large state bureaucracies, notably because of their perceived inefficiency and unresponsiveness, began to bite from the 1980s onwards

In the realm of changing values and ideas, public perceptions of the consequences of generous welfare policies are being modified by the weight of accumulated experience gained during the decades of growth of welfare states. Disenchantment with large state bureaucracies, notably because of their perceived inefficiency and unresponsiveness, began to bite from the 1980s onwards. In Britain, the length of waiting lists for public medical treatment became a perennial political issue, and the 'happy pastime of boasting about the National Health Service is now defunct'.[37]

In an article in the special edition of the journal *Economic Affairs* referred to earlier, Tim and Helen Evans argue that 'as patients' expectations are raised alongside higher living standards, so ever larger numbers of people are finding the unresponsive nature of state health care unacceptable'.[38] As people become accustomed to improvements in customer service in other areas of life, government provision of welfare services might run the risk of being exposed as unacceptably 'customer-unfriendly'.[39] In another article in the same publication, Dennis and Mary O'Keefe argue that:

> From every advanced society without exception come daily accounts of the failures of publicly financed health and education systems, of publicly funded benefit systems, and of unfunded pensions provided out of ever more squeezed public revenue.[40]

The major perceived problem with monopolistic systems of public service delivery is the extent of the power they give to the agencies involved. Even in Sweden in the 1980s, consumers increasingly expressed their dissatisfaction with welfare services. Specifically, citizens in their roles as clients, patients, and parents, felt that they had no choice of types of service, or ways of accessing them.[41] It has become increasingly clear that many people want different kinds and different levels of service. Besharov points to the realm of child care as an example: some parents want or need half-day care, others evening or after-hours care; and others need full-day care, perhaps with extended hours. Some parents want all their children of different ages in one place; others don't care. Some parents want their children close to their homes; others want them close to work. Accommodating so many variations is all but impossible in a 'top-down' regime.[42]

The problem with monopolistic systems of public service delivery is the extent of power they give to the agencies involved

Besharov quotes Warren Bennis of the University of Southern California's Marshall School of Business as stating:

> The organisations that thrive today are those that embrace change instead of trying to resist it. The old Weberian bureaucracies are simply too slow, too weighed down with interorganisational agendas and priorities, to compete in a world where success goes to those who can identify and solve problems almost before they have a name.[43]

Thus, Besharow shows that, given their exposure to competition, private sector suppliers tend to be more responsive to both technological advances and changes in the needs and wants of consumers.

Reconceptualising the welfare state

According to Gilbert, two key features of the new social welfare order are that expenditure on social policy will be constrained, and will even decline; and that expenditure will no longer be guided by the principles of the welfare state. Instead, the four guiding principles of the new paradigm are:

- individual instead of government responsibility for social welfare:
- targeted instead of general benefits;
- 'workfare'[44] instead of welfare; and
- Private instead of public management.

Gilbert's 'enabling state' advances a market-oriented approach to social welfare along several avenues. The most direct of these involves financing the private delivery of social welfare services through purchase-of-service contracts, on the assumption that the private sector performs more efficiently and offers greater consumer choice than the public sector. Simultaneously, the market-oriented approach favours social welfare in the form of cash and vouchers over in-kind provision, as these empower individual recipients to exercise consumer sovereignty and to profit from competitive market forces. By 'promoting a market-oriented approach to social protection, the enabling state seeks to check the rise of direct public expenditure and to foster an increased sense of fairness in how public funds are spent'.[45]

Gilbert's 'enabling state' advances a market-oriented approach to social welfare along several avenues

What emerges from Gilbert's overview is that traditional welfare supporters on the left are often implementing reforms long associated with the policy agenda of the right. In this repect, he quotes a Danish expert:

> A closer look at the new social and labour market policies, which have been introduced in the 1990s, reveals dramatic changes of principles. Correspondingly, a new discourse has clearly manifested itself and so it seems wholly sensible to talk about a paradigm shift. … Compared to the old paradigm these changes constitute dramatic reductions and tightenings. However, in a discourse of the policy elite responsible for the reforms, these new measures are presented as an important social improvement. … Right-wing demands

> to roll back the welfare state and reduce the number of public employees have to a large extent disappeared, while the Social Democratic/Radical Liberal coalition governments have carried through policies which used to be associated with right-wing principles.'[46]

After surveying the increasingly market-oriented design of social welfare reforms, Gilbert concludes:

> If [the experts] have it right, as I believe they do, the traditional supporters of the welfare state … now find themselves trying to carve out a new agenda for the Left on … the ideological terrain of the right – a paradigm shift for the welfare state if ever there was one.[47]

Policies that offer choice and competition within public services such as education and health can deliver both excellence and equity. In short, markets can be empowering as well as efficient

He concludes his analysis with policy recommendations designed to soften the harsher, less forgiving edges of this new approach to social protection, including pragmatic assistance for those who may be 'left behind'. He alerts readers to a 'cause for concern about the emergence of the enabling state [which] is not so much that it promotes work-oriented policies, limits entitlements, and heightens public support for private responsibility as that in doing so it bows too deeply as a handmaiden to the market'.[48] Gilbert is also concerned that the 'enabling state' generates no counterforce to the capitalist ethos, no larger sense of public purpose that might be served beyond increasing productivity, 'no clear ideal of public service, and dwindling support for the goals of social protection and security'.[49] However, he adds:

> One need not return to the expansive entitlements of the conventional welfare state to revive the legitimacy of public purpose, the ideals of public service, and appreciation for the state's special ability to ensure social protection against the vicissitudes of the market and to organise communal security in the face of illness, disability, and the inevitabilities of old age.[50]

Policies devoted entirely to cultivating independence and private responsibility 'leave little ground for a life of honorable dependence for those who may be unable to work', observes Gilbert. As a consequence, he pushes for a 'healthier balance between the enabling state and market forces, one that incorporates the self-serving vitality of private enterprise, and the humanity of shared public purpose'.[51]

IS THE LEFT MISSING A TRICK?

With 12 books to his name, and as consultant to major international agencies as well as the British government, Julian Le Grand is no stranger to debates about the welfare state.[52] Published a year after Gilbert's, his latest book – *Motivation, agency, and public policy: of knights and knaves, pawns and queens* – is a milestone in the analysis and development of welfare policy. It provides the most intelligent insight yet into a viable centre-left agenda for welfare reform, and a fresh perspective on welfare policy design. His argument is that a fundamental – and mostly positive – change in welfare policy has already occurred. The old model – of public servants as altruistic 'knights', and service users as deferential 'pawns' – has disappeared. He meticulously lists the pathologies of the earlier model; it offered too little choice, tolerated standards of service that were too low, and often delivered services in a patronising fashion. Moreover, it tended to misread professionals, assuming that doctors, nurses, teachers, and social workers were motivated primarily by their professional ethic and hence concerned only with the interests of the people they were serving. Nor was the old model particularly egalitarian.[53] By contrast, policies that offer choice and competition within public services such as education and health can deliver both excellence and equity, In short, markets can be empowering as well as efficient.

> *Le Grand meticulously lists the pathologies of the traditional model; it offered too little choice, tolerated standards of service that were too low, and often delivered services in a patronising fashion*

This work is built around two key questions: should government employees be assumed to be altruistic or self-interested? And how much choice should citizens have in respect of state services?

According to Le Grand, the fact that ordinary markets might breed inequality should not blind us to the opportunities for using 'quasi-markets' – markets in the sense that they involve competition, but different from normal markets in a number of ways. On the demand side, for example, the state, not the consumer, provides the finance, usually appointing a purchasing agent to act on behalf of the consumer; and on the supply side, non-profit or even publicly owned agencies compete for custom instead of, or as well as, for-profit ones.[54]

Le Grand suggests that the left's distaste for mixing markets and public services means that they 'miss a trick'.[55] Drawing on theory, case studies, and a wide scan of the literature, he concludes that markets often perform better than the methods socialists and social democrats tend to favour. Says Le Grand:

Market exchanges can also lead to respect for other people: to offer something in exchange is to make an effort to understand the needs of the other party to the exchange, and to persuade them that what is on offer will meet those needs

> In terms of outcomes, services delivered by appropriately designed quasi-market mechanisms can be empowering, efficient, and equitable. Moreover, they can even be moral: market-type reward structures can reinforce altruistic motivations and reduce exploitation.[56]

He shows that market mechanisms can improve quality and provide value for money; better still, they have user power at their base. Market exchanges can also lead to respect for other people: to offer something in exchange is to make an effort to understand the needs and wants of the other party to the exchange, and to persuade them that what is on offer will meet those needs or wants. The right market incentives may encourage respect between professionals and users, in contrast to the condescension of monopolistic state services.[57]

According to Le Grand, underpinning the movement towards experimentation with market mechanisms for delivering social services is a fundamental shift in perceptions of *motivation* and *agency*. At issue is what motivates those working in the public sector, which desires or preferences incite action, and what gives them the capacity to undertake such independent action. These changes in perception have led to profound shifts in policy-makers' views about the way in which public services in particular and the welfare state in general ought to be designed.

Assumptions are central to the design and implementation of public policy; and determine the way in which they are constructed. Fuelled in part by people's experience of dealing with and working within welfare bureaucracies, politicians and policy analysts have grown increasingly sceptical of the view that bureaucrats and civil servants necessarily operate in the public interest, and that professionals are only concerned with the welfare of their clients.

Le Grand argues that citizens have traditionally been *pawns* – disempowered users of the education, health, pension, and welfare systems – rather than *queens*, endowed with the freedom to choose between competing providers. He argues that:

> Arrogant doctors, insensitive teachers, uncaring social workers, overweening bureaucrats: these are the stuff of the standard critique of state-provided services. There often seems to be little mutuality of respect; instead there is

DOES THE WELFARE STATE UNDERMINE INDIVIDUAL ALTRUISM?

In an ironic twist to the 'market corrupts' thesis, it has been suggested that it is 'government rather than market activity that corrupts'. To what extent does the welfare state squeeze out genuine welfare and charity? Does state involvement displace or 'crowd out' voluntary exchange, private, personal, charitable and local initiatives through which people express their charitable impulses?

As R W McGee states, 'Private charities can help more people at lower cost than can any level of government. A number of individuals and groups are advocating that government get out of the way so that private individuals and groups can step in to do the job that government welfare agencies now do. Church groups could step in to fill the void, since they are already active in their communities and know where the problems are. Church workers would also provider better supervision than would government workers, who see their work as something they can forget when five o'clock rolls around.

'Churches are not the only groups that can step in to provide for people in need. Many other private groups already in existence can provide charity.'[58]

Le Grand notes that by providing for the poor the welfare state makes it less necessary for people to behave altruistically. Moreover, compulsory redistribution through welfare taxation and spending may make people resentful, and thereby more preoccupied with protecting their own interests.

CDE 2005

> deference and resignation on one side, and arrogance, indifference, or condescension on the other.[59]

Probably the two most important concepts Le Grand contributes to the debate are 'robust incentives' and 'empowered users'.

Robust incentives

Successful systemic change is dependent on people, and people respond to incentives. Le Grand contrasts intrinsically public-spirited persons ('knights') with those who simply following their self-interest ('knaves'). He questions the assumption that public sector professionals – doctors, nurses, teachers, social workers, and so on – are altruistic 'knights'. Indeed, this view was challenged from the late 1980s as self-interest in looking after jobs and incomes was seen as inherent in the behaviour of professionals – their 'knavish' side.

Le Grand argues that both altruistic and self-interested motivations exist alongside each other; we are a mixture of 'knight' and 'knave'

Le Grand argues that both altruistic and self-interested motivations exist alongside each other; we are a mixture of 'knight' and 'knave'.[60] The conventional assumption that public sector professionals are wholly public-spirited altruists, or 'knights', is misplaced; but so too is the alternative view that they are simply self-interested egoists, or 'knaves'.

According to Le Grand, the success of public service reform depends upon whether policy-makers come to fully understand the complex motivations of public sector professionals, and manage to design appropriate incentives. No system can hope to recruit only knights, or deter all knaves. Policy-makers are largely ignorant of the motivational structures of public servants. They need to appreciate that public service providers may be motivated simultaneously by altruism and self-interest, and should try to design policies that incorporate robust incentive structures. These would not depend on a particular assumption about motivation, and would therefore be robust enough to match whatever assumption is made:

> Any incentive structure for public sector institutions must nurture individuals' non-material concerns. It should avoid setting up opposition between

> altruistic rewards and the material self-interest of those working in the public sector. It must not be constructed on the assumption that altruism does not exist, both because the assumption is false and because such cynicism may be self-fulfilling. But incentive structures must also not assume naively that such altruism is unlimited, and not in need of encouragement and reinforcement.[61]

The consumer is king

The second assumption which Le Grand interrogates is that recipients of public services have no scope for action on their own initiative, and that citizens act as they do because of the economic environment in which society has placed them. We must not assume that, as consumers of public services, citizens are passive beneficiaries supposed to be content with a universal, often fairly basic standard of service – that they are grumbling 'pawns', the least powerful pieces on a chessboard – or that the professionals know what is in their or their children's best interest. Users ought to be 'queens' – the most powerful piece on a chessboard, or to utilise a more familiar metaphor, the consumer should be king.

In this view an important value emerges, namely that 'users of services ought not to be treated as passive recipients of welfare largesse, but should have the lead role in determining the quantity and quality of the services they receive'.[62] Policy should thus be designed to empower users of public services, but also to properly balance motivation and agency.

The success of public service reform depends upon whether policy-makers fully understand the complex motivations of public sector professionals, and manage to design appropriate incentives

There are certainly limits. Citizens cannot have unrestricted choices over services and resources. Overall, Le Grand argues a case for government intervention in individuals' savings and insurance decisions based on various forms of market failure: information problems, transactions costs, and the fact that all relevant interests – notably future selves – are not represented in the market. To illustrate this latter point, Le Grand quotes the following remark made by one Eubie Blake when he reached the age of 100: 'If I'd known I was going to live this long, I'd have taken better care of myself.'[63]

Besharov's analysis – described in greater detail below – adds a further dimension to the debate, and suggests very clearly that recipient decision-making is not appropriate in all areas of social welfare, including involuntary interventions or authoritative services, such as those for child abusers and incompetent or dysfunctional recipients. Stuart Butler (quoted by Besharov) captures the point:

> [F]or some services such as court-ordered drug and alcohol or mental health treatment, the state may find it counterproductive to allow for choice because recipients may opt for the least rigorous programme, thus making their choice at odds with the outcome most socially desirable.[64]

It is patronising to assume that an inability to choose wisely holds for all clients of all public social services

Besharov also quotes David Stoesz's thoughtful perspective:

> One of the most egregious assumptions of many direct service delivery programs is that social welfare clients are incapable of defining what is in their best interests. Instead of relying on the client's judgement, public welfare professionals have often usurped consumer authority in personal matters. While such paternalism is warranted for certain kinds of services, such as substance abuse treatment, or for particularly vulnerable clients, such as children in need of protection, it is patronising to assume that an inability to choose wisely holds for all clients of all public social services.[65]

Some recipients might regard themselves as helpless; some patients might prefer to place themselves in the hands of a doctor; some parents may feel they know less about the appropriate education for their children, and are therefore prepared to delegate authority. There are occasions when it is a great relief to put your fate in the hands of others, for example when serious illness strikes. But, says Le Grand, we are in fact exercising our choice in these circumstance too.

More choice

Governments often pay for universal access to public services such as schools. The question in such cases is whether those public services – which may well matter more to the poor, who lack alternatives, than to the rich – are any good. Empowering the poor by introducing greater competition and choice is the key. Choice can provide the less well-off with better services, thus not leaving them with the worst. Rather than increasing inequality, it can help avoid a situation in which members of an articulate middle class capture the best of health, education, and other services. Thus, in a review of Le Grand's book, Peter Riddell has argued that giving parents and patients more choice should help working people, since the better off have in any case been able to exercise choice by opting out of the public sector.[66]

A concluding quote from Le Grand encapsulates the argument:

> In short, it is not necessary to turn knaves into knights for pawns to become queens. What is needed is well-designed public policies, ones that employ market-type mechanisms but that do not allow unfettered self-interest to dominate altruistic motivations.[67]

LESS ROWING, MORE STEERING

Growing dissatisfaction with state social welfare services has led to an increased interest in using non-governmental agencies, private non-profit agencies, and for-profit firms to provide various services. This subject is extensively canvassed in Douglas Besharov's article, referred to earlier.

His analysis leads him to a 'bottom-up' as opposed to 'top-down' model. He concludes that many – but not all – government social welfare programmes would improve if market-based services such as vouchers were used to put 'purchasing power' directly in the hands of clients. Avoiding specific programmatic prescriptions, Besharov presents general factors that should be considered in deciding whether to create or encourage a market for a particular welfare service. He argues that a wise policy in one programme area might be foolhardy in another, and that an approach that might work well in some countries could be catastrophic in others. Regional differences are also important; what might be accepted in one location could well be disdained in another.

Many – not all – government social welfare programmes would improve if market-based services such as vouchers were used to put 'purchasing power' directly in the hands of clients

Given growing unhappiness with state delivery of social welfare services, he notes, calls have grown for more competitive and therefore more efficient processes. 'Whether it is a car or a college education, most people now believe that competition, more than anything else, promotes quality and lowers cost.'[68] As a result, many countries are experimenting with competition in various programme areas. Non-governmental agencies are being invited to bid for contracts in an effort to bring greater creativity, skill, and innovation to bear on service provision.

This may sound like nothing more than common sense, but Besharov also points to a number of challenges, risks, and pitfalls which this approach conceals. Sadly, he notes, much of the competition has been implemented in the form of 'top-down' decision-making – which is inherently less reliable than 'bottom-up' approaches, and threatens the independence of private agencies, including those sponsored by the mediating structures of civil society.

Given growing unhappiness with state delivery of social welfare services, calls have grown for more competitive and therefore more efficient processes

Before we explore these ideas in greater detail, therefore, his notions of 'top-down' and 'bottom-up' approaches to social service delivery need to examined.

From the top down

In the case of 'top-down' funding, government transfers money to a public or private agency that provides certain services to citizens, or 'clients'. Government chooses the service provider(s) in question. By contrast, in the case of 'bottom-up' funding, the state still provides the funds – in the form of cash, vouchers, or similar instruments – but recipients themselves choose their own service providers.

The problems associated with heavily bureaucratised 'top-down' regimes have greatly increased the appeal of recipient-directed, 'bottom-up' approaches. To begin with, it is easier for individual agencies to tailor their programmes to the needs of particular clients or groups of clients than it is for a central authority to anticipate all the possibilities, and provide for them in its proggamme design. Bottom-up systems are more flexible, and the cumulative decisions of large numbers of recipients are likely to be better than 'top-down' decisions by a small number of officials. Recipients are better able to decide what they need, and their individual decisions are less likely to be determined by extraneous factors such as political favouritism. Recipient decision-making will drive up the average quality of services provided, because they 'require organisations to market themselves directly to those who will be served rather than to those who ultimately provide the financial support, typically government'.[69]

As Hall and Eggers explain:

> By putting the choice of providers in the hands of consumers, [a market mechanism such as] vouchers … has the potential to break up producers' monopoly on the supply of social services. The result should be an overall increase in the supply, quality and diversity of providers. Vouchers should prompt suppliers to tailor their programmes and services to better meet the particular needs and circumstances of voucher holders. Providers will begin to specialise in meeting different market niches.[70]

Even when based on competitive bids and proposals, top-down funding and decision-making tend to fund the wrong agencies and services – the operative decision-makers are not the actual recipients of the services, creating a disharmony of interests between the two. Even when top-down decision-makers try to reflect the interests of recipients, they have limited tools for identifying those interests and weighing them against other considerations.

Competitive bidding can certainly help matters, but only when there are easily measured and relatively reliable outcomes measures on which to base decisions. Unhappily, such outcomes are rare for social services. 'A government official might be able to gauge whether trash was being collected properly, but measuring the quality of social work counseling is much more subjective,' notes Besharov. As a result, top-down funding of social welfare services tends to 'fall victim to the vagaries of misplaced priorities, bureaucratic convenience, personal favouritism, and political calculation'.[71]

The cumulative decisions of large numbers of recipients are likely to be better than 'top-down' decisions by a small number of officials

A worse effect still is that once a top-down programme begins, political pressure makes it difficult to end it and redirect funds to a more promising approach. Besharov quotes Allan Meltzer of Carnegie Mellon University as noting: 'Government is more likely to delay closing failure and more likely to pump additional money to try to cover mistakes or misjudgements.'[72]

He also quotes Osborne and Gaebler as stating that:

> The single best way to make public service providers respond to the needs of their customers is to put resources in the customers' hands and let them choose. Putting resources directly in customers' hands may at first sound like a radical idea, but it is not.[73]

From the bottom up

Just how radical is the bottom-up approach? What needs to be done to have it accepted by policy-makers? And what are some of the key challenges and issues to be aware of?

Once a top-down programme begins, political pressure makes it difficult to end it and redirect funds to a more promising approach

According to Besharov, bottom-up approaches require a functioning, decentralised market. When one already exists, the argument for bottom-up approaches is easily made. It may be easier to provide recipient choice in markets that already have a large number of private suppliers than in those that are either dominated by government agencies, or display substantial barriers to entry.

When a market does not already exist, however, the proponents of bottom-up approaches need to show that one will develop:

> … although market-based systems are most easily installed within pre-existing private service systems, they should not be rejected simply because there are few private providers of a particular service. Through sequential and orderly implementation, such providers will appear.[74]

The point about 'sequential and orderly implementation' is a key one for market development – those who witnessed the massive growth of the South African micro lending industry following certain policy changes will be aware of the opportunities and risks that typically arise when markets are opened up.

Of course, one of the arguments in favour of vouchers and other market-driven approaches is that they tend to encourage the growth of such markets, which will benefit all recipients. But the barriers to market entry – perhaps caused by high start-up costs, stringent licensing or quality control requirements, and a small profit potential – may simply be too great in particular programme areas. There may also be differences based on population concentrations, with more potential providers in urban and suburban communities than in rural ones, for example.

While acknowledging a number of potential challenges, Besharov argues that:

> … there is no mystery about creating a system of bottom-up funding. Successful examples probably exist in almost all developed countries. In most cases, the obstacles to developing recipient-directed systems are less conceptual than political because they often involve the defunding of deeply entrenched interests.[75]

So, there is one final lesson from the experience of more developed countries: if a recipient-directed system of bottom-up social welfare is desired, establish it before service providers become programmatically and politically established within a top-down regime. This, combined with developing a 'wise and workable system', is the challenge.[76]

Government is more likely to delay closing failure and more likely to pump additional money to try to cover mistakes or misjudgements

If there were a true marketplace for social welfare programmes, particular agencies and services would be funded only because recipients chose to use them. Service providers need to win the patronage of the clients they are meant to serve. The defunding of apparently unsuccessful services or programmes is easier, because, in theory at least, recipients will simply stop selecting them.[77]

Hall and Eggers also underline this point:

> If service quality declines or price increases, the recipient will look to other providers for a better deal. Like any other consumer, the voucher recipient will perform this monitoring function automatically. The competitive incentive for providers to discover low-cost ways of delivering a service is a form of market-induced monitoring. Each producer, in seeking to increase profits, will act as

a monitor of the other producers' performance. Producers that cannot or will not keep costs down and quality high will be driven from the market.[78]

In the early 1980s, theory became practice as interest grew in using certificates or vouchers to provide government-funded child care. The results of various experiments and pilot projects led policy-makers to conclude that bottom-up funding was feasible as well as desirable in many circumstances (See box: *Child care vouchers reduce costs, improve access,* page 31)

The argument in favour of recipient decision-making goes further than merely claiming that it makes social welfare systems more efficient. An important additional benefit of bottom-up systems is that separate institutions for the poor created by top-down decision-making tend to become stigmatised. Besharov quotes Osborne and Gaebler as noting that, in the case of public universities, tax dollars intended to make higher education broadly affordable are being used to 'subsidise higher education primarily for the middle and upper class'. They add:

The competitive incentive for providers to discover low-cost ways of delivering a service is a form of market-induced monitoring

When governments fund individuals rather than institutions, it is much easier to promote equity. … This also removes the stigma of subsidies for the poor by allowing them to participate in the mainstream – to attend any school, live in any apartment building within their means, use any health clinic.[79]

The 'stigma effect' is particularly marked in respect of public housing projects. Especially in the United States, these are notorious for creating immobilised and marginalised low-income families (see box: *Tenant-based versus project-based housing assistance,* page 37)

Government's 'fatal embrace'

Even when governments do no more than choose the service or agency for clients, they tend to prescribe, or at least regulate, the nature of the services provided by private agencies. This heightened level of government control is understandable – the contract is meant to serve a public purpose, not to sustain private enterprise

– but, as Besharov argues, the effect is the same: distant government decision-makers dictate the shape of local services. This point is also made by Joe Dolan, executive director of the Achelis and Bodman Foundations in New York:

> As agents of the state, non-profits become disconnected from local mediating institutions such as schools, churches, businesses, and neighbourhood, family or parent-oriented groups.[80]

This is more than an abstract concern. In several areas, the conditions attached to government funding have altered the nature of private agency and services and raised their costs, often without improving quality. Smith and Lipsky explain:

CHILD CARE VOUCHERS REDUCE COSTS, IMPROVE ACCESS[81]

In the early 1980s, the department of health and human services in the American state of New Jersey discovered that there was a shortage of child care 'slots' for low-income clients at state-owned and state-subsidised centres in Hudson County. At the same time, private centres were reporting a 17 per cent vacancy rate. Thus, instead of building more state facilities or contracting for expanded state-subsidised centres, the department conducted a two-year child care voucher demonstration in the county.

Previously, Hudson County had provided child-care for low-income families through six state-owned and operated centres serving 448 children, and an additional 454 child care 'slots' purchased through contracts with private centres. This system was no longer adequate for the growing need for child care, and was facing sharply escalating costs, and provided poor access to child care for parents in nine of Hudson County's 12 communities because of 'historical funding patterns which tied day-care subsidies to particular localities'.[82]

Parents were given vouchers equal to 75 per cent of the state's prevailing contract rates for child care, thus $37,50 per child per week for centre-based care, and $16,90 per child per week for family day-care. Parents could use the vouchers for in-home and relative-provided care, or for any licensed family day-care home or centre.

The evaluators concluded that the project demonstrated the successful use of vouchers by low-income parents. The parents were able to use the vouchers in the broader market for child-care services. Moreover, the vouchers provided a means of providing care for children previously excluded from subsidised care because of their geographic location. Since the vouchers were pegged at a lower price than state contract rates, costs were 25 per cent lower.

CDE 2005

> Privatisation has led to government penetration of the private sector through the regulations, obligations and restrictions that accompany contracts. It has created rules and regulations for private agencies that otherwise would not be subject to government control.[83]

Besharov points out that large-scale funding also has a 'political dimension' in that private agencies tend to become dependent on government – not just on its money, but also on its goodwill. Because government officials are awarding the contracts or grants, criticising government policies becomes tricky for private agencies and groups.[84] Bottom-up systems can, of course, also create a dependency on government funds. But there is an important difference: private agencies are not nearly as dependent on the government's goodwill, since recipients – not government officials – decide whether they are funded.

Large-scale funding has a 'political dimension' in that private agencies tend to become dependent on government

Mediating institutions are especially at risk because top-down government funding often requires them to surrender or even abandon the very features, such as religious activities, that make them effective. In the words of Peter Berger of Boston University and Richard John Neuhaus of the Institute on Religion and Public Life:

> Unless that problem is solved when such institutions are first 'discovered' and then funded by government, the very vitality that originally distinguished the institutions from government agencies is destroyed. Indeed, they become government agencies under another name.[85]

The process may be insidious:

> In the 1970s, we underestimated the degree of corruption that comes with government funding – not, of course, corruption in the sense of criminal misuse of funds (that is a relatively manageable matter), but the much more insidious corruption in which these institutions reshape themselves to continue as beneficiaries of government largesse.[86]

In the United States, Republicans are keen to increase the role of the voluntary sector, including churches, in delivering social services. But if religious organisations use increasing amounts of public money to provide social services, this may mean that religion gets too tangled up with politics, and vice versa.[87]

Berger and Neuhaus urge that, if mediating structures are to be a major part of modern social welfare services without losing their essential character, they should be protected from the 'fatal embrace of government regulation.' Alas, says Besharov, government utilisation of private, non-profit agencies and for-profit firms has 'not proven to be the remedy for inadequate and unresponsive social welfare services. Many of these agencies end up looking – and behaving – very much like the bureaucratic government agencies for which they substitute'.[88]

Besharov illustrates a two-sided dynamic in the quality-cost differentials between publicly and privately funded child care. Although estimates vary, and undoubtedly depend on the types of care provided, studies show that regulated child care in the United States tends to cost 10 to 30 per cent more per child than unregulated care. In a study of family day-care home regulation in Milwaukee County, Wisconsin, William Gormley found 'cost increases directly attributable to regulation. The cost of home improvements alone was $936 per provider.' Gormley conducted a further survey of local regulation in cities with populations greater than 50 000 and 'found extensive local regulation of relatively small family day-care homes. For example, family day-care providers who care for six children are required to have a business license in 39 per cent of the cities; an occupancy permit in 43 per cent; and a zoning permit in 28 per cent'.[89]

If religious organisations use increasing amounts of public money to provide social services, this may mean that religion gets too tangled up with politics, and vice versa

Besides raising costs for parents, these regulatory burdens reduce the supply of providers, especially family day-care homes. Imposing such 'quality' or 'professional' standards can therefore work to exclude community-based or informal service providers by raising the costs of entering the market to prohibitive levels. Questioning the regulatory environment may raise legitimate concerns that standards will be undermined if regulations are relaxed – some regulation is indeed desirable and necessary. But when regulations are too complex, they often compromise standards by inadvertently providing an incentive to evade official regulation.[90] Gormley, for example, found that regulation was responsible both for declines in the growth of new licensed providers and declines in the actual numbers of licensed providers of family day-care. As a result, many providers operate without licenses, a trend that further complicates the government's ability to maintain some standard of care. At a certain level, therefore, inappropriate regulations may impede innovation, and create unnecessary costs and barriers to growth.

At a certain level, inappropriate regulations may impede innovation, and create unnecessary costs and barriers to growth

It is hard to say whether regulated child care is better. Studies of child care quality are mostly short-term, and the observed correlation of quality to regulation is low. Sometimes regulation seems irrelevant to research findings about 'quality'.

Funding based on cumulative recipient demand, says Besharov, is 'less threatening to the independence of private agencies because, when individuals rather than government bureaucrats are the decision-makers, institution-distorting strings are less likely to be attached'.[91] The operative words are 'less likely'. With the exception of cash assistance, even bottom-up approaches can increase the risk of greater government influence over mediating structures. He quotes Butler as arguing that 'accepting the voucher may turn out to be a poisoned chalice for an organisation, encumbering it with heavier regulation'.[92]

Some observers fear that even when the bottom-up aid comes with no strings attached, the mere acceptance of public aid in areas of hitherto private activity creates an additional dependence on government. Some thoughtful observers denounce all government assistance to mediating structures.

But the reality is that many elements of the social welfare state – housing for the poor, residential care for the elderly, foster care for abused and neglected children – are simply too expensive to be funded by the private sector alone.

Choice of market mechanisms

According to Besharov, there is no one answer to whether top-down or bottom-up approaches are better, and, when a bottom-up system is selected, which market mechanism should be used. The answer depends on the specific situation, and what values one holds to be most important, and will necessarily vary from programme area to programme area, depending on existing service structures, potential markets, and policy preferences.[93]

The following, then, are among the questions policy-makers should consider when deciding whether top-down or bottom-up systems should be used:

- Is there already a market for the goods or services involved? Or can one be created? Conversely, are there barriers to entry for new providers that may preclude the development of true market competition?
- Will the recipients, as a group, be wise consumers of the programme's goods or services?
- Should recipients be allowed to choose service providers, or is the service involuntary or coercive in nature?
- Will the goods or services be rationed, or will they be provided to all who meet specific eligibility criteria?
- Is close government regulation of the good or service needed? Or can providers be free to offer it as they see fit?

Ordinarily, recipient-directed systems are preferable to top-down ones unless it appears that a true market will not develop, or the recipients will not be wise consumers.

Obstacles to developing recipient-directed systems are less conceptual than political because they often involve the defunding of deeply entrenched interests

Besharov notes that bottom-up, recipient-based systems have been used for medical services, housing, transport, food, child care, education, job training, and certain counselling and rehabilitation services, such as those for the mentally ill or developmentally disabled. Vouchers are the most familiar market mechanism; but lower taxes including deductions and credits, cash assistance, refundable tax credits, and fee-for-service systems can also be used to implement a bottom-up social welfare regime.

Choosing the most appropriate market mechanism for a specific programme area requires considering the needs and capacities of recipients, as well as local service structures or markets (or potential markets). It also requires asking two linked questions: Should recipients be encouraged to consume a particular good or service? And should they be encouraged to be cost-conscious?

Implementation issues to consider are:

- Would a tax deduction allow many people to afford the good or service without government aid?
- Would cash assistance to help people purchase the good or service create too large a work disincentive or other behavioural effects without assuring that recipients would spend the money as intended?

TENANT-BASED VERSUS PROJECT-BASED HOUSING ASSISTANCE[94]

The US Department of Housing and Urban Development (HUD) provides two types of housing assistance: tenant-based, and project-based. The former ties the subsidy directly to families, instead of housing units. Thus participants can choose where they want to live, and can move while maintaining their benefit. HUD operates two tenant-based assistance programmes – a certificate programme, and a voucher programme. Private owners could agree to accept the certificate and voucher as a rental payment, and the rented units were required to meet health and safety standards set by HUD and the state or local public housing authority.

Under the certificate programme, households could choose where to live, but the rental amount had to fall within the HUD-determined fair market rent for a given area and type of housing. The amount was set at the difference between the rent charged and 30 per cent of the household's adjusted income, and the household was required to pay 30 per cent of its adjusted income as rent.

Under the voucher programme, households received a subsidy in the form of vouchers determined by the difference between a payment standard (generally set between 80 and 100 per cent of the fair market rent) and 30 per cent of their adjusted income. There was no limit on the rent the household selected, but if it found a unit that rented for less than its 30 per cent contribution plus the subsidy, it could keep the difference. Households were required to pay at least 10 per cent of their adjusted income or $25, whichever was greater, for rent.

A 1990 Abt Associates study found that most households participating in the certificate or voucher programme were able to find and secure housing. Most important, 46 per cent of new or recently moved voucher recipients paid 30 per cent or less of their income for rent. Recipient tastes were important. Given vouchers, some households moved to better but more expensive housing; some moved to better but less expensive housing; and some moved to worse but less expensive housing.

CDE 2005

- Should recipients be encouraged to consume the good or service? If so, to what degree?
- If vouchers are used, is a secondary or black market for the voucher likely to develop?
- Will the amount of aid provided vary so that a voucher for a set amount of assistance would be inappropriate, and a more flexible fee-for-service system needed?
- Should recipients be encouraged to be cost-conscious? If so, to what degree?
- Are recipients able to buy the same or equivalent services at sharply different prices?

Tax relief or cash assistance is preferable to government fee-for-service or voucher systems because cash maximises individuals' choice about how to improve their standard of living. But cash may not be appropriate when large amounts are involved. Possible undesirable effects include discouraging beneficiaries to work and save; the danger of underconsumption and other behavioural effects; or when added consumption of the particular good or service is desired and under-consumption is otherwise likely.[95] The failure to make use of state immunisation programmes is one example of socially harmful underconsumption.

Recipient-directed systems are preferable to top-down ones unless it appears that a true market will not develop, or the recipients will not be wise consumers

It is not possible to grant sufficient tax relief to help the least affluent access high-cost social welfare services such as medical care, or to do more than marginally encourage the purchase of a specific good or service, such as higher education. With these two limits in mind, it is nevertheless important to appreciate that lower taxes could keep important elements of social welfare private.

Fee-for-service systems are preferable to vouchers when the amount of the subsidy is likely to vary from period to period. And vouchers may be inappropriate when there are widely different prices for essentially the same good or service, and individual recipients are much better positioned to obtain the lower-priced one than is the government. In both fee-for-service and voucher systems, co-payment arrangements may be appropriate, to the extent that there is a concern about overconsumption.

But perhaps the most important issue to consider is this: while services are likely to improve overall, the possibility that some recipients may be left behind is a powerful reason for thinking very carefully before adopting market-oriented responses. This is not a course of action to be embarked on lightly. The rush to embrace market reforms should not translate into riding roughshod over the needs of people who, for whatever reason, are not able to work in the market economy.[96]

Vouchers are the most familiar market mechanism; but lower taxes including deductions and credits, cash assistance, refundable tax credits, and fee-for-service systems can also be used to implement a bottom-up social welfare regime

CONCLUDING REMARKS

A remarkable coherence emerges from the contribution of these leading scholars in the field of social welfare policy. In country after country, the traditional notion of the welfare state is waning as governments increase opportunities for the private sector to provide differentiated, specialised welfare services. They are doing so without relinquishing their overarching obligation to ensure that welfare is provided in an efficient and effective way.

This alternative approach offers key insights into how governments can use markets to provide the right incentives to their employees to find creative ways of utilising limited state funds, and create more choices for citizens. It raises vital questions for a developing country such as South Africa, for example: what kind of welfare system is appropriate in our setting, and will be most cost-effective? On what principles should it be based? What scope is there for experimenting with new approaches? How best can we empower poor people to take their own decisions about what they need, and procure their own services?

South Africa does not have to work in a vacuum in order to develop answers to these questions. Numerous governments have taken the lead in developing innovative responses, and these new solutions have been intensively analysed. A careful study of these responses, and their critical evaluation by numerous scholars, will give this country a valuable start down a new road to effective welfare.

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