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Boundaries between public and private welfare

- Continuing debates about appropriate limits to state involvement in welfare have led to a complex mix of public, private and informal activity which can no longer be represented in a simple purchaser-provider framework. As part of on-going research into the private welfare sector, Tania Burchardt has developed a typology of welfare services to clarify discussions about the privatisation of welfare, and used it to illustrate changes in expenditure on education, housing, health, social security and personal social services since 1979/80.

- Analysing welfare services using three categories - provision, finance and decision - allows us to understand welfare policy under successive Conservative governments as moving out from the "pure public" sector in different directions: from outright privatisation of council housing in the early 1980s, through to attempts to encourage individuals to use the private sector while retaining public finance, by means of vouchers and tax reliefs.

- The "pure public" sector (publicly provided, financed, and decided) remains dominant in four of the five main areas of welfare – education, health, social security and personal social services – and still accounts for just under half of all welfare expenditure. Although important in policy terms, "privatisation" has had relatively little impact in terms of expenditure.

- Private finance has increased slightly, from 28 per cent of all welfare expenditure in 1979/80, to 31 per cent by 1995/6.

- However a greater proportion of welfare expenditure now goes on privately-provided services: 49 per cent as opposed to 39 per cent in 1979/80.

- The "pure private" sector increased its share of total welfare expenditure from 25 per cent to 29 per cent overall.

Further information

A more detailed account of sources and methods can be found in CASEpaper 2, *Boundaries between Public and Private Welfare: a typology and map of services*, by Tania Burchardt, which can be downloaded free from our internet site: http://sticerd.lse.ac.uk/Case

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A typology of public and private welfare services

The state has never been the sole provider of welfare services, and only became a dominant provider after the War. Since then, the mix of public, private and informal activity has become increasingly complex. The "purchaser-provider" framework distinguishes organisations providing services from those buying services: a public body may purchase a contracted-out private service, and private individuals may pay for publicly-run services (eg, NHS pay-beds).

But this two-way split does not capture recent developments. Parents with children on the Assisted Places Scheme are purchasers in that they choose the school, but they do not pay for the place. For this reason a third dimension is proposed, dividing "purchase" into "finance" and "decision". A service is publicly financed if it is tax-funded, and privately financed if paid for directly by individuals receiving services. A service is privately decided if it is chosen directly by the consumer, from alternatives close in terms of quality and cost. These dimensions yield the categories illustrated in Chart 1.

Forms of privatisation

An underlying Conservative policy objective for the welfare state was to minimise the importance of the "pure public" sector, which represented everything they stood against: state-owned monopolies, large demands on public finances, and lack of consumer choice. The early 1980s saw outright privatisation - for example selling council houses under Right-to-Buy. By the late 1980s, other ways were being explored, with increased emphasis on user charges (retaining public provision and decision but privatising finance), and on contracting-out (using private providers, but maintaining public finance and decision). Public bodies were also encouraged to market their services. Finally in the 1990s, there has been concern with "agency" - directly, by giving consumers decision-making power through vouchers, grants and tax-reliefs, and indirectly, by encouraging health and social services employees to act on behalf of consumers.

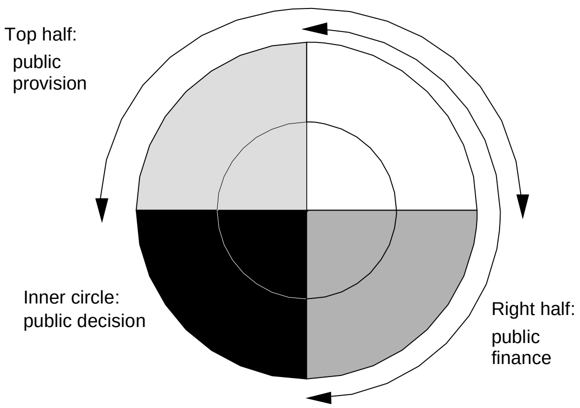
Changes in patterns of expenditure 1979/80-1995/96

How successful have attempts to change the boundaries between public and private welfare sectors been? Using data from a variety of sources (see CASEpaper 2), welfare expenditure in 1979/80 was divided between the eight sectors defined above, and compared to expenditure in 1995/96. While expenditure is not a measure of outcome, and a precise allocation is not always possible, changing patterns of welfare spending do indicate the impact "privatisation" policies have had. Overall patterns are shown in Chart 2; key points for each area are listed below.

Education

- "Pure public" sector remains dominant, although share of total falls from 66 per cent to 52 per cent over the period 1979/80-1995/96.
- "Pure private" sector is small, accounting for 8 per cent in 1979/80, but has risen to 18 per cent. This is despite proportion of pupils at private schools remaining low.
- Assisted Places Scheme, under which low-income parents with children at private school have received financial support, relatively insignificant in expenditure terms: raising proportion of expenditure in this sector by just 2 percentage points.

Chart 1: a typology



Inner circle: public decision

"Pure public": public provision, finance and decision; for example, child benefit.

Public provision, private finance, public decision; for example, rent for council flat.

Private provision, private finance, public decision; for example, user charges for contracted-out home care.

Private provision, public finance and decision; for example hospital catering.

Outer ring: private decision

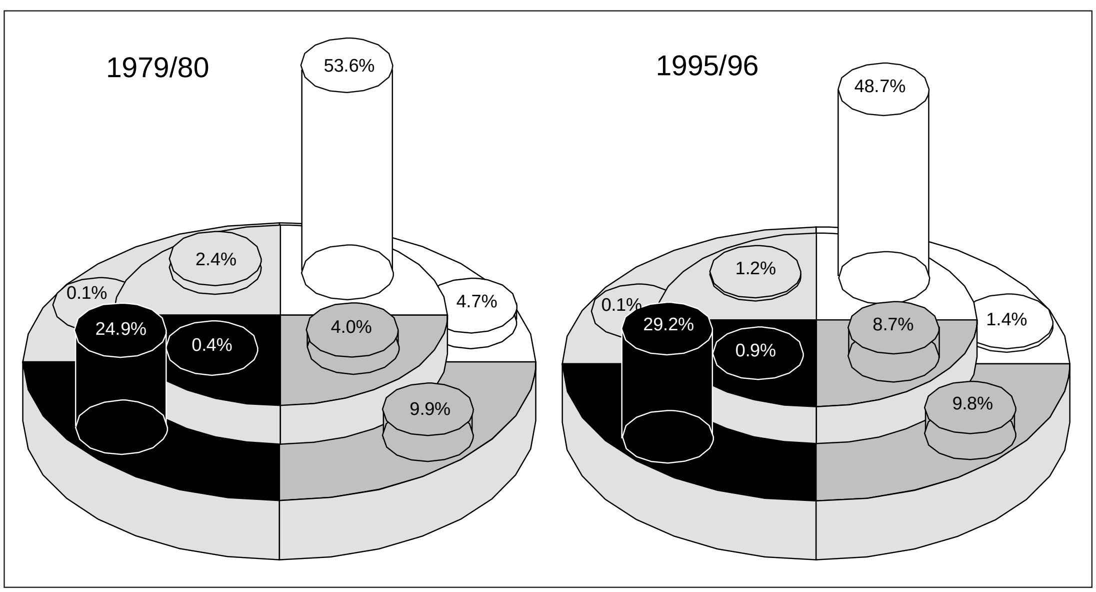
"Pure private": private provision, finance and decision; for example, unassisted place at independent school.

Private provision, public finance, private decision; for example, mortgage interest tax relief.

Public provision, public finance, private decision; for example, SERPS contributions.

Public provision, private finance, private decision; for example, NHS pay-beds.

Chart 2: Changes in patterns of expenditure on welfare



Health

- "Pure public" sector dominant in both years. Introduction of quasi-markets affected internal incentives, but did not alter the boundaries between sectors since decisions made by agents acting on behalf of consumers rather than by consumers directly.
- "Pure private" expenditure grew from 9 per cent of total expenditure in 1979/80 to 15 per cent in 1995/96.
- Remaining 20 per cent mostly accounted for by public expenditure on contracted-out services, including GP and dental services.

Housing

- "Pure private" sector accounts for 58 per cent in 1979/80 and rises to 69 per cent in 1995/6. "Pure public" sector correspondingly small: 18 per cent in 1979/80 and falling to 10 per cent by 1995/6.
- Increased use of Housing Associations as a form of contracting-out, although as proportion of total expenditure still small (2 per cent).
- Public finance for private housing chosen by individuals - Housing Benefit for private rented accommodation, mortgage interest tax relief, income support for mortgage interest, Right-to-Buy discounts – in all, 13 per cent of total spend in both years.

Social security

- Nearly all in "pure public" sector, except for pensions.
- Move away from state second-tier pensions scheme (SERPS) reduces expenditure in public provision and finance with private decision sector, from 14 per cent of pensions expenditure to 6 per cent.
- Corresponding growth in public finance for private provision, through tax reliefs, incentives and contracted-out deductions (up from 19 per cent to 24 per cent). No growth in "pure private" sector.

Personal social services

- Contracting out appears to have gone further than in other areas, driven by changes to provision of residential care.
- User charges a constant proportion of total expenditure, but shifted from being mostly for publicly-provided services, to mostly for privately-provided services.
- "Pure private" expenditure rose from at least 8 per cent of the total to 16 per cent.

Conclusion

Together these changes result in a picture of surprising constancy (Chart 2). The "pure public" sector share has fallen slightly from 54 to 49 per cent, and the "pure private" sector share has risen, from 25 to 29 per cent. Contracting out has grown: an additional 5 per cent in that sector, and the demise of SERPS is noticeable (outer ring white sector). But otherwise the pattern of expenditure in 1995/96 is much as it was in 1979/80.

Adding a third dimension – "decision" – to the familiar "provision" and "finance" dimensions of welfare services classification helps to clarify discussions about privatisation of welfare. Despite their significance in policy terms however, the multitude of initiatives designed to make greater use of private provision, finance and decision, have had relatively little impact in expenditure terms. The "pure public" sector still accounts for nearly half of all welfare expenditure.

About the research

The research is part of a project on private welfare directed by John Hills and Carol Propper at the Centre for Analysis of Social Exclusion (CASE), in STICERD at the London School of Economics. The project is funded by the Joseph Rowntree Foundation, and the Centre is supported by the Economic and Social Research Council, to both of whom thanks are due. The findings and views presented here, however, are those of the author and not necessarily those of the Foundation or of the ESRC.

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