

# Public Services

## A New Reform Agenda

Edited by Simon Griffiths, Henry Kippin  
& Gerry Stoker

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# Introduction

Simon Griffiths and Henry Kippin<sup>1</sup>

The journalist, Andrew Rawnsley, wrote that the ‘enduring question of British politics is about our public services. How do we make them responsive to those who use them and accountable to those who pay for them? How do we maximise their performance? How do we punish those who fail to deliver an acceptable level of service and reward those who succeed? How does the taxpayer get the biggest bang for his and her bucks?’ (Rawnsley, 2008). The dramatic economic downturn added another question: how much are we prepared to spend? Debates about these issues now provide some of the main points of conflict between – and within – political parties. Whichever party convinces us that it has the answers to these questions stands a good chance of electoral success. A poll before the 2010 general election found that 71 per cent of people thought that government policy on running public services would be important in deciding their vote (Ipsos MORI, 2008).

This collection is about the future of our public services. The 12 chapters that follow this introduction grew out of a series of discussions held in 2009 at the Commission on 2020 Public Services. We asked our authors to think ‘beyond Beveridge’, honouring William Beveridge’s foundational 1942 report that formed the basis of the modern UK welfare state; but also recognizing the need for his assumptions to be unpicked, and his methods to be rethought for a new age. The contributions that make up this book are diverse, reflecting a range of ideological, professional and academic perspectives, and a wealth of experience analysing the landscape of public services and the trajectory of reform to date.

The book is structured around three broad questions: (i) What should the relationship between citizen and state be? (ii) How should public services be

<sup>1</sup> We would like to thank Mike Kenny, Gerry Stoker and an anonymous referee for comments on earlier versions of this chapter.

structured? and (iii) What fiscal arrangements and resource trade-offs are needed to face the challenges ahead? The authors offer new thinking on these issues, and examine the way in which medium- to long-term challenges could lead to the reshaping of public services. The relevance of these approaches is often global, although the contributions are drawn primarily from the English experience.

For many people involved in public services – front-line workers, managers, policy-makers and commentators – the near future looks bleak, as the economy lurches from crisis to recovery and back again. Yet, to paraphrase Howard Glennerster (this volume, Chapter 12), the pressures on public services are not only economic and short term, they are also long term and structural; rooted in the changing nature of society and the impact of a whole new range of social, economic and environmental dynamics affecting the way we live, work and interact. In the pages below, the authors begin to examine these challenges. They provide a forward-thinking and deliberative approach to debates around public services reform that begins to re-cast the role and purpose of progressive public services for 2020 and beyond.

## Old agendas

The post-war ‘cradle to grave’ welfare state could, its creators believed, defeat the ‘giant evils’ of squalor, ignorance, want, idleness and disease (Beveridge, 1942). This book is important because the assumptions that underlay public services in the post-war period are increasingly debatable. The modern welfare state was founded upon a series of specific suppositions. First, it was to be universal: every citizen would contribute and every citizen would benefit – it was not just a safety net to catch those in need. As Richard Titmuss (1958) argued, a welfare system for the poor is destined to become a poor welfare system. Second, architects of the post-war welfare state assumed that benevolent experts would organize services for citizens, largely administered nationally, in their best interests. As Douglas Jay, later a post-war Labour minister, wrote, ‘in the case of nutrition and health, just as in the case of education, the gentleman in Whitehall really does know better what is good for people than the people know themselves’ (Jay, 1937: Ch. 30).<sup>2</sup> Third, in the early post-war period it was assumed that the

<sup>2</sup> Jay’s comment also made it into Matthew Parris’ book, *Read My Lips: A Treasury of Things Politicians Wish They Hadn’t Said* (Parris, 1997). See Toye (2002) for more on the phrase.

general public could be relied upon to accept progressive taxation and to vote for parties that supported a growing welfare state. Fourth, it was also assumed that Keynesian economics meant that growth could be taken for granted. The economic depressions of the 1920s and 1930s had been consigned to history. Questions about welfare and public services were, therefore, often about how to distribute the proceeds of growth.

All of these assumptions came under sustained attack during the economic crises of the 1970s. The debate about the future of public services increasingly began to cluster around a loose and diverse set of ideas, under the heading of New Public Management (NPM). The term signified a mixed bag of reforms aimed at promoting greater economy, efficiency and effectiveness through, among other things, privatization, marketization, and the development of public-private partnerships (Rhodes, 2002). Aspects of NPM found their way into the reforms carried out by the Thatcher governments, and NPM approaches remained significant well into the 1990s and beyond. Advocates of NPM rejected many of the assumptions upon which the post-war welfare state had been founded. Emerging out of economic crises and the loss of faith in Keynesian growth strategies, its supporters argued that increased spending on public services would not continue to attract widespread electoral support. There were calls for the welfare state to be more lean and selective. At the same time, the assumption that public services were best run in the interest of the public by experts who would administer them from the centre was also called into question. Critics attacked the idea of the benevolent expert motivated by a public service ethos (as discussed in Needham, 2007). Instead they saw public services 'captured' by producers, and public sector bureaucracies staffed by civil servants maximizing their self-interest through expanding the resources allocated to them and their departments (Paul, 1992). Advocates of NPM called on public services to be refocused on the citizen, who was empowered as a consumer, instead of the producer.

The NPM agenda has been criticized. As Hood (1991: 10) observed, 'most academic attacks on NPM have questioned NPM's universality by focusing on the equity costs of a preoccupation with cost cutting and a focus on bottom-line ethics'. To its critics, NPM's focus on economy and efficiency meant that its advocates knew, in Oscar Wilde's phrase, 'the price of everything and the value of nothing'. Today, as Colin Crouch (Crouch, 2011: 96) argued, 'all except the most extreme neoliberals accept that market efficiency does not account for the sum total of human objectives, and that a democracy has a right to establish alternative goals and parameters'.



Arguing that we must get ‘beyond’ NPM as a framework for public service reform, therefore, is not new. For Boyle and Harris,:

previous approaches to the reform and improvement of public services have largely run their course. In some areas, they have produced important improvements, certainly. But our public services face an unprecedented set of challenges ... Reform can’t confront these challenges effectively; radical innovation in public services now needs to move from the margins to the mainstream. The question is what analysis and principles should inform this radical innovation. (2009: 3)

But while it may be true, as Dunleavy *et al.* argue, ‘the torch of leading-edge change has passed on from NPM and will not return’, it is far from given that operating frameworks for public services have substantially moved on in practice, and still uncertain where the torch will next shine its light (2005: 468). In the following chapters, leading thinkers on political economy and public services set out to shed light upon current public service governance and administration in the UK, and on where we go from here.

## A new relationship between state and citizen

The first section of this book deals with the changing relationship between citizen and the state. Debates on future public services must include an exploration of citizenship in today’s society: the basis upon which we live together, interact with the state, and contribute to – and benefit from – public services. The needs, demands, expectations – and indeed lives – of citizens have changed quite profoundly since Beveridge. This changing context is precipitated by the confluence of broad societal shifts. As Bonoli has argued, ‘the welfare states of the *trente glorieuses* or the golden age of welfare capitalism (1945–75) had one key objective: to protect the income of the male breadwinner ... Today the task facing welfare states is admittedly more complex’ (2005: 432). Migration, new gender roles, and new patterns of inequality and exclusion continue to change the character and makeup of societies. The global and local impacts of globalization have been deep, wide and unequal – creating different kinds of social risks, and opening up new challenges in the public sector (Pierson 1996; Taylor-Gooby, 2002, 2004; Coyle, 2011).

Citizens’ own expectations of public services have also changed during this period. Much has been written about a new ‘assertiveness’ or ‘querulousness’ of

public service users (Griffiths *et al.*, 2009; Taylor-Gooby, 2003). Citizens often demand more from public service professionals and are less willing to be treated as passive recipients of services or advice. Citizens' very different expectations of the private sector are finding their way into their dealings with the public sector. While this has benefits, it also has downsides. Unwin *et al.* (2009) talk of the 'contemporary social evils' of selfishness and individualism driven by economic liberalization, while Dean (2010) argues that this more consumer-like behaviour has gone hand in hand with a 'dilution of the security once guaranteed by the capitalist welfare state.'

Related to changing meanings and expectations of citizens are questions about democracy and accountability, highlighting the need for a coherent account of the basis upon which citizens – directly or otherwise – hold the distribution and delivery of public services to account. As the contributions in Part I suggest, the need for accountability is more acute when resources are less abundant, imparting potentially greater social and economic significance on (re)distributive decisions, and creating more acute imperatives to drive efficiencies and enhance productivity. Such decisions require deeper thought about the democratic mandate that underpins them. How, for example, can we ensure that a concern for socio-economic equality is reflected within welfare systems that are increasingly plural and (in many cases) 'fragmented' (as Peter Taylor-Gooby discussed in this volume, Chapter 5)? Should public services be 'opening up' to the idea of greater citizen involvement in decision-making beyond the traditional periodical electoral mandate (Lever, this volume, Chapter 6; Flinders 2012)? If the design of health, social care and other welfare services are predicated on assumptions about the role of citizens, then questions of how 'capable' citizens are to exercise these roles, and what role public services should play in building this capability, are of crucial importance (Vizard, this volume, Chapter 4; Vizard and Burchardt, 2007).

A good deal of contemporary policy thinking is focused on the interaction between service provider and user (see, for example, Benington and Moore, 2011; Leadbeater, 2008; Needham, 2008; Alford, 1998, 2009). This relationship is often couched in terms of co-production or co-creation. Where traditional welfare models have seen services as discrete, value embedded 'things' to be delivered to citizens, new approaches emphasize the role of citizens in turning these service propositions into something of value (for more on this see Kippin and Lucas, 2011). The notion of co-production can be traced back to the 1970s (Needham, 2007) and was developed through Elinor Ostrom's argument that public service outcomes are 'co-produced' between paid and unpaid labour (see,

for example, Davis and Ostrom, 1991). The concept has also been developed in the marketing literature, for instance by Vargo and Lusch (2004, 2008), who point to the 'interactive and networked nature of value creation', and that the customer is 'always a co-creator of value' (Vargo and Lusch, 2008: Ch. 2–3).

Extrapolating these ideas to public service design, Bason (2010) has recently argued that 'co-creation' is essential to public service innovation. That means 'recognising that everyone can be creative, and engaging people from other public agencies and institutions, private actors, social innovators and, not least, end-users such as communities, families and individual citizens and businesses' (2010: 8). Needham argues that the value of a co-productive approach is, in part, its ability to straddle traditional theoretical divides, 'avoid(ing) overly passive accounts of the service user, although (steering) clear of potentially unsustainable demands for a neo-republican citizenry' (2008: 229). The challenge of realizing co-design or co-production has been taken up in the UK by a range of think-tanks and public policy institutes. Spurred by the real-life challenges of public organizations and local governments, they are beginning to think creatively about new ways of leveraging resources and improving socio-economic outcomes from public services when public budgets are tight.

We would argue that a first task for anyone seeking to get 'Beyond Beveridge' should be to unpack the notions of citizenship, and the assumptions about behaviour upon which our public service frameworks rest, and Part I of the book is set out accordingly. In Chapter 2, Gerry Stoker and Alice Moseley explore the 'microfoundations' of public services, unpacking the basis upon which we design public policy, and the assumptions upon which our notions of individual decision-making are based. In Chapter 3, Michael Kenny makes the case for a more plural, nuanced understanding of citizenship as the basis of a 'civic' approach to public services. Common to both these chapters is a sense that the future of public service reform must open out our hitherto rigid, individualist and 'rational' understandings of citizens and services to reflect the reality of a more social, more democratic and more contextually bounded approach. In Chapter 4, Polly Vizard argues for a capability-based approach to public services, offering a framework for delivery and accountability rooted in the work of Amartya Sen and Vizard's own collaboration with the UK's Equality and Human Rights Commission (EHRC).

Choice-based systems have often been advocated by policy-makers seeking to shift power from producers to consumers of services. In Chapter 5, Peter Taylor-Gooby asks what impact choice-and-competition-based reform agendas have had on societal inequality, how this pattern is likely to continue in future,

and what the implications are for future reform agendas. Finally, in Chapter 6, Annabelle Lever uses the case of the UK's National Institute for Health and Clinical Excellence to investigate the role of the 'lay' citizen in healthcare policy-making, arguing for a new 'political theory of consultation' that would embed citizen deliberation at the heart of the process.

## A new public services ecology

Responding to these changing relationships between citizen and state means engaging with the politics of public service reconfiguration. This is the issue on which chapters in Part II of this collection focus. Often the metaphor of 'a whole system' or 'an ecology' is used to describe the wider area within which public services operate. The emphasis on systems is important, as Ian Marsh has pointed out. Systems are structural configurations that can incorporate, but are much larger, than markets (Marsh, 2009: 35). Many earlier theoretical approaches to public sector reform were dominated by an assumption that public services would be provided directly either by the state or the market. A focus on systems allows us to get beyond the market/state provider dichotomy. However, as Michael Barber has argued, even with a focus on systems, the centre still exercises three core responsibilities:

The first (covers) the capacity, capability and culture of the system. For example an individual hospital cannot ensure a continuing supply of good doctors or nurses. Neither can it secure the overall hospital-building program. Nor can it set the legal framework within which doctors practice, nor shape the overall relationship between the profession, the state and society ... The second is managing the overall performance of the system ... An individual hospital ... is not in a position to set the objectives of the system, nor to decide how progress will be measured and what data will be published ... Third, in each public service and for the public service as a whole, a strategic direction is required: future trends need understanding and analysing; the various steps in a reform program need to be sequenced and their combined effects understood; and the values that underpin the reform need to be stated and their impact secured. (Barber, 2007: 337)

As Alcock notes, increasingly the 'mixed economy of welfare is both given and desired' (this volume, Chapter 8), with a political consensus having emerged around the need for a diversity of service delivery models (although this is not always reflected within citizen opinion, see, for example, Ipsos MORI – 2010).

Within the UK, the public service reform agenda (especially since the general election of 2010) has emphasized an ‘opening up’ of public service provision, with key reforms to health and education in particular preparing the sectors for new entrants into the provider market and reflecting, at best, an optimistic approach to the results that can be achieved by the private delivery of public services (Department of Health, 2011; Department for Education, 2011; Cabinet Office, 2011). The Coalition’s key welfare reform programme – known as the Work Programme – is perhaps the most obvious codification of this dynamic, bringing together a number of private and non-profit organizations as ‘prime’ and ‘sub’ contractors in the delivery of complex back-to-work services on the basis of large-scale payment-by-results contracts. In this volume Grout, Alcock, Propper and others unpack some of the politics of mixed systems: evaluating the relative strengths and weaknesses of particular delivery models; assessing the challenges for government in creation and development on the supply-side; and reviewing the evidence on choice, competition and contestability within the public services.

The second section of the book, therefore, explores questions around the new public service ecology. In Chapter 7, Paul Grout examines the question of how to create a vibrant ecology in public services provision. Following that, Pete Alcock takes up the challenge by arguing for the role of the third sector in this mix. In Chapter 9, Deborah Wilson examines the incentives, such as targets, choice and ‘voice’, that can be used to ensure that the ecology remains healthy. While Wilson provides the theory, in Chapter 10 Carol Propper provides evidence of how successful these incentives have been in practice, focusing on their use in healthcare. Finally, Patrick Dunleavy asks where the digital public services agenda would take us if we were to leverage its potential to radically transform the basis upon which services are delivered and experienced by citizens? His model of ‘digital era governance’ posits that the destination would be a fully integrated, intelligent citizen-service interface that would mark a tangible departure from New Public Management and the citizen-as-consumer agenda.

## A new fiscal relationship

The British economy changed beyond recognition during the post-war period, creating new challenges for public services. The final section of this book examines the fiscal challenges and ‘trade offs’ facing those working in this

area, particularly since the start of the recent downturn. The UK's changing economic reality since the 1940s has largely been the story of a transition from an industrial to a liberal, post-industrial service economy (Taylor-Gooby, 2004; Pierson, 2006). New winners and losers continue to emerge from the uneven global expansion of capitalist modes of governing economies. The state's role as labour market planner has diminished, and increased outsourcing and global financial mobility has accelerated a decline in what Roger Liddle has called 'good working class jobs' (Diamond and Liddle, 2009).

Globalization has contributed new challenges for public services (Bonoli, 2005), and arguably entrenched some existing problems. The welfare state now has to deal with the consequences of 'vicious cycles' of low pay and unemployment alongside a decline in collective (industrial) worker representation (Taylor-Gooby, 2004). Disadvantage and social exclusion has become even more entrenched in some social, ethnic and geographical communities (Hills 2010 *et al.*; Marmot, 2010). It has 'shifted down the life-cycle to young adults and families with children', argues Esping-Andersen (2002). In addition, surveys have shown that 'all identified minority ethnic groups had higher rates of poverty than the average for the population' (Platt, 2007: ix).

Many of these trends have been exacerbated by the economic downturn. The 'depth and breadth of the current global financial crisis is unprecedented in post-war economic history' (European Commission, 2009). Just as in the 1970s, the current economic downturn provides a moment of reflection for public service providers and architects. As with the 1970s, there is a sense among many commentators that the foundations of public services need to be redesigned and shored up against new challenges. The final part of this book, therefore, examines this new fiscal climate and the challenges to public services in an age of austerity. Policy-makers are often uncertain how to proceed from the current crash and short of coherent new ideas for how to respond. As Gamble has argued, '[p]oliticians are still attempting to respond to this crisis within the intellectual frameworks that defined the orthodoxies of the past 20 years' (2009: 459). The chapters in Part III of this book examine how we move forward from here. In Chapter 12, Howard Glennerster argues that we must keep in mind the huge challenge of fiscal sustainability, necessitating a new openness to the revenue-raising possibilities of partnership funding and co-payment, and a need for government and citizens to get beyond the paradox of wanting 'Swedish welfare on American taxes.' Glennerster sets out strategies for the present day that take account of long-term supply and demand challenges, making coherent several of the policy options floating around in contemporary political debate.

In Chapter 13 Christopher Hood looks at the potential fiscal constraints on new public services. This is part educated conjecture and part extrapolation of existing trends, exploring the potential of supply-side transformation, new funding models, and a ‘zero-budgeting’ approach to policy-making. For Hood, thinking about the future of public services requires re-framing some fundamental questions about their role and purpose within a ‘cold fiscal climate’. What, he asks, are the options for governments operating within a new context and what are the historical or comparative precedents from which they can draw? In an Afterword, Ben Lucas, Gerry Stoker and Matthew Taylor knit many of these themes together and place them in a practical context, by asking ‘What Next for Public Services?’

## New agendas

A book of this kind cannot cover everything and there are important debates that are not discussed in detail. These include the potential for a more environmentally sustainable approach to service delivery and demand management and the ongoing politics of central-local (and indeed multilateral) governance and service provision – though several of the contributors to this volume have written eloquently on this latter subject elsewhere (see, for example, Stoker, 2006). What this volume offers, therefore, is not a complete programme for reform, but a starting point for understanding better the limitations and strengths of today’s public services, for understanding the theoretical assumptions and policy ‘microfoundations’ that underpin them, and for beginning to develop ways in which public services could be reformed to meet the challenges of the future.

Hood has argued that ‘variation in ideas about how to organise public services is a central and recurring theme ... [and] ... such variation is unlikely to disappear’ (1998: 6). This book is thus part of an evolving conversation. Yet it also marks a point in time at which a combination of fiscal pressure, economic volatility and changing social demand are forcing considerable self-reflection in the public services; what Vernon Bogdanor has called a ‘moment of historical discontinuity’ for systems of public administration that are, to paraphrase Bourgon, ‘not entirely of the past and not yet of the future’ (Commission on 2020 Public Services, 2010; Bourgon, 2011: 7). Perhaps as a consequence, we are seeing a range of ‘root-and-branch’ reassessments of public service delivery emerge across the UK that are seeking to unpack and reassess the tenets of existing delivery models within a novel and challenging context.

In Scotland, for example, a commission headed by the late Campbell Christie argued that the future of public services must address the ‘systemic defects’ of a ‘top-down’ and ‘unresponsive’ system that cannot respond effectively to the needs of citizens and communities. It argued that ‘addressing these systemic defects will require a fundamental overhaul of the relationships within and between those institutions and agencies – public, third sector and private – responsible for designing and delivering public services’ (Commission on the Future Delivery of Public Services, 2011). In England, the Commission on 2020 Public Services (2010) located its vision for public service reform around the idea of ‘social productivity’; rejecting ‘both old statist models of universal service delivery and the new public management (inspired) models of consumerism’. Instead, it argued, public services should be judged ‘by the extent to which they help citizens, families and communities to achieve the social outcomes they desire’ – an approach that balances something of the social citizenship ideals of T. H. Marshall (1950) and the capabilities approach of Sen (1979, 2009). In Wales, the recently launched Public Services 2025 Commission is similarly positioned, asking how the country can become an ‘incubator of world class services’ that respond intelligently to the particular demographic, socio-economic and employment challenges of a country with a strong commitment to – and arguably high levels of dependence on – the public sector (Wales Public Services, 2012).

The proliferation of approaches reflects the complexity and depth of the challenges for public services. Perhaps unsurprisingly, therefore, the authors in this volume do not offer a single blueprint for an agenda beyond New Public Management. They would, however, all distance themselves from elements of NPM’s singular focus on economy, efficiency and effectiveness, choosing to re-examine the notions of citizenship, rationality, redistribution, performance and accountability that underpin the NPM ethos. We cannot ascribe a single argument to a diverse platform of perspectives and understandings. But we would argue that some core principles endure, and should form the basis of a new agenda for reform in the public services.

First, we argue that our new agenda must be grounded in a much fuller understanding of citizenship, learning from and moving beyond attempts at public service reform that have often relied on singular and deterministic conceptions of how people behave and interact with the state and public services. This role has been periodically re-cast, from passive recipient, to market-incentivized consumer, to contemporary notions of the active ‘co-producer’ or ‘co-creator’. But as chapters by Kenny, Lever, and Stoker and Moseley show, the efficacy and sustainability of public services will be contingent upon a much more nuanced,



multi-dimensional and fluid understanding of what we are as citizens, and a much better understanding of how we interact with each other and how we make decisions within different contexts. Further, public services have a role in creating strong citizens that make possible a good society – they are, to some degree, constitutive of who we are.

Second, we argue that the public services ecology needs careful management and within it the state has a vital role to play; it cannot be reduced solely to commissioner. It has the ability to shape the ecology within which public services operate, as well as being well-placed to provide certain services directly and in partnership. All the contributors to this volume believe in a mixed ecology of public service delivery, drawing on the resources and values of the social and private sector, as well as the ethos of a public sector steeped in the values of mobilizing collective resources to meet social need. Innovation in delivery requires a plural and diverse approach to public services, which breaks down traditional service and industry-sector silos and focuses on the needs and aspirations of citizens. In a context of austerity, much has been made of the imperative to get ‘more with less’; to generate unprecedented efficiencies in public administration, and to find new ways to unlock latent citizen energy and bring social and private resource to bear on public problems (Cabinet Office, 2011; Halpern, 2010). Yet none of this is possible if public services are retrenched and residualized. In a re-balanced economy, there should be a place for a strong public sector, with well-funded public services that are capable of enabling citizens and communities to survive social and economic shocks, and to thrive over the long term. Without making the case for public spending as a social spine and an engine of social value and economic growth, we risk exacerbating inequalities, undermining local economies, and undermining our ability to meet the huge societal challenges of the future.

Third, we argue for an approach to public spending that is open to notions of partnership, co-funding and co-production, but that rejects the binary proposition that the state spends too much, and the solution must inevitably entail radical cutbacks. As chapters by Hood and Glennerster demonstrate, the question of how we fund our future welfare state is a multi-faceted and complex one, with much of the debate resting not on how much the state spends *per se*, but what it spends it on, and how this public money is accounted for. It is a question of efficacy and purpose, not just of efficiency and accounting. It is a debate that cannot be done justice by facile notions of ‘less state, more society’, or ‘public bad, private good’.

As much of the developed world enters a period of fiscal austerity and

low-to-no economic growth, these questions of what public services are *for* become more acute. For some – drawing perhaps from Hayek and others on the right – public services are merely a safety net; a necessary evil to ensure social stability (Hayek, 1960: Part III). For others – a perspective perhaps embodied by T. H. Marshall – universal entitlement to public services is a manifestation of citizenship; a fundamental right and the realization of full membership in society. Beyond this, there is a broad political centre-ground that acknowledges public services as a ‘cornerstone of society’ (Commission on 2020 Public Services, 2010). Our public services are vital; they help us to achieve things we could not achieve alone, and support us both individually and collectively; yet what we want from them, and how we want them to be provided, is changing. Tomorrow’s public services must be relevant to an increasingly fluid, mobile and multi-dimensional society, with changing expectations and aspirations. As we look to new reform agendas, we must be open to different ways of understanding and engaging with citizens; designing, delivering and personalizing services; and distributing and accounting for entitlements and benefits. The authors in this collection begin this task.



Part One

# New Relationships Between State and Citizen



# Motivation, Behaviour and the Microfoundations of Public Services

Gerry Stoker and Alice Moseley

Understanding what motivates people and what drives their behaviour is self-evidently central to policy-making.<sup>1</sup> If you are trying to change human society for the better then you are likely to have some theory of what it is that makes humans ‘tick’. Social science in its theoretical work also looks to discover microfoundations: the individual-level behaviour that underlies social activity. In social science the search for microfoundations rests on identifying individual-level mechanisms which bring about aggregate social outcomes. For policy-makers microfoundations play a role in shaping governance choices because they provide the rules of thumb which guide their work. For them they are the starting point for thinking about what to do, what might be effective and what could be feasible. In this chapter, we exam five propositions about motivation and public service design.

## Microfoundations

*Proposition 1: Microfoundations – particularly those that assume we are self-interested calculators – are deeply embedded in our thinking about public service design and policy but there are costs and limitations to such thinking.*

Policy-makers often design their interventions to reflect a sense that human beings are driven by an instrumental rationality in which actors use information efficiently and make predictable calculations to advance their objectives. It is

<sup>1</sup> Thanks to Peter John, Graham Smith, Lauren Cumming and Henry Kippin for comments on the paper.

assumed that, if given a chance, individuals will pursue their own self-interest. So, in designing public policy individual and collective interests need to be aligned. The response this familiar perspective requires from the policy designer is good institutions to establish the right incentives. Policy is constructed on the basis that individuals are self-interested but subject to manipulation through a combination of incentives and constraints.

On such scaffolding much of the paraphernalia of modern public administration is erected. Such thinking is in tune with influential social engineering principles first offered by David Hume in the eighteenth century and captured in the dictum 'to design institutions for knaves' by offering material sanctions and incentives for good behaviour. The approach is also supported by a long history of utilitarian thinking on the design of institutions, constitutions and laws in which the influence of the Benthamite tradition – to protect public institutions from exploitation by sinister interests – has been great (Schofield, 2006).

The modern delivery of public services is imbued with assumptions about the instrumentality of service users and providers. It has been given an additional push in the last few decades by the rise of the New Right critique of the state and its lionization of market-like incentives as a means of designing public policy, something which is well illustrated by the use of quasi-markets in welfare provision (Le Grand, 1997). Market style incentives – rewards for good performance – provide a way of channelling that self-serving motivation of bureaucrats for the public good. Better information and more choice – again in an aping of market principles – give consumers of public services who know their own interests the opportunity to pursue them (Stoker, 2011; Hood, 2008). Targets, naming and shaming and performance measuring – central to New Labour's public service reform strategy – smack of the microfoundational ingredients of instrumental rationality.

Designing systems that control providers in this light and give opportunities to consumers can appear intuitively sensible, an exercise in commonsense. But what if there is a defect in the microfoundational assumption that underlies these policy prescriptions? What if people are not rational, selfish calculating machines? We argue that for policy-makers too narrow a focus on certain microfoundations has costs and limitations. There are dangers in thinking of people as always selfish, calculating machines looking for short-term advantage. If people assume that you view them as selfish calculators in your design of policy instruments they may respond in a self-fulfilling prophecy by 'gaming' the system.

Even if this point is conceded and we assume that people are just broadly self-interested rather than selfish there is a danger with overestimating people's calculating capacity. By narrowly focusing on people as self-interested calculators policy-makers may overlook other factors and motivations that could drive their behaviour. As Jones (2001: 194) argues, 'a major reason that institutional reforms fail to perform as well as expected is that designers do not pay enough attention to how the incentives they create or alter are likely to be perceived by participants in the institution.'

### Rational, self-interested calculators

*Proposition 2: Plenty of social science thinking does not assume people are rational, self-interested calculators. There are reasons why some social scientists might seek to retain a narrow and reductionist understanding of human behaviour as a microfoundation to aid their model building but for policy-makers to continue to do so would be a serious mistake*

For social scientists there is often a strong argument for microfoundations to be both parsimonious in expression and consistent in application. Thus for much of modern economics or rational choice variants of political science, international relations or sociology to build their modelling on the assumption that individuals are rationally calculating, individualistic, selfish and goal-seeking makes a lot of sense. It enables complex situations to be explained but in a way that supports rigorous, even mathematical, expression of propositions. It aids the empirical investigation and testing of those propositions through the clarity of the logic and the predictive quality of many of the core propositions.

Many economists and rational choice theorists have accepted qualifications about their microfoundational assumptions while seeking to preserve their approach in general terms in the light of challenges from other social scientists (Hindmoor, 2010). Many are happy to concede that people are not necessarily always selfish, not always great at calculating and not always consistent in the way they make decisions. They do retain the assumption that in most situations people are indeed goal-seeking, rational calculators and argue that you can go a long way with that assumption. But they often introduce a qualification namely that people are self-interested rather than selfish and act according to the information available to them using rules of thumb rather than explicit and extended rational calculation. They may add a further caveat namely that individuals



might not experience their choices as selfish and calculating but that it is useful to model their behaviour as such because they often behave as if they were following those rules. People do not think about following the laws of supply and demand but invariably they do (Coyle, 2010).

Economists and rational choice social scientists make these qualifications to defend their approach against the charge that people do not behave, always and everywhere, as selfish and rational calculators. Such qualifications begin to provide a template for more realistic yet still parsimonious social science models. So should policy-makers also proceed on this revised basis? We would accept it would be a step in the right direction but argue that it does not go far enough in embracing a fuller microfoundational plurality that would be more beneficial for policy-makers. Sticking to a modified 'thin' rationality assumption might make sense for social scientists that seek to develop general models of behaviour (based on parsimonious and simplified assumptions) but it is not appropriate for policy-makers.

The weight of evidence, that people are not rational self-interested calculating machines, cannot be set aside by policy-makers as easily as it can by elements of social science. The difference relates to the nature of the challenge faced by both groups. For social science the main challenge could be seen as to develop an approach that supports rigorous and parsimonious theorizing matched by empirical testing. For the policy-maker the goal in a democratic society is to act both effectively and legitimately. This context often demands comprehensive interventions that can reach the fullest range of human motivations and behavioural quirks and a public statement of policy that is reasonable and defensible in terms of the respect it pays to service users and providers. A rational choice modeller could argue that for the purposes of her work she will assume people are selfish calculators. Her job is to explain and if the assumption helps to provide rigorous explanation it might be used as a justification. But given the demand on a government to act effectively other motivations and driving factors must come into focus if we can show they are important to the way that real people make real decisions. Moreover, given that there is a democratic dialogue between governors and governed the legitimacy of decision-making demands a recognition that on both sides something more than self-calculation is possible.

The microfoundational assumption that we are rational calculating machines cannot stand on its own as a rule of thumb for policy-makers. That is not to say that people never act in a self-interested and calculating manner but it is to argue that we may not do it as often as some of the founding thinkers of social

science assumed or as some of their modern-day followers in public choice economics or management schools vehemently claim.

It can be further noted that a great number of social scientists have found and still find that standing their work on narrow assumptions about human instrumental rationality is unhelpful. And the story does not start with the emergence of behavioural economics over the last two decades, it can be traced back at least in its direct application to public organizations to the pioneering work of the Nobel-prize winning Herbert Simon over 60 years ago (Simon, 1945/1997). His core argument was our limited capacity for information processing constantly gets in the way of us being heroic rational decision-makers. The bounded rationality maxim is that ‘we have small brains and face big problems.’ This insight now has the backing of swathes of behavioural economics, cognitive psychology and neuroscience literature.

The fundamental human predicament is processing information, understanding a situation and determining consequences given the limits of our cognitive capacities and the complexities of the world in which we operate. Decision-making is conditioned by the structure of the human mind and the organizational context in which people operate. The decision-maker rarely comprehensively perceives the environment and weighs up options against her preferences in the context of incentives and constraints and chooses the option that maximizes these preferences. Decision-makers, as it were, have to deal both with the external environment and their inner world, their cognitive architecture. The inner world helps them to focus on some things and ignore others and it is driven by habits of thought, rules of thumb and by emotions. Rationality is ‘bounded’ by this framing role of the human mind.

A second point, strongly emphasized by Simon, is that actors gain their purpose in this complex world of information processing through ‘subgoal identification’ (Simon, 1945/1997). Individuals identify with institutions of which they become part and internalize the aims of these organizations (Goodin, 2004). More broadly we are social animals who often look to know what the rules are in different situations and ask how it is that we are supposed to behave. We search for the rules of appropriate behaviour rather than maximize our own utility (March and Olsen, 1989).

The sense that institutions can provide us with norms rather than simply a framework of incentives and constraints to steer our selfishness marks a break from the more instrumental microfoundational approach to institutions. It can lead to a wider argument that to change civic behaviour what is required is opportunities for people to ‘think’ (John *et al.*, 2009). A long tradition in political

theory as well as arguments made more recently by democratic deliberation advocates and practitioners suggest that free and equal public deliberation has an educational effect as citizens increase their knowledge and understanding of the consequences of their actions. But the value of deliberation does not simply rest on the exchange of information. The public nature of deliberation is crucial. Because citizens are expected to justify their perspectives and preferences in public, there is a strong motivation to constrain self-interest and to consider the public good. Citizens are given the opportunity to think differently and as such deliberative theorists argue that they will witness a transformation of (often ill-informed) preferences.

A further step in the argument can be made. What if we assume that individuals have innate tendencies to co-operate with others and reject the assumption of opportunism built into instrumental rationality models? Why assume that unless firmly bound by external constraints and steering incentives people will choose options in their narrow, short-term self-interest when most of us would claim to live and make choices in some moral universe? The assumptions of pure self-interested rationality embedded in principal agent theory creates what Bryan Jones (2001: 120–1) calls a rationality trap, a perceived problem that will plague human interactions that might be illusory if there is a tendency built into humans to co-operate. Social-psychological research suggests there are good evolutionary grounds and much evidence to suggest that such a co-operative tendency does exist (Jones, 2001: Ch. 5).

There is a long tradition in political theory that recognizes the possibility of the internalization of moral principles which cannot be traded (Goodin, 1982). What is being suggested is a microfoundational assumption that people are capable of exercising moral as well as instrumental judgement and that the two forms of judgement cannot be collapsed into one another. In particular for policy-makers there is a danger that by focusing on crass material or instrumental incentives they may undermine moral motivations.

Frey (2007), drawing on a range of social-psychological research, has developed this insight to argue for a different approach to changing behaviour which recognizes that the incentives and constraints favoured by instrumental rationality can crowd out intrinsic motivation. Crucially in designing institutional interventions as if agents were knaves means running the risk that 'good works which were formerly produced out of the goodness of people's hearts must now be compelled through more expensive and inefficient external mechanisms of social control' (Goodin, 1982: 114–15). Second it focuses on our potential for our self-seeking wrongdoing and runs the risk, as a result, of

squeezing out of consideration the moral and social norms that drive so much social behaviour.

We are neither as intellectually heroic nor as instrumentally villainous as a narrow focus the microfoundation assumptions of modern economics and rational choice theory would imply. Given what we know about peoples' mixed motivation, cognitive limits and variable social framing of situations, to assume that they will react in a predictable way to policy interventions and incentives simply as a result of their rationality and self-interestedness is incongruous tending towards absurd.

### Narrow instrumental rationality

*Proposition 3: Evidence from research and public policy supports the case for breaking from a narrow instrumental rationality in approaching public service provision*

At several points in the argument so far we have alluded to the weight of evidence to support the idea that we are not self-interested, calculating machines. This section provides some substance to this claim. The research to support this proposition accentuates the cognitive, social and moral influences on behaviour.

### Cognitive pathways

The idea that we search systematically and comprehensively when making choices is confounded by a wide range of social-psychological and behavioural economics research. Here we summarize a few of the most important contributions and identify some implications for policy design. The first three examples highlight the mental shortcuts taken by 'homo psychologicus' to aid decision-making.

Prospect theory (Kahneman and Tversky, 1979; Thaler, 1980) alerts us to the 'endowment effect' which suggests that when we are already in possession of something, we are very reluctant to lose it. Cognitively it is more important for us to hold onto what we have (i.e. prevent loss) than to gain something extra. Experimental research backs up this theory and demonstrates that 'ownership matters' in people's valuation of a good, with owners placing higher value on the traded good than sellers (Kahneman *et al.*, 1990). In public policy this translates

into designing behavioural change strategies to emphasize losses rather than gains. Where people feel that they have something to lose, they may be more inclined to do something to prevent the loss occurring. For instance, smoking cessation policies which highlight life years lost through smoking are more effective than those highlighting life years gained by quitting. In a similar way, fines are likely to be a more powerful motivator for changing behaviour than rewards (Dawney and Shah, 2005).

Another facet of our cognitive architecture which displays our less than fully rational behaviour is our use of psychological discounting (Frederick *et al.*, 2002). This theory suggests that immediacy is a major factor in our responsiveness to offers. We place more weight on the short-term than on the long-term effects of our decisions. If we are to gain something, we would rather do so now than later. If we have to feel pain, we would rather experience it some time in the distant future. Behavioural economists use this principle to explain why people often make imperfect economic decisions. ‘Hyperbolic discounting’ occurs when we place a ‘high discount rate over short horizons and a relatively low discount rate over long horizons’ (Laibson, 1997: 445). In other words, we overweight short-term consumption while discounting the greater long-term gains that could be made by delaying consumption, creating outcomes which are suboptimal both from an individual and collective perspective. It is this that makes many of us reluctant to save for our retirement, or inclined to ignore the long-term effects of a poor diet or exercise regime. Since we are all living longer, this psychological predisposition is one that public policies should address. Commitment mechanisms can be built into public policies to redress our propensity for short-term gratification and procrastination (O’Donoghue and Rabin, 1999). One example of this which is displaying promising results is a pension savings programme built on a ‘buy now pay later’ principle in which employees have to commit to incremental savings with a two-year payment holiday to begin with (Thaler and Bernartzi, 2004). Discounting is a feature of analysis by economists as well but the psychological literature tells us that we tend to discount in a less consistent and rational way than economists with their rationally focused microfoundations recognize.

A closely related phenomenon is our propensity for maintaining the status quo (Samuelson and Zeckhauser, 1988). Limited by time, intellectual energy and resources, the majority of us, most of the time, prefer not to change our habits unless we really have to. Research verifies that when confronted with a complex or difficult decision, and in the absence of full information about all the alternatives, we will often stick with our current position (Choi *et al.*,

2003). A powerful mechanism which can be used by policy-makers is to alter 'choice architecture', by shifting the default position to maximize social welfare (Thaler and Sunstein, 2003). Automatically enrolling citizens for pension savings programmes (Cronqvist and Thaler, 2004) or onto organ donor registers (Johnson and Goldstein, 2003; Abadie and Gay, 2006) are instances where changing defaults appears to work well.

A fourth aspect of our behaviour recognized by social psychologists and relevant to the design of public services is the issue of cognitive consistency. Following Festinger (1957), psychologists suggest that people seek consistency between their beliefs and their behaviour. However, when beliefs and behaviour clash (the phenomenon of cognitive dissonance), we frequently alter our beliefs instead of adjusting our behaviour. One way out of this difficulty from a behaviour change perspective is to extract commitments from people (Dawney and Shah, 2005). Research indicates that when people make such a commitment they feel more motivated to adjust their behaviour to back up their expressed beliefs, particularly where commitments are made in public. Making a commitment to do something can change our self-image and encourage us in future decisions to seek consistency with our previous commitment. Evidence in the field of environmental behaviour suggests that extracting public promises can help to improve composting rates and water efficiency as compared with simple information provision and advertising (McKenzie-Mohr, 2000). Similar findings are reported in the area of voting behaviour, with those asked beforehand to predict their likelihood of voting more likely to vote than those not asked (Greenwald *et al.*, 1987), and in blood donation decisions where exposing people to an 'active decision choice' (i.e. actively putting the choice before them) increases blood donation rates in people who are uncertain on the subject (Stutzer *et al.*, 2006).

## **Social Influences**

Homo psychologicus does not live in isolation and recognition of the interpersonal, community and social influences shaping behaviour will strengthen public service designs. Social psychologists and sociologists suggest a number of important influences (see Cabinet Office, 2004 for a review). For instance, our perception of how others see us, particularly our peers, matters to us. In the context of promoting energy efficiency within offices, there is evidence that the technique of 'information disclosure' between firms creates a 'race to the top' among firms keen to display their green credentials (Thaler and Sunstein, 2008).

Similarly, the concept of social proof suggests that when confronted with an ambiguous situation, we look to other people for cues on how to behave (Cialdini, 2007). In many collective action situations experimental evidence also confounds the predictions of rational choice theory. This evidence indicates that traditional incentives and monitoring are not always necessary for generating socially optimal behaviour.

Theories of inter-group bias stress the importance of group loyalties and identifications, and experimental work indicates that strangers divided into groups can quickly form such loyalties (Tajfel *et al.*, 1971). Group identities often develop and generally speaking we are predisposed to emulate the behaviour of those with whom we identify (Tajfel *et al.*, 1986). Techniques which exploit these inter-group biases and loyalties have been used in policy research experiments, for instance by attempting to encourage whole streets to form group identifications vis-à-vis other streets in the neighbourhood, in a bid to increase food waste composting (John *et al.*, 2011).

Such insights applied to public policy can help create policy designs that provide the opportunity for people to emulate and learn from those with whom they identify. Existing peer support and community mentoring schemes already exploit these principles. Inter-group biases can also be channelled to encourage communities to protect and steward their local environments.

A further strand of sociological work suggests that people are influenced by their immediate social networks which are themselves based on social norms including reciprocity and mutuality (House, 1981). Public policy instruments like community contracts and other forms of voluntary agreements as well as campaigns to encourage organ donation or volunteering which emphasize reciprocity or a sense of community make use of such principles.

## **Moral Convictions**

Turning to the last dimension, we have noted above the idea that extrinsic material incentives can sometimes 'crowd out' our intrinsic moral motivations. In situations where agents are already altruistically motivated, the introduction of traditional incentives may be counter-productive. Research into volunteering indicates that volunteering rates can in some cases decline when payments are offered (Frey and Goette, 1999). Similarly, in the field of childcare, the introduction of fines for parents who arrive late to pick up their children increases lateness because payment erodes their sense of guilt for being late and changes

the nature of the relationship to a contractual one (Gneezy and Rustichini, 2001; Dawney and Shah, 2005).

External and, in particular, monetary incentives do not mechanically induce human beings to act in the desired way, because they crowd out intrinsic motivation under identifiable conditions (Frey, 2007: 4–5). Three psychological processes account for the hidden costs of stimulating behaviour through external incentives and constraints. When people feel that they are being controlled, especially through intensive oversight and regulation, they may feel impelled to forego intrinsic motivation because the external framework is so overwhelming that it makes maintaining an intrinsic motivation pointless. When people find their perceived intrinsic motivation over-looked or ignored this situation can lead to loss of self-esteem and sense of purpose. Finally when they are not encouraged to display their cherished intrinsic motivations they can experience a sense of anger at this deprivation.

## Resilient, productive and socially engaged citizens

*Proposition 4: Future public services must shape resilient, productive and socially engaged citizens: resilient to the huge societal challenges we all face; productive socially and economically, driving international competitiveness; and engaged in the social and political dynamics that shape their own lives and those of the people around them.*

Governments into the future will become more reliant on citizens to support their attempts to improve individual and collective well-being. The nature of problems facing the contemporary society – from securing environmental protection to meeting the needs of an ageing population, dealing with the fragmentation of traditional household and kinship structures as well as maintaining public services while reducing public debt – cannot be achieved by the state alone. ‘Co-production’ by citizens and communities can be used to tackle these challenges. While it has long been acknowledged that governments rely on citizen co-operation with policy implementation efforts and for the provision of collective goods (Ostrom, 1973, 1996), there is growing interest in how a more ambitious form of citizen co-production can be garnered. These are likely to involve a transfer of significant public service activities away from the state and towards society (Bovaird, 2007; Horne and Shirley, 2009). Co-production is commonly used in developing countries where state capacity



is lacking or in other challenging environments where information asymmetries mean that only citizens have the relevant knowledge to resolve the problems at hand (Joshi and Moore, 2004; Ostrom, 1973, 1976). There is increasing interest in how co-production can usefully be adapted and applied in the UK and other developed nations.

The nature of citizen involvement in co-production is largely social rather than financial (Horne and Shirley, 2009). Social contributions include time, effort, expertise, and, in fields like health and the environment, will-power. Co-production takes many forms at both the individual and community level. The former indicates self-resilience and responsibility while the latter suggests responsibility for others in the community, usually, although not always, through collective effort. At the individual level, citizens can help to co-produce by taking individual responsibility for health, savings, energy and waste. At community level, examples include community wardens and rural road maintenance programmes, peer advice, neighbourhood watch and visits to elderly neighbours.

Some forms of public services, therefore, can be delivered and designed by, or in collaboration with, communities. The potential effects of this arguably may be greatest in areas where public services are scarce or where dependence on these is higher and choice is lower, for instance in rural or economically deprived areas. In both these cases people are more reliant on local public services and less able to opt out of those that are available (Taylor, 2002). Borrowing Hirschman's (1970) conceptual framework, in these contexts 'exit' (i.e. the choice agenda described earlier) is less of an option and 'voice' is not always effective enough to lead to the desired improvements in public services, particularly in the face of resource constraints. Co-production can be used to harness 'loyalty', and communities can use co-production as a method for improving the quality and level of services as well as increasing social capital. Community-based developments trusts, local exchange and trading systems, credit unions, time banks and social enterprises are typical mechanisms of co-production in rural or economically disadvantaged areas.

The social psychology and behavioural economics literature discussed above provides clues as to how co-production might be harnessed. In the section below we explore the strengths and limitations of this literature in terms of what it might provide for policy-makers aiming to stimulate citizen co-production.

## A mix of policy tools

*Proposition 5: Encouraging people to co-produce public services calls for the development of policy designs based on theories of behavioural change which encompass the complex mix of instrumental, cognitive, social and moral microfoundations that drives real behaviour. But stepping into this arena must be done with 'eyes wide open' as there are good grounds for doubting both the state's legitimacy and capacity to use this more subtle mix of tools*

Policy-makers do not start with a blank sheet of paper in respect of this challenge. There are a number of books and pamphlets that offer policy lessons drawing on insights from behavioural economics and cognitive psychology and a number of programmes of policy activity are underway at the local and national levels both in the UK and elsewhere (Thaler and Sunstein, 2008; Cialdini, 2007; Cabinet Office, 2004; Knott *et al.*, 2007). The book by Thaler and Sunstein (2008) on 'Nudge' deserves particular credit because it and associated activities by its authors has done much to bring out the possibilities of tackling issues of behaviour change in new ways. 'Nudge' offers a valuable framework for changing the 'choice architecture' of citizens in order to achieve alterations in their behaviour which constitute improvements for them and for society as a whole. A valuable report on how 'Nudge' ideas have been taken up in practice and how they could be taken further is provided by a 2010 report for the UK Cabinet Office by the London-based think-tank the Institute for Government which seeks encourage policy-makers to think beyond the tools of regulation, law and financial incentives. The report contends: 'For policy-makers facing policy challenges such as crime, obesity, or environmental sustainability, behavioural approaches offer a potentially powerful new set of tools. Applying these tools can lead to low cost, low pain ways of 'nudging' citizens – or ourselves – into new ways of acting by going with the grain of how we think and act. This is an important idea at any time, but is especially relevant in a period of fiscal constraint' (Dolan *et al.*, 2010: 7).

We do not wish to challenge such an optimistic assessment directly but note that there is currently a gap between our understanding of general social and psychological processes and capacity to ensure that these insights become effective tools for social engineering. Given the miserable track record of large-scale social engineering (Scott, 1998) one of the attractions of 'Nudge' approaches and other related tools is that they demand only relatively modest changes for potentially big pay-offs. But it is with respect to the translation from

general social mechanisms to plausible strategies of social engineering that we need both more theoretical and philosophical reflection and more empirical investigation.

When is right for the state to intervene in issues of behaviour? These issues are recognized by the authors of *Nudge* and the *Mindspace* report and they are not easily resolved. Judging the morality of seeking to steer people's choices in certain directions is of course not a new dilemma for policy-makers and issues of whether it is right to intervene apply equally well to the use of standard tools such as law-making, regulation or taxation. What makes the issue more challenging in the case of some nudging is that standard forms of intervention are more open and explicit about their intentions (although how much many of us really understand about the details of regulations and taxation applied to us would be in doubt, and we know also that policy tools of all types can be made less visible to reduce public resistance). The tenor of nudging can be 'we the government know better what is good for you than you do and we have found a sneaky way of getting you to make the right choice'. One line of defence promoted by Thaler and Sunstein (2008) under the label of 'libertarian paternalism' is that at least the choice does remain with the citizen, it's just the architecture of choice is made to support what are judged by democratic governments to be beneficial outcomes. The *Mindspace* (2010) report argues that judgements about the controversy of interventions need be made before they are launched and democratic or public approval sought before they are introduced.

Even if these moral challenges could be addressed there is a further issue according to some commentators. Can we trust governments to pick the right choices for us? Rajiv Prabhakar (2010) argues:

Behavioural economics assumes that government knows best. But often this may not be the case. For good reason, government might find it difficult to unpick the different parts of a policy problem ... government might lack proper evidence to guide its decisions. Government might only know the right nudges in a limited number of areas where there is plenty of evidence.

This argument is, perhaps, a useful qualification, to over-enthusiasm about nudging but hardly a major challenge to nudge-like strategies since it applies equally well to other forms of government intervention. When it taxes and regulates us how does government know its doing the best thing? The answer in all cases is surely that the key issue is a judgement which in a democratic society we can hold government to account for at some point. Moreover our existing

choice architecture is not 'neutral' or 'natural'. It is itself a construction of the decisions (or non-decisions) of actors/institutions/practices that (explicitly or implicitly) promote 'non-civic' behaviour.

In short the morality and legitimacy issues surrounding the idea of using interventions driven by a wider set of microfoundations that reflect in a more realistic way the complexity of human decision-making and behaviour can be addressed. Where we have greater doubts is whether governments have the capacity to intervene effectively using these more subtle tools. To explore this concern we think that it is useful to consider four intervention points available to governments when they seek to translate ideas about general microfoundational mechanisms driving social behaviour to deliverable policy measures. These are presented under the headings of framing, influence, socialization and bricolage. The first two are top-down in orientation with government in the lead but the final two are more bottom-up with government ceding more control to citizens. We want to challenge the idea that behavioural change can be driven solely by top-down interventions. We suspect the governmental officials will be more comfortable with top-down interventions but argue they should not neglect more bottom-up approaches.

## **Framing**

Framing activities are at the heart of the 'Nudge' book with its focus on shifting the choice architecture of citizens. They are a widely recognized feature of marketing, campaign and policy interventions. Framing in the context of policy-making refers to the process by which a policy maker may present an issue in order to encourage policy targets to respond in certain ways. The way problems are stated, and in particular the importance attached to certain dimensions of a problem affect people's reactions and their subsequent behaviour. It is an approach that is top-down, in which the decisions of citizens are framed or influenced by a policy format that takes citizens as they are but supports them towards better decisions.

Framing typically involves highlighting a subset of potentially relevant considerations which form part of the larger issue at stake, in order to influence the way in which people react to it (Druckman, 2001). Applying our previous example from prospect theory (Kahneman and Tversky, 1979), framing might involve presenting a choice as involving losses rather than gains. Another example of framing is the issue of sequencing. Behavioural science indicates that people give disproportionate weight to the last part of an encounter or a

message since this is the part that they retain in their recollections (Chase and Dasu, 2001). Applying this to a government-sponsored television appeal for donations to natural disaster or for blood and organs the argument would be for a strong positive image to end the message.

Classic 'nudges', for example, involve changing the default arrangement so that individuals do not actively have to choose the better option for them and society (so you are in a pension scheme unless you actively opt out). But our research suggests that 'nudges' may shift the behaviour of only relatively low percentages of citizens (John *et al.*, 2011) and may also be less good at tackling ingrained behaviour. Moreover, there are clear constraints on the framing ability of elites. Druckman's (2001) experimental work indicates that frames are only influential insofar as the people generating those frames are perceived as being trustworthy and credible by those they are attempting to influence. Government agencies undoubtedly have the capacity to frame or 'nudge' but they may not be trusted by citizens as credible sources of information, advice and this constrains the capacity of interventions at this point to reach more challenging elements of citizen behaviour. Trust in public institutions and agencies does vary and is a complex phenomenon (MORI, 2003) but it cannot be assumed that the trust needed to engage in effective framing will always be present.

## **Persuasion**

Persuasion shares some ground with the idea of framing, although the two are conceptually distinct. The main difference, according to Nelson and Oxley (1999; see also Druckman, 2001), is that persuasion involves altering *belief content* while framing involves only altering the relative *importance* that is attached to certain beliefs.

Experimental work in this area indicates a strong likelihood that policy-makers can increase the persuasiveness of their policy ideas and proposals by paying attention to the information environment in which citizens receive these messages. For instance, Lau *et al.* (1991) demonstrate that where only one interpretation of a policy problem and solution is presented, providing the idea itself is consistent with voters' cognitive schemata and that the interpretation is itself a 'chronically accessible construct' (i.e. that the interpretation is largely uncontroversial and fits with their prototypic examples), they will generally accept the policy argument. In such situations voters engage in only 'shallow information processing'. Their evaluation of the issue will be strongly influenced by the interpretation presented in the official account, even if the interpretation

is at odds with their deeper political beliefs. However, where competing interpretations are presented and where interpretations might be in conflict with our cognitive schemata because the ideas themselves are new or unfamiliar, deeper information processing is required. In these situations voters tend to draw on their general political beliefs to aid to decision-making.

In short persuasion as an intervention point that has its greatest impact when there is limited competition for of ideas and little to challenge to the message. It only takes a moment's reflection on the issue of global warming or the MMR jab to see that the persuasion capacity of policy-makers can be limited in those circumstances when competing ideas are aired effectively.

## **Socialization**

If we are going to bring into play the role of social norms or the building of moral dimensions into policy measures then socialization processes become a bottom-up intervention point for governments. But socialization processes are difficult to get at because they suggest that:

norms or ideas spread in a relatively incremental, evolutionary way generated by repeated interaction within groups. A group of people come together in interaction. They could interact in a wide variety of ways, but either through accident, deliberation, or initial innovative leadership; they orient themselves around certain norms or beliefs. Action becomes increasingly robustly embedded in the norms or beliefs over time, though the norms and beliefs are also constantly reshaped on the margins as they are reproduced. (Parsons, 2010: 94)

Recognizing the role of socialization as an intervention point in shifting civic behaviour may make sense in terms of research but is very challenging in terms of policy (as Putnam has found in turning social capital insights into effective policy interventions, see Putnam and Feldstein, 2003).

It would seem that the key is for government to cede power to citizens if the forces of socialization are going to come to fruition. Groups themselves can find ways of overcoming 'tragedy of the commons' type scenarios (Hardin, 1968). As the Nobel prize-winning Elinor Ostrom (1998) notes, 'contrary to purely rational models, individuals systematically engage in collective action to provide local public goods or to manage common pool resources without external authority'. With repeated interactions, particularly face-to-face interactions, group members learn conditional co-operation and reciprocity, and develop norms of co-operation through the use of group sanctions and rewards,

either material or reputational. Group norms such as willingness to sanction other group members for non-co-operation are arguably the equivalent of moral codes.

In areas of public policy reliant on citizen co-operation for achieving policy aims, particularly collective action or 'social dilemma' situations (Ostrom, 1998) such as improving air quality or reducing the use of landfill sites, governments can employ creative methods for harnessing co-operative behaviour. Rather than using the traditional tools of government to punish or incentivize, the state may be better off working on the development of the institutional apparatus which will permit citizens to co-operate. In practice, this means building opportunities for face-to-face interaction, the development of trust and the performance of reciprocal acts.

'Nudges' we have argued elsewhere (John *et al.*, 2009) need to be joined by strategies that give citizens more sustained space and opportunity to 'think': to deliberate their way to solutions and ways of changing their behaviour. If we are going to access the full range of the intervention points for positively influencing behaviour, particularly in attempts to foster co-production, we may need governments who are prepared to cede more power than that required by adopting calculating 'nudges'. The future of public services may be tied as much to a capacity of government agencies to engage citizens individually and collectively in rethinking their lives and choices as much as it is by their capacity to develop smarter 'nudges'.

## **Bricolage**

Top-down framing and bottom-up building of deliberation may need to be joined by a further development in governmental capacity, which requires seeing like a citizen rather than seeing like a state. This argument is inspired by Scott's (1998) study of the failings of grand social engineering projects which he argues are, in part, a reflection of the high-handed, uniform, centralizing and codifying form of thinking that can dominate government thinking and a lack of respect for the local knowledge, craft understanding and diversity of the practices and perspectives of citizens. The same point is made in a different way by the literature in social science on bricolage. The essence of the argument is that people 'tend to develop ideas and norms and practices to suit rather discrete problems and goals, and ... end up with a complex landscape of overlapping realms of action' (Parsons, 2010: 96). Lévi-Strauss' metaphor of bricolage (1966) attempts to capture the way that actors can learn in an ad hoc way, making sense

of things as they go along and finding out what is useful as the need to bring something into use comes into focus. Many practitioners describe the way they learn using the idea of bricolage (Freeman, 2007).

Given the significance of such processes to exploring how people are deciding and why they are behaving in certain ways it suggests that the state faces a major intelligence challenge in developing more subtle and effective intervention. A capacity to see like a citizen rather than seeing like a state is a considerable challenge for the effective development of new tools of intervention. So a key intervention point could be to use focus groups and the collective equivalent of 'mystery shopper' to discover what it like to experience the state from the citizen's view point.

## Conclusion

This chapter argues that the case for taking on board a wider understanding of the diverse microfoundational bases to social behaviour in the design of public services is overwhelming. A greater comprehension of cognitive pathways, social norms and moral motivations should join with a continuing understanding of instrumental factors in shaping government policy making. The evidence and theoretical understanding provided by social science would endorse a move to a greater use of a more subtle range of tools for changing social behaviour.

Given the demands of co-production and the limits to available finance it could be argued that a shift to a more subtle range of interventions is essential to the future of public services. Our caution rests not so much over the ethical or political issues thrown up by such a development but on two other factors. First it is recognition that we are only in the foothills as social scientists in understanding how to translate a general understanding of social process into viable social engineering interventions and that we need more research and work to clarify what works and to what extent and in what circumstances. Second we think that there is a danger that top-down forms of intervention to shift social behaviour will overwhelm more bottom-up approaches. Top-down approaches may sit more comfortably with government practice and may indeed be effective but only within limits. Bottom-up approaches demand a greater culture change from government but may enable the tackling of issues that top-down 'nudging' strategies will not be able to grasp.





# Developing a Civic Approach to Public Services: Time to take pluralism seriously

Michael Kenny<sup>1</sup>

## Introduction

The Commission organized by the 2020 Public Services Trust has been forthright in its insistence that fostering a new politics of citizenship should be one of the animating principles informing our thinking about public services (2020 Public Services Trust 2010). Various commentators have argued persuasively that in order to build such a politics, we should consider recent findings from the behavioural sciences. In this paper, I argue that we might also profit from looking backwards – towards a rich body of thinking about citizenship that remains influential upon public attitudes, and replete with insights for today's dilemmas.

The idea of approaching public services from the vantage-point of citizenship has the potential to provide a richer alternative to the twin approaches to public service reform that successive governments have developed in recent years. Specifically, it has the capacity to move beyond an exclusive focus upon 'entitlements', which tends to present the citizen in a predominantly passive-recipient mode, on the one hand, and the idea of choice, on the other, which has been elevated by some into an end in its own right, with little accompanying regard for aggregate-level outcomes. Entitlements became the dominant motif of the approach to public services trumpeted by the Brown administration, and foundered in the sceptical political climate it inhabited, but also because of its

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wilful disinterest in the social environments and civic contexts in which the relationship between the receiving citizen and the giving state is conducted. Choice has been presented as the organizing principle for the rather different reforms which the current Coalition government is undertaking – in health, schools, universities and social care. But this apparently transparent and straightforward value becomes less plausible and more contested when applied to specific public service contexts. Thus, Prime Minister David Cameron argues that choice implies the accompanying principle of diversity of provision, with the implication that no default preference should be signalled between private, voluntary and public providers (Cameron, 2011). Meanwhile Deputy Prime Minister Nick Clegg and the Liberal Democrats maintain that diversity of provision means removing the advantages that were previously given to private-sector bidders for some public contracts, and are currently proposing restrictions to the introduction of a radical new commissioning and choice-based model of provision in the NHS. More generally, tensions between the individualistic mantra of ‘choice’ and the current government’s stress upon the big society remain largely unaddressed.

In this chapter I argue that the weaknesses of aspects of these different narratives can be usefully addressed from the perspective of established ideas of citizenship. A consideration of these is helpful to policy-makers reflecting upon the coherence and directionality of reforms they wish to undertake, and because, as the final report of the Commission organized by the 2020 Public Services Trust argues, it is in the interactions between citizens and services that public value is generated. Some of our familiar models of citizenship, I will argue, speak directly and tellingly to the dynamic and interactive quality of the relationships – between users and services, individuals and their communities, and citizens and state – which public services help shape and reinforce. A civic focus is all the more important in the context of the challenges posed by a clutch of problems that Beveridge could not have foreseen, including growing social isolation, mental illness and climate change.

### The rise of the assertive citizen?

Despite the existence of a large body of data documenting the fluid character of the public’s expectations of public services (see for instance 2020 Public Services Trust/Ipsos MORI (2010); Needham (2007: 170–80)), a good deal of policy and academic thinking in this area has fallen in line behind a rather one-dimensional

and over-stated account of what makes today's citizens tick. The notion that we are far less likely to be bound by the dictates of tradition, more loosely attuned to the ties of community, and increasingly characterized by what Anthony Giddens (1994) termed a propensity for 'reflexivity' – the willingness to make our own decisions and calculate the risks attached to different courses of behaviour – was a key feature of New Labour's thinking about the changes it wanted to make in several key areas of public service provision.

Ulrich Beck and Elisabeth Beck-Gernsheim (2001) characterized this new breed of citizens as products of a deep-rooted process of 'individualisation'. This is said to have rendered us increasingly responsible for decision-making in areas of our lives that were once governed by convention, tradition or the rule of experts. An important implication of such accounts is that we are now 'individualistic and assertive in our outlook, both in our use of the public services and in our private consumption' (Griffiths *et al.*, 2009: 115). But how plausible is the characterization of the assertive citizen?

One reason for scepticism is the tendency of this narrative to conceive the attributes of the 'consumer-citizen' as the complete antithesis of his more deferential and communally-minded predecessors. This kind of 'fresh page' (Sennett 2006) approach to the complexities of societal change is almost guaranteed to fall prey to hyperbole. It may also have resulted in public service reformers being cut off from the insights and wisdom associated with previous eras, because these were assumed to be dated and irrelevant, rather than connected to, and informing, the current situation. The focus here upon the persistence of ethical perspectives developed in earlier periods is intended as a counterpoint to such an approach. A number of factors are commonly thought to explain the rise of the new individualism. These include: the impact of improving living standards; greater access to educational opportunities; the implications of successive waves of technological innovation; significant changes in the nature and culture of work; and the decline of deference (Prabhakar 2006: 3). There is no doubt that these factors have, singly and in combination, had major effects upon the public institutions and culture of Britain. But it is just as plausible to believe that these have resulted in a deepening and re-making of communal bonds and attachments, as much as they have detached individuals from them. Assertive individualism appears much less distributed among many poorer and black and minority ethnic (BME) communities than it does among the relatively affluent and highly educated (Griffiths *et al.*, 2009). Research also suggests that the habit of consumerism can increase forms of passivity and dependency for many

people, not signal their emancipation from custom or convention (James 2007).

In policy terms, the most significant inference drawn from this account has been the conviction that older forms of public provision based upon the model of the post-war welfare state were made redundant by the rising expectations and dynamism of the era of individualism. Public service reform was shaped around the idea that a brand-new ethos is needed to inform the design and delivery of services for today's citizens. Policies were developed to create new opportunities for individual self-assertion, particularly through the introduction of quasi-markets in order to ensure a diversity of providers. Choice emerged as the central value within the account of public service reform assembled by New Labour, especially after 2001, and remains a key motif within the UK's policy community. This commitment brought together two different emphases – the drive towards the provision of a set of standardized entitlements and rights, on the one hand, and a growing recognition of the merits of more differentiated form of provision reflecting the diversity of individual preferences, on the other. In the last few years, the centrality of choice, the rather variable consequences of its introduction, and the limited manner in which it was sometimes instituted (for instance in specialist healthcare where a genuine diversity of provision has been hard to stimulate), have dented the power of the choice-based narrative. It increasingly appears inadequate as a term to capture such disparate developments as the introduction of personalized budgets for some forms of social care and the right of parents and teachers to set up new state schools with their own distinctive ethos. Part of the problem with the doctrinaire assertion of choice is that while nearly all agree that increasing the choices available to users is a good thing, the question of what model of provision is most likely to deliver on this value, as well as other goals such as responsiveness and accountability, is a different question altogether.

An important finding from a recent qualitative study of people's perceptions of public services is that choice-centred frameworks are at odds with how citizens – assertive or otherwise – think about public goods. People do not on the whole see themselves as akin to retail customers (Clarke *et al.*, 2007). 'It's not like shopping' was the refrain these researchers encountered. When asked for their views on health care, many participants contrasted their ongoing relationship with providers, such as their GP, with the anonymity and discontinuity they experienced as consumers. The quality of the interaction with GP, policewoman or teacher carries a unique value in many people's perception of what distinguishes a publicly provided service.

This research also found that people cherished feeling part of a larger collectivity that is entitled to use community-wide benefits. The focus upon choice has until recently diverted attention from a recognition of the multiplicity of points where collective agency from below can be exercised and tapped within the system of public services, including on issues of ownership, governance, relationships with practitioners, and campaigns for greater transparency and accountability. This broader policy canvas emerges more clearly if we attune ourselves to the uneven and variable spread of the new individualism, and observe the continuing hold of a set of long-standing ideas about what citizenship means.

Specifically, there are important traces of republican and welfarist ideas still in circulation, sustaining contending ideas about the public interest and the role of state and citizens. The continuing pull of values associated with each is an important influence upon the contradictory character of our thinking upon public goods and their provision.

## Reconsidering classical-liberal citizenship

The question of how we conceive the relationship between the pursuit of individual self-interest and the requirements of a civic culture is one of the central preoccupations of western political thought. An important strand of modern thinking, which I sketch below under the heading classical liberal citizenship, has long argued that the pursuit of instrumental interests by individuals can, under the right conditions, incline individuals towards a more civic disposition.

This way of thinking underpinned many of the intellectual and legal achievements of liberalism in the nineteenth century (Taylor, 1995), and has left a major imprint upon Britain's political culture and society. Thinkers within this lineage tended to regard the pursuit of self-interest as sometimes compatible with the development of the ethos of citizenship, but as also in need of supplementing by the public provision of collective goods like roads, street lighting or education. Adam Smith (2008) provided a seminal account of how the development of the division of labour and participation in the market promote chains of interdependency and forms of mutual understanding that can cultivate the moral dispositions that citizenship requires. The capacity of the market to engender a disposition for 'sympathy' between individuals involved in economic transactions was, in his view, one of the key attributes of a civic ethos.

There is a strong family resemblance between the consumer-citizen thesis and this tradition of conceiving citizenship as both a fortunate by-product of the pursuit of individual interests and a much needed supplement to instrumental behaviour. The doctrine of market failure, which was central to a good deal of New Labour's thinking about public provision, provides a strong echo of these earlier perspectives. An important challenge we can derive from Smith, Mill and others in this lineage centres upon the question of whether the actions of self-interested individuals can, in certain conditions, help promote a civic disposition. In contemporary terms, this requires us to consider whether it is possible to connect people's identities as consumers with their capacities as citizens. After two decades of watching the effects and power of consumerism, our answer to this should surely be: 'Sometimes, yes, but all the time, no.'

There is considerable promise in a policy focus upon forms of provision that can create virtuous circles between instrumental benefits for individuals and communities, on the one hand, and public goods, on the other. Yet, the experience of the last two decades provides considerable evidence that the civic culture does not benefit from either free markets or the bossy state (Marquand, 2004). Different commentators have pointed to the decline of public spiritedness, the diminution of the social fabric and the waning of trust in this period when the classical liberal approach to public provision has been dominant (Halpern, 2004). Surely now it is time to debate afresh what other models of citizenship we ought to cherish?

### Citizenship as welfare

Classical liberal citizenship has been developed in competition with rival bodies of thinking over the last two centuries. In the course of the twentieth, it was subjected to a major challenge from the idea that the state has a special obligation to act on behalf of the whole community to protect its most vulnerable members, and to promote the welfare of all. It was the state's duty to underwrite citizens against pressing forms of risk, such as unemployment or ill health, and to equip people with the basic capacities, including education, to act as equal citizens. While this outlook undoubtedly invested the vertical relationship between citizen and state with considerable significance, it also promoted a powerful account of the horizontal ties between citizens. These were endowed with considerable moral importance by a host of social liberals and ethical

socialists in the early twentieth century. The public realm came to be conceived as the repository of the ideals of disinterested public service, social reciprocity and a commitment to designing enduring collectivist solutions to pressing social challenges. This might broadly be termed the welfarist conception of citizenship (Freeden, 2005: 60–77).

Figures such as Leonard Hobhouse, J. A. Hobson and T. H. Marshall helped engineer a profound sea-change in political attitudes towards the new social problems associated with industrialization, such as urban poverty (Freeden, 1978), and contributed to a public service ethos in which powerful professional groups – doctors, lawyers, teachers and civil servants – would be trained and trusted to dispense social goods on behalf of the state (Marquand, 2004). Clearly, some aspects of this broad perspective have waned in power over time, not least because of the attacks launched upon them by the new left and new right currents of the 1970s and 1980s. Yet the public service ethos continues to pervade some parts of government in Britain and our social culture more generally. An important question facing policy-makers now is whether this ethos should be sustained, and even revived, in areas where the promotion of self-interest and choice, have palpably failed. Whether a sense of public service ethos can survive major reductions in public sector budgets, is an important question in the current context – and what this sense of service means for GPs responsible for commissioning and freighted with budgetary responsibilities, will emerge as an important question in the wake of the NHS reforms being developed by the current government.

### Citizenship as self-government

Traces of other traditions of civic thinking have also survived into the present. Another that has waned in significance since the eighteenth century (Pocock, 1975), has been revived more recently. This is the broad lineage of republican thinking that has survived alongside, and usually in opposition to, the classical liberal conception outlined above (Pettit, 1999). This perspective has developed around two key propositions. Individuals are free insofar as they are not subject to the exercise of arbitrary forms of power over their lives and choices, and, learning to be a good citizen requires first-hand experience of forms of social activity, including education, that inculcate an appreciation of the public good. The value of self-government emerges as a foundational commitment for a free state and strong society throughout this lineage (Skinner, 1999).



These ideas have, as David Marquand (2008) notes, enjoyed a more marginal place within Britain's political culture in the twentieth century. But they have nevertheless been sources of influence and inspiration for many different movements and politicians. In recent years, republicanism has come to overlap with, and be challenged by, a renewed focus upon the ethical and socio-logical significance of community, with thinkers like Michael Sandel (1982) rejecting the classical liberal account of the asocial character of the self, and the procedural approach to justice favoured by Anglo-American liberal theory. Communitarians have played an important role in providing the intellectual underpinnings for a marked shift in policy thinking towards the virtues of forms of solidarity and identity at the local level (White and Leighton, 2008).

The republican ideal could have an important role to play within the current policy landscape. Its central emphasis upon the role of the state in equipping citizens to assume greater responsibility within the public realm is an important corrective to those accounts of the Big Society that imagine the increasingly depleted voluntary and charitable sectors stepping forward as the big state is pulled back. If public goods such as safer streets and more healthy living come to be regarded as the joint responsibility of government and citizen, an important new policy direction can open up. The notion of a National Civic Service would, in a republican vein, be re-conceived away from the model of military conscription, and developed as a locally co-ordinated and co-produced expansion of voluntary endeavour. More generally a renewed republican ethos could well permit politicians to talk in a different way to the public about the unavoidable tradeoffs and compromises that major reductions in spending require.

### Interpreting contemporary social attitudes towards public services

These traditions represent an important background influence upon the shifting and apparently contradictory preferences which the public exhibit towards public services. A recent survey by Ipsos MORI (2020 Public Services Trust/ Ipsos MORI, 2010) points to the prevalence of the belief that public services should be distributed fairly. Fairness here seems to involve equality *and* uniformity of access. It renders unpopular the idea that services may vary in different localities, especially in healthcare or education. Over 70 per cent of respondents to this survey think that treatments should only be available on the

NHS if they are available to everyone, regardless of where they live. It suggests very little public appetite for varying the provision of essential services or entitlements according to individuals' behaviour.

A strong commitment to the notion of services as the source of benefits for all pervades public attitudes today. This poll (2020 Public Services Trust/Ipsos MORI 2010) found that about half of all respondents believe that the government's top priority should be what is good for everyone in society as a whole, while less than a third believe that it should be the amount of tax people have to pay. Most people are even willing to trade off service quality against this commitment to the opportunity for everyone to benefit equally.

The collectivist emphasis upon the right of everybody to equal levels of support runs together with a strong resistance to the idea of our fellow citizens accessing more benefits than we are entitled to receive ourselves. Echoing the findings of other polls, such as the most recent British Social Attitudes survey (Curtice, 2010), Ipsos MORI found that most respondents are unsympathetic to the unequal outcomes and life chances experienced by people from different social backgrounds. Most are accordingly sceptical about the idea of targeting resources on the most disadvantaged.

The survey does, however, hint at a latent interest in more self-government. It detects significant minority support for greater local control – a stance that people recognize is likely to lead to considerable variation in service provision.

How should we interpret these findings and what do they say about the divergent thinking about citizenship which is latent within our social culture? The commitment to fairness as uniformity of provision betrays the continuing imprint of British welfarism, with its emphasis upon key services being free and universally available at the point of use. This expectation may carry the kind of passive connotation which proponents of assertive citizenship regard as outdated. But it also signals a new kind of collective consumerism, framing social benefits as jealously guarded individual entitlements, not expressions of the reciprocal relations and ties of a shared community with our fellow citizens. This attitude is manifest too in the entrenched resistance to the prospect of bearing any further costs for public services. This stance betrays the lingering impact in Britain of a broadly classical liberal understanding of public goods, with individual citizens placing their own interests above the idea of making contributions in the public interest.

The third of the values observed above – the desire signalled by a significant minority to be more involved in the development and delivery of services and an interest in greater local control, may suggest a latent support for democratic

republican values. Whether this is sufficiently robust or widespread to suggest that a more positive response may emerge from below to the entreaties of politicians for people to take more responsibility for public goods, such as better health or safer streets, is hard to judge. Polling undertaken by the Institute for Public Policy Research and PricewaterhouseCoopers in 2010 suggests some support for this contention in relation to crime and anti-social behaviour, with 82 per cent of respondents supporting the idea of greater public involvement in these areas. But it also reports considerable variation across the issue-areas lumped together under the heading 'public services.' The response was significantly lower, for instance, when the question was put in terms of the use of personal budgets for social care, which gained the support of only 53 per cent of the sample, and the idea of parents setting up new schools, favoured by only 41 per cent (Institute for Public Policy Research/PricewaterhouseCoopers 2010: 22).

This survey also reveals the embedded nature of the popular perception that the state alone is responsible for their management and delivery of services. Proponents of the Big Society, from right and left, need to give much greater emphasis to the task of persuading and winning people over to the notion that communities, voluntary and charitable groups should take over the provision of core services. This polling points to entrenched resistance, at the level of principle, to the notion that responsibility for public goods should be pooled with individuals, families or communities. Thus, while 82 per cent agreed that individuals and communities should do more to help the police tackle crime and anti-social behaviour, only 3 per cent felt that they themselves should be deemed responsible for ensuring that their streets were a safe place to live. In addition, 41 per cent favoured allowing parents to set up schools but only 2 per cent reported that they believed that individuals should be primarily responsible for running them, compared with 93 per cent who saw this as the state's duty. Most strikingly of all, 76 per cent agreed that 'individuals today are less willing to take personal responsibility over the issues that affect their own lives.'

The issue of responsibility appears to represent the strongest redoubt against ideas and initiatives framed around the goal of increasing public participation and involvement in public services. It is important to recognize that this sentiment is fuelled by a distinctive mixture of old-style welfarism, which frames the state as the ethical agent acting on behalf of society, and a powerful new culture of instrumentalism, which represents a significant inhibition upon collective action. This latter sentiment is perhaps the main reason for the divergence noted by different polls between people's willingness to indicate

their support in principle for greater involvement in services and their disinclination in practice to commit their own personal time and resources. A recent survey reported that while people in London indicated strong support for community partnerships (with 82 per cent indicating support for expanding the scheme), they were significantly less likely to get involved themselves (26 per cent said they would be interested in doing so), and follow-up research showed that only 2 per cent actually did (Institute for Public Policy Research/PricewaterhouseCoopers, 2010: 10).

The apparent waning of the disposition to commit to civic initiatives is one reason why some politicians have leaped with gusto upon the idea of ‘Nudge’ propounded by Richard Thaler and Cass Sunstein (2008) and other behavioural economists. Their focus upon the expert manipulation of the environment in which individual choices are made, appeals both because of its apparently realistic tailoring to the culture of instrumentalism, and since it offers politicians technocratic means of evading the complexities and obduracy of public opinion. Interesting and potentially innovative as some of the initiatives it has promoted may be – for instance the new Personal Accounts system for pensions which will make ‘opting in’ the default position – ‘Nudge’ represents a tactical retreat, not a new pathway, from a civic perspective. The contradictory character of public perceptions needs to be engaged and challenged, not bypassed through clever policy design. ‘Nudge’ backs off from the task of re-animating a civic perspective in contemporary culture. The implications of this latter project become more apparent if we consider a number of recent attempts to promote different kinds of user involvement and control in various service areas.

### Towards a more participatory approach to public services?

As suggested earlier, there are many different ‘pressure points’ within public services where an enhanced sense of agency, power and partnership might be fostered, and a new sense of public spirit promoted. There has, for instance, been recognition of late by both main parties of the civic potential associated with diversifying the ownership of public assets. This thinking deploys the liberal tradition’s insight into the moral benefits of asset ownership, and concern with the distribution of property throughout society. Other recent initiatives also seem more promising than the promotion of choice or use of nudges as ways of tapping into latent forms of civic idealism. This is true, for example, of the growing emphasis upon the merits of ‘co-production’ (Boyle and Harris

2009). This approach is typically justified in terms of the improved service outcomes it can deliver for citizens and the potential benefits for government, if it can harness ‘the hidden wealth of nations’ (Halpern, 2010) – including the time, energy, networks, knowledge and skills that individuals bring with them (Savage *et al.*, 2009).

But co-production can also tap into the subterranean streams of civic endeavour and commitment that flow, often out of sight, through many different communities in Britain. The government’s citizenship survey, for instance, shows that the percentage of people who feel they ‘belong strongly to their neighbourhood’ has increased from 70 per cent in 2003 to 77 per cent in 2008–9. Rates of volunteering have also remained steady over the decade, with a quarter of people doing this on a formal basis at least once a month (CLG, 2009: 21), and, as yet, both volunteering and charitable giving have increased since the onset of the recession (Institute for Volunteering Research (2009)). Wrongly seen by some as a brand-new model, co-production is more accurately viewed as a reflection of the reality that ‘outcomes are co-produced by the interaction of governance, services and citizens’ (Brooks, 2007: 6). Reform guided by this model can build upon some important and long-established forms of networking and association, both at the microlevels – the street, the neighbourhood and the estate – and at grander scales, through the practice of local authorities, third sector bodies and voluntary organizations.

Co-production faces some difficult challenges before it can be regarded as a generalizable approach to public service reform. The inequitable distribution of resources, time and skills within and between communities is a significant obstacle to any approach that rewards or requires greater community involvement. But it is time that co-production was given its place within the contemporary policy repertoire. This includes a greater shift towards the passing of budgetary control to individual users of social care services. But when it comes to crime reduction or issues affecting a local school, there is a strong case for encouraging individuals to come together to figure out and work through different perspectives about what are the best interests of the community. There remains considerable scope for relatively inexpensive forms of participatory innovation in fields such as community justice, parental involvement in schools and local asset management. These kinds of initiative are important in their own right, and as kernels for further civic growth.

Keeping alive these sources of experiment and civic resilience is all the more important in the austere circumstances facing the public sector over the next few years. The unwillingness of the Department for Communities and Local

Government to do more than criticize local authorities that have, entirely predictably, made cuts to voluntary and community organizations focusing upon preventative and other non-statutory forms of provision, suggests that this message has not been fully grasped in government. We should pay particular attention to those innovations that establish a virtuous circle linking instrumental goals – a reduction in crime in a particular geographical area – and the achievement of civic effects – people on an estate coming to know each other better. A relatively low cost, but highly effective, instance of this kind of circle is the ‘walking bus’ phenomenon, in which parents arrange to share responsibility for walking children in a particular neighbourhood to school.

But we should acknowledge too that the emergence on the contemporary policy agenda of a cluster of difficult social issues, like funding for social care, or pension reform, point towards the fiscal burden falling very unevenly upon different social groups and age cohorts. As significant reductions in public spending are made, there is an overwhelming need to engage the public about the impossibility of maintaining core services without greater costs, either through rising taxes, the introduction of co-payment for some services, or invitations to commit more time to caring duties as elderly family members come to live longer. Across a whole range of social issues and policy areas, politicians need to retrieve and project a much stronger sense of the common good. This is vital as well if they are to succeed in persuading individuals to adopt new social habits – such as saving or eating healthily – that will generate considerable social and fiscal benefits in years to come. In such circumstances, frameworks that seek merely to ‘go with the grain’ of instrumental individualism are unlikely to prove long-lasting in their benefits.

Problems such as social care funding and climate change require a robust policy response at a UK-wide level. They might also be fruitfully addressed at smaller scales too – the region, locality or neighbourhood. Ipsos MORI’s (2020 Public Services Trust/Ipsos MORI, 2010) finding that ‘people tend to be much more positive about local services than they are about how services are run nationally’ suggests that people identify more readily with the dilemmas and contributions of public services at a more human scale. It finds that the public is generally more positive about local services than about services delivered nationally, more likely to feel that they can have a say in how local services operate and more disposed to feel positively about their locale if they feel able to affect its decision-making. Does ‘the local’ represent the seedbed where a sense of public spiritedness and civic pride can be re-grown?

Certainly, the case for a national civic service which has lately been revived would be more resonant if conceived as a funded programme directed by local authorities towards pressing areas of local need. Before wholly endorsing the localist case for civic renewal, however, we should recall the very low rate of participation in local elections, and the impact of the forces of apathy and indifference that are undermining local public life as well as national politics. There are good reasons to think that an emphasis upon 'the local' is necessary, but not sufficient, in relation to civic virtue. This is because the contemporary demand for welfare and security, the desire for more opportunities for self-government, and the interest in a renewed sense of reciprocity, are bound to spill beyond the boundaries associated with the locality. These resonant values point instead towards a civically inclined politics that seeks to change the relationship between locality and centre, not to promote the sovereignty of one over the other. The devolution of significant decision-making and budgetary powers, promised by all the main parties, but as yet delivered by none, is bound to require a robust centre. This will be needed to oversee local authority performance, as well as forms of accountability and redress, and to take the strategic decisions that local government cannot (Kippin, 2010).

This observation points to the potential significance, from a civic perspective, of forms of social mobilization and interaction that span the local and national scales. Some in the political world have landed upon the idea of giving the third sector a much expanded role in service delivery – an ambition for which many organizations in this sector may not, however, be well equipped. My argument points instead to an appreciation of their capacities to provide a shared voice, foster new spaces and promote awareness of issues in the interstices between citizen and government. In some areas, notably healthcare, there are some interesting indications that interest-focused networks and associations are enabling new forms of responsibility-sharing. Several successful self-care programmes have trained and supported patients with chronic conditions to manage their own care. The Expert Patient programme skills those with a particular condition to advise and provide first-hand support. This development taps into the flourishing of on-line communities around different medical conditions. This model is proliferating in other sectors too. The Citizens Advice Bureau's 'Reducing offending through advice' (ROTA) project, for instance, successfully trains prisoners to support fellow prisoners (NEF, 2008: 8–10; Halpern *et al.*, 2004).

## Concluding thoughts

This chapter has focused on the limitations of the idea of the consumer-citizen and drawn attention to its foundational role in shaping New Labour's thinking about public service reform, and its current influence within parts of the Coalition government's public service reform agenda. Such an emphasis and more recent arguments about the importance of 'nudging' citizens towards pro-social behaviour are unlikely to support the kind of policy framework required to tackle the biggest social challenges facing Britain. These approaches tend to hang back from the project of renewing the frayed civic culture.

The key debates about what factors are likely to motivate us to act as citizens, prompted by research across the behavioural sciences should be supplemented by a reappraisal of earlier bodies of political thinking. These have generated important reflections about what it means to adopt the viewpoint of a citizen and how we can be encouraged to do so. These older ideas about citizenship also continue to resonate in contemporary public attitudes, providing important resources into which policy-makers can tap. They also represent significant constraints upon those attempting sweeping public service reforms. My central argument is that, in a context when the deficiencies of the classical liberal approach to citizenship are ever more apparent, those committed to developing public services that are more resilient, democratic and responsive, as well as cost-efficient, need to start fleshing out a civic perspective for our times. This major enterprise is likely to involve a mixture of tasks, including: the posing of important questions about our motivations and capacities; the articulation of powerful collective aspirations; and the development of critical yardsticks with which to evaluate policy proposals and initiatives.

One of the challenges facing those committed to fashioning such a perspective is the existence and interplay of different civic ideals in our culture – a phenomenon that has been rather overlooked in the policy world. These traditions tend to pull public attitudes in different directions on such questions as: whether health services provided by public organizations should be given preference over private sector contractors; whether the public should assume more responsibility for the provision and design of services; and whether a system that passed more powers to the locality, hence generating very different priorities and outcomes between different local areas, could over time become regarded as legitimate. As well as helping us understand the different impulses



behind current social attitudes, a serious engagement with the moral pluralism that shapes our understanding of citizenship would provide us with invaluable resources and insights as we seek to build the kind of attitudinal consensus that will be required if we are, by 2020, to establish a social settlement that really is 'beyond Beveridge'.

# Towards a New Model of Public Services: The Capability Approach and Rights-Based Approaches

Polly Vizard<sup>1</sup>

The cross-party Commission on 2020 Public Services highlighted the need for new public services model – a new paradigm and approach that can supersede Beveridge’s vision of the welfare state and provide a prototype based on twenty-first-century needs and conditions. The Commission further suggested that the new public services model should, *inter alia*, provide a ‘narrative’ on the fundamental purposes of public services; distinguish between ‘ends’ and ‘means’; capture the importance of empowerment and accountability; and maintain an emphasis on fairness and social responsibility.

This chapter examines how the capability approach and rights-based approaches can contribute to a new public services model of this type. It has three main sections. In the first section, drawing on the work of the Nobel Prize winning economist Amartya Sen, I explore how the idea of capability can provide conceptual underpinnings for the new public services model. In the second

<sup>1</sup> The current paper is an abridged and revised version of a background paper written for the 2020 Public Services Trust. Financial support for the paper was provided by the ESRC Knowledge Transfer Programme. The author would like to thank the following for comments on the original draft: Ben Lucas, Jeff Masters, Lauren Cumming, Paul Buddery and others at the 2020 Public Services Trust, Amanda Ariss and participants at a 2020 Round Table Discussion, Tony Atkinson and Sanchita Hosali. A useful discussion on the emergence of rights-based approaches in economics, including in relation to principal-agent theory, was had with Tim Besley prior to writing the original paper. Tania Burchardt provided useful comments and input on the revised draft and the author is also grateful to Henry Kippin, Gerry Stoker and Simon Griffiths for their comments and suggestions on the revised paper. The first half of this Chapter builds on Amartya Sen’s treatment of the capability approach (on which, see, for example, Sen 1985ab, 1999, 2002, 2005). The Equality Measurement Framework, on which the first half of this chapter also draws heavily, has been developed with Tania Burchardt over many years in partnership with the Equality and Human Rights Commission (EHRC). Further details are provided in Burchardt and Vizard (2011), a briefing paper (EHRC, 2008) and a series of research reports for EHRC: Burchardt and Vizard (2007a, 2007b); Alkire *et al.* (2009); Burchardt *et al.* (2009); Burchardt and Vizard (2009); and Holder *et al.* (2011). Errors of fact or interpretation remain with the author.

section, I set out how the capability approach might be operationalized in practice (building on the Equality Measurement Framework discussed in Burchardt and Vizard, 2011). Finally, in the third section, I consider how the capability approach can be usefully combined with new thinking about individual rights.

## Expanding capabilities: The focus of a new public services model

In this section, building on Sen's capability approach, I argue that the central focus of the new public services model should be the expansion of capability. A person's capability is the substantive (or 'real') freedom and opportunity they have to live a life that they value and would choose (and have reasons to value and choose). Capabilities can be thought of as the central and valuable things in life that people can actually do and be. For example, the freedom and opportunity a person has to live a full life (avoiding homicide and premature mortality); to enjoy a good state of health (avoiding sickness, disease, injury, mental health problems, longstanding limiting conditions, etc.); to live in physical security (avoiding violence, including domestic violence and sexual violence); to enjoy an adequate standard of living (with adequate income, housing and care); and to participate in critical decision-making processes affecting their life (including elections)<sup>2</sup>.

### **Ethical underpinnings of a new public services model**

The idea of capability can make a major contribution by providing ethical underpinnings for the new public services model. Table 4.1 sets out some of the alternative paradigms and approaches (such as income and wealth, negative liberty, 'actual attainments,' Rawlsian 'primary goods' and utility) that are widely discussed in the academic literature as a basis for thinking about equality, inequality and justice. A focus on capabilities (or the central and valuable things in life that people can actually do and be) has important advantages in concentrating directly on intrinsically valuable 'ends' (in the form of central and valuable capabilities) rather than instrumental 'means' (such as income and wealth) and for capturing the multidimensional nature of equality and inequality (spanning areas such as longevity, physical security, health and education).

<sup>2</sup> For references to Sen's treatment of the capability approach, see footnote 1.

**Table 4.1** The capability approach as an informational base for evaluating the position of individuals and groups

<b>Perspective</b>	<b>Focal variable</b>
Capability approach	Substantive freedoms (central and valuable things in life that people can actually <i>do</i> and <i>be</i> )
Resourcism	Income, wealth and resources more broadly conceived
Rawlsian justice	Primary goods
Negative liberty	Freedom from interference/formal opportunity
'Achieved functionings'	Realized attainments (what people are actually <i>doing</i> and <i>being</i> – without taking account of the value of individual freedom)
Subjective well-being	Utility/happiness/'revealed preference'/life satisfaction

The 'value added' of the capability approach as an ethical framework is particularly apparent when it comes to thinking about the systematic inequalities that can arise from differences in the needs and situations of individuals and groups. For example, a disabled person may need different or additional resources to an able bodied person (such as personal care and support, a hearing aid, a wheelchair and/or accessible transport) in order to achieve substantive equality in 'capability space'. Adjustments can be made to the metrics of income and wealth in order to address the additional 'costs' associated with disability – for example, through the introduction of equivalence scales. More sophisticated, multiple dimensioned versions of resourcism (such as Rawlsian 'primary goods') also take the analysis of inequality forward (Atkinson, 2011). However, the direct focus of the capability approach on intrinsically valuable 'ends' (central and valuable things in life that people can actually do and be) rather than instrumentally important 'means' (income, wealth, resources, 'primary goods', etc.) can help to put inequalities of this type at the top of the public policy agenda.

The capability approach has been developed as alternative to standard evaluative frameworks for comparing the position of individuals and groups in welfare economics and across the social sciences. Sen has elucidated a far-reaching critique of the utility metric (and related approaches such as revealed preferences) as an 'information base' for evaluating equality, inequality and justice. He has argued that an exclusively subjective information base of this type can result in systematic biases because of the phenomenon of adaptive expectations, behaviour and choices. Examples include the 'discouragement effects' that can be associated with long-term unemployment; the low expectations that can be associated with entrenched disadvantage and discrimination; and the adaptive

behaviour that can be associated with being a victim of domestic violence or sexual abuse.

As I will discuss later, the phenomenon of adaption is of particular importance when it comes to measuring progress and performance in public services. Consider a woman who self-reports being 'happy' and satisfied with both life and the local police – notwithstanding being the victim of repeat episodes of domestic violence. Or the failure of older people to complain in the context of poor treatment during hospital stays. The capability approach has 'value added' over the subjective well-being approach in recognizing that while subjective indicators have an important role they should not be applied as an *exclusive* information base for evaluating the quality of public services and/or the position of individuals and groups.

### **Capability, equality and British political debates**

The capability concept can contribute to the new public services model by helping to transcend old-style debates about 'equality of opportunity' and 'opportunity of outcome'. The old-style 'equality of opportunity' concept focused on people's formal freedom (or 'negative liberty'). This resulted in a narrow view of opportunities that didn't account of the things that people can actually do and be in practice; and that was insensitive to underlying expectations, barriers and constraints. In contrast, the capability concept provides underpinnings for a public service model that recognizes the role of public services in expanding the substantive opportunities of individuals and groups – for example, public policy interventions that remove barriers to employment by addressing the need for training and skills or for childcare.

The capability approach also provides an important departure from old-style thinking about 'equality of outcome' which concentrated on 'actual attainments' (or 'achieved functionings') without taking adequate account of processes and the value of individual freedom and choice. This is advantageous when it comes to thinking about the key role that public services can play in promoting autonomy and expanding the range of options that are available to individuals and groups.

Consider an example highlighted in EHRC (2008). Ethel and Marie are both residents in private care institutions A and B. In institution A, residents are able to choose their leisure activities from a range of good options and Ethel chooses to play bingo. In institution B, residents are not given a choice of leisure activities and all residents including Marie are taken to play bingo (with no choice). Focusing on an old-style 'equality of outcome' (attainments – or 'achieved functionings') without valuing individual freedom of choice would result in an

equal ranking of the positions of Ethel and Marie (since both play bingo) and an equal ranking of the performance of the social care services that Ethel and Marie receive. In contrast, the informational base of capabilities captures an inequality in the central and valuable things in life that Ethel and Marie can do and be – with the social care received by Ethel ranked as ‘superior’ to that received by Marie.

Another way in which the capability concept departs from old-style ‘equality of outcome’ is by making analytical space for the notion of responsibility. Like personal choice, the question of individual responsibility is a concern that has moved rapidly up the political agenda in recent years. Sen has highlighted the links between individual freedom, personal choice and responsibility and this issue is currently receiving increasing attention in the context of British public policy debates (e.g. Reeves, 2010). However, Sen also retains an emphasis on the ‘social realization’ perspective and contends that there are many circumstances in which inequalities in ‘achieved functionings’ remain critical for public policy purposes. In the broader literature, Fleurbaey (2006: 307) defends the notion of ‘second chances’ while Anderson (2010) highlights how inequalities in ‘achieved functionings’ that meet a threshold of ‘democratic import’ fall within the ambit of legitimate public concern. De-Shalit and Wolff (2007: 78–9) raise the need for democratic process in order to elucidate and agree principles of ‘reasonable behaviour’.

### **Capabilities, economic growth and public action**

Internationally, the capability approach is increasingly influential as a new freedom-focused framework for economics and public policy that concentrates on the expansion of capabilities rather than other ‘focal variables’ (income and wealth, productivity, resources, utility, etc.). Proposals for taking this central and overarching idea forward have challenged both market-focused and state-focused traditions and resulted in the emergence of new paradigms and approaches that concentrate on the expansion of central and valuable capabilities and their fair distribution and equitable advancement in overall processes of growth.

The capability concept provides a powerful paradigm for distinguishing between the ‘ends’ and ‘means’ of economic growth. Sen’s research agenda has highlighted the key distinction between intrinsically valuable ‘ends’ (in the form of central and valuable capabilities) and instrumentally important ‘means’ (income, wealth, resources, institutions, delivery mechanisms, etc.). This distinction provides underpinnings for a public policy model that rejects the need for an *a priori* justification for particular social and economic arrangements and delivery mechanisms (public, private, third sector, etc.) and which treats the

question of the ‘means’ by which capabilities are best protected and promoted by governments as a matter for ongoing empirical investigation (Table 4.2).

Critically for the British public services debate though, this distinction between ‘ends’ and ‘means’ is made within an overall framework of social responsibility. A key theme in Sen’s work is that the expansion of capabilities should be viewed as a social commitment with public action playing a key role.

The empirical literature on the capability approach is helpful in consensus-building around the role of public action in protecting and promoting the capabilities of individuals and groups. Sen (1999) and Drèze and Sen (1989, 2002) map out the broad contours of public action and the range of different strategies that can be instrumentally important in overall processes of capability expansion including public action to improve the operation of private markets by making them fairer and more efficient, growth-mediated strategies and strategies of direct state provision. Their analysis puts emphasis on the wide range of policy tools and levers that are available to governments concerned with capability expansion in addition to public services that are directly provided by the state.

**Table 4.2** Distinguishing between ‘ends’ and ‘means’

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**‘ENDS’**

Substantive freedoms and opportunities (i.e. the central and valuable things in life that people can actually do and be, such as the freedom and opportunity to enjoy longevity, physical security, education and learning, good health, an adequate standard of living, participation and self-respect)

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RECOGNITION OF THE EXPANSION OF CAPABILITIES AS A SOCIAL GOAL

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PUBLIC ACTION TO SUPPORT THE EXPANSION OF CENTRAL AND VALUABLE CAPABILITIES

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**‘MEANS’**

Direction provision of public services/regulation and inspection/complaints handling and redress/underlying legal environment/specification of the ‘rules of the game’/rights and responsibilities/national minimum standards/financing and commissioning public services provided by the private and independent sectors/promoting competition/ensuring equal access to private markets/incentivizing private and independent providers

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In the current context, these insights are relevant in making the transition from uni-dimensional thinking about the role of the state as a direct provider of public services to broader thinking about multi-faceted forms of public action. In addition to direct state provision a wide range of policy tools and levers are relevant. For example: public action that aims to improve the operation of private markets by challenging monopoly power, promoting equal access to private markets or by incentivizing private or independent suppliers; public action involving the commissioning and financing of public services that are provided by the private and independent sectors; public action to specify a framework of public service standards and the enforcement of such standards through inspection, regulation, complaints-handling and redress mechanisms; public action that alters the underlying legal environment and the specification of legal rights and responsibilities (such as a smoking ban); and public action that aims to influence attitudes, behaviour and choices.<sup>3</sup>

### The Equality Measurement Framework – a prototype for moving forward?

Internationally, there have been a number of attempts to ‘operationalize’ the capability approach as a basis for measuring individual well-being and social progress (as reflected in initiatives ranging from the UNDP’s human development index to the recent Commission on the Measurement of Economic Performance and Social Progress (Stiglitz *et al.*, 2009). In the British context, the ‘Equality Measurement Framework’ (subsequently EMF) developed by Burchardt and Vizard in partnership with the Equality and Human Rights Commission (EHRC) is a new capability-based system for evaluating progress towards equality (and in eliminating inequality) in England, Scotland and Wales.<sup>4</sup> In this section I map out how the EMF takes forward thinking about measuring progress and performance in public services by focusing attention on ten critical domains (or capabilities) and three ‘critical aspects’ of the position of individuals and groups.

<sup>3</sup> The example of a ban on smoking is discussed in Sen (2002: 428–30).

<sup>4</sup> Further details of the EMF are provided in Burchardt and Vizard (2011), a briefing paper (EHRC, 2008) and a series of research reports for EHRC: Burchardt and Vizard (2007a, 2007b), Alkire *et al.* (2009), Burchardt *et al.* (2009), Burchardt and Vizard (2009) and Holder *et al.* (2011).

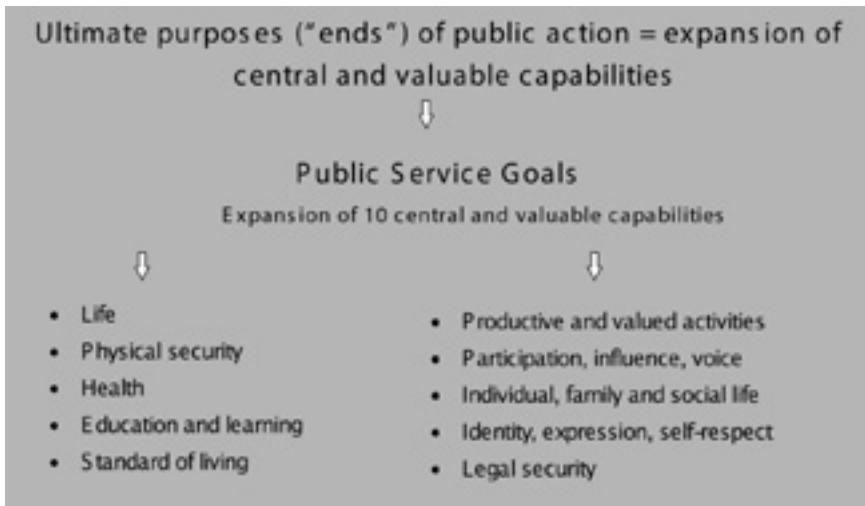


### Ten central and valuable capabilities

The EMF can contribute to the development of a new public services model by providing an operational list of the central and valuable capabilities against which progress and performance in public services can ultimately be judged. The EMF evaluates the position of individuals and groups within and across ten critical domains (Life; Health; Physical Security; Legal Security; Education and Learning; Standard of Living; Productive and Valued Activities; Individual, Family and Social Life; Identity, Expression and Self-respect; and Participation, Influence and Voice). This list of critical domains of life (or ‘capability list’) was derived through a two-stage process based on the international human rights framework and deliberative consultation with the general public and ‘at risk’ individuals and groups. The deliberative consultation was designed to ensure broad engagement and participation in the selection of capabilities that are covered in the Framework (and that therefore ‘count’ for the purposes evaluation and measurement) Burchardt and Vizard (2011: 102–4).

In the first part of this chapter I put forward the idea of a new public services model that focuses on the idea of capability – with the public services goals associated with the Beveridge Settlement (focusing on the eradication of the ‘Five Evil Giants’ of Want, Disease, Ignorance, Squalor and Idleness) replaced with a new emphasis on the expansion of expansion of central and valuable capabilities. The

**Table 4.3** From ‘Five Evil Giants’ to the expansion of substantive freedoms and opportunities: specifying the ‘ends’ of public services and a new list of public service goals

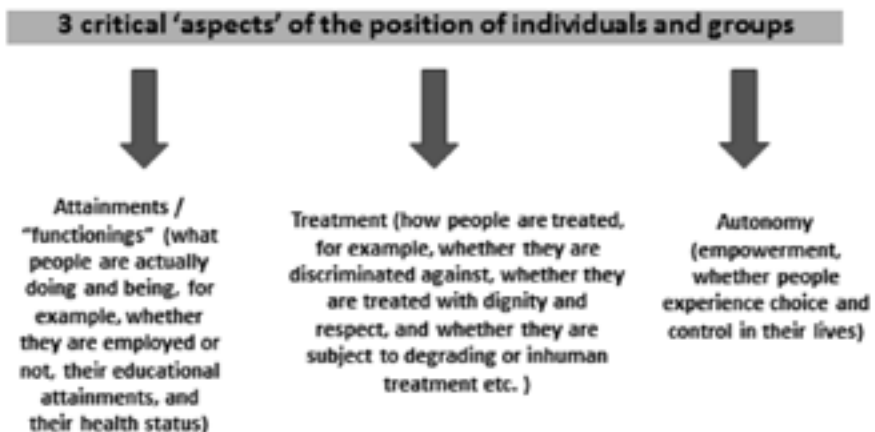


EMF capability list can be used to ‘operationalize’ this proposal with the ultimate purposes (or ‘ends’) of public action and an updated set of public service goals being specified in terms of the expansion of ten central and valuable capabilities, covering life, physical security, health, education and learning, and so on (Table 4.3).

## Outcomes, treatment and autonomy

In ‘operationalizing’ the capability concept, the EMF evaluates outcomes in and across the ten critical domains specified above in terms of outcomes (or ‘achieved functionings’ – what people are actually doing and being, such as their health status, or whether they are employed or not, or whether they are experiencing physical abuse); treatment (for example, whether a person is experiencing discrimination or degrading treatment, and whether they are treated with dignity and respect) and autonomy (empowerment, choice and control) (Figure 4.1). For example, using the Framework to evaluate the position of older people in the health domain entails evaluating the functionings of older people (prevalence of cancer and cardiovascular conditions, mental health status, etc.); treatment (whether older people experience degrading treatment or discrimination in health care, and whether they are treated with dignity and respect, etc.) and autonomy (whether older people are empowered to influence critical decisions about their health care, and whether they experience choice and control in their lives) Burchardt and Vizard (2011: 96–7). This distinction can be further developed and applied as a basis for evaluating the different types of impact that public services can have on the lives of individuals and groups in each of the ten domains specified in the EMF capability list.

**Figure 4.1** Evaluating public service outcomes: what should we be measuring?



## **Measuring progress and performance in public services**

The EMF takes forward broader efforts to develop 'outcome orientated' frameworks for measuring progress and performance in public services. Under Labour, recognition of role of outcome-orientated indicators in processes of public services reform was given through the system of Public Service Agreements and the need to strengthen outcome-oriented systems of performance management was recognized (Cabinet Office, 2008: 37). The Darzi Review recommended an information base for monitoring health services that captures a broad range of outcomes covering clinical results both also elements of treatment (such as dignity and respect) and autonomy (such as patient involvement) as an alternative to a top-down, target-driven approach to performance management. Under the Coalition Government, these proposals have been followed up with new 'health outcomes' and 'adult social care outcomes' frameworks.<sup>5</sup>

The EMF is 'populated' by an indicator set that draws on a broad range of social survey and administrative sources. The indicator set was developed through a specialist consultation process and therefore, like the agreement of the capability list, has a strong focus on participation. It moves away from a composite index and 'population averages' approach, towards the use of a range (or 'dashboard') of indicators with systematic disaggregation by key characteristics (such as ethnicity, disability, age and social class). It also emphasizes the importance of identifying and separately reporting the position of vulnerable and 'at risk' groups such as individuals resident or detained in public and/or private institutions, refugee and asylum seekers, Gypsies and Travellers, 'children in need' and 'looked after children.'

The EMF indicator set encapsulates the principle that a balance of objective and subjective indicators is necessary for policy evaluation purposes. The importance of subjective indicators in evaluating public policy outcomes has received increased recognition in recent years. Labour flagged up its intention to introduce new outcomes-based monitoring systems relating to police performance with the Policing Green Paper stating that top-down targets would be dropped and replaced by a new outcome-orientated target relating to overall public confidence (Home Office, 2008). The development of new public confidence indicators of this type has been taken forward under the Coalition

<sup>5</sup> The Coalition has also extended the application of 'payments by results' (used in health under Labour) to areas such as immigration, employment services and probation/re-offending. For the NHS outcomes framework, see Department of Health (2010) and for adult social care outcomes framework, see Department of Health (2011).

Government. In addition, since the 2010 General Election, a new wave of public policy statements and media reports together have focused attention on the role that subjective well-being and happiness can play in evaluating well-being and social progress. These proposals have recently been underpinned by a recent ONS consultation on well-being, new survey instruments for measuring life satisfaction and academic proposals for using indicators of subjective well-being for evaluating public policy outcomes (Dolan *et al.*, 2011).

The EMF reserves an important role for indicators of subjective and ‘voice’-based indicators such as confidence in the police, perceptions of organizational discrimination by the police and criminal justice system and health and educational services, self-reported treatment with dignity and respect, and so forth. However, it departs from a subjective well-being approach in that a balance of subjective and objective measures are included within the indicator ‘dashboard’ for each domain. For example, the physical security domain includes indicators of confidence in the police and fear of crime (subjective indicators) alongside more objective indicators of the prevalence of violence (including the prevalence of domestic violence and sexual violence). This allows for the possibility of adaptation and for cross-checking of the reliability and validity of subjective well-being indicators – a process that is arguably critical for public policy purposes (Atkinson, 2011).<sup>6</sup>

## A model for policy intervention

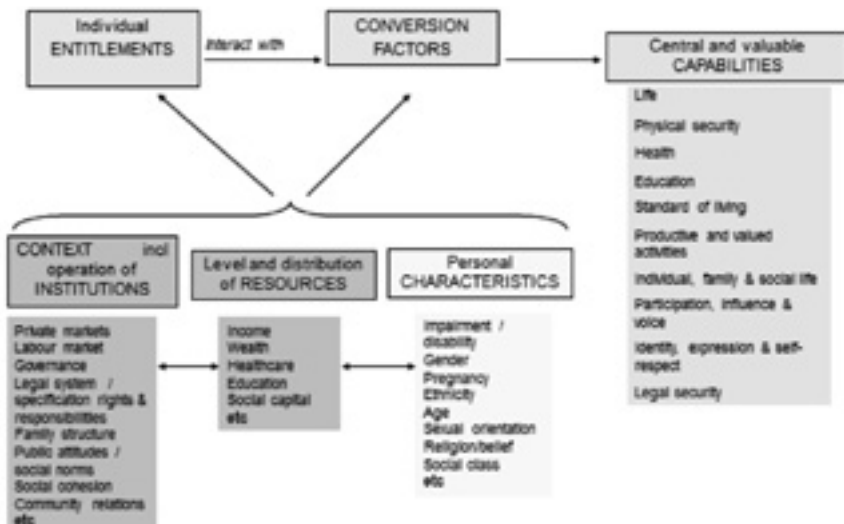
Figure 4.2 illustrates how the EMF can be developed and applied as an analytical model that can be used as a basis for public policy purposes. ‘Valuable ends’ in the form of ten central and valuable capabilities are modelled as being critically dependent on personal characteristics such as gender, age, ethnicity, disability and social class; resources (income, wealth, public service entitlements, etc.); and contextual variables (such as the underlying legal system, the specification of rights and responsibilities, social norms, public attitudes). The model highlights the importance of interpersonal variations in needs and situations; the role of individual agency (choices, behaviour, etc.) in transforming a

<sup>6</sup> The Final Report of the 2020 Public Services Commission pointed to the role that the EMF might play in the development and application of a new framework for evaluating progress and performance in public services. ‘By focusing on three important dimensions of an individual’s experience of public services – outcomes, treatment and autonomy – the [F]ramework provides a flexible and powerful model for developing and evaluating future policy and practice. It avoids prescription, values diversity, and makes sure that no one is left behind’ (2020 Public Services Trust, 2010: 39). Recent proposals building on this idea have been developed by the 2020 Public Services hub. See Snaith (2011).

person’s capability set (the capabilities that are within their reach *ex ante* – prior to choice and behaviour) into ‘achieved functionings’ (their actual attainments in practice); and the broad range of ‘means’ that can be instrumental in processes of capability expansion.

Figure 4.2 can be used to model a range of current public policy concerns. At the most simple model the model highlights how an anti-deprivation strategy should not exclusively focus on income and wealth when a wide range of multi-dimensional interventions might be influential – capturing the importance of cutting across traditional public policy silos and of modelling ‘holistic’ public policy initiatives such as ‘needs-based holism’ and ‘Total Place’. Further capabilities in one domain (for example, education and learning, and health) may be critically important (or ‘instrumental’) for achievements in other domains (such as the adequate standard of living). Indeed, recent literature puts a particular emphasis on the search for ‘magic bullets’ and whether it is possible to identify key instrumental capabilities (including self-esteem and emotional intelligence) that can trigger a ‘virtuous cycle’ of capability expansion (e.g. Bartley 2006) and/or ‘decluster disadvantage’ by distinguishing between ‘fertile functionings’ (which are important in securing other functionings) and ‘corrosive disadvantages’ (that lead to further disadvantages) (De-Shalit and Wolff, 2007: 6373, 119–32).

Figure 4.2 Model of capability ‘production’



Source: Burchardt and Vizard (2007a)

Figure 4.2 provides an entry-point for modelling the role of co-production, with the interaction of individual entitlements with individual agency, behaviour and choice made explicit. Finally, the model encourages a multidimensional approach to thinking intergenerational cycles of ‘poor’ capability inheritance, highlighting intergenerational cycles of domestic violence and child abuse in the physical security domain, alongside intergenerational cycles of poor achievement in relation to education, learning and employment prospects. The Framework accords in this sense with recent public policy recommendations on life-chances and social mobility (e.g. Field, 2010; Allen, 2011). Since children and young people are at a formative stage of capability formation – with implications across the lifecycle and for society more generally – social investment in the capabilities of children and young people also emerges from Figure 4.2 as a key public policy concern.

### Bringing new thinking about individual rights into the analysis

In this section I explore how a focus on capabilities can be combined with new thinking about individual rights. The work of the 2020 Commission highlighted the need for new thinking about individual rights that moves beyond the characterization of individual rights simply in terms of an individual entitlement to resources and/or services that are directly provided by the state (Alldritt *et al.*, 2009: 54–5). Sen’s (1985a: 217, 1985b) concept of a capability-right may be helpful here and suggests a broader formulation of an individual right in terms of the protection and promotion of a capability (such as good physical and mental health, or physical security, or education and learning).

New thinking about individual rights is also taken forward by emerging paradigms and approaches that characterize individual rights in terms of their potential equity and efficiency effects. Whereas in the past there was a widespread perception of a conflict between individual rights and economic growth, it is increasingly recognized that extensions of individual rights and democratic practice can play a key role in contemporary democracies – for example, by specifying minimum standards and the ‘rules of the game’, creating a level playing field, incentivizing providers, providing mechanisms for ‘informational feedback’, introducing new sources of ‘bottom-up pressure’ and levers of ‘democratic control’. More generally, individual rights and extensions of democratic practice are characterized as empowering individuals, enhancing

‘responsiveness’ and ensuring that critical accountability and redress mechanisms are in place.

In the development context, Sen and Drèze establish that democratic forms of government and individual rights can be instrumentally important in protecting and promoting capabilities. For example: by disseminating information, facilitating public scrutiny and debate, building up political opposition, increasing pressure on governments, proving for the correction of ‘errors’, and helping to precipitate a more effective public policy response (e.g. Sen, 1999b: 178–86; Drèze and Sen, 1989, 2002; Drèze, 2004: 1727).<sup>7</sup> Besley and Burgess (2002) developed a formal framework for evaluating the responsiveness of governments to citizens’ needs in electoral democracies. Their analysis has implications for understanding the role of individual rights in preventing public policy in preventing ‘capture’ by elites and dominant social groups by increasing ‘voice’ and strengthening the influence of subordinate groups in collective decision-making.

Stiglitz (1999, 2002) examines how individual rights to information (e.g. in the form of Freedom of Information Acts) can enhance economic efficiency and resource allocation by increasing the availability and quality of information. Informational asymmetries can result in capture by special interests and in corruption by government officials, with strongly adverse consequences for investment and economic growth. Strengthening individual rights to information (e.g. in the form of Freedom of Information Acts) and rights to legal redress can reduce the magnitude and consequences of these agency problems, with greater access to information and resulting in better, more efficient, resource allocation (Stiglitz, 1999) by strengthening accountability and ensuring that appropriate ‘democratic control mechanisms’ are in place. Stiglitz (2002) characterizes participatory processes as a ‘public good’ – with an active civil society functioning as a check on abuses of power and influence and a source of countervailing power. This analysis results in a key public policy recommendation – that extensions of democratic practice and individual rights are required to help to ensure that concentrations of power in one domain are checked and restrained by counter-veiling sources of power in another domain.

<sup>7</sup> Examples range from the Indian Famine of 1947 to contemporary food shortages in Rajasthan. The instrumental role that human rights, including economic and social rights, can play in strengthening public accountability and efficiency by increasing ‘voice’ and providing an additional source of ‘counter-veiling power’ is another important theme. The ‘Right to Information Movement’ and the ‘Right to Food’ campaign in India provide examples (Drèze and Sen, 2002; Drèze, 2004: 1726).

McKay and Vizard (2005) set out a theoretical and empirical entry-point for capturing the role of rights-based approaches in terms of the equity and efficiency objectives reflected in standard welfare economics. Individual rights can have equity effects, for example, by determining the allocation of fundamental entitlements in an economy, by broadening social opportunity (for example, by ensuring equal access to private markets and to public goods), by strengthening voice, empowerment and accountability and/or by focusing public policy attention on the needs of the poor and vulnerable. Individual rights can also have important efficiency effects. For example, individual rights can provide mechanisms for responding to monopoly power and to a range of market failure situations discussed in welfare economics.

**Table 4.4** How do rights-based interventions help to address the concerns of welfare economics?

<b>Problem</b>	<b>How rights-based extensions provide a solution (or partial solution)</b>
Monopoly power	Extension of rights addressing price discrimination and cream-skimming
Public goods	Creation of public service entitlements that supplement private market provision
Externalities	Reallocation of property rights/rights imposing constraints on behaviour and activities to deal with complex interdependences and internalize costs of externalities
Incomplete, imperfect and asymmetric information	Rights-based extensions to increase the quality of information available and knowledge about options (e.g. freedom of information act, information about choices and quality in context of public services)
Adverse selection and moral hazard	Rights-based mechanisms to create level playing field, e.g. regarding use of screening mechanisms and to prevent cream-skimming
Principal agent problems	Rights-based extensions both to address asymmetric information and to strengthen the threshold position of beneficiaries, e.g. voice, choice, empowerment/accountability/responsiveness, mechanisms of 'democratic control'



Table 4.4 builds on this thinking. It illustrates how extensions of democratic practice and individual rights can be characterized as being important on the grounds of efficiency as well as equity, and as playing a key role in addressing key sources of economic inefficiency such as monopoly power, cream-skimming, under-provision of public goods, externalities, incomplete, imperfect and asymmetric information, principal agent problems, adverse selection and moral hazard – for example: by preventing discrimination, empowering beneficiaries, ensuring access to adequate information, strengthening accountability and responsiveness, and providing new levers of ‘democratic control’ (see Table 4.4).

### **What role for individual rights to equality and human rights?**

What role should individual rights to equality and human rights play in the development of the new public services model?

Using the analytical framework set out above, individual rights to equality and human rights can be characterized as having a range of potential equity and efficiency effects in contemporary democracies. Like other individual rights, they can be viewed as playing an important role in specifying minimum standards and the ‘rules of the game’, creating a level playing field, incentivizing providers, introducing new sources of ‘bottom-up’ and counter-veiling pressure, strengthening accountability and responsiveness, providing new levers of ‘democratic control’ and so forth (see Table 4.4).

Consider the work of a health commissioning body that is formally accountable to all individuals within a local geographic unit. Public duties to eliminate discrimination and promote equality (such as the duties incorporated into recent equality legislation) have a potentially important role to play in ensuring complete coverage of the relevant population as well as in ensuring minority interests are adequately considered in decision-making and that the system is ‘responsive’ to the needs of all individuals and groups. For example: in combating the possibility of discriminatory practices in relation to GP registration and/or the failure to give sufficient weight to the needs of minority subgroups such as disabled people, older people and/or people from ethnic minorities.

Section 6 of the Human Rights Act (1998) establishes a duty on public authorities to comply with many of the individual rights guaranteed in the European Convention on Human Rights. The Act provides national minimum floor standards that are of direct relevance in the public services context such as the protection of life, as well as the prohibition of degrading and inhuman

treatment and of non-discrimination. The Act is binding on public authorities including providers of public services such as the police, NHS and primary care trusts and local authority-run housing, education, social services and care homes as well as on private and voluntary providers exercising 'functions of a public nature' (for example, private and voluntary providers of health and social care services funded through public expenditure).<sup>8</sup> These standards can also be understood in terms of the analytical framework developed above.

The new era of decentralization and localism in public services puts a particular spotlight on the need for national minimum floor standards to underpin public service provision. The Coalition Government has stated that top-down targets and centralized management systems will be discontinued, with organizational decentralization and more reliance on 'bottom-up pressure' such as new forms of empowerment and accountability as drivers of quality in public services. The ultimate aim is described in the Open Public Services White Paper as the creation of a 'self-improving dynamic' (Cabinet Office, 2011: 21).

However, there is also recognition that decentralization and localism in the absence of national minimum standards is likely to result in an unacceptable *laissez-faire*. The 'self-improving dynamic' will require a framework of minimum standards, as the Open Public Services White Paper acknowledges. Yet there is currently little agreement about where the new body of minimum standards that will be necessary to underpin decentralized and localized public services will come from. Rights to equality and human rights have an important role to play here – and should be regarded as an important input into the new public services model.

## Conclusion

This chapter has examined the role that the capability approach and rights-based approaches can play in developing a new public services model. I began by arguing the central focus of a new public services model should be the expansion of capability. I suggested that the idea of capability can make a major contribution to a new public services model as an ethical framework for thinking about equality, inequality and justice; as a practical framework for repositioning and reframing British political debates; and as a new paradigm

<sup>8</sup> The position in relation to private and voluntary providers of health and social care was clarified in the Health and Social Care Act (2008).

for thinking about the ‘ends’ and ‘means’ of economic growth and the role of public action.

I then moved on to examine how the capability approach can contribute to ongoing efforts to develop ‘outcome-orientated’ frameworks for measuring progress and performance in public services. The Equality Measurement Framework (EMF) is a new capability-based framework for evaluating progress towards equality (and the elimination of inequality) in England, Scotland and Wales. I mapped out how the EMF takes forward thinking about measuring outcomes in public services by focusing attention on ten critical domains (or capabilities) and three ‘critical aspects’ of the position of individuals and groups (outcomes, autonomy and treatment).

Next, I addressed how the capability approach can be usefully combined with new thinking about individual rights. I explored a range of potential equity and efficiency effects that individual rights can play in contemporary democracies beyond the specification of individual entitlements to resources and/or services that are directly provided by the state – for example, by incentivizing providers, specifying the ‘rules of the game’, creating a level playing field, providing sources of bottom-up pressure, strengthening empowerment, accountability and responsiveness, and ensuring that appropriate ‘democratic control’ and redress mechanisms are in place.

Finally, I suggested that individual rights to equality and human rights can also be understood in terms of potential equity and efficiency effects of this type, and have an important role to play in the ‘new era’ of decentralization and localism in public services.

The underlying aim of the chapter has been to contribute to the development of a new public services model. The capability approach and rights-based approaches provide rich foundations on which to build.

## Public Service Reform and Social Inequality

Peter Taylor-Gooby

A major theme in public service reform is the empowerment of service users by giving them greater opportunities for choice between alternative providers. This raises challenges for policy-makers: during the last decades living standards have risen, markets offer a greater range of choices across most areas of life, but inequalities have also grown rapidly and look set to expand further. The range of choices available to better-off people is much broader and more attractive than that confronting the poor. Is the choice agenda compatible with social justice?

This chapter considers health and social care, education and early years provision, chosen because they are all high-profile policy areas in which governments have pursued substantial reform programmes and because they offer examples of policy changes designed to offer greater choice to service users in more or less competitive markets under governments of markedly different ideologies. There are obvious problems of adverse selection by providers and differences in the capacity of users to make effective choices. Where empowerment programmes are linked to extra resources targeted on more vulnerable groups or areas in the context of good information, a functioning market and support in decision-making, they appear to have a positive effect. However the achievements are limited, even when reformers are able to direct extra resources to the services. It is hard to make much headway in guaranteeing a full range of choices for everyone in an unequal society without embedding the programmes within an aggressively redistributive welfare state. The programme of the current government – greater choice in a context of harsh cut-backs – may indicate how far the choice agenda can advance people's interests when it is not combined with policies that mitigate unequal incomes and wealth.

## Responsiveness, cost-efficiency and equality in a more unequal society

For much of the post-war period public services in the UK were delivered by the central state (cash benefits, the NHS) or local government (schools, personal social services, social housing). They were financed chiefly through centralized taxation with some local government support. The legal framework specified entitlements and access, with considerable opportunities for variations in provision in the locally administered services. Central interventions in the organization and structure of locally administered services, particularly education, became prominent from the 1960s onwards. More recently there have been moves to decentralize budgetary responsibility to provider agencies and directly to service users to advance choice and competition.

The main drivers of change (Alldritt *et al.*, 2009; Driver and Martel, 2006; Powell, 2002) have been:

- Demand by service users for greater empowerment, accountability and responsiveness, sufficiently widespread and powerful to be recognized across all the main political parties as a central feature in manifesto programmes and elsewhere (HM Government, 2009; Le Grand, 2003: 163; Conservative Party, 2010: 45);
- The need to contain pressures to increase spending, exacerbated by global competitiveness (Commission on Social Justice, 1994), declining public sector productivity (Simpson, 2007; Ayoubkhani *et al.*, 2010; Penaloza *et al.*, 2010), anticipated increases in the cost of pensions and health and social care for elderly people (HM Treasury, 2009a) and (more immediately) the cost of the 2008–10 stimulus package and banking bailout, plus extra social spending as the economy falters (HM Treasury, 2010a);
- Concerns about fairness in access, standards and the capacity for innovation in existing provision (PMSU, 2006).

Various policy innovations have followed, pursued with greater or less vigour at different times and influenced by the commitments of different governments to public spending, gathering pace from the late 1980s onwards. They may be grouped under six headings:

- Stronger Treasury control over budgets across all areas, locally and centrally administered.
- Decentralization of provision to a range of agencies (commercial

companies, NGOs and community groups, budget-holding state sector agencies), typically operating in competition.

- Intensification of monitoring, through regulation, inspection and publication of levels of achievement.
- Development of new methods of promoting innovation and setting standards, through targets, specific initiatives and programmes, and targeted payments.
- Greater involvement of service users, through choice between providing agencies, better access to information on standards, in some areas opportunities for voice.
- In relation to cash benefits, more vigorous efforts to mobilize those of working age into paid work, both through stricter limits on entitlement and measures to support bottom end wages.

These developments reflect shifts in the context in which government operates: declining deference and greater individual self-confidence leading to querulous citizens (Giddens, 1994); the move towards a more networked society as a result of the use of ICT and more diverse and globalized power structures (Stoker, 2006); the decline of traditional political structures (most importantly in a class-based labour movement) and growing diversity in life-styles, needs and demands (Jessop, 2002); and trends in government to a 'hollowing out' (Rhodes, 1997), to risk management (Hood, 2010) and to a New Public Management (Flynn, 2005). The UK is often seen as unusually centralized in government structures but at the forefront of the above trends so that the pressures for change are particularly acute (Esping-Andersen, 1999). The 1997–2010 government focused on control, monitoring and standards, while the 2010 coalition has emphasized spending cuts, decentralization, user control and privatization.

The reform programmes have been extensively discussed (for example, Le Grand, 2003, 2008). In relation to inequality the main debates concern conflicts between empowerment and equality. Middle-class service users are often seen as more successful in gaining access to services. Their greater resources allow them to seek out the best providers and their cultural capital makes them both more attractive and more able to press home their demands (Titmuss, 1958). The risk is that user empowerment allows these differences full play.

Issues of equality have become more prominent as the 1997 New Labour Government focused attention on poverty and social exclusion (Mandelson, 1997; NPI, 2010; Equalities Review, 2007). Analyses of the dispersion of market

incomes in the UK show a substantial increase in the share received by lower income groups during the 1970s, followed by a sharp decline in the 1980s. The relative shares of those on higher incomes grew during the 1980s and more slowly in the 1990s. For those at the very top the increase has continued into the twenty-first century and probably still does, while inequalities appear to have roughly stabilized for most of distribution (Atkinson, 2007: 49; Hills *et al.*, 2009: 24). Wealth appears even more highly concentrated at the top (NEP, 2010: 12).

The move by the UK from a European to more US pattern of income distribution is attributed to a number of factors including the impact of changes in labour process, more intense competition and greater flexibility in relation to and changes in household structure (Freeman, 1995; Bardhan *et al.*, 2006). Attempts to understand the relative importance of these changes indicate that access to employment has been the most important factor followed by household structure (Brewer *et al.*, 2009: Table 24). This reflects the relative success of the 1997 Labour Government's policies in containing poverty among families with children and in supplementing incomes among lower income pensions (Hills *et al.*, 2009: 44). In addition the gradual and slowing trend to a decline in the gender earnings gap (McKnight, in Hills *et al.*, 2009: Figure 5.13) has reduced inequality (Brewer *et al.*, 2009: 76).

Future trends are uncertain. There is no indication that returns at the top end will fall in more competitive and globalized markets. In the immediate future, higher unemployment will increase bottom-end inequality. The trend to reduction in poverty among families without access to employment came to an end in 2004–5 (Sefton *et al.* in Hills *et al.*, 2009: 44). The 2010 government has cut the benefits available to those of working age and particularly housing benefits sharply, is cutting entitlement to benefits for disabled people by more than half and is introducing more stringent eligibility rules for single benefits, unemployed people, students and others, and is raising the pension age (Taylor-Gooby and Stoker, 2011). The impact of proposed pension reforms, designed to simplify state provision by providing a single flat-rate scheme is unclear, since the level of benefit has not yet been finalized. The decline of occupational pensions may reduce one source of inequality for this group (Evandrou and Falkingham in Hills *et al.*, 2009: 176). The overall picture is one of greater inequality between working and workless and higher and lower-paid households. Calculations by the Institute for Fiscal Studies indicate that the cuts package of the 2010 government bears just over twice as harshly on the lowest income tenth of the distribution as on the top half (Browne, 2010).

The long-term emphasis on the empowerment of consumers, cost-efficiency and fair access alongside a ‘fanning out’ of market inequalities, mitigated chiefly by targeted benefit policies, raises issues for public service reform. Middle-class groups have always done relatively well out of the welfare state. Public service reforms that give greater power to private sector providers and to service users risk exacerbating the inequality between advantaged and more vulnerable groups.

## Directions in reform

The objectives outlined above have been pursued through a range of methods.

The main directions in recent reform and the logic that underlies them are well summarized in a recent Prime Ministers Strategy Unit (PMSU) paper (2006) and taken much further in the current Localism Bill and Open Public Services White Paper (Cabinet Office, 2011). This emphasizes four approaches:

- Top down performance management (targets, regulation, inspection and where necessary intervention).
- Users shaping the services from below (greater choice between providing agencies, funding following the user, more opportunities to exercise voice).
- Market incentives to promote efficiency and quality (through competition, contestability or bench-marking against other providers and commissioning).
- Improving capability (better leadership, developing the workforce and improving organizational co-operation).

The current government is placing reliance particularly on the second and third aspects of the new responsive policy-making.

Examples of the first kind of policy are the 1997–2010 government’s Comprehensive Spending Review Targets for waiting lists, morbidity and inequalities in health, and targets for Key Stage test outcomes in education; the National Institute for Health and Clinical Excellence (NICE) evidence-based regulation of drugs and guidelines on treatment and the National Curriculum guidelines; inspection by Monitor or Ofsted agencies and the Cancer Strategy and literacy and numeracy hours.

For the second, the Patient Choice and Open Enrolment programmes, fund-holding by general practitioners (GPs) and primary care trusts (PCTs) and Age-Weighted Pupil Units, the Link and its successor schemes and the



move towards a greater role for parents and, through the Academy, Trust and Faith Schools programmes, business, religious groups and non-governmental organizations (NGOs) in school governance. Co-payment, typically through partial state contribution for a paid-for service is rare in the NHS and statutory age education, but is a feature of academies and in means testing for social care support, in the attendance allowance and more recently in direct payments for personal care, which may be privately supplemented, in student finance subsidies and in the contribution of tax credit to child care costs.

Market incentives are extensively discussed (for example, Le Grand, 2008) as a central feature of New Public Management, for example through competition between various NHS Trusts and Independent Diagnosis and Treatment Centres, through the impact of choice of school, enhanced by a greater range of specialist and faith schools and academies, and through Compulsory Competitive Tendering and Best Value in local government. The localism agenda of the 2010 government and the determination to extend the role of private for-profit service delivery across social housing, the employment service, within the NHS and across all local government services appear certain to expand the role of the non-state provision vastly.

Capability improvements include measures to enhance training (the NHS and Schools leadership colleges), improvements to pay and aspirations about status in health care, education and (to a lesser extent) social services to enhance recruitment and retention, and more emphasis on networking between professionals and agencies, for example in the National Cancer Strategy and in sharing expertise and resources between schools. These initiatives appear likely to be choked off by the cuts following the 2007–9 recession.

The reform programme has been sustained by substantial increases in spending, particularly in health and social care (from 5.3 to 7.9 per cent of GDP between 19978 and 2008–9) and education (4.5 to 5.8 per cent, HM Treasury 2009b: Table 4.4). More recent policy discussion (for example, Cabinet Office, 2008) places greater stress on fairness and less on top-down performance management. The number of targets in Comprehensive Spending Review has been sharply reduced and there is more attention to direct citizen empowerment. Market-centred rather than democratizing aspects of empowerment predominate: choice trumps voice (Pierre, 2009; Le Grand, 2008). This conflicts with calls for a new localism (Alldritt, 2009; Mulgan, 2003) and for democratic reform (Stoker, 2006; Lister, 2003). Since 2009, reform has taken place in a climate of spending constraint. The 2010 government is implementing the harshest spending cuts since the 1920s (HM Treasury, 2010b), so

that privatization, localism and user empowerment are set in a landscape of declining public provision.

## Implications for inequality

The reforms cover a broad range of activities. The services involved account for more than a fifth of national product and touch the lives of the vast majority of citizens to a greater or lesser extent. The above discussion indicates continuity in trends with an enormous variety of policies and reforms reflecting the general themes of responsiveness, cost-efficiency and fair access.

Consideration of the impact of reform on inequality is hampered by difficulties in disentangling evidence of change along a number of dimensions and in establishing a causal link between particular aspects of the new policies and changes in outcomes. The problems are exacerbated by the fact that policies operate in the context of entrenched assumptions, working practices and patterns of behaviour, for example in changing relationships among professional staff or in raising aspirations about available career paths among young people, so that their impact can only be realistically assessed in longer-term reviews. We will review developments in education, health care, early learning and individual budgeting in social care. These areas are chosen because they differ along three related dimensions that are prominent in debates about reform: provider control over access, transparency of need and user control over budgets.

In health care professional control over decisions about the need for treatment and their capacity to influence how and where it is provided are seen as crucial to inequalities of outcome (Klein, 2006). In education, the over-subscription of more attractive schools allows providers to exercise a bias towards students who are more attractive to teach, often the middle class (Ball, 2008). In early years provision and social care, however, there is substantial informal provision with a growing range of alternative providers, enabling (*prima facie*) a wider range of user choice. Reforms in health care give budgetary control to professionals in PCTs to commission much treatment, although patient choice in non-urgent services increasingly influences allocation. Planned (though contested) moves to allow GPs control over 80 per cent of NHS budgets and to expand user control through personalized health budgets take these policies further.

Open enrolment in education with cash following the student is effectively a voucher system whose application is limited by the availability of places in

sought after schools, as in the allocation of the childcare component of tax credit. The shift to academy status for most schools signals a further reduction in the capacity of local government to influence outcomes. Individual budgeting supported by personal advice in social care gives the user immediate choice in directing the use of such resources as are available.

## **Health care**

A substantial body of evidence (Townsend *et al.*, 1972; Drever and Whitehead, 1997; Marmot, 2010) has demonstrated that, while the long-term trends in health and longevity are positive, inequalities between social groups in life expectancy, infant and child mortality and in other areas is widening (see Sassi in Hills *et al.*, 2009: 135). For example, life expectancy at birth increased by 5 per cent for women from social class 1 between 1972 and 1996, but only 3 per cent for those from class 5. For men the gap is between a 6 per cent and a 4 per cent increase.

Marmot shows that this remains true whether social differences are measured between regions, by poverty, by level of education or by the deprivation of the area in which people live (Marmot 2010: Figures 2, 3, 7, 10).

The 1997–2010 UK government policies included an increase in spending overall on health care and a substantial number of targets imposed in Comprehensive Spending Review, including waiting lists and waiting times and death rates from cardiovascular disease and cancer. The main strategies to address social inequalities were area-based, initially through Health Action Zones. This later developed into the identification of the fifth of local authorities and primary care trusts with highest social deprivation and lowest performance on health indicators as ‘spearhead’ authorities, with extra resources, specific targets and careful monitoring. This strategy has limitations since the majority of deprived people do not live in deprived areas, but has advantages in terms of practicalities in targeting, managing a viable policy through existing institutions and in testing reform programmes.

The overall strategy succeeded in relation to a number of targets: the objective of ending waiting times longer than three months for outpatients was effectively achieved by the end of 2005. For inpatients, waiting times for almost all cases fell below six months by early 2006. Overall mortality from heart disease, stroke and related illness had fallen from 141 per 100,000 (under 75) in 1995–7 to 75 by 2006–8 and from cancers also from 141 to 114 over the same period. Targets for reducing the maximum wait in accident and emergency to four hours,

ensuring access to a GP within 48 hours and choice in booking targets have also all been met (Propper *et al.*, 2008). Smoking, teenage conceptions and deaths from suicide (which in fact initially rose) have fallen but not at the rate required to meet the target (HM Treasury, 2007; DoH, 2009).

These developments are in general positive, although improvements in health outcomes follow on from established trends so it is difficult to demonstrate how far they are due to specific policies (Hills and Stewart, 2005: 333; King's Fund, 2007: 4–5). However, progress in relation to inequality targets is partial. The inequality gap between the spearhead areas and the population as a whole had fallen from 37 to 23 per cent for heart disease and strokes and from 21 to 18.6 per cent for cancer between 1995–7 and 2006–8, actually achieving the 2010 target, despite a slight increase in the last year in the latter figure (DoH, 2009: 51–52). However, the gap in infant mortality between the lowest socio-economic groups and the rest of the population has widened, as has the gap in life expectancy between spearhead areas and the rest of England (DoH, 2006). The gap increased by 7 per cent for men and 14 per cent for women between 1995–7 and 2006–8 (DoH, 2009: 14). Sassi also examines trends in life expectancy across all local authorities and shows that the trend to greater inequality by socio-economic group may have stabilized and actually be narrowing towards the end of the period (in Hills *et al.*, 2009: Figure 7.4). He uses a different data source, the Health Survey for England, to show that class gaps for self-reported poor health, cardio-vascular disease and poor psycho-social health appear to be widening between the early 1990s and 2005 (2009: 145–9).

The overall picture in relation to inequalities is 'disappointing' (Sassi in Hills *et al.*, 2009: 155) while real achievements in health care for the population as a whole must be acknowledged. However, given the negative trend in relation to inequalities for the previous three decades, modest and partial improvements may be judged less harshly. Current policies involve large cuts in capital budgets (18 per cent, IFS 2011: Figure 6.5) and level current spending in cash terms. This implies a real cut of at least 4 per cent a year in real terms, greater than any spending reduction ever achieved in the NHS since its inception. The new policies also plan to decentralize much of budgetary control to GPs and to advance personal budgets. These measures are likely to weaken attempts to advance equality, although the outcome measures to test this are not yet available.

Health care reforms in recent years have involved the use of budgetary decentralization, including private for-profit and not-for-profit Intermediate Diagnosis and Treatment Centres, targets and monitoring in the context of

extra resources. The main policies directed at achieving greater responsiveness were market and choice centred, to do with the patient's right to choose between a range of clinics and trusts for non-urgent treatment. There has been some attention to engagement through Patient and Public Involvement, Local Involvement Networks and other schemes and the inclusion of lay members in trusts although there is no evidence that this has a major effect on outcomes.

It is difficult to parcel out the impacts of these changes on equality. Evidence on the impact of patient choice and empowerment is fairly limited and comes mainly from the US, where care is typically managed through Health Maintenance Organizations, contracted for a fixed fee by the insurer and with strong incentives to compete on price and quality. A review of evidence by Burgess and colleagues (2005) points to two main effects: competition tends to improve quality where prices are high, but reduce it where they are low (as, for example, for Medicare patients). Studies of the UK health care market also indicate differentiation between different types of patients. Under the internal market between 1991 and 1997, two types of purchasers existed: fund-holding GPs and district health authorities. Both negotiated price reductions, but GPs tended to gain shorter waiting times and a service generally more responsive to patients' wishes and possibly of higher quality (Burgess *et al.*, 2005: 27–9). District health authorities appear also to be influenced by a concern to maintain incomes for existing facilities. The limited evidence available indicates that hospitals did not appear to avoid more difficult patients although they had economic incentives to do so. Since current policies combine a stronger role for the private sector with stringent cut-backs there is a risk that competition will be dominated by price, and will drive down quality.

The patient choice agenda appears to lead to wider choice of hospital and to more severely ill patients attending more modern and better-equipped hospitals, possibly improving outcomes. However information both on the quality of hospital and on one's own condition and prognosis (as indicated by education level) is also associated with exercising the choice to attend a more distant facility, providing suggestive evidence of a class inequality effect. A further study of waiting times for elective surgery between 1997 and 2007 shows no indication of any rise in inequality and possible evidence of a fall, although it is impossible to attribute this to any one element in the new policies (Cooper *et al.*, 2009)

While evidence is sparse, it seems that the details of the design of choice systems are crucial. Choice can improve outcomes, but needs to be exercised in the context of good information and not to be distorted by differences in

payment for treatment, which the NHS has so far avoided. How far cultural differences in confidence and assertiveness and informational inequalities can be overcome in NHS reform is at present unclear. Taken as a whole, the reform package of recent years has achieved modest gains in equality, but these may be vulnerable as spending is cut.

## Education

Education was the top priority in the 1997 Labour party manifesto and high on the programme of the 2010 Coalition (Conservative Liberal Coalition Agreement, 2010). The move to budgetary decentralization, wider choice of school and greater diversity of provision that had developed since the late 1980s were vigorously pursued in the context of increases in resources and the expansion of provision in the early years, above compulsory school leaving age and in higher education. New monitoring arrangements (Ofsted) were established and targets for attainment were set. While parents and other groups were involved in the governance of a greater variety of schools the main mechanisms for empowerment were to do with open enrolment and the operation of competitive forces. Current policies for Free Schooling and the expansion of the academy programme take this further.

The specific policies to address inequalities included area-based policies (Education Action Zones, the Excellence in Cities initiatives and a range of targeted grants and interventions. In addition the trend to a more holistic approach to children's needs that culminated in the Every Child Matters (DfES, 2003) agenda promoted the inclusion of disadvantaged groups. The premium paid to local education authorities in respect of children entitled to free school meals rose rapidly between 2003–4 and 2006–7 at about 13 per cent a year above the increases in the basic allowance although some authorities do not pass the full amount into the schools teaching those children (Sibieta *et al.*, 2008). The 2010 government has introduced a pupil premium of initially £430 for free school meal and looked after children (DfE, 2011), continuing and possibly expanding this policy.

In general, these policies have again achieved real but modest improvements, difficult to disentangle from existing trends. The rate of increase in GCSE A–C grades was about 1 per cent a year, the same as under the previous government, with real gains at the primary level, slightly below the government's targets. There is some indication that the rate of improvement at the secondary level has increased since 2004–5, suggesting that improvements at the primary level

are now feeding through (Lupton *et al.* in Hills *et al.*, 2009: 77). This has been particularly striking in the most deprived schools. In schools where a third or more of children receive free school meals, the proportion of children attaining five or more A–C GCSEs has risen from about 20 to about 40 per cent between 1999 and 2005 (Lupton *et al.*, 2009: Figure 4.3). Sharp improvements are also evident in Excellence in Cities schools.

When the focus moves from schools with high proportions of deprived children to the children themselves outcomes are less impressive, possibly because the policies targeted by area miss many deprived individuals. The achievement gap between those receiving and not receiving free meals on the five GCSE measure fell from 31 to 27 percentage points between 2002 and 2007 (Lupton *et al.* 2009: Table 4.2).

Strategies to expand participation for 16–19-year-olds, including means-tested Educational Maintenance Allowances (EMAs) and changes to the curriculum, and in higher education, strong incentives for universities to offer more places, targeted support for those from poorer areas and means-tested support for students have enjoyed some success. There is evidence that EMAs encourage poorer school students to stay on, although the overall increase in education for 16–19-year-olds has been limited, (Lupton *et al.*, 2009: 82; Middleton *et al.*, 2005). Participation in higher education has also improved from 39 per cent of the age group in 1999/00 to 43 per cent by 2007–8 (DIUS, 2009) and the percentage of entrants from the lower socio-economic groups has increased from 28.5 to 29.5 per cent between 2003/4 and 2007–8, with a corresponding increase in entrants from state schools (HESA, 2010, see Lupton *et al.*, 2009: Table 4.4). Targeted EMA support has been cut back sharply. Taken together Pupil premium and the new means-tested support for low-income students staying on beyond minimum leaving age are set at about one-third of previous spending levels. They appear unlikely to compensate cut-backs in local government support for deprived schools.

The conflicts between empowerment and equality are well established in educational research. When parents are able to choose between competing providers, more middle-class parents appear to exercise choice more advantageously and over a wider range (Ball, 2008). Research in London in the 1990s showed that middle-class children are more likely to exercise effective choice over a greater number of schools, travelling further to school than their working-class counterparts (Gewirth *et al.*, 1995). A detailed analysis of school choice for 2001–2 showed that only about half of all pupils attend their nearest available school. Again, ‘as the quality of the local school is lower, children

from affluent families are less likely to go there' (Burgess *et al.*, 2006: 14). This indicates that the system at that time, consisting of open enrolment moderated by local authority or governors' (in the case of Trust and Foundation schools) decisions about school access and the number of places to be available was not working effectively to advance equality. However it is also established that neighbourhood schooling leads to choice by estate agent with one study showing a 20 per cent house price premium in a popular school's catchment area (Leech and Campos, 2003). Arguably greater diversity and autonomy in provision may facilitate choice by those on lower incomes to operate more effectively.

More recently evidence has emerged 'that faith schools have more advantaged intakes than their surrounding area, (Townsend *et al.*, 1972) and that more able pupils do better than less able pupils in specialist schools (Levacic and Jenkins (2004), quoted in Lupton, 2009: 74). More recent work for the Sutton Trust shows that 'faith schools have more affluent intakes than the average for the areas in which they are located' (Asthana, 2010). Partly this is a matter of finance, suggesting support for travel for less advantaged children. However cultural factors and pupil selection by over-subscribed schools both play a role, suggesting that stringent monitoring of selection or allocation of places by lot would also be helpful. The point is reinforced by more recent work indicating that parents from very different social classes have markedly similar preferences in education, prioritizing high academic standards (Allen and Burgess, 2010). 'The big driver of differential access to better schools is the quality of schools nearby to where the families live' (Burgess *et al.*, 2009: 33).

Similar factors operate in higher education. Working-class students were roughly one and three quarter times more likely to attend lower status post 1992 universities in 2006–7 and the gap had not narrowed since 2002–3 (Lupton, 2009: 86; UCAS, 2008). Issues of class advantage have been established as a major feature of education for a considerable period. The evidence of improvements in equality alongside indications of adverse selection as schooling becomes more diverse suggest that it is possible to go some way in countering opportunities for middle-class people to use their cultural capital and resources to get a better choice of school. Empowerment through choice need not necessarily increase inequalities if top-down resourcing, quality and inspection policies are pursued vigorously. All this indicates that further progress towards greater equality may require stronger policies to counter middle-class advantage. This is harder to achieve in a more decentralized system in which income inequalities between individual players are steadily increasing and in which spending on the service is heavily constrained.



## Early years

The strategy to expand and improve the quality of childcare was part of range of programmes with two goals: to address issues of child poverty and deprivation and to enable parents (especially mothers and single parents) to participate in paid work. The National Childcare Strategy from 1998 is of interest because it is an innovative policy (no previous government had taken responsibility for making childcare available) and because it sought to expand responsiveness and accountability primarily through market choice. For providers the strategy facilitated the development of new nurseries through funding and business loans. For users, the Childcare Tax Credit subsidized up to 70 per cent of costs for those on low incomes. In addition, government funded the first 12.5 (later 15) hours of care for three- and four-year-olds for all, introduced Ofsted inspection of providers and established Sure Start programmes in the poorest fifth of wards. These integrated and supplemented existing services to provide support and care with a strong local element in management and consultation and later developed into a national programme to provide locally managed children's centres. Stewart (in Hills *et al.*, 2009: Table 3.1) estimates that funding for care and provision for under fives more than doubled from 0.21 to 0.47 per cent of GDP between 1997–98 and 2006–7, while cash benefits in respect of children rose from 1.76 to 2.31 per cent, about half of the money allocated through income related entitlement at the beginning of the period and two-thirds by the end. Local government support for early years and for young people has tended to be given high priority in allocating the 27 per cent spending cuts imposed by the Coalition between 2010 and 2014 but has nonetheless suffered sharp cutbacks, averaging 14 and 22 per cent respectively (LGA, 2011: Table 2). Child benefit has been frozen for two years and Childcare Tax Credit cut back (Yeates *et al.*, 2011).

These initiatives had achieved a massive expansion in childcare places, from some 230,000–595,000 between 1991 and 2007, the majority in day nurseries. Childminder provision remained roughly constant (DCSF, 2008). It is unclear whether this level satisfies effective demand (Hakim *et al.*, 2008). In relation to equality considerations, the proportion of households reporting that they were deterred from using childcare by cost fell from 31 to 22 per cent between 1999 and 2007 (Kazimirski *et al.*, 2007). Take-up of the childcare element of Tax Credit has improved from 23 per cent of those eligible in 2004 to 30 per cent in 2008 (Stewart, 2009: 63). One reason for low take-up may be that the element covers up to 80 per cent of costs. The requirement to fund a proportion may be a disincentive. Free places for three- and four-year-olds have had a high

take-up suggesting that childcare as such is valued. There is some indication of a slow improvement in overall quality as measured by inspection results and qualification levels (Stewart, 2009: 65). The link between class and attainment remains obdurate: for the cohort born in 1970 high social class groups with low initial test scores had overtaken low social class groups with high test scores by age seven and the same is true for those born 30 years later (Hills, 2009). Assessment of the impact of the early years strategy on such entrenched issues may be premature.

It is difficult to find evidence of the use of middle-class cultural capital in relation to access to early years provision. Since there was no commitment to a national service, middle-class financial advantage previously led to superior access to child care in a more or less free market. The 1997 government's programme effectively extended access to day nursery provision although there does appear to be a cash constraint for those unable to top-up costs from the Tax Credit subsidy.

The early years strategy has succeeded in expanding the number of providers rapidly without damaging quality through a combination of centralized resources, local involvement and individual empowerment. It has had some effect in promoting greater equality in access, limited by cost considerations. One issue is that the area-based intervention of Sure Start led to a national programme unlike health care and education where area targeting was less of a test-bed for system-wide innovations. While real choices remain, outcomes are likely to be more unequal since the provision targeted on low-income areas and households has been reduced.

### **Social care and individual budgets**

A further innovation, designed to enhance responsiveness and individual control, is personal budgeting in social care. This system replaces means-tested subsidy for access to local authority or privately provided services. It simply allocates the relevant resources to entitled individuals in respect of their needs so that they may choose how to spend them, with or without advice. This approach originated in the 1996 Community Care Act and has been trialled across social care with positive results in terms of quality of life, personalization of services and cost savings (Glendenning *et al.*, 2008; Hatton *et al.*, 2008; Glasby *et al.*, 2009; SCIE, 2011a). It is currently being rolled out nationally and the principle extended to other areas of provision, such as the DWP Direct Payment system for people with disabilities (HM Government, 2009).

The overview of trials in a number of authorities suggest real advantages, both in user satisfaction and in cost-efficiency. There is no clear evidence on the impact on social inequality, although it is suggested that access to individual budgets decided on assessment of need will provide a more transparent way of ensuring that resources are allocated fairly and have potential for extension to health care and elsewhere in public services (Glasby *et al.*, 2009).

A review of studies in the UK and overseas (including Germany, where social insurance-based payments towards social care needs have been available for some time) points to 'emerging international evidence that self-directed care can lead to health gains and consequent efficiency gains' (SCIE, 2009). However it also points out that 'brokerage and support is needed' to assist vulnerable people in accessing services and that 'the infrastructure is not yet sufficiently well-developed in the UK'. Personal assistants are typically low paid and poorly qualified. A review of evidence on studies of patient preferences for decision-making found that younger and more middle-class users were more likely to welcome this than older and less well-educated people (Coulter, 2002). 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; see Glendinning *et al.*, 2009). However attitude survey evidence indicates that most people and particularly working-class people want more choice in public services, although they are much less inclined to support competitive markets and the inclusion of diverse, private and public providers (Curtice and Health, 2009).

The level of enthusiasm is unclear, and the choice and empowerment desired by users may differ from that promoted by reformers. This perspective is supported by indications that consumerist reforms may actually undermine long-term trust because providers may be seen as committed more to competitive success than the interests of the patient (Taylor-Gooby, 2009). These considerations suggest that the successful development to this approach requires support for individual budget-holders and a more substantial market providing effective choice between providers of adequate quality. This will require investment which may balance the savings of up to 15 per cent identified in pilots.

A further point is the risk of fraud when public money is spent by a great diversity of relatively naïve users. An earlier experiment in the area of adult training, Individual Learning Accounts, was closed prematurely due to concerns about widespread fraud by course providers (BIS, 2001). Perhaps

more important are the substantial uncertainties about the extent to which state resources will cover the needs of users, so that the financial burden of topping up Care Accounts may fall disproportionately on lower income groups, and this is a particular concern at a time of austerity. The Social Care Institute for Excellence (SCIE) report simply states that 'reliable evidence on long-term care costs is not yet available' (SCIE, 2009).

The expansion of individual choice through personalized budgets across areas of routine NHS treatment takes the process further. The real issues concern whether budgets remain adequate, whether some groups need to make co-payments and cannot afford them and whether those with more cultural capital can exploit contacts or make better-informed choices.

## Public service reforms and inequality

This brief review suggests that, while the reforms of recent years have enjoyed some success in improving overall outcomes, achievements in narrowing the gap between the most advantaged and disadvantaged groups have been partial, even when substantial resources have been directed to this end. Progress towards greater equality is limited in health care, more marked in education, probably real in early years provision and at present uncertain in individual budgeting in social care. There are strong indications that reliance on area-based initiatives in the first two areas weakened potential outcomes. However the area-based Sure Start programme does appear to have provided a good basis for the development of children's centres and other initiatives. Just as progress towards the child poverty targets has slowed since 2004 because government is no longer increasing resources for Tax Credits, progress towards equality targets in health care and education has been limited because government has not developed beyond area targeted policies.

At the time of writing severe cut-backs are affecting public spending across all these areas. A renewed emphasis on localism and on privatization is directing policy. User choice is a prominent theme in this. It is difficult to assess the impact of these changes until good evidence on outcomes emerges. All the indications are that the cut-backs will reduce or eliminate much of the co-ordination and targeted support that appears to have played the strongest role in the advances towards greater inequality that have been made. Social inequalities appear likely to grow more severe as a result of changes in labour markets and household structures and retrenchment in redistributive social

housing and benefit programmes. Choice and diversity of provision are set in a context of increasing social divisions.

Four points may be made:

- The modest successes achieved appear to depend on the combination of top-down and bottom-up interventions. It is difficult to attribute any progress toward equality to the operation of empowerment and choice policies independently from extra resources, inspections and targeted programmes. This point is of particular relevance at a time of austerity when part of the case for empowerment is linked to concerns about weak productivity increases and public spending 'burdens'. Choice is predicated on the availability of a wide range of providers of with assured minimum standards and accessibility and policies to develop and sustain this.
- Consideration needs to be given to mechanisms which will counter inequalities in resources and cultural capital, for example in travelling to desirable schools and clinics, in gaining access to and assessing relevant information or in ensuring that users from all backgrounds are equally attractive to providers.
- The reforms discussed above have gone some way in this direction but in none of them are the problems of privilege for particular groups in an open choice system entirely resolved. This is particularly evident in education, where the supply of places in the most desirable schools has proved hard to expand. Current approaches address the issue by seeking to improve information, support in decisions and access for disadvantaged groups. Policies to restrict the play of cultural and cash resources by for example banning private travel to facilities, using lottery allocation for over-subscribed resources or preventing providers from accessing information that has a bearing on user class background, might advance equality. However, these seem unlikely to gain support in a liberal society.
- The policies of the 2010 government stress privatization, localism and individual control, and vigorously scrutinize redistributive benefits and centrally controlled programmes directed to poorer groups. When evidence on outcomes is available, a comparison between the impact of the coalition's policies and those of the previous government will provide insight into the extent to which the choice agenda is compatible with equality and social justice in an unequal society.

The indications so far are that empowerment through choice can contribute to mitigating inequality, but only as part of a policy package which includes

intrusive and expensive government interventions. Policies that make the poor more equal by allowing them greater consumer choice as equal actors in a welfare market place are attractive to both service users and to policy-makers. This review of recent evidence indicates that such equality will not extend to more equal outcomes unless reformers are willing to take the hard decisions involved in raising more resources from better off groups and directing them towards those who are less advantaged.



# Democracy, Deliberation and Public Service Reform

Annabelle Lever<sup>1</sup>

Is there a role for lay deliberation in the rationing of health care, and in administration more generally? The answer seems to be ‘no’. Once ordinary democratic politics have set the goals and priorities which health care decisions should attain, there seems to be no distinctive role which deliberation by non-experts might serve. Instead, one might think, determining how government objectives might best be achieved, and then actually achieving them, is a matter for experts armed with the best available evidence of the subject area involved, and of management and administrative excellence.<sup>2</sup>

However, more deliberative and less technocratic views of democratic politics suggest an alternative answer to our question. Lay deliberation, it suggests, has an important role in the administration and execution of government policy, both because these latter inevitably have a political element which needs to reflect democratic norms and values, and because lay people are, themselves, a source of information, even of wisdom, that experts will want to use in fulfilling their professional responsibilities.

Recent debates on the value of lay participation in health care provision can illuminate the strengths and weaknesses of both approaches, as can the experience of the National Institute for Health and Clinical Excellence (NICE). So, I will start by examining two articles which attempt to clarify the role that

<sup>1</sup> This paper started life as part of the *Citizens, State and Society* project organized by the 2020 Public Services Trust, and funded by the ESRC. Many thanks to Kate Allison and Gry Wester for research assistance, and to Albert Weale for copies of his articles and comments on a previous draft. Thanks also to Henry Kippin and Jeff Masters for suggesting that I should write this piece, and to John Harris and the members of iSEI, at Manchester University School of Law, for critical comments and suggestions during my time at iSEI, when I wrote this article.

<sup>2</sup> A recent example of this is the ‘outcome commissioning’ strategy presented and advocated in Cumming *et al.*, 2009.



lay deliberation should have in health care, before turning to the dilemmas for both the technocratic and deliberative views which emerge from the experience of NICE.

### Lay participation: What is the point of *citizen* participation?

In a two recent articles, Albert Weale seeks to clarify the point of public consultation on health care (Weale, 2004: 41–51, 2007: 31–43). ‘Like the darling buds of May’, he claims, ‘democratic values appear to be breaking out in the NHS’, chiefly in the form of efforts to ‘consult’ ordinary people about various aspects of health care and health policy. But what, exactly, is the point of public consultation, Weale asks, and how is it to be squared with the accountability of decision-makers for the wise use of scarce public resources?

According to Weale, the main reasons to involve lay people in health care debates is to reflect the views of the public as the users and providers of services to which all are entitled and to which, in principle, all contribute. Doing so may also improve the technical quality of decisions, both because people’s experiences as users of health services is an essential element of any assessment of their quality, but also because the lay public will often have important types of technical experience – experience of planning or organizing transport systems, handling inventories as well as data analysis and option appraisal – which health professionals may lack.

Above all, Weale thinks, such consultation is justified by significant democratic values and concerns with equality, representation, accountability and legitimacy. The NHS is, in effect, a powerful monopoly, and the target for pressure groups of one sort or another. Hence, the perspective of citizens as funders of the NHS is likely to be under-represented compared with the concentrated producer interests involved, as are the more diffuse user interests of citizens who do not fit neatly into the political interest groups centred around particular diseases, or set up to publicize drug companies or their products. Moreover, democracies require those wielding collective power to be able to justify its use openly and, Weale remarks, ‘the ability of decision makers to explain to a consultative forum the rationale of their decision provides some test that a publicity condition has been met’.

Finally, while it would be ‘terribly Panglossian’ to suppose that dialogue always provides consensus – let alone that all agreements are equally attractive – consultation can promote legitimacy even in the absence of consensus, because

it is better 'to have had the opportunity to register a voice in a fair and open process in which you have lost the decision' than simply 'to have had one's voice ignored completely'. So, Weale concludes: 'What is so good about citizen involvement is that it is the expression of a democratic civic culture in the vital interest of health care.' However, he warns that 'existing forms of public consultation ... can never substitute for authoritative decision-making processes. The task therefore is to design public consultation so that it reinforces, rather than undermines, the tasks that decision makers face.' For that, he thinks, 'we need a political theory of consultation.'

I am generally sympathetic to Weale's claims, although I worry that he exaggerates the tension between accountability and representation, and underestimates the many forms these can take (see Lever, 2009; Weale, 2004: 4).<sup>3</sup> However, albeit unintentionally, Weale raises a far more troubling issue – namely, how far consultation can be distinguished from deliberation in practice, if consultation is to provide the democratic goods for which it is sought.

Weale carefully uses the language of consultation, rather than deliberation, because deliberation implies that we are pondering a decision that we will make or expect to make. We are thinking about matters as potential decision-makers. By contrast, when we participate as consultants – whether paid or unpaid – we seek to provide advice to others who are authorized to make decisions that we are not, and who, unlike us, will be held responsible for their consequences.

Weale has to insist on this difference, given the importance he attaches to distinguishing representation from accountability, and his justified concern that those responsible for the direction and conduct of public services are publicly identifiable and capable of being held publicly to account for the decisions they made. The problem, however, is a familiar one: that if we are not the ones who are accountable for a decision, we may lack the incentives (as well as the resources) assiduously to study an issue, and to make sound judgements in the face of conflicting evidence.

There is, therefore, a worry about the use of citizen consultations which does not vanish simply because chains of decision-making and accountability are clear, and by-pass lay consultants. We may hope that the members of these groups are public-spirited volunteers, and expect them to recognize that their

<sup>3</sup> Initially, Weale seems to be arguing that there is a tension between new forms of democratic deliberation, such as the use of citizen juries, and a 'Westminster Model' of accountability. However, later he refers to a tradition, in political science, of noticing trade-offs between increased representation and accountability, with Proportional Representation as the example, which suggests a broader form of conflict than one peculiar to the UK.

consultations may affect people they know and love in some unspecified future, thereby creating incentives to think clearly and hard about the issues put before them. However, we are unlikely ever to see legal sanctions against citizen consultants who give bad, lazy, self-interested or prejudiced advice. Moreover, consciousness of the sincerity of their beliefs, and of the conscientiousness of their efforts, often insulate people from the full force of the harms they have caused. So, I am sceptical that the sharp distinctions between consultation and deliberation, which Weale favours, either resolve questions about the accountability of lay deliberators within public bodies, or are consistent with the gains to knowledge, equality, representation and legitimacy which he foresees from consultation.

These doubts about Weale's arguments might suggest that there is no legitimate place for lay participation in the administration of health care, because the advantages of consultation come at potentially significant costs to equally fundamental democratic values. But that, I think, would be a mistake. As we will see, Weale's claims about the benefits of citizen participation are borne out by the experience of NICE. In what follows, then, I will briefly describe the nature and history of NICE, before turning to the problems it initially faced, the ways that it tried to solve them, and the significance of NICE's efforts for lay deliberation more generally.

However, before proceeding, I should note that I tend to use the term 'deliberation' where Weale uses 'consultation'. The ability to give good advice requires us imaginatively to take up the perspective of the decision-maker, with the powers and responsibilities involved. So while it is important that lay consultative bodies do not have the same moral or legal responsibilities as those authorized to make binding decisions on our behalf, their activities may, nonetheless – and often will, and should – involve deliberation on evidence supplied by others, rather than offering up their personal opinion or expertise.

## NICE and the problem of fair deliberation

NICE was established in April 1999 by the Labour Government, to advise the National Health Service in England and Wales on the clinical effectiveness and cost-effectiveness of health-care technologies, and to produce guidelines for a range of conditions. 'NICE guidance is intended to be authoritative, robust and reliable, underpinned by EBM [evidence based medicine] and legitimated by the involvement of a range of health-care stakeholders' (Quennell, 2003: 39). In

providing that guidance, NICE is guided by three principles: (i) that all guidance should be based on the best available evidence; (ii) that the process of creating that guidance should be as open and transparent as possible; and (iii) that it should be inclusive: 'any stakeholder likely to be affected by its guidance should be part of the development of that guidance, either by being a member of one of the independent advisory bodies, or through participating in open consultations' (Littlejohns, 2009a: 1).

In 2005 NICE was asked to take on responsibility for public health promotion and disease prevention, with the result that it now has four programmes which provide guidance: the technology appraisal programme, the clinical guidelines programme, the interventional procedures programme and the public health guidance programme. NICE clinical guidelines are developed using a systematic methodology by Guideline Development Groups (GDGs) which comprise health care professionals, researchers and patients and carers – at least two of which are lay members recruited by open advertising. The GDGs meet regularly, and assess all the available research on one specific condition, symptom or disease, including qualitative research on patients' views and experiences, as well as quantitative research on the effectiveness of treatment (Thomas, 2009: esp. 20). The findings form the basis of recommendations, with the supporting evidence for them, which then form the basis for consultation with health care professionals, commercial organizations, the NHS, and patients and carers and members of the public. Where necessary, the guidelines are amended, and the results are published and disseminated in a wide variety of formats.

National patient and carer organizations can register as 'stakeholders' for a particular topic, and NICE will actively invite relevant organizations to register as stakeholders, though such invitations are not a requirement for registration (Thomas, 2009: 22). Registration enables organizations to comment on the scope and draft recommendations provided by a GDG, and those comments and the formal response to them by the GDGs are published on the NICE website at the same time as the guidelines themselves.

The same is also true of the Citizens Council – perhaps the most innovative and distinctive part of NICE's commitment to transparency and inclusion in the rationing of health care. The Citizens Council is made up of 30 people, chosen to reflect the attitudes of the general public, rather than those with professional knowledge and experience of health care or the NHS.<sup>4</sup> It meets twice a year for three days at a time to discuss a particular issue, usually formulated as a

<sup>4</sup> For details of the way in which Council members are selected see Rawlins, 2009: 75–80.

question, on which NICE would like advice. Meetings involve NICE explaining the question, and the reasons for asking it, as well as experts who present divergent views of the right answer. Members then debate and deliberate, and their conclusions are presented in the form of a non-binding report to the Board. Council members do not have to agree, but the Council is encouraged to lay out the reasons for any disagreements, as well as for the advice that they give. In order to ensure continuity, members of the Council are appointed for three years, with one-third retiring each year. NICE staff have only limited contact with Council members, and their recruitment, as well as the organization and facilitation of meetings, are carried out by an independent body, and an independent academic organization was also commissioned to evaluate the workings of the Council.<sup>5</sup>

### **Two worries about lay participation**

Two related worries about lay participation characterize the literature on NICE. The first is that NICE will ‘capture’ patient groups and the Citizens Council, thereby undermining their ability to provide an independent perspective on health care in the UK. The second worry, expressed by patient groups as well as members of the Citizens Council, was whether their participation had any demonstrable effect on NICE’s decisions. Members of patient groups sometimes complained that ‘we’re always being told how important we are ... and [that] NICE value[s] our input. Yet we’re never told how they value our input, and why they value our input.’ Or as one of Quennell’s respondent says, ‘if a small organisation doesn’t have much resources and comes and says, “What should I do, should I spend £5,000 on this research?” no one today can say, “Yes, because this will have an effect, an impact” ’ (Quennell, 2003: 43).

So if, on the one hand, commentators worried that NICE would unduly influence, or dominate, the input by patients or the Citizens Council, participants themselves were most aware of the difficulty of determining what NICE wanted, and how their participation was supposed to shape NICE’s guidance.

### **Patients and carers**

The first ten years of NICE suggest that worries about the ‘capture’ of lay participants by NICE can largely be laid to rest, and that NICE’s commitment to its

<sup>5</sup> The report has been published on the NICE website, and is the subject of Davies *et al.*, 2009: 129–38.

principles of inclusion and transparency are genuine (Davies *et al.*, 2009: 135).<sup>6</sup> Increasing the role for lay people in health care planning and deliberation seems to have created a 'virtuous circle', whereby NICE has made a positive effort to show how and why it values the participation of patient groups and the Citizens Council, and to explain how lay participation is now embedded both in its procedures and outcomes (Thomas, 2009: 24–5).

Moreover, the important contributions of patient groups to recommendations on psoriasis, kidney dialysis, age-related macular degeneration, cervical cancer and the treatment of HIV-related facial wasting have helped to vindicate the role of patient representatives, despite legitimate concerns about the ways in which patient groups can become conduits for drug company lobbying (see Kelson, 2009: 9–18; Amis, 2009: 37–8; Chambers, 2009: 54–6). Originally, some people thought that NICE appraisals should be insulated from patient pressure for these reasons, whereas others doubted that patients could provide anything other than emotional drama, distraction and anecdotal evidence to a process of appraisal that should be formal, impartial and rigorously scientific (see Milewa and Barry, 2005: 503). But while it is fair to ask patient groups to be open about their funding, the effort to solicit independent testimony from patient groups has been largely vindicated and has, in turn, forced NICE to be more open about the limitations of the clinical evidence and, even, of its own advisers.<sup>7</sup>

The significance of patient involvement for the quality, as well as the legitimacy, of NICE guidelines, then, should not be underestimated. As Fenton *et al.* (2009: 166–9) note, patients' or clinicians' priorities for research very rarely match those of researchers. Whereas the former frequently want to know about the likely results of physical therapy or surgery for given conditions, researchers overwhelmingly study the effects of drugs, and pay little attention to patient interests in access to good information on how to cope with a chronic or disabling condition. Hence, Fenton, Brice and Chalmers contend that 'researchers could do more to address patients' and clinicians' questions. What remains unclear is how, in a research world where perverse incentives often determine what research will be done, the information needs of patients and

<sup>6</sup> Rawlins, himself, refers to the worry that NICE might 'contaminate' the Council – which is a rather striking choice of words, in Rawlins (2009: 78).

<sup>7</sup> For example, Emma Chambers notes that 'Five of the six responses [to a consultation on high-dose-rate brachytherapy for cervical cancer] documented the fact that having the procedure was both distressing and painful. This was an aspect of the procedure that was not identified as part of the clinical evidence nor was it commented on by any of the programme's clinical advisors' (Chambers, 2009: 55–6).

clinicians can achieve more prominence.’ NICE efforts to involve patients in the creation of clinical guidelines cannot alone address these perverse incentives – which presumably reflect the political economy of the pharmaceutical industry on the one hand, and of academia on the other – but they are a necessary and desirable step in the process.

### **The Citizens Council**

Evidence of a ‘virtuous circle,’ whereby increased representation increases accountability and transparency, can also be seen with regard to the Citizens Council. Initial concerns by outside observers that the Council would just prove ‘window dressing’ had their counterpart within NICE in doubts about the usefulness, and expense of the Council.<sup>8</sup> However, concerns that Council members would be unable to cope with the demands made on them, or be unable to step outside their own narrow experience and interests have not been borne out by events, and Council members have been quite ready to probe and discuss the views of professionals even when they have been more timid and uncertain in exploring the differences in their own experiences (Davies *et al.*, 2009: 131, 134).

Still, greater clarity about the place of social value judgements within NICE, and therefore of the Citizens Council, seems desirable for two reasons. The first, is that the picture of the Council’s work presented by NICE can be confusing. For example, Rawlins refers to the Citizens Council as ‘a sounding board to ensure that the views of the taxpayer are also obtained alongside organisations and individuals with a direct and vested interest in a specific guidance topic’ (Rawlins, 2009: 182). But the idea of the Council as a sounding board for tax payer views sits uneasily with current practice within NICE, let alone all the trouble that has been taken to make the Council as representative of UK Citizens as possible, rather than of the population of taxpayers. Moreover, NICE has recently required decision-making committees to demonstrate how they have taken account of the social value judgements generated by the Council, and endorsed by the Board (Pathak-Sen, 2009: 86). This effort to account

<sup>8</sup> These expenses are not trivial: Council members are paid a per diem attendance allowance, so as to encourage the self-employed and those with families to attend; outside facilitators are used to recruit and run Council meetings, outside evaluators are used to examine proceedings and, at least initially, NICE was helping Council members to make their travel arrangements and find childcare in order to remove as many obstacles to participation as possible. The amount of time, effort, thought and expense that has gone into the Council is really remarkable, reflecting the seriousness with which the Board has treated this experiment in democratic deliberation (see Pathak-Sen, 2009: 82–3).

to Council members for the use of their deliberations would be otiose if the Council were merely a 'sounding board', nor would it be necessary to account for the Council were it not a body into which considerable resources and hopes had been poured.

Whether or not the Council is seen as a sounding board, however, it is notable that the Board draws a sharp distinction between clinical and cost effectiveness when asking the Council to consider the social values which should underpin NICE's work. Yet, social values underpin both, and the Council could, in principle, illuminate the one as well as the other. What we recognize as effective in clinical or financial terms depends fundamentally on our assumptions about how people behave, and how they *ought* to be able to behave, as well as on the way we frame alternatives, and aggregate costs and benefits over a life-time and across individuals. So, it seems odd to suppose that the social value judgements of lay people are critical to the wisdom and legitimacy of judgements on cost effectiveness, but irrelevant to our judgements of clinical effectiveness, or to efforts to combine the two in measures such as QALYs.<sup>9</sup>

However, the main reason to wish that NICE were clearer about the values and aspirations underpinning the Council is that this might improve the quality of Council deliberation itself. Council members appear to have a poor understanding of concepts such as equality or discrimination, which are essential to their work. Deficiencies in this respect appear to have affected at least two reports: the second report on age as a factor in distributing scarce resources, and the seventh report on inequalities in health care. Thus, the view that 'positive discrimination [is] still discrimination' led the Council to reject preferential spending on children, and to reject efforts to target health care resources in order to minimize the very significant effects of social inequality on life expectancy, general health and access to health care in the UK.<sup>10</sup>

Equality is a complex and contentious concept, and there is a good deal of uncertainty, even among philosophers, over when, or how far, a commitment to equality requires us to treat people identically (see, for example, Clayton and Williams, 2002; Mackinnon, 1988; Minow, 1990; White, 2007). Nonetheless, it is wrong to say, as Council members do, that 'positive discrimination [is]

<sup>9</sup> For example, as Littlejohns notes, a substantial majority of Council members thought that NICE should take costs, as well as benefits, into account when recommending measures to improve patient safety. However, they were also clear that QALYs are a poor measure of cost-effectiveness in these cases, because they ignore costs such as litigation, the cost to carers, and costs to those left behind by a death when determining the cost-effectiveness of different safety measures (Littlejohns, 2009b: 104–6).

<sup>10</sup> See Brown, 2009: 128. He is reporting not only his own view of equality, but that of a majority of Council members.



still discrimination' if by 'discrimination' one means 'unjustified differences in treatment'. Whatever the merits of describing discrimination as intrinsically wrongful, it does not follow that the patterns of behaviour and judgement constituting 'positive discrimination' are instances of 'discrimination' so understood. Above all, there is something dishearteningly unreflective in this simplistic condemnation of positive discrimination by a group who were themselves carefully selected in an unusually thorough and expensive effort to counteract the factors that make most deliberative bodies in the UK a talking shop for a bunch of privileged, middle-aged, white men.

### **Procedure and substance in deliberative democracy**

External observers of the Citizens Council shed some light on the obstacles to a more informed analysis of concepts like equality and discrimination by Council members, and bring out the importance of connecting our conception of democratic procedures to an account of democratic values.

'Coming forward to participate as individuals is one thing. Pulling off collective, and specifically deliberative participation ... is another. Although the amount of deliberation that took place in the Citizens Council increased over time and across the meetings observed, the amount remained very small. Over the first two years of the Citizens council, hopes for a high-quality deliberative debate were not met' (Davies *et al.*, 2009: 131).

The problem, surprisingly, was not an inability to challenge the opinions of the professionals, who were presenting their views to the Council. Rather, 'members were far more precarious with their contributions based on "common sense", a "down to earth" or "bigger picture" view' and facilitators clearly struggled both to emphasize that consensus was not necessary for Council reports to be informative, and to help members to articulate their differences of belief.

'One of the most challenging findings from the ethnographic study was an absence of resistance to the ruling point of view and hence of inclusive discussions that might be genuinely oppositional and generative of new ideas. A lack of clarity about the grounds on which citizens could legitimately speak, and pressures to not generate conflict, meant that while differences of class, ethnicity, gender, disability and age were visible to all, these identities were not ... explored with regard to the topic under discussion. This was borne out in a dramatic incident where members dismissed any notion that such discrimination could be positive and strongly affirmed a call for treating everyone "the

same”, at which point the Council burst into applause. Two members sat silent and were clearly baffled by this. A third, who had taken part, noted this and in a later interview mused “were so many of us wrong?” (Davies *et al.*, 2009: 133).

Understandably, Council members ‘rarely felt representative of the gender, ethnicity, sexuality, class and disability groups to which they belonged. And if they did so, they did not feel that they could, with ease, represent distinctive counter-positions that such groups might hold.’<sup>11</sup> Moreover, ‘Council members often persuaded each other that personal experience, and the anecdotes that could often bring arguments alive, were somehow not the proper business of the public discourse in which they were engaged’ (Davies *et al.*, 2009: 134), with the result that discussions often resulted in ‘a ready – but potentially misrepresentative – homogenizing of viewpoints and a restatement of the very orthodoxy of thinking that deliberation seeks to disrupt’.

There is no easy solution to these problems, which largely reflect how rarely we get to debate collectively important matters with strangers. Still, some of the difficulties facing Members seem to arise from an inability to connect the ways in which they have been recruited – or the procedural aspects of the Council – with the substantive matters on which they are asked to report. Hence, if NICE could explain the intuitions about representation which it used to constitute the Council, it might be easier for Council members to explore competing conceptions of basic values, such as liberty and equality, and to experiment with different ways of presenting, testing and supporting their views.

For example, when the Council is first presented with a question to answer, some effort should be made to explain why the views of lay people on that question are desirable, what sorts of differences of opinion or experience lay people might be expected to hold; and how far these might be different from those of professionals, or of patients and carers. Greater clarity about such matters might help to free Council Members to explore different positions openly, and to see the value of personal experience – their own, as well as that of other people. In short, NICE needs to be more forthcoming about the

<sup>11</sup> It is a common, though understandable, mistake to suppose that the individual members of a descriptively representative body – or a group of people constituted to reflect important socio-political cleavages within a country – must therefore strive to represent ‘their’ group. But this transposes an idea of *functional representation* to bodies whose representative character comes not from what its members *do*, or are *supposed to do*, but from who they *are*. The legitimacy of jurors, as opposed to legislators, does not depend on the idea that they have *a duty* to represent other people. Instead, jurors are meant, themselves, to be *exemplars* of the citizen body, from whom they have been selected. However, given the ways that prejudice and poverty shape living patterns, the formal equality which randomization secures in jury selection may co-exist with predictable, substantial and ethically troubling disparities in the racial, religious and economic composition of jurors (see Lever, 2011: 61–78).

connection it sees between descriptive or mirror representation – at least for the Citizens Council – and the quality of its decisions on rationing.<sup>12</sup>

Descriptive representation might be important to democratic politics for several reasons. Melissa Williams and Iris Marion Young draw attention to the ways that descriptive representation might improve the quality of democratic deliberation, by facilitating the representation of hitherto marginalized or subordinate social groups (Williams, 1998: esp. Chapters 4 and 6; Young, 2000: esp. Chapters 2 and 3). For others, such as Anne Phillips, descriptive representation is a fair test of the extent to which political opportunities are, in fact, equal, as well as an integral element of equal representation.<sup>13</sup> However, common to all advocates of descriptive representation, or what Phillips describes as a ‘politics of presence’, is the belief that all sections of the citizenry ought, in principle, to be found in positions of power and responsibility roughly in proportion to their numbers.

This is not merely a matter of equality of opportunity – though it is certainly that (Phillips, 1995: 62–4). Rather, it is because the fundamental social and political cleavages, characteristic of modern democracies, have epistemological as well as moral and political consequences. As Young (2000: 144) says, ‘special representation of otherwise excluded social perspectives reveals the partiality and the specificity of the perspectives already politically present’; or as Williams (1998: 193) puts it, since members of privileged groups lack the experience of marginalization, they often lack an understanding of what marginalized groups’ interests are in particular policy areas.

There are, therefore, a variety of important democratic values which appear to be consistent with and, arguably, to illuminate, NICE’s commitment to a deliberative body selected in order to maximize mirror representation, and used to explore the implications of democratic values for the rationing of health care. However, in order for the Council to realize those values more fully, the

<sup>12</sup> Descriptive or Mirror Representation refers to representation that aims to ensure that social distinctions, such as of sex, gender, race, age and class are reflected in a representative body. By contrast, electoral representation tends to result in representative bodies dominated by middle-aged, wealthy white men, although this can be altered by the use of various forms of quotas, as well as by devices such as cumulative voting, which enable voters to select candidates based on a variety of considerations – such as their race or ethnicity *as well as* their views on the economy.

<sup>13</sup> As Phillips puts it, ‘if there were no obstacles operating to keep certain groups of people out of political life, we would expect positions of political influence to be randomly distributed between the sexes’. That is not what we see. ‘Equal rights to a vote have not proved strong enough to deal with this problem: there must also be equality among those elected to office,’ she concludes (Phillips, 1995: 63, 65). I am assuming that the force of her arguments – and those of Williams and Young – extend beyond the constitution of legislatures to include positions of power and responsibility more generally, such as the Citizens Council.

Board will have to articulate the links it sees between descriptive representation and a deliberative approach to the rationing of health care. In addition, it will, unfortunately, be necessary to accept that, as a country, we are simply not used to deliberating together as citizens, and find this especially difficult when confronted with evidence of the differences of privilege, belief and identity among us.<sup>14</sup>

## Conclusion: Democracy, lay deliberation and public service reform

- 1 NICE's efforts at citizen participation show that democratic deliberation and participation is costly, in terms of time, energy and money. It is therefore not a 'cheap' solution to the reform of health care or other public services, as some may have hoped, although greater experience organizing democratic consultations and participating in them may in time reduce some of these costs.

Democratic consultation and deliberation are expensive because it is necessary to minimize and, ideally, to remove or neutralize, inequalities of information and status among participants. Removing these may not be necessary to oligarchic, plutocratic or medieval conceptions of consultation, which are fundamentally hierarchical, but they are incompatible with the democratic idea that ordinary people, with no special qualifications, virtues or experience, are entitled to participate in the business of ruling, as well as being ruled. NICE's efforts to ensure the ready availability of information, and to support lay as well as professional participation, are important examples of what democratic consultation and deliberation may involve. Their treatment of patients and carers also reflects the complicated negotiations required to encourage participation while protecting decision-makers from manipulative uses of public pressure.

- 2 Lay participation exposes the need for a political theory of evidence, as part of the political theory of consultation which Weale seeks. Issues of publication bias, the power and influence of the pharmaceutical industry, the nature of accreditation and validation in medicine are specific to the regulation of health care, but are likely, nonetheless, to have their

<sup>14</sup> I suspect that unwillingness actually to debate issues of race, crime and policing is partly to blame for some of the striking biases in favour of black, as opposed to white, defendants revealed in Cheryl Thomas' (2010) research on juries in England. See Lever, (2010, 2011).

counterparts in the political economy of knowledge and authority in other fields.

The experience of NICE suggests that a commitment to democratic deliberation and consultation requires attention to the ways we identify evidence and expertise, and combine qualitative and quantitative evidence. Until recently double blind randomized controlled trials (RCTs) were thought to be the ‘gold standard’ against which all other sorts of evidence was to be measured – and found wanting. However, their limitations are now analysed, not simply by philosophers of science, such as John Worrall, but by clinical pharmacologists like Sir Michael Rawlins, the Chairman of NICE (Rawlin, 2008; Worrall, 2002, 2007). However, even if you reject the idea of evidence hierarchies, as Rawlins does, you still have to decide the relative quality and weight of evidence from different sources, created by different methodologies, the relative merits of which may be hard to determine.

How deliberative bodies ought to approach such problems has largely been overlooked by philosophers and political scientists, but it seems a necessary counterpart to democratic concerns with ‘agenda setting’ and the selection of participants, which have dominated the politics and theory of democratic deliberation thus far (see Moore, 2010). So, further reflection is needed on what is to count as evidence in the justification of collectively-binding decisions, and of how that evidence is to be used and weighed by decision-makers, who are rarely in a position to appraise its epistemological merits for themselves, and will often receive reports of what others have discovered only at second or third hand.

- 3 Finally, the experience of NICE illustrates the desire for, but difficulties in realizing, democratic participation in the governance and reform of our public service. Those difficulties arise not because people are irretrievably selfish, ignorant or lazy – as jeremiads on public mores sometimes suggest. The problem, rather, is that we generally lack experience of democratic deliberation with strangers and consequently are fearful of embarrassing ourselves, offending others and, above all, perhaps, fearful of exposing the fragility of our common ties when faced with evident differences of status, opportunity, identity and loyalty. The experience of NICE suggests that the use of facilitators and outside evaluations may be necessary, not merely helpful, while people learn to cope with these problems.

NICE’s use of lay participation reflects the appeal of deliberative solutions to seemingly administrative problems. But it also highlights

the gulf between the rhetoric of democracy in our society, and the limited experience of democratic deliberation, and limited opportunities for acquiring more, which face most people in practice. The past few decades have been dominated by ideas of politics which have eroded the skills we need for democratic politics, as surely as the skills we need for manufacturing. NICE shows what can be achieved by a commitment to openness, inclusion, transparency and deliberation in the distribution of public resources. It is an example worth pursuing.



Part Two

# A New Public Services Ecology





## Fostering Supply Side Markets for Public Services<sup>1</sup>

Paul A. Grout

The private sector's involvement in the delivery of public services has grown enormously in the last 30 years. The 2008 Department for Business, Innovation and Skills (BIS, formerly BERR) Public Services Industry Review estimated that the turnover of the industry in the UK was £79 billion in 2007/8. Globally it is estimated that 18 per cent of the global stock market value and 39 per cent of the non-US total value (Megginson, 2005) consist of assets that have been transferred from the public sector to the private sector in the preceding 20 years, a significant proportion of which consists of public services. Within developed economies, privatized companies account for a significant fraction of the stock markets: more than 13 per cent in Germany and nearly 12 per cent in Australia (Megginson and Netter, 2001), most of which are public services. Over 1,000 'public-private partnership' (PPP) projects – again mostly public services – had reached financial closure in the European Union alone by 2007, with a total capital investment of around €200 billion (Blanc-Brude *et al.*, 2007).

Clearly the supply side has delivered sufficient providers from the private sector to make this possible and in the immediate future spending restrictions are such that constraints in the private markets are unlikely to appear. However, this does not mean that over a longer period private suppliers will either maintain their position or be available if growth of private involvement in the delivery of public services continues.

This chapter identifies different models of private delivery, and addresses the benefits that the private sector suppliers bring, with a view to indicating where long-term growth in the market may arise. A crude but useful taxonomy

<sup>1</sup> This paper, written in June 2010, draws from my keynote address at the European Commission's Eurosocial Taxation Conference, Mexico, 24–8 November 2008.

is given which boxes non-public provision of public services into three main categories: (i) full privatization (essentially an arm's-length relationship between provider and government), (ii) public-private partnerships (separated again into outsourcing partnerships and private finance initiative arrangements); and (iii) not-for-profit. The comparative merits of these three are explored through the answers to a series of questions: when are private incentives likely to be beneficial, how does pro-social motivation impact on whether we should be fostering for-profit or not-for-profit, and should we be fostering more long-term partnerships or arm's-length relationships? The general theme that emerges is that, on average, privatization and outsourcing partnerships have been successful. Private finance initiative partnerships appear to have brought benefits, but it is difficult to be certain. In contrast, the view that not-for-profit is a superior to for-profit delivery appears unproven.

This picture suggests that the private sector has a significant and growing role to play in the delivery of public services. But things are not this straightforward. The reason is that the empirical evidence runs totally counter to public opinion. Surveys and focus groups show that private delivery is greeted with scepticism by the public. There appear to be two problems (although these are really the same thing viewed from two different angles). The public seem to think that private provision lacks the public service ethos that is deemed to be essential and that the profit motive is unacceptable in public services. In contrast not-for-profit delivery has been growing rapidly and is perceived in a positive light. This conflict between what private delivery has to offer and what the public think of it and want from it is probably the biggest constraint on the growth of private delivery mechanisms.

## The public sector, public services and public services industry

To map out the sphere of private involvement in public services, it is important to distinguish between the 'public sector', 'public services' and the 'public services industry' (though it is difficult to provide watertight definitions of these things).

The public sector comprises the economic activities controlled by the government. A legitimate concern is that the public sector is not subject to the discipline of the competitive market and may lack incentives to control costs, provide good quality service and respond to customers' needs. Hence, what is the appropriate sphere of the public sector and which sector should

deliver which public services is a critical question. As a working definition, this paper takes public services to be the set of services provided for large numbers of citizens in which there are potentially significant market failures (broadly interpreted to include equity as well as efficiency) that justify government involvement, whether in production, finance or regulation (Grout and Stevens (2003). The public services industry has been defined by the Public Services Industry Review (2008) as 'all private and third sector enterprises that provide services to the public on behalf of Government or to the Government itself'.

What's in and what's out of these three definitions is a little blurred at the edges, but the definition of public services clearly includes utilities, transport infrastructure, most education and health services, street cleaning and rubbish collection, and national defence.

The terms 'public sector', 'public services' and public services industry' are not aligned. Not everything that the public sector does is a public service – for example, helping to promote the efficiency and exports of private sector industry is not a public service in the sense used here. It may well be a public sector activity and if provided by private companies to the relevant government department it would be part of the private services industry. Similarly, many services supplied in some countries by the private sector are unambiguously public services – for example, water supply and electricity distribution.

## A crude taxonomy

Although the role of the private sector is diverse and there are numerous delivery 'mechanisms', most non-public delivery can be loosely categorized into one of three (overlapping) models: (i) full privatization, (ii) public–private partnerships, which are partnerships between the private and public sectors, (iii) and heavily restricted legal forms of organization, which in practice mostly boil down to non-profit organizations.

### ***Full privatization***

The defining characteristic of full privatization is that the government's role is 'arm's-length'. Ownership is fully transferred to the private sector. The newly created private company recovers most, if not all, of its revenues from the general public and private sector customers and the government's involvement is, at least in theory, thereafter limited to setting up regulatory agencies and keeping a watching brief on the objectives to which the regulator is to be held

accountable. This model has been very common around the world for big utilities such as telecoms and energy and, to a lesser extent, water and transport. Of course, in many cases, the transfer of ownership is more apparent than real, since companies often operate under a licence from a regulator. Although a company may legally have full ownership of its assets, the assets are of limited use if the company does not have a licence to sell the service.

The full privatization model still allows scope for political pressure and corruption, which in many countries causes problems for investment and growth. It is not surprising therefore that the independence of the regulator and the general level of corruption in an economy have turned out to be important elements in determining the success of the approach. Furthermore, because of the scale of the infrastructure involved, these companies tend to be placed on stock markets or put out to the world's capital markets. So the full privatization model has become forever intertwined with political sensitivities about stock markets, global capital markets and, particularly in developing countries, the development of their own financial markets (see, for example, Grout (1997, 1994).

### ***Public-private partnerships***

For other services governments have chosen to maintain a more direct relationship with the private sector or to continue to provide many public services themselves. There are many reasons why they might do this. The nature of the services may make the full privatization model impractical – for example, an integrated urban road network, poverty may make it impossible to charge economic tariffs, sometimes the only purchaser is the government itself – for example, defence or, in many economies, healthcare and primary education services, the government may face anti-privatization political pressures from workers or the electorate.

In any of these circumstances, the government may end up having a far more intimate, complex, continuing and subtle relationship with private providers. These partnerships tend to be either *outsourcing-type partnerships* – where services are provided on short- or medium-term contracts – or longer-run *private finance project partnerships*. PPPs are not partnerships in the way that lawyers, professional service providers or private companies understand the term. All exchanges take place under a clear contractual relationship and there is clear ownership of all assets.

There is an element of truth in the idea that the global public was sold privatization by governments as if it was a panacea for all public sector sins,

and the public have since found that this could never be the case. As a result, the word privatization is now met with more scepticism. For politicians and non-governmental organizations, it carries a tarnished feel that the word partnership nimbly sidesteps since it suggests more of a closely balanced relationship than is really present.

The evidence on outsourcing partnerships is well documented. In contrast, there is far less evidence on PFI partnerships and they remain highly controversial. Nevertheless, there has been a large global shift towards their use. The International Monetary Fund (IMF) has described PPPs as ‘a wave that is sweeping the world’ (IMF, 2004). This may be slightly overly enthusiastic but indicates the scale of what is happening.

### ***Not-for-profit***

While the profit motive and its consequences are generally considered a central plank of what the private sector has to offer, they are not essential. Private legal forms can be set up with all sorts of restrictions on what they can and cannot do. Setting up an organization in a way that prevents the distribution of profit to shareholders is relatively common. It is then a moot point whether a not-for-profit organization is really part of the private sector or a sector in its own right (often referred to as the third sector). There is a vast theoretical literature on the potential benefits of such structures though it is yet not matched by empirical research. Not-for-profit organizations play a major role in delivery of public services in the USA, and despite the mixed evidence there is a clear sense that governments are likely to increasingly turn to this model, in part because of popularity of the sector with the public.

## When are private incentives likely to be beneficial?

Here I focus on two messages. These arise from the answer to an obvious question – why should it matter which sector delivers services? Or to put it another way, why can’t the public sector replicate the most beneficial aspects of the private sector and vice versa?

One view, which we can think of as the direct effect, is that the primary reason stems from incomplete contracts. Contracts tend to be incomplete for all sorts of reasons. For example, some activities may be important but too nebulous to specify in a contract. Even though the parties involved may be able to identify accurately what is happening it may not be possible for a third

party (e.g. a judge) accurately to observe or for other reasons it may be too difficult to define in a watertight legal way. Another obvious reason is that the potential outcomes may be too numerous and vague to categorize or at least too numerous to write into a contract without incurring onerous transaction costs.

If contracts are incomplete, then it will not be possible to describe fully what actions agents and the owner of an asset should make in every possible situation. So the owner of an asset is likely to have some flexibility over outcomes when the other party would prefer this not to be the case, and even when assets are not significant contractual silence on issues conveys power to different parties according to the nature of the service. This will be a more significant issue the harder it is to cover critical issues within a legal contract. Incompleteness of contracts may be a particular problem with public services since the service is often difficult to define completely. For example, it is difficult to define the quality of care that should be administered in particular situations and hard to prove legally that someone is not doing enough in different situations.

Where contractual incompleteness is a significant issue and cost reduction reduces quality, then how much cost reduction there will be may depend on the sector that is doing the delivery – that is, which sector owns the assets and the ‘production’ process. If a profit-maximizing private company owns the assets, then the company may choose to reduce costs regardless of the consequences for (non-contractible) quality reductions. In contrast, the public sector will care about quality as well as cost, taking account of any effect of quality reduction when reducing costs – so quality should be higher and cost reductions lower. But the public agent is harder to motivate to reduce costs even when it has limited effect on quality.

The net effect is that the private sector is more likely to provide lower costs but lower quality. This simple reasoning provides a clear implication: where the social cost of reductions in non-contractible quality reduction is large relative to potential cost savings – for example, brain surgery – then public provision has benefits. Where the social cost of non-contractible quality reduction relative to potential cost savings is less of a problem – for example, emptying dustbins – then private provision is likely to bring benefits (e.g. Hart *et al.*, 1997; Shleifer, 1998).

The other view I wish to emphasize suggests that the prime value of involving the private sector stems from the difficulty of introducing competition in the public sector. The argument is that limited competition makes the public sector expensive and hence the private sector has a role to play as the enabler of competition.

There is considerable evidence that competition has a cost-reducing effect, but there are limitations to the services to which it can be applied. For competition to be real, there has to be a genuine fear of termination of contract for the incumbent. Indeed, the big advantage of using private suppliers is that it is practically and politically easier to remove underperforming agencies. But the process is only suitable where changing supplier is practical. If there are significant costs of transfer, then the incumbent is in a strong position and the competitive framework can unravel. If a government threatens to replace a supplier but the costs of replacement are high, then, when it comes to it, the government may not follow through their threat – the threat of replacement is said to be ‘time inconsistent’.

Competition may have a big impact on some services, such as refuse collection, since if things go wrong during transfer, then bins may be emptied haphazardly for a short while but this is an inconvenience not a major problem. But this is not true for many public services. For example, with gas or electricity transmission or railways, there may be real dangers with transfer of contracts.

Generally, the evidence on the impact of outsourcing on costs is very clear. For example, Domberger *et al.* (1986) looked at refuse collection in 305 local authorities and found that where the service was put up for tender and given to a private operator, there were average cost savings of 22 per cent (after allowing for differences in service factors that would have affected cost). It is possible that this could have been due to sample selection effects – notably that the authorities that put their waste collection up for tender were those that thought they were paying too much for the services. Szymanski and Wilkins (1993) show this is not the case: they find savings of approximately 20 per cent after the introduction of compulsory competitive tendering in local government. Using data from 3,000 hospitals in the UK, Domberger *et al.* (1987) find savings of 34 per cent from competitive tendering for hospital domestic services.

So the private sector effect is present but is this effect direct or indirect? Several studies address the question of whether the price falls are greater if a private sector company wins a bid compared with the situation where the public sector incumbent wins. Most studies found no direct sector effect – for example, Domberger *et al.* (1986, 1987), Dijkgraaf and Gradus (2003) and Milne and McGee (1992). But Szymanski (1996) reported that if a local authority awards the tender to their in-house team, then costs are reduced by about 10 per cent compared with a 20 per cent cost reduction with private contractors. Using Italian procurement cases, Bandiera *et al.* (2008) also found a sector effect. Other studies using different approaches also suggest that competition is a key



driver. Coviello and Mariniello (2008) looked at Italian procurement and the effect of publicity laws. Using evidence from over 40,000 procurement auctions, they showed that increasing publicity from local to regional increased bidders by 50 per cent and reduced the price paid by 5 per cent. Increasing publicity to the European level had no effect on the number of bidders but reduced the price paid by an additional 10 per cent.

Bel and Costas (2006) suggest that the benefits of contracting out may decline over time, and Ohlsson (2003) found that public production is only 6 per cent cheaper than private production. There are insufficient recent studies to know if there is a time effect but it is not implausible. As outsourcing develops, then more public sector suppliers realize that they may become exposed to these competitive forces. The probability that this will happen will itself be sensitive to the performance of the public supplier since the worse it is, the more probable a government will turn to outsourcing. So it would not be surprising to find public delivery improving over time even for services where outsourcing is not formally present. Of course, this does not mean that the benefits from having outsourcing, relative to a situation where outsourcing could never arise, are reduced. It is simply that the growing threat of outsourcing is enough to bring about some of the benefit through better public delivery. So when the sector actually is changed, the net effect is less since part of the gain is already in the public cost figures.<sup>2</sup>

But it appears that much of this effect operates through competition rather than there being something unique about the private sector that makes it inherently cheaper. There is some evidence that the sector effect is present but it is not the biggest part of the story.

### Pro-social motivation: Should we foster for-profit or non-profits?

Individuals may care about the activities in which they are involved beyond the financial rewards that they receive. In the context of public services, this is sometimes called public service motivation – the desire to work in public services to contribute to output and quality. More generally, this can be thought of as pro-social motivation (Francois and Vlassopoulos, 2007). Pro-social

<sup>2</sup> There is little evidence showing that quality falls if the private sector takes over an activity. For example, Domberger *et al.* (1995) undertook a careful analysis of 61 cleaning contracts and found that cleaning performance was either maintained or improved.

motivation can lead to pro-social behaviour such as ‘donated labour’ – labour donated beyond what is explicitly or implicitly contractually required – but this may depend on the type of organization that employs the motivated individual.

The idea that not-for-profits may be better at encouraging employees and management to display pro-social behaviour than for-profit organizations stems from the work of Arrow (1963), Hansmann (1980), Easley and O’Hara (1983) and Rose-Ackerman (1996). In this literature, not-for-profits generate a trust signal – that is, not-for-profit suppliers will not reduce quality even though they are not contractually bound to a specific standard. The idea that not-for-profit organizations elicit pro-social behaviour has been formalized in a series of papers by Francois (2000, 2001, 2003, 2007). The analysis rests on the inability to contract fully over all outcomes.

Consider a hospital where all employees have pro-social motivation and, by way of example, decide that they will never leave a shift if there is no-one else at hand to take over. The commitment of the staff to stay if needed protects a for-profit employer from negative outcomes, including potential legal redress, if there is a staff shortage, and so a for-profit company will find it hard to pre-commit not to take advantage of this by hiring fewer employees than before. Of course, the employees will realize this and so will not ‘go the extra mile’ because their donated labour does not improve the quality of patient care. So the for-profit form is unable to deliver the preferred outcome – it cannot prevent itself from diverting donated labour if it arose and so any desire to offer any is diluted or destroyed completely. In contrast, in a non-profit organization, the non-distribution constraint prevents this expropriation and so the donated labour does indeed improve the outcome of the business. Employees who are motivated therefore have an incentive to donate labour. This literature suggests that donated labour will be positively associated with not-for-profit and government organizations, and absent or limited in for-profit organizations.

An alternative ‘mission-matching’ approach (most clearly formalized by Besley and Ghatak, 2005) also identifies when the profit motive may be inappropriate. In this model, individuals have particular missions, which motivate them to engage in pro-social behaviour. The mission – and the associated behaviour – is a fixed individual characteristic, but people will be attracted to like-minded organizations, so that mission-oriented organizations that favour high quality public service provision will attract employees whose personal mission matches this. The core distinction is between mission-oriented and profit-oriented organizations, and the approach suggests that, in some circumstances, profit-oriented organizations may perform less well than mission-oriented ones

because they will not attract mission-oriented individuals. So the profit motive may be less effective where individuals have strong pro-social missions and this raises a question as to whether we wish to promote non-profit organizations rather than for profit.

There is a significant literature looking at the comparative performance of not-for-profit and for-profit firms, much of which looks at US not-for-profits since these are well established, notably in health. Despite the appeal of arguments suggesting that not-for-profits should have clear advantages, it is hard to see this effect in the evidence, which tends to be mixed. Of course, in terms of global reach, the evidence is drawn from a limited pool so further analysis is certainly needed. Research finding that not-for-profits are more efficient than for-profits includes Cutler and Horwitz (2000), Ferrier and Valdmanis (1996) and Wilson and Jadow (1982) on hospitals, and Nyman and Bricker (1989) on nursing homes. Research finding the opposite includes studies undertaken by Woolhandler and Himmelstein (1997), Becker and Sloan (1985) on hospitals, and Blau and Mocan (2002) and Mocan (1997) on day care centres. In response to these inconclusive results, Eggleston *et al.* (2006) used a quantitative meta-analysis approach to systematically review the literature on US hospital performance. They found that many of the results were driven by differences in the way that studies accounted for market variation and regional differences. Yu *et al.* (2006) found only tentative evidence for higher patient care costs and profits at for-profit hospitals.

A well-established argument for the not-for-profit form is that it provides a trust signal – essentially a third sector supplier will not cut quality in the way that a for-profit supplier may. There is some evidence of self-selection of less well-informed consumers into non-profit institutions (for example, Holtmann and Ullmann, 1991) although the proxies for less well-informed are difficult to capture well. Where competition is low, not-for-profits provide a higher level of access – for example, Mas (2008).

Analysing contracts of the UK's Department for International Development, Huysentruyt (2006) found that not-for-profit firms compete most where there are important non-contractible quality innovations and that ex-post transaction costs are higher with for-profits than not-for-profits. But not-for-profit firms are less likely to adhere to procurer's terms of reference. Not-for-profit employees and organizations may go the extra mile, but it may be in the 'wrong direction' from the perspective of the procurer. This is a bigger issue in some areas than others. For example, it is thought to be a problem with evangelical religious groups in the developing countries. The groups will potentially give more 'bangs

for the buck' in terms of commitment and effort but along with this goes the particular religious pressure that is difficult for the procurer to control. This may be another reason for the lack of positive evidence on productivity.

Simple cross-section evidence shows that there is more unpaid overtime in non-profit (public and not-for-profit) than private 'caring industries', such as health and education. At first glance such evidence would appear to prove the theoretical arguments against the for-profit organizational form when there is pro-social motivation. But Gregg *et al.* (2011) used data from the British Household Panel Survey (BHPS) to show that this need not be the case. The research confirms that there is a positive and significant correlation between sector and donated labour. After including a robust set of individual and job-specific controls, individuals in the non-profit sector are more than 40 per cent more likely to do unpaid overtime than individuals in the for-profit sector. But, by exploiting the panel nature of the data, the authors found no evidence that individuals changed their donated labour when they switched sector. Thus this data throws doubt on the validity of the theoretical arguments for not-for-profit outlined above. Indeed, the study has a negative message for analysis of not-for-profits. Although not-for-profits are clearly able to attract employees who donate labour and hence may be more efficient as a result, these employees are sucked away from other employees who may lose as a result. So any aggregate efficiency gains that might arise from extending the not-for-profit sector would have to come from the improved efficiency that could arise from having a better match of employees and firm. The employees do not appear to engage in more pro-social behaviour as a result of changing sector.

So overall, the idea that not-for-profit firms deliver something that for-profit firms cannot is not confirmed by the evidence in existing studies. Indeed, although not-for-profit firms may attract individuals that offer more donated labour, there is as yet no evidence that these individuals only provide this when they work in a not-for-profit environment. Of course, there is an enormous amount of analysis needed before these questions can be answered. But currently the limited evidence does not point to a clear not-for-profit effect and so it is not clear that economic efficiency arguments point to fostering not-for-profits at the expense of for-profit.

However, it is easy to see how not-for-profit delivery appeals to politicians who wish to appease voters who, at least globally, are sceptical of more and more privatization. But the evidence suggests that the efficiency justification of not-for-profit as a method of delivery is yet to be proved.

## Should we be fostering more long-term partnerships?

A common criticism of public delivery of public services is that services are delivered late (particularly if there is a significant build or renovation element involved), costs overrun and risk is not well managed. The blame is frequently put at the door of the traditional procurement process which separates initial investments (build, renovation and general sunk costs) from ongoing maintenance and delivery. Typically with traditional procurement there are different contracts for each component. The effect is that there is limited incentive to sink upfront costs which reduce future maintenance and delivery costs. In contrast, long-term partnerships bundle contracts and have some hope of sidestepping these problems and bringing about better decisions.

The extreme examples of long-term partnerships are PFI-type public private partnerships. Here the government signs a long-term contract with a private supplier and pays for the delivery of the public service throughout the life of the contract. Thus the government pays for the service as it gets it rather than paying upfront, which is the traditional procurement model. The private contractor typically owns the physical 'asset' and makes money from the payments for the service that it generates. Essentially, the building of an asset and the delivery of services over a long period are bundled together.

A road contract is good example. The traditional public provision arrangement involves the government signing an agreement with a contractor to build a road: the government pays the contractor for the road when it is built, after which the government owns the road, maintains it and makes it freely available to the public. With a PPP, a private contractor builds and owns the road: the government pays the contractor a fixed fee for every vehicle that uses the road over, say, a 25-year contract period. Upfront expenditure by the private sector followed by long-term payments by the public sector for the service is the key theme of many PPP partnerships.

The economic argument for bundling in this way can be seen in the following example. In the traditional public provision model, builders are paid for the building and they then move on to build another. If the building turns out to be rather poor quality after many years, then the government faces a complex legal battle to prove that poor building rather than poor specification or incorrect maintenance is at fault. In contrast, in the PPP model, the government pays for the service it gets. If a road is poor quality and needs expensive repairs, then the builder pays this and also suffers loss of income if cars use other routes while the road is repaired. So if the private contractor fails to deliver the service, then

it receives no payment. The idea is that the contractor has a strong incentive to deliver on time (to start the money flowing) and to ensure good quality design and build to avoid costly repairs and failures later on.

There are, however, some obvious costs to entering long-term partnerships. If a long-term contract is signed and the public sector department wants to change something then the private sector supplier has the department 'over a barrel' and changes are very expensive. Also it is not obvious that the difference in funding costs between public and private sector simply reflects the true measurement of risk. If there is a monopoly return in the cost of finance then the private project has to be sufficiently better to justify the approach.

The contract structure of PPPs is designed to provide incentives to deliver on time to start the money flowing and the evidence suggests that this happens. For example, the National Audit Office (NAO, 2003a) surveyed the PFI construction projects up to 2002 and found they compared favourably with traditionally procured hospitals (75 per cent of which were delivered late). Mott MacDonald (2002) found similar results. There are comparable results outside the UK. A European Investment Bank (EIB) study (Thomson, 2005) found fewer time delays.

Being on time is not the same as being better value. A detailed study of 200 roads funded by the EIB (Blanc-Brude *et al.*, 2006) found that PPP projects were 24 per cent more expensive than the traditionally procured roads at contract signing. There is a sample selection issue that makes it hard to interpret the results. For example, projects that are thought to be particularly expensive might be more likely to be put out as PPPs to try to use competition to control costs. This would make PPPs look abnormally expensive. But apart from such issues, the results are statistically significant. There appears to be a large additional cost to increase the delivery on time, but the authors point out that the value of cost overruns in traditional projects is between 20 per cent and 28 per cent, suggesting that at the build stage, these PPPs are neither more expensive nor cheaper than traditional public projects. Of course, theory suggests that the building costs of PPPs should be higher than traditional public projects since the PPP contractual structure should create incentives to ensure better quality delivery over time. So as well as obtaining better delivery at no greater cost, this research suggests PPPs may be better value than expected.

But currently, as I mention later, there are insufficient data to know whether this is true. There is evidence that financial risk is passed on to contractors, though investigations are limited to specific markets. Using a large sample of

debt payments, Blanc-Brude and Strong (2007) found that spreads do indeed reflect the systematic risk that PPPs face (notably traffic risk).

### Do we want to foster arm's-length arrangements?

As indicated in above an alternative way of using the private sector to deliver private services is for the public sector to step back and to use regulated private companies to operate under licence, essentially full privatization. There has obviously been a global shift in favour of this model from the 1980s onwards. The rationale for the privatization wave was part economic and part political. On the economic side, the ambition was to reduce costs and improve efficiency by replacing 'soft' public budget constraints with hard market constraints while simultaneously bolstering government coffers. On the political side, reducing the size of the state and its workforce offered the prospect of making voters more conservative and rapidly ushering in market mechanisms, particularly in transition economies, rendering a return to the old ways less probable.

Much of the evidence suggests that the privatization programme globally achieved many of its economic and political objectives. Privatization is generally, although not universally, associated with improved efficiency indicators. It is also positively associated with higher sovereign debt (Bortolotti *et al.*, 2004). The situation with public services was and remains more complex. But the general drive to raise funds and move activities rapidly to the private sector meant that those public services with good market value that could be shifted fully into the private sector were first up. This basically meant large utilities and among these the services with strong demand and market power. Telecoms were the prime target everywhere, and the vast majority of telecoms networks in the world now sit in the private sector. Energy networks followed and, in some countries, including the UK, water and rail networks were also privatized.

Meggison and Netter (2001) provide the most comprehensive international survey of studies of privatization. They conclude, 'we know that privatization "works", in the sense that divested firms always become more efficient, more profitable, and financially healthier, and increase their capital investment spending'. In the UK, Martin and Parker (1997) found that in the 1990s, telecoms firm BT achieved annual labour productivity growth of 15 per cent and British Gas achieved 6 per cent. Parker (1999a, 1999b) documented a long list of improvements in service measures in UK telecoms, gas and electricity and

water since privatization. Indeed, Pollitt and Smith (2002) showed that there were major efficiencies achieved in the early years after privatization even in the rail industry in the UK, which is generally regarded as a difficult case. Newbery and Pollitt (1997) document significant welfare gains following privatization in electricity in the UK – mainly caused by greater investment, lower prices and improved productivity. These effects are also apparent in other developed economies, for example, Galal *et al.* (1994).

Privatization is also generally beneficial in developing countries though the picture here is more mixed. Davies *et al.* (2005) identified productivity gains in most developing countries and document far more positive than negative effects for consumers, governments and investors. Campos *et al.* (2003) showed gains of 2 per cent per year in productivity in Argentina's water industry from privatization, and Estache and Kouassi (2002) found clear benefits from having private operators in Africa. But Estache and Rossi (2002) found no clear difference between public and privatized provision in Asia.

A clear message from many studies is that privatization alone does not deliver anything like the same benefits if it is not accompanied by liberalization (that is, increased competition) or independent regulation. Newbery (1997) argues that liberalization is critical in obtaining the full benefits of privatization: 'privatisation is necessary but not sufficient'. Zhang *et al.* (2002) (in 24 developing countries) and Alesina *et al.* (2005) (looking at several sectors of many OECD countries) found similar results. Bortolotti *et al.* (2001) concluded that the financial and operating performance of telecoms companies improves significantly after privatization, but that a sizable fraction of the observed improvement results from regulatory changes – alone or in combination with ownership changes rather than from privatization alone.

But an obvious question is how far the privatization model can be pushed in the delivery of public services. The privatization of the UK railways is informative here, having culminated in the first bankruptcy in the UK of a privatized utility. To some extent, the blurred incentives and responsibilities (on the side of both the regulator and the companies) were the result of the original privatization structure and have been much improved subsequently. But the problem is deeper since it was the government that decided the future of the business and the returns to shareholders, not the independent regulatory body, and the government decided that it would no longer contribute enough to keep the company afloat. If companies cannot cover all their costs from customers, then the model suffers from being too close to government and the benefits of having an independent regulator are hard to achieve.



Furthermore, keeping government at arm's length is clearly beneficial but is a common concern. This is notable in developing countries, where corrupt administrations can seek to dictate the behaviour of privatized companies. But even in the UK, government actions have had a significant impact on privatized companies even in the presence of independent regulators (Grout and Zalewska, 2006).

## A major constraint on growth of private delivery mechanisms.

The general theme that emerges from the previous sections is that, on average, privatization and outsourcing partnerships have been successful. Private finance initiative partnerships have brought benefits but it is difficult to be really sure. In contrast, the view that not-for-profit is a superior to for-profit delivery is unproven. This picture suggests that the private sector has a significant and growing role to play in the delivery of public services. But things are not this straightforward.

The reason is that the empirical evidence runs counter to public opinion. Surveys and focus groups show that private delivery is not popular. For example, in-depth research by Ipsos MORI for the 2020 Public Services Trust showed that:

The idea of private provision of public services tends to be greeted with suspicion. In general, alternative service provision by the private sector is rejected by many, both because the remit of private provision is perceived to lack a public sector ethos and because the profit motive is usually considered unacceptable in public services. (Ipsos MORI for the 2020 Public Services Trust)

In contrast not-for-profit delivery is growing rapidly and is perceived in a positive light. Since 2000 the voluntary sector's statutory income has grown much faster than public spending (although expenditure on the voluntary sector is still only around 2 per cent of government spend).<sup>3</sup> In contrast to attitudes to the private sector, Ipsos MORI found that many people felt strongly that the voluntary sector should have more of a role in achieving social outcomes (although the public has relatively little knowledge of the sector).

This conflict between what private delivery has to offer and what the public think of it and want from it is probably the biggest constraint on growth of private delivery mechanisms.

<sup>3</sup> The UK Civil Society Almanac 2010, see online at <http://www.ncvo-vol.org.uk/almanac2010>

## Conclusions

This chapter identifies separate models of private delivery, and addresses the benefits that the private sector suppliers bring, with a view to indicating where long-term growth in the market may arise. A crude but useful taxonomy is given which boxes non-public provision of public services into three main categories: (i) full privatization (essentially an arm's-length relationship between provider and government); (ii) public-private partnerships (separated again into outsourcing partnerships and private finance initiative arrangements); and (iii) not-for-profit. The comparative merits of these are then explored and the general theme that emerges is that, on average, privatization and outsourcing partnerships have been successful, private finance initiative partnerships have brought benefits but it is difficult to be really sure and, in contrast, the view that not-for-profit is superior to for-profit delivery is unproven.

This picture should suggest that the private sector has a significant and growing role to play in the delivery of public services. But things are not this straightforward, because empirical evidence runs counter to public opinion. Surveys and focus groups show that private delivery is greeted with scepticism by the public. There appears to be two problems (although these are really the same thing viewed from two different angles). The public seem to think that private provision lacks the public service ethos that is deemed to be essential and that the profit motive is unacceptable in public services. In contrast not-for-profit delivery is growing rapidly and is perceived in a positive light. This conflict between what private delivery has to offer and what the public think of it and want from it is probably the biggest constraint on growth of private delivery mechanisms.



## A New Role for the Third Sector?

Pete Alcock<sup>1</sup>

Many protagonists looking to new models for the delivery of welfare services over the coming decade see third sector organizations as a potentially radical new alternative to both state welfare producers and commercial market enterprises. Third sector organizations are not-the-state and they are not-the-market. They could provide both values and capacities that these, supposedly more traditional providers, have not been able to deliver therefore. This chapter explores the potential for third sector organizations to play a new role in the delivery of welfare services. It explores both the opportunities for this within these organizations, and the challenges that such a developing role may produce both for organizations and for those seeking to plan policy around them. There are opportunities here, but not all organizations will be able, or willing, to respond to them.

### A mixed economy of welfare

Those who are planning for the future delivery of welfare services in the UK recognize that these will come from a mixed economy of service providers. This is the view held by most academic analysts and policy practitioners concerned with the future of policy planning; and it is underpinned by a strong normative commitment to a welfare pluralism based upon combining the strengths of both the state and the market. There is also recognition that this is a more or less given social context as different providers currently dominate welfare delivery

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and this diversity is unlikely to decline. All major political parties also now embrace welfare pluralism. The new Labour governments had championed a 'third way' between (or within) the state and the market, most recently referred to as 'building a stronger civic society' (HM Treasury, 2009); and the new Conservatives have talked of a 're-imagination of the state' (Cameron, 2009) to operate alongside other welfare providers. The mixed economy of welfare is both given and desired.

While this welfare pluralism embraces both the state and the market, it also includes within the mixed economy third sector providers of welfare. Indeed the identification of, and celebration of, the third sector has been a key element of third way politics and policy planning. That a third sector of providers exists alongside the state and the market contributes to the pluralism that is at the centre of twenty-first-century welfare politics, and provides evidence that organizational structures exist that operate between the state and the market. The third sector is a concept that has currency internationally, for instance, in the major international research network the International Society for Third Sector Research (ISTR). But within the UK it is a term that had been largely created and promoted by the recent Labour governments. It is thus one that is not without its challenges and contradictions, as we shall discuss shortly – not the least the cry from some in the sector that 'relegating' it to third place is to deny its history and its broader social importance. The new coalition government have dropped the term from early policy discourse, seeming to prefer the term 'civil society'.

Despite this, however, there can be no doubt that the third sector is now a core feature of the planning and delivery of welfare policy, and that an examination of the future sources of welfare must pay particular attention to it. Indeed for some protagonists in the futures debates, it is to the third sector that we must look for new organizational forms for service delivery to take up the opportunities flowing from state and market failure. For instance, Blond's (2009) *Ownership State*, sees 'civic associations' replacing public bodies in a transfer of ownership of welfare services to an extended third sector, and argues that it is role of policy-makers to facilitate and support this re-mixing of welfare provision. In the work of the Office of the Third Sector, and now the Office for Civil Society, we can see significant government commitment to promoting and supporting third sector forms of service delivery. This is discussed below.

However, there is a danger in seeing within the current and future political embracement of the third sector something that is new and different to past welfare forms, and able because of this to rise above their limitations. A

longer-term critical perspective tells us that neither welfare pluralism nor third sector service delivery are new, and that concerns and contradictions that have challenged and constrained them in the past will continue to pose challenges to their place in future policy planning.

For a start, history tells us that the mixed economy of welfare is not just a late twentieth-century phenomenon. While the establishment of the 'welfare state' in the middle of the last century was a major achievement in the provision of comprehensive public services for all citizens, it never entirely displaced either market or voluntary provision of services and, as analysts have revealed, welfare pluralism has always been at the centre of social policy planning (Powell, 2007). Certainly third sector welfare delivery has a long history which can be traced back to the nineteenth century before the development of much public welfare support. Organizations like the National Society for the Prevention of Cruelty to Children (NSPCC) and Barnardo's were active then in developing new forms of social service and they remain important today despite the existence of state social service provision. In fact the history of relations between the third sector and the state is a long and complex one (see Lewis, 1999; Harris, 2010), with boundaries shifting and roles changing over time. Current and future manifestations must be seen within this broader context, and from that perspective look much more like particular kinds of adaptation and accommodation than revolutionary departure or innovation. However, from them flow some difficult questions about what is meant by the third sector and how policy-making might best engage with it.

## The Third Sector

The concept of a third sector implies of course that it exists in relationship to another two (or more) sectors. These are the state and the market, although which of these comes first is perhaps debateable. The third sector is thus not the state or the market and other conceptualizations of the sector have similarly distinguished it relatively. It is also referred to as the non-profit sector (especially in the USA), or the non-statutory sector (more common in Europe), or the non-government sector (often used for international agencies). These are all of course negative definitions. They tell us what the sector is not, but not what it is.

More sophisticated academic approaches to definition have sought to explore this relational approach and to locate the sector in terms of its relations with the state and the market, suggesting that in practice third sector activity exists in

between these sectors (and in some an informal sector too), and yet in places overlapping with them, where organizational forms are hybrids between the different sectors (see Evers and Laville, 2004). These definitional boundaries are explored in more detail in Alcock (2010a), where these exogenous approaches to definition are contrasted with attempts to identify core features of third sector organization. The conclusion of this, however, is that, even when viewed internally, the third sector can only ever be a strategic unity between different organizational forms and activities.

In other words the third sector is not a single, still less a simple, entity but rather an aggregation of diverse forms and different fields and subsectors, that may or may not act collaboratively in the delivery of services or other areas of social and economic activity. This was recognized by the department created by the Labour government in 2006 to provide policy co-ordination and support for the sector, the Office of the Third Sector (OTS). Their website explained that:

The third sector is a diverse, active and passionate sector. Organizations in the sector share common characteristics: non-governmental, value-driven, principally reinvest any financial surpluses to further social, environmental or cultural objectives. The term encompasses voluntary and community organizations, charities, social enterprises, cooperatives and mutuals both large and small.

In practice there are different subsectors (charities or social enterprises), operating in different fields (housing or health and social care), and pursuing different goals (service delivery or community advocacy). The new government have sought to capture this diversity by reference to these as elements within civil society. This is in part a terminological, rather than a conceptual change, as the breadth and depth of differences are still included within this new policy frame. However, it raises some broader questions within academic debate where civil society is often seen as a site for social relations (outside the state and the market), rather than an organizational sector (see, Evers and Laville, 2004: Ch. 1).

Nevertheless, both concepts embrace diversity, and this is not a problem for the sector in itself – indeed arguably it is its greatest strength. But it is a challenge to policy-makers who see in the third sector or civil society an alternative to state and market failure in the delivery of welfare services, and may wish to promote the sector as a unified policy space for this. What is more, as argued above, this is not new. Policy-makers must recognize this, and policy planning for alternative future sources of welfare must pay attention to the lessons that flow from it.

## The policy environment

The identification and recognition of the third sector in the most recent manifestations of state and sector relations has resulted in a much higher profile for the sector, and its constituent parts, at the beginning of the new century than was the case for much of the latter half of the last one. In a review of recent changes in this policy environment Kendall (2009) described the early twenty-first-century phase as one of 'hyperactive mainstreaming'. By this he meant that there were a greater range of policy initiatives directed at the sector, with a general aim of bringing it into the centre of policy planning. This can be seen most clearly in the creation of the OTS, with its Cabinet Office location in 2006. OTS replaced previous smaller units focused on the voluntary and community sector (in the Home Office) and social enterprise (in the then Department of Trade and Industry); but its brief is wider and its resource base more extensive, and this has been retained in the new Office for Civil Society (OCS). It was also responsible for a wide range of new forms of support for sector organizations, including Futurebuilders (now the Social Investment Business) and ChangeUp (delivered by Capacitybuilders). Kendall (2003) referred to these as *horizontal* support for organizations across the sector, contrasted with the *vertical* support provided to those operating in particular fields such as health and social care. The latter are longer standing but still important, and indeed were also expanded – for instance in the Department of Health Social Enterprise Investment Fund.

The overall picture has thus been one of greater political interest in the third sector, backed up by greater policy support and public resource, all geared to consolidating the role of sector organizations within policy planning (see HM Treasury and Cabinet Office, 2007), although since 2010 most of the major horizontal investment programmes have been discontinued by the coalition. Central to this role is the involvement of third sector organizations in the development and delivery of public welfare services. An expanded role for the sector in the mixed economy of welfare is already at the centre of policy planning therefore. This is likely to expand further if, as suggested below, policy planning moves further towards a concern with service outcomes rather than provider forms. What is more, this is a role which is embraced by some leading voices within the sector itself, not the least the Association of Chief Executives of Voluntary Organisations (ACEVO) which with an ever louder voice has for a number of years been championing the sector as an innovative and efficient alternative to state and market welfare (ACEVO, 2004, 2008).

Those concerned to achieve service outcomes should be expected to be



agnostic about provider forms, and new models of commissioning are likely to challenge any assumptions about the desirability of publicly provided welfare. In 2010 ACEVO challenged what had been the Labour government's plans to install NHS agencies as preferred providers of commissioned health care services. Much of the motivation for this was driven by a desire to protect employment in public health services, but, as ACEVO pointed out, it ran counter to the principles of independent commissioning based on quality of service. The government were forced to back track and alter procurement guidance to make it clear that commissioners should not favour or discriminate against providers from any one sector.

So those championing the third sector as an integral part of new future sources of welfare are pushing at a door that is already open, and indeed is already opening more widely. It is the balance of welfare provision by the sector that may change in the next decade; but not the principles behind it, nor the policy support for it. If this balance is to change then it is the existing strengths of the sector that are likely to be the key drivers of this, and the existing problems and limitations that are likely to be the key challenges to it.

Before going on to consider these opportunities and challenges however, it is worth reflecting briefly on another feature of the policy environment that has developed significantly in the last decade and is likely to become more important in the next. This is the devolution of politics and policy-making to the separate administrations in Scotland, Wales and Northern Ireland. Since devolution was established in 2000 the UK has ostensibly become a less united nation, with significant areas of welfare policy devolved to the new administrations in Scotland, Wales and Northern Ireland, including third sector policy. There are now separate agencies delivering independent policies for the sector across these three nations.

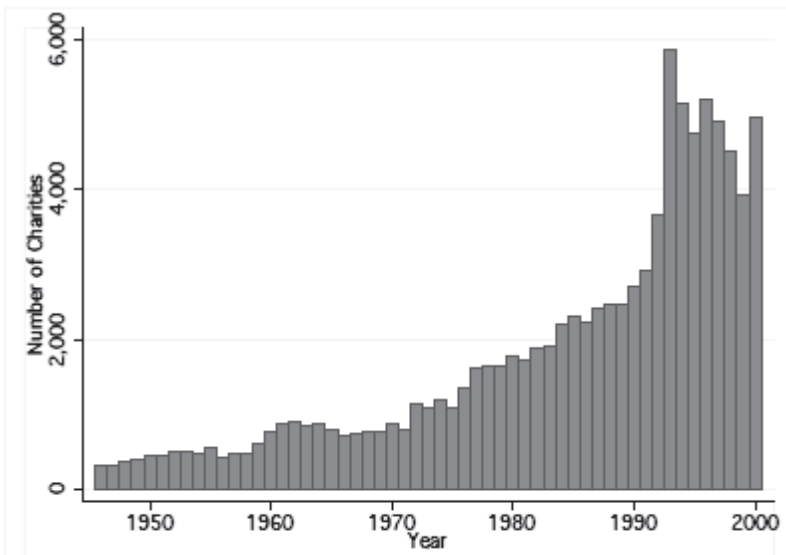
This is in itself a major policy change and has led to new challenges for sector organizations to engage with their new policy agents, but it has also led to potentially divergent policy goals and priorities. In practice, however, policy development has not thus far been significantly divergent across the new devolved administrations within the UK (Alcock, 2012). This may in part be a product of the fact that until recently political control within all had been dominated by Labour. This political hegemony was fractured in Scotland with the advent of the SNP administration, and has now diverged completely with the Conservative and Liberal Democrat coalition government in power at Westminster since 2010, and quite different parties in control in all the devolved administrations since 2011. Political change therefore will likely fragment politics further across the four nations that now make up the UK and

this will likely lead to further policy divergence, with support for public welfare remaining stronger in all of the devolved administrations than seems to be the case in England. We should be wary therefore of assuming that the prospects for a new mixed economy of welfare in England will be shared in the same way by our relatively independent neighbour nations.

### Third Sector opportunities

Third sector organizations have been involved in the delivery of welfare services for over a century because the users of these services value them and because both volunteers and funders are committed to providing them. If the availability of comprehensive public welfare services were to displace third sector activity here, then this would have resulted in the decline or demise of these organizations in particular during the post-war welfare state era. But this did not happen. Public welfare has not displaced voluntary, community and mutual action. Some organizations such as the voluntary hospitals and friendly societies were incorporated into public provision; but others developed to provide supplements to new state services (such as hospices) or even to campaign to improve or challenge them (such as Citizen's Advice Bureaux).

**Figure 8.1** Growth in Charity Registrations from 1945–2000



Across the developed world there is no evidence that public welfare has crowded out voluntary action, and there is no evidence of a decline in the numbers of voluntary organizations in the UK after 1945. Indeed analysis from the Third Sector Research Centre suggests a more or less continual process of growth over the latter half of the twentieth century, albeit that changes in registration criteria complicate the picture after 1990 (see Figure 8.1).

This must be because the third sector is offering something distinctive and valuable.

There is of course much debate about the core features and values of third sector service delivery, and the extent to which they are indeed distinctive. However most protagonists agree on various combinations of core elements which are shared by most organizations. Most important of all perhaps is *independence*. Third sector organizations are not part of the public sector and are not therefore part of the state. They are not bound by statutory and regulatory frameworks, nor are they directly accountable to civil servants and politicians. They are thus free to act as they think fit in the interests of their members and their users. This independence can have negative as well as positive consequences, as we shall return to discuss below. It is also rather more relative than some might think as regulation and accountability extend to some extent to all those delivering public services, as we shall see. But it is undoubtedly a core attraction for those who see in many public services monopoly providers and unresponsive bureaucracies.

Third sector organizations also enjoy independence from the market. Because they are not required to deliver dividends to shareholders, they are not under pressure to follow only profitable activities and can make decisions about priorities for development for other reasons. Independence from the market is also relative, however. Third sector organizations may not be driven by the profit motive, but they must remain financially viable and will need to plan and perhaps adjust their business to ensure this – or collapse, as inevitably some do.

Most of the distinctive features of the third sector are, in practice, relative rather than absolute opportunities for alternative welfare provision. For instance, the need to survive in competitive markets and the growing importance of public funding for third sector organizations mean that fortunes of much of the sector are closely aligned to developments in the state and the market. In 2010 just under £14 billion, around 38 per cent, of total income for charities in England and Wales came from statutory sources (Clark *et al.*, 2012: 42) and trends in government funding have been recognized to be of critical importance

for sector planning by the National Council for Voluntary Organisations (NCVO, see Clark *et al.*, 2009).

What is more, though flexibility may be a feature of third sector activity – as organizations are free to adapt and change both their mission and their practice without recourse to public regulation or account – members, donors and users will all expect some consistency too in organizational structure and action. Organizations can be conservative as well as innovative. Linked to this is the mission focus of voluntary, community and mutual action. Third sector organizations have generally been set up for a purpose, and it is that purpose which drives organizational development and action. This is a key strength; it is critical in underpinning the voluntary ethos and added value of third sector action; but it can also be a constraint on flexibility and innovation more generally when missions are no longer relevant, or organizational forms no longer the most appropriate means of meeting them.

Mission focus does draw volunteers into third sector action. The altruism that underpins volunteering is generally guided by the desire to achieve some particular social improvement through social action; and the same is largely true of the indirect support provided through philanthropy and giving. It is because we care about the missions of third sector organizations that we are willing to support them. And as a consequence of this these organizations are able to deliver added value to their users.

Third sector organizations can add value through the provision of services by those motivated to further the mission of the organization. To some extent therefore third sector action can overcome the classic principal/agent dilemma; volunteers are motivated to deliver the aims of the organization and so do not need to be managed or incentivized to meet organizational goals. It is argued that this applies to those working in the sector too, who may have taken a deliberate decision to seek employment within third sector organizations with defined missions. That said, robust evidence on the extent to which employment patterns and practices within the sector do reflect such distinctions is hard to find.

There may be debates about the motivations of volunteers and donors but voluntary activity and charitable donations do provide added value to the fees users pay for third sector services or the funds contractors provide, as a result of the additional resources that flow from these. Again there is no robust evidence quantifying the extent of this additional contribution but the measures which some third sector organizations use to evaluate their contribution to service provision (such as social return on investment (SROI)) do offer some

mechanisms for doing this at the organizational level (Cabinet Office, 2009; Nicholls, 2009). For the most part these do demonstrate the wider value provided (Then and Kehl, 2009).

In sum, third sector organizations can offer independence, flexibility, mission focus and added value to the delivery of public services. What is more they have been doing this for over a century. The model of voluntary, community and mutual action is not a new one. It is tried and trusted, and the trust that users, and citizens more generally, place in third sector organizations because of their independence from the state and the market is an essential, if unquantifiable, feature of the sector. This could be central to the future delivery of welfare services.

### Third Sector challenges

The values that third sector organizations bring to the delivery of public services are not necessarily exclusive ones. People may trust the mission focus of the third sector but they also trust the service orientation and professionalism of public services like the NHS, even if this has been challenged by recent managerial reforms (Taylor Gooby and Wallace, 2009). As suggested above, most of the supposedly core values of third sector policy delivery are neither absolute nor exclusive. Avoidance of public regulation and financial accountability can only partially be achieved where organizations are delivering services paid for by taxpayers or users and defined and regulated by public agencies. Flexibility, mission focus and motivated workers can be found within public and private sector provision too.

More generally, ascribing values and even characteristics to third sector organizations collectively is problematic. We may regard the sector as an entity, and indeed through public support develop policies to support and promote it. But in practice the third sector is really little more than an aggregation of widely diverse organizations, who themselves are more likely to associate with subsectors – such as advice agencies, medical charities or housing associations – than any over-arching, generic and homogeneous entity. Within this diversity there are many, indeed probably most, organizations that have no involvement in the delivery of welfare services, and probably no interest in developing this. Some third sector organizations are excluded from service delivery by the requirements imposed by procurement and commissioning. Others have no intention of entering such a competitive market, and may have mission

commitments to challenge service providers rather than joining them. From sports and leisure clubs to campaigning and advocacy groups there is diversity in mission, scale and structure.

One of the challenges facing those, such as OCS, with a policy brief for the third sector is the difficulty inherent in developing and delivering support and guidance for such a diverse community. In practice it is just about impossible for policy-makers to meet the needs of all. Within diversity there is competition and conflict, and inevitably policies that benefit some are likely to be criticized by others who feel excluded or ignored.

One important conclusion that flows from this is the need for caution and sensitivity in any expectation that there may be a sector of would-be providers just waiting to play an enhanced role in the future delivery of UK welfare services. There may be organizations that could willingly expand their service provision, and would be happy to do that in partnership with state and market providers in a new mixed economy of welfare. But in practice many such organizations are already engaged in just such partnership action, and foreseeable change may look rather like more of the same than something completely different. The prospects for extending welfare provision across the wider and diverse third sector that might appear in some statistical measures of its scale will flounder because of the diversity of mission and form that these disguise.

There are other challenges to an expanded role for third sector organizations in public service delivery. The diversity, independence and mission focus of the sector are weaknesses as well as strengths. Third sector organizations can provide excellent, even unparalleled, examples of service provision; but their unique features are just that. There is no guarantee that these can be found in other organizations or at all times and places where these services might be needed. Third sector activity is not universal, comprehensive or in any sense formally accountable, yet in many cases welfare services have traditionally needed to be all of these things.

In practice this means that there may be problems with the distribution, accessibility and inclusiveness of third sector welfare services. There may be excellent organizations in some service fields or local areas, but in others this may not be the case. The services that particular organizations provide may be highly valued and widely understood by those who use them but there is no guarantee that all potential users will be able to find them, or find information about them – in particular where potential users might be on the margins of the organizational mission. Third sector organizations may have a mission to meet the needs of particular communities, and may even target services exclusively

upon these. But for those outside of these groups, such targeting could amount to exclusion, a particular problem perhaps from some marginal groups such as refugees or asylum seekers.

Underlying these problems of accessibility and exclusion is the lack of a public mandate for third sector welfare provision. There is no formal public requirement on third sector organizations to provide, and no requirement on government to ensure that they do. This is no doubt as it should be for an independent sector of provision; but it cannot be the basis for comprehensive welfare planning. Indeed, it was in part because of the uneven nature of voluntary and mutual provision that comprehensive state welfare services were introduced in the middle of the last century. The planning and delivery of these state welfare services may now be more critically questioned but the public mandate that underpins them must not be forgotten or eroded.

One of the most important policy questions that flows from this, is the extent to which public policy planning and intervention can overcome some of the challenges to third sector service delivery by introducing regulation and accountability into the delivery of services by the sector, and ensuring, through partnership with public agencies, that comprehensive service provision can be guaranteed. As we shall see this is perhaps the central challenge for those looking to develop third sector provision as an alternative source of welfare in the future. Current policy does address some of the implications of this and as a result is already posing other challenges to third sector action.

### The implications of policy planning

Public policy planning for third sector welfare action requires intervention to support, direct, control and monitor service provision. Such intervention inevitably undermines the independence of the sector, in particular where this means that public management measures of target setting and evaluation are imposed on organizations through contracts for public service delivery. The regulatory frameworks that accompany management and accountability may also stifle the innovation, flexibility and mission focus of third sector action. Indeed there is the ever present danger that, when those who thought they were working or volunteering in mission focused independent organizations encounter regulatory control, their commitment and motivation may wane – leading to a return of the principal/agent dilemma.

There are serious contradictions at the heart of the principle of public control

of third sector action. But there are major practical problems too. Contracting to deliver public services means that third sector organizations must undergo elaborate procedures for procurement and commissioning, and must satisfy the accompanying legal requirements. These can impose significant burdens on the organizations involved, requiring the capacity and the skills to deal with these technical processes. Once awarded, public service contracts generally also come with procedural requirements for the monitoring and evaluation of service delivery. Public resources must be accounted for and the effectiveness of services assured.

There are significant 'transactional costs' here for third sector organizations engaging with the policy environment of public service delivery – although it should not be forgotten that these are also imposed on those public agencies contracting with them too. Organizations now require managers, accountants and lawyers to pick their way through the regulatory frameworks within which they operate and they require the skills and capacity to engage with these. This has already been recognized by policy-makers and a range of measures were introduced by the Labour government to provide support for institutional capacity building to equip organizations for public service delivery, for example the Futurebuilders programme, delivered by the Social Investment Business (HM Treasury, 2003) – although, like most of the other horizontal support programmes, this has not been continued by the Coalition government.

Not only do these add to the burdens of third sector activity, they may also change the very nature of third sector organizations themselves. In contracting with and working within these frameworks, third sector organizations run the risk of becoming more and more like the public agencies they may have sought to displace, but with whom they now need to engage. Third sector commentators talk about these as the problems of *incorporation* and *isomorphism* – third sector organizations being in danger of take-over by public agencies, or becoming indistinguishable from them.

The practical problems, and the costs, of engagement with the public regulation of service delivery are now recognized as significant issues within the sector. They are challenges to be faced by third sector agencies but they are challenges that can, and should, be met directly. They are also not unique to the UK, and as those arguing for a positive approach to learning and development in third sector service delivery such as ACEVO point out, much can be learnt from the ways in which these challenges are identified and met in a range of analogous policy regimes (ACEVO, 2008). They are not the only challenges



that flow from a growing role for third sector service delivery within a mixed economy of welfare.

The commissioning of services from third sector organizations also places these organizations within a competitive contractual environment. Organizations must compete with private sector providers and, in some cases at least, with alternative public sector providers too. They must also compete with one another. Competition for service contracts is likely to be governed by efficiency and effectiveness of delivery, as well as mission focus. Just being committed to a particular service or user group may not be enough to secure contract funding, as was revealed in the contacting for the coalition's new Work Programme, where virtually all of the large prime contracts went to private providers who could provide the large initial investments needed. Competition may not be welcomed by some third sector organizations. It may exclude some organizations from service delivery, and may be reason why some will want to remain outside of this altogether.

For those who rise to meet the competitive challenge, however, it may also have organizational consequences. There may be pressures towards take-overs and mergers. In 2010 Age Concern and Help the Aged merged to form AgeUK, to equip them better to compete for and secure public service contracts. Alternatively organizations may seek partnerships with other providers – the Third Sector Consortium (3SC) now provides the leadership for a wide range of third sector and private sector operating in partnership to deliver employment services. Competition and regulation are therefore already re-shaping the third sector through its engagement with welfare service delivery.

## Towards a new policy landscape

That engagement with welfare service delivery is re-shaping third sector organizations should not be a surprising development. Nor indeed is it a recent phenomenon, as historical analysis of the sector's role here tells us (Lewis, 1999; Harris, 2010). The challenges it creates for third sector organizations are not insurmountable and, even where they shift the character and structure of third sector action, they can still leave unique and innovative organizations delivering excellent services. The real question for policy-makers here is to ensure that the best of third sector delivery is maintained and nurtured, while the broader planning for welfare services continues to evolve.

The broader planning framework is evolving. Much has changed in the first decade of the new century and more will follow in the second. The shift

to consensus over a mixed economy of providers is now established. What is driving future change is a shift in the nature of the relationships between providers and users. This can be seen most clearly in the moves, albeit relatively tentative ones, towards the *personalization* of service commissioning – the transfer of the public resources for service delivery to the users of those services, through direct payments or personal budgets, so that individual packages of provision can be purchased directly from providers. Much discussion of this user shift has focused on health and social care services (see Glasby and Littlechild, 2009), but it has the potential to transform service commissioning in other areas too, such as education or employment.

Those with personal budgets to spend may well choose to purchase from alternative welfare providers in the third sector, although equally they may not. What will be likely to drive purchasing behaviour will be the quality and accessibility of services provided, rather than the location or character of the provider. This is perhaps as it should be; users determining the value of the services they need. But, leaving aside the practical difficulties that many users may face in operationalizing these new choices, the consequences for service providers will be significant as the certainty of public service contracts is replaced with the more open environment of an open market. Third sector organizations may welcome this competition and the abandonment of public monopolies implicit in it. It may lead to a wide range of forms of provision and providers – perhaps much smaller entities operating in niche markets. Third sector organizations may have much to offer here; but there is no guarantee that all will be able to respond effectively to it.

Even where personalized budgeting is not directly implemented, future service policy planning is likely to see a shift towards a more ‘outcome focused’ commissioning process, perhaps with a more localized focus on delivery, as exemplified in the Total Place developments, and the new government’s localization agenda. Where users are not themselves specifying the terms of policy provision, public planners can do this by gearing funding and contracting towards expected service outcomes rather than specific provider inputs. This could take procurement and commissioning out of Departmental and service silos and encourage new provider forms. There are opportunities in this too for third sector organizations to expand their input to welfare services by operating across service boundaries and exploiting their knowledge of local niche markets. But here too success will be based on what they can offer, rather than what they are.

Another developing feature of the welfare policy landscape is the encouragement of the co-production of services by providers and users. To some extent co-production is a new term for an old concept: the notion that in

the delivery of all services the experience of provision is shaped by what both users and providers bring to the relationship of provision – observation of no-smoking rules in public buildings being an obvious, and successful, example. Where it is likely to provide new dimensions to the delivery of welfare services is in the expectations that policy-makers, and funders, will have of those delivering services that these be developed and delivered through direct engagement between frontline providers and individual users. Even where personal budgets and outcome focused commissioning are not operating directly, service providers are likely in the future to have to be more open in prioritizing and planning their engagement with the users of their services.

Future welfare service provision is therefore likely to see a shift towards greater user focus and user engagement in policy planning. Co-production and personalization may replace public management accountability and contractual procurement and they have been championed both by official government statements (HM Treasury, 2009) and independent policy campaigners (Blond, 2009). Both the former Labour government and the new coalition also see in these shifts enhanced opportunities for third sector providers, with talk of encouraging public sector providers to move out of the state and create instead John Lewis-style mutual social enterprises.

As discussed, however, the involvement of third sector organizations in the delivery of welfare services is not a new phenomenon. They have always offered an alternative to both state and market providers, and have always occupied an important position within the mixed economy of welfare provision. Third sector providers will continue to offer significant opportunities for future provision, though these are not all unique to this sector, whose independence will remain only a relative advantage. However, third sector public provision also creates major challenges for organizations and for policy planners. Many third sector organizations will continue to play no part in welfare service provision, and most of those that do will need to adapt significantly to meet its changing requirements.

It will be those organizations who can adapt to the changing priorities of policy and practice that are most likely to play a significant role as major providers of future welfare services. The independence and distinction of third sector providers have already been challenged by the regulation and competition of the current policy environment, with those who have adapted to this best emerging most strongly. The shift towards greater user and outcome focus will require further adaptation. There is no guarantee that all third sector providers

will be able to accommodate such new challenges, but past evidence suggests that many will and that the sector will continue to play a major role within the new welfare mix. There will be a continuing role for the third sector as future source of welfare; but its scale and scope will depend upon the ability of those involved to continue adapting their organizational structures and practices to an evolving policy environment, rather than any unique or distinctive features within the sector itself.

## Conclusion

The next decade or so is likely to see significant reform to public services, driven both by public sector reform and private market restructuring. Given the limitations of both public services and private markets that have been exposed over the last few years, there are some who see in this coming future a 'golden age' for third sector delivery of public services. Such rhetoric needs to be treated with some caution, however. For a start there is nothing new about voluntary action or social enterprise providing public services; these organizations have been a key element in the mixed economy of welfare that has in practice been operating in the UK across three centuries now. And over this time third sector organizations have adapted to earlier major shifts in the policy environment, not the least the reforms of the 'post war welfare state'. They will do so in the future too.

Third sector organizations will adapt and respond to the coming changes, and will continue to provide an alternative (and a partner) to public and commercial welfare providers. Some organizations will be well placed to offer distinctive and attractive service packages to user purchasers or outcome focused planners. Some organizations will need support to build capacity and acquire new skills to respond to these changing pressures. Some organizations will neither seize these opportunities nor welcome them, for their mission does not include service provision and there is no incentive for them to move into this field. Where third sector organizations do succeed in providing new and distinctive service forms, it will be because of what they do, not who they are. Policy planners must therefore understand the continuing diversity of the sector and work to support this appropriately. This will require engagement where appropriate, and respect for independence where needed. Policy-makers cannot just stand back and assume that the third sector is ready and waiting to step into all the places where others may in the future fear to tread.



# Targets and Rankings; Choice and Voice: Performance Indicators and Public Service Accountability

Deborah Wilson<sup>1</sup>

## Introduction

Targets, rankings and other forms of ‘managing by numbers’ are now a familiar feature of public service performance management. Performance indicators (PIs) are widely used as part of broader accountability mechanisms aimed at improving public service performance. Quantified, public, performance information plays a central role in both top-down, bureaucratic and user-based, democratic accountability mechanisms. Moreover, such mechanisms often run concurrently, utilizing the same performance data, which makes isolating the impact of any one element of these broader governance regimes somewhat difficult. The aim of this chapter is to review the use of PIs within such forms of governance. I first describe the range of ways in which PIs may be employed, and discuss the particular issues associated with their use in the public sector and the range of responses that may result. Second, I explain the different types of PI and discuss the limitations of each. I then consider the use of PIs within, first, bureaucratic accountability mechanisms such as targets coupled with sanctions and/or rewards and, second, within the democratic accountability mechanisms of choice and voice. While the current UK policy discourse emphasizes transparency coupled with choice and voice to achieve public service performance improvement, I argue that the weight of the evidence suggests bureaucratic accountability has been more effective at levering such change and discuss the potential implications of this.

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## Performance indicators: 'Managing by numbers'

Targets, benchmarks and league tables have a long history in both the private and public sectors. While such metrics are now a familiar feature of public service management, the principle of measuring performance relative to some published measure goes back at least to Jeremy Bentham's plans for prison management in the 1790s (Bevan and Hood, 2006a). Their use in the UK accelerated when Tony Blair came to office in 1997. His administration introduced more than 300 performance targets across all government departments in 1998, directly linked to budget allocations and translated into many more targets and indicators at lower levels of government (Hood, 2006). Since devolution, however, it is England rather than its neighbours that continues to emphasize the use of PIs in its public services performance regimes.

Notwithstanding their widespread use, there are well-documented problems with using metrics-based performance management regimes in the delivery of public services (Propper and Wilson, 2003; Bevan and Hood, 2006a). There is also a growing body of evidence on the shortcomings of both the PIs themselves and on the responses of individuals and organizations to their use in alternative accountability mechanisms (Wilson and Piebalga, 2008). Conversely, there is still much less evidence on whether or not PIs achieve the aim of improving the quality of public service delivery, and very little discussion regarding the relative costs of achieving any such improvement (Propper and Wilson, 2003). Public service outcomes are complex and multi-dimensional. Measurement of improvements in public service quality is therefore difficult, as is attributing their cause to any one specific element of a more general performance management regime, that may use PIs as part of several, concurrent accountability mechanisms.

Governance systems using quantifiable performance indicators such as targets are described by Bevan and Hood (2006a: 518–19) as a form of control 'in which: (1) desired results are specified in advance in measurable form, (2) some system of monitoring measures performance against that specification, and (3) feedback mechanisms are linked to measured performance'. Both (2) and (3), the system of monitoring and the feedback mechanism, can be designed in various, non-mutually exclusive, ways (Burgess *et al.* 2002; Propper and Wilson, 2003).

The measured performance information may be kept internal to the organization or it may be published. There has been an increasing trend for the publication of performance information. If the information is made public

there is a range of possible feedback mechanisms. The information may be used as part of an implicit, or indirect, incentive scheme, under which the organization gets a financial reward as a result of the response of others to the information. A classic example of this is a 'quasi-market', in which providers of services are rewarded for good performance by getting more contracts. More generally, such implicit incentive schemes relate to 'bottom-up' or 'democratic' accountability mechanisms, in which the primary role of quantifiable performance information is to inform and empower consumers who then lever improvement in services through actions such as choice and/or voice.

Alternatively, published performance information may be used as part of 'top-down' or 'bureaucratic' incentive schemes, which explicitly specify how measured performance, often relative to a pre-specified target or to the performance of other provider organizations, is linked to sanctions and/or rewards. These sanctions/rewards may be financial or non-financial, and can be targeted at the level of the individual, the team, the organization or the policy area. So, for example, hospital managers in England faced dismissal if their hospital performed poorly against waiting times targets; conversely good performers were granted earned autonomy and the freedom to keep certain surpluses (Propper *et al.*, 2008). The Quality and Outcomes Framework introduced in 2004 gave family doctors in the UK direct financial incentives to hit targets in the provision of a wide range of specified primary care treatments (Hood *et al.*, 2009). Alternatively, it may be career concerns or reputation effects, with implications that are played out via the labour market, that create the incentive for effort (Burgess and Ratto, 2003). A key point to note is that public service providers often face elements of a range of democratic and/or bureaucratic accountability mechanisms concurrently (Kane and Staiger, 2002). This raises problems of both attributing the effects of the use of PIs to any one mechanism and of minimizing potential conflicts between the incentives created by the different structures (Wilson, 2009).

There are two, linked, assumptions underlying the theory of governance by numbers (Bevan and Hood, 2006a). First, measurement problems are not important: the inevitably incomplete measure of organizational performance contained within a quantifiable performance indicator (PI) adequately represents overall performance. Second, while it changes organizational and/or individual behaviour, such a governance system is not vulnerable to gaming. The particular features associated with the delivery of public services mean that neither assumption is likely to be valid (Dixit, 2002).



The multiple goals and often complex, multi-dimensional, outputs of public service organizations mean that performance relative to these goals is difficult to measure; any quantifiable representation of that output is therefore necessarily incomplete. This creates the opportunity for gaming, the extent of which may depend on individual motivation. Individuals will respond to PIs in ways that maximize their own utility or benefit. This is not necessarily consistent with PIs improving welfare, nor is it necessarily in ways that are expected by those who design the system. In Le Grand's (2003) terminology, responses will differ depending on whether providers are 'knights' or 'knaves.' Moreover, provider motivation may be endogenous to the type of performance management scheme imposed; differently motivated individuals may be attracted to alternative cultures of performance management (Gregg *et al.*, 2008). This relates to the literature on whether public service workers exhibit 'intrinsic' motivation (Frey, 2000; Crewson, 1997; Deci, 1971) and how that may affect their responses to different forms of governance structure.

So neither assumption is likely to hold; managing by numbers in the public services will suffer from both measurement error and the potential for undesired as well as desired responses. The precise way in which these combine with the incentives created by the accountability mechanism(s) employed and individuals' unobserved motivation to create the overall outcomes may in practice be difficult to disentangle (Bevan and Hood, 2006a). Before reviewing the evidence on the effects of using PIs as part of alternative accountability mechanisms, therefore, I first discuss the different forms that PIs may take and the associated incomplete measurement issues that arise.

### Forms of performance indicator

The simplest form of PI are raw outcomes, which measure the outcomes of an organization or programme at some designated date – the number of individuals who do not die after emergency admissions for heart attacks, for example, or the number of pupils passing examinations at a certain grade. While they are easy to understand and relatively low cost to collect, they only deal with one dimension of a complex output, and do not provide sufficient information to isolate the impact of the organization on the measured outcome. Patients may have recovered from heart attacks without medical intervention, for example. They are also susceptible to gaming – by adjusting the quality of the intake, an organization can boost its performance as measured by raw

outcomes. Such cream skimming practices are well documented in health and in education and are discussed below. Raw outcomes PIs may unfairly penalize effective providers serving disadvantaged and high cost populations while at the same time hiding poor performance from those serving lower cost populations. Risk adjustment of such measures helps account for heterogeneity in the populations served and therefore helps to both give a better measure of the impact of the agency and reduce the incentive for cream skimming (Propper and Wilson 2003, 2006).

Further to such risk adjustment, the aim of value-added PIs is to better isolate the impact of, for example, the school environment on pupil progress between two points in time. Such PIs do this by incorporating prior attainment and/or other factors which are outside the school's control but which are known to impact on test score (i.e. raw) outcomes. While both reducing the incentive to cream-skim by explicitly accounting for input, and providing a better measure of the effectiveness of an organization, value-added PIs still generally only reflect one dimension of an organization's output; in the case of schools, the focus is still on test scores (or progress between tests at different stages of schooling).

One response to this aspect of measurement error has been the development and increased use of composite indicators that attempt to combine many dimensions of an organization's output into a single figure or rating. Examples include the star rating systems for hospitals in England and the CPA (comprehensive performance assessment) system of rating local government. While intuitively appealing and easy to understand, they are in practice complex and opaque (Hood, 2006) and create various sources of measurement error (Jacobs and Goddard 2007; Stevens *et al.*, 2006; McLean *et al.*, 2007).

Two further points are worth emphasizing here. First, different aspects of a public service organization's performance will matter more or less to its different stakeholders. Both the designers and final users care about a range of outcomes, but the weights these two stakeholders attach to these outcomes may differ (Propper and Wilson, 2003). This has implications for the aggregation methods employed for calculating composite indicators. Or consider a value-added measure of school performance: if it is *not* corrected for school resources (as was the case with the English contextual value added (CVA) measure) it is more suited to informing parental choice than to the government aim of raising standards for the same resource base (raising efficiency). The same PI may not be able to satisfy the often multiple purposes for which it is employed or the different concerns of multiple stakeholders.

Second, we need to distinguish the shortcomings of the PIs themselves from the shortcomings of the uses to which they are put. For example, for PIs to be used as part of meaningful ranking exercises they need to discriminate clearly between different units. While the CVA measure for English schools contained useful performance management information, for example, it was misleading to use it to rank individual schools. Once the uncertainties associated with its calculation are taken into account, Wilson and Piebalga (2008) found that over half of all English secondary schools are not significantly different from the national average when 'ranked' on their CVA scores. Jacobs *et al.* (2007) obtained similar findings for hospital star ratings.

### PIs and bureaucratic accountability: Targets and rankings

There is now a large and growing body of evidence on how individuals respond to PIs as part of bureaucratic accountability mechanisms such as targets and rankings. Much of this evidence relates to gaming responses and other unintended consequences of their use, while there is less evidence on whether their use improves public service outcomes. Hood (2006, 2007) discusses the different forms of strategic or gaming behaviour that result from target and ranking systems. Target systems produce the potential for ratchet effects, threshold effects and output distortions. Ratchet effects arise in systems where the target is set as an incremental advance to current output, which creates the incentive to suppress that current output in order to reduce future targets. Threshold effects occur due to the incentive to just hit the target and do no more; and output distortions describe the incentive to focus on hitting the target to the detriment of effort directed at real improvements in performance.

Ranking systems (league tables) may also create similar incentives for output distortion. If the measured performance of an organization is being directly – and publicly – compared with that of others, the incentive is to focus effort on that measured element in order to boost the ranking position. The extent to which this deflects from effort towards true improvement will depend on the extent to which the PI accurately reflects overall performance. The multi-product, or multi-task, nature of many public service organizations' output gives agents opportunities to divert activity away from non-incentivized tasks, which furthers the potential for output distortions (Propper *et al.*, 2008b).

There is a large body of evidence on such undesired responses to league tables and targets in education and health care.<sup>2</sup> In the education sector, this includes output distortions such as teaching to the test and a narrowing of the curriculum in order to boost published test score outcomes (Wiggins and Tymms, 2002; Jacob, 2002); various forms of cream skimming to boost performance as measured by raw outcomes PIs (Meyer, 1997; Figlio and Getzler, 2002; Cullen and Reback 2002; West and Pennell, 2000); and a focus on 'borderline' pupils in order to meet targets, to the detriment of the outcomes of their non-borderline peers (Deere and Strayer, 2001; Reback, 2008; Burgess *et al.*, 2005; Wilson *et al.*, 2006).

There are also numerous examples of strategic response to targets in the health care sector. Green and Wintfeld (1995), for example, argued that 41 per cent of New York State's reduction in risk-adjusted mortality could be accounted for by data gaming. For the UK, Bevan and Hood (2006a) reported evidence on five types of output-distorting responses to Accident and Emergency waiting time targets. These include requiring patients to wait in ambulances until they were guaranteed to be seen within the four-hour target, and removing the wheels from trolleys to turn them into 'beds' to satisfy the target that patients must be admitted to a hospital bed within 12 hours of admission. Bevan and Hamblin (2009) additionally provide evidence of gaming of the eight-minute response time target by ambulance trusts.

There is some evidence that the use of PIs as part of bureaucratic accountability mechanisms has improved health care outcomes. The most reliable US evidence comes from studies from the New York Cardiac Surgery Reporting System. Hannan *et al.* (1994) found that mortality declined significantly following publication of data on mortality rates, with no accompanying evidence of cream skimming. For the UK, the incentivized targets regime of the Quality and Outcomes Framework appears to have had a positive impact on specific outputs in the primary sector (Hood *et al.*, 2009) although there is additionally evidence of output distortions resulting from this performance regime (Checkland *et al.*, 2008). Propper *et al.* (2008, 2008b) provide evidence that the 'targets and terror' regime on hospital waiting times for in-patient care in England led to shorter waits on average (relative to Scotland, where there was no such incentivized regime), and that this was not at the expense of other, less well-monitored, aspects of patient care. Alvarez-Rosete *et al.* (2005), Bevan and Hood (2006b) and Hauck and Street (2007) also compared waiting times across the devolved

<sup>2</sup> I review this evidence in more detail in Wilson (2010).

administrations of the UK and found that English waiting time targets had a positive impact.

In education, again there is some evidence of improved outcomes, albeit alongside the evidence on less desired responses outlined above. For the US, the picture is nuanced by student type and by subject. Ladd (1999), for example, found that the Dallas test-score-based accountability programme had a positive effect on outcomes for White and Hispanic seventh-graders, but not for their Black peers. Dee and Jacob (2009) found positive effects on maths scores but no impact on reading scores. Conversely, Jacob (2002) showed that test scores in maths and reading both increased in Chicago public schools after the introduction of a test-based accountability policy, but that student effort and improvements in test-specific skills largely drove those improvements. Hanushek and Raymond (2005) found a positive effect of 'consequential' accountability, whereby published school performance was linked to a range of consequences, including vouchers for pupils to leave poorly performing schools and the threat for a school of potential takeover.

Similarly in the UK, school performance as measured by publicly available PIs has potential consequences via pupil choice and more top-down sanctions such as potential takeover. Burgess *et al.* (2010) provide evidence of the effectiveness of school league tables using this UK data. From 1992 to 2001 secondary school league tables were published annually in England and Wales. In 2001 the Welsh Assembly Government abolished league tables, thereby removing a key element for accountability of two otherwise near-identical education systems. By comparing student outcomes in England and Wales before and after 2001 the authors were able to isolate the impact of that specific policy change. They found that abolishing school league tables markedly reduced school effectiveness in Wales relative to England, by an average of almost two exam (GCSE) grades per student per year. This effect was concentrated in the schools in the lower 75 per cent of the distribution of ability and quality, with schools in the top quartile showing no effect. The policy reform in Wales therefore reduced average performance and raised educational inequality relative to England. Given the largely rural geography of Wales, and the subsequent practical limits on the potential for parental choice, the authors concluded that it was the use of league tables within the bureaucratic accountability framework, rather than the concurrent democratic accountability, that was the most likely driver of the results. This is despite the current focus of policy discourse being centred on the use – and potential effectiveness – of performance information as part of democratic accountability frameworks incorporating choice and/or voice.

## PIs and democratic accountability: Choice and voice

Since the 1980s user-based mechanisms such as choice, voice and personalization have been introduced by governments as part of successive public service reforms, both in the UK and elsewhere. Such initiatives generally have the aim of improving public service quality through consumer pressure, as well as empowering users, making public services more responsive to their needs. Choice and voice are considered to be complementary: 'Providers will be held to account through a combination of mutually reinforcing choice, voice and transparency mechanisms, depending on the service being provided' (Cabinet Office, 2011: para 5.26). This discourse about choice and voice working together to improve quality can be traced back to Hirschman (1970), who argued that exit (choice) and voice are two consumer responses to deterioration in the quality of a firm's product or service. Exit is 'the sort of mechanism economics thrives on' (Hirschman, 1970: 15). It is neat, impersonal and indirect: subsequent recovery by the firm comes via the market. Voice, by contrast, is more 'messy', more personal and more direct, and for Hirschman can cover anything from personal complaint to collective action. So, exit belongs in the economic realm, with consumer decisions in the marketplace as levers of change, while voice is positioned in political, democratic realm with individuals as citizens making their feelings known (Dowding and John, 2008; Greener, 2007).

Hirschman argues that a process of decline in the quality of a firm's output (for whatever reason) activates certain consumer responses – exit and voice – which in turn act as endogenous forces of recovery, thereby reversing the initial decline in quality. This is a self-correction mechanism, whereby the very process of decline activates certain counterforces and hence generates its own cure – the 'embedded incentives' in Le Grand's (2007) terminology. Hirschman argues that different combinations of exit and/or voice are suitable in different settings, depending on which signal(s) the firm is most responsive to.

In practice, despite the simple appeal of 'choice' and 'voice', the terms are actually used in many different ways and can refer to quite different institutional arrangements, which in turn impact on the outcomes of any one user-based mechanism. Three questions serve to frame the basic elements of a choice-based system. First, who chooses? In education it is the consumer herself, the pupil, or the parents acting on her behalf. In the health care context the choice is more usually delegated to a specialized agent (gatekeeper, intermediary, payer) acting on the consumer's behalf. In practice, in health care, patient choice is

often somewhat limited, with payer choice dominant, although the distinction is sometimes blurred (Propper *et al.*, 2006).

Second, what do they choose? In state-funded systems, price is generally not the determining factor and quality is important. Parents are likely to care about the quality of education, broadly defined, which may include factors such as a school's previous results, its composition, ethos, facilities, location (Wilson, 2009; Burgess *et al.*, 2009, 2011; Allen and Burgess, 2010). In health care, the patients are often fully insured against the price and so choose on the basis of quality, while the body responsible for buying care will be interested in both. Finally, what are the constraints on the process of choice? For parents the most obvious constraint is that their preferred school is full. Transport time and costs may be a constraint on choosing other schools, and house prices may be a constraint on moving. In health care, travel costs and other costs of using care may constrain choice. Consumers may feel 'locked-in' to local government services, with little realistic option for exit. In all public service contexts the lack of accurate information on the quality of the often complex service being provided may limit the extent to which consumer choice, or voice, creates the incentive to improve that quality.

While user empowerment through choice and voice may be desirable in and of itself, it is hard to imagine that users will continue to be satisfied with having some form of control in their public services if there are no noticeable improvements in their experiences of them. This relates to the distinction made by Dowding and John (2009a) between intrinsic value – choice being desired for itself; and instrumental value – if it results in welfare gains in the form of productive and/or allocative efficiency. They argue that attention should be concentrated on the potential welfare gains of choice rather than any supposed intrinsic benefits.

The use of choice and, increasingly, voice as a means to achieve such welfare gains is now well established in the UK and elsewhere (Burgess *et al.*, 2007; Propper *et al.*, 2006; Simmons *et al.*, 2009). Le Grand (2007) argues that such mechanisms create a system with incentives for reform embedded within it. Choice, coupled with a system of funding in which resources follow the user, applies competitive pressure to providers who therefore have the incentive to improve their service in order to attract or retain clients. Such improvements may include increased responsiveness to the needs of individual clients, which is often discussed as part of the 'personalization' agenda. Another goal of user-based mechanisms has been to improve equality of access for those users who historically have found it harder to access good quality services. Le Grand

(2007) goes further and argues that choice is better than voice at achieving this. So, for example, school choice can, in theory, break the link between house prices and access to 'good' schools by reducing the importance of geographical proximity as an allocation criterion. In practice this has not been so successful (Burgess *et al.*, 2009, 2011).

Whether we think of user-based mechanisms solely as means of empowering users, or as a means by which the quality of public services are improved, a fairly obvious consideration is whether people want choice and, if so (how) do they respond? Curtice and Health (2009) and the 2020 Public Services Trust (2010) both found that people want choice, but that it is not necessarily a priority. They found less support for diversity of provision, with only a minority of respondents in favour of private companies running either (state funded) hospitals or schools.

Propper *et al.* (2006) reviewed the evidence on whether patients responded to greater choice in health care (see also Dowding and John, 2009a).<sup>3</sup> They concluded that direct patient choice is limited in many systems, and that it may conflict with choice exercised by the agents who place contracts with hospitals on behalf of groups of patients. Patients in England have expressed willingness to travel to non-local hospitals and have done so when given assistance to exercise this choice. When such support is absent (or the wait at the local hospital is perhaps shorter or less uncertain), the evidence from European countries suggests there is relatively little take-up of such travel options. Individuals who are better informed and individuals whose illnesses are more severe may be more likely to travel and this may lead to greater differences across hospitals in patient severity.

This points to differences across individuals in their exercise of choice. There are also potential issues regarding differences in individuals' basis for choice. While the theory behind school choice, for example, rests on parents choosing at least partly on the basis of (published) academic standards, which in turn creates the incentive for schools to improve those standards, it may be that parents (additionally) have what 6 has termed 'segregationist preferences' (6, 2003 and references therein; Allen and Burgess, 2010), whereby individuals choose schools (or other public services such as housing) on the basis of trying to avoid certain types of other user. Recent evidence from Burgess *et al.* (2009, 2011) shows that parents choosing a primary school in England do value academic standards, but they also choose on the basis of proximity and

<sup>3</sup> I review the evidence on choice in health and education in more detail in Wilson (2010).



a school's socio-economic composition, preferring schools with lower proportions of pupils from low income households. I return to the issue of choice across multiple dimensions of quality below.

Does choice-based accountability improve outcomes? There is some evidence from the UK reforms of the 2000s that quality improved in hospitals located in more competitive areas, and that such improvements may have been due to better management in those hospitals (see Propper, 2012 for a review). However, the extent to which these results can be generalized across different aspects of health care has been questioned (Bevan and Skellern, 2011) and the evidence suggests that, while consumers claim to want information on hospital performance, they do not in practice make great use of the data. In education, it is far from clear that school choice has improved the academic performance of schools (Allen and Burgess, 2010). It is difficult to disentangle the extent to which this is a failure of choice per se, or a result of the constraints on the ways in which choice has been realized in practice.

While there is now a substantial body of evidence on choice in public services there is much less on voice, or on how choice and voice may work together (Dowding and John, 2008, 2009b). Wilson (2009) applies the original Hirschman framework to the education context, and shows that it is only under restrictive assumptions regarding how 'quality' is measured that choice and voice complement one another to improve that quality for all. If, as is more realistic, school quality is considered to comprise many dimensions this may no longer be the case. Wilson outlines the case where multi-dimensional school quality coupled with league tables focusing on raw outcomes PIs creates the incentive for schools to respond to either choice or voice signals from only one type of (middle-class) user. More generally, her analysis emphasizes how concurrent accountability mechanisms employing an imperfect measure of quality or performance may create potentially undesirable responses from provider organizations.

## Discussion

So, what have we learnt from the use of PIs in public service delivery to date? The evidence suggests that PIs are most effective within a system of bureaucratic accountability. Providers do respond to the public disclosure of performance information when it is part of an incentive structure comprising financial and/or non-financial rewards and sanctions. There is some evidence that targets and

such ‘carrots and sticks’ work, particularly if the desired outcome is focused and measurable, as in the case of hospital waiting times. There is less evidence that democratic accountability via choice and/or voice works to systematically improve outcomes for all users. In education, for example, the evidence suggests that the mechanism via which the league tables improve school performance is one of reputation rather than parental choice (Burgess *et al.*, 2010). A common theme that emerges is the extent to which the outcomes of any one accountability mechanism are situation specific, which suggests caution is required before translating a policy from one institutional context to another.

The two assumptions underlying PI-based governance structures do not hold for public service delivery: measurement error is an inherent problem, as is the resultant potential for undesired as well as desired responses, and the evidence bears this out. Using such PIs within either a bureaucratic or democratic accountability mechanism provides the incentives for both kinds of response. How that is manifested will depend on the form of PI that is employed, the use to which it is put (in terms of targets set, rankings created), and the unobserved motivations of provider organizations and employees. The current UK policy discourse emphasizes increased transparency via publicly available performance information, coupled with choice and voice as drivers of improved standards for public service delivery (Wilson, 2012). Given that the evidence suggests that PIs are most effective within a system of bureaucratic accountability, the danger is that providers may focus their efforts on attempting to rank highly on potentially conflicting performance measures to avoid bureaucratic sanctions, rather than responding to the needs of the full range of individual service users.



# Choice and Competition: Evidence from Health Care

Carol Propper<sup>1</sup>

## Introduction

During the past two decades, policy-makers have promoted choice and competition in health care as a means of increasing productivity and responsiveness to consumers. In the USA, managed care has led to the introduction of price competition between health care providers. In western Europe, England, Denmark, Sweden, Norway and Holland among others, are all seeking to increase competition and patient choice.

Those promoting competition and choice often appeal to a simple economic argument. Competitive pressure helps make private firms more efficient. They cut costs and improve their goods and services in order to attract consumers, and this continual drive for improvement is good for the economy. Firms that are unable, or unwilling, to become more efficient will be priced out of the market while new, more efficient, firms will enter the market. It seems easy to transfer this logic to the provision of public services. Giving purchasers or service users the ability to choose applies competitive pressure to health care providers and, analogously with private markets, they will raise their game to attract business.

The aims of this chapter are first to subject this assumption to the scrutiny provided by the theoretical and empirical economic evidence on competition between providers and on patient choice in health care markets. Does either

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economic theory or the empirical evidence suggest that greater competition will improve health outcomes? What is the experience of increasing choice into previously low choice systems? Will all patients gain, or are some likely to lose? Second, based on this, I offer a personal view as to the desirability of the use of greater choice and competition mechanisms in the UK health care market.

Before proceeding, it is worth noting that competition between health care suppliers and patient choice are not necessarily the same policy, even if the two may be bundled together in political rhetoric. Competition between health care suppliers can operate with relatively little choice being exercised by consumers, for example, in systems where patients have little choice of insurer or of a 'gatekeeper' for health care services but in which insurers and gatekeepers 'shop around' for health care on behalf of their insurer populations or patients. Even where consumers have more choice of supplier, the nature of health care means they typically rely heavily on professional advice in seeking use of care and may use the same provider of care for care over a period of time (for example, for those with chronic health care conditions). This gives the individual provider monopoly with respect to the consumer. So choice may more realistically (and usefully) promoted by offering patients choice of an insurer or gatekeeper rather than choice for every episode of health care and competition promoted between suppliers of health care for business from the gatekeeper/insurer.

In this chapter I do not examine in any depth issues around patient choice of insurer, but focus instead on the effect of competition between suppliers of health care, as this has been the nature of reforms to date in the UK. However, in the conclusion I discuss briefly competition for insurer as it has been promoted as a possible means of increasing efficiency in a number of European countries as well as being part of the health care system in the USA.

The rest of the chapter discusses the impact of competition between suppliers in health care markets. The provision of information on provider performance is a prerequisite for choice driven competition between providers and so the role of information in increasing competition is examined. The next section considers the effects of attempts to increase direct choice by the patient of their care provider and the final section offers some concluding comments.

## Competition between hospitals

I begin by examining the theoretical and empirical economic evidence on the effect of greater competition between providers in health care markets. Note

that most of the evidence focuses on a narrow set of outcomes, primarily the effect of competition on prices and quality of health care, sometimes with a focus on winners and losers, that almost all studies provide evidence only on positive questions, such as ‘does competition increase quality?’ and that most of the evidence comes from the USA or, in Europe, the UK.

### **The impact of competition on health care markets: What economic theory predicts**

Health care markets are usually thought to differ from textbook competitive markets in a number of important ways. These include: the fact that the product is differentiated (due, for example, to hospital’s different geographical location or different styles of health care), that information is imperfect and that government regulation is extensive as a response to these departures from the textbook competitive market. In addition, many firms, even in a system like that of the USA, are not-for-profit (Dranove and Satterthwaite, 2000). In these types of complex markets, economic theory fails to provide strong guidance as to whether competition is optimal. In particular, where there is product differentiation, competition can provide too little quality or variety, too much, or just the right amount. The intuition is as follows. Competition may ‘underprovide’ variety since competitive firms cannot capture the consumer surplus from additional variety. A monopolist may provide more variety as it is the only seller in the market and can capture the consumer surplus. Alternatively, competition may produce too much variety since in a competitive market part of the profit from new variety will come from ‘stealing demand’ from other firms. A firm deciding to offer a new variety will not take account of this external effect so there will be excessive product variation (Gaynor and Vogt, 2000).

Analyses that take account of the multi-product nature of hospital production and the imprecision of measures of both quality and price have shown that the impact of competition between hospitals on price and quality is ambiguous (Dranove and Satterthwaite, 2000). The impact of competition will depend on the responsiveness of the buyer of health care to both quality and price. This will depend on how precisely price and quality can be observed. If price and/or quality cannot be measured and reported well, this will make the buyer less responsive to changes in price or quality. If quality is observed accurately but price is observed poorly, then demand becomes less responsive to price, allowing providers to raise their prices, but also giving the provider an incentive to increase and possibly ‘overproduce’ quality. If price is observed accurately but

quality is observed poorly, then the levels of quality supplied will be too low. Finally, if quality has several attributes, one of which is easier to observe than another (for example, clinical quality and patient amenity), then competition may lead to overproduction of the one that is easily observed and underproduction of the one that is less easy to observe.

The level of prices will also impact on the outcome of supplier competition. In a market in which buyers of health care are covered by generous health insurance (as in the USA before the 1980s), buyers will not be sensitive to price, but will be responsive to differences in quality. So price may be high, but quality will also be high. In markets where buyers have 'harder' budget constraints, price may be more important and hospitals will compete on prices, leaving quality to fall below efficient levels. Where a single price is fixed for all providers for a treatment (as in prospective payment systems), there will be no price competition and so all competition will be in terms of quality. Competition may lead to excessive levels of quality and excessive product differentiation (Gaynor, 2004), but if government reimbursement for a treatment is too low, competition may lead to the quality of this treatment being too low.

As individuals differ in the severity of their illnesses, any regime that sets a single price for all patients of a certain type – for example, a single price for the treatment of a certain condition – will set up incentives to treat the less costly patients and to avoid treating or 'undertreat' the more costly patients. Such regimes include the diagnosis-related group (DRG) system used in the USA by the government and any kind of prospective payment system, in which reimbursement is set in advance of treatment. These incentives exist regardless of whether there is competition or not, but competition may sharpen them, resulting in differential treatment of patients. So, for example, patients who are more expensive to treat may get worse quality care or remain untreated (known as 'skimming' and 'dumping') while hospitals compete for lower cost patients by offering them better quality ('creaming') (Ellis, 1998). Differential treatment might also arise in markets where patients are covered by insurers who differ in the generosity with which they reimburse hospitals.

## The US evidence on competition and health outcomes

Almost all the evidence comes from the US market, and much of this comes from one – albeit very large – market, California.<sup>2</sup> The results of these studies shows impact of competition depends on the ‘rules of the game’: the institutional features of the health care market. Three regimes can be identified in the US health care market (Dranove and Satterthwaite, 2000). In the first, which operated in the 1960s and 1970s, consumers were covered by generous insurance and hospitals were reimbursed retrospectively for their full costs. In the second, which began in the early 1980s, payers increasingly used prospective payment schemes (PPS), which reimburse hospitals according to the average cost for a procedure or treatment group. The third regime began in the 1980s, took hold in the 1990s, and is known as managed care. Under these arrangements, payers limit the choice of health care suppliers that their insured population may use, in return for lower insurance costs. Managed care organizations have an incentive to be concerned about price and have also been very active in seeking information on quality.

Most studies suggest that the switch to both prospective payment and managed care increased price competition and lowered costs (or lowered the growth in costs) (e.g. Zwanziger and Melnick, 1988; Feldman *et al.*, 1990; Robinson, 1991; Melnick *et al.*, 1992; Gaskin and Hadley, 1997; Keeler *et al.*, 1999; Baker and Phibbs, 2002; Heidenreich *et al.*, 2002; Bundorf *et al.*, 2004). There is also evidence that hospitals in competitive markets decreased the amount of uncompensated care they provided in response to the introduction of increased price competition (Gruber, 1992; Dranove and Satterthwaite, 2000; Gaynor and Vogt, 2000). Dranove *et al.* (2008) suggest that the managed care backlash of the mid-1990s weakened MCOs ability to play competitive hospitals off against one another to secure price discounts, making demand less sensitive to price.

In terms of the effect on quality, it is the generally accepted view (though the empirical support is quite weak) that the first regime resulted in a ‘medical arms race’ (Robinson and Luft, 1985).<sup>3</sup> Within the managed care regime, an emerging

<sup>2</sup> Some of the early evidence is difficult to interpret because of the methods of analysis used. In early studies, hospital markets were not well defined and there was no recognition of the fact that the measure of competition might be affected by the outcomes that were being studied. Later studies tend to have paid more attention to these issues, and are more reliable indicators of outcomes.

<sup>3</sup> As buyers were not sensitive to price, hospitals competed on quality, both to attract buyers and to attract physicians to practice at their hospitals. This had the impact of raising both price and quality in areas with more hospitals (Joskow, 1980).



consensus is that competition where prices are fixed leads to an improvement in both costs and quality provided the fixed prices are high enough, while the results in systems where both price and quality competition occur are less positive.

Kessler and McClellan (2000) examined the treatment of elderly patients admitted to hospital with a heart attack. All these patients, because of their age, were covered by government insurance (Medicare), which paid generously for AMI treatment under PPS. This influential paper showed that higher competition was associated with high quality – lower AMI death rates – and lower cost increases. Similar findings are reported by Rogowski *et al.* (2007), who look at deaths across a broader range of medical conditions and Sari (2002) who measure quality of health care by number of in-hospital complications. Kessler and Geppert (2005) found that competition led to more appropriate care for elderly Medicare patients admitted to hospital following a heart attack. They examined the extent to which competition had an impact on patients who were sicker compared with those who were healthier and found in more competitive markets there was greater variation in medical care. Furthermore, this variation was on average beneficial. Healthy patients in more competitive markets received less intensive treatment than those in more concentrated markets, without any significant difference in health outcomes. Sicker patients in more competitive markets received more intensive treatment and had better health outcomes than similar patients in more concentrated markets. The effect of competition is that there is more appropriate treatment.

Whether hospitals increase quality when operating in competitive markets also appears to depend also on the precise mix of payers that the hospitals have. There is evidence that HMOs have preferences for higher quality hospital care (Schulman *et al.*, 1997; Chernew *et al.*, 1998; Escarce *et al.*, 1999; Gaskin *et al.*, 2002; Young *et al.*, 2002; Rainwater and Romano, 2003). This leads to both price reductions and quality improvements in competitive environments where HMO penetration is high (e.g. Mukamel *et al.*, 2001; Sari, 2002; Rogowski *et al.*, 2007). However, not all the evidence supports this view; Kessler and McClellan (2000) find no association between the two and Shortell and Hughes (1988) and Shen (2003) both find higher HMO penetration to be negatively associated with hospital quality of care.

Where reimbursement rates are set by Medicare (or another government insurer) that sets relatively low rates, hospitals may respond to competition for patients by reducing quality. Gowrisankaran and Town (2003) examined the treatment of both Medicare and HMO patients and found that competition

reduced death rates for HMO patients but increased those of Medicare patients. There is also research showing that falls in reimbursement rates are associated with poorer quality. A change in payment methods in New Jersey reduced subsidies for hospital care for the uninsured and changed hospital payment to price competition from a rate-setting system based on hospital cost. This led to an increase in AMI mortality and a relative decrease in the use of cardiac procedures (Volpp *et al.*, 2003).<sup>4</sup>

A related issue is whether price-based competition changes the type of services provided. Mukamel *et al.* (2000) examined whether hospitals in more price-competitive environments shifted resources from activities related to clinical service, which are not easily observed and evaluated by patients, into hotel services, which are easily observed. They studied the change to selective contracting in California in the early 1980s and found some evidence to support resource shifting. In not-for-profit hospitals, resource use declined more in clinical services than in hotel services.

## **Evidence on competition and health outcome from outside the USA**

The evidence on competition between hospitals outside the USA is extremely limited, mainly because such competition has been extremely rare. In addition, some of this evidence is less about competition per se than about the effect of changes to the payment mechanisms that have accompanied policies to increase competition.

Most of the non-US evidence on competition comes from the UK, which has had two periods during which competition has been promoted in the National Health Service (NHS). The first was the ‘internal market’ of the 1990s. This encouraged competition between NHS hospitals for contracts for hospital care from two sets of buyers (geographically-based district health authorities and the smaller GP fundholders). Prices could be negotiated between hospitals and the buyers and price lists (not including any discounts) were supposed to be publicly available. Information on quality was very limited. The second period was from the mid-2000s onwards, when Tony Blair promoted greater choice

<sup>4</sup> The more competitive market conditions of the 1990s also led to harsher financial conditions. Bazzoli *et al.* (2008), who looked at the impact of financial performance on quality, found some limited evidence that hospital financial condition (measured as cash flow as a proportion of total revenue) is negatively associated with the number of in-hospital complications, medical errors and deaths.

for patients and competition between hospitals. Under this regime, prices were fixed, and patients were given the right to go where they wished for hospital treatment. Greater information was provided through a website that provided access to some information on hospital performance (Gaynor *et al.*, 2010).

Economic theory suggests that with fixed prices, hospital competition should improve quality, but that in markets where prices are not fixed and buyers very sensitive to price and other attributes of care, quality might fall. The experience of the two regimes broadly supports these predictions. In the internal market of the 1990s incentives in this market were weakened by political desires to limit competition (Le Grand, 1999). There is some weak (due to poor quality cost data) evidence suggests that greater competition was associated with lower costs (Söderlund *et al.*, 1997) (Propper *et al.*, 1998; Propper, 1996). The stronger results come from evidence on quality and waiting times. This shows that waiting times and quality – at least as measured by deaths of patients admitted to hospitals with heart attacks – both fell more where hospitals were exposed to greater competition (Propper *et al.*, 2004, 2008). This combination of a fall in waiting times and quality fits with the predictions of economic theory: demanders in this market were very sensitive to price and volume and quality information was weak, so that competition focused providers on the former at the expense of the latter.<sup>5</sup>

The emerging evidence from the ‘Choose and Book’ reforms suggests that with regulated prices and better information on quality, hospitals focused on improving the latter to secure demand. Gaynor *et al.* (2010) found that hospitals which were of higher quality attracted more patients and drew patients from further away after the reforms. This suggests that patients (or their GPs on their behalf) were choosing higher quality hospitals after the reform. This is supported by a study of patients who had cardiac surgery, which found that hospitals with higher quality (as measured by lower death rates following surgery) increased their market share post-reforms (Seiler, 2011). Cooper *et al.* (2010) and Gaynor *et al.* (2010) both found that the reforms led to fewer deaths for heart attack patients in hospitals facing more competition. In addition,

<sup>5</sup> There is also evidence to suggest that the two types of purchasers were differentially able to reap the benefits from provider competition. Compared with district health authorities, GP fundholders were able to secure shorter waiting times for their patients, were more able to move contracts and generally appeared to be more responsive to patients’ wishes and more willing to exploit competition between hospitals for their business (Le Grand, 1999; Croxson *et al.*, 2001; Propper *et al.*, 2002; Dusheiko *et al.*, 2004). Case study evidence suggests that fundholders did not engage in patient dumping, even though they had the incentive to do so (Matsaganis and Glennerster, 1994). For more evidence on the effect of competition on waiting times see Dawson *et al.* (2007) and Siciliani and Martin (2007).

Gaynor *et al.* (2010) found that this increase in quality was not associated with a rise in total hospital expenditure, suggesting that the reforms increased patient benefit at no increase in cost.

These studies suggest that competition improved outcomes but do not examine how these gains arose. A recent study suggests that this may have been through improvement in management. Bloom *et al.* (2010) found that, during the same period as the 'Choose and Book' reforms, better management in NHS hospitals was associated with better outcomes. These outcomes included financial performance, clinical quality and overall ratings from the health care quality regulator. In addition, they found that competition led to better management: hospitals with more competitors around them had higher management quality.

Finally, a recent study of the wave of hospital consolidations and mergers in the NHS between 1997 and 2003 suggests that these consolidations brought few gains. Activity in hospitals fell post merger, but labour productivity remained the same, deficits continued to rise and patients waited longer for care (Gaynor *et al.*, 2012). This again provides support for the benefits of competition in a regulated health care system.

## Other evidence

The Nordic countries have NHS-type systems where care is provided by the public sector and finance is provided through taxation. In Norway, Denmark and Sweden some elements of patient choice driven competition has been introduced, primarily to decrease waiting times. In all three countries, it has been accompanied by a move towards output-related (DRG-type) payments. A review of Denmark and Sweden concluded that the incentives for hospitals to accept patients from outside their area have been weak and, perhaps unsurprisingly, only a small proportion of patients went out of area under these schemes (Williams and Rossiter, 2004). The evidence does not support a strong reduction in waiting times in Denmark. In Sweden there is some evidence that the move to output related payments in the late 1980s and early 1990s initially increased productivity (Gerdtham *et al.*, 1999) and reduced waiting times, but at the expense of increased total costs (Kastberg and Siverbo, 2007). In the mid-1990s, adjustments were made to control costs, but this led to longer waiting times and the initial productivity increases ceased (Hakansson, 2000). There appears to be little assessment of the impact of output related payments on provider competition or outcomes in Norway. Another country with an NHS system also attempted to increase competition. New Zealand, in 1993, pursued

a 'big-bang' policy change whereby they pushed through a radical set of market orientated reforms designed to improve efficiency via increased competition between providers (Gauld, 2000). However, these reforms failed to bring about the improvements in performance that were hoped for and also had several adverse consequences.

## The use of information in health care markets

The provision of information on provider performance is a prerequisite for choice driven competition between providers. However, the evidence – mainly from the USA – suggests that such information does not necessarily improve outcomes.

Marshall (2002) suggests very different use of information on provider performance by consumers, buyers and health care providers. Although consumers state they want more information, published data has only a small impact on consumer decision-making. Lack of interest in, and lack of use of, performance data appears to be due to difficulties in understanding the information, lack of trust in the data, problems with timely access to the information, and lack of choice. Purchasers use information on providers to a greater extent than patients. Information appears to be most used by health care providers, suggesting a strong potential 'yardstick' competition function for information.

Public reporting of performance may engender positive responses by providers, but it may also have unintended consequences. This stems from the fact that outcomes, particularly quality, are very difficult to measure in health care (Propper and Wilson, 2006). Information on performance gives providers the incentive to do well according to the criteria that are published; the problem is that they will do this by increasing efforts to improve the published criteria, which is not necessarily the same thing as improving actual outcomes. Possible responses include the improvement of performance and the exodus of poor performers but also, less positively, the selection of patients, differential treatment of patients and manipulating the data to appear to do better (Propper and Wilson, 2003). Examples of manipulation of the data from the UK include the re-categorization of patients during the 1990s to reduce published inpatient waiting lists. Smith (1995) provides an extensive list of some of the less positive responses of providers to the publication of information in health care.

Report cards have been introduced in the USA to provide information, at the level of individual surgeons in hospitals, on the quality of outcomes.

Studies of the impact of the mandatory New York coronary artery bypass graft surgery report cards, which were introduced in the late 1980s, concluded that mortality decreased, and the severity of patients operated on increased. Possible explanations include: the exodus of low volume, high mortality surgeons, a marked improvement in the performance of non-low volume surgeons, and improvement in the performance of surgeons new to the system (Hannan *et al.*, 1994). Dranove *et al.* (2003) used the same data to examine the impact of report cards on appropriate matching of patients to hospitals, on the quality and incidence of intensive cardiac treatments and on the resource use and health outcomes that determine the net consequences of report cards on social welfare. They found that report cards led to substantial selection by providers of patients, increased sorting of patients to providers on the basis of severity of their illness, and significant declines in the use of intensive cardiac procedures for sicker patients. The introduction of report cards appears to have altered both the mix of patients (less ill patients were admitted where there were report cards) and the treatments given to admitted patients also changed. Both healthier and sicker patients received more treatment, but while this improved the outcomes for healthier patients, it worsened outcomes for sicker ones, because hospitals avoided performing intensive surgical therapies that were monitored for sicker patients and instead used less effective medical therapies. Overall, Dranove *et al.* (2003) concluded that these cards reduced patient welfare, though the longer-term effects might be more positive. For example, the increased patient sorting that report cards engender might lead to more accurate and effective treatment as hospitals become more specialized in the treatment of certain types of patients.

In summary, while consumers have access to more information, information in health care markets is often too complex for direct use by consumers. It is often in a form that is of limited use for buyers of health care. It is most widely used by providers themselves and they appear to respond quickly to the incentives given by the information. In these responses they will focus on improving measured outcomes; this may or may not improve actual outcomes and there is considerable evidence of 'gaming the system'.

### Do patients respond to greater choice?

As noted above, direct patient choice may be limited in many health care systems, not just NHS-type ones. Even in private insurance systems, attempts to contain the growth of costs mean that patient choice is typically exercised at the

point of choice of insurer, rather than in direct choice of hospital conditional on insurance. Patients who are allowed to choose hospitals will make these choices on the basis of the benefits and costs associated with each of the hospitals they may choose between. Factors that play a part in this calculation will include what illness they have, the severity of the illness, the quality of the hospitals, the costs of accessing and using them, and the amount of information they have, both about their medical health and the benefits of care provided at different hospitals. Individuals who differ along these dimensions are likely to differ in their willingness to exercise choice.

### **Evidence from the UK**

The Choose and Book reforms, as noted above, gave patients the ability to choose their provider. Initially this was between four or more providers (Department of Health, 2004) but from April 2008, patients were given the ability to choose from any provider in England, as long as the provider met NHS standards and were paid using the NHS-wide tariff (Department of Health, 2009a). Along with giving patients formal choice of where they could receive secondary care, the government also introduced a new information system that enabled paperless referrals and provided information on waiting times,<sup>6</sup> known as 'Choose and Book' (Department of Health, 2004). Information on quality at the provider level was available from a website operational from 2007.<sup>7</sup> The evidence comes from patient choice pilots prior to the roll out and emerging evidence on the operation of 'Choose and Book'.

The pilots offered patients who had been waiting over six months for certain treatments a choice of different provider. The evidence suggests high take-up of choice under the scheme: 67 per cent in the London scheme, 50 per cent in the national coronary heart disease pilot and 75 per cent in the Manchester pilot. The high take-up rate is likely to be driven by the fact that in order to qualify patients had to have been waiting six months, patients were provided with high levels of information about the available choices open to them and they were given advice and financial assistance with transport and accommodation for companions (Williams and Rossiter, 2004). This high take-up contrasts with rather lower take-up for patient choice policies in other countries. The reasons

<sup>6</sup> Primarily waiting times which were based on the last 20 appointments at each hospital.

<sup>7</sup> The website currently includes information collected by the national hospital accreditation bodies including risk adjusted mortality rates, infection rates, hospital activity rates for particular procedures (Department of Health, 2009b).

may include the fact that the financial factors in the UK pilots either did not operate, or operated only weakly, in choice schemes in other NHS-type systems. In the English pilots, it does not appear that the patients who took up choice differed in terms of severity or the deprivation of the area in which they lived. This again may be peculiar to the nature of the pilots. Patients were relatively homogenous; all had been waiting for at least six months and travel costs and information costs were similar across all groups.

Evidence from the Choose and Book scheme as it operated in four local health economies (Dixon *et al.*, 2010) suggests that even within two years of the reforms, patients' awareness of being offered choice was relatively high – around 50 per cent of patients recalled being offered choice. In addition, the study provides interesting evidence that GPs may underestimate the willingness of their patients to make choices and do not offer patients choices because they believe that the patient will not wish to make a choice. Around half (45 per cent) of the patients surveyed said that they knew before visiting their GP that they had the right to choose a hospital. Older patients and those looking after their family at home were more likely to know about choice, possibly because of their more regular contact with the health service, as were men and those holding a university degree. This went against GPs' perceptions that most patients were unaware of choice and that the young were more likely to be aware. In addition, there was some resistance, even among the study's sample of 'enthusiastic' GPs, to offering choice to every patient regardless of circumstances. GPs appeared to be more willing to let patients choose when the referral was fairly routine but were more directive when more specialist treatment was required.

### **Other evidence**

The very limited Nordic and French evidence from patient choice in these countries systems suggests patients who travel have different socio-economic status; the French evidence also suggests patients who travel have different medical conditions (Williams and Rossiter, 2004). Extending patient choice may also change the flow of patients to hospitals. It seems likely that more severely ill patients will want to go to more high-tech hospitals, leading to a change in the distribution of patients across hospitals. For example, US research indicates that, even among heart attack patients, the more severely ill travel further and to more specialist hospitals (Tay, 2003). In a study of the effect of Choose and Book on patients for heart surgery, Seiler (2011) found that post reform sicker patients in England were more likely to go to higher quality hospitals.



## Conclusion

In this section, we raise issues that arise from the evidence and then speculate on a suitable direction of travel for choice in an English health care context still in considerable policy flux.

The evidence suggests: Institutional design matters: the effects of competition between providers depend on the features of the market. Important features include whether prices are set centrally or not, who makes the choice of provider, and the availability of information on quality and prices.

Where buyers care about price, competition between hospitals has led to lower costs or lower cost growth. The best US evidence suggests that quality is higher where markets are more competitive and prices are fixed, though there are exceptions.

It is important to distinguish between payer choice and patient choice, as they are not the same thing. In health care, the localness of the product often means that the number of hospital providers are limited, giving providers monopoly power. To redress this, purchaser power may be required. In this situation, payer choice may be more effective than patient choice. If payer choice is to operate well, this may mean restricting direct patient choice. Note that in resolution of this conflict, most health care systems are characterized by payer choice and limited direct patient choice of hospital supplier. However, payer competition does not mean that consumers have no choice; they can be offered choice of primary care provider and/or insurer (the Dutch system is an example of the latter).

The provision of information is a prerequisite for informed choice and therefore needed to increase competition and to make health care markets work. But such information is generally partial and so gives the providers opportunities to 'game the system'.

In terms of direction of travel: It seems clear that the very restricted choice models of NHS type systems of the past are not likely to survive. As examples, the Nordic countries, England and New Zealand, all NHS type systems, have all tried to increase provider choice. The extent to which it is possible has been limited to date by geography, particularly in the smaller of these countries, but there is clearly an appetite for greater choice.

While supply-side competition has its limitations, the emerging consensus from robust studies appears to be that competition between providers under fixed prices will result in lower cost (growth) and better outcomes.

If it is accepted that payer-driven competition is broadly beneficial, then the

logic is that it should be promoted. This is likely to require regulatory intervention. Competition is intended to increase pressure on hospitals, something that hospitals, just as other firms in a market, are likely to want to avoid. In the US, hospitals have tried to reduce this pressure by entering into preferential pricing agreements, negotiating access rights to selected buyers or by merging. Many not-for-profit providers have merged and where they have done so they often appeal to the fact that their principal motivation is to serve local communities and – in some cases – this argument has been accepted by the courts. However, the US experience suggests that the benefits of mergers between either for profits or not-for-profits may well be exaggerated (see also the recent evidence for the UK in Gaynor *et al.*, 2012). So regulatory policy will be needed to promote competition.

In the English context at present, the government has introduced a new regulatory regime for hospital providers (a body called Monitor is setting prices and together with the general competition authorities, dealing with mergers and hospital failure). It is currently too soon to assess the impact of this regime. But perhaps the most obvious policy issue which has not been addressed to date is the lack of choice of primary care providers. Despite government rhetoric, choice of GPs remains limited. In spite of encouragement, private providers have not entered in large numbers as rivals to GPs, and restrictions on patient choice, which must be linked to home location, still remain. There seems no justification for such restrictions. Freeing up the market in primary care would reduce the monopoly power that GPs current have and may also allow a greater plurality of purchasing arrangement to develop. For example, some GPs might want to enter vertically integrated systems with a limited number of hospital and other health care providers. Others might offer a wider range of hospital and health care choice. This would allow consumers to match with their preferred GP type, while allowing these GPs to use their market power, something that individual patient choice of hospital does not have.

Encouragement of greater choice in GP would be one way of moving towards patient choice of insurer and so introducing both demand- and supply side competition. Several western European countries have sought to increase patient choice of insurer, though in most this remains more of a desire than a reality. It is also clear from the experience of the Netherlands, where this policy has been in place for longest, that equity concerns and the resultant measures to limit cream skimming can limit the gains from insurer competition.

Greater choice of GPs, encouragement of entry and diversity of provision may all lead to diversity across consumers. By allowing individuals to choose the supplier or insurer that matches their tastes, it may result in better outcomes at lower cost.<sup>8</sup>

<sup>8</sup> This aspect of competition/choice has been less studied. Besley and Ghatak (2005) show that matching in the labour market may play an important role in the production of public services. They show that matching between motivated agent and firms with missions reduces the need for incentive pay.

## Joined-up Public Services

Patrick Dunleavy<sup>1</sup>

What lessons can we draw from current attempts at integrating public services provision in the UK or elsewhere? What are the main benefits, problems and barriers to this process inside those kinds of service provision that are organized, funded or specifically regulated by government? How else might the UK government ensure the joining-up of services in ways that are helpful to citizens (e.g. through one-stop-shops, individual budgets, etc.)? How could services be integrated in the future? Despite the prevalence of such topics in practitioner discussions for many years now,<sup>2</sup> since at least the White Paper on *Modernising Government* (Cabinet Office, 1999), there is actually only a small research literature that more thoughtfully discusses these issues.<sup>3</sup> Most of them focus on particular services or particular client groups where problems of ‘service delivery disasters’ have been most acute, as with children’s services (Frost, 2005; Dunleavy *et al.*, 2010).

In this chapter I want to look more broadly across all the citizen-facing public services. I also seek to locate the underlying dynamic of changes in the government sector, the fundamental drivers of organizational development in the digital era. Essentially they can be summed up in a rather ugly but nonetheless powerfully descriptive word – disintermediation – which means the stripping out or slimming down or simplification of intermediaries in the process of delivering public services. Disintermediation achieves ‘joining-up’ by significantly and visibly reducing the complexity of the institutional landscape that citizens confront in trying to access, draw on and improve public services. A great deal of previous ‘joining-up’ does not qualify as disintermediation

<sup>1</sup> I thank Ed Towers and Jane Tinkler for assistance with the ideas in this chapter.

<sup>2</sup> See especially NAO (2004); Audit Commission (2005); Ghash *et al.* (2008: 6, 1997: 6); Stoker *et al.* (2002); Richards (2001).

<sup>3</sup> See Pollit (2003); Bogdanor (2005); Hood (2005); Catney (2009); Davies (2009).

because it has been back-office in style and approach. It matters to in-the-know bureaucrats behind the scenes (and it may be quite important for how they do their jobs). But it is not obvious or meaningful to citizens, or to firms or civil society organizations, struggling to manage their connections with a complex web of government agencies.

The chapter has three parts. First, I sketch out the nature of this web and why its current complexity creates major problems for citizens. Second, I consider the 'bottom-up' kind of joining-up (and more vaguely 'joined-up thinking'). Third, I situate the need for greater disintermediation in public services against the macro-trends in the private sector for a transition to online and e-based services, and also against the rather dialectical 'centralizing plus decentralizing' organizational dynamic of modern information and communication technology (ICT) developments. In the public sector these two key background influences combine with the specific agenda of 'digital-era governance' to make reintegration, needs-based holism and digitalization the key leitmotifs of the next decade and more of public services development.

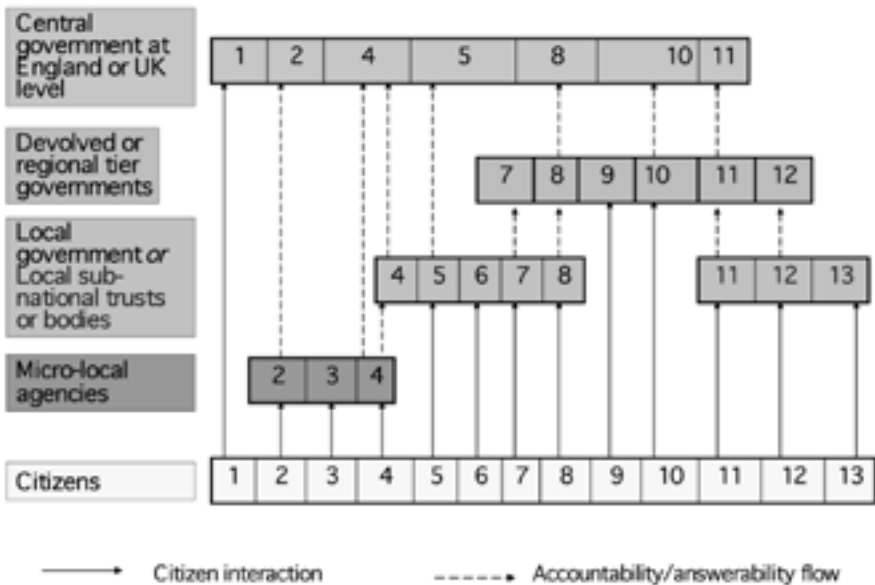
### 'What a complex web we weave' – the diversity of UK public service delivery chains

Over more than a decade, as part of my work with the LSE Public Policy Group, I have sat in on a great many focus group sessions with ordinary citizens discussing issues such as how to complain about public services, how to get redress if things go wrong, how to understand government forms and information websites and how to get help if you find them hard going. Almost invariably at some point someone in the group will remark that it is a great shame that UK government cannot be like Marks and Spencer or John Lewis, with their nationally agreed and known policies about returning goods and conveniently located branches in most high streets and major shopping centres. Turning to the group facilitator (or to me if I'm sitting on the sidelines), the people who raise this issue will ask in a detailed and genuinely puzzled way, how it is that the government with all its resources cannot emulate this standard of service and accessibility? Luckily for me the ethos of focus groups is to never give any 'expert' answers but to play back the question for the group itself to solve: 'That's a good question Ed. What do other people think?' The group will normally then divide into two-thirds of people who see government fragmentation and complexity as a Machiavellian ploy to deceive and confuse ordinary

folk, and a third who see it as an inadvertent by-product of officials wanting their own turf and not caring over-much about issues outside their responsibility or about what their decisions mean for citizens.

Yet why is not government more like Marks and Spencer? Why can it not have an integrated outlet on every high street or shopping centre, in the places where people want to go anyway? I am still not sure that I know any rational or easily defensible answer to these questions. One common answer is genetic – we created a system of government long ago, with organizational approaches and technologies for processing information that were the best we could do at the time. Now we have invested so heavily in these departments, agencies and local authorities that we cannot bring ourselves to disinvest or reorganize in more radical ways that might now be feasible, given modern ways of accessing, handling, storing and processing information. Another common answer (popular with top civil servants) rebuts the focus group query as naïve. This view points out that government spends 25 per cent of UK final consumption directly on goods and services (that is, leaving out of account its huge role in redistributing resources via transfer payments of various kinds). So the scale of UK government is just vastly greater than the operations of Marks and Spencer or Tesco. These responses both have something going for them. But before concluding that all is well, it seems important also to think critically

Figure 11.1 Thirteen types of citizen-government relationships in the UK



about how complex and differentiated our government set up actually is. Figure 11.1 shows my quick sketch of how public service delivery chains are currently organized in the UK.

This diagram may look complex, but since we all live and work with it already, it is worth just running quickly through the 13 different types of delivery chain.

- 1 *Central government services* are directly supplied by national ministries to citizens or businesses. Key examples are national taxation via Her Majesty's Revenue and Customs, the social security system via the Department of Work and Pensions (DWP), or on a much smaller scale the passport system of the registration of vehicles and drivers.
- 2 *Mediated central government services* are funded centrally but directly implemented by micro-local agencies. The key examples are the healthcare provided by primary care trusts and NHS hospital trusts in England.
- 3 *Autonomous micro-local agency services* seem to be rare in the public sector because funding implies control, but local charities and NGOs operate pervasively in this model.
- 4 *Services implemented by micro-local agencies in a public service delivery chain* involving both central and local government supervision (less commonly, also involving state or regional governments) are most important in education, with locally managed schools in England.
- 5 *Local government runs services, but is very closely supervised by central government* and without any substantive local discretion. This category is actually rather rare in the UK. The operations of housing benefits by local governments for the DWP are an important example.
- 6 *Autonomous local government services*, that are substantively uninfluenced by the centre are also not very common. Local planning and environmental services are the best current examples, but even here planning cases can be appealed upwards.
- 7 *Local government services supervised by devolved governments* are important in Scotland, Wales and Northern Ireland, whose governments supervise provision by their local councils and NHS bodies. (This is the counterpart of 5 above.)
- 8 *Local government services supervised by a public service delivery chain involving both UK and devolved or regional governments* are increasing slowly in scope, especially in London government with the key role of the Mayor and Greater London Authority (GLA) and in the northern English regions with the most developed regional institutions.

- 9 *Autonomous devolved or regional government services* (on the pattern of the USA) are rather rare still, but the evolution of NHS and social care policies for the elderly in the UK's devolved nations is an important example.
- 10 *Devolved or regional government services supervised or part-financed by the UK centre (or devolved governments respectively)* are standard for regional policy in Europe, but only slowly growing in the UK.
- 11 *Subnational or local administrations* (usually unelected), delivering public services in a delivery chain involving both state/regional and central/federal governments applied for many decades in the UK to some larger-scale NHS services and used to apply to regional development agencies in England.
- 12 *Services delivered by local or subnational administrations, supervised by state or regional government* applies mainly to some schools and public corporations in Scotland, Wales, Northern Ireland and London.
- 13 *Autonomously delivered services from local government* have traditionally been rather rare in the UK, but have recently seemed to increase in importance in areas like cultural policy and environmental matters, with some localities going 'beyond the basics' in what they provide for their citizens.

If this set up sounds tricky to hold in your head, bear in mind also that UK central government is split up horizontally into around 14 vertical silos, headed in each case by a department of state in Whitehall with its attendant 'departmental group' of quasi-government agencies, or with smaller-scale departmental counterparts in the devolved administrations. Of course, some of the 13 public service delivery chain patterns above apply either in England or in devolved nations (Scotland, Wales and Northern Ireland) and regions (i.e. only London at present), and some of the departmental silos are found only in one of the 13 chain patterns above. So we do not have anything like  $13 * 14 (= 168)$  different patterns to deal with, and some of the 13 patterns are fairly thinly populated in the UK in terms of absorbing personnel or public expenditure numbers. But overall I would estimate that there are at least 40 different and substantively important ways of organizing the inter-relations across tiers of government in most areas in the UK, each of them with their own distinctive peculiarities, institutional histories and characteristic ways of working.



## Existing development in joining-up public services

The picture of delivery chains and horizontal siloing above has been evident to ministers, to parliament and to devolved administrations and local authorities for many years – hence the existence of numerous partnership arrangements between local governments, NHS bodies and other agencies like the police authorities. This apparatus of partnerships has been described elsewhere (Ghash *et al.*, 2008; NAO, 2004; Audit Commission, 2005) and so I will not repeat that analysis here. It is worth noting, however, that in some ways the growth of partnerships has tended to add to institutional complexity in the public sector rather than necessarily to simplify it. For instance, if a local Crime Reduction Partnership embarks on a policy that has adverse consequences for residents or businesses, the job that citizens face in getting redress for any harm done to them, and the political mountain they must climb in order to get policies reviewed or changed, may be more considerable than they were before in dealing with distinct, single public authorities. The ‘organic’ nature of different partnerships, and their variability from one area to another, also add to difficulties in attributing policies organizationally and understanding how they might be changed, not only for citizens but also for public sector decision-makers themselves. Add in the extensive role of contractors in providing social care or cultural or community services, and it is far from clear that a decade of partnering has done much to qualify as ‘disintermediating’ public services.

None of this is to deny that the push towards thinking about local public services in a more joined-up way has been a very valuable initiative, nor that in principle it may be possible to show that the growth of partnerships has increased the effectiveness with which local public services are delivered. Hard research evidence seems to be rather lacking in this area, but there is a fairly broad practitioner consensus in favour of fostering greater joining-up. Given the lack of other evidence, this should certainly count in the scales in favour of partnerships having positive consequences.

A discussion of joining-up services by Professor Nick Frost (2005) provides a very helpful jumping off point for my rather different analysis below. He notes that in the highly stressed area of children’s services, the push for more joining-up between local authority social services, NHS staff, the police, local schools and other bodies reflected very well-known problems, including:

- Information not being shared between agencies and concerns not being passed on. As a result children may slip through the net or receive services only when problems become severe.

- A child may receive assessments from different agencies which duplicate rather than complement each other.
- Several professionals may be in contact with a child over time but no single person provides continuity or co-ordinates services.
- Several agencies spend some money on the child rather than one agency spending an appropriate amount on a co-ordinated package of support.
- Services may disagree about whether the child falls into their categories and may try to pass on difficult cases to other organizations.
- Professionals and services may be based in different locations rather than co-located.
- Co-location can make services more accessible to service-users and improve inter-professional relationships and ways of working.
- Services are planned and commissioned to focus on one particular objective – such as childcare, truancy, or family abuse. Planning services in the round can enable a better response to support the child and be better value for money. Joint commissioning can enable the creation of services that deliver multiple dividends such as children's centres and extended schools. (Frost, 2005: 1718)

Below I look at a modified version of a sequence that Frost argued marked the main 'stages' in the development of 'joined-up thinking' (2005: 3–16).<sup>4</sup> In general I am broadly sceptical of stages models in most public management contexts, because they often disguise the fact that two or more intermediate 'stages' can often be telescoped together or missed out entirely if a radical decision is taken to do so. For instance, stage 7 below involves mergers or integrations across services, implying that these will perhaps be seen as a last resort. Yet in fact UK governments have often acted to mandate the pooling of services, and historically have more commonly backed mergers over more incremental partnerships. Equally at key junctures, a range of pathways may

<sup>4</sup> Frost (2005: 13–16) distinguished five levels of joining-up, as follows:

- 1 No joining-up – unco-ordinated, free-standing services.
- 2 Level 1 – Co-operation – services work together toward consistent goals and complementary services, while maintaining their independence.
- 3 Level 2 – Collaboration – services plan together and address issues of overlap, duplication and gaps in service provision towards common outcomes.
- 4 Level 3 – Co-ordination – services work together in a planned and systematic manner towards shared and agreed goals.
- 5 Level 4 – Merger/integration – different services.

I have used his labels and some key concepts but my characterization of the stages with the same labels is rather different from his.

open up for decision-makers, between which they must make choices, often involving dilemmas. For instance, I suggest that at stage 6 below there are in fact three possible pathways. Nonetheless, a stages model is still useful in emphasizing that new organizational practices like joining-up most characteristically will evolve incrementally at local level, rather than suddenly jumping from one level to another. So it is worth running through the modified sequence here, while bearing in mind the caveats above.

#### *Stage 1: Free-standing services*

Here provision of services is planned separately by each organization or service-stream involved, within highly siloed professional or organizational compartments, each with their own organizational and professional culture, separate employment conditions for staff, and different legal requirements and capabilities, plus their own systems of central government targets and regulation apparatus, and distinct funding. All connections to other services in relation to areas or individual cases are treated as 'foreign affairs' by each organization and so handled only via occasional 'diplomatic' contacts, usually at senior levels. Organizations are often indifferent to individual cases that 'fall between the cracks' of provision and no 'lead agency' allocations occur. Agencies may also 'compete' with each for 'turf', or compete to avoid handling 'no-win' problems or difficult cases. Similar processes may also occur between government agencies and third sector or NGO bodies over (valued) services. Especially where provision depends on voluntary-sector or NGOs provision, 'boutique bureaucracy' problems can occur with many small social providers each catering for a restrictive client group and hence many gaps between their provision. Multiple agencies cycle episodically and frequently through contact with 'difficult' clients' cases.

#### *Stage 2: Agency co-operation*

The key difference here is that organizations or service-streams now recognize that their activities are complementary and acknowledge a need to fit them together in order for the coverage for clients or communities to be improved. Hence they meet regularly (and at a range of levels); know more about each others' plans, goals and programmes; and try to achieve more consistency in their provision (e.g. to synchronize timings so as to act on the same priorities at the same times or in the same areas). But progress is limited because organizations or service-streams do not significantly modify their own strong cultures, and they retain full budgetary and planning independence. Organizations may still use co-operation as a mask to 'bureau-shape' their activities by rebuffing

'difficult' clients so as to 'export' them to other bodies, or by competitively renouncing 'lead agency' status.

*Stage 3: Active inter-agency collaboration*

Organizations or service-streams now formulate joined-up plans, that at least cross-refer to each other and crucially, they make some efforts to collect information on how (joint) outcomes are being achieved. The planning stage at least systematically seeks to identify areas of overlap and duplication in what the different service-streams do, to chart unaddressed issues or gaps in service provision, and to consider services from a customer/client/citizen perspective. Yet subsequent follow-up can be limited.

*Stage 4: Basic cross-agency co-ordination achieved*

The organizations or service-streams involved agree some common or overarching goals, which follow through from plans into implementation and even into detailed working on cases or areas. They work together in a planned and systematic way towards realizing shared objectives. For example, information sharing or information-pooling begins, ICT systems start to routinely communicate, and 'front-line' staff know each others' processes and methods of working well.

*Stage 5: Co-ordination or partnerships*

What changes here is that services work together in a planned and systematic manner towards shared goals that are agreed consensually. Joint committees meet regularly at senior levels and managers emphasize the need for effective joint working inside each organization or service stream involved. Intermediate managers and front-line staff understand each others' patterns of working and organizational imperatives and make effective adjustments to foster good relations and better service delivery to clients or areas.

*Stage 6: Difficult next-stage, or 'something more', developments*

Achieving further progress in deepening the joining-up of provision across departments, agencies or separate service streams is often at its most tricky here. There are at least three different main pathways that might be taken. Usually only one of these alternatives tends to be seriously explored in a given situation, often responding to the personalities of particularly dynamic or forceful local leaders.

*Stage 6a: 'Lead-agency' co-ordination or some re-partition of roles*

In different areas, one of the services is recognized by all the participating agencies as being in a better position to co-ordinate or plan overall provision than the others. Accordingly the 'designated lead agency' attracts more resources or power in its sphere of influence to define issues and responses, and here other agencies become more supportive or reactive in turn, downgrading their own planning and strategy effort accordingly.

*Stage 6b: Pooled budgets partnerships*

A budget is allocated by objective or programme to a set of agencies or several service-streams, with a clear decision-maker and performance measurement. Here agencies or service-streams can only draw down a budget in response to their fulfilling agreed-upon roles against a single, effectively integrated plan of provision that is independently monitored.

*Stage 6c: Joined-up top or intermediate leadership*

Separate organizations or service-streams (with distinct organizational and professional cultures, employment conditions, and often funding sources) still exist. But the same individuals are appointed to head two organizations at the same area level. Alternatively, joint managers are appointed to head the most joined-up provision across two organizations. Either step takes equal co-ordination a stage further.

From one or another of these pathways it may actually be rather easier to move on to a final stage of integrating previously separated services into a single organization.

*Stage 7: Mergers, take-overs or integration*

Different organizations or services are brought together to become one organization. Budgets are fully pooled, the provision of ICT and office networks are merged, staff can in principle move freely across internal sectors, and common goals and plans are defined. Over the short term work-tasks and staff are reassigned so as to produce the most inclusive and cost-effective service attainable. Over a longer-term employment conditions and skills/expertise requirements tend to be pooled, usually with a transition phase and with some ring-fenced period for existing staff to apply for new positions. As staff mix together more, and efforts at integrating organizational cultures are made, so previously separate professional and organizational cultures are broken down, stirred together and remoulded in a new and more joined-up form. Cultural

change is generally greater with mergers than where one powerful organization makes 'acquisitions' of smaller services.

Mergers tend to be 'last resort' solutions in the local level or 'organic' development of joining-up, partly because of the substantial costs and time lags involved in making mergers and acquisitions work well. At central government level, there is good evidence that frequent reorganizations have had substantial costs (White and Dunleavy, 2010). Nonetheless, the tradition of top-down government from Whitehall means that this stage can also be directly legislated, even where the existing local-level underpinnings for mergers is not very strong.

## Digital-era governance and joining-up services

There is a third and very important stimulus for joining-up public services, which stems essentially from the huge variety of rationalization processes in modern advanced industrial societies produced by digital information streams and the development of the internet and the world-wide web. The ability to hold and access the world's information in digital form may have looked like a utopian dream on the part of Google ten years ago, but it is now clearly an objective (or alternatively a dreaded situation, depending on your point of view) that will in some form be reached in the next decade. By 2020 then, public services in the UK must be much better adapted to the advent of a digital-era than they are now.

The source of this imperative is not in any form of technological determinism. There is no impersonal 'logic' of technology that says that a particular group of organizations cannot go on running their processes within a fixed technology, while the world around them changes radically – as the Amish have successfully done in the USA. But what is socially, economically and culturally feasible for a small religious sect in a rural setting, is not going to be feasible for the public services of a modern economy and nation state. The UK is a small unit struggling to make its way in a global economy where better endowed and innovative competitors create continuous pressures for rapid change in knowledge, innovation in business and new horizons in cultural development. The processes that will force the British state to modernize (perhaps often against the dragging resistance of its leading officials and employees across the picture) are not technological but social and economic. In a digital world we cannot afford to consume resources in doing things wastefully or less effectively

or less cheaply in the public sector than it is possible to do similar or analogous tasks in the private sector economy and in civil society.<sup>5</sup>

Equally, despite the constant refrains to the contrary from IT industry lobbies and consultants, it is important to stress that simply implementing bits and pieces of digital-era technologies on their own and divorced from equally necessary organizational and service-design changes is highly unlikely to yield positive results, or indeed to be sustainable. This approach was feasible in the initial automation of government sector business processes from the 1960s to the mid-1990s. But in the last 15 years the development of the internet means that much more far-reaching changes in organizational arrangements and policy design need to be made in order to create large-scale advances in efficiency and public services development.

One of the complicating factors here has been a widespread difficulty in understanding what the salient impacts of modern ICT changes have been in the private sector, let alone their implications for government. A powerful case has recently been made by Luis Garicano, John van Reenan and others (Bloom *et al.*, 2009) that in fact modern ICT changes have had rather complex, indeed dialectical (that is, partially contradictory), implications for organizational arrangements in business. First, *networking effects* are centralizing. The ability to collect information from more and more data points and to systematize it and analyse it in real-time in ever more sophisticated ways has tended to mean that in modern businesses increased 'spans of control' are possible. Higher tier decision-makers can now keep tabs on more subordinates, be periodically involved in more decisions, insist on being consulted in real-time, and intervene more speedily when key performance indicators go off-trend. The consequences of such changes have been a widely noted thinning out of middle management in modern corporations, a substantial de-layering that has led to flatter, wider hierarchies.

Yet in exactly the same period, and in an equally strong way, a second trend in ICT developments has been for modern databases to be strongly *decentralizing*. Modern workers can now access far more information immediately than their predecessors, whether in services or manufacturing industries. This means that grassroots workers can now handle far more problems themselves, without appealing to superiors. The information they need on adjustments, complications, routines, special case procedures, and so on can increasingly be made

<sup>5</sup> There is a rather general literature addressing some of the issues here, see: Fountain, 2001, 2007; Brewer *et al.* (2006); Hood and Margetts (2007); Mayer-Schönberger *et al.* (2007).

available to them at the point of manufacturing or the point of service, so that they can decide issues and ways forward without having to appeal to superiors. Equally lower-tier managers can now handle a wider range of issues without asking for guidance from higher tier offices. Thus the same staff can now handle multiple problems and issues, as long as they have extended ICTs supporting them. This effect tends to strongly shift the locus of decision-making down the organizational hierarchy.

How do these macrolevel trends apply then inside public services? A style or approach commonly labelled as 'new public management' (NPM) almost completely dominated UK public services development from 1985 to 2005. Along with colleagues I have previously argued that the three key components of NPM are dying on their feet (Dunleavy *et al.*, 2006, 2008: Ch. 4, 9; Dunleavy, 2007). These macrothemes have each had some good effects in their day, but they have been over-developed in the UK, creating crises in many dimensions. Hence they are now intellectually dead-ends in terms of offering guidance for future changes.

The three fading themes are:

- 1 *Disaggregation*, which fundamentally involves splitting up large bureaucracies via agencification, micro-local agencies (such as locally managed schools or academies), more quasi-government agencies, and purchaser-provider separation.
- 2 *Competition*, which moves away from bureaucratic monopoly providers and introduces alternative suppliers via mandatory competition, outsourcing, strategic review, quasi-markets, deinstitutionalization, asset sales, consumer-tagged financing, and deregulation.
- 3 *Incentivization*, which strengthens or puts in place economic or pecuniary motivations for actors or organizations to make 'the best' use of resources via privatization, PFI schemes and Public Private Partnerships, performance-related pay, user-charging, public sector dividends, and 'light touch' regulation (as in banking before the 2009 financial crisis).

Figure 11.2 shows that one fundamental reason why these older approaches first yielded diminishing returns and later lead to acute crises and reversals of policy was that they ceased to fit well with the macrorends in business and the wider society towards digital-era processes.

Instead I have argued (with colleagues) that a radically new paradigm of public sector development has emerged, one which focuses on three very different themes and ones that are in many ways orthogonal to those of



**Figure 11.2** The transition from ‘new public management’ (NPM) to ‘digital-era governance’ (DEG)



NPM (Dunleavy *et al.*, 2006, 2008). In particular the first wave of digital-era governance  $DEG_1$  focused essentially on reintegration, needs-based holism and digitalization.

*Reintegration*, which reverses the fragmentation of NPM by joining-up and trying to de-silo processes, by partnership working, by ‘re-governmentalizing’ issues that must inherently be handled by the state, by creating new central government processes to do things once instead of many times, by squeezing process costs, by using shared services to drive out NPM’s duplicate organizational hierarchies, and by trying to achieve radical simplification of services organization and policies.

*Needs-based holism* is a thoroughgoing attempt to create client-focused structures for departments and agencies, to implement end-to-end redesign of services from a client perspective, to put in place one-stop processes (whether windows, or e-windows, or fully integrated one-stop shops), and to create agile (not fragile) government structures that can respond in real-time to problems, instead of catching up with them only after long lags.

*Digitalization* covers the thoroughgoing adaptation of the public sector to completely embrace and imbed electronic delivery at the heart of the government business model, wherever possible, for instance by adopting centralized online procurement, or new forms of automation focused on ‘zero touch’ technologies that do not require human intervention. Digitalization also is a key stimulus behind radical disintermediation, the effort to strip out layers of redundant or non-value-adding processes and bureaucracies from service

delivery. As in private services, this will partly involve making (able) citizens do more, developing isocratic administration (or 'do-it-yourself' government), and a transition to full open-book governance instead of previously very limited or partial 'freedom of information' regimes.

As Figure 11.2 also shows schematically, the first phase of digital-era governance (DEG<sub>1</sub>) has quickly moved even further away from its anti-NPM beginnings. A new phase (DEG<sub>2</sub>) has developed in response to the steepening changes in societal trajectories made possible by so-called 'Web 2.0' developments towards social networking, 'cloud computing' and very rich forms of media-handling. Instead of the text-based systems that predominated in Web 1.0, and that still completely dominate all forms of UK government online provision, the DEG<sub>2</sub> phase adds a new impetus towards the use of more advanced and real-time digital technologies, 'rich' media and social networking approaches. It also stresses the co-production of public services with citizens' active involvement embedded in many different forms. The key problem here is that this active involvement is much better evoked at local level, and is hard to reconcile with the UK government's highly centralized strategy (Dunleavy *et al.*, 2007) and the general under-development of online services at regional and local levels, compared with central government agencies (Dunleavy *et al.*, 2009).<sup>6</sup>

In case this all seems too abstract or vague, in Tables 11.1 and 11.2 I have summarized first some very clear-cut examples of DEG processes already in being in UK government as at June 2010, and second some developments that seem likely in the next decade. The organizing frame of both figures is similar. The vertical columns distinguish between broadly centralizing and decentralizing changes (as spelt out above). The horizontal rows group together developments under the reintegration, needs-based holism and digitalization themes.

In Table 11.1 there is an impressive battery of innovative changes. The coalition government's initial impetus to delay or halt older Labour plans for ICT developments in the public sector produced a bit of hiatus in some of these schemes. But delaying government ICT and reorganization developments is rarely sustainable in the long run. Standing still may artificially squeeze up government productivity levels for a couple of years of acute fiscal stress. But longer-run and more sustainable progress requires innovation, indeed constant, serial innovation – which in modern conditions means more DEG<sub>2</sub>-type

<sup>6</sup> Aspects of the problems of lagging development in local online services are covered by OECD (2007); Timonen *et al.* (2003); Torres *et al.* (2006); and Verboest *et al.* (2007).

**Table 11.1** Already apparent public service trends and changes matching ‘digital-era governance’ predictions

<b>DEG Themes</b>	<b>Network effects Centralizing</b>	<b>Database effects Decentralizing</b>
Reintegration	<ul style="list-style-type: none"> <li>Regulatory integration in the Care Quality Commission (across NHS and social care); or between the Bank of England and Financial Service Agency (over banking regulation)</li> <li>The children’s database planned by Labour ministers (which may not now happen)</li> </ul>	<ul style="list-style-type: none"> <li>Myriad partnerships</li> <li>‘Total Place’, the effort to at least map how much public spending flows via what delivery chain into each city or subregion, and if possible to deploy resources more effectively</li> <li>Single ‘point of service’ schemes, such as that run by Kent County Council</li> <li>Sharing chief executives or core services</li> </ul>
Needs-based holism	<ul style="list-style-type: none"> <li>Benefits pooling and co-triggering (e.g. by pensioner services in DWP)</li> <li>‘Tell Us Once’ – an effort to stop duplicating government’s demands on citizens for the same basic information about them</li> </ul>	<ul style="list-style-type: none"> <li>Personal care budgets</li> <li>Core packages integration, e.g. further joining-up in children’s protection</li> <li>‘Personalized services’ provision in state schools and the NHS</li> </ul>
Digitalization	<ul style="list-style-type: none"> <li>Shift to transacting with government online. In 2009–10 HMRC received 74% of income tax self-assessment forms online. Meanwhile in 2008 only 1% of DWP’s customer contacts took place online</li> <li>Integrated NHS patient care records, useable across the UK</li> <li>Immigration databases</li> </ul>	<ul style="list-style-type: none"> <li>the planned development of the NHS Choices website</li> <li>the continued development of risk-based administration across many ‘regulatory’ public services</li> </ul>

changes, compared with the still NPM-influenced DEG<sub>1</sub> changes of the previous Blair and Brown governments. So not all the elements in Figure 6 may continue without changing direction – nor is it essential for the digital-era governance thesis that they do so. Yet the vast majority of these changes seem likely to stay in place and to be irreversible.

Turning to Table 11.2 this is a frankly speculative effort at thinking through

what might be different in the UK public sector by 2020 if the digital-era governance thesis about the direction and accelerating pace of changes is right. Like all futurology it requires the usual strong health warnings about the past poor record of the social sciences (and indeed everyone else) in getting new developments into correct focus. Nonetheless the main directions of travel seem likely to be sustained – in particular towards a UK or England government that serves primarily as an ‘intelligent centre’ for the public sector as a whole, influencing delivery primarily through excellent information rather than seeking to compel adherence to targets or to micro-manage delivery from afar. The centre should also have slimmed down into fewer fixed departments and with more fluid directorate structures emerging, such as those used in EU governance or now inside the Scottish Executive. All public services that can do so will also have moved decisively online, so that the organization of some major departments like HMRC or DWP will have ‘become their website’ and will relate to all their customers predominantly via digital means.

At the grassroots level, public service delivery should be radically pooled into far fewer and more unified (rather than just joined-up) delivery organizations, creating a radically simpler institutional landscape for citizens, businesses and civil society bodies to negotiate. It could also be suggested that in addition to the back-office modes of integration that have predominated up to now, the locus of joining-up is likely to shift towards first customer-focused radical disintermediation – essentially taking out more of the intermediate layers of public services delivery chains detailed in Figure 11.1 above. A second wave of new-style ‘joining-up’ is likely to blur some of the public sector – civil society boundaries, a theme prominent in the Conservatives 2010 election campaign under the ‘big society’ label (see also Blond, 2010). Although at a macrolevel this idea may seem weak or non-credible, at a microlevel there is a considerable potential in forms of integration that try to re-wire or re-connect civil society systems with government involvement and participation. For instance, one could envisage that the frail elderly, and mentally or physically handicapped people with severe care problems, could be cared for more effectively with networks that bring together family members, professionals in health and social care services and other providers (such as NGOs) in real-time digitally connected networks. They would have flexibly assignable budgets and strategies, and many more different kinds of resources than any one caring organization currently disposes of. Or we could connect prisoners in jails back to their families, past employers, lawyers and health professionals via closely regulated forms of digital communication. The central aim here would be to bring down the UK’s currently

**Table 11.2** Probable 2020 developments in public services delivery systems

<b>DEG Themes</b>	<b>Network effects Centralizing</b>	<b>Database effects Decentralizing</b>
Reintegration	<ul style="list-style-type: none"> <li>• ‘Government cloud’ set up for all government IT, so that only HMRC, DWP and MOD run their own self-contained IT in central government</li> <li>• Cabinet of 12–15 members only, with no more than 50 UK ministers in all, and more fluid directorate structures replacing some departments</li> <li>• Unitary ombudsman/redress system regionally, with a national collegium of ombudsmen handling overall issues</li> </ul>	<ul style="list-style-type: none"> <li>• Shifts to a unitary local service provider, covering council services, health, police</li> <li>• One-Stop Window or One-Stop Shop provision covering <i>all</i> government services at all levels, online and locally</li> </ul>
Needs-based holism	<ul style="list-style-type: none"> <li>• Single citizen account with government, integrated to PAYE and direct debits, and probably all run via the banking system (and not via employers as at present for PAYE)</li> <li>• Pooled service alternatives with central departments and local authorities choosing to contract with 6–10 competing alternative providers (some public and some private, possibly with some co-operatives also)</li> </ul>	<ul style="list-style-type: none"> <li>• Extended personal care budgets</li> <li>• ‘Treatment circles’ for all frail elderly, disabled and long-term ill people. Circles integrate family, friends, NGOs, state carers and professionals</li> </ul>
Digitalization	<ul style="list-style-type: none"> <li>• Online transactions at 95% for tax, and 80% for DWP</li> <li>• ‘Intelligent’ systems services assist citizens and businesses to be fully compliant with tax and regulatory requirements</li> <li>• NHS and social care safety systems help prevent service delivery disasters</li> <li>• Central government focuses on being an ‘intelligent centre’ using high quality analytics to best influence local provision</li> </ul>	<ul style="list-style-type: none"> <li>• Universal customer feedback online</li> <li>• Real-time, citizen activated public responses and redress systems to warn of and prevent ‘service delivery disasters’ from occurring</li> </ul>

very high recidivism rate (around 64 per cent) to the levels achievable in some other countries (maybe as low as 50 per cent) by ending the over-isolation of prisoners from all their social networks. Currently, sending someone to jail is a hugely disruptive step which typically pushes them further towards dependence upon criminal activities to survive when they are released from prison. The trick here would be to contingently re-connect prisoners with their lives, so that they could more easily resume family life and gainful employment on their release.

## Conclusions

The agenda for joining-up public services from now to 2020 is a large one. Essentially it seems doubtful if the UK as a country can any longer afford to fund and sustain an overly complex architecture of services provision that was already tangled in the early 1980s and was made far worse by the whole new public management episode from 1985 to 2005. A great deal of experience has been rather slowly and painfully acquired by local agencies, local managers, professional staffs and grassroots workers in the last ten years in working in partnerships and developing ‘joined-up thinking’ about how to provide citizens with better and more effective public services. These innovations provide an extensive seed-bed of learning and new forms of understanding that break out of previous, heavily siloed approaches.

Yet the future will in all probability require far more extensive and more radically thought-through changes, in particular focusing squarely on achieving in the public sector some of the positive ‘disintermediation’ experiences of digital-era changes in the private sector – and incidentally also avoiding the many negative experiences there. The digital-era governance argument predicts that the direction of travel will be towards more reintegration, more needs-based holism and co-production with citizens and civil society, and towards radically digitalized modes of citizen-government contacting and ways of organizing internal government sector processes. So far the digital wave has only lapped against some of the roughest edges of public services. It has a great deal of momentum still to run in helping to simplify the landscape of public services in which citizens and businesses operate, and in which government officials and politicians themselves try to understand and positively shape societal development.



Part 3

# A New Fiscal Relationship





## Financing Future Welfare States: A new partnership model?

Howard Glennerster

### A long-term funding problem not just a short-term crisis

All Europe's welfare states face tight fiscal constraints precipitated by the banking crisis. In some countries this had little to do with any underlying long-term failure to finance their state's welfare programmes. The Scandinavian, German and French welfare states are cases in point. In other countries the banking laid bare a longer-term structural problem – an underlying incapacity or unwillingness to raise taxes sufficiently to fund the social policy promises governments had made. Greece, Portugal, Spain and Ireland were all in this situation. So, too, was the UK, we shall argue (IMF, 2011).

Most European countries had been gradually renegotiating their post-war social policy 'contracts' since the late 1980s. Promises of generous pensions, prolonged retirement and lightly regulated out of work benefits had been steadily modified over the subsequent two decades. This followed prolonged debate and emerging cross-party agreement in Sweden, Germany and the low-countries and, with more confrontation, in France and Italy. But other countries failed to begin this process at all or made limited progress. The banking crisis forced them to do so in a hurry.

It is important to distinguish the long-term reasons for this renegotiation and to distinguish them from the banking crisis. Not to do so runs the risk of politicians and the public blaming bankers for a deeper political problem. Even when the consequences of the banking crisis have been overcome, and that is going to take a long time, another longer-term funding problem looms driven by:

- Demography – a rising percentage of elderly people in the population. This is the result of both longer life expectancy and a lower birth rate than

in the 1940s and early 1950s. In combination this means fewer workers supporting a larger retired population unless retirement ages rise. The impact of demography on public spending will be sharply felt in the coming decade and continue until mid-century. The IMF has warned that the scale of this problem far outweighs the scale of the banking crisis in advanced economies and in China (IMF, 2009). The European Commission has estimated that in Europe as a whole the cost of pensions to public budgets will rise from 10.2 per cent of GDP to 12.6 per cent in 2060, health care from 6.7 to 8.2 and long-term care from 1.2 to 2.4 per cent (Wittenberg, 2011). The figures vary considerably from one country to another. The fiscal cost of demographic change, assuming pre-crisis policies, varied from 10 per cent of the GDP in Spain to 3 per cent in Sweden (Glennerster, 2010b).

- The rising expectations of increasingly well educated and informed public service consumers. Electorates are demanding higher quality services (read almost any serious European newspaper on health care, schooling or university education, or follow the recurrent scandals in the UK about the state of services for old or vulnerable people).
- Higher labour costs. Productivity gains are much more difficult to achieve in human services. As rewards rise for professional and educated workers in the labour market school teachers and health care workers will cost relatively more.
- Servicing larger debt interest payments on recent borrowing as well as meeting the costs of environmental change will increasingly compete with the welfare budget.
  - The cost of servicing the UK debt in 2015 will be half as big again as it was in 2007/8.
  - The cost to taxpayers of climate change is still unclear. My colleagues in CASE (Marden and Gough, 2011) have sought to assess both the costs of present commitments to reduce greenhouse gases and the scale of 'green' tax revenues. Direct government programmes, they conclude are 'small and patchy' at the moment while the ambitions for reducing emissions are high. Much of the impact of government policy takes the form of mandated action on energy users that will raise prices – a kind of indirect tax. These costs are rising quite fast. Moreover, explicit environmental taxes are already taking about 2.75 per cent of GDP. So there will be more demands on what voters are willing to forego in further taxation for other purposes.

These longer-term pressures interact with the consequences of the banking crisis but require long-term adjustments that have nothing to do with it. The UK shares all of these problems and its fiscal constraints are tight because of its voters' attitudes to taxation.

### The British version of the problem

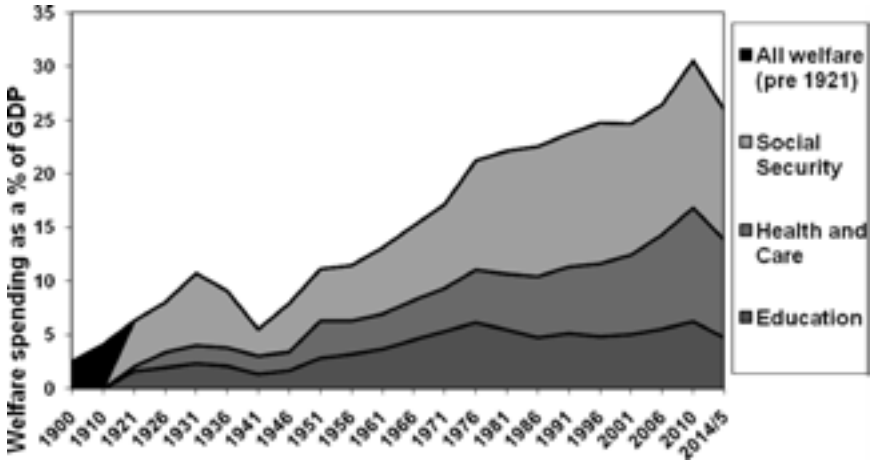
As the *Wall Street Journal's* London correspondent put it before a recent election, 'the trouble is that the British want to enjoy European standards of social welfare but only to pay American levels of tax'. In the past decade British politicians tried to give the electorate just that – a move to Continental European standards of social welfare, health and education – without asking the electorate to fully pay for them.

In the years between 1986 and 2008/9, social policy spending rose by the equivalent of 5 per cent of the GDP. During the same period national revenue ('public sector current receipts') fell from 41.6 per cent of GDP to 37.1 per cent. This trick of spending more on social policy and at the same time lowering taxes had been achieved partly by reducing other spending as a share of GDP – defence, subsidies to what were nationalized industries and the transport network, but partly by relying on a structural deficit of about 5 per cent of the GDP. This was one of the highest in Europe. Only Slovenia, Poland and Ireland were marginally higher (OECD, 2010).

The banking crisis forced the UK government to promise to eliminate this 'primary deficit'. The advice the incoming Coalition government received from many economists, and no doubt the Bank of England and the Treasury, in 2010 was that unless the new government promised to eliminate the deficit within the normal term of a single government – four to five years – the markets would not take them seriously. In that case the costs of borrowing would rise steeply. In the context of doubts about other European countries' capacity to finance their debts, this was a real threat. That was also the later judgement of the International Monetary Fund (IMF, 2011). Clearly the authorities may have been wrong in this judgement but the longer-term lesson is that markets will punish governments that fail to finance their welfare states fully.

In practice the timetable for eliminating the deficit proposed by the outgoing Labour government differed by only a year or two from the timetable the new Coalition government decided upon. As my colleague John Hills has pointed out, the coalition plans for cutting public spending only put public spending

Figure 12.1 Welfare spending# in the UK 1900–2015



	1986	1996	2008/9	2010*	2014/5**
Education including HE	4.8	4.9	5.8	6.3	4.8
Health and social care	5.7	6.8	9.5	10.6	9.1
Social Security (including housing benefit)	12.1	13.1	12.4	13.7	12.1
All welfare spending	22.6	24.9	27.7	30.6	26.0

# This includes the old Poor Law, modern social security, housing benefit and its predecessors. From 1987 some small items are included from agencies like the criminal justice system. They formed 0.5 per cent of GDP in 1987. Social care spending has been removed from the official figures on social protection and added to health care for consistency with previous figures. Housing capital is excluded.

\*Recession impact

\*\* Assumes a 5 per cent increase per annum in cash GDP and takes cash limits for spending in the 2010 Spending Review. Assumes Scotland Wales and Northern Ireland keep to English growth rates. Lower growth or inflation would revise the percentage figures up and vice versa. Education includes higher education.

Sources: Glennerster, 2007; HM Treasury *Public Expenditure Statistical Analysis* (2010a); HM Treasury *Spending Review* (2010b); Office of Budget Responsibility (2010, 2012).

back to the level it would have reached under the Labour government’s pre-crisis spending plans in 2014/5 (Hills, 2011). Those spending plans were also designed to get the UK back to fiscal equilibrium. In the event slower growth than then forecast will delay that timeline for achieving that fiscal balance but not the scale of the cuts.

## The longer run

But once the UK government has succeeded in eliminating the primary deficit it made in the early years of the decade it will be faced with the demographic issues we have discussed above.

The new official projections of the costs of an older population suggest that even after the major cuts enforced since 2011 ageing will cost the equivalent of about 4 per cent more of the GDP by mid-century (OBR, 2012). This assumes current policies, for example, on retirement ages and benefit uprating. What these estimates ignore is that other policy changes and pressures are waiting in the wings and in politicians' speeches even if they are not yet set in legislative stone. I give some estimates in Table 12.1.

The declining education figures are the consequence of the government in England cutting off state support for universities' teaching altogether in many subjects, requiring students to pay fees collected after they graduate, as we explain below.

Estimates made by the European Commission suggest that this demographic hit is rather less than that expected across the EC as a whole, similar to that in Sweden and France and considerably less than in Germany, the Netherlands and Norway (OBR, 2012: 73).

**Table 12.1** Age related social policy spending as a percentage of the UK's GDP 2011/12–2061/2

	2011/12	2016/7	2031/2	2061/2
NHS	8.1	6.8	7.7	9.1
Long-term care (unreformed)	1.3	1.1	1.5	2.0
Education	5.7	4.5	4.6	4.5
Public sector pensions	2.1	2.2	1.7	1.3
State pensions	5.7	5.6	6.1	8.3
Other pensioner benefits	1.2	1.1	1.2	1.2
Official projections total	24.1	21.3	22.8	26.3
The additional cost of other much discussed social policy goals				
Reduce child poverty to Scandinavian levels	1.5			
Free and improved long-term care	1.7			
The more limited Dilnot Commission option	(0.2)			
Improved early years provision	1.0			

Source: Office for Budget Responsibility, (OBR, 2012) for official projections; Dilnot Commission (2011) and author's estimates for other policy goals.

## A double dilemma

The UK's dilemma is, in fact, a double one. More than any other member of the European Union the central state collects the overwhelming share of national tax revenue – 95 per cent or slightly more. Yet in 2000 the central Westminster Parliament devolved responsibility for administering its social policies – though not social security cash payments – to assemblies, or parliaments, in Scotland and Wales and later in Northern Ireland. But it did not devolve major taxing powers. Those that it did in the case of Scotland have not been used. This inevitably has brought a growing fractious result. The cuts are required by the central Westminster government but have to be imposed by parliaments that are meant to have devolved social policy powers. The old financial settlement between the individual parts of the UK is unsustainable in the longer term (Calman Commission, 2008). New legislation gives Scotland greater powers to raise its own revenue. The details are still under negotiation.

In an attempt to get more output from each social policy pound spent in England, the Westminster government has taken a range of measures to increase the scope of competition within its public services and to challenge public sector providers with external private competition. It has also used productivity targets and published test scores by individual schools, waiting times for hospitals and ambulance response times for each ambulance station. In each case these moves have produced significant improvements in measured performance by service providers. Scotland, and to a lesser extent Wales and Northern Ireland, have rejected all such strategies and it seems likely that the productivity of their services, relative to those in England, have declined. (See, for example, Burgess *et al.* (2010); Connolly *et al.* (2010). This conclusion is controversial but I think well supported.)

How then is the UK seeking to meet these double dilemmas and does it have any lessons for other countries in Europe faced with similar problems?

## Large-scale private funding not the solution

Before examining what UK governments have begun to do, it is interesting that politicians of all parties have not been looking to the private insurance market to take over the major funding of health or education, basic pensions or sickness benefits.

The 'fiscal crisis' literature of the 1970s focused on the state's supposed inability to meet such pressures as we have described above. Many economists at the time looked to the private insurance market to solve these problems. Welfare states, they concluded, would fade away. This did not happen. Governments chose to tax a little more, to cut back on over generous pension promises but, in the end, spent *more* on social policy and less on other things (Castles, 2004; Glennerster, 2010b; Obinger and Wagschal, 2010). Why?

What the doom-mongers almost totally failed to see was that each of the factors that made it difficult for governments posed even greater problems for private market alternatives.

Rising life expectancy raised the costs of occupational and private pension schemes. These effects were systematically underestimated by the private sector.

This led to the widespread abandonment of defined benefit pension schemes run by employers that based pensions on end-of-life incomes. Firms have significantly reduced the size of their pension fund contributions and have shifted the risks onto individuals. (The best history of this failure is to be found in the Pensions Commission (2005) and, more popularly in Peston (2008: Ch. 7). But left to themselves individuals save far too little and we now understand better why this is the case from the insights of modern behavioural economics. The UK government had to come back into this market to underpin it as we explain below.

Private insurance to cover long-term care has largely collapsed. The uncertainties that surround predicting the costs of long-term care are just too great for suppliers of insurance to run the risk of offering such policies (Dilnot Commission, 2011). Most people are even more reluctant to contemplate planning to pay for life in an old people's home than they are to pay into pension schemes (on the economics of this see Kings Fund (2006)).

Rising relative labour costs apply as much to private as to state services, indeed more so. What private schools sell is better staffing ratios. It is not surprising that private school fees have been rising at 6 per cent per annum, faster than the incomes of those who usually buy their services.

In short, all the cost pressures governments will have to face in the next 20 years apply to private providers, insurers and the voluntary sector, only more so. A large-scale transfer of responsibility to the private insurance market is not viable. What has begun is an attempt to involve users in sharing the burden of those rising costs. A new 'social partnership model' is emerging bit by bit, stone by stone. It has been built by masons from all major parties, though in a typically muddled English incremental way.



## A new social partnership model

### Pensions

The UK had chosen to rely on occupational and individual private pensions to a larger extent than any other European nation with the exception of the Netherlands. Unlike the Netherlands, and unlike the plan Sir William Beveridge had set out in 1942, UK governments hoped they could get away with providing only a very low, subpoverty level state pension that had, increasingly, to be topped up with means-tested additions. This meant that there was a growing disincentive for many lower paid workers to save or participate in private schemes that were supposed to provide the major part of retirement income. In the Netherlands membership of occupational schemes has been effectively required by trade union/employer agreements and they were built upon a universal citizens' pension platform.

The Blair government was forced to accept that the UK's private occupational pension model was failing. A commission was set up, chaired by Adair Turner, and it proposed a fundamental change of direction in pension policy (Pensions Commission, 2005). It won cross-party support and legislation based on the report will fully come into force in 2012, followed by other changes. It rests on three principles: (i) restoring a state platform for private action, (ii) nudge private action, and (iii) reducing the costs of pensions by encouraging a longer working life.

*Restore a state platform for private action.* The gradual erosion of the state basic pension and growing reliance on means testing has been reversed. State pensions will begin to rise faster than prices in an attempt to raise them beyond the means-tested poverty line over time. The aim is to merge the complex double tier of state pensions into a single adequate minimum pension. Under discussion, at the moment of writing, is how and how fast to do this. But despite the fact that this policy will cost more public money, and despite the crisis, the Coalition government kept to this policy course. It should eventually provide a Netherlands-like pension platform on which individuals will be encouraged to build private and occupational schemes.

*Nudge private action.* Membership of such second tier schemes will not be made compulsory but people will be heavily 'nudged' into belonging to one of a small number of government approved individual schemes. If an employee is not a member of an approved employer scheme she will have part of her earned income taxed away, matched by a levy on the employer and the combined sum

placed into a national savings pot designated for that individual – the National Employment Savings Trust (NEST). The government will add tax relief. The individual then chooses from a small list of government approved private schemes into which this pot of money will be placed. Only if an individual actively opts out of this process will she not participate in a private funded pension scheme and be solely reliant on the state pension. It remains to be seen if this heavy nudging approach will work. The aim is to persuade 5–9 million more people to save for their own retirement for the first time with perhaps 2–6 million doing so through NEST. The state has not opted out of pension provision. On the contrary it has entered the pension market in powerful new ways both as regulator and selector of private schemes, as collector of contributions and as part funder. Whether this will work, or be as successful as the more heavily subsidized scheme in New Zealand, remains to be seen. The time scale for implementation for small firms has already been pushed back a few years.

Sweden requires employees to contribute 2.5 per cent of their incomes into approved funded private pension schemes. The UK stopped short of making contributions mandatory but has limited the range of choice of scheme much more than in Sweden. The second tier private funded pension is compulsory in Poland too. The UK heavy nudge approach is unique and should be watched with interest. If it works it will provide a quite new model of pension partnership.

*Reduce the cost of pensions by encouraging a longer working life.* One of the most important reasons for rising social expenditure, not just pensions, has been the fact that life expectancy has lengthened quite rapidly in recent years. The length of working life has not risen in line. Indeed, for many years it shortened as pensions enabled people to retire earlier. (My father entered paid work at age 14 and retired 51 years later. There are very few who do that today. A similar length of post-education work would take most people to retirement at 73!) In 1950 males spent 18 per cent of their adult life in retirement. By 2004 this share had risen to 30.5 per cent. If we keep spending a longer and longer part of our lives not working the cost of pensions will rise. The Turner Pensions Commission (2005) suggested that this share should not rise further. Thus, as the expectation of life rose, so, too, should the age at which a full state pension can be drawn. This approach was included in the Swedish and German pension reforms in the last decade and is being followed, post crisis, in other countries.

Though this later age applies only to state pensions, it sends a strong signal to those in work that they should set their sights on retiring later and planning their own pension. Remarkably, to many politicians' surprise, the

public accepted, albeit without enthusiasm, the logic of later retirement. The proportion of people working up to the state retirement age had already been rising. This public acceptance was helped by the fact that the proposal to raise the full pension age was pushed into the future – 2026. The Coalition government has speeded up this process as part of their attempt to get the deficit under control. By 2020 both men and women will need to reach 66 before they can draw a full state pension – a rather rapid adjustment.

Healthy life expectancy of those aged 65 has risen by about 2.5 years in the 20 years from 1981 and is now over 14 years for women and over 12 years for men. Over the past 30 years expectation of life at birth has risen for men by six years and for women by five. It looks like continuing to do so. The Turner Commission suggested regular reviews of the full pension age. Such a review now would probably recommend that full pension age should rise to 69 or 70 by 2050.

The objection to this line of argument is that many people, and mostly those who have done manual jobs, pass the capacity for sustained work much earlier than this. It is all very well for academics to suggest retiring at age 70 but not for building labourers, or ex-miners or steel workers, it is argued. That case was even stronger when the retirement age was set at 65, of course. Many working men never have reached retirement age.

However, there will be medical tests that determine capacity for work and those who cannot work after 65 or earlier will be able to draw some other kind of state benefit. That is true now. Instead of putting a higher burden on the poor it will be the healthy and higher paid that will be contributing most.

The total of tax relief paid to those with private pensions amounted to £20 billion in 2008/9. Most of this huge sum has gone to those on above average earnings – the higher the income the more the subsidy. For those on lower incomes some encouragement to enter a contributory pension arrangement is worthwhile. For those on higher incomes the impact is doubtful. Much of the effect is merely to shift the form in which individuals save rather than increasing the total. The Labour government began to limit such tax benefits to exclude the top of the income range and the Coalition has taken this further.

A large slice of public expenditure goes to subsidize public sector workers' pensions. In 2010 the cost was estimated to be nearly 2 per cent of the GDP. This total is equivalent to the total cost of providing long-term care. Retirement ages of public servants are lower than in the wider employment market and the pension entitlements more generous. In this respect the UK was in no different position to the rest of Europe. The pre-2010 Labour government began the

process of reducing that gap and requiring state workers to contribute more. A report commissioned by the new Coalition proposed keeping the salary link for present members while moving to a career average calculation for determining future pension benefits. But it proposed increasing the age at which full pensions could be drawn to the age that applies to state pensioners. It also proposed linking pensions, once taken, to prices not future earnings (HM Treasury, 2011). These proposals are being largely implemented, despite union opposition.

It is sometimes argued that public sector workers have had a long-term bargain where they agreed to be paid less in return for job security and a better pension. But public sector wages are no longer below most private sector workers' wages and their pension agreements will be far more generous than the substantially reduced pension rights private sector workers enjoy.

*Overall.* Taken together the implicit pension contract with future generations will change significantly. All groups will be expected to contribute more in payments for their pension futures both in cash and in longer working lives.

The state's contribution through social security and general taxation will be lower than in most other European countries but its involvement in private sector occupational pensions will be considerable. It will be different in nature to the situation in the Netherlands but just as great.

## **Caring for the elderly**

The cost of elder care has always been shared between families and the state. A steady drift towards more state involvement took place as older people came to lead more independent lives and live longer and as health care grew in coverage and scope. Where did health cover end and care by the individual and the family begin? This boundary line began to cause resentment and political difficulty in most countries. As we have seen there are major problems with the private market for long-term care insurance.

In most European countries the old public assistance bodies were the ones that had to pick up the pieces. But initially they would only help if the family or the individual was destitute. In the UK the local authority came to provide care but only by charging the user and applying a means and capital test. If the old person was single and owned her own house, perhaps inherited from her husband, she would be expected to sell the house in which she used to live and use the proceeds to pay for the care. So here was a system of sharing the cost with the state but in a way that most people found objectionable. Other

European countries had faced the same issues and in some cases moved to fund long-term care out of a new long-term care tax – the Netherlands and Germany, for example. In Germany both workers and pensioners pay 2 per cent of their income to fund long-term care costs. When they need it the severity of their need is assessed and they can receive either care or cash to buy care, supplementing those resources if they wish. Denmark and Austria rely on general taxation while France has a mix of tax funding and private insurance. The UK has struggled to renegotiate this ‘partnership’.

The Blair government appointed a Royal Commission to study the question and then only very partially implemented its recommendations in England (Royal Commission on Long Term Care, 1999, Cm 4912). They were implemented in full by the newly devolved parliament in Scotland (the Chairman of the Commission was from Scotland!).

The Commission argued that since health care and other personal care of the elderly were so inextricably intertwined to finance one from national funds and the other from local taxation and charges produced unhelpful incentives. It encouraged public bodies to pass the care responsibility between agencies and made joined up care impossible. The Commission suggested national funding for both kinds of care. The Blair government rejected this as too expensive a solution. Instead they made nursing care ‘free’ (i.e. state subsidized up to a limit) whether supplied at home or in a residential or nursing home. Other care continued as before on a means- tested basis. The Scottish government rejected this compromise and has provided subsidized or ‘free’ personal care as well as ‘free’ nursing care ever since.

Neither model has proved satisfactory. The Scottish model has been underfunded. There was no more money to finance it and, as a result, the standard of care received for any category of need is less well resourced than in England. But in England the old resentments and perverse incentives to shift and compartmentalize care continue. The Labour government returned to the issue producing a White Paper (Cm 7673, 2009) just before the 2010 election. The Coalition appointed another inquiry headed by an economist, Andrew Dilnot that reported in 2011 as we explain below.

Colleagues at the LSE (Wittenberg, 2011) have shown that the scale of the funding problem is more serious than the official estimates (see Table 12.1) allow. There is a good chance that expectation of life will rise faster than the central official projections assume. The current projections also assume, implicitly, that there will be a decline in the prevalence, disabling consequences or duration of chronic illness. This is an optimistic assumption. Merely to assume constant

prevalence of chronic disease implies a more than doubling of the numbers in care homes between 2007 and 2032. That would involve spending over 3 per cent of the GDP on such care.

The Dilnot Commission (2011) has wrestled these issues as they apply to England. It has suggested a 'solution' not that different from the pension model. The state would expect most people to finance their own and their partner's long-term care up to some yet to be determined level of expenditure. (The working assumption in the report is of £35,000 lifetime expenses.) After that the state would step in and finance any costs that rise above that sum – the catastrophic costs that can arise for those with very high needs. This would, it was hoped, encourage the private insurance sector to move in and offer products that cover the individual or couple up to that level. The extreme uncertainties would have been removed from the market or so it was hoped. It is another example of the partnership model at work. In July 2012 the Coalition government agreed in principle to this strategy but deferred action since the Dilnot Commission had not suggested how the extra costs would be financed! (DoH, Cm 8381).

Under Dilnot's original proposals the very poor with no or few assets and low income would receive help as now. The means and asset tests still apply but less harshly. Some help will be available for those with assets of up to £100,000 not the present cut off at £23,000. (The median wealth of a single woman aged over 65 is about £120,000.) Those with a house would be able to charge their costs of care against the value of the house and the local authority collect the cash later. No one has yet worked out how to do that on a large scale.

People will still be expected to pay for their own accommodation and food as happens now, with help from the social security and pensions system.

Elsewhere (Glennister, 2010a) I have suggested a long-term care tax as in Germany and the Netherlands or extra social security contribution levied from the age of 45 when individual voters begin to recognize they may not be immortal!

### **Higher education – student and state share the cost**

The Coalition government have adopted a similar approach in their legislation to change the funding of higher education, the cost should be shared with the student but the government will insure against a catastrophic repayment outcome – low income or an interrupted work record for the graduate. Again this builds on the foundations laid by the Blair government and again it only applies in England.

To some extent we all benefit from living in a more highly educated society and hence there is a case for a degree of public funding for university teaching and fundamental research, but a large part of the gain derived from a graduate's tuition is reaped by the graduate. What is more, graduates come from relatively better off families as well as going on to earn significantly more than non-graduates with similar school level qualifications. It is probably true that their jobs are more satisfying too. On the benefit principle they should pay more tax for the additional benefits that accrue. That was the conclusion the Blair government drew.

Since the Blair legislation that took effect in 2006 ex-students in England have been repaying some of the costs of their higher education through the income tax system. Those with lower earnings and interrupted work patterns, notably women, are repaying less, roughly half the full fee in the case of women. Under this legislation there was a cut-off period for repayment 25 years after graduation.

However, this stream of future tax income was not sufficient to offset the growing costs of university education for the rising numbers wanting to go to university. So the coalition faced a difficult political problem. The Conservative and Labour parties had agreed to take the whole debate out of politics until after the 2010 election by giving the issue to a commission to discuss. The Liberals, however, campaigned strongly on a promise to abolish the whole system of university fees – a very expensive pledge. Entering a coalition with the Conservatives promising to eliminate the fiscal deficit in the life of one parliament they had to be prepared to cut back education spending like that of all other departments. But they had also promised, along with the Conservatives, to 'protect' schools. The major burden of cuts in public education spending then had to come from the university sector. The Browne Review's report (2010) proposed taking the whole Blair strategy a stage further – allowing universities to charge more, in some circumstances £9,000 a year, for tuition. These fees would again be collected after graduation through the income tax system and a real rate of interest charged on the deferred fees set at the rate of interest at which government could borrow. This removed the subsidy implied by not charging any real interest rate under the Blair scheme. In the national accounts this would make higher education a primarily non-state funded affair. In the highly charged debate that followed a complex compromise was worked out that carried enough Liberals with it to pass. However in the process some strategic mistakes were made.

The government has cut off any direct state subsidy for the tuition costs of humanities and social science students. A reduced subsidy will continue

for more expensive science and medicine courses. There is no evidence that the spill-over benefits from science subjects (a thinking, critical populace, for example) are any greater than for those with a humanities degree. It could well be that the government sees this as a transition phase, not wanting to put science students off with a very big rise in costs all at once. But to assume that there are *no* social benefits to be reaped from taking a humanities or social science degree has no basis in evidence.

Charging a real interest rate on deferred fees should have freed universities from the highly restrictive Treasury control over the numbers of students universities could take. This has not happened because other parts of the reforms have increased the cost to the Treasury (Barr and Shephard, 2010). As a way of appearing 'progressive' the Coalition agreed to raise the income level at which graduates begin to have to repay. This used to be £15,000 and now will be £21,000 a year. This figure is to rise with average earnings. This significantly increases the cost to the Exchequer. This effect is increased because the government allowed universities to increase their fees up to £9,000 a year. More have done so than expected. More of these students will be unable to repay in full and the Treasury will have to make up the difference. Hence the Treasury is maintaining its tight limit on the overall numbers of places universities can offer. (The top universities attracting the school leavers with the best qualifications will be able to expand but are unlikely to want to do so very much. Their prestige comes in part from their exclusiveness!) If universities had to pay an insurance premium to the Treasury to offset the possible costs to the exchequer of their graduates failing to repay the full graduate tax it would be possible to lift the cap on places the Treasury impose (Barr, 2011).

The scheme is highly complex. Universities that charge above the minimum suggested fee and up to the maximum permitted fee – £9,000 a year – have to devote part of their extra income to providing scholarships and ensuring that they do not bar those from poorer families. This all has to be policed and approved by a national body. But each university has its own scholarship arrangements. In designing them to taper away quickly as parental income rises some perverse incentives have been created (Hills and Richards, 2012).

This set of arrangements applies only in England. In Wales and Northern Ireland a watered down version will operate. In Northern Ireland the fees cap will be set at £5,000–£5,750 for Northern Irish students. In Wales the universities will be able to charge more but the increase in fees will be paid by the Welsh Assembly if the student is from Wales. Numbers supported in this way will have to be capped.



Scotland will retain free tuition. In 2004 it rejected England's graduate tax solution and later repealed the weaker version it had adopted. The outcome has been instructive. Having more restricted funds Scottish universities were unable to expand as fast as in England. While there was a rise in the intake of pupils from lower social class homes in England after 2004 this did not happen in Scotland. There is a clear trade off. Enabling universities to finance expansion through higher fees widens the gates and lets in more poor students. Charging fees has put off some middle-class students for whom a small extra fee was a deterrent. The impact of charging higher deferred fees in England has been to narrow the social class differences in intake, not the reverse (Barr, 2010).

Despite the technical mistakes discussed above England now seems on track to have established a basically sustainable means of financing its universities. In this respect it is in a class of its own in Europe. Small fees are charged in Germany. In France courses are virtually free in ordinary universities but the prestigious *Grandes Ecoles* charge serious money (13,000 euros). In Sweden, Norway and Denmark courses are free, at least for European students. Spain has a minimal charge per credit. Yet universities in all these countries are struggling to maintain standards. Hungary is alone in having a system very similar to that in England. Nowhere else is even seriously considering as radical a model.

### **Health care – the one service with no plans to change funding**

The National Health Service (NHS) is the one service where no party has proposed a new or additional source of funding. Yet the pressures of an older population will grow as we have seen already. The possible boundaries of care and cure expand year on year. The USA sets the pace. It will soon be spending a fifth of its national income on health care. Europe will be spending half that. The Minister of Health in England said recently that there was no way health spending on the NHS would ever be allowed to rise to more than 10 per cent of GDP. That means that Europeans and certainly the UK population will not be able to receive half the range of feasible medical treatments available in the USA. It may well be that the potential health gains to Americans are minimal. Persuading patients and doctors of that will be no easy task, especially when urged on by well funded drug company advertising and political manipulation.

The only answer the coalition has adopted is to try yet another set of structural changes on the NHS in England. This has been not only unpopular but probably of no great help in meeting the long run funding dilemma.

Sharing the cost of health with the patient – charging in short – has been

tried on the continent of Europe and to a very limited extent in the UK for pharmaceuticals, dentistry and optician care. The French health care system makes people pay 20 per cent of their doctors' fees, partly recoverable through additional insurance, and charges for hospital accommodation. The Swedes pay a fee when they go to their GP.

However, there are strict limits to the political viability of this approach.

An appealing political case can usually be made for exceptions – the old, the long-term sick, nursing mothers, children, and those on income support. As a result 85 per cent of all drug prescriptions in England are free. They have been abolished in Scotland.

We know from work done in the USA many years ago charging to attend a primary care physician can delay approaching the doctor. This results in later diagnosis and more costly treatment.

If the fee is kept very low to avoid deterring people from seeking care this still requires a charging structure in each GP surgery and the administrative costs could outweigh much of the revenue. Much the same is true of charges for hospital accommodation as we move to adopt day cases and those who stay are often the elderly, the long-term sick and poor.

The fact is that there is no strategy in the wings waiting to be implemented in the case of health care in the UK. Perhaps there should be. Much the same dilemma faces countries across Europe.

## Significant but not enough

Overall then, England, though not Scotland, has been taking steps that will share more of the costs of its welfare state with its direct users. Like other welfare states it is seeking to make tougher rules about drawing benefits. It is seeking to open educational and health care providers to more competition in the hope this will get more output from the same input. But significant as these measures are, and unpopular, too, in many cases, it barely seems enough. How much will the measures we have discussed raise in additional revenue, 'quasi taxes' or other contributions?

- Raising the full pension age to 68 for men and women by 2030 would hold the cost of pensions constant as a percentage of the GDP (Turner 2005: Figure 1.46) a saving of 0.6 per cent of GDP. To try to hold pension costs stable in this way up to 2050 would require a pension age of nearly 73!

Recent work by the National Institute for Economic and Social Research gives a more optimistic figure taking account of the larger GDP that would be earned by the new workers and other effects (Barrell *et al.*, 2010).

- Reducing the cost of public service pensions by a quarter through later retirement and higher employee contributions will save about 0.5 per cent of GDP.
- Putting a tax credit cap on tax reliefs for private and occupational pension schemes might reduce tax expenditure by half or 0.7 per cent of GDP.
- Making private contributions to long-term care costs more acceptable and workable would not actually *save* money compared with now. Even the relatively modest changes recommended by the Dilnot Commission would add more than a quarter of a per cent of GDP to public spending by 2030. Any move to free personal care would require major new forms of revenue equivalent to about 2 per cent of GDP (Humphreys *et al.*, 2010).
- The immediate cuts in tax funded grants to universities by 2015 amounted to £2.9 billion a year or a cut of 40 per cent. The long-term costs to the exchequer of meeting graduates' failure to repay fees in full are anyone's guess. If the income exemption on paying back fees were linked to prices not earnings more could be saved.

So despite the rather bold steps England has taken in devising a new funding partnership arrangements even they will not be enough to fully balance the future welfare books. More revenue or more contributions will be needed to sustain the growing demands. That holds with even greater force in the other parts of the UK and other parts of Europe.

## Reflections on Public Service Reform in a Cold Fiscal Climate

Christopher Hood

### Background: Austerity and public service reform – a problem for every solution?

Strong fiscal pressures on the public services across the UK<sup>1</sup> can be expected to be a feature of much if not all of the 2010s, whatever parties may win government in its various parliaments and assemblies (see Hood *et al.*, 2009). Continuing political pressure can therefore be expected for reforms that cut the overall cost of government and the public services with as little damage as possible to the quality and quantity of service provided – at least for those public services that are most salient for marginal voters in marginal constituencies in determining their choice of party at elections.<sup>2</sup>

Finding reforms that fit those electoral requirements is hard for at least three reasons. First, much of what was called public service reform in the UK before the financial crash of 2008 and the subsequent fiscal crisis was essentially about doing ‘more with more’, and indeed about providing voters with reassurance that sharply increased spending on public services was producing better outcomes for citizens rather than just higher salaries for public service workers or more money for contracting firms. Examples of such ‘more for more’ developments include the ever-more elaborate inspection and audit regimes that developed

<sup>1</sup> In many other countries as well: see Pollitt (2010).

<sup>2</sup> The electoral salience of public services varies substantially over time (see Halpern and McLean (2009: 2850), but in the recent past the most electorally salient public services in the UK have been health and education, along with police and immigration services. The electoral salience of public services greatly increased relative to voters’ macroeconomic management concerns between the mid-1990s and the late 2000s, but a decline was already underway before the late-2000s financial crash and recession (*ibid.*). Still, public services are likely to remain electorally important and indeed their relative salience to voters may increase again if and when economic recovery occurs.

in the 1990s and 2000s for services such as education, health and social care, and the ubiquitous and much-debated target and KPI systems for performance monitoring and improvement that spread across the public services over that period. Can this well-known array of reform measures be plausibly re-vamped for an era of austerity calling for ‘more with less’, ‘the same with less’ – or perhaps more realistically, ‘not much less with less’?

Second, another familiar public sector reform recipe over the past few decades, under both Labour and Conservative governments, has been outsourcing, privatization, private financing and more business-style management of public services. There is little systematic evidence about the overall effects of such reforms on cost saving, and certainly no consensus among policy experts or in the academic world that such changes have significantly cut costs overall. Indeed, in some cases, such as the switch from subsidized public enterprise to subsidized private provision for train operations since 1995 or the payment-by-results ‘QOF’ framework that was introduced in 2004 for general practitioners in the NHS, such reforms have plainly served to increase rather than decrease costs. Could it be different this time, if the pressure is really on for cost saving?

Third, many of the widely canvassed schemes for lowering the cost of government without decreasing the quality of public services tend to be of the ‘spend to save’ variety. Examples include: ambitious ICT mega-projects for re-engineering dealings between governments and citizens, beloved of public service reformers of all political stripes; mass dismissals from the public service or radical ‘deprivileging’ of public servants to achieve big savings on wage, bonus or pension bills;<sup>3</sup> major organizational restructuring exercises to cut waste and sharpen policy focus; volunteer or citizen-service schemes for providing some sorts of services. Whatever their other merits or otherwise, all of the examples mentioned tend to involve large upfront expenditures, for example, in agreed departure payments for shedding staff, IT system development costs or costly organizational restructurings, in return for the promise of savings (and possibly quality improvements as well) down the line. Spending to save is often an attractive prospect if the resources can be found. But the substantial upfront funding needed for spend-to-save schemes is by definition less likely to be available in austerity conditions than in the fat years. So what if, as with many

<sup>3</sup> For an empirical assessment of the Thatcher government’s attempt to ‘deprivilege’ the UK civil service in the 1980s, see Hood (1995), especially 113. The analysis shows how staff numbers and pay costs were cut, how pay comparability with private sector employees was reduced for lower-level staff, and suggests on the basis of 13 tests that ‘deprivileging’ applied mainly to the lower ranks rather than to the upper-level mandarins.

developing countries today or as in its own experience with spending cutbacks in the past (when capital spending has almost always been hit along with other categories of spending in times of fiscal stringency),<sup>4</sup> the UK turns out to have limited scope for 'spending to save' in public service reform in the 2010s, and instead has to put more emphasis on saving without spending?

These reflections are sobering. But before we conclude there is 'a problem for every solution' over public sector reform in a cold fiscal climate, it should be remembered that significant public service reform has been achieved at times and places in the past under austerity conditions. Perhaps the most dramatic example from the UK is the case of the late 1940s, when against the background of sharply falling public spending on defence and a halving of civil service staffing in the face of post-World War II demobilization and massive public debt, health services and the public utilities were radically reshaped into a form that has survived into the present day in the first case and which lasted for more than 30 years up to the privatization era in the second. New Zealand in the late 1980s offers another example of major central state restructuring during a period of spending restraint (which turned into substantial spending cutbacks in the 1990s) in the aftermath of a severe currency crisis. Reforms involved a radical reshaping of the traditional civil service 'bargain' and of the responsibilities of ministers and public servants, along with other major policy changes, including deep cuts in industrial and agricultural subsidies and a switch of emphasis from income to consumption taxes (see Scott, 1996; Schick, 1996; Boston, 1997). Finland's budgetary reforms of the 1990s are a further example (see Pollitt, 2010: 18). Cases such as these indicate that 'an open hand at the Exchequer' is not always prerequisite for public service reform (2010: 18). So could the 2010s be another era of public service reform in a cold spending climate?

### Three possible scenarios

Against that background, this chapter briefly sketches out and assesses three broad reform strategies for public services in an age of austerity. Those three types are here loosely dubbed 'resetting recent reforms', 'system redesign' and 'East of Suez moments'. No claim is made here that those three types are either mutually exclusive or jointly exhaustive, and indeed they are likely to overlap substantially at the margins.

<sup>4</sup> See, for example, Dunsire and Hood (1989); Hood *et al.* (2009).

By ‘resetting public service reforms’, the first and perhaps most obvious possibility considered here, is meant taking the reform measures that became familiar during the fat years up to 2008, such as high pressure performance targets, high-stakes audit and inspection regimes and business-type management of public services, and to re-engineer those well known measures for a significantly colder fiscal climate. The second possibility, here labelled ‘system redesign’, is to move beyond those familiar recipes to a more basic re-shaping of public services that radically alters provision structures or creates more incentives for providers to save rather than to spend, or to balance service quality and effectiveness against tax or borrowing costs. A third, here termed ‘East of Suez moments’ (a reference to the historic British decision in 1968 to abandon most of the chain of overseas military bases it had formerly maintained from the Mediterranean to the South China Sea (Pickering, 1998)), is to withdraw state provision from some existing domains of public services altogether so that the diminished resources can be concentrated more effectively on a narrower range of concerns. None of those options can be expected to be easy or painless, but a sober assessment of the reform prospects for the coming decade suggests that each of them may merit some attention.

### **Resetting recent reform measures for a colder climate**

Perhaps the most obvious place to start thinking about public service reforms for an era of austerity is to explore whether and how far reform measures adopted in the recent age of plenty can be adapted for a colder fiscal climate. On the face of it there does seem to be scope for such resetting.

One possible candidate for such resetting is the much discussed performance target system that was applied across UK central government as part of the public spending regime from the late 1990s (and in fact operated on a partial basis long before that, including the target systems applied to the production of munitions and military materiel in both World Wars of the twentieth century, and caseload targets that have long been applied in tax or welfare organizations). In principle such systems can be re-focused to put more weight on input, cost reduction or productivity measures relative to measures of service output, coverage or customer satisfaction. Indeed target systems are commonly used in this way, from the so-called ‘manpower reduction targets’ applied to every UK government department from 1979 to 1994 to more recent ‘efficiency savings’ targets. Another case in point is the much discussed annual deficit reduction targets adopted by Canada’s Liberal government under Jean Chrétien and Paul Martin from 1993 to 2006 (Joyce, 2009; Aucoin and Savoie, 1998).

Similarly, the performance measures used for comparative rating systems in services such as schools, health trusts and local authorities could be re-focused to put more stress on productivity measures as against administrative measures of output or various forms of user ratings. It is remarkable that research has revealed no correlation at all between how hospitals in England in the early 2000s scored on the then prevailing 'star ratings' measures of service quality and how they rated on measures of hospital productivity.<sup>5</sup> It might be even argued that league tables or rankings are better suited for an era of straitened resources than targets that focus on absolute performance levels. After all, this is an age of price-comparison websites, and even and perhaps especially in conditions of resource scarcity or decline, organizations or provider units can still compete against one another over productivity or value for money.

Could other recent reform themes also be reoriented for a cold climate? The high-stakes audit and inspection schemes whose development and extension, as noted earlier, was such a marked feature of public service reform in the UK and particularly England from the 1980s to the 2000s could in principle be more closely focused onto cost containment as well as service quality. The controversial bonus schemes that were introduced for senior civil servants and public managers generally over the past two decades could in principle be re-launched to link closely with demonstrable cost cutting relative to output in the units or organizations those individuals head as against the more intangible aspects of their perceived performance that those bonus schemes previously reflected. Procurement and outsourcing regimes could be modified to exert more downward leverage on prices, for instance by relaxing market-entry rules about who is entitled to tender or pooling resources among different organizations or authorities to exert monopsonistic buying power, for instance by pooling procurement among police forces. Financing regimes (such as the PFI financing rules) could in principle be overhauled to encourage tougher price competition between public and private sector organizations for the provision of facilities and projects.

Revamping of earlier reforms along these lines has the advantage of building on recent effort and experience. Some such changes have already occurred, for example, with the use of targets for cost reduction and some resource pooling for outsourcing. But all of the types of resetting mentioned above have some attendant drawbacks and limits as well. While they are often highly effective in

<sup>5</sup> See the research on this subject by Mary O'Mahoney and Philip Stephen, summarized at <http://www.publicservices.ac.uk/research/metrics-targets-and-performance/>



focusing public managers' attention onto over-riding political priorities, target systems have well known limitations, whether they are applied for resource reduction in lean times or for service improvement in times of fiscal plenty, and the most commonly observed limitations of such systems are ratchet effects, threshold effects and distortion of outputs or inputs.<sup>6</sup> Indeed, when applied to cost saving, efficiency targets are very likely to trigger ratchet and threshold effects that keep cost reductions below what is otherwise achievable. It was precisely those effects that led W. Edwards Deming (2000), the famous manager-engineer who is often seen as a crucial contributor to the post-World War II Japanese miracle, to develop his contrasting model of total quality management through continuous improvement.

A clear example of significant output distortions created by targets intended to reduce costs is the so-called 'manpower reduction' targets applied to government departments by the Thatcher and Major Conservative governments from 1979 onwards. These targets were eventually scrapped in 1994 because they were seen to be encouraging departments to shed staff in ways that did not cut operating costs and in some cases increased them (for example, by encouraging key staff to go off the payroll for target purposes by expensive severance or early retirement deals, and then hiring the same people back at higher cost as consultants who did not count for the targets).

In fact, to use targets as an effective instrument of input reduction, it is all the more necessary to have robust indicators of output to ensure that managers are incentivized to improve productivity and to find better forms of delivery rather than going for the 'low-hanging fruit' by simply slashing services indiscriminately and opportunistically. But those indicators may come at a political cost, in the sense that output indicators that point to falling output or declining levels of service or satisfaction in hard times are likely to have much less politician appeal than indicators that point upwards in the good times and which can therefore be used for credit-claiming with the voters.

League table systems or tournament forms of competition are less likely to produce ratchet or threshold effects than ranking systems, but they can still produce output distortions if only some of the relevant output is measured in the ranking system. Reorienting audit and inspection regimes to apply downward pressures on spending as well as upward pressures on performance presents problems as well. The remits of many of the organizations operating such regimes are laid down in legislation, and the statutory changes that

<sup>6</sup> See Hood (2006) for an account of these effects.

would be needed to shift the emphasis to cost cutting represent a slow, heavy lifting route to reform. Perhaps more to the point, the organizational culture and skill bases of many of audit and inspection organizations could not be changed overnight away from their predominantly professional improvement orientation, even with key changes in top appointments. Indeed, arguments for slimming down those oversight organizations and their activities to release resources for hard pressed 'front-line' services may be hard to resist in austerity conditions, as in the case of the abolition of the Audit Commission and the performance measurement system that went with it.

Realigning top civil servants' bonus systems to reward cost-cutting achievements might also provide powerful direct incentives for such individuals to promote a leaner style of government. But as the continuing debate over the design of reward systems in the financial sector indicates, it is very difficult to align individual incentives with long-term collective benefit. So it could well be quite problematic to design bonus systems that prevented public managers from securing the sort of short-term savings that led to higher costs in the medium or longer term (for instance, by heavy cuts on maintenance activity, hiring freezes or scrapping of capacity that has to be expensively re-established later, as in the defence cuts of the 1920s). Moreover, the sort of knowledge needed to effect savings intelligently may be more likely to lie at the front line of public services (where the rubber hits the road) rather than in the top directorates. It may be that the sort of incentives to achieve that would be less like the much criticized top-level bankers' bonuses and more like those proposed by Sir Edwin Chadwick (1854: 219), reflecting on his experience in the Poor Law Commission in the early nineteenth century, by which the lower level employees of a public organization would be able to benefit financially from staffing reductions in their units by being allowed to appropriate some of the wage costs saved in their own pay packets. Those kinds of measures take us into the second category of reforms mentioned earlier, involving system redesign that goes beyond refocusing reform measures that have become familiar in the recent past.

### **Basic system redesign: 'economical reform' revisited**

While there is something to be said for a strategy of simply turning round the reform measures that were employed in the fat years and resetting them for an age of austerity (because it builds on experience and capacity, and deals with the familiar rather than the unknown), any such strategy has its limits. If so, a more

basic reshaping of public service provision systems may need to be considered. Such system redesign can take place at the level of citizen–government interactions (for example, by more or less obligatory co-production as in compulsory recycling schemes or obligations for military or social service by citizens) or at the level of redesigning the incentive structures of government institutions to create more incentives for cost containment.

*Redesigning Provision Structures.* One historical example of the first type of system redesign is the combination of mail delivery with passenger transport in eighteenth-century England, which Jeremy Bentham hailed as a combination that both speeded up the post and served travellers better, because the travellers acted as inspectors of the postal system and complained about every delay.<sup>7</sup> Another is the substantial de facto reduction of personal medical service available to the civilian population in Britain during World War II, when many family doctors were conscripted into the armed forces.<sup>8</sup> Other examples are the redistribution of responsibility between individuals and state service providers that came with the introduction of income tax self-assessment obligations in the UK in 1996 (some two centuries after the first income tax) and the more recent case of obligations to sort garbage into different categories, linked in many cases to a reduction in the incidence of general refuse collection. Possible future applications of this sort of reshaping of citizen–government interactions might include burden-shifting from tax-financed provision to other forms of provision, for instance by further efforts to ‘responsibilize’ citizens in areas such as crime and health (that, is to put more responsibility on individuals to protect themselves or their health, perhaps linked to new forms of technology, as in the powerful claims being made for a new era of personal, predictive and preventive medicine linked to new methods of testing and scanning);<sup>9</sup> volunteer or citizen-service schemes for some kinds of provision, even perhaps the use of new tagging technologies to make more use of offenders or prisoners in the provision of some public services, such as street cleaning.

<sup>7</sup> ‘Such are the advantages of this little combination!’ Witnesses to the least fault; the motive of reward substituted for that of punishment; economy of informations and prosecutions, the occasions of punishment rendered rare; and the two services, by their union, made more convenient, more prompt and more economical!’ (Bentham, 1931: 425–6).

<sup>8</sup> Britain’s World War II Director of Army Medical Services recalled in his memoirs a press conference in the USA during World War II when he was asked what was happening to the health of the UK population when so many doctors were absent in the armed services. ‘I said, “This answer is not for publication – their health is much better since they have had to do without doctors!”’ (Hood, 1950: vol. 2: 36).

<sup>9</sup> For an example of the concept of ‘responsibilization’, see Garland (2001).

*Redesigning Institutional Incentives.* There are some historical precedents for a second type of system redesign, namely changing basic incentive structures to create more incentives for cost containment within government institutions, but some of those precedents pre-date modern forms of democracy.

One notable example is the so-called 'Economical Reform movement' in Britain in the late eighteenth century which was initiated by the Yorkshire Association formed in 1779 to lobby for a reduction of 'places and pensions' in the public service at a time of high taxation during the war of American Independence. The Economical Reform movement led to significant changes in the 1780s when reforms of the royal household and the civil service advocated by Edmund Burke, the famous Whig reformer, led to a reduction in patronage and patents to those with influence at Court, particularly for the supply of stationery to government departments, one of the key operating expenses of government at that time. Radical reform of procurement in that area led to the creation of HM Stationery Office in 1786, which was designed to ensure that procurement of parchment, pens, sealing wax and the other elements of what was then the leading edge of government information technology – equivalent to today's costly ICT systems, it should be noted – were bought only through public and open competition. That development marked a significant step in strengthening of central Treasury expenditure control over departmental spending by adding a powerful new lever to that department's tool-kit.

Nor is that the only example of successful reform pressures for cost containment in government and public services. Coming closer to the modern democratic era, the so-called 'Anti-Waste League' that was created in Britain by the press baron Lord Rothermere after World War I, attracted significant support from middle-class class voters who had been hit hard by the tripling of income tax during the war and a drastic fall in living standards for anyone living on fixed incomes from securities. The League's short-term electoral success (culminating in three by-election successes in the south of England in 1921) panicked the then Liberal-Conservative coalition government led by David Lloyd George to move abruptly away from the high spending post-war reconstruction policy on which it had been elected in 1918 and to set up the Geddes Committee on National Expenditure (comprising a group of business people who had close connections with government, many having served as ministers or senior civil servants, and including the President of the Income Tax Payers Society). The Geddes committee effected public spending cuts of more than £100 billion in current money terms, much of it falling on defence, but also resulted in substantial cuts in other domains, notably post-14 education,

the then equivalent of higher education today, social security and local authority housing provision, with more modest cuts in health spending (see Macdonald, 1989; Hood *et al.*, 2009).

More recent examples of 'tax revolts' are Mogens Glistrup's anti-tax, anti-bureaucracy Progress Party which came from nowhere to become the second largest party in the Folketing in the 1973 Danish general election; the famous and controversial Proposition 13, limiting state property taxes to 1 per cent of the cash value of any property, which was approved by California voters in 1978; the fuel tax protests by truckers in the UK and some other European countries in 2000 which caused the UK government to scrap its previous 'fuel tax escalator'; and the recent 'tea party movement' in the USA (see Smith, 1998).

Twenty-first-century equivalents of the 'Economical Reforms' of the 1780s that aimed to change the incentives that are built into the public spending system would need to engage with some basic financial architecture. For example, it is often claimed that the existing design of government in the UK – notably the traditional preference for general-fund taxation rather than tax hypothecation and the established arrangements for fiscal transfers among levels of government – provides little or no incentives to save or to promote fiscal responsibility for players outside the Treasury. Similarly, the devolution arrangements of 1999 and the much longer-lived 'Barnett formula' for allocation of public expenditure by territorial units within the UK (originally introduced in the 1970s in anticipation of the devolution measures planned by the Labour government of that time) on which they were based, gave devolved governments or assemblies little or no tax raising powers and linked their spending to that of England through a formula arrangement. That meant that such governments had every incentive to seek to ratchet up English or UK expenditure and no real electoral incentive to restrain their own overall spending, though of course they could reorder priorities within their spending blocks. Some changes to that arrangement are in process at the time of writing, building on the fairly modest proposals made by the Calman Commission in 2009 for reducing the UK income tax level by 10 pence in Scotland and giving the Scottish government the power to determine the level of taxation it wished to impose on top to fund its own services (Commission on Scottish Devolution, 2009). That could be the start of fundamental changes to the institutional architecture of the UK.

The same point about skewed incentives broadly applies to the arrangements for local government around the UK. Those arrangements present precisely the same kind of skewed incentives, with central government setting the business rates on a uniform basis, largely formula-driven funding and local taxes that are

often noted to form a lower proportion of public spending than in most other advanced democracies. Local authorities that had to raise more of their funds from locally levied taxes would have much stronger incentives to balance their expenditures against the tax costs.

System redesign along such lines might potentially lead to a radical transformation of provision structures and political incentives over spending. But the potential problems with such approaches are not too far to seek. They typically involve heavy upfront costs in transaction and negotiation, potentially involving long periods of haggling with organized interests over small print or institutional details when the need is for immediate spending cuts. Given disparities in income and wealth across the countries and municipalities of the UK, there would have to be some sort of fiscal equalization mechanism to replace existing formula funding systems. Changing local taxation systems has proved to be a political landmine in the past; after all, it ended Margaret Thatcher's career. If greater tax powers were linked to abilities to issue bonds or borrow, the Treasury's ability to control UK public spending might be curtailed. Such developments might even further the sort of secessionist politics that the devolution arrangements of a decade ago were intended to restrain. System redesign is often a slow fix and is certainly not for the faint-hearted. To adapt the philosopher Otto Neurath's (1932) famous metaphor about the use of language, such measures require a complicated rebuild of the ship of state in the midst of a hurricane rather than in a convenient and sheltered dry dock.

### **Doing less with less: 'East of Suez' choices**

To the extent that there are limits to reforms that involve either turning round existing measures to focus more squarely on cost saving or on more radical system redesign, a point must be reached where reform must involve cutting existing commitments rather than finding lower cost forms of providing existing services or benefits. After all, Adam Smith concluded the final book of his 1776 *Wealth of Nations* (in which he considered how to align revenues with expenditures) by observing that if new sources of revenue could not be found, for example, by taxing Ireland or the colonies: ['Great Britain'] 'should endeavour to accommodate her future views and designs to the real mediocrity of her circumstances' (Smith [1776] 1812: 760).

In similar vein, in the 1930s, following on the famous report of the [US] President's Committee on Administrative Management (1937) that recommended major reorganization of the federal executive branch to achieve greater

efficiency, Lewis Meriam and Laurence Schmeckebier (1939: Ch. 2) argued from their analysis of federal expenditure that substantial savings could only come from cutting services and to a lesser extent from staff reductions, but could not come from organizational restructuring or greater process efficiency because less than 20 per cent of federal expenditure went on the running of government agencies at that time, and most of that was spent on salaries.

In the 1980s, on the basis of observations of OECD countries' attempts at cutbacks in the 1970s, Tørben Beck Jørgensen (1982, 1985, 1987) argued that policy-makers entering circumstances of continuing fiscal restraint after a long period of growth were likely to begin with incremental cutbacks (choosing quick wins with low search costs, such as pruning budgets at the edges, hiring freezes, cancellation of capital projects). As the money saved from such tactics declines over time, and other costs arise from the distortions those forms of cuts inevitably produce, policy-makers will tend to move to 'managerial' style cutbacks, turning their attention to more basic re-engineering of public organizations and their relationship with their clients to increase productivity, often involving shifting burdens at the margin between providers and recipients of services (as in the 'Ryanair' or 'Easy Council' no-frills model with top-ups being pursued in some local authorities today). But even these approaches have their limits, and at some point, according to Beck Jørgensen, cutbacks have to be conducted in a strategic way, focusing on priorities rather than on efficiency and on choosing which activities, programmes and agencies to be retained rather than re-engineering provision systems. Beck Jørgensen argued that the search costs (expressed, for example, in demands for high cost analytic research) tended to be higher in what he called the managerial style than in the incremental style, and highest of all in what he called the strategic style.<sup>10</sup>

But service or sector abandonment by the state is far from unknown. Perhaps the biggest twentieth-century example is the withdrawal of the state from most of its imperial responsibilities in the decades after World War II, in the British and other empires (for example, Portugal and Angola or Belgium and the Congo), echoing other eras of imperial retreat. Cases of state abandonment of technologically obsolete services such as telegraphs (which Max Weber 100 years ago declared to be the backbone of the modern Western state (Gerth and Mills, 1948: 213)) are not far to seek either, and indeed in voice telephony over the past quarter century many European states have moved from a complete

<sup>10</sup> Pollitt (2010: 21–5) makes a similar point in discussing the pros and cons of three cutback-management strategies that he describes as 'cheese slicing', 'efficiency gains' and 'centralized priority setting, and which closely resemble Beck Jørgensen's three categories.

public sector monopoly of such services through regulated private provision to the abandonment of price control and licensing for voice telephony.

Other domestic examples of service abandonment made for cost-cutting reasons independent of technological obsolescence include the widespread withdrawal of municipal public conveniences in recent decades, the abandonment of coastal defences and the dredging of river mouths in numerous places and New Zealand's abandonment of its formerly extensive public works programme in the 1980s, with the closure of its former Public Works department and withdrawal of most public funding for such activity. Within Britain over 4,000 miles of the state-owned railway network (nearly a quarter of the total network in 1963) was closed down between 1963 and 1973 after the then government accepted the famous Beeching report of 1963, *The Reshaping of British Railways*, which had recommended that a third of the network (mostly rural branch and cross-country lines) should close, with other lines to be kept open for freight only, and many stations to close even on the lines that remained open for passenger traffic.<sup>11</sup> The example from which the title of this section is taken is the late 1960s decision, already mentioned, to abandon most of Britain's previous 'East of Suez' military commitments.

Even abandonment of welfare or subsidy programmes is far from unknown, although 'salami-slicing' tactics are more commonly applied to such programmes for political reasons, as in the case of Swedish welfare state cutbacks in the 1990s (Lindbom, 2007). For example, a short-lived period of universal provision of federal old age pensions for people over 70 in Australia in the mid-1970s was replaced by an income test shortly afterwards and subsequently by an asset test as well that was imposed by Bob Hawke's Australian Labour Party government in 1985.<sup>12</sup> Even more radically, perhaps, David Lange's Labour government in New Zealand abandoned most of New Zealand's agricultural subsidies virtually overnight in the late 1980s. More recently some US cities that have filed for bankruptcy under chapter 9 of the 1937 Bankruptcy Code have radically cut retiree health benefit and pension payments.

The costs and difficulties of this approach are obvious enough, since such cuts tend to be more politically divisive than across-the-board reductions. Even cost-cutting exercises that have commonly been regarded as successful in the

<sup>11</sup> These cuts were opposed by the Labour Party in opposition at the time, but were not reversed under the subsequent Labour government: see Gourvish (1974).

<sup>12</sup> In fact the asset test, pushed hard by the Australian federal Treasury at that time in the expectation that it would substantially reduce the tax costs of pension provision, realized only a fraction of the savings originally envisaged as a result of the concessions that were made to interest groups during the policy process (see Marsh, 1985).



recent past, such as the 1990s Canadian Program Review, often stop short of radical reallocations (see Joyce, 2009; Aucoin and Savoie, 1998). Quantum cuts, such as the UK Liberal–Conservative government’s cuts to education under the ‘Geddes axe’ in 1922, can have heavy long-term electoral costs. Nevertheless, as the examples given above indicate, this category of reforms is not an empty box and more examples are likely to appear.

## Conclusion

Three points can briefly be made in conclusion. The first is that the three types of cost-cutting reforms discussed here are not mutually exclusive or necessarily jointly exhaustive. Public services reform for the austerity period of the 2010s may well need to comprise some mixture of all three. It may be too that the second type, of basic system redesign, can come in more varieties than the two discussed here.

The second point is that the phasing of these types as described by Tørben Beck Jørgensen, as noted earlier – going from incremental cutbacks through ‘managerial’ reforms (or broader system redesign, in the terms used earlier) to quantum or strategic cutbacks – has an elegant analytic logic, but that logic may conflict with political logic in some cases. The lead time for ‘East of Suez moments’ is not necessarily longer than ‘system redesign’ strategies, and electoral cycle considerations may also favour a strategy of early deep cuts. It therefore seems likely that reforms of the first type, and possibly of the third type as well, may need to precede the second type. But given that system redesign may have a vital part to play in any longer-term process of adapting public services to a cold fiscal climate, the policy challenge is to prevent the more quickly deployable first and third options from undermining the pursuit of the second in the medium term. That is a tall order, but the historical examples noted earlier demonstrate that it has been done before.

The third point is that none of the three types discussed here is a panacea for the problem indicated at the outset of this essay – that is, for achieving reforms that cut the cost of government and the public services without significantly reducing the quality and quantity of service provided (with the electoral qualifications as before). The difficulty of combining those two objectives is clear enough,<sup>13</sup> and all of the three strategies discussed here have accompanying

<sup>13</sup> See Pollitt (2010: 27) for the challenges it poses for political and managerial leadership.

disadvantages. But nor is any of them a monopoly of one party or political position as against another. After all, as the examples given above indicated, even 'East of Suez' choices can be and have been made by democratically elected governments of very different political persuasions.



# Afterword: What Next for Public Services?

Ben Lucas, Gerry Stoker and Matthew Taylor

This book has brought together a diverse range of contributions in the cause of exploring a new agenda for public services. As Griffiths and Kippin argued in their introduction, it is not a complete programme of reform, but a starting point. It sketches an outline of how public services could respond to contemporary social, economic and political upheaval, grounded in serious evaluation of the way our public services have evolved from Beveridge's 1942 vision to the present day.

The contributions are diverse because the territory is complex and contested. The contributions reflect the richness and diversity of debate, and provide a robust and open discussion about how we might deliberate upon these issues as public managers, service providers, academics, practitioners, policy-makers, and citizens. Several common themes run through the book. First, a desire to unpack and re-evaluate the 'microfoundations' of our current settlement, proposing models of policy-making, service design and accountability based on a more nuanced and realistic view of the citizen. Second, a desire to critically explore the mechanics of our delivery system, reflecting valuable and necessary debates on the ecology of the supply-side, the way performance is measured and managed, and the ways in which citizens can have a meaningful influence. Third, a desire for honest debate about the fiscal challenge for public services and the right balance between public, private and social resource that could help to address future demands.

In this Afterword, we bring the collection to a close by looking forward. We offer a perspective on the future of public service reform based on recognition of a shifting 'social contract' between citizens, state and society, and the implications of this shift for the way we design, deliver and govern our public services.

## The changing 'social contract'

Although they draw very different conclusions from their analysis, both the champions and critics of free markets have recognized the tensions between capitalism and the popular will. Capitalism tends to generate inequality, risk (for the few in good times, and for many more in bad) and various other problematic externalities that create fertile grounds for critique, resistance and even revolution. In the early decades of the twentieth century this tension seemed endemic and dangerous.

In the post-war decades, western nations found a way of mitigating instability and reducing dangerous conflict: in exchange for a license for capitalism to operate, workers and their families would enjoy improving living standards, a rising social wage of welfare entitlements and a low risk of unemployment. This 'social contract' was undermined partly by the economic crises of the 1970s, but also by the emergence of a set of economic and political ideas (loosely characterized as the 'new right') that presented it as malign and unsustainable. Nevertheless the economic boom of the nineties and noughties allowed certain aspects of the deal – particularly the welfare elements – to be held in place. Today, a combination of the credit crunch (arguably just the latest and most serious manifestation of a continuing crisis of capitalist accumulation), the impact on the West of globalization, demographic change and other factors, appear to have dealt a profound blow to the post-war settlement and its associated social contract, at least in the short and medium term.

The consequence is a growing 'social aspiration gap' separating the public's general hopes for the future from the trajectory upon which we now seem set. It is possible that this growing gap will result in an adjustment in public expectations. There is a strong current in public discourse emphasizing the need for western citizens to work harder and wean themselves off dependency on the state and public services. But there is an equally strong current of hostility to this new reality, expressed through anti-capitalist movements and political parties and, in some countries particularly hard hit by austerity measures, through a resurgent nationalism.

Between these two poles of debate it is apposite to ask: is there another way, and if so what might it mean for our thinking about public services and the role of the state?

## Public services and ‘social productivity’

‘Social productivity’ is the core concept of the RSA 2020 Public Service Commission and it recurs in various forms in this collection. What is meant is simply the degree to which public spending and other state backed interventions encourage and enable people better to meet their own needs and aspirations. The pursuit of social productivity goes further than methods to achieve greater efficiency – the general focus of new public management – by seeing the most promising source of better outcomes lying not only in improving public service processes but in changing the norms, attitudes and behaviours of citizens.

The logic behind novel reform agendas such as social marketing, ‘nudging’, service co-design and co-delivery, community capacity building and – more ambiguously – personalization is that, generally, the public is seeking the same outcomes as the state (such as higher educational attainment, safer and more pleasant communities, healthier lives, environmental sustainability, and so on). It should thus be possible to achieve greater alignment and synergy between the efforts made by public agencies and those made by the public itself.

The prosaic example of refuse collection shows the theory in practice. Less than 20 years ago a survey of local authority managers found most to be sceptical about efforts to encourage greater household recycling. But now a combination of changes in public norms and expectations and in the way services are delivered has led to half of all domestic waste being recycled, a figure which continues to rise.

A raft of anecdotal evidence should suggest a fertile ground for this approach. For instance, we know that the differential impact of parental behaviour is more important to children’s educational prospects than the performance of teachers. We know that the lifestyles people choose are more important in maintaining their health than the interventions of medical professionals. It is inconceivable that society can cope with the demands of an ageing population without the massive contribution of family and other informal careers. So the scope for greater ‘social productivity’ seems considerable.

This is not to argue, however, that public services do not have a critical role to play. Rather, we need to focus much more on the relationship between services and citizens, and the ways in which these relationships can be made more productive. Public services should not be seen simply as state produced goods – they are the result of the interplay between services and citizens. Unlocking social value requires both these elements to interact productively with each

other. Accordingly, increasing attention is now being given to ideas such as behaviour change and service co-delivery, and these are already part of many local government community strategies in the UK and elsewhere. But they are still largely absent from the 'big ticket' service sectors such as education and health.

There has also been less focus so far on – though growing interest in – a second route to closing the social aspiration gap: social business. In the following section we show why this is important, and why the growing attention on 'social business' is increasingly relevant to debates about public policy and public services.

## Social business and public outcomes

At opposite ends of the spectrum of social business lie new enterprises set up with an explicitly social objective in mind, and large established corporations seeking a renewed license to operate and deeper relationship with customers and community.

The drive for the former comes from the desire – especially among young people – to combine social responsibility with the desire for autonomy and initiative. While the definition of a social business is sometimes a matter of purpose and sometimes of governance, the emergence of a swathe of entrepreneurs committed from the outset to good business is likely to bring new energy and new solutions to bear on many social problems.

The move to a wider and deeper social mandate among bigger business has many champions and many versions. There is recognition among some business leaders of a growing and dangerous gap between their customers' hopes for society and the foreseeable reality. There is the way big business, like central government, has been subject to a crisis of legitimacy, exacerbated as technology increases transparency and the speed with which reputational risks can magnify. Increasingly brand values include a social or ethical component. There is also evidence of the importance of organizational values to the recruitment, retention and motivation of skilled employees.

To take just one sector, the last decade has seen the major supermarket chains take greater responsibility for encouraging healthier food choices, compete to demonstrate the greenest credentials and seek to demonstrate they are investing in the local community sector. The decision of UK supermarket chain ASDA to appoint a part-time community champion in each one of its stores makes it

one of the country's biggest employers of community workers. These champions are able to mobilize resources ranging from small grants, staff volunteering or facilities for community meetings.

As often when observing change in society, a challenge is to distinguish a cycle from a trend. Will the move to more socially engaged and responsible business practices prove to be a superficial and short lived response to certain circumstances? Or does it mark a significant convergence of business and public interest?

It would be easy to dismiss both the drive for greater social productivity and the move to more responsible and engaged business as of limited significance, especial in the face of the major and pressing economic and social challenges. More specifically, one might question whether the short-term realities of cut-throat competition and public sector austerity undermine the capacity for culture change and innovation on which longer-term shifts depend. The contrasting view sees these phenomena as having both a contextual and internal logic. If the choice is between sacrificing social outcomes or finding better ways of using public resources to leverage individual and community effort, then the latter option will arguably become even more compelling as cuts deepen. To wit, once businesses commit to acting in more responsible ways isn't it likely that they will create expectations that will push such concerns more into the mainstream of their activities? At a series of policy discussions in Autumn 2012 about ASDA's community programme, the recurrent theme concerned the implications of the company's good intentions for practice in core business areas such as recruitment and procurement.

## Public service, place and leadership

The negotiation of a new 'social contract' and the potential synergies between 'social business' practice and public service design will be developed most obviously at a local level. This magnifies the importance of place and local leadership. As national frameworks of entitlement become weaker – by economic necessity, political design or both – there is both an imperative and opportunity for greater local initiative. The effective mobilization of under-utilized assets lying in public sector institutions, budgets and powers, in civic and private organizations, in communities and individuals will be served by a sense of ambition for a place and its people. This ambition will be articulated



and co-ordinated by civic leaders who gain their authority through democratic legitimacy, political skills and concrete achievement.

The twentieth-century history of locally delivered public services can be read as a process whereby civic initiative, community self-help and political mobilization led to the creation and consolidation of what became bureaucratized, professionalized and centralized state delivery mechanisms. This tended to confuse two things which should be distinct – the democratic leadership of society and the administration of the state – and separated two things which should share a fuzzy and porous boundary – the public and civic (including business) sphere. If a context is to be created through which advances in social productivity and social business are to help close the gap between collective aspiration and current trajectory, it will require us to re-imagine not just public services and business but also the whole task and span of government.

Writing of the need for clumsy leadership to solve ‘wicked problems’ Professor Keith Grint has advocated leadership which is about ‘question not answers’, ‘relationships not structures’ and ‘reflection not reaction.’ Recognizing that such dichotomies are inevitably simplistic, if we add to the list ‘influence not control’ it seems obvious that such a style of leadership is easier to envisage at the level of cities, towns and neighbourhoods than that of a large nation state like Britain. Indeed, this may also be why around the world local leaders – forced by necessity to work in more inclusive, entrepreneurial and responsive ways – are generally more popular than prime ministers and presidents.

Local leaders must leverage this relative goodwill to begin generating consensus around the mechanics of a new model for public services and society. Evident in this collection of essays and in much contemporary discourse is a growing consensus about the type of public services we will need in future, and the different relationships with citizens they should embody. It is already axiomatic that tomorrow’s public services should be collaborative, integrated, productive, responsive, innovative and entrepreneurial. But it is much easier to say this than to make it happen. That is because in truth many of these characteristics are inimical to the Beveridgean model of mass produced, universalism on which our main public services are based. They cannot easily be retrofitted. This is why the operating framework for public services needs to change – shifting towards a new model that has a foundation in social citizenship, with the rights, responsibilities and reciprocity that this implies, and with a state guarantee that is more about universal engagement than universal entitlement helping to build capacity, not only providing services.

What follows are two questions: (i) how do we build consensus and legitimacy

for this new approach?; and (ii) what structural shifts would this entail? Below we set out some thoughts on how democratic politics can help engage with and drive this change. But it is also worth spending a moment reflecting on the types of shifts that a socially productive model of public services might imply. The first big shift should be from responding to need to managing demand. Two big drivers of future cost for public services will be failure demand (dealing with the costly consequences of system failure resulting in recidivism, ill health, worklessness, for example) and demographic change, (an ageing society). Early intervention, switching the balance of expenditure to prevention and working with communities to commission their own services and manage their own demand are what will be required to address these drivers. The methodologies that can help enable this – such as behavioural change and asset-based or social network analysis – have already been discussed in part earlier in this collection.

In a recent publication, the RSA's 2020 Public Services Hub outlines other shifts in culture and practice that will be required (Mulheirn *et al.*, 2012). These include a shift from social security to 'flexicurity'; from socially *protective* expenditure such as on health, to socially and economically *productive* expenditure such as on education (particularly vocational education, R&D and infrastructure); from outsourcing for efficiency to using procurement to drive service innovation, enterprise and social value; and from silos and service fragmentation to collaboration, integration and co-location.

But the real game-changer for public services would be to shift the balance of power between Whitehall and our cities, towns and counties. Despite the current Coalition government's (and indeed previous governments') rhetoric of localism, the UK still has the most centralized welfare and public service system of any comparable nation. The advice given to the Watergate journalists to help them get to the truth was 'follow the money'. In England the money is still controlled at the centre. Yet everything we intuitively know about innovation, collaboration, social norms and democratic legitimacy tells us that the right spatial level for innovative public services is the city region, not the nation state. That is why the underpinning shift that is required is in resources, revenue and control from the centre to the locality. This will help create the critical mass our cities need not only to enable public services that reflect their specific priorities, but also to support the productive economic capacity necessary to compete in a world in which a substantial proportion of global growth will be driven by mid-tier cities. Recent government initiatives such as 'City Deals' and 'Community Budgets' provide a starting point, but the ambition and scale needs to be much bigger. Policy-makers should explore the pooling of welfare,

worklessness and skills budgets, and the integration of health and social care with wider economic powers – so that each city and county is able to negotiate the terms of its own autonomy.

## Democracy and public services: engaging citizens in change

The desire and the capacity exist to achieve social progress in challenging circumstances. Indeed, continuous advances in technology can facilitate a step-change in the targeting and integration of resources and the identification and mobilization of social assets. The essays in this book identify many aspects of the shift in thinking and practice now needed, but there is arguably still an absence of an overarching narrative which connects key aspects of change and engages the public as partners, not clients or victims.

In the UK this challenge might be framed in terms of the ‘big society’, but it is a much broader and deeper test than that. The real issue is: does democratic politics have the capacity to respond to deliver both radical and legitimate change in the way we approach economic and social issues? The ‘big society’ is, for example, all about citizens and other stakeholders ‘stepping up to the plate’, but any successful formula for the future will also need to involve reformed political institutions and reformed practices among politicians. Do they and their institutions have the capacity to develop the long-term and evidenced thinking to take our societies in new socially productive directions?

A capacity for long-term politics is not easy to achieve in any circumstances in democratic politics, and has arguably become harder to muster. In part this reflects the tensions between the dynamic of capitalism and popular aspirations, as noted earlier. But there are some – often with a ‘new right’ or ‘neo-liberal’ framing of politics and government – that go further, arguing that short-termism is inherent to democratic politics. Politicians have no incentive to focus on the long term because voters will judge parties on their performance in delivery for them in the short run, thus putting incumbent politicians under irresistible pressure to deliver short-term gains or risk being voted out of office. As a result, democracies are myopic in focus and run the risk of neglecting changes required now for the benefit of future generations. The prescription in response appears to be that the only hope for the emergence of long-term policy processes is to take issues away from democratic politics; hand them over to the technocratic specialists to be found in various appointed bodies (or insulated

elites such as those operating in parts of the European Union); or perhaps best of all take as many decisions away from government as possible.

The counter view, that we tend to support, is that democratic politics is not inherently myopic. To understand how political space can be constructed for long-term policy-making three factors need to be considered. Each if present could support long-term policy-making. First, the potential importance of attentive organized interests as opposed to the inattentive public in the policy process means that backing for long-term solutions can emerge without direct citizen initiation; especially if institutions supporting power sharing among interests are present. The post-war settlement emerged not just in a dialogue between state and citizen but under the influence of powerful organized interests from business and the trade unions as well as professional bodies and charitable organizations. There are organized interests that could be engaged by the development of a social productive perspective for our public services. Have we the wit and context to bring them together?

Second, strategies for promoting long-term policy-making including insulating and mitigating devices are available to politicians in structuring their relationship to citizens. Politics is the art of reconciling interests and compromise, and there are areas where progress on long-term thinking has been made (around, for example, the environment) which show that a politics for social productivity could be constructed to counter the claims of neo-liberals or the outrage of nationalists or others. We are realists and so recognize that politics even in democracies is partly about 'smoke and mirrors'. There are ways that ideas can be presented, some issues can be made more visible than others, the pay-offs to key groups can be manipulated. In short, politics can be done in a way that supports long-term policy as much as it can be done to underwrite a short-term perspective.

More radical and less manipulative options for greater engagement with citizens are also possible to identify that could support a politics of the long term. Deliberation claims to have a transformative effect on the way that citizens approach an issue. A combination of information and awareness of the perspective of others encourages more reasoned decision-making and public-spiritedness. Having to publicly defend a position encourages reasonableness and participation over time, which should foster civic virtues, making citizens more reflective and more willing to think long term. Deliberation and engagement can also enhance the legitimacy of decisions by involving all those affected by the decision – which matches a widely held sense of fairness and could enhance the 'stickability' of a policy in the sense that it might be more

difficult to overturn if it had been through a process of widespread endorsement. There are now multiple innovations in democratic practice available to draw on to support a new politics of the long-term and social productivity (Participedia, 2012).

This focus on the politics of reform leads us back to a point made earlier in our argument: that the construction of new paths in public service delivery requires a capacity to develop messy solutions that is more likely to be found at the local level. Here let us add simply that the case for a devolved and localized system of decision-making is reinforced when thinking about institutions to support long-term thinking. It is not in the hothouse of the 24-hour media cycle world of ‘Westminster and Whitehall’ or national politics generally that you are most likely to see long-termism supported. It is where power is more widely shared in local or regional institutions that citizens and organizations are more inclined to accept the demands of others and accommodate themselves to some losses in the hope of future gains. The social contract of the post-war period may have found ultimate endorsement at higher levels of government, but its foundations were laid by decades of work at local and regional levels. The development of a social productivity perspective may need to follow a similar journey.

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