

NEW PARADIGMS IN PUBLIC POLICY

Squaring the public policy circle: Managing a mismatch between demands and resources



by Peter Taylor-Gooby



POLICY
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SQUARING THE PUBLIC POLICY CIRCLE: MANAGING A MISMATCH BETWEEN DEMANDS AND RESOURCES

A REPORT PREPARED FOR
THE BRITISH ACADEMY

by Peter Taylor-Gooby FBA

NEW PARADIGMS IN PUBLIC POLICY

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FOREWORD

Public expenditure – its scope, volume, value for money and relation to private alternatives – has been at the centre of public debate for decades. Although there are political differences about the timing and speed with which it is undertaken, there is now a general consensus that in the next few years the current UK government deficit needs to be cut. Yet, at the same time, any government will face demands for more extensive and better quality public services, most notably in health care, education and pensions. How can the circle be squared?

In this review of the issue, Peter Taylor-Gooby highlights some of the barriers to dealing with the dilemmas that cutting public expenditure involves. Cuts to programmes reassert control for the short-term but do not seem to stem the pressure for increases over the longer term. Work incentives and choice are popular, but they do not help much in achieving the volume of savings required. Policies to induce behaviour change, for example in relation to citizens leading healthier life-styles, have promise but they are as yet untested in the long-run and so their implications for public expenditure are unclear. And the voluntary sector has only a limited capacity to deal with the scale of need that withdrawal of public funds would involve.

As Peter Taylor-Gooby suggests, governments are likely to use all of these approaches, but will do so in different ways depending upon their ideological colouring. In this context, one of the benefits of this policy review is to provide a non-partisan overview of the strength and weaknesses of the different instruments available.

Not only has Peter Taylor-Gooby produced this thought-provoking analysis, he has also been responsible for initiating and overseeing the larger British Academy policy project on 'New paradigms in public policy'. For undertaking this onerous task he is owed a debt of gratitude. The reports in this series

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cover some of the most difficult problems facing public policy makers in the next few years. As with this report, the series offers 'naught for your comfort'. But the reader will find in the series, as in this study, an intelligent and well-informed survey of what is known about the problems with which it deals. No new paradigm will be well-founded unless it takes this evidence into account.

Professor Albert Weale FBA

Vice-President (Public Policy), British Academy

November 2011

KEY MESSAGES

The continuing problem of balancing pressures on public spending presents real challenges for our democracy. It is a commonplace in discussion of public spending that the UK government must manage the conflict between insistent pressures to spend more and equally insistent pressures to curb spending. Population ageing and rising public expectations fuel the appetite for increases; the exigencies of international competitiveness, and now the economic crisis, demand cutbacks.

A whole range of strategies have been developed in an effort to handle these pressures. These include shifting responsibility from government to individual, the private or the voluntary sector for various areas of provision, innovative and stricter management of state provision and attempts to change people's behaviour to reduce demands. Despite some successes, there are drawbacks with all these approaches, to do with the scope of the changes and public acceptability.

Current and continuing economic problems bring home the dilemma of managing conflicting demands to spend more and to constrain pressures on the public purse. One outcome of a continuing failure to meet expectations is that trust in politicians will decline further. It is hard to recapture public trust without a move towards a more informed and genuinely democratic public debate.

EXECUTIVE SUMMARY

THE CONFLICTING PRESSURES ON PUBLIC SPENDING

- The UK government faces insistent demands for more spending and equally insistent pressures for cutbacks.
- Two important factors enhance demand for more spending on social and public services:
 - Changes to population age structure leading to higher spending on pensions, and health and social care;
 - Rising public expectations for better services.
- However, in a global economy, with international speculation on national economies, governments face constraints if their policies are not seen to be financially prudent – and this is one reason why the coalition government is carrying out cuts to their spending
- But it is difficult to achieve major cuts in democracies. Long term studies of state spending during the past century reveal an overall pattern of stability: substantial shifts in spending levels only follow from major shocks and have tended upward. Even after major cutbacks such as the Geddes Axe in 1921, the 1931 national coalition government cuts, or the 1975 Labour cuts following the IMF loan, spending levels tend to return to trend.
- As an alternative, there have been attempts to improve cost-efficiency in the public sector – to do more for less. This has proved hard: for instance, even with such drives between 1996 to 2008 productivity in the NHS has fluctuated, with a very slight net fall.
- These issues – of diverse but increasing demands, constrained resources and limited authority – have implications for the broad shape of public policy in the medium-term future.

- In particular, they have led to the development of new policies which seek to draw on the private sector, the market, the community and individual citizens in new ways.
- These methods, pursued by government in an attempt to balance the spending/cutting conflict, can be grouped under six main headings.

1. GREATER INDIVIDUAL RESPONSIBILITY: WORK INCENTIVES

- National governments have promoted the transfer of responsibility from state to individual in the move towards more active benefits for those of working age.
- Current policies increasingly limit entitlement to benefits, for instance through stringent work-tests for able-bodied claimants, eligibility tests for incapacity benefits and possible means-testing for the currently universal over-60s winter fuel payment and bus passes.

2. SHIFTING PROVISION TO THE PRIVATE SECTOR

- From the 1980s, governments have sought to make greater use of the private sector in order to tackle the problems they face e.g. Right to Buy introduced in 1979–80.
- There have been some attempts to privatise in education and health e.g. the Assisted Places Scheme from 1980 to 1997 provided a relatively small number of places at private schools for students from low-income families selected by the schools.
- Privatisation appears to be more successful in generating savings and more acceptable to the public in transfer of assets such as council housing, and in the provision of back-office

and general services. It is much less popular and effective in relation to core public services such as the NHS and state schooling and may generate problems in local government.

3. STATE AND MARKET: USER CHOICE

- The expansion of markets and of choice through public services is both a direct response to public demands and a way of getting managers to deliver a more responsive service.
- Choice within state financed services has been introduced e.g. patient choice between different (state and non-state) providers for non-urgent treatment; the recently-implemented personal budgeting system in social care.
- Across most areas of state provision, choice is popular and choice procedures tend to make services more responsive, leading to greater satisfaction of service users. Flexibility in supply and rigorous controls are necessary to avoid providers ‘cherry-picking’ and to prevent more privileged users getting preferential access to the best services – for instance, when over-subscribed state schools may choose students from more privileged social groups.

4. TARGETS AND INCENTIVES

- Recent governments have used targets linked to a range of incentives, including the dismissal of unsuccessful managers, rewards, penalties, reputational advantage and extra resources towards meeting targets.
- The target plus incentive approach is most likely to succeed when the objective and the associated incentive structure are simple and transparent, and when there is a clear consensus on the priority of various activities.

- It has had some success: e.g. high-profile targets in the health service have been achieved in relation to waiting times, waiting lists, mortality from cancer and cardio-vascular disease, and in relation to GP activity. However, it is difficult to disentangle the independent effect of the targets from simultaneous increases in funding in health, education and social care.
- The approach has contained some costs, but has faced difficulties in addressing the dilemma of meeting insistent and diverse demands. It is not popular with the public or with the professionals it seeks to direct.

5. BEHAVIOUR CHANGE

- Nudge is attractive because it offers savings by modifying people's behaviour to reduce demands on social provision. Policies are based on:
 - Heuristics such as anchoring, and loss aversion;
 - Cognitive dissonance (the observed tendency for people to shift their beliefs to suit their behaviour, rather than vice versa);
 - Conformity tendencies (the way in which people often seek to change their behaviour to fit in with a group with which they identify).
- Examples include opt-out pension schemes, parent-child homework contracts, and stop smoking schemes where money is only returned to the individual once they have achieved their goal.
- Nudge approaches may be useful, but government has other resources available to it in improving outcomes in areas such as health: for example, the regulation of food quality and alcohol sales, and redesign of transport systems.

- Government is also limited by the social traditions and commercial interests framing many choices.

6. SHARED VALUES: THE THIRD SECTOR

- Civil society groupings have a strong tradition of providing for a huge range of social needs, ranging from promoting human rights, to improving animal welfare, to culture and recreation.
- Most recently, the 2010 government has emphasised the Big Society agenda, and seeks to tap the energies of the third sector further, but third sector policies are not new. They lay behind the New Deal for Communities programme and the National Strategy for Neighbourhood Renewal (Social Exclusion Unit, 1998).
- The scope of the voluntary sector is narrower than that of government and the organisations that are closest to public services rely heavily on state support. It also has its strongest base in the better-off areas of the country, leaving more deprived areas poorly served.
- Studies of the capacity of voluntary and charitable organisations to substitute for services like the NHS on a substantial scale indicate that they are simply unable to make a decisive contribution.
- Voluntary activities draw on resources of goodwill and commitment that can supplement but not replace public provision.

FUTURE DIRECTIONS IN POLICY

- The tension between demand for public services that meet a diverse range of needs and the pressure to contain spending is likely to continue to shape the context of policymaking.

- The scope and limitations of different strategies suggests that any future scenario is likely to include a combination of policies, varying in levels of centralisation and generosity.
- The evident mismatch between the promises contained in policy platforms and the outcomes experienced in ordinary people's lives may already lead citizens to distrust politicians. With a real danger of 'permanent austerity' in western welfare states (Pierson 2000: 456), which would place real limits on what government can do, trust could decline further.
- There is a real need to improve levels of political awareness among citizens, so that the dilemma of containing spending and meeting demands can be opened directly to the public for discussion and decision-making.

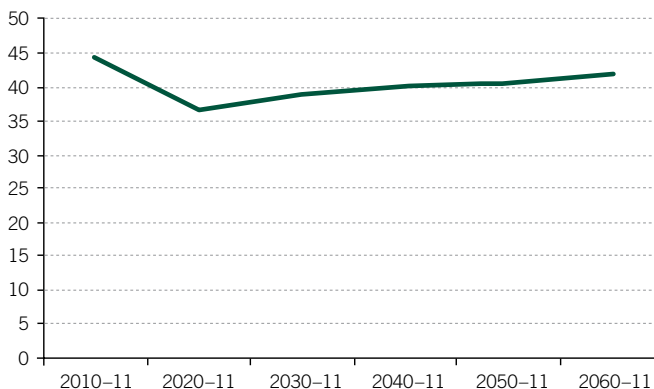
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THE CONFLICTING PRESSURES ON PUBLIC SPENDING

Governments face a conflict between pressures to constrain and to increase state spending. For a number of reasons this conflict has grown harder to manage in recent years. The 2009 recession and the sluggishness of the recovery make the problem even more difficult. This paper examines some of the methods pursued by the UK government to square the circle of insistent demands for more spending and equally insistent pressures for cutbacks. We consider moves to encourage citizens to take greater individual responsibility, expand the private sector, promote user choice, focus provision through targets and incentives, shift the behaviour of citizens to help meet public policy goals, and extend the role of the voluntary sector. First we discuss the arguments about the contradictory pressures on government.

Commentators list a substantial number of factors that enhance demand for more spending on social and public services (for a review see Pierson (2000 80–106). Two important factors are the changes to population age structure, which will lead to higher spending on pensions, and health and social care (HM Treasury 2009; Hills 2009: 338), and rising public expectations for better services (Glennerster 2009, 206). Developments in the first area are exacerbated by associated shifts in household structure and in women's employment that seem likely to reduce the supply of informal carers for frail older people and increase the need for child care (see Thane 2011 for a discussion). In the second area, people have become more confident in articulating and pressing home their needs. Their expectations of government services are influenced by rising standards in consumption goods (Giddens 1994, 163–4).

Figure 1: Projected government spending 2010–11 to 2060–61 (% of GDP, net of interest payments)

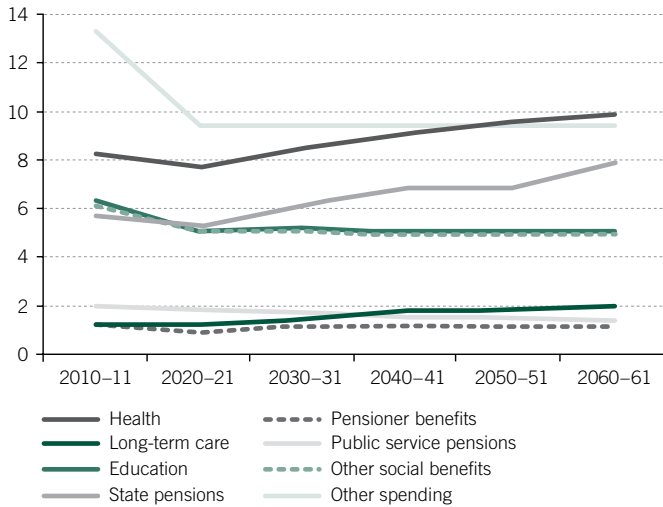


Source: Office for Budget Responsibility (2011b: 62)

Figure 1 charts the official projections of public spending for the next half-century. These projections rely on a large number of assumptions, covering population growth, ageing and structure, work patterns and trends in employment, education and retirement, growth rates and productivity changes in the state and private sectors and demand for government services. They are based on the best available knowledge but necessarily carry a good deal of uncertainty. The projections forecast that, once the current austerity programme comes to an end, public services will consume a steadily rising proportion of GDP.

More details are given in Figure 2. This shows how the main areas of rising spending are health care, state pensions and long-term care, all driven mainly by demography, but also by demands for better standards of provision. Spending on education, social benefits and in other areas is projected to remain roughly constant or fall.

Figure 2: Main components in projected government spending 2010–11 to 2060–61 (% of GDP, net of interest payments)



Source: Office for Budget Responsibility (2011b: 62)

The discussion of constraints on public spending emphasises the importance of globalisation. Western economies face greater competition in international markets from those with smaller public sectors (Pfaller, Gough and Therborn 1991; Bardhan, Bowles and Wallerstein 2006). Social spending becomes vulnerable to the charge that it is a ‘burden’ financed by more productive sectors of the economy (Scharpf and Schmidt 2000, 51–68; Alesina and Perotti 2004). It is easier to manage the dilemma when governments are confident of growth and of controlling the essential features of their own economies. The impact of international speculation on national economies brings home the point that governments face constraints if their policies are not seen to be financially prudent (Swank 2002: 2–4; McNamara 1998).

These pressures are particularly intransigent at the present time. Economic recovery proceeds at a snail’s pace in western

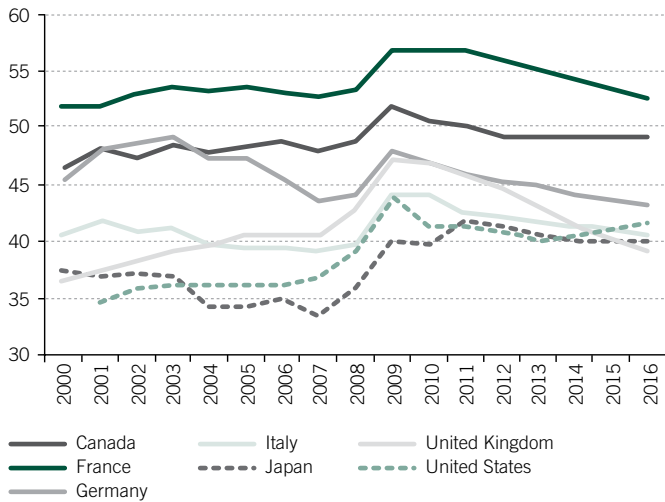
countries. Policies which address demands by seeking to redistribute the proceeds of growth, as in the post-war heyday of the welfare state, face difficulties. There are also problems with policies which seek to reduce overall spending. It is enormously difficult to achieve major cuts in democracies (Pierson 2000; Weaver 1986). The expensive areas of public spending remain highly popular: health care, education and pensions have been consistently identified as top priorities for extra spending since the British Social Attitudes survey (BSA) started work in 1983 (Barnes and Tamoaszewski 2011: 196)¹. Cutbacks, when pursued with sufficient vigour, have succeeded in the short-term. However, long-term studies of state spending during the past century reveal an overall pattern of stability: substantial shifts in spending levels only follow from major shocks and have tended upward. The first world war lifted UK spending from a trend level of 12–15% to 25–30% of Gross Domestic Product (GDP) and the second world war raised it to 35–40% (Dunsire and Hood 1989; Peacock and Wiseman 1967). Even after major cutbacks such as the Geddes Axe in 1921, the 1931 national coalition government cuts or the 1975 Labour cuts following the International Monetary Fund (IMF) loan, spending levels tend to return to trend.

The official IMF projections of public spending in the seven major capitalist economies are given below in Figure 3. In all cases spending as a proportion of GDP rises sharply as the 2007–9 recession brings about increased spending on bank bailouts, rescue packages and social benefits, and causes GDP to fall. Public spending is then expected to decline towards the previous trend level, except in the cases of the US and Japan. The UK's pattern is striking in the scale of the 2007–9 increase and in the abruptness of the subsequent decline set out in the

1 British Social Attitudes data are available through the, The British Social Attitudes information system [online], at <http://www.britisocat.com> (Accessed on 26 August 2011).

government's spending plans. These will take public spending back to the level of the 1990s and ensure that the UK is the lowest spender among G7 countries. Whether cuts at this pace can be implemented successfully is at present unclear.

Figure 3: Government expenditure 2000–16 (% GDP)



Source: International Monetary Fund 2011²

One solution might be to improve cost-efficiency in the public sector, to do more for less. Despite a large number of measures pursued by different governments during recent years, progress in this area is disappointing. Productivity in the public sector is difficult to measure. While the resources expended by central and local government can be measured, it is arguable that outputs should include qualitative as well as quantitative items (Atkinson 2005; Simpson 2007). For example, the public want the health service to provide treatment that allows patients dignity and a sense that nurses and doctors are committed

2 Expenditure after 2010 is based on government projections.

to meeting their individual needs. The education system is expected to broaden opportunities for more deprived groups and improve standards. This complicates the measurement of output in crude terms of the volume or activity i.e. numbers of patients treated or children in school.

Recent assessments of productivity in health care and education seek to take account of qualitative issues by including service users' assessment of quality from attitude surveys and measures of the success in meeting government targets for quality of service. They show that productivity in the National Health Service (NHS) has fluctuated over the period between 1996 to 2008 with a very slight net fall, mainly due to increases in the drugs bill and in staff pay (Penaloza *et al.* 2010). For education, productivity also fluctuated, mainly due to changes in the school population, but it has shown little change over the whole period (Ayoubkhani *et al.* 2010). Resources were squeezed up to 1999 as the cuts of the Major government continued to feed through. From the beginning of the twenty-first century, spending, and with it the aspirations of policymakers, rose substantially. It has proved hard for governments following radically different policies to make progress in getting more for less. Under current plans spending on health care faces, at best, a steady state, while other areas of social provision will be cut back substantially (HM Treasury 2010a; Institute for Fiscal Studies 2011; Taylor-Gooby and Stoker 2011).

The UK government, like those in other western countries has the task of managing conflicting pressures to provide better (and more expensive) public services while containing state spending. The problem has become increasingly difficult as demographic and other pressures intensify and as national economies face the need to ensure international competitiveness. The current financial crisis tightens the screw.

This paper reviews some of the ways in which diverse but rising demands and constrained resources influence

policymaking, and considers the implications for the broad shape of the public policy debate in the medium-term future. This is a vast field and we focus particularly on new policy directions which seek to shift the balance between the state, the private sector, the individual citizen and the community in provision. The longer term history of public policy discusses responses to the pressures people experienced in the rapidly urbanising and industrialising society of the eighteenth and nineteenth centuries. Ordinary citizens developed collective institutions to meet their needs as best they could: friendly societies, benefit clubs, unions and building societies which pooled savings to provide the members with housing (Thane 1996; Thompson 1992). Charitable relief played a role in hospitals and poor relief. Market provision also developed in step with opportunities. The subsequent growth of the welfare state has largely been a story of the incorporation and expansion of much of the working class and civil society provision into a more comprehensive and better funded framework (Lowe 1999; Alldritt *et al.* 2009). The boundaries between state, market and voluntary, community, individual and family provision for social needs shifted as governments expanded provision for social needs (Power 2011).

Current tensions are leading to the development of policies which draw on the private sector, the market, the community and individual citizens in new ways. These developments can conveniently be grouped under six main headings: strengthening individual incentives; expanding the private sector; using market systems to extend user choice; introducing targets and associated incentives to improve the quality and cost-efficiency of state provision; operating 'with the grain' of everyday life heuristics and choice strategies; and extending the role of the voluntary sector and enhancing democratic engagement.

1. GREATER INDIVIDUAL RESPONSIBILITY: WORK INCENTIVES

National governments have promoted the transfer of responsibility from state to individual in the move from more passive to more active benefits for those of working age (European Commission 2008). The UK's approach to activation has incorporated two elements: stringent restrictions on entitlement that limit the number of people who can claim out of work benefits and the level of benefits they can claim, and wage top-ups or tax credits so lower-paid people can meet their needs (Millar 2009). Current policies limit entitlement further, most importantly by further tests of eligibility for the rather higher Incapacity Benefit and the restructuring of the Disabled Living Allowance. These measures are expected to move more than half the current 2.5 million disabled claimers to cheaper benefits, to Jobseekers' allowance or into work and save in excess of £2 billion (HM Treasury 2010a, 2.123; Grant and Wood 2011: 28–9). They also cut the levels of some benefits, including some top-up benefits. Claimers face strong financial incentives to pursue paid work.

New policies will bring all benefits, apart from pensions, together into a proposed universal credit. The objective is to simplify the system so that the circumstances under which people are entitled to support, and the incentives they face to move off benefit and into work, are more transparent (Department for Work and Pensions (DWP) 2010: 1). The logic of withdrawing state support from those assumed to be able to pay for themselves also emerges in discussion of means-testing for the currently universal over-60s winter fuel payment and bus passes (Cooke 2011: 18). Debates about the future of child benefit, previously universal but removed from higher rate taxpayers in the 2010 spending review (HM Treasury 2010a: 8), also raise the issue of shifting responsibility through the

extension of means-testing. A strong element in public opinion endorses the work ethic and supports policies which strengthen incentives for those of working-age who are deemed able to work (Butt and Curtice 2010: 23–5). Whether a greater role for individual responsibility in relation to benefits for other groups is accepted is less clear.

2. SHIFTING PROVISION TO THE PRIVATE SECTOR

Privatisation policies have developed since the 1980s with the goals of improving cost-efficiency, allowing greater public choice and reducing state expenditure. The policies include: the Right to Buy for council tenants, the expansion of private pensions and the outsourcing of services across a wide range of central and local government provision. Less substantial programmes have been pursued in education and health care. These policies have been implemented with varying enthusiasm by different governments (Letwin 1988). They have also differed in the success with which they have achieved the various objectives.

Right to Buy, introduced under the 1979–80 Conservative government tapped a strong desire for home ownership. Over two million dwellings had been bought under the scheme by 2010 (Office for National Statistics (ONS) 2010a: 142; ONS 2001: 174). Despite new building programmes, the social housing sector, including council and housing association dwellings, has shrunk from about a third to about a fifth of all housing (ONS 2010a, Figure 10.4). Home ownership is highly popular and the associated changes to public housing finance, effectively shifting housing support from rent subsidy for social housing to means-tested support for low-income tenants, reduced government transfers to local housing providers massively. However by 2010 spending on rent benefits at £22 billion effectively outstripped

previous levels of local housing subsidy, increasing at more than three times the rate of retail prices between 2004–05 and 2009–10 (HM Treasury 2010b, Table 5.2). This illustrates a problem: even when privatisations are popular and appear to offer savings by reducing state commitments, costs will rise if the relevant need remains pressing.

Policies in the 1980s to encourage people to transfer from state supplementary to private pensions were also effective in achieving large numbers of transfers. However, many pensions were mis-sold, leading to a scandal and compensation (Goode 1993). Subsequent governments have retained the objective of expanding the role of the private sector, but have failed to find a system of regulation that encourages private provision at a level where it is attractive to both providers and purchasers (Béland and Gran 2008; Pensions Commission 2004, Chapter 3 annex). Current policies move cautiously to promote more pension saving by employees and employers but at a relatively low level (DWP 2011). Governments of both parties have retained a commitment to a strong basic state pension.

Privatisation has been vigorously pursued in the outsourcing of a wide range of services, from street cleaning and rubbish collection to architectural services, the management of government offices and more recently the contracting out of programmes such as the 2010 government's Work Programme (Lindsay 2011: 36). A Department for Business review of the public services industry showed that it was the second largest such industry in the world, after the US, accounted for some £80 billion by 2008 (roughly one-fifth of total government spending on services), and had more than doubled in size during the last decade (Julius 2008: ii). It reported from a review of academic literature that savings from transfers to the private sector amounted to between 10% and 30%.

The fact that a step change in the proportion of outsourcing is predicted as the most likely response to the sharp local

spending cuts from 2011 to 2015 suggests that the approach is widely seen as cost-efficient (Moore 2010). A survey of members by the Local Government Association (LGA) shows that two-thirds of respondents, particularly larger authorities, are pursuing outsourcing in order to manage cuts (LGA 2011, 4). The public sector workforce is to be cut further, by more than 5% by 2014 (Office for Budget Responsibility (OBR) 2011, Table A). The 2011 Localism Bill encourages the use of a wide range of providers to substitute for state services (Institute for Local Government Studies 2011). It is unclear how far radical moves in this direction will be popular. The councils leading the move (Suffolk and Bury St Edmunds) have put their plans on hold in response to unfavourable local election results (Johnstone 2011).

In the highly popular areas of education and health care, moves to privatise services have been cautious. The Assisted Places Scheme from 1980 to 1997 provided a relatively small number of places at private schools for students from low-income families selected by the schools. The places cost more than state provision and they tended to be allocated to middle class children whose parents had suffered a loss of income (most commonly through divorce). They were popular with users but not cost-effective and the scheme was ended by the following government (Edwards, Fitz and Whitty 1989). The current academies and faith schools programmes allow state-financed schools to contract out parts of their spending.

A number of Independent Sector Treatment Centres dealing with specific time-limited and predictable health conditions (varicose vein and cataract survey for example) were established in the 2000s. The objective was to expand competition in NHS front-line services. It proved necessary to pay a premium of 11% over the in-house cost yardstick to encourage new players to enter the market. It was difficult to identify benign competitive impacts on NHS practice (House of Commons Health

Committee 2006). Political controversy over proposals to open up competition in the health service to any qualified provider in the 2011 NHS bill (DH 2011) and the government's decision to put the plans on hold indicates the strength of public concern in this area.

The government limits the range of treatments available on the NHS according to an assessment of cost-effectiveness provided by the National Institute for Health and Clinical Excellence (NICE). Since 2009, patients have been permitted to top-up NHS care with private payments for drugs or treatment that are not included on the list (Department of Health 2009). This is only allowed where the NHS and private elements can be clearly separated, for example when they are delivered by different staff or in different clinics. One possibility would be for the health service to fund basic treatment or contribute to private treatment with the payment topped-up by the patient. This raises the question of whether private provision might expand into areas previously covered by the NHS as the pressures on state provision grow stronger.

This brief review shows that governments have sought to make greater use of private provision. Privatisation appears to be more successful in generating savings and more acceptable to the public in the transfer of assets such as council housing, and in the provision of back-office and general services. It is much less popular and effective in relation to core public services such as the NHS and state schooling and may generate problems in local government. There are real difficulties in developing private provision so that it is both attractive to all parties and generates savings, particularly within the heartland of the public sector. This point is illustrated most forcefully by the pensions and NHS examples, but is also relevant to other areas of provision.

3. STATE AND MARKET: USER CHOICE

Since the late 1980s an established strand in policymaking has emphasised the decentralisation of bureaucratic state providers and the reconstitution of individual front-line agencies (hospitals, clinics, schools, community social care or health services) as separate budget holders (Pollitt and Talbot 2004). Resources follow service users within the state sector so that choice and competition become powerful forces compelling agencies to respond to people's demands and meet them cost-effectively (Le Grand 2008; Enthoven 2002). Further developments allow private providers, commercial or not-for-profit, to enter the market (for a summary of recent developments see Organisation for Economic Co-operation and Development (OECD) 2011).

The expansion of markets and of choice through public services is both a direct response to public demands and a mechanism to intensify the pressures on managers to deliver a more responsive service. Choice is in principle highly popular, and, where it gives real control over budgets, appears to have had some success. Survey evidence indicates that while choice is enthusiastically endorsed (when offered as a costless good), consultation is also popular, but the introduction of private providers into competitive markets is not (Curtice and Heath 2009). In addition choice is valued much less than other outcomes such as quality or speed of provision, so that it is of most interest as a means to achieving these ends. However, choice may offer a way of addressing the issue of diverse and competing demands. There are persistent concerns that prioritising individual choice erodes the public service ethos (Plant 2003) and damages public trust (Halpern 2010; Taylor-Gooby 2009). In the first case, consumerism limits the scope for the exercise of professional discretion by providers. In the second, the perception that providers' decisions are

dominated by market considerations erodes confidence in their commitment to meeting individual needs.

Choice within state-financed services has been introduced in education, through open enrolment under the Education Reform Act of 1988; in health care through patient choice between different (state and non-state) providers for non-urgent treatment and proposals to allow a free choice of GP; and in social care through the recently implemented personal budgeting system.

Problems emerge in providing effective consumer choice where there is limited spare capacity. This has led to dilemmas in education, where over-subscribed schools choose between students, and where the growing diversity of academies, faith schools and other specialised schools in the state sector allows opportunities for providers to impose conditions on entry. In practice there is a tendency for schools to choose the most attractive pupils who tend to come from the more privileged social groups, widening social class divisions, unless this is prevented. When parents are able to choose between competing providers, middle-class parents appear in practice to exercise choice more advantageously and over a wider range (Gewirth, Ball and Bowe 1995; Burgess, Proper and Wilson 2005; Ball 2008; Machin and Wilson 2009). However, it is also established that neighbourhood schooling does not prevent social sorting; and housing in the catchment area of a popular school commands a substantial premium, 20% in one study (Leech and Campos 2003; see also Burgess et al. 2009). Studies of the impact of greater choice on outcomes indicate little change in class inequalities in the UK (Gibbons, Machin and Silva 2008) or in Nordic countries where social inequalities and inequalities in school resources are typically less marked (Böhlmark and Lindahl 2008; Holmlund and McNally 2009; Allen 2010).

Social class inequalities in education appear to persist whether legislation provides more or less choice of school.

A converse issue arises for less successful institutions and those who are unable, for whatever reason, to escape them. Issues of provider selection in health and social care are less well-documented in the UK (see Propper *et al.* (2008) for a study of US experience and earlier discussion of school entry) but indicate corresponding problems (Le Grand 2007, 127–40; Dixon and Thompson 2006).

The move to personal budgets in social care takes the idea of user choice one step further. Under this system, the share of the total budget for each individual deemed to need the service is allocated under their control, either as a direct payment, which they then spend on approved services, or to finance the particular package of services they would prefer (and can afford) from the available range (Social Care Institute for Excellence (SCIE) 2011a). This approach has gained strength since its introduction in the 1996 Community Care Act. It has achieved ‘impressive early results’, with high levels of user satisfaction, and offers the potential for administrative savings (Glasby, Le Grand and Duffy 2009: 495). It also enables the service user to access resources across the full range of possible providers, from state agencies through voluntary sector to local arrangements with neighbours and in the community. It is being extended across all adult social care. Experiments are currently being conducted by DWP into using a similar system of direct control in relation to payments for disabled people.

This approach locates respect for the autonomy of service users to make decisions about how to spend social resources in ways that best meet their needs within the general theme of user choice. Direct payments and personalised budgeting provoke different reactions among different groups of users. The more knowledgeable and self-confident individuals are and the more predictable their needs, the more able they feel to play a large part in decisions on the package of services they need; less confident groups, particularly older people and those

with conditions that are difficult to manage, are more equivocal (SCIE 2011b; Glendinning *et al.* 2009).

Experience across most areas of state provision is that choice is popular and that choice procedures tend to make services more responsive, leading to greater satisfaction by service users (Le Grand 2007, 38–62). Flexibility in supply and rigorous controls are necessary to avoid cherry-picking by providers and to prevent more privileged users getting preferential access to the best services. Where direct payments enable service users to purchase effectively from a broad range of providers, the more vulnerable groups often wish to have the support of professionals as advisers.

4. TARGETS AND INCENTIVES

The imposition of targets refines and strengthens the range of incentives facing service providers and their managers. The 1997 government promoted the use of targets and incentives in the public sector to achieve efficiency savings and direct resources and activities in desired directions (Hood *et al.* 2009). At the same time, efforts were made to improve the professionalism of service providers through new training programmes, in-service training and incentives for qualified staff. Coupled with the mechanisms to allow greater choice to service users discussed above, these developments are sometimes considered as part of a ‘New Public Management’ (Flynn 2007; Bartlett *et al.* 1998). Recent governments have used targets linked to a range of incentives for key actors, including the dismissal of unsuccessful managers (Bevan and Hood 2006), rewards, penalties, reputational advantage and extra resources for those who meet targets. Over 360 targets were established in the first comprehensive spending reviews from 1998 onwards, now cut back to about 60 as the emphasis on local responsibility feeds

through into policy (Baldock, Gray and Jenkins 2007: 278–83; Taylor-Gooby 2009: 119–23.)

A substantial literature indicates some successes, some weaknesses, misleading assumptions and strict limitations on the scope for effective use of this approach (see Wilson 2010 for a summary). It is difficult to disentangle the independent effect of the target regime since the use of targets from 1999 to 2010 was been coupled with substantial increases in funding in health, education and social care. In any case, some targets follow pre-established trends, so that the goals might arguably have been achieved without the targets.

High-profile targets in relation to waiting times, waiting lists, mortality from cancer and cardiovascular disease and in relation to GP activity in the health service have been achieved. Comparisons with Scotland, Wales and Northern Ireland, where rather different regimes are in place (Propper *et al.* 2008, Le Grand 2007), indicate an independent effect from the target regimes. However, the Quality and Outcomes Framework (QOF) targets for GPs, intended to encourage good practice through incentive payments, appear to have been set at or below the level of current performance (NAO 2008). The mortality targets largely followed existing trends. There is indicative evidence that waiting time targets were subject to gaming (Bevan and Hood 2006). In education, test score targets achieved some improvement, at least initially (Wilson and Piebaga 2008; Hood, Dixon and Wilson 2009), but there is also evidence of cream-skimming in schools entry policies (Whitty, Power and Haplin 1998; West, Barham and Hind 2011) and perverse effects on examination entry policies (Wilson, Croxson and Atkinson 2006). Targets are unpopular among the managers and professionals whose behaviour they seek to direct (Hoggett *et al.* 2006), and also among the general public (Taylor-Gooby and Wallace 2009: 418).

Recent overviews of evidence on inequalities in relation to health (Sassi 2009), education (Lupton *et al.* 2009)

and early years provision (Stewart 2009) show real but modest achievements. Two main factors underlie the difficulty in making greater gains: the complexity of the tasks that public services undertake and the multiplicity of stakeholders including service users, taxpayers, providers, managers, professional bodies, government and citizen interests (Wilson 2010). The target-plus-incentive approach is most likely to succeed when the objective and the associated incentive structure are simple and transparent, and when there is a clear consensus on the priority of various activities. The approach can achieve some success in containing costs, but has faced difficulties in practice in addressing the dilemma of meeting insistent and diverse demands. It is not popular.

5. BEHAVIOUR CHANGE

If people made rather different choices in a number of areas, the pressures on public provision would be mitigated. A higher rate of personal savings would reduce the demand for means-tested pension supplements (Pensions Commission 2004), different dietary and exercise choices would improve public health (Cabinet Office 2011), better separation of rubbish would cut the cost of local authority refuse collections (Rediscovering the Civic project, 2010), and so on. Since behavioural change policies work with the reality of people's assumptions and aspirations they are likely to be popular, but are not, so far, well-developed in practice.

An influential stream of work has identified a number of heuristics that people use in everyday life to simplify practical choices (Versky and Kahnemann 1974). The most important are anchoring, loss aversion and the discounting of future gains at a high rate (Hargreaves-Heap *et al.* 1992: 365; Breakwell 2007: 28). Anchoring involves overweighting an arbitrary starting point in

estimates of loss or gain, leading to an irrational attachment to the status quo. Loss aversion refers to an excessive concern about losses so that they are overvalued compared to monetarily equivalent gains. Excessive discounting minimises the value of more distant future benefits or penalties. Other work on real-world behaviour highlights the importance of cognitive dissonance (Festinger 1957) and tendencies to conformity (Martin and Hewstone 2003). These refer to the observed tendency for people to shift their beliefs to suit their behaviour, rather than vice versa, and the way in which people often seek to change their behaviour to fit in with a group with which they identify.

Behavioural change policymaking seeks to exploit these tendencies (New Economics Foundation 2005; Prime Minister's Strategy Unit (PMSU) 2004; Halpern 2010). Examples based on loss aversion typically incorporate attachment to the status quo. In the proposed voluntary third tier pension, employees are blanketed in, and must choose to leave rather than choose to join. Leaving is a rejection of the default and experienced as a loss. The Child Trust Fund (now closed) effectively presented saving as a *fait accompli* and then further incentivised it³. Top-up pension contributions involve extra spending. However, schemes which take larger contributions in good years may address loss aversion by taking the money from an unexpectedly higher income. Providers may exploit future discounting by offering contribution rates which start low but increase in the future (Thaler and Sunstein 2008: 112–5). Loss aversion is also exploited in behavioural schemes to stop smoking, such as that being pioneered by the government in collaboration with Boots. Individuals' deposit money is only returned, with a bonus, if they succeed in their goal (Cabinet Office 2011: 9; Thaler and Sunstein 2008: 232).

3 See HM Revenue and Customs, The Child Trust Fund [online], <http://www.hmrc.gov.uk/ctf/> (Accessed on 27 August 2011).

Future discounting may also be addressed by creating a current contract which then commits behaviour to achieve a distant goal, for example, school-parent homework contracts, or commitments to exercise or diet. This approach may also overcome the problem of cognitive dissonance by strengthening the motivation to align future behaviour with current intentions, rather than allowing the weight of behaviour to shift intentions when dissonance between the two occurs.

One issue is the obvious limits to the extent to which government can modify choices (Stoker and Moseley 2010). Other agencies may offer alternative framings with different implications for action. For example, the framing of measles, mumps and rubella (MMR) vaccination as potentially damaging may undermine public health programmes (Fitzpatrick 2005). Other examples of conflicts about how issues are to be understood concern the impact of immigration on job opportunities (Mulley 2010: 1) and whether care by one's mother is more important for young children than the higher living standard resulting from the mother's employment (Duncan 2007).

An authoritative overview by Marteau *et al.* (2011) concludes that changes to choice environments can certainly improve people's health behaviour. However, most of the intentional modifications to choice architecture in contemporary society are pursued by commercial interests rather than government, and lead to choices that damage health, such as fast food rather than healthy food; car-driving rather than cycling; the normalisation of alcohol consumption and so on. The implication is that behavioural approaches may be useful, but that government has other resources available to it in improving outcomes in areas such as health, for example: the regulation of food quality and of alcohol consumption; subsidy of sports facilities; and redesign of transport systems. Why retreat to nudge, where other influences may shape choices?

These points imply that, while useful, the potential for developing these approaches may be limited unless government is in a position to confront the social traditions and commercial interests framing many choices.

6. SHARED VALUES: THE THIRD SECTOR

Policymakers have displayed increasing interest in the capacity of not-for-profit, voluntary and informal groupings of citizens to meet social needs. Responsibility is transferred away from government, as in the individualisation or privatisation policies discussed earlier. Here the frame of reference is one of collective values rather than individual deliberative choices. Third sector policies would reduce pressure on the state, enable people to play a role in meeting the demands on government services and also, perhaps, promote greater cohesion and inclusiveness across society. These themes lay behind the New Deal for Communities programme and the National Strategy for Neighbourhood Renewal (Social Exclusion Unit 2001). A number of proposals seek to tap the energies of the sector further and involve neighbourhood and community groups (Mumford and Power 2003; Young Foundation 2010) and the more established charities (National Council for Voluntary Organisations (NCVO) 2010) in helping to resolve the pressures on government. The 2010 government has placed considerable emphasis on a loosely-defined notion of the Big Society: 'a broad culture of responsibility, mutuality and obligation' (Cameron 2009).

Civil society groupings have a strong tradition of providing for a range of social needs. NCVO estimates that some 171,000 large voluntary organisations can be identified in the UK (NCVO 2010: 25), with some 600,000 smaller unregistered groups (Phillimore and McCabe 2010). These groups pursue a huge variety of objectives, from university education, to animal

welfare, to environmental activities, to culture and recreation, to the promotion of religion, to youth work, to trade union activity, to international aid, to human rights work. They range from a relatively small number of large, well-structured organisations employing a substantial number of staff and providing a range of services, often under contract to local government and other bodies, to small agencies concerned with fundraising for particular local needs.

For our purposes, three considerations are relevant: voluntary sector activities and resources tend to be focused on particular needs and areas (Breeze 2010; Kendall 2003), they are unevenly spread across the country (Mohan 2011; Lyon and Sepulveda 2009), and the voluntary sector typically works hand-in-hand with government (NCVO 2011: 5). The sector may find it hard to take on the role of alternative provider, able to make a substantial contribution to the problem of resource constraint, because its scope is narrower than that of government and the organisations that are closest to public services rely on state support.

About 70,000 organisations operate in the fields of social services, housing, health and social care, education and community development (NCVO 2010: 29). They tend to be concentrated in the better-off parts of the country (Lyon and Sepulveda 2009). Mohan shows a clear inverse relationship between the density of neighbourhood organisations within an area and the level of deprivation of the area (Mohan 2011, 7). As a result, more public funds go to organisations in less deprived areas, although a greater proportion of the voluntary organisations working in large urban centres in the north of the country than in the south receive public support (*ibid*: 12). Studies of the capacity of voluntary and charitable organisations to substitute for services like the NHS on a substantial scale indicate that they are not in a position to make a major contribution (Heims *et al.* 2010).

Support from the general public is again largely directed at particular needs. The largest numbers of volunteers support education, religious groups and sporting activities (NCVO 2010: vi, 10; Scott 2007: 322). Donations also favour specific groups. The leading areas by numbers giving are medical research (20%), hospitals and hospices (25%), and children and young people (14%). By amount, religious causes receive 15% of all donations, followed by medical research, hospitals and hospices, overseas aid and children and young people. These groups total 49% in all (NCVO 2009: 8–9).

Many charities and voluntary organisations, and also community interest companies and similar bodies established by social entrepreneurs, operate to fulfil public policy or statutory goals, mainly with state finance and under contract to state agencies. Nearly a quarter (24%) of charities receives funding from local government (Office of the Third Sector (OTS) 2008). This accounts for 36% of total voluntary sector income (£12.8 billion). Five sectors (employment and training, law and advocacy, education, housing, and social services) receive more than half their income from government. By 2007–08 45 % of local government funding and 30 % of central government funding (12.8 billion) was in the form of contracts (ONS 2010b, 23–4). The vast majority of these resources go to the larger charities: 79% is received by 3,742 of the largest organisations with over 5,000 employees, with only 3.3% going to organisations with fewer than 50 employees (NCVO 2010: 27). For these charities it is difficult to disentangle the impact of their activities from that of the public services with which they work. The significance of government engagement and its role in relation to the growth of a 'Big Society' is indicated by a recent Community Development Foundation (CDF) survey of community development workers. This shows that lack of access to funding (62%), working to specific policy agendas (48%) and

working on short-term project funding (41%) are the three most significant problems mentioned by workers in this sector (CDF 2009).

Voluntary activity is popular. It offers ways of providing services relatively cheaply and draws on resources of goodwill and commitment that can supplement, but not replace, public provision (Frey 1997: 123). However, the close links between the parts of the voluntary sector most engaged in social provision and the state, make it difficult to separate the impact of community-run from state-run provision. This is particularly relevant to those sectors mainly funded by government with most of that finance directed by contract: employment and training, law and advocacy, education, housing and social services. The fact that voluntary activity appears to have its strongest base in the better-off parts of the country points to further limitations in directing resources where they are most needed. The voluntary sector makes a major contribution but there are limits to how far it can substitute for government.

DISCUSSION

Public policy is trapped between pressures to contain spending and demands for improvements and expansion. This tension is increasingly difficult to balance. In this paper we have reviewed six public policy responses. All can contribute to some aspect of the problem but none seem likely to offer an independent resolution, suggesting that governments will pursue them in combination.

Cutbacks, particularly those affecting the highly valued areas of public policy which absorb the greater share of resources (health care, education, pensions), are unpopular and come at a high political cost. The various pressures for spending to rise lead to a continual search for methods to improve productivity in public services. So far as we can see, these efforts achieve no more than the maintenance of the status quo, itself a difficult task given the level of demand. It is unclear whether the exceptional circumstances of the 2009 recession and its aftermath will lead to a step-change in public expectations, and whether the cuts currently being implemented will be made to stick.

Policies structured around work incentives and individual responsibility follow a strong theme in public attitudes, but one that applies most clearly to specific areas of provision. Privatisation has been pursued in the out-sourcing of state provision, and has achieved some savings. It is unpopular in relation to core services such as health care and education, and is unlikely to generate savings here without damaging public support.

Greater choice in public services is popular, whether through the patient choice system in the NHS, open enrolment in schools, or personalised budgets in social care. Choice programmes, when introduced as part of a new public management strategy, have not been directly concerned to

contain spending pressures, but have been one element in market competition designed to confront providers with incentives that require them to be both responsive to demand and cost-efficient. These approaches may improve the way resources are deployed but the evidence discussed earlier indicates no step-change in productivity in the period during which they expanded most rapidly.

Policies which establish and enforce targets reassert central control. Target policies were most widely deployed during a period of relative spending growth from 1999 to 2007 and appear to have had some effect in directing the extra resources towards policy goals. They are unpopular with the managers who had to implement them and, perhaps more importantly, with the general public.

A less obtrusive approach to central direction involves modifying the contexts in which people make choices, to encourage behaviour conducive to the objectives of policymakers. Experience with the approach is limited. It is at present unclear how far the behavioural change strategy can go in taking some of the pressure away from public spending. In principle, it offers opportunities to do this in ways that work with the demands that people make of the public sector. However, the extent to which government is in a position to reframe the choices that people make is restricted, so that such a strategy can only make a partial contribution to the dilemma.

Finally, the voluntary sector writ large scores highly in relation to people's demands, since voluntary activity is concentrated in fields where people believe there are needs and feel able to contribute to meeting them. This component of civil society is rich and diverse in the UK. Harnessing its contribution to public policy issues is politically attractive. There is considerable uncertainty about the potential for expansion of these activities, particularly where needs are most pressing. Voluntary activity is strongest in better-off areas.

Most resources are directed to health care and education, not to poverty, poor housing and joblessness in disadvantaged parts of the country. In any case, state finance and support appear essential to much of the work. This applies particularly to those areas which are closest to state provision and are most likely to be seen as potentially capable of substituting for it. The expansion of what is sometimes termed a 'third sector' is popular and valuable but unlikely to make major inroads on spending issues.

FUTURE DIRECTIONS IN POLICY

The variety and incompleteness of the various solutions opens the way to different scenarios for the future development of public policy. The immediate future is overshadowed by the financial crisis, spending cuts and sluggish recovery (see Gamble 2011). Previous experience indicates that it will be difficult to impose cutbacks that move spending substantially away from the post-war trend line of about 40% of GDP, so that there may be room for some modest expansion, once the GDP loss is made up. Governments may seek to combine spending constraint, choice, markets and privatisation, targets, behavioural change, and a greater role for the non-state sector in different ways.

Possible approaches could be ranged along two dimensions, one running from an emphasis on state centralisation to the transfer of responsibility to the private or voluntary sector or to individuals, and one from greater to lesser generosity in the level of benefits and services. Centralised approaches might favour target-setting and imposed cuts, while more decentralised approaches pursue a greater role for choice, markets and the private sector and for voluntary provision. The degree of generosity would be reflected in spending levels, the extent to which redistributive measures were pursued, and enthusiasm for, or avoidance of, direct cuts. One reason for current interest in behavioural change and in the voluntary sector may be that they appear equivocal in relation to spending and uncertain but probably positive in gaining public acceptance. If real transfers of responsibility could be achieved by influencing behaviour or by substituting voluntary for state effort this might contribute to spending constraint.

The dilemma between growing public demands for services that meet a diverse range of needs and the pressures to contain spending seems likely to play a continuing role in shaping the

context of policymaking. Pierson's argument that the future of western welfare states is one of 'permanent austerity' appears prescient (Pierson 2000: 456). Governments, wherever they locate their policies on the above dimensions, will continue to combine the various strategies with different emphases, and the search for new ways of delivering policies to meet the pressures will grow, if anything, more persistent.

This leads to a further point. Many commentators point out that citizens are becoming increasingly mistrustful of politicians and unwilling to engage in political debates (see Stoker 2011). One reason for the growth of 'anti-politics' is the evident mismatch between the promises contained in policy platforms and the outcomes experienced in ordinary people's lives (Crouch 2004). Permanent austerity means that there are real limits to what government can do in relation to the demands placed upon it. If the conflict between expanding demand and constrained resources cannot be resolved, the question becomes one of finding the best way to live with it. Our political traditions are not well adapted to considered discussion of unattractive policy choices.

Politicians are reluctant to take the lead in opening a debate on these issues that would seek to identify the standards of provision and the priorities between them that can credibly be provided. The need for such a debate is now stronger than it has ever been and will become even more clamorous in the future. A final scenario is one in which, in a direct attempt to recapture public trust, our political leadership opens up the dilemma of containing spending and meeting demands directly to the public. Such an approach would require a sufficiently high level of general political awareness to enable realistic discussion of these issues, so that solutions can be made to stick. It is hard to see how a political debate which seeks to reconcile rising demands with severely constrained spending can recapture public trust if it does not move in such a direction.

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