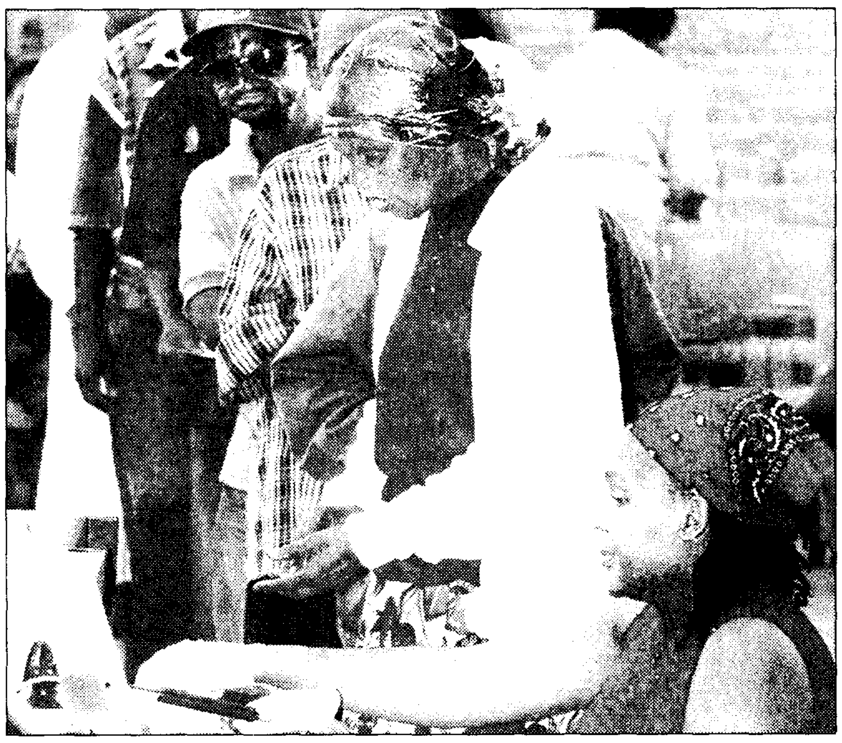
# Let the market rule in welfare



SOMEONE once said that education, health and social welfare were the last bastions of Stalinism. What they meant is that people continue to put enormous faith in state monopoly provision of services in these critical areas of public expenditure.

In the past 20 years, the traditional welfare state has been widely called into question across the world. It is important for SA to learn from other countries before we entrench what is probably the developing world's largest and most generous welfare state.

Three international scholars have recently reviewed experience in Europe and North America. They are Berkeley professor Neil Gilbert, Downing Street adviser and London School of Economics professor Julian le Grand and American Enterprise Institute scholar and Maryland professor Douglas Besharov. Their conclusions raise key questions for SA, where social security and welfare constitute the fastest-growing major category of public expenditure.

After examining welfare systems across the developed world, Gilbert concludes that they have shifted from broad-based state entitlements and automatic benefits to an approach marked by individual responsibility, targeted benefits, and a bigger role for private-sector service providers. He describes this as a shift from the "welfare state" to the "enabling state", characterised by emphasis on the value of work, and economic inclusion over passive protection.

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 is being reshaped to work with the grain and logic of the market. 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. Instead of welfare services being provided via monolithic state bureaucracies, delivery has become more competitive, with independent providers competing for customers in market-type settings.

Disenchantment with large state bureaucracies, notably because of their inefficiency and unresponsiveness, began to influence the direction welfare states adopted from the 1980s. Citizens, in their roles as clients, patients, and parents, felt that they had no choice of types of service, or ways of access to them — in contrast to what they were experiencing in the commercial marketplace.

The "enabling state" emerged in response to these pressures and has been marked by a diversity of approaches. These include the private delivery of publicly funded social welfare services on the basis that the private sector performs more efficiently and offers greater consumer choice than the public sector and social welfare in the form of cash and vouchers over provision in kind, as these innovations empower recipients to exercise consumer sovereignty and benefit 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 foster an increased sense of fairness in how funds are spent.

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 solutions can be more effective mechanisms to deal with welfare issues. Le Grand 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, often delivered services in a patronising fashion, and provided unequal access to state benefits.

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.

Policies that offer choice and competition within public services such as education and health can deliver both excellence and equity. Markets can be empowering as well as efficient; and market exchange can lead to respect for other people — to offer something in exchange is to make an effort to understand the needs of the other party and persuade them that what is on offer will meet those needs. The right market incentives may encourage respect between professionals and users, in contrast to the condescension of monopolistic state services.

Empowering the poor by introducing greater competition and choice is the key. Giving parents and patients more choice should help poorer people since the better off have in any case been able to exercise choice by opting out of the public sector. In Besharov's words: "Whether it's a car or a college education, most people now believe that competition more than anything else promotes quality and lowers cost."

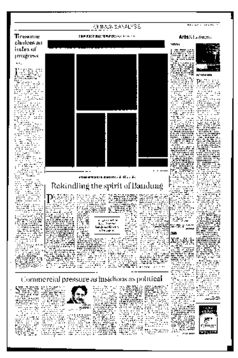
The single best way to make public service providers respond to the needs of their customers is to put resources in customers' hands and let them choose. Besharov maintains that many welfare programmes would improve if market-based mechanisms such as vouchers were used to put "purchasing power" in the hands of clients. Recipient decision-making will drive up the average quality of services provided, because this approach requires organisations to market themselves to those who will be served, rather than to bureaucrats. The competitive incentive for providers to discover low-cost ways of delivering a service is a form of market-induced monitoring.

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", or recipient-driven, social welfare regime

Choosing the most appropriate market mechanism for a programme area requires considering the needs and capacities of recipients, as well as local service structures or markets. Policy makers must proceed carefully, but Besharov shows convincingly that there are many circumstances where voucher systems are preferable to traditional welfare service provisioning.

Effective welfare and social policies need to take into account local circumstances. However, the experience of the developed world makes a powerful case for incorporating the logic and institutions of the market into state-financed welfare programmes.

■ *Bernstein is executive director of the Centre for Development and Enterprise. This articles is based on a new report from the centre: Rethinking the Welfare State.*



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