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Author:
Saunders, Peter

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EFFICIENCY AND EFFECTIVENESS
IN SOCIAL POLICIES:
AN INTERNATIONAL PERSPECTIVE

Peter Saunders

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Peter Saunders

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ABSTRACT

This paper presents an overview of selected social policy developments in OECD countries during the eighties and describes some specific Australian developments over the period. It begins with a description of trends in government expenditure and indicates the extent to which public expenditure control has been achieved since the mid-eighties. Social expenditure trends are then described, although the absence of reliable comparative data make this analysis less complete than is desirable. Key features that have shaped the social policy context are then discussed, with a focus on the impact of government expenditure restraint, on changes in the labour market, on demographic change, and on the more general changes in economic thinking and the role of economic policy. The concepts of efficiency and effectiveness are then explained and their application to selected social programs explored. It is argued that both concepts - part of a new managerialist approach to public policy generally - are essentially technical in nature and the limitations this implies for their application to social programs needs to be acknowledged. Specific consideration is given to their application in the income support domain, where international evidence from the Luxembourg Income Study is used to illustrate the shortcomings of adopting an overly narrow technical perspective. The paper then describes international developments in social services policy, focusing on health services. Finally, selected Australian experience since 1983 is discussed and used to illustrate how the current government has pursued social policy reform within an overall context of fiscal restraint.

1. INTRODUCTION

The slowdown in economic growth that followed the supply shocks of the 1970s led to a fundamental re-assessment of the economic outlook for all OECD countries. That re-assessment has focused increasingly on the need for structural change rather than on the need for better application of existing economic and social policies. Policy makers accepted that the rules of the game had changed and that what was required was a new strategy rather than just an improvement in tactics and performance. The change in economic thinking has seen increased emphasis given to supply-side and structural issues, a resurgence of belief in the role of unregulated competitive market solutions to policy problems, and, as a consequence, a fundamental questioning of the rationale, role and impact of government intervention. The key to improved economic performance was seen to lie more in tackling microeconomic reform than in achieving greater efficacy in macroeconomic policy implementation.

That any re-assessment of the structure of OECD economies would focus on the role of the public sector is hardly surprising. Studies have confirmed that, even when defined as the general government sector and thus to exclude most public enterprises, the share of government expenditure in GDP had increased markedly throughout the post-war period. By 1980, for example, the government expenditure to GDP ratio exceeded 50 per cent in about a quarter of OECD countries and was approaching fifty per cent in another quarter. Furthermore, much of the growth of government since 1960 was attributable to the growth in expenditure on social programs, defined here following the OECD convention to include spending on health, education, income support and welfare services.

These developments raised both economic and political concerns. The economic concerns included those relating to the need to restore financial balance to the government accounts and thereby to reduce levels of public debt, and to address the detrimental effects on economic performance resulting from the disincentives and distortions accompanying the growth of government. There were also concerns that the growth in expenditure on government programs in general, and social programs in particular, had been accompanied by little progress in achieving the goals of those programs. Some even argued that there was an inverse relationship in some cases between the level of social spending and the achievement of social goals. Yet it proved extremely difficult to restrain social expenditure growth, particularly as unemployment began to rise in the early eighties. At the political level, many governments felt that the limits of taxable capacity had been reached so that the longer-run focus shifted from program expansion to tax relief. The combination of these pressures meant that governments were finding it difficult to close the gap between expenditure and revenue that had opened in the aftermath of the first oil shock in the mid-seventies. A fiscal imbalance characterised by large structural budget deficits became common throughout the OECD, an imbalance that was seen to require urgent action to control the growth in government spending in order that levels of debt and taxation could be reduced.

Public expenditure restraint thus became a central element in the broad economic policy framework and that in turn led to the need to restrain the growth in social expenditures. The resulting 'crisis of the welfare state' was seen as being driven by the need to adjust to an economic context characterised by lower economic growth, structural imbalance and higher unemployment. While there was broad acceptance of the need for greater integration of economic and social policies, what that tended to mean in practice was that social policies had to be accommodated within, and be more consistent with, broader economic imperatives. This led to a questioning of the methods and processes of social programs, as well as of their objectives and achievements. That in itself was no bad thing. Insufficient attention had been paid to these issues in previous decades, in part because economic growth had guaranteed a steady increase in the level of resources available to social programs, and high levels of employment meant that social programs could use those resources to improve the living standards of children, the disabled and the elderly (through services and income support) and for the short-term income protection of the sick and the unemployed. Issues of prioritisation and resource allocation can too easily be put to one side in a context of resource expansion.

A case can thus be made that assessment of the role and impact of social programs was overdue as the seventies drew to an end. However, while public expenditure restraint provided the necessary **impetus** to review social programs, it has in fact also been the major **objective** of social policy change in the last decade. That has produced pressures for change which, from a longer-run and broader perspective, have been of questionable merit in many instances. It is too early to provide a thorough evaluation of the outcomes of the developments prompted by these changes. Nor is it possible to explore all of the issues in the required degree of detail. The paper will thus adopt a general approach to some of the underlying issues, particularly those relating to the efficiency and effectiveness of social programs, and illustrate these with some specific examples. Relevant Australian experience in recent years will also be discussed in order to illustrate some of the general points that emerge from the analysis. But it is useful to begin with a brief overview of expenditure developments in OECD countries over the last decade.

2. EXPENDITURE DEVELOPMENTS IN THE EIGHTIES

Despite the excellent work of the OECD in the last decade, comparable data on social expenditures - government spending on education, health, pensions, unemployment benefits and other social welfare benefits and services - are still less readily available and generally of lower quality than data on aggregate government expenditures. Even the latter are less readily available on the kind of program (or functional) basis that are more useful and insightful for analytical purposes than they are in the form of the economic classification on which the national accounts are structured. This deficiency becomes even more severe when it comes to the availability of even national social statistics on social outcomes as opposed to social expenditures (although there are some notable exceptions to this). This is mentioned not only to draw attention to the need for improved social statistics, but also because it reflects the broader balance in priorities given to the social as compared with the economic dimensions of well-being and living standards. In Australia, for example, while statistics on unemployment, the balance of payments, GDP and so on are available monthly, household income and expenditure surveys - a major source of data on living standards, poverty and income distribution - are currently conducted every four or five years. (The situation in Ireland is, I understand, not dissimilar.) This means that much of the data required to explore the efficiency and effectiveness of social programs, and the links between measures of social well-being and unemployment and other economic developments, are only available irregularly and normally with a time lag of several years. There is no reason to doubt that improved social statistics would make a contribution to improved analysis and policy formulation in the social sphere similar to that which followed the development and production of national accounts data in the economic sphere. There might also be a marked shift in political prioritisation if politicians were required to comment on monthly poverty and other social statistics as well as on balance of payments or unemployment developments!

Table 1 summarises what is currently available on developments in general government and social expenditures in OECD countries since 1975. Although total government expenditures are available to 1989 for most countries, comparative and comprehensive social expenditure data are not available after 1985. This is particularly unfortunate, since it is clear from Table 1 that the main changes in total government expenditure have occurred in the period since 1985. Between 1980 and 1985, government expenditure continued to increase relative to GDP in all countries except Germany and Norway. The growth of government spending over this period was in fact generally **greater** than between 1975 and 1980, reflecting the severe recession of 1981-83 and the rise in

TABLE 1: GENERAL GOVERNMENT EXPENDITURE AND SOCIAL EXPENDITURE IN OECD COUNTRIES SINCE 1975

(Percentages of GDP)

	Total Government Expenditure				Social Expenditure		
	1975	**1980**	**1985**	**1989**	**1975**	**1980**	**1985**
Australia	33.6	33.8	38.8	33.0	17.6	17.3	18.4
Austria	46.1	48.9	51.7	49.3	23.4	26.0	28.8
Belgium	44.5	50.7	53.7	49.5	28.7	33.9	35.8
Canada	40.1	40.5	47.1	44.5	20.1	19.5	22.6
Denmark	48.2	56.2	59.3	59.9	27.1	35.1	33.9
Finland	36.1	36.6	41.6	38.6	21.9	22.9	22.8
France	43.4	46.1	52.2	49.6	26.3	30.9	34.2
Germany	48.9	48.3	47.5	44.8	27.8	26.6	25.8
Greece	26.7	30.5	43.7	47.2	10.0	12.6	19.5
Ireland	46.5	50.8	55.2	47.9	22.0	23.8	25.6
Italy	43.2	41.7	50.8	51.7	20.6	23.7	26.7
Japan	27.3	32.6	32.7	33.1	13.7	16.1	16.2
Netherlands	52.8	57.5	59.7	56.0	29.3	31.8	30.7
Norway	46.2	48.3	45.6	53.7	23.2	24.2	23.5
Spain	24.7	32.9	42.1	40.9	*	15.6	15.2
Sweden	48.9	61.3	64.3	60.1	27.4	33.2	32.0[c]
Switzerland	28.7[a]	29.3[a]	31.0[a]	30.0[a]	19.0	19.1	20.5[c]
United Kingdom	46.6	44.9	46.2	39.5	19.6	20.0	20.9
United States	34.6	33.7	36.7	36.3	18.7	18.0	18.2
OECD Average[b]	**40.4**	**43.4**	**47.4**	**45.5**	**22.0**	**23.7**	**24.8**

Notes:
(a) Current disbursements only.
(b) Unweighted average.
(c) 1984.

Sources: OECD **Economic Outlook 47**, June 1990; OECD, **The Future of Social Protection**, 1988; OECD Secretariat estimates (for 1989).

unemployment which accompanied it. Between 1985 and 1989, general government expenditure grew at a slower rate than GDP in almost all countries. Greece and Norway were the only two countries where the 1989 spending ratio exceeded its 1985 value by more than one percentage point, while small increases were experienced in Denmark, Italy and Japan. Everywhere else the ratio fell over the period, and in many cases it fell substantially.

In Australia, Belgium, Ireland, Sweden and the United Kingdom, for example, the ratio fell by more than four percentage points between 1985 and 1989. In two of these countries - Australia and the United Kingdom - and also in Germany, the spending ratio in 1989 was lower than it was in 1975. Another five countries - Austria, Finland, Ireland, Switzerland and the United States - had spending ratios in 1989 that were only slightly above those in 1975. In only two countries - Denmark and Norway - has the government spending ratio increased markedly since 1985. The years since 1985 have thus seen a reduction in the relative size of government in most OECD countries. This development, along with an increase in average revenues relative to GDP of broadly equal size over the period, has contributed to a significant reduction in the deficit to GDP ratio in most countries and thus in the OECD area as a whole.

As already explained, changes in the ratio of social expenditure to GDP are only available on a comparable basis for most countries until 1985. Table 1 indicates, however, that on average the growth of social expenditures relative to GDP between 1980 and 1985 was somewhat slower than between 1975 and 1980, in contrast to the growth in total government spending. The slowdown in social spending growth relative to GDP during 1980-85 occurred against a general background of more rapidly rising unemployment than occurred between 1975 and 1980. However, the extent of the rise in unemployment after 1980 varied substantially between countries, implying that the effort made to control spending growth is by no means revealed by movements in the expenditure aggregates themselves.

While in general there is a positive relationship across countries between the growth in the social expenditure ratio between 1980 and 1985 and the rise in the unemployment rate, there are also a number of important exceptions to this rule. In Ireland and Spain, for example, the unemployment rate in 1985 exceeded that in 1980 by around 10 percentage points yet the social expenditure ratio rose only modestly over this period in Ireland and actually declined in Spain. The Netherlands and the United Kingdom both experienced a rise in unemployment of over 5 percentage points yet each experienced a change in the social spending ratio of less than one percentage point. Such examples illustrate that while it is generally easier to control the growth of social expenditure when unemployment is falling (or at least not increasing rapidly) a number of countries have managed to exert spending control in a context of rapidly rising unemployment.

An interesting aspect of social expenditure developments over this period is that differential growth rates in social spending tended to widen cross-country differences, unlike the growth in total spending which broadly maintained them. Excluding the Southern European economies of Greece and Spain (which does not affect the main thrust of the argument), the countries shown in Table 1 can be classified into three groups on the basis of their relative government size in 1980. The first group, characterised by big government spending ratios, contains Belgium, Denmark, Ireland, Netherlands and Sweden. This group had an average total spending ratio of around 55 per cent in 1980, and an average social spending ratio of around 32 per cent. The second group, characterised by medium government spending ratios, contains Austria, Canada, France, Germany, Italy, Norway and the United Kingdom. This group had an average total spending ratio of around 45 per cent in 1980 and an average social spending ratio of around 24 per cent. The third group, characterised by small government spending ratios, contains Australia, Finland, Japan, Switzerland and the United States. This group had an average total spending ratio of around 33 per cent in 1980 and an average social spending ratio of around 17 per cent. Between 1980 and 1985, the average increase in the total spending ratio was very similar for all three groups - 3.1, 3.2 and 3.0 percentage points of GDP, respectively. However, the average increases in the social spending ratio for the three groups of countries over this period were 4.7, 1.8 and 0.5 percentage points of GDP, respectively. Thus while the absolute increase in total government spending was broadly equal for all countries between 1980 and 1985, social expenditure growth over the first half of the eighties widened the cross-country differences that existed in 1980. It would be very interesting to investigate why this divergence occurred and whether the trend has continued since 1985.

Evidence on selected social expenditure developments since 1985 is presented in Table 2. It needs to be emphasised that these data have been derived from a range of OECD sources, some of which have used national data to extend the scope of the comparative social expenditure data. For this reason, the data in Table 2 are not as comparable as those in Table 1. Together, the estimates in Tables 1 and 2 indicate that government spending is high primarily because social spending is high, and that social spending is high mainly because spending on social security transfers is high. Table 2 indicates that the social expenditure to GDP ratio was held broadly constant in the two to three years after 1985. In most countries, health and social security transfer spending were held

TABLE 2: SELECTED SOCIAL EXPENDITURE DEVELOPMENTS SINCE 1985

(Percentages of GDP)

	Health		Education		Social Security Transfers	
	1985	1987	1985	1987	1985	1988
Australia	5.0	5.1	5.7	5.2	9.6	8.8
Austria	5.4	5.7	4.4	4.5	20.4	20.3
Belgium	5.5	5.5	7.3	*	21.7	20.9
Canada	6.4	6.5	5.9	*	12.2	12.0
Denmark	5.3	5.2	7.2	6.8	16.3	17.6
Finland	5.7	5.8	6.2	5.1(a)	10.8	9.5
France	6.9	6.7	6.1	5.5(b)	22.1	21.7
Germany	6.4	6.3	4.4	4.4	16.2	16.0
Greece	4.0	4.0	3.3	*	14.8	15.3
Ireland	7.1	6.4	6.4	*	16.6	16.8(c)
Italy	5.4	5.4	5.9	*	17.1	17.3
Japan	4.8	5.0	4.3	4.3(a)	11.0	11.8
Netherlands	6.6	6.6	5.6	5.7(a)	26.1	25.7
Norway	6.1	7.4	5.6(d)	6.7(a)	14.8	16.3(c)
Spain	4.3	4.3	2.2	*	16.5	*
Sweden	8.6	8.2	5.9(e)	5.7	18.2	18.6(c)
Switzerland	5.2	5.2	5.5(e)	*	13.7	13.8
United Kingdom	5.2	5.3	5.0	5.1(b)	13.8	13.1(c)
United States	4.5	4.6	5.3	4.5	11.0	10.6
OECD Average	**5.7**	**5.7**	**5.4**	**5.3**	**15.9**	**15.9**

Notes: (a) 1988; (b) 1986; (c) 1987; (d) 1980; (e) 1984;
* Not available.

Sources: OECD **The Future of Social Protection**, Table 3, p. 11.
OECD **Health Care Systems in Transition**, Table 1, p. 10
OECD **Historical Statistics 1960-1988**, Table 6.3
OECD Secretariat estimates (for Education in 1987/88).

constant relative to GDP, while education spending declined slightly relative to GDP. The only significant increases after 1985 were health and education spending in Norway, and spending on social security transfers in Denmark, Japan and Norway. The most significant declines in social spending relative to GDP were health in Ireland, education in Finland, France and the United States, and social security transfers in Australia, Belgium, Finland and the United Kingdom. In relation to developments in social security transfers after 1985, the trends shown in Table 2 need to be assessed against a background of gradual decline in the rate of unemployment in the OECD region. Indeed, the only two countries where the unemployment rate rose between 1985 and 1988 were Italy and Norway, and both were countries where transfer spending rose relative to GDP over the period.

Table 3 complements Tables 1 and 2 by presenting data for a range of countries on the structure of general government spending. It needs to be emphasised that some of these estimates have been derived from national sources, so that there are problems of comparability. Nevertheless, the estimates serve to locate the welfare state and associated levels of expenditure within the broader general government sector of modern capitalist economies. In all countries except Germany, the Netherlands and Sweden, welfare state spending continued to grow relative to GDP after 1979. The size of the welfare state accounts for close to a third of GDP in most countries, and differences in welfare state spending explain much of the difference in the overall size of the general government sector. The estimates in Table 3 also confirm those in Table 2 in highlighting the role of spending on income transfers in explaining differences in the size of the welfare state.

Such comparisons of differences in the level and change in government expenditure aggregates cannot, of course, provide any insight into differences in the difficulty and hence the commitment required to enact the more recent changes. This is particularly true in the social policy area, where many programs have introduced contingent entitlements which has meant that expenditure is largely determined, in the short run at least, by exogenous factors relating to broader economic and demographic trends. Because the pressures resulting from those trends differ between countries, comparisons of the levels of, and short-term changes in, social expenditures can provide quite misleading indications of the relative severity of policy changes.

It is in this context that the social expenditure decomposition analysis developed and undertaken in a number of OECD studies provides more insight into the relationship between social policies and social expenditures (OECD, 1976; Saunders and Klau, 1985;

TABLE 3: THE STRUCTURE OF GENERAL GOVERNMENT EXPENDITURE IN THE LATE 1980S

(Percentages of GDP)

	Australia (1987)	Austria (1987)	Denmark (1987)	Finland (1988)	France (1986)	Germany (1987)	Norway (1988)	Sweden (1987)	United Kingdom (1986)	United States (1987)
1. THE TRADITIONAL DOMAIN	**6.7**	**5.3**	**8.2**	**4.6**	**7.8**	**7.9**	**7.2**	**6.7**	**8.9**	**9.7**
Defence	2.3	1.1	2.0	1.5	3.1	2.7	3.0	2.6	4.9	6.6
General Public Services	4.4	4.2	6.2	3.1	4.7	5.2	4.2	4.1	4.0	3.1
2. THE WELFARE STATE[(a)]	**19.4**	**30.4**	**29.2**	**22.5**	**37.3**	**28.6**	**32.1**	**31.9**	**25.3**	**13.9**
Merit Goods	12.1	10.1	13.8	10.9	13.4	12.2	16.5	14.7	12.1	6.0
Income Maintenance	7.3	20.3	15.4	11.6	23.9	16.4	15.6	17.2	13.2	7.9
3. THE MIXED ECONOMY	**9.1**	**11.1**	**14.0**	**7.7**	**6.5**	**7.5**	**13.3**	**14.2**	**8.8**	**10.7**
Economic Services	5.1	7.2	5.7	6.1	3.6	4.7	9.4	7.7	4.3	5.7
Public Debt Interest	4.0	3.9	8.3	1.6	2.9	2.8	3.9	6.5	4.5	5.0
4. BALANCING ITEM[(b)]	**1.2**	**6.0**	**6.2**	**5.4**	**0.0**	**2.9**	**0.9**	**6.5**	**2.5**	**2.6**
5. TOTAL EXPENDITURE	**36.4**	**52.8**	**57.6**	**40.2**	**51.6**	**46.9**	**53.5**	**59.3**	**45.5**	**36.9**

Notes:
(a) Merit goods include expenditure on housing and community amenities, which is not part of social expenditure as defined in Table 1.
(b) The data coverage for the different items is not entirely consistent, which explains the presence of this item.

Source: OECD **Annual National Accounts**, supplemented by estimates prepared by the OECD Secretariat.

OECD, 1985; 1988a; 1988b). Such decompositions disaggregate expenditure movements into demographic, coverage (or eligibility) and benefit level changes. They provide a useful framework for analysing social expenditure trends, for projecting future expenditure developments, and for thinking about relevant policy issues in a structured way. But they no more provide an explanation of **why** social expenditures have grown than the national accounts can be said to explain economic growth, or that double-entry book keeping can be said to explain company profitability. The decompositions are, however, useful as a first step in delving behind the expenditure aggregates in order to focus on the underlying policy and analytical issues. It is on these issues that the remainder of this paper will focus.

3. THE SOCIAL POLICY CONTEXT IN THE EIGHTIES

As noted in the Introduction, the broad context for social policies throughout the OECD region in the last decade was shaped by economic considerations, specifically by the push to control public expenditure as part of an overall program of economic re-structuring. At this level, the improved integration of economic and social policies has required social policies to take a distinct second place to economic policy considerations. That may be an improvement over complete policy dichotomy, but it is hardly policy integration in the true meaning of the word. Public expenditure restraint has not, however, been the only economic development in the 1980s that has shaped the social policy agenda. There are at least three other economic developments that have also had a significant impact. The first relates to changes in the labour market, the second to the more general change in economic thinking and the role of economic policy, and the third to demographic change.

In relation to the labour market, it has already been noted that the persistence of high levels of unemployment has placed strains on income support programs and made the task of expenditure control more difficult. The existence of large scale unemployment has also increased the diversity in the circumstances of those who are unemployed and thus expanded the scope of the kinds of intervention required to address the unemployment problem. Social policies for the unemployed have thus had to deal with a more heterogeneous set of issues and, as long-term unemployment has increased, a more serious set of problems. That task is hard enough when sufficient resources are available, but when they are not it becomes close to impossible. The fate of many unemployed people, particularly the long-term unemployed, has inevitably suffered as a consequence as evidenced by the emergence of a 'new poor' mainly comprising jobless working age families (Room, Lawson and Laczko, 1989).

Two other relevant labour market trends are the increased labour force participation of married women and the increased prevalence of part-time work. The increase in the former has led to new demands for social programs, particularly in the areas of child care and related services which facilitate labour market involvement (e.g. transport). The growth in the latter has raised issues relating to how income transfer arrangements can be re-structured in order to offer the combination of part-time work with part-rate benefit receipt as a viable income package in a labour surplus economy. This has in turn renewed interest in the need to avoid poverty traps which provide little financial incentive to seek such a combination of benefit and earnings. These developments have each produced new challenges for income support systems in a number of countries and have further complicated the task of expenditure control. While there has been general acceptance of the need for income support arrangements to facilitate labour market involvement, this has proved difficult in practice because of resource limitations and increasing numbers being forced to rely on the income support safety net.

Labour market change has, however, presented less of a challenge to social policies than that resulting from the change in economic thinking that has taken place in the last decade. If the fifties and sixties were decades of Keynesian consensus and the seventies the decade of supply-side shocks, then the eighties has surely been the decade of the ideology of the market. There has been a resurgence in belief in market-based solutions to both macroeconomic and microeconomic problems and that, not surprisingly, has presented a major challenge to the role of government intervention generally, but also to social intervention more specifically. Much of the basis for this revolution in economic thinking has been primarily ideological in nature, having more to do with notions of individual freedom from the 'coercion of taxation' and other forms of government intervention than with the proven superiority of market mechanisms and competition as means of achieving improved allocative and other efficiencies. This highlights the need to distinguish as far as possible between the expression of value positions and issues of a more technical nature, a point which will be discussed further later.

This revolution in economic thinking has presented more of a crisis for the welfare state than that caused by the decline in economic performance which began in the mid-seventies. The message to emerge from that earlier crisis was essentially that social policies needed to be assessed and re-structured in order to become more consistent with (and affordable in) a future of lower economic growth and higher unemployment. In contrast, the new economic rationalist lines of thought suggest not that the welfare state needs to be re-structured, but rather that large sections of it should be dismantled entirely. The economic rationalists argue that not only are social programs (and their financing) in fundamental contradiction with notions of freedom of choice, competition and market provision, but that the perverse incentives caused by social programs have contributed to, and not alleviated, the social problems that those programs were initially designed to address (Murray, 1984).

This is not the place to address these latter claims. It is, however, worth pointing to the fact that reviews of the relevant literature have tended not to confirm many of them. That was certainly a general finding to emerge from the work with which I was involved at the OECD in the early eighties (Saunders and Klau, 1985) and a more recent review undertaken by the OECD Secretariat has reached a broadly similar conclusion. This is not to deny that there may be individual instances where social programs have produced moral hazard, adverse selection and disincentive effects that warrant action. However, the available evidence certainly does not provide generalised support for the view that social programs have contributed markedly to the deterioration of economic performance, nor to the increased severity of social problems. Only the most superficial reading of the evidence, combined with considerable naivety in the merits of the free market to solve social problems can sustain such a position.

But this does not mean that all of the ideas associated with the new economic rationalism should be rejected. Far from it. There is much of value in thinking about how the design of social policies can benefit from such concepts as consumer choice, competition and market allocations. Such lines of thinking have opened up new avenues and possibilities in such areas as the organisation and delivery of welfare services, the responsiveness of welfare services to the needs of users, the relationship between public and private forms of provision, the balance between centralisation and decentralisation in welfare programs, and the structure of incentives built-in to the design of social programs. Furthermore, in addition to bringing new challenges to the design, means and processes of social policies, developments in economic and social policy thinking in the last decade have led to a re-assessment of the objectives of social policies, an issue that will be explored in greater detail in the following Section.

The final development that has had a major impact on social policy in the eighties has been primarily demographic in nature. In this context, the work of the OECD has been of particular value in identifying the underlying issues and canvassing alternative policy strategies. Put simply, the maturing of the welfare state in the fifties and sixties involved the establishment of programs which guaranteed citizens a number of entitlements which were provided (generally free of charge at the point of use) to those satisfying certain broadly specified contingencies. Public pensions guaranteed to provide income maintenance during retirement, transfer programs provided income support (or income maintenance) for invalids, the unemployed and sick, education and health benefits were provided free of charge or were heavily subsidised, and so on. In this sense, the development of the welfare state represented the establishment of certain basic entitlements - to education, health and income support - which together constitute what Marshall (1981) refers to as the social rights of citizenship. It follows that if the establishment of entitlements was the objective of social programs, then social expenditures would be the outcome of the interaction between those entitlements and changes in the numbers eligible to receive the benefits in each contingency group.

The OECD decomposition analysis referred to earlier shows that the growth in social expenditure up to the early 1980s reflected increases in the size of contingent groups to a greater extent than increased generosity of program benefits (OECD, 1985: Saunders and Klau, 1985). Such results raised issues of whether these increases in the number of recipients was exogenous to the development of policies or was in fact induced by them as individuals changed their behaviour in order to satisfy contingency definitions and thus become eligible to receive benefits. This has led in turn to pressures to narrow the scope of the contingency categories and to tighten their administration, so that the integrity and hence legitimacy of social programs could be protected. In practice, however, such moves have been directed to only certain recipient groups (the unemployed and sole parents) where prejudice and misinformation has tended to be more widespread than solid evidence of fraud and/or abuse.

Expenditure projections using the decomposition framework and based on projected population trends point to a sharp rise in social expenditures as a consequence of the aging of the population in most OECD countries. In a recent OECD report, for example, population aging between 1985 and 2040 in a range of OECD countries is projected to cause an increase in social expenditure per person of working age ranging from just over 10 per cent (in the United Kingdom), to around 50 per cent (in Japan and the Netherlands) and to almost 60 per cent (in Germany) (OECD, 1988c; Table 6). Such projections have served to highlight the future financing implications of existing social provisions, and thus the need to consider ways in which these can be met most efficiently, effectively and equitably. One important lesson to emerge from such exercises has been that policy action is required now if undue future inter-generational conflicts are to be avoided.

Although the social expenditure implications of population aging appear dramatic, the assumed rate of economic growth over the projection period has a crucial bearing on the financing implications for social programmes. It is generally the case, for example, that even relatively modest rates of economic growth permit the projected future expenditures to be financed without major increases in contribution (or tax) rates. However, that is hardly reassuring to governments committed to reducing levels of taxation. Furthermore, most projections assume that social expenditure benefits remain unchanged in real terms over the forecast period. This seems to be an unduly optimistic assumption. It does not, for example, conform with the historical experience of increasing real benefit levels in most instances, at least up until very recently. Neither is it consistent with the fact that cross-country comparisons show that pension expenditure per aged person varies **positively** with the proportion of the population who are aged 65 or over (Saunders, 1990a). There is thus a real challenge here for governments to persuade those who will retire in the early decades of the next century to accept lower real pension levels or coverage rates in a way which will be politically acceptable to a group which is becoming an increasingly large proportion of the electorate.

The developments reviewed in this Section help explain some of the main features of the current and future context for social policy in advanced countries. The pressures for restraint of social expenditure that have been experienced since the late seventies show little sign of easing in the foreseeable future. In this sense, the crisis of the welfare state which began a decade ago is set to be on-going rather than temporary for a number of related economic, demographic and ideological reasons. It is thus legitimate, indeed essential, that issues relating to the efficiency and effectiveness of social programs deserve the closest scrutiny.

4. THE EFFICIENCY AND EFFECTIVENESS OF SOCIAL PROGRAMS

It is not surprising that the forces shaping the evolution of social policies and expenditures in the last decade have also influenced the concepts and terminology of social policy discourse. One illustration of this is to be found by comparing the concepts discussed and analysed in the first OECD report devoted to social policy - published in 1981 (OECD, 1981) - with those utilised in more recent OECD social policy reports (OECD, 1985:1988c). In **The Welfare State in Crisis** it is difficult to find any reference to the effectiveness of social programs. There is extensive discussion of efficiency issues, but this is undertaken by and large in the context of the trade-off between efficiency and equality given prominence in the work of Arthur Okun (Okun, 1975). In contrast, in the later reports **Social Expenditure 1960-1990. Problems of Growth and Control** and **The Future of Social Protection**, emphasis is given to the concepts of efficiency and effectiveness, with correspondingly less attention devoted to issues of equality (or inequality). The sense in which the concept of efficiency is used in these later reports also differs from the idea of allocative efficiency which has been the main focus of the analysis of Okun and other economists (e.g. Barr, 1987a: 1987b). The concepts of efficiency and effectiveness are used to refer to aspects internal to the operation of specific programs, rather than in relation to more general, societal concerns. This increasing focus on individual programs has been reinforced by the replacement of concerns about equality - issues of relevance in a broad social context - to the concern with effectiveness - an issue which is again of more immediate relevance to individual social programs.

In a period of resource constraint, it is no cause for surprise that policy-makers should wish to focus at the program level on the use and effects of resources. That change in focus is one aspect of the 'new managerialism' that has come to dominate much of public and social policy discussion in the last decade. As argued in the OECD report on social expenditure growth, where there is extensive state involvement in the finance and provision of social programs;

> *...the task of improving effectiveness and efficiency resolves itself into a management issue, and in particular the establishment of criteria by which management is judged to be successful.* (OECD, 1985, p. 60)

From this perspective, the concepts of efficiency and effectiveness have become part of a new culture of government, along with such budgetary concepts as cash limits and constitutional spending constraints, and such managerial concepts as performance indicators, decision-making devolution and autonomy, and so on. This focus of attention at the program level is fine as long as sight is not lost of the broader social picture and of the underlying social objectives to which social programs are directed. Yet a case can be made that this has not occurred, that in focusing on individual programs and technical managerial issues, policy-making has become divorced from the underlying social realities and problems.

At the program level, efficiency is concerned with the relationship between program inputs and program outputs, while effectiveness refers to the relationship between program outputs and program objectives. Clearly, both concepts can thus only become of operational value once outputs and objectives have been specified and quantified. That is no simple matter, but the task of changing the focus of social policy analysis away from inputs towards consideration of output measures and statements of objectives is nonetheless an important one. All the more so when the amount of resources available to social programs is becoming increasingly scarce. In that situation, it is perfectly legitimate - indeed essential - to question the objectives of social programs and to assess their achievements against those objectives.

In general, it is possible to distinguish three levels at which the concept of efficiency can be applied in the context of the public sector. The first relates to the efficient use of **society's** resources, the second to the efficient use of **public** resources, and the third to the efficient use of **program** resources. The focus in the first is primarily on the appropriate overall balance between the public and private sectors, the focus on the second is primarily on the balance between different government programs, and the focus in the third is on the alternative use of resources within government programs. Throughout the last decade, the focus of policy has shifted from the first to the second and, increasingly, to the third of these concepts of efficiency. It is similarly possible, conceptually at least, to approach the effectiveness issue at either of these three levels. But so far much of the debate on effectiveness has concentrated on the individual program level, in part because it naturally lends itself to analysis at that level.

Three general points need to be emphasised about the application of these concepts of efficiency and effectiveness in the social policy context. The first is that both concepts are essentially **technical** in nature, and the limitation of applying such technical concepts to social programs which embody important social **values** needs to be recognised. Second, there are likely to be conflicts in practical terms between efficient and effective solutions, just as there are in Okun's 'great trade off' between efficiency and equality. The nature of any trade-off will, of course, be altered, but not the need to confront conflicting objectives and choose solutions which involve compromising some objectives. Third, as noted earlier, both concepts become of operational use only when program outputs and objectives have been clearly specified and reliably quantified in some way. This opens up the possibility for debate on what these objectives in fact are, and how (or whether) output can be quantified, a debate on which there is unlikely to be consensus particularly when value positions intercede, as indeed they must.

One final point relates to the dangers of restricting the analysis too much to an independent assessment of individual programs. This approach runs the risk of down-playing important interactions between programs. Thus, for example, the effectiveness of program A may be dependent upon the existence of program B. Changes to program B designed to improve its efficiency and effectiveness may thus reduce the effectiveness of program A. Similarly, while the existence of program A may be **necessary** to achieve a particular social objective, it may well not be **sufficient** to do so. Other policies and programs may also be required. If this is the case, then the apparent failure of program A to produce the desired result may not reflect any ineffectiveness in that program itself, but rather point to the failure to establish the other conditions necessary for its success. In short, while application of efficiency and effectiveness analysis may proceed within individual programs, it is a mistake to divorce the analysis entirely from the broader structure of economic and social policies and processes. There is something of a paradox here, in that the focus on individual programs which has accompanied the application of efficiency and effectiveness concepts has taken place at a time when governments have recognised the need for greater integration of social policies in order to respond to the labour market and other changes described earlier.

Turning more specifically to issues relating to the measurement of program outputs, as well as to the specification of program objectives, one runs immediately into problems concerning the quality of available data and social statistics. Following the national accounting conventions, social expenditure data refer to expenditure on inputs (in the case of service provisions like education and health) or to expenditure on benefits (in the case of income transfers). Because of the absence of markets for education and health services (in most instances) there are no price data on which to base estimates of the value of output, as occurs in the case of goods and services produced and sold in the private sector. National accounts conventions (with some minor exceptions) thus equate the value of service outputs with the expenditure on service inputs, with the implication that service productivity is constant and equal to one. The national accounts thus by definition provide no basis for estimating the productivity and hence technical efficiency of social service provisions.

The problems associated with specifying the objectives of social programs are no less daunting. One of the very useful developments that has occurred in the last decade - both within and outside government - has been the increased attention devoted to specifying exactly what **are** the objectives of social programs. But this has produced disagreement rather than agreement as to what those objectives are and how they should be measured. Most agree, for example, that a basic objective of most social programs is to ensure greater equality through redistribution. But there are many different meanings of the concept of equality as it applies to social programs (Le Grand, 1982). Furthermore, measurement of the redistributive impact of programs requires agreement not only on the specific dimension of equality under consideration, but also on the benchmark situation (or counterfactual) against which comparisons are to be made. The problems involved in specifying such a counterfactual are extremely complex and should not be underestimated - many of the debates about the impact of social programs revolve around disagreement over what is the appropriate counterfactual against which to assess program performance. Thus, for example, while it may be difficult enough to establish what has happened to trends in poverty over a particular period of time, it is a far more difficult task to estimate with any degree of reliability what would have happened to poverty if a different set of circumstances had prevailed over the period. Yet it is this later estimate that is needed in order to estimate the effectiveness of the anti-poverty policies in place at the time.

In order to give more substance to the argument and to illustrate the strengths and limitations of the concepts of efficiency and effectiveness, it is useful to consider some concrete examples. In any discussion of the welfare state, it is important to distinguish between programs that provide income support through the payment of cash transfers to those which provide education, health and welfare services in noncash form. The former programs involve no direct claim on resources, but redistribute income from one group to another. Efficiency and effectiveness in this context thus relate to the processes through which those redistributive transfer mechanisms operate and what their effects are. By contrast, resources of labour and capital are involved in the provision of noncash community services, so that the conventional economic theory of production and the concept of productive efficiency appear to have more direct relevance.

Income Support

The income support systems in place in all OECD countries share certain basic similarities, and a number of important differences. All are contingent schemes, in the sense that benefits are paid to certain eligible groups defined in various ways according to age (the elderly; dependent children), health status (invalids; the sick) or socio-economic status (the unemployed; sole parents). Where they differ relates more to the basis on which benefit entitlement is determined than on the contingencies which determine benefit eligibility. At one extreme are income (or means) tested benefits which vary inversely with the current means of those eligible, and at the other extreme are earnings related benefits which vary positively with previous earnings levels. The former are concerned to provide basic levels of **income support**, while the later are more concerned with **income maintenance** relative to previous income levels. In other words, the schemes have different objectives and measures of effectiveness must allow for this. In between these two systems are universal benefits which are paid at the same rate to all those eligible and thus do not vary with either past or current income levels. The methods of financing each of these three forms of income transfers varies, as does their relative importance across countries.

In a context of limited resources, combined with the emergence of new groups requiring financial assistance (e.g. the long-term unemployed), increasing attention has been focused on the need to improve the targeting of cash transfer expenditures, by concentrating them more on those in greatest need. Leaving aside questions relating to the definition of 'need' in this context, the approach suggests that a movement away from universal and earnings-related benefits towards means-tested benefits will result in a system that is more effective and, in a limited sense, more efficient also. These ideas were in fact first applied to the analysis of cash transfer programs over a decade ago in a number of reports by Wilfred Beckerman (Beckerman 1979a; 1979b: Beckerman and Clark, 1981). They have also been applied to investigate the efficiency and effectiveness of social welfare provisions in Ireland in a very interesting report recently released by The Economic and Social Research Institute (ESRI: Callan et al., 1989).

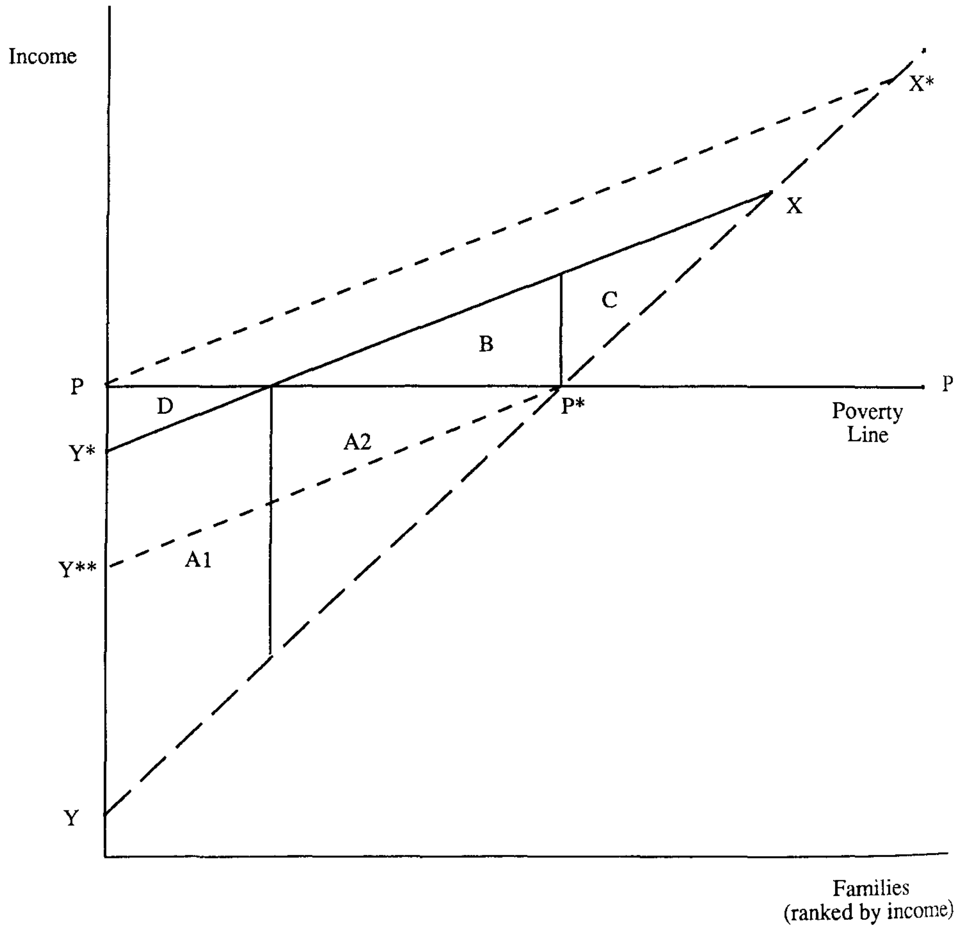
The framework developed by Beckerman and used in the recent ESRI study is illustrated in Figure 1, where for convenience the terminology follows that used in the ESRI study. In constructing Figure 1, families are ranked according to their incomes, with those with lowest incomes on the left. The lines YX and Y^*X indicate the levels of family income before and after the receipt of income transfers, respectively. The vertical distance between Y^*X and YX thus represents the amount of transfers received, this amount declining as family income increases and becoming equal to zero at the income level corresponding to point X. The income corresponding to the poverty line is shown by the horizontal line PP. (For the perfectionists, the fact that the poverty line is assumed to be constant for all families means that income should be thought of as measured in equivalent units, i.e. after adjusting for differences in family needs.) Total expenditure on cash transfers is equal to the area between the pre-transfer income and post-transfer income lines, or the area A1+A2+B+C on Figure 1. (Strictly speaking, this is only true if the distribution of household income is uniform over this range of income.) The pre-transfer poverty gap - equal to the total income shortfall below the poverty line of all families in poverty - is equal to the area A1+A2+D. The post-transfer poverty gap is equal to the area D. The payment of transfers thus reduces the poverty gap by an amount equal to A1+A2.

Following Beckerman and the ESRI study, the following measures can now be defined:

Poverty Reduction Effectiveness = (A1+A2) / (A1+A2+D)
Poverty Reduction Efficiency = (A1+A2) / (A1+A2+B+C)

Effectiveness is thus measured by the proportionate reduction in the pre-transfer poverty gap, while efficiency is measured by the proportion of total transfers paid which are received by those families in poverty before the receipt of transfers and which do not 'spillover' by raising them above the poverty line. (These concepts of effectiveness and

Figure 1: Poverty Reduction Efficiency and Effectiveness



efficiency broadly correspond to what writers in the personal social services field refer to as horizontal target efficiency and vertical target efficiency, respectively (Knapp, 1988).) For a **given** pre-transfer income distribution (the assumed counterfactual in this situation) and for a **given** total level of spending on transfers, both effectiveness and efficiency would be increased if a greater proportion of transfers were concentrated on those families who would be in poverty in the absence of transfers.

On the face of it, the approach illustrated in Figure 1 provides a useful framework for analysing the effectiveness and efficiency of income support programs. It is possible to investigate, for example, how changes in the basic benefit level and the withdrawal rate influence effectiveness and efficiency. Consider, for example, changes in the benefit level. If the basic benefit level is increased from YY* to YP then the poverty gap is eliminated so that effectiveness rises to 100 per cent. However as the new post-transfer poverty line (PX*) in Figure 1 indicates, transfer efficiency declines. Similarly, if the benefit level is reduced from YY* to YY**, transfer effectiveness falls but transfer efficiency rises to 100 per cent. For a given withdrawal rate, there is thus a trade-off between the level of benefits and the effectiveness and efficiency of the benefit system. It is also possible to fix the benefit level and explore the implications for efficiency and effectiveness of changing the (constant) withdrawal rate; in this case, the post-transfer line Y*X pivots around the point Y* in Figure 1.

The only way in which effectiveness and efficiency can both be made equal to 100 per cent is if the benefit system follows the kinked line PP*X in Figure 1. This is the situation in which the benefit paid is exactly equal to the difference between pre-transfer income and the poverty line. But it is a situation in which the effective marginal tax rate on the pre-transfer poor is equal to 100 per cent. Such an extreme form of the poverty trap is hardly likely to be described as efficient from a broader perspective in which, for example, effects on work incentives are taken into account. That would only be true if the elasticity of labour supply of the pre-transfer poor was close to zero, while that of those not in poverty was much higher, a proposition for which there is no empirical support. What appears to be efficient from a program perspective may thus be inefficient from a broader social and economic perspective.

The framework shown in Figure 1 underlies recent thinking on reform of the transfer system in a number of countries. In a situation of severe expenditure restraint, considerable attention has been paid to improving the targeting of income support payments by concentrating assistance on those in greatest financial difficulty. In terms of Figure 1, savings made from reducing the 'spillover' payments corresponding to areas B+C, payments which are likely to be very costly if the income distribution is heavily concentrated in this range, can be used to finance increased basic benefits, and thus reduce the size of the post-transfer poverty gap (Area D). Whether such a targeting strategy can work in practice depends upon the relevance of the framework shown in Figure 1 and the applicability of the assumptions which underlie it. One weakness of the framework is that it is essentially static in focus. Movements towards the kinked benefit line PP*X may be frustrated once individual responses to the incentives produced by this move are allowed for. These include the poverty trap issue noted earlier, but also the incentive for those not in poverty to seek to become eligible for levels of assistance which cause only small declines in their disposable income. Where such behavioural adjustments occur, the problems of specifying the counterfactual once again become considerable.

Another assumption implicit in the framework shown in Figure 1 is that the benefit level is independent of the structure of the benefit system. An alternative view is that the revenue raising potential of the benefit system, and thus the level of benefits that can be paid under that system, depends upon the structure of benefits provided. As compared with means-tested systems, this view implies that those systems which offer more universal benefits receive greater political support, generate increased revenues and thus enable the payment of higher benefits. Thus while these latter systems may produce less effective targeting of any **given** level of resources, that becomes less of an issue if the level of resources is itself a variable determined by the structure of the system itself.

The relevance of this point in fact receives support from Beckerman's own cross-country application of the framework (Beckerman, 1979a). His results show that in 1973-74, the Australian transfer system scored high in terms of his efficiency measure, but nonetheless had a relatively high incidence of poverty, while Belgium in the same year had a transfer system which had a low efficiency and yet had virtually eliminated poverty. As Beckerman notes in explaining these findings:

> *...an 'inefficient' pattern of expenditure can still greatly reduce poverty if enough is spent (while) an 'efficient' pattern of expenditure may do little to reduce poverty if very little is spent.* (Beckerman, 1979a, p. 58)

Some more recent comparative evidence relevant to this issue is contained in Table 4. Analysis is restricted to the elderly, where different income support arrangements can be most easily compared, and where complications arising from variations in economic performance are minimised. The first two columns of Table 4 follow the recent OECD (1988b) classification of pension systems. The next two columns show the elderly as a percentage of the population and pension expenditure as a percentage of GDP. The ratio of these two percentages is shown in column five as a measure of pension generosity i.e.

pension expenditure per elderly person expressed as a percentage of per capita GDP. The last two columns show the relative poverty rate among the elderly and the effectiveness of transfers in reducing the pre-transfer poverty rate. These poverty estimates have been produced as a part of the Luxembourg Income Study, a project aimed at improving comparative estimates of poverty, inequality and other dimensions of economic well-being (Smeeding, Torrey and Rein, 1988).

Table 4 shows very considerable diversity across this group of eight countries in relation to the structure of pension systems, the incidence of poverty among the elderly and transfer poverty effectiveness. However, they provide little support for the targeting hypothesis based on Figure 1. In fact, the two countries with the greatest reliance on means-tested, social assistance pension provisions (Australia and the United Kingdom) have amongst the **lowest** pension generosity rates, among the **highest** incidence of poverty among the elderly and, most significant of all, the two **lowest** transfer effectiveness percentages. Poverty effectiveness is much higher in countries like Canada and Sweden which rely more heavily on universal pension provisions. Pairwise comparisons between countries with similarly sized elderly populations reveal a similar picture. Canada's pension system is both more universal and more effective than Australia's. Although there is a universal element in the Norwegian system, as compared with that in Germany, Norway spends relatively less on pensions than Germany, provides less generous pensions, has less poverty amongst the elderly and yet has a system which is no less effective than that in Germany. Finally, although the structure of the UK pension system appears to make it more targeted than that in Switzerland, the United Kingdom in fact has far more poverty among the elderly and its pension system is far less effective in reducing poverty.

In summary, the evidence in Table 4 does not confirm the view that countries with greater targeting of transfer payments for the elderly have less poverty amongst the aged or are even more effective in reducing poverty, than other countries where universal or insurance type pensions exist. As Smeeding, Torrey and Rein note:

> *Despite their presumable more effective targeting, countries that rely on means testing seem politically unable or unwilling to raise benefits high enough to be as effective... as universal and social insurance approaches.*
> (Smeeding, Torrey and Rein, 1988, p. 116)

This evidence should, however, be seen as being suggestive rather than as definitive in any fundamental sense. There are clearly issues of cause and effect that need to be unravelled. Nor does it imply that the framework underlying Figure 1 should be rejected

TABLE 4: PUBLIC PENSION SYSTEMS AND POVERTY AMONG THE ELDERLY IN SELECTED COUNTRIES AROUND 1980

Country	Pension Classification in 1985	Pension[a] Types	Elderly Population Percentage in 1980 (%)	Pension Expenditure Relative to GDP in 1980 (%)	Pension Generosity[b] (%)	Relative Poverty Rate[c] (%)	Transfer Poverty Effectiveness[d] (%)
Australia	Basic	U&A	9.6	4.9	51.0	15.7	67.9
Canada	Mixed	U&I	9.5	4.4	46.3	17.2	89.8
Germany	Insurance	I	15.5	12.1	78.1	11.1	79.2
Norway	Mixed	U&I	14.8	8.4	56.8	5.6	75.9
Sweden	Mixed	U&I&O	16.3	10.3	63.2	0.8	97.4
Switzerland	Insurance	I&O	13.8	8.1	58.7	11.4	88.9
United Kingdom	Mixed	A&I&C	14.9	6.3	42.3	29.2	49.4
United States	Insurance	I	11.3	6.9	61.1	23.9	68.7

Notes:

(a) U = universal; A = social assistance; I = social insurance; O = mandatory or quasi-mandatory occupational pensions; C = contracting-out possibilities.

(b) Pension generosity is defined as the ratio of the previous two columns: It is equal to pension expenditure per elderly person as a percentage of per capita GDP.

(c) Using a poverty line of one half of median disposable equivalent income in each country.

(d) Effectiveness is defined as the percentage difference between the pre-transfer/post-tax poverty rate and the post-transfer/post-tax poverty rate.

Sources: OECD, **Reforming Public Pensions**, Chart 1.1 and Annex C.
Smeeding, Torrey and Rein (1988), Tables 5.2 and 5.12.

entirely as an aid to thinking about effectiveness and efficiency issues in the context of income support. What it does suggest, however, is that there is a need for the limitations of applying purely technical analysis to what are extremely complex economic, social and political issues to be acknowledged.

Yet another assumption that is implicit in the framework of Figure 1 is that families actually receive the benefits to which they are entitled under the transfer system. In fact, of course, there is considerable evidence that the take-up of means-tested benefits is well below 100 per cent. This has been well documented in the United Kingdom (e.g. Deacon and Bradshaw, 1983) and the available evidence for Australia, while lacking somewhat in reliability, also points to low take-up of the recently introduced family income supplement scheme, an income-tested payment to low income working families. In the Irish context, the ESRI study referred to earlier estimates that the take-up of the Irish family income supplement lies in the range 13 per cent to 22 per cent (Callen et al., op. cit., Table 10.5, p. 149). Such evidence on take-up thus cautions further against undue reliance on transfer targeting as an efficient and effective way of reducing poverty. In the limit, such schemes may assist the poor more in appearance than in reality because of low take-up. And low take-up rates mean that such schemes are less costly than otherwise and may thus be more attractive to governments intent on keeping expenditure to a minimum.

One final point on the limitations of the framework illustrated in Figure 1 is that it considers the issues of effectiveness and efficiency only in relation to how benefits are determined by family income. Targeting is better viewed in a broader context which, rather than focusing just on the determination of benefit entitlement, also addresses issues of eligibility that arise when defining the contingent groups for cash transfer purposes. Thus, a more targeted system may not involve a tighter relation between levels of assistance and private incomes (which inevitably gives rise to efficiency and incentive concerns), but rather a narrower definition of the contingencies which establish the right to assistance in the first place. This second approach has generally been the one pursued, for example, by the current Australian Government in attempts to improve the targeting of income support programs. This contingent-group approach to targeting has the potential to minimise the conflict between effectiveness and efficiency issues, albeit at the cost of introducing new concerns relating to the erosion of social rights and the effects on stigma and equity of treatment resulting from application of the harsher administrative processes required to establish eligibility.

Community and Welfare Services

Unlike income support programs which involve a transfer of social resources with relatively low associated direct resource costs, the provision of social services involves a direct claim on society's resources. Furthermore, as Tables 1 and 2 indicate, those claims now absorb a considerable proportion of the national income of most OECD countries. This in turn implies that the potential savings from more efficient use of resources in these areas can be enormous. As a recent OECD report on financing health care notes, for example, a one day reduction in the OECD average length of stay in hospital (18 days) would generate cost savings in excess of $17 billion a year (OECD, 1987, p.98). As noted earlier, the provision of community services like health, education and other personal social services also appear, initially at least, to conform more to traditional models of economic production and thus to be more amenable to analysis in terms of their efficiency and effectiveness (Davies and Knapp, 1988).

However, as already noted, such application is limited by the fact that conventional budgetary and accounting procedures provide no output measures (Levitt and Joyce, 1987). The consequences of this for relative expenditure growth in public sector services generally were drawn out by Baumol (1967) in his model of unbalanced growth. Furthermore, the so-called 'relative price effect' - the tendency for **measured** public sector input cost (and implicit price) increases to outstrip private sector cost (and price) increases - was an important factor contributing to the growth in government expenditure relative to GDP throughout the sixties and seventies (Saunders and Klau, 1985). For governments concerned with expenditure aggregates, there are thus pressures to reduce the growth in input costs rather than to seek to improve the efficiency with which inputs are utilised. Since labour costs represent the largest proportion of input costs, this translates into pressures to reduce the growth in public sector wages relative to private sector wages, and there is evidence that this has occurred in many OECD countries in the last decade or so. It is, however, worth noting that this may result in an 'echo effect' in the next decade, as (relative) public sector wage increases become increasingly essential to stem labour outflow and aid recruitment of suitably qualified personnel. Those pressures have certainly been evident in the Australian public education sector in the last few years, and they are also apparent in a number of other countries.

The limitations of the current treatment of public community and social services in the national accounts could, of course, be overcome if these services were to be provided through private markets on a for-profit basis and priced accordingly. Most of these services are, after all, excludable and thus in principle amendable to market provision, finance and thus allocation mechanisms. But there are other important economic features which suggest that private provision and finance will not result in socially optimal outcomes (Barr, 1987a: 1987b). These include such considerations as adverse selection, moral hazard, imperfect and asymmetric information and externalities, all of which limit the relevance of textbook economic principles to the social services. In addition, there are those important equity principles which saw the public sector playing the dominant role in the provision and finance of social services in the first place. These reflect important underlying social values relating to equality of access, opportunity and outcome and the principle that resources should be allocated on the basis of need rather than willingness to pay. Proposals for large-scale privatisation of the provision and finance of the basic social services often thus make little economic sense and are even less viable when confronted with existing social values and political constraints. Survey evidence, for example, still shows strong public support for public health and education systems and many express a willingness to incur higher taxes in order to improve the quality and quantity of services provided (Taylor-Gooby, 1985).

To argue that large-scale privatisation of social services has little economic merit is not, of course, to argue that selective forms of privatisation may not be a means of achieving increased efficiency and effectiveness. This issue was explored, in his usually provocative way, by Julian Le Grand at the Institute of Public Administration Conference three years ago (Le Grand, 1988). There, Le Grand argued (mainly in the British context) that selective privatisation of the **provision** of welfare had much to recommend it as a strategy, but that privatisation of the **finance** of welfare was both unlikely and undesirable. But Le Grand also argued that the resulting efficiency gains would only be achieved if privatisation moves were accompanied by increased competition and by increased state regulatory intervention aimed at protecting the wider public interest. Such a strategy thus seeks to expand the range of **choices** available to the users of welfare services and thereby to provide the motivation for (private) suppliers to seek efficiency gains, while continuing to **subsidise** consumption of those services through the public purse. Such a combination of choice and competition would certainly do much to create the climate for improvements in efficiency.

The ideology of freedom of choice is a very powerful force in contemporary economies (West and East) which the welfare state cannot afford to ignore. Increased levels of affluence, combined with the income elastic nature of health, education and other social services, is generating new demands to which welfare services must respond. Otherwise, there is the risk, emphasised by Le Grand (1988), that the better-off will seek private sector alternatives, the revenue base for public provisions will be undermined, and a dual system of welfare will result in which those on lower incomes and the disadvantaged will be condemned to increasingly inferior quality services. Under that scenario, the goals of the welfare state will be severely compromised and any claims of effectiveness ultimately foregone.

But it is important not to be overly optimistic about what can be achieved by the combination of private welfare provision supported by public finance and controlled by public regulation. There are many examples where such a model has not been overly successful in the past. In Australia, for example, nursing homes have been operated on a model along these lines for around thirty years. Most nursing homes have been run and operated by private entrepreneurs but have received considerable government subsidy and been the subject of extensive government regulation. Yet there is little to substantiate claims of efficiency in the nursing home sector, and increasing evidence of poor and demeaning treatment of nursing home clients. Furthermore, Commonwealth government expenditure on nursing homes has grown at a faster rate than expenditure on other programs where public provision has been more important. Nursing home expenditure grew by close to 18 per cent a year on average between 1972-73 and 1989-90, compared with a growth in total Commonwealth spending of around 13 per cent a year. This, in a context of population aging and increased demands on long-term care as life expectancy has increased, has led to government initiatives to restrain the growth in nursing home expenditure, to plan and control the number of nursing home beds available, and to greatly expand the funding of community-based care which allows individuals to continue to live in their own homes for longer. The privatisation of nursing home provision has thus led ultimately to increased public finance and regulation in order to achieve a better overall balance in the provision of care for the aged, as well as to improve the **overall** efficiency and effectiveness of public resources in this area. Such examples serve to warn that private welfare provision is no panacea. The public sector does not have a complete monopoly on inefficient practice and cost blow-outs.

Among the social services, it is in the health sector (defined to include health-related personal social services) in which issues of efficiency and effectiveness have received most attention to date. In education, the main area of concern among OECD countries in the last decade has focused on the quality of the education process itself (including curriculum issues) rather than on questions of efficiency and effectiveness. The same cannot be said of health systems. Public expenditure on health in OECD counties now accounts on average for approaching 6 per cent of GDP (Table 2), and both the relative level of public health expenditure and its rate of growth exhibit considerable variation across countries. Public finance and provision of health systems in order to ensure equal access to the highest quality health services has been an important component of the post-war primarily welfare state. Yet as a recent OECD report notes:

> *Health systems embody the social, economic and cultural imprints of different societies. They embody the often competing, often complementary objectives of numerous public and private organisations and individuals... Over the past decade the ability of societies to achieve these potentially conflicting objectives has been called into question. Health financing and delivery systems that were initially conceived to provide access to services appeared to be less successful at achieving efficiency. Governments and private purchasers began to question the cost - and health - effectiveness of the additional services they were purchasing. With the achievement of almost universal access in most counties, efficiency and effectiveness issues have moved to the forefront of the policy debate.* (OECD, 1987, p. 9)

It is appropriate to quote the OECD in this context, because that organisation has played a major role in bringing together comparative health expenditure data and analysis of health policy issues. It is worth mentioning some of the major general findings resulting from that comparative work. These include:

- the most important single identified determinant of the level of total health expenditure per capita is the level of per capita national income (Culyer, 1990);

- total health spending tends to be lower relative to GDP the greater is the public sector share of total health spending (OECD, 1987);

- health outcomes measures such as infant mortality rates and life expectancy show improvements over the last three decades (OECD, 1987);

- cross-country evidence indicates significant inverse correlations between total health spending per capita and infant mortality rates, overall death rates and death rates due to diseases of the circulatory system (OECD, 1987); and

- there remain considerable cross-national variations in certain medical care practices (McPherson, 1987). Differences, both across and within countries, in the availability and use of resources in terms of hospital stays and surgical procedures do not appear to be related to health outcomes (OECD, 1987).

Although some of these latter variations suggest that there is the potential for improved efficiency and effectiveness in the use of health resources - a proposition which is very widely shared - the OECD itself is cautious about the practical application of these concepts. Indeed, in discussing the difficulties in health policy formulation the OECD notes simply that;

> *Health care outcomes and hence efficiency and effectiveness are not measurable.* (OECD, 1987, p. 93)

This, however, does not mean that efficiency and effectiveness are not important aspects that need to be addressed. With extensive public sector involvement in the finance and provision of health care systems, this will require improved management policies that seek to re-structure financial rewards and incentives facing both health service users and providers, as well as improvement in service planning and delivery systems. There is also a need for an expanded role for health promotion and prevention initiatives. It seems likely that the recent trend towards increased competition in certain areas of the health sector will continue, but this should proceed **within** a regulatory framework rather than replace it if the important social and equity objectives that underlie the post-war expansion of public health systems are not to be undermined.

5. SOME RECENT AUSTRALIAN EXPERIENCE

It is not possible in the space available to do justice to the full range of social policy initiatives introduced in Australia in recent years. That task is made even more difficult by the fact that the period since 1983 has been one of considerable change in most areas of social policy. What follows is thus a description of selected policy reforms chosen in the hope that the policies themselves and the issues they raise are of wider interest. The temptation to be overly critical about some aspects of these policies has also been avoided in order that more time can be devoted to a (relatively) objective and descriptive account of policy reforms, and of some of the more significant issues they have raised. Attention will focus on the period since 1983 when the current Government of Prime Minister Hawke was first elected to office. A key feature of economic policy in Australia since 1983 has been the Accord, an incomes policy agreed to between the Government and the national trade union body the Australian Council of Trade Unions (ACTU). Under the five successive, re-negotiated versions of the Accord, the ACTU has promised (and delivered) wage restraint on its members in return for government commitments to a more equitable tax system, expanded occupational superannuation coverage and increased 'social wage' provisions in the areas of social security, education health and housing.

Throughout the period since its first election to office, the Government has emphasised the need for structural and microeconomic reforms if Australia's longer-term economic difficulties were to be overcome. These difficulties reflected the traditional reliance on primary products to generate export revenues and a correspondingly under-developed and generally uncompetitive manufacturing sector. Policies to deregulate the external and domestic financial sectors were introduced in the mid-eighties, as were a series of major reforms of the tax system designed to minimise tax-induced distortions in individual and corporate behaviour. Following a worsening of the balance of payments situation in 1985-86, the macroeconomic policy stance was tightened, leading to high interest rates and a marked slowdown in domestic demand. The degree of fiscal restraint can be assessed by noting that between 1983-84 and 1989-90, the Commonwealth budget deficit has been reduced by the equivalent of over 6 per cent of GDP, the deficit of 4.1 per cent of GDP in 1983-84 being replaced by a surplus of 2.2 per cent of GDP by 1989-90.

The success of the Accord can be judged at one level by the restraint in wages that it has produced. Thus, between 1982-83 and 1989-90, average weekly earnings **declined** in real terms by 4.8 per cent. However, employment grew very substantially over this period - the total number in employment rising by 1.45 million or more than 23 per cent between June 1983 and June 1989. A consequence of these two changes has been an increase in real per capita household disposable income of some 12.7 per cent over the period, and a decline in the unemployment rate from 10.0 per cent in June 1983 to 5.8 per cent by June 1989. There can be little doubt that the Accord has helped to create the circumstances for extremely favourable employment growth since 1983. Between 1983 and 1989, for example, the average annual rate of employment growth in Australia was 3.4 per cent, almost three times the OECD average and well in excess of that experienced in any other OECD country. And as noted earlier, the task of social policy is made a lot easier when employment is rising than when unemployment is rising.

Trends in social spending and total government spending in Australia during the eighties are shown in Table 5. An important point to note about the expenditures in Table 5 is the important role played by State and (to a lesser extent) local government in social provisions in Australia. Although social security is the sole responsibility of the Commonwealth (or Federal) Government, the States play a major role in expenditures in the area of education, health and housing. However, much of the financing of these (and other) public programs is raised through Commonwealth taxes which are paid to State Governments as tied (specific purpose) and untied (general purpose) grants. Vertical fiscal imbalance is thus a general feature of the Australian public finances. These points aside, Table 5 shows that government spending in Australia - at all levels of government - has fallen markedly relative to GDP since 1983-84. Commonwealth spending fell by 6.4 percentage points of GDP between 1984-85 and 1989-90 and a similar fall is implied for State and local government spending. Commonwealth spending on social programs

TABLE 5: TRENDS IN TOTAL GOVERNMENT EXPENDITURE AND SOCIAL EXPENDITURE IN AUSTRALIA, 1982-83 TO 1989-90

(Percentages of GDP)

	Education	Health	Social Security and Welfare	Housing and Community Amenities	Total Social Expenditure	Total Expenditure
Commonwealth Government						
1982-83	2.2	2.0	8.3	0.5	13.0	28.9
1983-84	2.1	2.3	8.6	0.6	13.6	29.6
1984-85	2.1	2.8	8.4	0.6	13.9	30.0
1985-86	2.1	2.9	8.1	0.6	13.7	29.6
1986-87	2.0	2.9	7.9	0.6	13.4	28.8
1987-88	1.9	2.8	7.7	0.5	12.9	26.6
1988-89	1.8	3.2	7.1	0.4	12.5	24.3
1989-90	1.8	3.2	7.1	0.4	12.5	23.6
Total Public Sector						
1982-83	5.7	4.5	8.7	1.7	20.6	41.3
1983-84	5.6	4.8	9.0	1.7	21.1	42.3
1984-85	5.5	5.3	8.8	1.8	21.4	42.4
1985-86	5.4	5.3	8.6	1.7	21.0	42.7
1986-87	5.3	5.4	8.4	1.7	20.8	42.2
1987-88	5.0	5.2	8.2	1.4	19.8	38.8
1988-89	4.8	5.0	7.6	1.1	18.5	36.6
1989-90	*	*	*	*	*	*

Note: * = Not available.

Source: **Budget Statements 1990-91**, Budget Paper No. 1.

has fallen by 1.4 percentage points of GDP since 1984-85 and the decline up to 1988-89 in social expenditure in the public sector as a whole was equivalent to almost 2 percentage points of GDP. At the Commonwealth level, the decline in social spending has been of similar relative size in the education, social security and housing areas, while spending on health has risen sharply relative to GDP with the introduction of the universal, government-funded Medicare scheme in 1984. The burden of restraint among State Governments has fallen disproportionately heavily in the area of housing and community amenities.

In terms of expenditure restraint, it is thus clear that Australia's record since 1982-83 has been impressive throughout the public sector. The Commonwealth Government has been the driving force behind the changes shown in Table 5, and now boasts proudly of a level of government spending relative to GDP which in three years time is projected to be below that experienced in the 1950s. Yet the Commonwealth Government in office since March 1983 has been a Labor Government, the trade union movement has been influential in policy formulation (specifically, through the Accord, in the social policy sphere) and both the Government and the ACTU have emphasised the significant social justice achievements of the last few years. How can this be? Does it in fact reflect the introduction of more effective and efficient (and less costly) social programs? It is not possible to give a general answer to this latter question, but the following examples are designed to provide at least a partial answer.

Reform of the Australian social security system has been guided since 1986 by the recommendations of the Social Security Review, appointed to report to the Minister for Social Security. Those recommendations have seen the expansion in scope and increase in assistance to low income families with children, increased integration of the unemployment benefit, sole parent pension and invalid pension systems with education, training and labour market programs, major changes to income support during retirement, and many other changes too numerous to mention here. Accompanying these changes - many of which have generally been seen as a welcome response to changing economic and demographic pressures - have been a number of changes introduced outside of the Social Security Review process with the specific aim of improving the targeting of the social security system. It needs to be emphasised at this point that the Australian social security system is almost entirely a means-tested system financed from general revenue. There are no insurance elements and, now at least, no universal payments either. All entitlements are determined according to the income and assets of potential recipients, as well as being subject to income tax in most cases.

The Commonwealth Government's approach to improving the effectiveness and efficiency of the social security system has recognised the potential conflict between these two objectives, described earlier when discussing Figure 1. In general terms, increased targeting of assistance - which has undoubtedly occurred since 1985 - has **not** been achieved through more stringently applied income tests on entitlement. Indeed, mindful of the harmful effects on incentives of the poverty traps inherent in what is a heavily income-tested system, the government introduced a series of initiatives designed to ease the income test on many working age recipients in 1987. Targeting has thus been increased not so much by increasing the severity of the income test, but by introducing new variables which affect entitlement, by legislation to reduce the scope of eligibility categories, and by far tighter administration of benefit claims and increased scrutiny and review of on-going payments.

The most significant of the former changes was the introduction of an assets test on all pensions in March 1985. This measure, subsequently extended to all other payments, had the immediate effect of reducing payments to over 23 thousand pensioners and cancelling payments entirely to a further 34 thousand pensioners. More recently, the government has made a number of changes which have broadened the definition of income for the purposes of the pension income test. These include the decision in this year's Budget to impute a 10 per cent return on cash and financial balances in excess of $2000 before application of social security income tests, irrespective of whether or not that return is actually earnt.

In relation to the tightening of eligibility, the government has, since 1986, greatly increased the resources devoted to assessing new benefit claims and reviewing the circumstances of existing benefit recipients. Special mobile review teams have been established (and expanded) in order to conduct benefit eligibility interviews in areas identified as having a potential high risk of benefit fraud and/or abuse. The establishment of these teams has been accompanied by increased resourcing of internal Departmental administration of benefits. Data published by the Department of Social Security indicates that over the three years to 1988-89 these reviews have led to over 186 thousand payment cancellations and 284 thousand payment reductions out of a total of almost 2.5 million payment reviews (Saunders, 1991).

The one area where targeting has involved an expansion of the role of income testing is in the family assistance area. In 1986, family allowance payments to families with dependent children, formerly the only universal payment in the system, were made subject to an income test based on family income. This move was accompanied the following year by a significant expansion (in terms of both benefit levels and coverage) in the system of income-tested assistance to low income families with children, when a new family allowance supplement (FAS) scheme replaced the previous family income supplement (FIS) scheme. These changes have increased the effective marginal tax rates on many families with children at both ends of the income distribution. At the lower end, in particular, there are, as noted earlier, concerns that take-up rates of FAS (as with FIS before it) are low, although the evidence on this is admittedly somewhat sketchy.

In terms of the framework of Figure 1, these changes have resulted in a system of family assistance payments that is both more efficient and more effective (in poverty gap reduction terms) than it was five years ago. A far greater proportion of assistance is now directed to low income families, and although head-count estimates show little impact of the changes on child poverty (Saunders, 1990b), application of poverty gap measures reveal that the immediate impact of the new measures was to produce a more effectively targeted system of family assistance (Saunders and Whiteford, 1987; Brownlee and King, 1989). In the longer-run, whether these improvements can be maintained or advanced will depend upon the resourcing of the new scheme (currently guaranteed in real terms by automatic indexation of the new payments) and also by the seriousness of the take-up issue.

The current Australian Government has not restricted itself to changes in benefit eligibility and entitlement conditions as a means of improving the efficiency and effectiveness of social programs. Attention has also focused on the revenue side of the equation, as the following two examples illustrate. The first concerns the financing of income support for sole parent families. The serious financial circumstances of sole parent families has been well documented in Australian poverty research. That research shows that the poverty rate for sole parent families is between five and six times higher than that for couples with children (Saunders, 1990b). Since the vast majority of sole parents were formally in married (or marriage-like) relationships, the impact of family break-up on the financial well-being of custodial parents and their children is clearly evident. The high rates of poverty among sole parents reflected in part the inadequate levels of assistance they received - a situation alleviated (though not removed) by the new FAS scheme. However, there was also evidence that in many cases maintenance orders established by the family court were not being complied with by non-custodial parents.

To rectify this latter situation, the **Child Support Act 1988** established a special section within the Australian Taxation Office to enforce family court maintenance orders through PAYE deductions by the employers of non-custodial parents. The money thus collected is then transferred to the Department of Social Security for payment to the custodial parent. However, under the **Act** maintenance income was also made subject to a special, more stringent, income test which meant that the scheme produced some expenditure savings for the government (estimated to be around $38 million in 1988-89). Since the introduction of the Child Support Scheme, receipt of maintenance income by sole parent pensioners has increased substantially and that has meant an improvement in the financial well-being of one of the most disadvantaged groups in the Australian community. There has been an increase from 30 per cent (in 1987) to over 70 per cent (in 1989) in the payment of maintenance orders, and an increase in average payment per child of around 25 per cent (Department of Social Security, 1989). The new scheme is still in its infancy and it is too early to make a thorough assessment of its total impact. It has, however, generated considerable interest in other countries and somewhat similar legislation has recently been foreshadowed by the UK Government.

The second example relates to the finance of higher education. In the mid-seventies, the Whitlam Government abolished fees for higher education institutions, as a means of encouraging greater equality in higher education participation across different socio-economic classes. Following concerns that the social class profile of tertiary students showed little subsequent change, and after several years of internal dispute about whether or not to re-introduce tertiary fees, the Hawke Government introduced a Higher Education Contribution Scheme (HECS) in 1988. Under HECS, students attending higher education institutions are required to re-pay part (equivalent, on average, to about 20 per cent) of the estimated tuition cost of their education, but only after they have entered the workforce and have an independent income that exceeds the level of average earnings. It can thus be seen as a 'graduate tax' on higher income graduates, or as a deferred system of student fees where the fee is determined by an estimate of the realised return from higher education. Furthermore, a proportion of the revenue raised under HECS (around $100 million in 1989-90) has been, and will continue to be, re-directed to higher educational institutions in order to fund an expansion of new places in a sector which has suffered greatly from government expenditure restraint for the last fifteen years.

Both of these examples raise important issues in relation to the balance of responsibilities for funding social programs. They each involve changes to financial rewards and incentives whose impact on individual behaviour will be important to monitor over the longer term. They represent examples of the 'user pays' approach to the privatisation of public welfare. Contrary to the views expressed by Le Grand two years ago in relation to British experience, these Australian initiatives represent privatisation of the finance and not the provision of social programs. They have allowed a government committed politically to expenditure restraint and lower taxation to fund increased social provision by tapping into new sources of revenue. In this sense, they have helped to make certain social programs more effective by providing more resources than would otherwise have been available given the political constraints within which the government was operating. They represent the beginnings of earmarked contributory funding of social programs in a country which has never embraced the social insurance principles of contributory finance and benefits. But perhaps of more importance than any of these specific concerns they illustrate, whatever one's views of their individual merits, that in a climate of rapidly changing social and economic relationships, there is a need for social programs to respond and adjust to those changes.

6. SUMMARY AND CONCLUSIONS

The last decade has been one of on-going crisis in social programs as governments have struggled to restore financial balance to public finance and to respond to emerging challenges and evolving social, economic and demographic developments. One feature to emerge from that crisis has been a greater questioning of the means and ends of social programs. In addressing these issues, this paper has been broad in scope, but hopefully that has not affected the effectiveness of the arguments presented, nor the efficiency with which they have been discussed. It has attempted to describe the general context within which social policies have been evolving in the last decade, to assess the relevance of the concepts of efficiency and effectiveness to social programs, and to illustrate their application in general and with reference to specific examples.

There is much to be welcomed in a re-assessment of a set of programs which have been in place for close to half a century and in some cases far longer than that. However, much of that re-assessment has taken place in a narrow confine in which expenditure restraint has been the driving-force behind change, and in an ideological context of freedom, choice and deregulation that strikes at the heart of many of the goals of the post-war welfare state. While the concepts of efficiency and effectiveness have merit, they are essentially technical concepts and should be recognised as such. The social values implicit in all social programs mean that they will never be completely amenable to purely technical analysis. The limitations implied by this for what can be achieved through application of efficiency and effectiveness concepts to social programs need to be acknowledged. This involves giving due recognition to such factors as program interaction and more general concepts of resource usage efficiency and effectiveness, as well as to equity considerations.

There is a need for efficiency and effectiveness concepts to be applied not just at the individual program level - important though such analysis is - but also for the focus to be broadened in order that more general social issues and problems can also be addressed. What is ultimately required is an analysis of the **social** efficiency and **social** effectiveness of what are, after all, **social** programs. Development of the debate in this direction has much to recommend it.

The welfare state has not been protected from the rapid economic and social changes that have occurred in the last decade. Nor should it be. If the future of social programs is to be secure and sustainable, issues of resource efficiency and program effectiveness must be addressed. The debates those issues have opened up about the goals of social programs and the specification of output and outcome measures are important, as are the improvements in efficiency and effectiveness brought about by changes in policy formulation and implementation. But it would be a mistake to believe that changes guided by the new managerialism will avoid all of the social program difficulties and disappointments of the last two decades. Policy changes which result in a more efficient and effective use of the resources devoted to social programs are to be welcomed. The real challenge is to ensure that those changes are introduced within a framework of social institutions, processes and policies which protect the disadvantaged and offer certainty and hope to the vulnerable.

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