Public Reason 3 (2): 80-89

Quasi-Market versus State Provision of Public Services: Some Ethical Considerations

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Abstract. In many countries, public services such as health care and education are both funded by the state and provided by state monopolies. Others use a 'quasi-market' form of public service delivery, retaining state funding for the service, but with users having the choice of independent providers operating in a competitive market. This paper tries to clarify some of the ethical issues involved in comparing quasi-markets vs. state monopolies. It is argued that, in comparison with state monopoly, quasi-markets can promote service users' freedom, autonomy and sense of well-being, though whether they do so in practice will depend on certain empirical conditions being fulfilled. The impact of quasi-markets on provider motivation is also discussed, arguing that the ethical judgments involved will again depend in part upon empirical considerations, including the extent of public service motivation in private and public providers.

Key words: quasi-market, choice, competition, motivation.

The ethics of market vs. state systems of resource allocation is an issue of perennial interest to economists, political philosophers, policy analysts and indeed popular debate. Most of the arguments concern what we might term "pure" markets: that is, markets where utility-maximising consumers purchase products out of their own private resources from a range of goods and services supplied by private, profit-maximising, competitive providers. In these cases, the ethical debate usually focuses on the issues involved in introducing monetary forms of payment from private sources into areas where the goods or services concerned are currently provided by the state or others free of charge. Thus Titmuss (1971) discussed the ethics of a health service paying for blood for transfusion purposes; Anderson (1990) investigates the paying for public streets and parks; Claaasen (2009) explores the idea of paying for personal care and for broadcast media; Radin (1987) discusses surrogate motherhood, baby-selling and prostitution; Lukes (2004) and Cohen (2003) concentrate on distinguishing between various forms of paid for market exchange; Wolff (2004) considers 'blocked' market exchanges. Satz (2010) looks at why some things should not be for sale; and Sandel (2009) examines what he terms the coercion and corruption involved in buying and selling things for money that were previously not involved in market exchange.

This paper concentrates on slightly different issues, although ones that are in some ways no less controversial. These concern some of the ethical considerations surrounding a comparison of state provision, not with pure markets, but with 'quasi'-markets: that is, markets where the provision of a service is undertaken by competitive providers as in pure markets, but where the purchasers of the service are financed from resources provided by the state instead of from their own private resources (Le Grand and Bartlett 1993). So, unlike in pure markets, in quasi-markets the service is provided free or largely free at the point of use; unlike under most forms of state provision, in quasi-markets the user has a choice of providers and the providers themselves operate in a competitive market. Ethical comparisons of state and quasi-market systems thus concern, not the ethics of paying for services that were previously provided free or could be so provided, but the ethics of user choice and provider competition; and it is on these that this paper concentrates.

The paper begins with a more elaborated description of quasi-market provision and the form of state provision with which it is to be compared. It then examines some ethical considerations concerning user choice and provider competitions. Now any discussion of ethics needs to specify which particular ethical theory underlies the discussion. Here I take a somewhat eclectic approach, using what might loosely be termed libertarian and utilitarian arguments, and what I term the morality of motivation argument. More specifically, I consider the impact of the different systems on (a) users' freedom or autonomy (b) on users' levels of utility or well-being; and (c) the motivation of providers. There is a brief concluding section.

I. QUASI-MARKET AND STATE PROVISION

Under a quasi-market, the public service concerned is provided free, or largely free, at the point of use to its users. However, the users (or, in some cases, agents acting on their behalf) are not allocated to particular providers but can choose which provider they wish to supply the service for them. The state then pays the service provider for the item of service provided on behalf of the user. The providers may be private profit-making organisations; but they could also be non-profits, or indeed organisations still within the public sector.

Classic examples of a quasi-market policy are voucher or open enrolment systems for school education. Under an educational voucher system, parents are given a voucher by the state. This is worth a fixed amount of money which they in turn pass to the particular school they choose to provide for their children's education. The school then submits the voucher for reimbursement to the state or to an agency operating on the state's behalf. Open enrolment is similar in principle, but no actual vouchers change hands: the parents simply choose the school they want to send their children to, and the school receives resources directly from the state according to the number of children enrolled in the school. There have been experiments with voucher systems in Florida and Milwaukee in the United States, and with open enrolment in New Zealand, Sweden and England and Wales (for more details, see Le Grand 2007, Ch.4).

Other examples include government–funded health systems, such as those prevalent in many European countries and parts of the Medicare and Medicaid systems in the United States, where patients can go to doctors or medical facilities of their choice and the (government-provided) money follows the choice. In these systems, either the medical facility concerned charges its patients, and the patients then claim reimbursement from the state, or the facility simply sends the bill to the state for payment directly.

In quasi-markets of this kind, some of the ethical issues involved in users or consumers paying for services do not arise; for the services continue to be provided free of charge to users. Of course this is an oversimplified picture. In fact, all systems for public service delivery, including those involving quasi-markets, have some services that are charged at market or subsidised prices. Even where there are no charges, some distributional issues can remain, for there may be non-monetary barriers (such as a lack of information, or poor local facilities) that impede access by different groups. Also there may be a two-track system, with a for-payment or otherwise privately financed system running alongside the quasi-market. However, here we are abstracting from such complications in order to concentrate on the two principal features of quasi-markets that distinguish them from monopoly state provision: the existence of user choice and provider competition.

Systems of state provision usually involve the state owning and operating the institutions that provide services in a monopolistic environment, and using various allocative rules to distribute users to those providers. Examples include education systems such as those in most Western countries where a child's enrolment in a particular state of government school is determined by the 'catchment area' for that school: that is, by the area in which the family lives. Allocations within the area are determined by rules, such as proximity to the school. In such system, schools do not compete with one another for pupils or resources: rather, they are directly allocated a budget by the level of government concerned (state, local or federal), with the budgetary amount being determined by historic staffing levels and facilities. Medical care examples include health systems where patients are referred to their local hospital or to more specialist services by a gatekeeper, such as a primary care physician. Again, in such systems, the providers concerned (hospitals, other medical facilities) are given a global budget by the state that is largely independent of the quantity or quality of the service provided.

Again this is an oversimplified picture. In most state systems, there may eventually be some administrative response to, say, a fall in quality by a school or hospital or a drop in the number of their users, perhaps including a re-assessment of their budget. However, again we abstract from such complications in order to isolate some key ethical concerns concerning the presence or absence of user choice and provider competition.

II. USER CHOICE

A libertarian justification for quasi-markets would be that the user choice inherent in a quasi-market is a good in and of itself. Put more broadly, the argument might run that the kinds of choices involved are an essential component of individual freedom or liberty, and freedom is itself good. Parents should be free to send their children to the school of their choice, and patients should be free to choose their own physician or hospital provider. To have the freedom to make choices in such key areas is good because such freedom is intrinsically desirable; the fact that monopoly systems of public service provision do not offer such choice is enough on its own to make such systems ethically inferior, at least in this respect.

For those who do not accept the idea that freedom of choice is intrinsically good, there are also instrumental or consequential arguments concerning the impact of user choice on the individual's sense of autonomy and/or well-being. With respect to the former, Albert Weale has described what he terms "the principle of equal autonomy." This he formulates as: "all persons are entitled to respect as deliberative and purposive agents capable of formulating their own projects, and that as part of this respect there is a governmental obligation to bring into being or preserve the conditions in which this autonomy can be realized." (Weale 1983, 42). For responsive to the needs and wants of users could be viewed as an essential element of according the respect to "deliberative and purposive users;" and offering users a choice of provider is clearly a part of that. To use a metaphor employed elsewhere (Le Grand 2006), the principle of autonomy requires that users are treated less like pawns, the weakest pieces on the chess board, but more like the most powerful piece, the queen: or, to pick another metaphor with royal associations, the consumer should be king. Whatever the user's royalty status, in quasi-markets the user has indeed the opportunity to behave like as a deliberative and purposive agent; whereas under state monopoly allocation that opportunity is denied.

As well as autonomy arguments in favour of user choice, it is also possible to mobilise a utilitarian argument: that is, one that concerns the impact of choice on the individual's level of well-being or utility. Here it is helpful to refer to psychological theories of motivation, especially that generally described as self-determination theory or SDT. SDT was developed by psychologists Richard Ryan and Edward Deci (1985; a useful summary can be found in Moller, Ryan and Deci, 2006). It is a theory, both of the factors that motivate individual behaviour, and of the satisfaction, utility or sense of well-being that people get from that behaviour.

With respect to the factors that motivate behaviour, the theory distinguishes between autonomous actions and those that are perceived to be controlled or influenced by factors external to the self. Autonomous actions occur when people do something because they find it interesting, enjoyable or important. Controlled actions occur when individuals are motivated to perform them by external factors, such as regulations, peer or family pressure, and systems involving external rewards or penalties. With respect to satisfaction, Deci and Ryan argue that autonomous actions or behaviour deliver the highest degree of satisfaction or well-being. Controlled action may be just as highly motivated as autonomous activity, but the quality of the experience and performance is not as good in general when people are controlled than when they are autonomous; hence their sense of well-being is less.

Offering individual users of education or health services the choice of service provider clearly gives them more opportunity for autonomous action than simply allocating them to providers by some bureaucratic rule or professional fiat. It is thus more likely to contribute to their well-being. Given that increasing well-being is desirable at least for the utilitarian, if it is correct that exercising choice does raise utility, this can provides a further justification for replacing state allocation by user choice.

But what if offering choice does not raise well-being? Schwartz (2004) argues – and indeed demonstrates through behavioural experiments – that, at least where the consumption of consumer goods is concerned, consumers frequently find excessive choice unsatisfying and demotivating. He and other critics of choice have also pointed out that choice offers the opportunity of regret: and the more choice that is on offer the more likelihood there is that the particular choice you make the greater the chance of regret, with detrimental consequences for well-being.

Whether offering users of choice of provider provider actually increases or diminishes well-being is ultimately an empirical question, and not one that can be fully resolved here. However, it seems plausible to suppose that the provision of a reasonable amount (not too little, not too much) of choice is, for most individuals, well-being enhancing. Certainly surveys of attitudes in a variety of countries, including the United Kingdom, the United States, New Zealand and Finland found that most groups in society wanted choice of schools and hospitals; interestingly, the largest pro-choice majorities were among the least powerful groups in society (Le Grand 2007, 51-57).

Finally in this section we should draw attention to an argument made by Claasen (2009) that draws on Sen's notions of agency and capabilities. He defends what he terms complex pluralism: the availability of informal, market and non-market forms of providing public services, all co-existing simultaneously. He does so in part on the grounds that having some choices available within each form of provision encourages people to develop their capacity for agency and in turn to develop their capabilities. He does not include quasi-markets in his list of possible elements in complex pluralism, but there seems to be little reason as to why this form of provision should not be part of that list. Indeed there is a positive reason for quasi-markets to be included in the list; for they actually encourage the exercise of choice. Hence they also serve to promote capability and the capacity for agency.

III. PROVIDER COMPETITION

Although it might be possible to compose a libertarian argument in favour of competition (qualified providers should have the right to compete in any market they choose), the strongest arguments for the provider competition that is inherent in quasi-markets are essentially utilitarian. Compared with monopoly state provision, it is argued that competition between providers promotes a higher quality of service and a more efficient allocation of resources, both of which have positive impacts on individual well-being.

The links between quasi-market competition and these particular consequences are have been discussed in detail elsewhere (Le Grand 2006, 2007), but perhaps it would be helpful to summarise them briefly here. User choice and provider competition are argued to lead to higher quality of service provision and to greater efficiency in the use of resources by providers because of the incentives they provide for competitive suppliers to improve their performance. If users who are receiving a poor quality service from particular providers can go elsewhere for the service concerned, and if, as in quasi-market systems, the money follows the choice, then the providers concerned have a strong incentive to deliver a higher quality of service; for, if they do not, they will go out of business. Similarly, all providers have an incentive to be efficient: that is, to generate as much quality as possible from a given level of resources. For those that are relatively inefficient will provide services of a lower quality or a higher cost; hence again they will either lose business or face bankruptcy.

All this can be contrasted with monopoly systems of public service delivery. There inefficient or low quality providers have little direct incentive to improve performance. If a school or a hospital knows that dissatisfied users have nowhere else to go, and they will continue to receive the same level of funding regardless, they can simply ignore such unhappiness that they become aware of, and continue with inefficient and unresponsive practices. Direct incentives for improvement are largely absent; improvement needs to be driven from higher authority.

There are also arguments concerning the distribution of utility or well-being among users. It has been demonstrated that monopoly systems often favour the better-off. If school enrolment depends on proximity of place of residence to the school, then well-off families can buy houses near to their chosen school, thus driving up house prices and disadvantaging families in lower income groups. If better-off patients do not like the prospect of being transferred to their local hospital, then they have the articulateness and confidence to persuade the GP to send them to another hospital which they perceive as of higher quality. In the terms of Albert Hirschman (1971), they have a powerful "voice" – more powerful than the voice of the less articulate, less confident poorer groups. In contrast, the introduction of a quasi-market gives those poorer groups a form of power – what Hirschman terms "exit" – at least equal to that of those from higher ones. And, it is argued, in quasi-markets, the power of exit is more equally distributed than the power of voice.

Now, of course, none of these propositions linking user choice and provider competition with the predicted consequences of higher quality, improved efficiency and greater equity are indisputable; indeed, many are highly contested. Even at a theoretical level, certain conditions have to be in place for them to hold. For instance, there have to be alternative providers from which users can choose; and there has to be a system for ensuring that new providers can enter the quasi-market, and that inefficient ones leave it. Users have to have good information about what constitutes quality, and be well placed to use it in order properly to exercise choice – especially, if equity is to be served, lower income or otherwise disadvantaged groups. Also, and fundamentally, providers have to be motivated by a desire to maintain their business; and opportunities for cream-skimming or provider selection must be limited

Whether these conditions are actually fulfilled in practice – and hence more generally, whether quasi-markets are superior in terms of quality, efficiency and equity to other methods of service delivery – is not a question for this paper. For these are questions that can only be resolved by empirical research (some of the evidence is discussed in Le Grand 2006, 2007). For the purposes of this paper, it is sufficient to point out that, if quasi-markets do turn out to be superior in those respects to other forms of public service delivery, as in many cases they do, then this would provide a further ethical justification for user choice and provider competition to complement the arguments discussed earlier.

A final ethical concern relates to the motivation of providers. It is often argued that competitive provision is ethically inferior to monopoly provision because of the impact the former has on provider motivation. This requires a little more attention.

IV. MOTIVATION AND ETHICS

The 'motivation' argument that monopoly provision is superior to competitive provision has three dimensions, embracing both statements of fact and statements of value. The first set of empirical propositions concerns the motivation of providers in the two systems. Monopoly providers could be justified on the grounds that the people who work within them are motivated by what is frequently termed the public service ethos, but is perhaps better interpreted as altruistic or professional considerations (Perry and Hodeghem 2008). That is, the principal concern of these providers is for the welfare of the people they are serving. Thus the dominant concern of doctors and nurses working in state systems of health care is with the welfare of their patients; of teachers in state education, that their principal concern is with their pupils. In the terminology of a metaphor I have used elsewhere, they are knights: professional altruists whose only concern is to serve the public (Le Grand 2006).

In contrast, it could be argued that providers working in a competitive environment are motivated solely by self-interest, and by financial self-interest at that. Profit is their driver; they are not knights, motivated by a desire to help their fellow citizens, but rather knaves, out to help themselves, and to seize any opportunity not to assist but rather to exploit their fellow citizens. This profit motive is thus likely to conflict with the public interest.

The second strand of the argument is that altruism is morally superior to self-interest. Hence, given that state monopoly providers are knights, driven primarily by altruistic considerations, whereas competitive providers are knaves, motivated entirely by financial self-interest, any replacement of public by private providers involves diminishing the pool of altruistic behaviour – and perhaps the pool of altruism itself – in society. Such a change, therefore, makes society less moral. Put another way, a society that relies upon altruism to deliver publicly-funded services such as health care and education is, other things being equal, ethically superior to one that relies upon self-interest to provide these services. It is hard to locate the moral superiority of altruism in either of the two ethical theories that we have been using so far: utilitarian or libertarian. However, it is a view that is so widely held that it perhaps needs no weightier justification.

The third argument is a straightforward utilitarian one: that relying upon altruistic motivation has better consequences for the well-being of service users than relying upon self-interest. In particular, public services that are supplied by providers that are motivated by altruism (or the public service ethos) will provide services of better quality and higher quantity than those that are supplied by those fuelled only by financial self-interest.

This last argument is an extension of that originally put forward by Richard Titmuss in his famous work on blood donation already referred to (1971). There he argued that replacing a system for obtaining blood for transfusion purposes by relying upon donation by one that relied upon financial incentives would lower both the quality and the quantity of the blood supplied. The quality would be reduced because suppliers of infected blood would have an incentive to conceal the fact their blood was infected – in contrast to the donation system where they would have an incentive to reveal the fact, since their aim in that situation is to help the potential recipient and not expose him or her to unintentional harm. And the quantity would be reduced because those who had previously donated would feel their altruistic acts had been devalued and stop donating.

The extension of this argument to quasi-markets would run something like this. Any knights operating in a quasi-market system would feel that their altruism – their commitment to the public service ethos – was exploited by market incentives. Hence their motivational structure would change: their altruistic commitment would diminish and self-interest would assume an ever-greater prominence. The knights would become knaves. Also, users of the service, unable properly to monitor quality, would have their lack of knowledge and information exploited by self-interested providers. For these would be able to increase their profits through cutting costs, and therefore quality) without anyone noticing. Given that it is morally desirable for there to be both a high quality and quantity of the service, this reinforces the moral case against private provision (Titmuss 1971; see also Anderson 1990).

We thus have a number of propositions. State monopoly providers are motivated only by altruism whereas competitive providers are motivated only by financial self-interest; and altruism is morally superior to self-interest. Hence switching from a system that relies upon the former to one that relies upon the latter will reduce opportunities for the exercise of altruism, turn knights into knaves and hence make society less moral. Moreover, such a switch would have adverse consequences for the quantity and the quality of the service concerned, leading to lower levels of both: an outcome that again would be morally detrimental to the society concerned.

The essential difficulty with these arguments arises from the empirical nature of some of them. We might agree that altruism is morally superior to self-interest; and that a society with public services of a high quality and quantity is morally superior to one whose public services are lower in both. But what if there are elements of private interest that affect the way that state providers behave? What if some competitive providers actually take pride in serving their users well? Or, even if all competitive providers are really knaves, driven only by self-interest, suppose that competitive provision of public services, actually in fact leads to better quality and a larger quantity of the services concerned? In such a situation, the moral case for monopoly provision becomes much less clear – and indeed may even be overturned.

Anyone who has encountered a large public bureaucracy will know that not all state employees operate all the time in the interests of the people they serve. Likewise, most of us will have had dealings with competitive businesses where the individuals concerned have gone out of their way to be helpful – even beyond what might be called for by purely business considerations. In fact, there is evidence that competitive operators working in key areas of public services actually have a strong element of altruism. So, for instance, a study of U.K. nursing home operators operating in the profit and non-profit sectors found little difference in their motivational structure, with both types of provider most frequently citing as their principal motivation meeting the needs of elderly people and a feeling of duty to the society as a whole (Kendall, 2001). Further, again there is evidence that on occasion competitive providers may offer services that are of least as good as quality and quantity as public ones. So, for instance, a study of privately–provided specialist treatment centres in the UK found that they provided care of equal or better quality than in their public sector competitors (Browne and colleagues, 2008).

So there is no evidence that state monopoly providers also have a monopoly on altruism – or that competitive ones a monopoly of self-interest. And it is not always true that state provision is better in terms of quality and quantity than competitive ones. So, the least that can be said is that there can be no *a priori* case, on motivational grounds at least, that state providers are ethically superior to competitive ones.

V. CONCLUSION

We have seen that there are a number of libertarian and utilitarian arguments that can be mobilised in favour of quasi-markets. It would be nice if we could emerge from this discussion with an unambiguous answer to the question as to whether quasi-markets are ethically inferior or superior to monopoly forms of state provision. Unfortunately we cannot do so here, largely because, although apparently primarily an issue of value, the answer will actually depend on the resolution of a number of empirical questions – mostly, though not exclusively, concerning the consequence for the service user of the different systems. However, it is hoped that the paper at least clarifies some of the arguments. In particular, I hope to have demonstrated that the ethical case concerning user choice and competitive provision in quasi-markets is not simply a question of value, or even of competing values; it is also a question of facts.

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