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THE "ENABLING STATE?" FROM PUBLIC TO PRIVATE RESPONSIBILITY FOR SOCIAL PROTECTION: PATHWAYS AND PITFALLS

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DIRECTORATE FOR EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS

OECD SOCIAL, EMPLOYMENT AND MIGRATION WORKING PAPERS

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SUMMARY[1]

1. Policies designed to advance the march toward private financing and delivery of social services follow five main pathways. While some of these approaches to privatization are more direct and transparent than others, all may be pursued simultaneously. Three approaches concentrate on increasing private financing and the other two on increasing the production and delivery of goods and services by the private sector:

- Encouragement through tax incentives
- Requirements through fees for service
- Mandating through legislation
- Providing public benefits in the form of cash or vouchers
- Purchase-of-service arrangements

2. Along each of these five paths the state plays a direct or indirect role in stimulating private financing or delivery of benefits in cash or kind. All social welfare benefits are to some degree subsidized or mandated by the state — in part it is the public intervention by fiscal or legal means that makes these benefits "social."

3. Some social goods and services may be more amenable to public or private provision than others. And traditional relations among government, business, and labour in different societies will certainly influence the preferred paths toward increased private responsibility. In treading the pathways toward privatization, the objective is not to find the shortest route, but to avoid the pitfalls along the way – and to chart a course that is not so focussed on economic efficiency that it loses sight of the public purpose of social protection.

1 Neil Gilbert is Professor of Social Welfare at the University of Berkeley, California. A version was presented to the meeting of OECD, Social Affairs Ministers on 31 March, 2005. Professor Gilbert prepared the paper in his capacity as a consultant to the Secretariat. Responsibility for errors are his alone. Views expressed are personal and do not commit the OECD Secretariat, nor the member countries of the OECD.

RESUME

4. Les politiques élaborées pour favoriser le mouvement vers le financement et la distribution privés des services sociaux suivent cinq directions principales. Alors que certaines de ces orientations favorables à la privatisation sont plus directes et transparentes que d'autres, toutes peuvent être poursuivies simultanément. Trois approches s'orientent vers l'accroissement du financement privé et les deux autres vers l'augmentation de la production et de la fourniture de biens et de services par le secteur privé :

- Encouragement par le biais d'incitations fiscales
- Obligations par le biais de frais pour services rendus
- Prescrire par le biais de la législation
- Fournir des prestations publiques sous forme d'espèces ou de coupons
- Mécanismes d'achat de service.

5. Tout au long de ces cinq directions, l'Etat joue un rôle direct et indirect en stimulant le financement privé ou la distribution de prestations en espèces ou en nature. Toutes les prestations de protection sociale sont dans une certaine mesure subventionnées ou mandatées par l'Etat – c'est en partie l'intervention publique de par leurs moyens légaux et fiscaux qui rendra ces prestations « sociales ».

6. Quelques biens et services sociaux peuvent mieux se prêter que d'autres à la prestation publique ou privée que d'autres. Et les relations traditionnelles entre les pouvoirs publics parmi le gouvernement, le monde des affaires et celui du travail dans différentes sociétés ne manqueront pas d'influencer les trajectoires optimales pour augmenter la responsabilité privée. En suivant la voie de la privatisation, il ne s'agit pas de trouver la voie la plus courte, mais d'éviter les écueils tout au long du chemin et de définir un cap en se gardant de privilégier l'efficacité économique au détriment de l'objectif public de protection sociale.

INTRODUCTION

7. Historically the systems of social protection in the OECD countries have been built upon a mix of public and private responsibility for assisting people in need. While the English Poor Law of 1601 established the principle that relief of the poor was a public concern of local parishes, in the same year the English Law of Charitable Uses encouraged the expansion of private philanthropy.[2] Before the earliest state-sponsored pensions were introduced in Germany, religious bodies organized major welfare associations, the Catholic Caritas and the Protestant Diakonie, which today have about 800,000 staff – placing them among Europe's largest employers.[3] In the United States social welfare functions were initially community-based, with local government, voluntary charitable institutions, family, and neighbors providing the major sources of aid for those unable to meet their needs through the market economy.[4] With the advent of the New Deal in the mid-1930s, the federal government assumed primary responsibility for a national system that established a modicum of social protection furnished mainly through public agencies, whose efforts were supplemented by the private sector.

8. Over the past decade the mix of public and private responsibility for social protection began to shift as many OECD countries have come under rising fiscal pressures to introduce market-oriented measures that would heighten efficiency and lower social expenditures. This development was prompted in part by the demographic imperatives of aging populations. When Otto von Bismark introduced the first state-sponsored pension scheme in 1889, the average life expectancy of German workers was 20 years less than the retirement age at which they were scheduled to start receiving benefits. The system was assuredly solvent. Since then, life expectancy in the OECD countries has climbed to 76 years – people are living on the average more than 15 years past the formal age of retirement (and many are retiring early). Not only are people living longer, but these societies are getting older. By 2040, people over age 65 are expected to account for 22% of the populations of most OECD countries, which is more than double the proportion in 1960. And one-half of those elderly will be over 75 years of age.

9. The heavy costs of elderly care, pensions, and health benefits associated with this demographic transition place a severe strain on the existing capacities for social protection in most countries. At the same time that social policy makers are struggling to accommodate the heavy costs of aging societies, they are also obliged to formulate measures that help meet the growing needs for greater labour force adaptability and productivity as national markets are absorbed into the competitive sphere of the global economy. Spurred by these fiscal pressures and economic forces, in recent years the long-standing debate about the proper blend of public and private provisions of social protection has favored enlarging the private contribution to the mix – in the hopes of reducing public costs and increasing quality. Some see this as part of a minor adjustment being made by modern Welfare States. Others, including myself, interpret it

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2 Walter Trattner, From Poor Law to Welfare State 6th (ed), (New York: The Free Press, 1999).

3 Jens Alber, " Recent developments in the German Welfare State: Basic Continuity or a Paradigm Shift," in Neil Gilbert and Rebecca Van Voorhis (eds), Changing Patterns of Social Protection (New Brunswick: Transaction Publishers, 2003).

4 James Leiby, A History of Social Welfare and Social Work in the United States. (New York: Columbia University Press, 1978).

as part of a fundamental movement away from the conventional Welfare State toward the Enabling State, whose role is to provide social protection through public support for private responsibility.[5]

10. The shifting responsibility for social protection -- more market and less state -- is commonly referred to as "privatization". This movement is guided by policies that aim to limit the direct role of the state and to increase private activity in the financing and delivery of social benefits.[6] Privatization is accelerating at different speeds along the avenues of finance and provision. Although the public sector still finances most social benefits, since 1980 there has been a palpable increase in private spending as a proportion of gross social expenditures in many of the OECD countries.[7] Whereas the private financing of social protection is expanding slowly but steadily, the private sector's involvement in the delivery of publicly funded social provisions has advanced rapidly in many fields. Here is a brief sample of this activity:

- In Germany, for-profit agencies were virtually excluded by law from providing long-term care until the mid-1990s. When a new long-term insurance scheme opened the door to commercial providers in 1994, they leaped at the opportunity – by 2000 for-profit providers accounted for half of all the services and one-third of the long-term care personnel.[8]
- Between 1995 and 1998, for-profit providers experienced a 10% increase in their share of residential homes for children and youth in Norway.[9]
- The proportion of all public expenditures on personal social services contracted out to the private sector in the United Kingdom more than tripled, from 11 to 34 percent over the period 1979 and 1996.[10] Since 1993, commercial firms are also moving into domiciliary care. Services such as in-home meals, cleaning, home nursing, and emergency alarm systems have come under contract with local public authorities who are "expected to be enablers rather than providers."[11]

5 For a more detailed analysis of these forces and their implications, see Neil Gilbert, Transformation of the Welfare State: Work and Insecurity Under the Triumph of Capitalism, (New York: Oxford University Press, forthcoming).

6 The division between finance and provision (or delivery)of social benefits is a basic distinction drawn in analyses of social policies. See, for example, Neil Gilbert and Paul Terrell, Dimensions of Social Welfare Policy (Boston : Allyn and Bacon, 2005).

7 For example, see Willem Adema and Marcel Einerhand , " The Growing Role of Private Social Benefits," Labour Market and Social Policy - Occasional Papers No. 32 , OECD, Paris 1998, Table 4 ; Willem Adema, "Net Social Expenditure," Labour Market and Social Policy - Occasional Papers No. 39, OECD, Paris, 1999, Table 2.

8 Jens Alber, "Recent Developments in the German Welfare State," paper presented at the Research Conference "The Changing Landscape of the Welfare State," Rockefeller Foundation Study and Conference Center, Bellagio, Italy August 5-11,2000.

9 Tor Slettebo, "The Consequences of Marketization on Professional Practice and Identity – a Case Study of Outcontracting in the Residential Child and Youth Protection Servies in Norway," paper presented at the International Conference on "Playing the Market Game", March 9 to 11, 2000, University of Bielefeld, Germany.

10 Burchardt, T., Boundaries beween Public and Private Welfare: A typology and map of services. (London: Center for Analysis of Social Exclusion, London School of Economics, 1997).

11 Norman Johnson, "The United Kingdom," in Norman Johnson, ed. Private Markets in Health and Welfare. (Oxford, Berg Publishers, 1995), p.29.

- The public sector in Sweden provided almost 90 percent of the beds in residential care facilities for children in the 1970s. By 1995, almost 60 percent of these beds had moved into private institutions.[12]
- In implementing the 1996 welfare reform legislation in the Unites States, public welfare agencies have awarded multimillion dollar service contracts to major private corporations such as Lockhead Martin and Citicorp.

FIVE POLICY PATHWAYS

11. Policies designed to advance the march toward private financing and delivery follow five main pathways. While some of these approaches to privatization are more direct and transparent than others, all may be pursued simultaneously.[13] Three approaches concentrate on increasing private financing and the other two on increasing the production and delivery of goods and services by the private sector.

Private Financing

Encouragement through tax incentives

12. From a public sector viewpoint one of the best ways to offset the heavy costs of financing social welfare is to increase voluntary private financing. What is nice about this approach is that voluntary financing is politically gentle – it avoids the heavy hand of government exercising the coercive powers of the state. At the same time it taps the charitable impulses of individuals and communities. In the United States philanthropic contributions provided $241 billion dollars for social purposes in 2002, three quarters of which came from ordinary citizens, followed by corporate and foundation donations.[14] But private voluntary financing is not always entirely a private matter – nor is it as philanthropic as it appears on first glance. This is because the private benefactions are often gently prodded by the invisible hand of the state, which returns a portion of the contributions through tax deductions to the donors. Thus, part of the total contributions attributed to private altruism is subsidized by public policy. Tax deductions provide a public incentive for private generosity, which stimulates individuals to support nonprofit services of their choice.[15] Indeed, one study estimates that 96% of the people who donate large sums of money to philanthropic causes in the U.S. would substantially reduce their contributions if the tax incentives were removed.[16]

13. In addition to tax deductions, which encouraged private charitable contributions, other tax-related incentives such as tax credits and exclusions are used to promote private spending on provisions such as child care, health insurance and old-age pensions. Certain types of tax expenditures, such as child-care tax credits, are similar to vouchers in that they both support consumer choice to purchase services on the

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12 Tommy Lundstrom, “Non-governmental Actors, Local Administration, and Private Enterprise: New Models in Delivery of Child and Youth Welfare?” paper presented at the International Conference on “Playing the Market Game”, University of Bielefeld, Germany, March 9-11, 2000.

13 For another conceptualization of the different avenues to privatization, which adds loci of decisionmaking to finance and provision, see Tania Burchardt, op.cit. In other contexts, “privatization” would also include the selling off of publicly owned enterprises, such as railroads, automobile factories, etc.

14 American Association of Fund-Raising Counsel, Giving USA 2003. (New York: AAFRC).

15 William Vickery, “One Economist’s View of Philanthropy,” in Frank Dickinson (ed.) Philanthropy and Public Policy, (New York: National Bureau of Economic Research 1962).

16 Gordon Manser, “The Voluntary Agency – Contribution or Survival?” Washington Bulletin 22 (20) (October 1971).

market, but limit the choice to a particular service. Tax credits differ from vouchers in that they are awarded after the purchase has been made and tend to benefit only those citizens who earn enough money to owe taxes (although this can be altered with refundable tax credits). Also unlike vouchers for certain goods, such as food stamps, tax credits cannot be sold under the table for cash.

14. Privatization of social welfare has been broadened enormously in the United States by excluding from taxes the financial value of remuneration that employees receive in the form of private health insurance and pension plans. In 2003, for example, government support of employer-sponsored pensions and medical insurance amounted to $152 billion in tax expenditures (the revenue lost by not including the value of these employment benefits as taxable income).[17] And in Germany, a large-scale reform of the old-age pension scheme will offer $8.4 billion a year in tax breaks and subsidies designed to induce workers to deposit 4% of their earnings into a private pension fund.[18] In 2004, France introduced a tax credit for employers who contribute to the payment of childcare costs.

Requirements through fees for service

15. Mandatory consumer charges, which offset part of the costs of public social services, have been around for a long time. Over thirty years ago, fees and charges paid for almost 15% of the total expenditures for personal social services in England and Wales. (All of this, however, did not represent public savings, since some of these clients out-of-pocket contributions originally came from cash they received via welfare benefits, which in the end amounted to intergovernmental transfers.)[19] In the United States, public health insurance programs, such as Medicare include copayments for visits to physicians. Fee charging schemes appeal to many policy makers not only because the up-front private contributions reduce public costs, but also because of the assumption that fee-charging restrains overutilization. That is, even small fees for doctor or therapist visits or for medical prescriptions are thought to discourage unnecessary or excessive care – or put another way, to encourage socially responsible consumption of public benefits. And even though it usually covers only a fraction of the service costs, fee-charging enjoys the symbolic appeal associated with the market virtue of "paying one's way."

Mandating through legislation

16. Government can shift the responsibility and costs of public programs to both individuals and corporations in the private sector by legislative mandate. Although this has not been a widely used route to privatization of social protection, it is a viable option which has experienced increasing use in recent years. In the Netherlands, for example, the sickness insurance scheme was privatized in 1994, when reforms were introduced that required employers to assume the responsibility of paying at least 70 percent of their workers' salaries for six weeks of sick leave; in 1996, the period of private coverage was extended to 52 weeks after which workers could qualify for public disability benefits.[20]

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17 U.S Census Bureau, Statistical Abstract of the United States, 2003 (Washington D.C.: Government Printing Office, 2003).

18 The Economist, "Germany :Radical Pensions," November 18, 2000, pp. 60-61; International Social Security Association, "2000 Pension Reforms: Key Elements of the Government Approach," Trends in Social Security 4 (2000), p.13.

19 Ken Judge, Rationing Social Services, (London: Heineman, 1978).

20 The Dutch reforms are reviewed by Renee van Wirdum, "The Context of Change: Social Security Reform in the Netherlands," International Social Security Review 51:4 (October-December, 1998), pp.93-103 and Sabine Geurts, Michiel Kompier, and Robert Grundemann, "Curing the Dutch Disease? Sickness Absence and Work Disability in the Netherlands," International Social Security Review 53:4 (October-December 2000), pp.79-103.

17. In recent years a number of reforms have taken the form of mandated benefits, which impose obligations on the private sector to help needy groups, such as children and the handicapped. Mandated benefits permit government to address social needs without having to spend money or raise taxes. In the U.S., for example, state and local governments have enacted child-care ordinances that affect developers of commercial properties, requiring them to provide facilities for on-site care for employees children or to pay amounts such as $1 per square foot of commercial space into special funds for local child-care centers. Some States require private business to provide medical insurance to their employees.

18. Mandates for private involvement have also been used in response to the challenges faced by aging societies in financing social security. Looming increases in public old-age pension expenditures signal problems that are serious, but not critical. Various types of reform might be employed to restore the fiscal balance of conventional pay-as-you-go social security systems. For example, governments can raise payroll taxes, reduce benefits, create incentives to increase productivity, alter the age distribution through pro-natalist and immigration policies, and borrow in the lean years against the prospects of better times to come. Among these alternatives increasing taxes and reducing benefits are the most reliable standbys. (Also they can be introduced incrementally through measures such as changing the index for raising future benefits, using income tests to tax retirement benefits and slowly raising the age of retirement, which may ease the political costs of pension reforms). Many countries have also raised the standard age of retirement, particularly for women. These reforms aim to preserve the traditional public systems based on the defined-benefitpay-as-you-go model, which fosters social solidarity through inter-generational transfers.

19. At the same time, other reforms have been mandated, which essentially alter the conventional public model. These reforms involve measures that privatize all or part of public pension schemes as well as those that change public programs from defined-benefit to defined-contribution schemes under which each person's retirement benefit is directly contingent upon how much the individual paid into the system. In principle, defined-contribution schemes generally approximate the design of private insurance, which includes neither social concerns for adequacy nor inter-generational solidarity. In practice, however, defined-contribution schemes can be designed to meet social objectives by introducing minimum benefit levels that insure adequate pensions for low-income workers – even though such benefits are higher than what these workers would have received based only on their contributions. In the late 1990s, pension reforms in Sweden introduced both partial privatization and a shift from defined benefits to (notional) defined contributions, supported by a high level of the guaranteed minimum benefit. Indeed, a number of governments have initiated measures that shift some portion of contributions from public pensions into privately managed retirement accounts.

20. The rise of privatization is transparent in countries such as Chile, the Netherlands, Norway, Denmark, Sweden, Germany, and the United Kingdom, where private pensions are mandated either by legislation or collective agreement and partially incorporated into public schemes. A more circuitous and less apparent shift toward privatization occurs when reforms that erode public social security pension benefits are joined by policies that support the expansion of voluntary private alternatives.[21] In the absence of an explicit design, these incremental measures produce a steady decline in the percent of retirement income derived from public social security schemes relative to the percent of retirement income derived from employer-provided pensions and individual -retirement- type plans [22] – a process exemplified by reforms initiated in the United States since the late 1970s, as shown in Figure 1.

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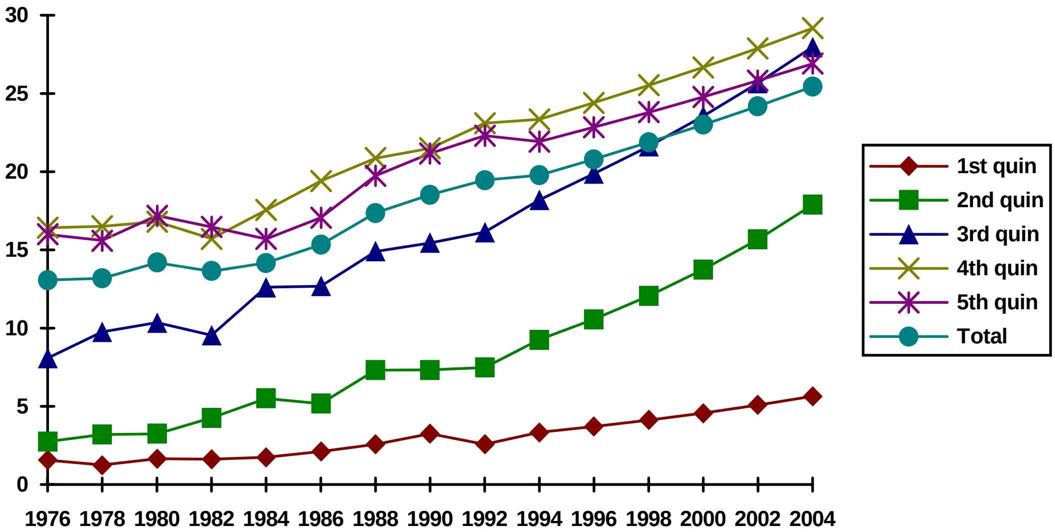
21 Neil Gilbert and Barbara Gilbert. The Enabling State: Modern Welfare Capitalism in America. (New York, Oxford: Oxford University Press, 1989).

22 Under employer-related pensions, I would include those for government employees. Although partially financed by units of government, these pensions are not "private" in the literal sense. However, in their diversity they resemble more the private exchange of fringe benefits for labor negotiated between employer

Figure 1. : Trends of Proportion of Private Pension in the Aggregated Income of Aged Units by Income Quintile: 1976-2004



Source: Neil Gilbert and Neung Hoo Park, "Privatization, Provision, and Targeting: Trends and Policy Implications for Social Security: International Social Security Review 49:1 (1996).

Private Delivery

Providing public benefits in the form of cash or vouchers

21. The production and delivery of social welfare goods and services through the private sector is advanced when government elects to offer benefits in the form of cash or vouchers, such as food stamps, educational vouchers, vouchers for day-care services, and rent supplements. Up through 1970, government support for low-income housing in the United States was concentrated mainly on the construction of housing units owned and managed by public authorities. By the mid-1970s, government policy in this realm had moved from the construction of public housing to the provision of housing assistance payments to low-income individuals, which allowed them to rent units in the private market.

22. In Sweden, a system of educational vouchers was introduced in 1992, under which parents who choose to send their children to private schools were entitled to receive a voucher equivalent to 85 percent of the cost of a public education. (When the Social Democrats regained office in 1994, the value of educational vouchers was lowered to 75 percent of the cost of a public education.)[23]

23. Cash benefits have also been substituted for public day-care services. Norway initiated a policy to pay cash benefits to all families with children up to three years old as long as the child was not enrolled in a state-subsidized day-care center. Finland employs a similar policy, which was fully implemented in 1989. (Between 1989 and 1995 labor force participation of Finnish women with children under three years

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and employees in the private sector than standard publicly-mandated intergenerational transfers under universal Social Security programs.

23 John Stephens, "The Scandinavian Welfare States: Achievements, Crisis, and Prospects," in Gosta Esping-Andersen, (ed), Welfare States in Transition (London:Sage, 1996.

old declined from 68 to 55 percent.)[24] The Finnish home-care allowance will be increased from 2004-2007.[25] In these instances, the cash can be used to purchase care from private agencies, to pay relatives for care, and to subsidize private in-home care by parents.

Purchase-of-service arrangements

24. As already noted, one of the most rapidly expanding avenues to privatization involves the use of public funds to contract with voluntary and for-profit organizations for the production and delivery of social services. The United States probably leads the field in contracting out all sorts of public services (even the management of prisons).[26] More than 50% of the cost for services provided by voluntary non-profit social welfare agencies in the United States is funded through government purchase-of-service arrangements. Government funds account for 65% of the Catholic Charities budget, over 60% of Save the Children and 96% of the funding for Volunteers of America.[27] This has led some to question how much the national coalition of non-profit organizations was stretching reality when it choose to name itself the “Independent Sector”.

25. In addition to contracting with voluntary non-profit service providers, there has been a tremendous expansion in purchase-of-service arrangements with profit-making organizations. By the mid-1990s proprietary agencies in the United States were prominently represented as service providers in the fields of nursing home care (about 80% for-profit), homemaker aides, day care, child welfare, health care, and housing[28]. Since the mid-1990s, there has been an avalanche of multi-million-dollar contracting for welfare case management, training, job-search and placements services between human services agencies and private companies.

26. The development of electronic benefit transfer systems that allow food stamp recipients to collect their vouchers at automated teller machines is a multi-million dollar service under contracts between state welfare agencies and major corporations such as Lockheed Martin. and Citicorp.

27. Many of the OECD countries have increased efforts to transform the role of government -- less rowing and more steering is the metaphor that comes to mind – through purchase of services with private vendors. Tracing the changing mix in public and private provisions for child care and the elderly in Denmark, France, Germany, United Kingdom, and Sweden, researchers find that although the public sector and private households are still the main providers, state-organized services have been reduced as the role of voluntary organizations expands.[29] For-profit providers have also increased their market share of social

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24 The home-care allowances were cut back substantially in 1995 accompanied by a 3% decline in the Finnish birthrate the next year. Jorma Sipila and Johanna Korpinin, “Cash versus Child Care Services in Finland,” Social Policy and Administration 32:3 (September 1998), pp.263-277.

25 OECD. Benefits and Wages: OECD Indicators (Paris: OECD: 2004) and OECD Babies and Bosses, vol. 4, (Paris, OECD: 2005).

26 The number of privately-run prisons has climbed from just a few in the mid-1980s to at least 168 in 1999. This opening to the private sector is discussed in Neil Gilbert, Capitalism and the Welfare State: Dilemmas of Social Benevolence. (New Haven: Yale University Press, 1983).

27 Neil Gilbert and Paul Terrell, Dimensions of Social Welfare Policy (Allyn and Bacon: Boston, 2005).

28 Neil Gilbert and Kwong Leung Tang, “The United States,” in Norman Johnson, (ed.) Private Markets in Health and Welfare. (Oxford: Berg Publishers, 1995).

29 Anna-Lena Almqvist and Thomas Boje, “ Who cares, who pays, and how is care for children provided?” Comparing family life and work in different European welfare systems,” in Comparing Social Welfare Systems in Nordic Europe and France. Text collected by Denis Bouget and Bruno Palier (Paris: DREES/MiRe, 1999), pp. 265-292.

services through public outsourcing. In Sweden, for example, up until the mid-1980s for-profit providers were almost absent among residential treatment homes for alcoholics – by 1997 they came to dominate this field of services. [30]

28. Along each of these five paths the state plays a direct or indirect role in stimulating private financing or delivery of benefits in cash or kind. All social welfare benefits are to some degree subsidized or mandated by the state — in part it is the public intervention by fiscal or legal means that makes these benefits "social."[31] Although the movement toward privatization of different social provisions often follows one or another pathway, all of these approaches may be pursued simultaneously.

29. Consider, for example, the shift from a purely public system under which child day care is financed and delivered entirely through state-owned and operated centers to a system that also includes: a) consumer fees to reimburse some part of the cost of public day care; b) purchase-of-service contracts between government agencies and local day-care establishments; c) state-financed vouchers to parents (which permit them to purchase child-care services from friends, neighbors, family members, and private centers); d) child-care tax credits and the exclusion of tax on employer-provided child care; and e) finally, a government mandate that requires all new commercial developments to include construction of an on-site child-care facility (or to have the developer pay a tariff into a local child care fund based on the total square feet of office space).

EXPECTED BENEFITS AND POTENTIAL PITFALLS

30. Various justifications are offered for shifting responsibilities for social protection from the public to the private sector – among which reducing costs through competition and innovation probably ranks highest. Increasing privatization is also seen as advantageous because it is supposed to heighten quality of services, promote consumer choice and in some cases cultivate civil society. All of which boils down to the assumption that, where social protection is concerned, the private sector can do it cheaper and better. This assumption bears critical examination. The advantages and consequences of privatization are not always as entirely beneficial as generally advertised. In thinking about the various approaches to transfer responsibility for a particular service or benefit from the public to the private sector, policy makers should be cognizant of several pitfalls along the way.

31. There are diverse consequences to consider in designing **measures that encourage voluntary private financing through tax incentives.** Tax deductions for personal charitable contributions inspire citizens to voluntarily support philanthropic causes and agencies of their choosing, which certainly reduces some of the burden on public expenditures. These private subsidies are usually directed to local organizations – community chests, faith-based services – that serve particular groups and to address specific issues. Thus, voluntary private contributions tend to advance services and benefits that are not as inclusive as government programs in assisting people. And although these tax incentives stimulate private financing, they still impose heavy costs on the public coffers. Special credits and deductions for social purposes erode the tax base, significantly reducing government revenues (that would have been paid by people in the upper levels of income).

32. Beyond incentives for charitable contributions, there are various tax benefits for desirable social purposes such as child-care credits, housing mortgage deductions, private health insurance and pensions,

30 Ake Bergmark, Mats Thorslund, and Elisabet Lindberg, "Beyond Benevolence – Solidarity and Welfare State Transition in Sweden", International Journal of Social Welfare. 9:4 (October 2000), pp. 238-249.

31 For an elaboration of this point, see Willem Adema, "Net Social Expenditures" Labour Market and Social Policy Occasional Papers No.39, Organization for Economic Cooperation and Development, Paris, 1999, p.9.

which stimulate and partially subsidize private expenditures. These measures, however, often wind up providing the most subsidy to middle and upper middle-income groups -- those with the fewest needs.[32] For anyone trying to calculate both the amount of public subsidy and those who benefit to varying degrees, tax expenditures are much less transparent than direct government expenditures. Often flying under the radar of public scrutiny, one might conclude that tax expenditures promote a hidden privatization of welfare for the rich. Of course, this need not always be the case. With a little care progressive tax expenditures can be designed to serve low-income groups through, for example, refundable tax credits that benefit those whose taxes are so low they would gain little from a basic tax deduction.

33. Economic, behavioral and psychological benefits are presumed to be associated with **measures that require private financing via charging partial fees for subsidized services:** the fees collected from users reduce the overall public costs of services; they foster responsible consumption; and they grant recipients the personal sense of dignity that comes with paying one's way (even if the way is partially subsidized). However, evidence in support of these assumptions is limited and in some cases contradictory.

34. As for the psychological advantages, there are well-accepted programs whose beneficiaries pay no user fees -- for example, public education, unemployment, veteran's services and day care – yet feel no loss of personal dignity. As for the behavioral consequences, it is not clear whether user fees serve to restrain overutilization or act as a barrier to needed services for those too poor to pay (or even in some cases increase unnecessary demands). In the U.S., there is some evidence that co-payments act as a barrier to low-income workers' participation in employer-sponsored insurance schemes and inhibit office visits for primary care services.[33] Similarly, a long-term study by the RAND Corporation on how co-payments effect the utilization of health care services revealed a significant reduction in the use of services, which had no negative effect on the health of the average person -- but a distinct adverse effect on the chronically sick poor who experienced a 10% higher risk of a future heart attack.[34] Co-payments deter services for the poor. In contrast, for upper income groups it is possible that rather than discouraging excessive use of services, charges may encourage trivial demands for more elaborate provisions from consumers who feel entitled to "get their money's worth."[35]

35. One way to reduce the potential barrier to service use imposed by a fixed charge for co-payment involves calculating user fees on a sliding scale that takes into consideration the consumer's ability to pay. Many social welfare services charge user fees on a sliding scale – so that no one is turned away because of low income. The fee schedules may be based on a gently graduated price line that is finely tuned to take into account small differences in family incomes or a notched price line which increases more steeply at broad intervals. The degree of equity in the match between client income and fee increases going from a fixed fee to a graduated price line, but so does the degree of administrative complexity. Sliding scales

32 Neil Gilbert and Barbara Gilbert, op.cit.

33 See Sharon Long, Hardship Among the Uninsured: Choosing Among Food, Housing and Health Insurance. (Washington D.C.: The Urban Institute, 2003); Daniel Cherkin, "The Effects of Office Visit Co-Payments on Utilization in a Health Maintenance Organizations, Medical Care, July 1989.

34 Joseph Newhouse, Free for All? Lessons from the RAND Health Insurance Experiment, (Cambridge: Harvard University Press, 1996).

35 This counter-intuitive point is suggested by Eveline Burns, Social Security and Public Policy (New York: McGraw Hill, 1966).

require income/means tests, which are more difficult to administer than a fixed price and increase administrative costs. [36]

36. When agencies charge very low user fees, the amounts collected may not cover the administrative expenses – defeating the revenue-raising objective. Even when high fees are levied, the apparent public savings may be illusory. Thus, as already noted, early research on consumer fees found that these charges covered about 15% of expenditures for social services in England and Wales. However, on close inspection much of this did not represent public savings, since client out-of-pocket contributions often came from cash they received via welfare benefits, which in the end amounted to intergovernmental transfers.[37] Transfers of this sort take from Peter to pay Paul, with no real savings to public expenditure. Convincing evidence on the effectiveness of user charges for social services is hard to muster, in part because evaluations of this sort require discounting the dollar value of user fees collected against the "costs" of intergovernmental transfers, administrative expenses, and the socio-economic consequences of deterring service utilization for low-income people. An early analysis of the British experience concludes that fees for services usually produce less revenue than anticipated and are of dubious value in reducing public expenditure. [38]However, user fees continue to be widely employed. To the extent that these fees lower costs by constraining service utilization, they may serve, in part, as a mechanism for rationing social benefits.

37. Governments can initiate **measures that mandate private financing through regulatory legislation.** This is a way to address social needs and problems without having to spend very much public money or raise taxes. Although they have slight impact on public expenditure, these mandated benefits are not without costs — the private sector pays through higher insurance rates or consumer prices (or in some cases through lower profits). In the U.S., for example, several states require private businesses to provide medical insurance to all their employees; others require that employer insurance be extended not only to employees, but to family dependents. The risk in this approach is that in some cases the costs imposed on the private sector are so high that small employers are forced out of business or that they reduce social benefits which they voluntarily provided.

38. Regulatory measures have been applied to shift responsibility for many aspects of social protection from public to private sources. A growing number of workers are being required to invest a portion of their pension contributions in private schemes. The presumed benefits and risks of such a strategy is a topic of lively and wide-ranging debate (this is not the place to recount all its details). [39] Rent

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36 For a detailed analysis of alternative fee-schedule designs – fixed, notched, and graduated – and their implications for equity and administrative efficiency, see Neil Gilbert, Capitalism and the Welfare State: Dilemmas of Social Benevolence (New Haven: Yale University Press, 1983).

37 Ken Judge, op.cit

38 Roy Parker, "Charging for Social Services," Journal of Social Policy (October, 1976), pp. 359-73.

39 Roger Beattie and Warren McGillivray argued, for example, that rather than diversifying risk, increased privatization heightens risk see Roger Beattie and Warren McGillivray "A risky strategy: Reflections on the World Bank Report Averting the Old Age Crisis," International Social Security Review. 48: 3/4 (1995) pp. 5-22.. For a rejoinder, see Estelle James, "Providing better protection and promoting growth: A defence of Averting the Old Age Crisis," International Social Security Review, 49:3 (1996), pp.3-17, and the response by Roger Beattie and Warren McGillivray, pp. 17-20. Lawrence Thompson found, among other things, that empirical studies were unable to prove that privately financed schemes have a discernable impact on national savings rates: see Lawrence Thompson, Older and Wiser: The Economics of Public Pensions (Washington, D.C.: The Urban Institute, 1998). In 1999 the World Bank's Chief Economist Joseph Stiglitz co-authored a paper that renounced most of the arguments in favor of expanding the privately managed second pillar as " based on a set of myths that are often not substantiated in either theory or practice see Peter Orszag and Joseph Stiglitz, "Rethinking Pension Reform: Ten Myths About Social

protection is a case of a regulatory measure that creates transfers from local property owners, whose profit is reduced because they cannot charge the market rate, to individual renters whom on occasion may be quite wealthy – as in the well-known case of celebrities living in rent-controlled apartments in New York City.[40] Many analysts contend that stringent ordinances which control the level of rents lead to reductions in the physical condition and the total stock of rental units. According to the Swedish economist Michael Svarer, evidence that rent control distorts the functioning of the housing market among other things by educing labor mobility and the quality and quantity of housing is so convincing as to "make rent control one of the least controversial issues in economics." [41]

39. Regulatory measures can also be imposed on individuals to reinforce social responsibility. Many OECD countries have enacted legislation to ensure fair child-support payments from absent parents. Mandating child-support payments is one thing; collecting them is another matter. Most countries provide the resident parent with an advance child-support payment and then the government takes responsibility for collecting the payments from the absent parent usually through their national tax or revenue office, which results in high rates of collection at low administrative costs. A considerably less efficient approach is taken in the United States where the resident parent is responsible for collecting support from the non-custodial parent – a process that often involves substantial legal efforts and financial costs. [42]

40. Although someone eventually winds up paying for regulatory measures – be it employers, employees, or customers – this approach broadens the avenues through which government can advance private responsibilities for social protection. Of course, regulatory measures are not entirely without public costs since, once they are imposed, government oversight is necessary to insure private compliance. In an era of fiscal constraint, regulatory measures designed to increase private responsibility for social welfare are likely to increase as a substitute for public programs based on taxing and spending.

41. Competition and consumer choice are advanced by measures that promote private delivery of social provisions via the substitution of cash benefits or vouchers for public goods and services. Should children be guaranteed a place in a public school or should their families receive a voucher or a cash grant (roughly equivalent in cost to the public education) to purchase education from private school? Should needy families be given an apartment in public housing or a voucher with which to rent housing on the private market? Should families with young children be provided day-care services by a public agency or receive a cash supplement for child care? The argument for benefits in the form of cash and vouchers assumes that they maximize consumer choice, which stimulates competition among private providers, and in turn generates innovations that reduce cost and heighten quality. It is sometimes claimed that the link between consumer choice and quality of services fails in the case of low-income recipients because they tend to lack the information or good judgement to make wise choices. However, as Besharov explains:

Security Systems," paper presented at the conference on "New Ideas About Old Ager Security", The World Bank, Washington D.C., September 14-15, 1999, p.40

40 Mia Farrow and Carly Simon, for example, payed up to $2200 a month for huge rent-controlled units that could command $5,000 to $10,000 a month in the absence of regulations. For a critical analysis of rent controls, see Irving Weld, "Poor Tenants, Poor Landlords, Poor Policy," The Public Interest 92 (Summer 1988).

41 Michael Svarer, "Comment on Richard Arnott: Tenancy Rent Control," Swedish Economic Policy Review, 10 (2003), pp.123-126; also see Assar Lindbeck, "Changing Tides for the Welfare State– An Essay," Working paper No. 550, The Research Institute of Industrial Relations, Stockholm, 2001.

42 Duncan Lindsey, The Welfare of Children 2nd ed. (New York:Oxford University Press, 2004).

> "Markets for social welfare services, like other markets, do not require that all buyers be wise. Economists argue about how many savvy consumers are needed and how well-informed they need to be. The consensus answer is: Not many. In fact some economists argue that it is only the marginal consumers who matter.[43]"

42. Thus, according to theory everyone gains -- government benefits with lower expenditures, consumers with higher quality and the private sector profits from the increased business. But as the saying goes, the devil lies in the details. In maximizing consumer choice, the risk with cash benefits is that the money might not be used to advance the social purpose for which it was granted. Cash grants that government allocates to families for education or child care could be spent by recipients for others less salutary purposes. As Alva Myrdal argued over 50 years ago, it is evident that cash subsidies for the benefit of children "would become merged in the average family budget without special regard for children." She notes that the money might go toward the mother's new hat or the father's liquor account or for more movies and magazines.[44] And even when they do use the cash grant for designated purposes low-income recipients may be tempted to spend less than the whole amount -- buying a lower quality of service, such as child care or education, and putting the surplus to other uses.

43. As an alternative to cash, benefits in the form of vouchers preserve a high degree of consumer choice, but restrict consumption to a publicly defined purpose be it food, housing, education, health care or some other vital service. Vouchers do not normally create the same degree of cost-consciousness among recipients as cash grants: with cash the cost savings of lower priced purchases can be pocketed. A similar level of cost-consciousness can be achieved by designing refundable vouchers, which allow recipients to keep the difference between the cost of the service purchased and the full dollar value of the voucher. This, however, reintroduces the problem of tempting low-income recipients to choose low-cost, low-quality services – violating the intended public purpose of the benefit.

44. Although vouchers can influence what recipients consume, in many cases they are vulnerable to the "substitution effect." This occurs when the recipient's use of vouchers does not increase household consumption of designated goods and services, but simply replaces household resources that are already being spent on theses commodities. For example, research on food stamps in the U.S. shows that they have only a modest increase in household food consumption; for every dollar spent in food stamps the recipients' consumption of food increases by only thirty cents. Recipients can also divert consumption of (certain types of) vouchers on publicly defined benefits by trading them for cash at a discount on the black market.

45. Finally, just as recipients may not always use vouchers to choose those goods and services for which they are intended, the market may not always respond as expected in generating choices. In sparsely populated rural communities, for example, there may not be enough private producers of goods and services to create a competitive market. And in other cases vouchers may be limited to providers that satisfy professional licensing or health standards, which local agencies are unable or unwilling to meet.[45]

46. Measures that directly advance the private production and delivery of welfare provisions through purchase-of-service arrangements constitute what are, perhaps the most frequently used pathways for market-oriented reforms of social services. Under pressures to operate more efficiently and to adopt the "businesslike" manner of the private sector, public agencies are increasingly contracting with voluntary

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43 Besharov, op.cit, p.11.

44 Alva Myrdal, Nation and Family: The Swedish Experiment in Democratic Family and Population Policy (Cambridge:M.I.T. Press,1968 paperback edition) (Original edition, Harper and Brothers 1941), p.143.

45 For an insightful review of the advantages and limitations of vouchers, see Besherov, op.cit. pp. 33-38

and for-profit organizations to deliver social welfare services. This contracting-out of services from the public to the private sector is part of a larger trend in the devolution of responsibility for social welfare from central-to-local-units of government and from local government to community-based private agencies. Although both large and small-scale for-profit providers are penetrating the social service arena, voluntary community-based agencies continue to receive a significant proportion, if not the bulk, of purchase-of-service contracts. [46]The trend toward contracting is fueled by theories that local private providers are more responsive and efficient than public bureaucracies and more likely to promote civil society – theories which do not always match with empirical experience.

47. One of the benefits claimed for contracting with voluntary community-based organizations is that they serve as local mediating networks which create a cushion of civil society between the individual and the state. These mediating structures are supposed to soften the power of government, bolster the influence of individuals, and affirm the norms of communal life. In recent times there has been growing interest in strengthening the social fibers of civil society through the promotion of voluntary associations. The current romance with local communities may be, in part, a backlash against the cold impersonality of globalization – as well as a desire to rejuvenate the waning spirit of community.[47]As one public official observes, "When civil society is strong it infuses a community with its warmth, trains its people to be good citizens, and transmits values between generations. When it is weak no amount of police or politics can provide a substitute."[48]

48. The popular appeal of strengthening the mediating structures of civil society generates much support for contracting with community-based agencies to deliver social welfare services. Along with providing a communal buffer between the individual and the state, voluntary associations are highly regarded as fertile space for civic engagements that cultivate what social scientists refer to as "social capital"-- a kind of productive resource created through networks of interpersonal connections. These interpersonal networks forge norms, obligations, and trust, and open channels of communication, all of which heighten the capacity of people to work together for common purposes.[49] The need to revitalize civil society by strengthening the role of non-governmental organizations in community life has become a tenet of political wisdom widely shared in the United States and Europe. [50]

46 For an analysis of governments' expanding use of voluntary non-profit organizations to provide services to physically, mentally, and sensorially handicapped persons in Italy, the Netherlands, the United Kingdom, and Norway, see Ralph Kramer, Hakon Lorentzen, Willem Melief, and Sergio Pasquinelli, Privatization in Four European Countries: Comparative Studies in Government-Third Sector Relationships. (New York: M.E.Sharpe, 1993). In the U.S. community-based organizations are starting to have difficulty competing for service contracts as several national for-profit organizations that rank among the nation's top corporations are entering the field of social services. See Cecilio Morales, "How CBOs can compete in devolved contracting; field getting crowded," Welfare to Work 14:4 (February 28, 2005), p.31.

47 The malaise of a declining sense of community is neatly captured in the evocative title of Robert Putnam's widely cited work, Bowling Alone: The Collapse and Revival of American Community, (New York: Simon and Schuster, 2000).

48 Dan Coats. "Can Congress revive civil society?" Policy Review No.75 (January/February, 1996), p.25.

49 James Coleman, "Social Capital in the Creation of Human Capital," American Journal of Sociology. 94 Supplement (1988), S 95-S 120.

50 See, for example, Krauthammer, op.cit. pp.15-22; Peter Berger and Richard Neuhaus,To Empower People: From State to Civil Society. (Michael Novak ed.) (Washington D.C.: AEI Press, 1996; Stephen Osborne and Aniko Kaposavri. "Towards a Civil Society? Exploring its Meaning in the Context of Post-Communist Hungary," Journal of European Social Policy. 7:3 (August 1997), pp.209-222; Anton Zijderveld, The Waning of the Welfare State (New Brunswick: Transaction Publishers, 1999).

49. However, efforts to strengthen civil society through shifting service deliver from the public domain to voluntary community-based agencies, may not always result in a net gain. This is because all of the consequences of contracting have not been fully articulated, particularly in the United States where union membership fell precipitously between 1983 and 1998.[51] Standing between the individual and market forces, labor unions are in many ways an archetypical mediating structure – a quintessential voluntary organization and a powerful source of social capital in modern society. With the decline in union membership among workers in the private sector over the past several decades, public bureaucracies have emerged as the last stronghold of the labor union movement in the United States. One of the reasons for this holding power is that organized labor in government is largely in the service sector; unlike industrial production, these service jobs could not be shipped overseas to be performed at a lower cost (except, perhaps, for services that involve providing information over the telephone). Instead, they are now being outsourced to local community organizations. These are relatively small, voluntary non-profit units, including faith-based organizations which may have few ties to organized labor. Does the shift to local voluntary agencies advance the cause of civil society and generate a net gain in social capital? The answer requires a careful calculation that factors in the potential reduction in the communal life of organized labor.

50. Whatever the impact on civil society, one might argue that in contracting-out of services the public benefits from lower costs and heightened flexibility of labor in community- based organizations, where the job security of public sector employment is almost unknown. From this perspective, third-party contracting often reduces service costs not necessarily due to the market discipline imposed by consumer choice and competition, but because community-based agencies tend to offer employees lower salaries and benefits than those paid to unionised workers in public bureaucracies. In fact, third-party contracts generally fail to provide the kind of consumer signals that serve to regulate cost and quality in the competitive market. Under third-party contracts, the first-party-buyer (government) does not consume the services acquired, the second-party- consumer does not pay for the services received – while the third-party-producer stands in the highly advantageous position of dealing with a buyer who rarely sees what is purchased and a consumer who never bears the expense. [52]

51. The competition, such as it is, that operates under purchase-of-service arrangements, is usually among voluntary and for-profit contractors vying for public funds to deliver social services. In the course of choosing among competing private providers, public officials must exercise considerable skill to formulate contracts that deliver the best deal – a task that most of them were not required to perform 10-to-15 years ago and for which few have received adequate professional preparation. Purchase-of-service contracts demand a precise specification of what it is that the public agency is buying – the units of social service – and how much each of these units cost. How many social service administrators can accurately define all the relevant units of service their programs provide and exactly how much these units of service cost?

52. The answer depends, largely, on the complexity of the services being offered. Some social service involve highly uniform procedures as, for example, a drug-abuse treatment program that

51 All of the decline was in the private sector, where union membership slid from 16.5 percent to 9.5 percent of all wage and salary workers -- a drop of over 40 percent. At the same time the percent of union membership represented by the public sector slightly increased. In 1983, government workers accounted for 32 percent of all union membership; a figure that climbed to 44 percent by 1998. See, U.S. Census Bureau. Statistical Abstract of the United States:1999. (Washington D.C., 1999), p.453.

52 For this reason, it has been suggested that government contracts for service be awarded to private agencies that have a significant proportion of paying customers. Through this approach known as “proxy shopping”, government uses the behaviour of private consumers to indirectly monitors the cost and quality of services. For discussion of this approach, see Susan Rose-Ackerman, “Social Services and the Market,” Columbia Law Review 83:6 (1983), 1405-38.

periodically dispenses a prescribed dosage of methadone to clients. The unit of service is discrete and the cost can easily be calculated. However, many services are individually tailored and multifaceted involving a package of social care that is holistic in nature. Group home placement for emotionally disturbed children, for example, encompasses a twenty-four-hour-a -day operation that includes food, shelter, care, and therapeutic counselling. Here the provision of service is a complex process that integrates diverse functions; the determination of unit costs requires a careful analysis that divides the holistic service into relevant components. Social services fall along a continuum from highly standardized and discrete provisions to highly complex and holistic forms of care. Somewhere in the middle, we might place day care for young children, which provides a service that encompasses food, shelter, education, socialization, and sometimes even health care.

53. The basic proficiency in purchase-of-service contracting involves computing the unit cost for complex and holistic forms of provision. The arithmetic is rudimentary – divide the total annual costs for a service component by the units of interest.[53] However, the denominator in this equation is often baffling. There are at least three ways to define units of interest in service contracts: the number of consumers served, the type and quality of provisions delivered, and the level of performance in achieving results. Consider the case of a group home for severely emotionally disturbed children, which can accommodate six residents. With the consumers as the unit of interest, the annual costs for providing this service (staff, rent, food, administration, insurance, utilities, furniture, transportation, etc.) are totalled and divided by the number of children in residence over the year. Costs often run in the range of $120,000 - 140,000 per year per bed for mental health services in a group home facility for disturbed children, which may sound expensive until it is compared with the $200,000 - 250,000 annual costs of hospitalization – the other alternative for severely disturbed children.[54] Although using the number of consumers as the unit of interest is the easiest way to calculate the unit price of group home care, from a purchase-of-service perspective it is the least effective method for contracting out complex services, since it ignores the question of exactly what is being delivered in the way of care.

54. Performance contracting is an alternative and more demanding approach, which ties the level of funding directly to what the purchaser hopes to achieve – linking service costs to results. Results are relatively simple to assess for fixed services that are highly standardized, such as administering flu inoculations, but difficult to set and measure when dealing with complex multi-faceted services. What is the desired outcome of group home care for emotionally disturbed children? One could say that just keeping these children out of harm’s way in a group home, and out of the considerably more expensive hospital care is a desirable outcome. “Warehousing,” however, is an unseemly goal of social care – even prisons aspire to rehabilitation. A more agreeable goal would be to stabilize the children’s emotional state and improve their behaviour so that they can function well enough to be moved to a less restrictive environment, preferably returning home to their parents or going into foster care, within a specified period of time. In response to this outcome, the unit cost of service could be tied to performance measured by periodic evaluations of the children’s social-emotional state or the rate of discharge from the group home. (Discharge rates would have to be adjusted for incidence of recidivism to insure that the children were not being just ushered through a revolving door to meet the contractor’s performance criteria.) In both cases – periodic testing and tracking children discharged from group care over time – it is costly to assess

53 Bearing in mind that an average unit cost computed this way is different from the marginal costs of adding one more unit of service. There are certain fixed overhead costs that do not expand proportionately with an increase in units of service.

54 These figures represent the hospital rates and ADFC and mental health rates for residential care of severely emotionally disturbed children in Northern California.

performance.[55] Not only does pay-for-performance contracting involve measures that are costly, uncertain and difficult to administer for comprehensive types of social care, but a payment structure based on particular results may encourage the process commonly referred to as "creaming," through which service providers avoid the risk of failure by selecting clients at the top of the pool, those who are most likely to achieve the desired results rather than those who are most impaired.

55. Given the limitations of pegging contract costs to the number of consumers receiving care and the difficulties and risks of the pay-for-performance approach, purchase-of-service arrangements are most often designed to pay contractors the actual costs of specific services delivered. In practice, some contract arrangements are highly complicated because of substantial variations in the level of services that clients will require, which neither the purchaser nor the provider can know in advance. The managed-care model in child welfare, for example, often provides a fixed amount of payment per client per month (the "capitation" fee) based on an estimate of the average costs of services to the enrolled client population. Contracting agencies able to deliver adequate services for less than the capitation amount, can pocket the difference. And those who end up serving clients that cost more than the monthly payment are liable for the difference. [56]

56. The decisive task in designing contracts that reimburse actual costs per service is defining all the relevant units of service and the level of quality expected in each area. Consider how public officials might define quality for the most basic components of group home care: daily adult supervision and meals. In regard to supervision, a purchase-of-service contract would be likely to specify the educational level of staff, their professional training and the staff/child ratio in the home at all times, probably on the order of one staff person for every three children during the daytime and a 1-to-4 ratio during the evening hours. As for meals, the contract would certainly specify the number of meals (three daily per child, plus an afternoon snack) and basic nutritional standards. However, on the provision of both staff and meals there is a range between minimal and optimal quality, which transcends the easily measured criteria of staffing ratios, education, days of training, number of meals and nutritional standards. These measures fail to capture essential qualities of group care such as the maturity and warmth of staff (and where they got their education), and the taste, texture, and presentations of food. The drive for efficiency can lead to the undervaluation of the qualitative components of care. Beyond the basics of food and supervision looms the more perplexing question of what constitute all the relevant components of care: does the contract specify the nitty gritty of how often the floors are swept and the bed sheets changed, how warm the building is kept, the square feet per child, and other household amenities?

57. One might ask, does all this really matter that much? Why not have public administrators just prepare contracts that enumerate the basic components (ratio of staff to children, number of meals) of the service being purchased and leave the rest to the professional judgement and good intentions of the private service provider? Why not just trust them to do the right thing? The answer is illustrated by the experiences of welfare offices in the United State in contracting out employment services under the Temporary Assistance to Needy Families (TANF) program. A study of four urban areas reveals considerable variation within and between the sites in the amounts paid to private providers who were delivering similar types of service that involved job search, placement assistance and case management. For components of service that sounded very much alike, the average per person reimbursement across the four urban areas differed by as much as 130%, and very large differences, up to 400%, were also found in the price of services

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55 Moreover, in the absence of a random-assignment experimental study, one could not attribute improvements in the children's behaviour to participation in the group home program with a high degree of scientific confidence – maybe they would have improved anyway as they matured over time.

56 For a detailed analysis of 47 managed-care initiatives in child welfare, see Charolette McCullough and Barbara Schmitt, "Managed Care and Privatization: Results of a National Survey." Children and Youth Services Review. 22:2, (February 2000), pp.117-130.

within each of the areas. The largest variations in cost appeared among the sites in which the public program administrators tended to accept the price set by service providers.[5755] These findings are hardly unexpected. In the ethos of market exchanges, the admonition that "customer is always right" is countermanded by the advice of "caveat emptor," a warning especially pertinent to third-party purchases in which service providers stand between the buyer and the consumer.

MARKING THE TRADE-OFFS

58. The five policy pathways to increasing private responsibility open fresh avenues of thought and action concerning ways to finance and deliver social protection. As policy makers explore these avenues seeking to find the appropriate balance between public and private responsibility, they must come to grips with questions about how alternative measures impact access to services, quality, cost, redistribution, public oversight, social objectives and consumer choice – and the trade-offs made along the way. Measures that maximize consumer choice, such as vouchers and tax incentives, have a broad advantage in sending market signals that stimulate competition and innovation (and drive down costs), unless there are not enough providers for a true market to develop. But in giving consumers choices, they may not always select the goods and services that maximize social objectives. Tax expenditures are easy to administer and do not have quite the same feel as a cost to the public budget as direct public spending. But tax expenditures also tend to be less transparent than direct expenditures. Regulatory measures that mandate private responsibility for social provisions reduce public expenditure, but do not always impose a fair and equal burden on units in the private sector. Fee-for-service measures may restrain unnecessary consumption, but also create barriers to poor people seriously in need of services. Government purchase-of-service measures may breath new life into local voluntary organizations, but deplete the infrastructure for public provisions. There is no exacting social compass for deciding which ways to go among the various alternatives – trade-offs and risks await at every turn.

59. Some social goods and services may be more amenable to public or private provision than others. And traditional relations among government, business, and labour in different societies will certainly influence the preferred paths toward increased private responsibility. In treading the pathways toward privatization, the objective is not to find the shortest quickest route, but to avoid the pitfalls along the way – and to chart a course that is not so focussed on economic efficiency that it loses sight of the public purpose of social protection.

57 Michelle Derr, Jacquelyn Anderson, Carole Trippe, and Sidnee Paschal, The Role of Intermediaries in Linking TANF Recipients with Jobs. (Washington, D.C.: Mathematica Policy Research Inc. February 2000) .In examining what might have accounted for these differences, the study found a high degree of variance in sites where the TANF program administrators just accepted the purchase price set by the private providers and a high degree of comparability in prices in sites where the program administrators negotiated with providers on the price for services.

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