The Richard M. Titmuss Memorial Lecture

"QUASI-MARKETS AND SOCIAL POLICY"

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THE RICHARD M. TITMUSS MEMORIAL LECTURE

Richard M. Titmuss was appointed Professor of Social Administration at the London School of Economics in March 1950, a position which he held for the rest of his life till 1973. He was one of the outstanding and original social scientists of his generation and in his research, lectures and personal encounters shaped anew the whole concept of social policy in Britain and abroad. For a period of three decades he exerted immense influence in scholarship, politics and government at home and in many countries throughout the world.

Richard Titmuss was a great friend of Israel. His thought and work very much influenced the study of social policy in Israel, and he left a lasting imprint on the social policies of the country. The lecture series in his memory has been made possible with the kind help of his friends in the United Kingdom and by a generous grant of the National Insurance Institute of Israel.

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QUASI-MARKETS AND SOCIAL POLICY

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I. INTRODUCTION

When the Thatcher Government came into power in 1979, the welfare state was the biggest area of non-market activity in the British economy. The vast bulk of social security, education and health care, and a large proportion of housing and social care, were produced, allocated and distributed by bureaucratic mechanisms. Many of these activities dwarfed market activities. The National Health Service, for example, was the largest employer in Western Europe; and the welfare state as a whole consumed almost a quarter of the Gross Domestic Product.

In these areas, how much was produced and who got the fruits of production were not the unintended consequences of self-interested decisions made by individual producers and consumers operating in a competitive market. Rather they were the outcome of conscious decisions of politicians, bureaucrats and professionals operating in a bureaucratic environment and, ostensibly at least, intending to further the public interest.

expected that the welfare state would be an immediate casualty of the war against the Keynesian mixed economy consensus that the new Government was supposed to launch. However to the surprise of many commentators, on the whole the first two Thatcher administrations avoided direct confrontation with the welfare system. With the major exception of council house sales, the basic structure of the welfare state in 1987 was much the same as in 1979. The vast majority of the population was still served by state funded and state-provided systems of education, health care, social services and social security. Even the proportion of national resources going into public welfare did not change significantly; in 1987/8 it was exactly the same percentage of the Gross Domestic Product (23%) as it had been in 1978/79 (Le Grand, 1990b).

Quite why there was this fundamental stability is an interesting question but one that I shall not address here (it is extensively discussed elsewhere; see, for example, Le Grand and Winter, 1987, and Le Grand, 1990b). Whatever the reason the calm was not to last. A major offensive against the bureaucratic structures of welfare provision was launched in 1988 and 1989: years that in retrospect will be seen as critical in the history of British social policy. For it was then that the Conservative Government began to apply a programme of market-oriented change to the welfare state.

perhaps the most significant Education Act since World War II. The Department of Education began to introduce a different funding system for universities and polytechnics; it also proposed the introduction of student loans (Department of Education and Science, 1988). That year also saw the setting up of a comprehensive review into the National Health Service, a review that finally reported in January, 1989 with radical proposals for the reorganisation of the NHS (Department of Health, 1989b). In the same year, the Griffiths Report on personal social services (Griffiths, 1988) was published; its recommendations were finally accepted by the Government in a White Paper in December, 1989 (Department of Health, 1989a). Two major acts concerning public housing were also passed in those years, the Housing Act of 1988 and the Housing and Local Government Act of 1989.

All these reforms had a fundamental similarity: the introduction of what might be termed 'quasi-markets' into the delivery of welfare services. In each case, the intention is for the state to stop being both the funder and the provider of services. Instead it is to become primarily a funder, purchasing services from a variety of private, voluntary and public providers, all operating in competition with one another. The method of funding is also to change. Resources are no longer to be allocated directly to providers through a bureaucratic machinery. In some cases the state continues to act as the principal purchaser, but resources are allocated budget or 'voucher' is given directly to potential users, or to agents acting on their behalf, who can then allocate the budget as they choose between the competing providers.

If these reforms are carried through to their conclusion, the welfare state in the 1990s will be a very difficult animal from the welfare state of the previous 45 years. Under the 'old' system of welfare local governments owned, operated and directly financed nursery, primary and secondary schools; they funded and operated local colleges and polytechnics; they owned and managed large stocks of public housing, letting them out to tenants at subsidised rents; they owned and operated residential homes and other facilities for the care of children, elderly people and people with physical or mental handicaps. Similarly, the central government owned and operated hospitals and other medical facilities; it funded and provided a General Practitioner service and it financed and allocated student numbers to universities.

In the 1990s central government and/or local authorities will still be financing most of these activities. But, if the reform process proceeds as intended, they will not be providing the services concerned (or, if they do, their role will be increasingly that of a residual provider). Instead, welfare services will be supplied primarily by a variety of [illegible] Opted out and other schools will be

polytechnics and universities will be competing for students, more and more of whom will be privately financed. Independent hospitals of various kinds will be competing with directly managed hospitals for patients; private and voluntary homes will be catering for the clients of local authority social services; housing associations, or even private landlords, will be managing erstwhile council estates.

These changes thus represent a major break with the past. They also present a challenge for the economic analysis of social policy. What are the likely economic consequences ofmthese reforms? Will they reduce costs and therefore bring about greater efficiency, as their proponents argue? Or will they create other sources of inefficiency while simultaneously causing greater inequity, as their critics allege? We cannot properly answer these questions until the changes have fully worked their way through the system: and this is likely to be several years away. However, it is possible to make some theoretical speculations as to some of the likely consequences of the reforms, both desirable and undesirable, and this forms the basis for most of the rest of this paper. But first, a little more discussion of the quasi-market phenomenon itself is required.

II. THE QUASI-MARKET PHENOMENON

So far as the welfare state is concerned the introduction of quasi-markets began in a small way in the early years of the Conservative Government, with the contracting out of catering and cleaning services for the National Health Service, the assisted places scheme in education, and with the inclusion of a residential allowance in the system of social security for elderly people. The contracting out of catering and cleaning was an early instance of the state ceasing to be a provider and becoming primarily a purchaser. The assisted places scheme and the residential allowance for elderly people also involved the state as purchaser, but with the added dimension that the funding took the form of what was effectively a voucher, with the resources following the choices made by the users of the services concerned.

But the 'big bang' occurred with the reforms of 1988 and 1989. The 1988 Education Reform Act incorporated four quasi-market elements: open enrolment, formula funding, local management of schools and a facility for schools to 'opt-out' from local authority control. Under the open enrolment proposals, parents are permitted to enrol their child at any school of their choice; under formula funding, schools will receive a funding allocation based on the numbers of pupils

provisions permit schools to opt out of direct local authority finance and control and instead to receive a grant directly from central government. All these changes together can be viewed as the introduction of a form of education voucher funded by central government, with the setting up of essentially 'independent' schools and with the allocation of state funds to schools being determined by the pattern of parental choices instead of through a bureaucratic planning process.[2]

In higher education there are a variety of changes under way. Universities and polytechnics now have to bid for funds for student teaching purposes from their respective funding councils.[3] At the same time the fees for students are being raised; student grants are being frozen and top-up loans introduced. The first of these changes reflects a shift from the state as purchaser and provider to the state as purchaser only. And the student grant/loan system constitutes the basic elements of a voucher scheme (although this time part of the voucher would be repayable) with the students exercising their choices between independent institutions and with the pattern of resource allocation between these institutions being partly determined by the pattern of student choice.

The National Health Service reforms also include the introduction of quasi-markets. As of April 1st 1991 out from health authority control; 57 have done so already and a large number of others have expressed an interest in being in the second wave. These and other independent hospitals and health clinics will be able to tender for contracts with health authorities and General Practitioners (GPs). Also, GPs with practices over a certain size may have budgets for each of their patients that they will be able to spend on hospital and other treatments of their choice. The proposed budgets for health authorities and GPs to be spent on patient treatment provided by competing independent institutions is again a proposal for a form of voucher, with the difference that the choice is exercised not by the actual consumers, patients, but by the GP or the health authority acting as their agent.

Under the White Paper on social care, a 'case manager' would be appointed for each client to construct a package of care for the client concerned, based on a predetermined budget. In making up the package of care, the case manager would consider bids from competing provider-organizations, including public, voluntary and private sector agencies. The proposed system can be viewed as essentially a voucher system with case-managers allocating vouchers on behalf of their clients between competing institutions. Again the allocation of resources is determined by client choice (as delegated to case managers), instead of by central allocation procedures.

subsidise local authority tenants (primarily through housing benefit); but they are now able to choose their landlords from between competing suppliers. The mechanism of choice is slightly different (a majority of tenants are required either to vote in favour of a particular proposal or abstain), but the principle is the same: instead of the bureaucrat, the choices of consumers, or an agent acting on their behalf (in this case a collectivity of the tenants themselves), determine the allocation of state funds to providers.

All these developments thus involve the introduction of quasi-markets into the welfare state. They are 'markets' because they replace monopolistic state providers with competitive independent ones. They are 'quasi' because they differ from conventional markets in a number of key ways. The differences are on both the supply and the demand sides. On the supply side, as with conventional markets, there is competition between productive enterprises or service suppliers. Thus, in all the schemes described there are independent institutions (schools, universities, hospitals, residential homes, housing associations, private landlords) competing for customers. However, in contrast to conventional markets, these organizations are not necessarily out to maximise their profits; nor are they necessarily privately owned. Precisely what such enterprises will maximise, or can be expected to maximise, is unclear, as is their ownership structure.

On the demand side, consumer purchasing power is not expressed in money terms. Instead it takes th form of an earmarked budget or 'voucher' confined to the purchase of a specific service. Also on the demand side, in some of the areas concerned such as health and social services, the immediate consumer is not the one who exercises the choices concerning purchasing decisions; instead those choices are delegated to a third party (a case manager, a GP, or a health authority).

These welfare quasi-markets thus differ from conventional markets in one or more of three ways: not-for-profit organizations competing for public contracts, sometimes in competition with for-profit organizations; consumer purchasing power in the form of vouchers rather than cash; and, in some cases, the consumers represented in the market by agents instead of operating by themselves.

All of these changes are of course the product of the present Conservative Government; many of them emanate from the right wing think tanks, such as the Institute for Economic Affairs and the Adam Smith Institute. However, an important aspect of the quasi-market phenomenon is that proposals of this kind are not confined to the Conservative end of the political spectrum. In the centre-left publication Samizdat, Michael Young has proposed a voucher system for GPs to replace the present payment structure

doctors would receive a payment for each patient th y had on their list. Unlike the present system, however, every year patients would have to choose their doctor, or confirm the choice they had already made. In Young's view:

> ...this would bring it home to patients that it is they, as taxpayers, who are paying the doctors; and likewise to the doctors who would be less likely, when faced by patients who have their doctors' salaries in their pockets, to consider they are being paid by 'the state'.

Accountability as well as choice would be enhanced.

In the same issue of Samizdat, Patricia Hewitt, an erstwhile aide to Neil Kinnock currently employed at the 'left' think tank, the Institute of Public Policy Research, has suggested applying the voucher idea to child-care for the under-fives (Hewitt, 1989). The voucher would be given to each parent at the end of the period of parental leave. Parents could then 'spend' the voucher on a range of approved child care provision. The value of the voucher could be higher for single parents and for children with special needs. The voucher could only be spent on approved facilities.

The voucher idea has also been extended to the other end

1988). The suggestion is that all institutions of higher education should charge full-cost fees, and that all students should receive a non-means-tested grant (or voucher) that would cover those fees plus a generous allowance for maintenance. There is an equity issue here, in that many students (indeed most) come from well-off backgrounds; moreover, many will go on to well-paid jobs as a consequence of the education they have received at the public expense. But this could be overcome by the introduction of a graduate tax, originally suggested by Glennerster, Merrett and Wilson, (1968), advocated by Le Grand (1987) and Barr and Barnes, 1987, and currently being implemented in Australia. This would be a tax set as a proportion of income levied on higher education graduates and collected through the income tax, or through the national insurance system (Barr, 1989). The advantages of the graduate tax would be that, unlike the repayment of conventional loans, people on low incomes would pay less than those on high incomes: hence any deterrent effect on graduates of taking up low-paid activities would be reduced.

A quasi-market idea that was actually put into practice well before the present government is the replacement of concessionary fare schemes by transport vouchers. The problems with the former are numerous. They are usually confined to one form of transport (such as buses or trains) thus disadvantaging those who for one reason or anaother,

chairs, for instance). They are also usually specific to one area, so that they provide no help for cross-boundary travel or for travel outside the area. Also for the authority operating them they represent an open-ended commitment, with little idea of exactly how much they will be called upon to contribute.

It is not widely known, but there is a system of transport vouchers already in operation. In the 1970s a consortium of public transport organizations set up a non-profit-making company, National Transport Tokens Limited. This provides transport vouchers to local authorities or any other authority operating a concessionary fares scheme. The issuing authority buys a quantity of vouchers (in the form of coin-shaped tokens) from the company and then issues the tokens to eligible concessionary travel users. They use the tokens as full payment for their travel to any participating operator (buses, trains or taxis). Finally, the operator returns the tokens to the company, who redeems them at their face value, plus a handling charge. Any surplus is shared with the operating authorities. The scheme has obvious advantages. To the users the scheme offers far greater flexibility than concessionary fare schemes, for the tokens can be used for any form of public transport, so long as the relevant operator accepts them. And to the issuing authority it offers budgetary certainty: they know exactly when, where

From this list of 'alternative' quasi-market proposals, it is apparent that the phenomenon is not confined to the public sector policies of the present government. Indeed, as Hoggett (1990) has pointed out, changes of this type are not even confined to the public sector. So-called 'Post-Fordist' changes of a similar kind are occurring in the private sector, with some companies that were hitherto vertically integrated and tightly controlled from the centre now increasingly contracting out their operations and engaging in other forms of decentralisation. More widely, there is a general move away from large-scale centrally planned organizations: most obviously in Eastern Europe, but in most Western countries as well.

The reasons for this trend are not entirely clear. The advent of new technology permitting decentralised budgeting and other forms of information processing is undoubtedly a factor, as is a world-wide disenchantment with the perceived inefficiency and dehumanising character of large organizations, public or private. Industrial relaitons may also play a role; it may be easier to reduce the power of trade unions if suppliers are fragmented. Whatever the reason, the very universality of the phenomenon suggests that there are perhaps fundamental forces at work which it may be difficult, if not impossible, to over-ride, even if it were thought desirable to do so.

III. QUASI-MARKETS AND WELFARE

But would it be desirable to do so? Part of the pressure for the quasi-market reforms in the welfare area arose because there were perceived to be real problems with the previous system. These perceptions were held by critics from all parts of the political spectrum. From the Right came the accusation that the welfare bureaucracies were wasting resources on excessive administration; and they tended to protect their employees' interests at the expense of those of their users. Perhaps more importantly, they offered little choice to the client or 'consumer' of welfare services; in consequence, they were often either unable or unwilling to respond adequately to clients' specific needs and wants. In economists' terms, they were both X-inefficient and allocatively inefficient.

One aspect of this last point was echoed by other critics sympathetic to the concerns of equity as well as efficiency. They argued that the welfare system was particularly unrespnsive to the needs and wants of the very people it was set up primarily to help: the poor and disadvantaged. Resources and facilities were often diverse to those best able to manipulate the system: the educated and articulate middle classes (Le Grand, 1982; Goodin and Le Grand, 1987; Bramley, Le Grand and Low, 1990). The consequent pattern of distribution was therefore likely to be

The introduction of quasi-markets may help resolve some of these problems - at least in theory. The introduction of competition is supposed to encourage a more economical use of resources, thus improving X-efficiency. More importantly, the introduction of competing suppliers should improve allocative efficiency. Welfare users, or their agents, should now have alternative sources of supply. Confronted with the uncooperative teacher, with the insensitive consultant, or with the recalcitrant housing clerk, they can take their business elsewhere. Hence the outcome may be both more efficient and more equitable.

Thus quasi-markets are argued to have advantages in terms of both efficiency and equity over their predecessors. However, these arguments gloss over a number of serious problems, which need more detailed attention.

X-Efficiency. As we have seen, a major justification for the introduction of quasi-markets is that they would promote X-efficiency. But this is open to question. The indeterminacy of enterprises' objectives (profits, turnover, social welfare?) makes it difficult to predict how they will respond to market incentives. Even if enterprises were unambiguously profit-maximising, there are well-known reasons why, for welfare services, conventional markets may be X-inefficient. These include imperfect information on the part

increasing returns to scale. Would quasi-markets be significantly different in this respect?

A particular worry concerns the effect on production costs. The switch from public monopoly provider to competitive private providers is often advocated on the grounds that it will reduce the costs of service delivery. It is argued that public providers are inherently wasteful and inefficient, partly because they are publicly owned and hence not driven by the profit motive and partly because they face no competition. The switch to competitive provision will, on this argument, reduce costs and thus release resources for more services (or reduce the burden on the taxpayer).

The fact that under the new quasi-market arrangements many providers will still not necessarily be profit-maximisers casts some doubt on this argument. But even if they were, the privatisation of provision may create an upward pressure on costs, for a wide variety of reasons.

First, there are costs involved in setting up the infrastructure for markets to operate efficiently. For instance, marketed activities must be accurately costed and their purchasers billed. If the market relationship is a contractual one, then contracts must be devised, their implementaiton monitored and, if necessary, enforced. All

This is not to imply that resources used in this way are necessarily wasted. Properly costing activities can improve efficiency through improving decisions about resource allocation. With or without the quasi-market reforms it is likely that some form of improved costing procedures would have been introduced throughout the welfare area; indeed, this was already happening in the National Health Service. But it is important to note that measures to improve resource allocation can themselves be costly - and that perhaps on occasion they will cost more than the savings they create.

Second, competing institutions will use resources for advertising and other ways of trying to increase their market share. Again, these resources may not be wasted: spending on advertising may make for better informed consumers, and thus ultimately for more efficient decisions. But again the costs of the resources involved has to be set against any eventual gain in efficiency.

Third, the switch from monopolistic providers to competitive ones may bring about a rise in labour and in other input costs. Staff in many areas of welfare provision are organised in trade unions or in powerful professional associations which in key respects operate very much like trade unions. Economic theory suggests the power of a labour supply monopoly can be offset by a monopoly purchase of

the competitors, bidding against one another, will drive up wages. This in turn will put considerable pressure on budgets, leading either to strong political representations for an increase in the budget limit or to reduction in service quality or output - which can then be used as ammunition for a further attempt to raise the budget.

The proposed changes for the National Health Service can be used to illustrate the point (Mayston, 1990). One of the major factors contributing to the relatively low costs of the NHS is its ability to hold down the wages and salaries of medical and other personnel. It is virtually a monopoly employer and is therefore able to bargain more effectively with the relevant professional associations and trade unions. However, under the quasi-market proposals, the NHS as a monopoly employer is to be broken up. Independent hospital trusts are being set up, which will be able to determine pay and conditions for staff. If enough hospitals become independent, the consequence will be the conversion of the NHS from being a (virtual) monopoly purchase of labour to a (virtual) monopoly purchaser of services. It will now buy services from competitive hospitals, themselves competing for doctors, nurses and ancillary staff. Economic theory would predict that this change will bring about a widening in the dispersion of wages and salaries and probably a rise in their mean levels as well. This prediction has been borne out in the United States, where hospital wage rates have been found markets (Sloan and Elnicki, 1978; Feldman and Scheffler, 1982; Robinson, 1988).

Again, this is not to imply that if wages do rise it is automatically undesirable (Kings Fund Institute, 1989). Monopolies of any kind can be exploitative. Wage rises may have a positive impact on morale and productivity. Also there are differences between the relevant labour markets in Britain and the U.S. that suggest a need for caution in making comparisons (for example, the fact that consultants in Britain can already make large sums from private practice). Yet there remains a real concern that one of the major virtues of a monopsonistic public sector, its ability to control the power of the professions and hence an important part of its overall labour costs, will be lost.

Fourth, the difficulty in assessing the quality of outcomes in many areas of welfare services in market situations often leads to a focus on the quality or quantity of inputs. Thus hospitals may compete on the basis of their level of capital equipment or the 'star' status of their consultants; schools on their laboratory facilities or their playing fields. Inevitably this will impact on input costs. If there is a direct relationship between the quality and quantity of inputs and the quantity and quality of outcomes this may not matter, since the latter will improve with the former; but if there is not (and in many welfare areas the

empirically) then we are likely to see upward pressure on costs, with no corresponding improvement in service.

Finally, costs may rise in the short term due to political pressures. In many cases the providers of welfare services are hostile to the proposed changes, partly from conservatism, partly because the changes threaten their job security, and partly because they have a genuine fear that the changes will harm the people they serve. Faced with such hostility, the government may try to defuse it by increasing salaries and other resources.

Allocative Efficiency. Advocates of quasi-markets often argue that, even if there are no production cost savings, there will at least be an expansion of consumer choice - desirable in itself in that it will create greater allocative efficiency. But will there necessarily be more choice in quasi-markets than under bureaucratic systems? How much choice do parents have if there is only one school in an area? How much choice will patients have if there is only one local GP, or if changing GPs is difficult? How much choice is there for either patients or GPs if there is only one local hospital? Will enough potential landlords offer themselves to the tenants of problem estates to allow a real choice? Under the Griffiths proposals, how much choice will the clients of case managers actually have? Will they, for instance, be able to choose their case manager?

Indeed in the case of residential care in particular, the quasi-market proposals could actually be viewed as having restricted choice in comparison with the previous situation. The elderly in need of residential care already had a kind of voucher: a social security payment for that care, for which entitlement was simply a test of means. Under the Griffiths proposals, the money will be channelled through local authorities and entitlement will now only be established by professional assessment.

A partial solution to the problems created by the absence of local competition might be transport vouchers of the kind discussed above. These could be given, for instance, to parents to accompany education vouchers so as to widen their choice of schools, at least geographically. Or they could be given to prospective patients who have to travel to a distant hospital - and to their families for visiting them. However, transport vouchers can only reduce the direct financial costs of transport. There will still be, perhaps considerable, costs in terms of travel time and inconvenience, barriers that may still effectively restrict choice, particularly for the poor (Goodin, Le Grand and Gibson, 1985).

A possible solution to the problems that may arise due to agents, rather than the consumers themselves, making the

proposals for GPs mentioned above are an example of this. The idea could be extended to social care. People in need of such care could be allocated a voucher and allowed to choose their case managers who would help them decide how the voucher would be spent. Their need or entitlement could be established by a relatively simple procedure based on age, degree of disability, or, in the case of those with learning difficulties, on a test of mental aptitude. Whatever the system, it would seem important that assessment for entitlement for any earmarked budget or voucher should be separated from the decision as to how the voucher should be spent.

Equity. A common criticism of conventional markets (and a common justification for their replacement by bureaucracies) is that they foster and maintain inequalities and therefore social injustice. Quasi-markets may well have similar effects. In particular they may create problems of selectivity.

In education, selective schools may raise that cream off the most able pupils, leaving 'sink' schools for the remainder. Health care providers, such as GPs with practice budgets, or self-governing hospitals, will compete for the custom of the young and comparatively healthy, while ignoring the elderly or chronically sick. In social care, residential homes will compete for healthy elderly people, while ignoring to be a greater concentration of the 'bad risks' among the poor and deprived, the latter may end up receiving fewer services relative to those received by the better-off, thus widening inequality.

A possible solution to this is the Positively Discriminatory Voucher or PDV (Le Grand, 1989). Here poorer individuals and/or those with greater needs are given larger vouchers or budget allocations. This gives providers of services a greater incentive to take on such people; indeed if the discriminaiton is large enough they may specialise in the provision of services to them. PDVs in education could be used to give schools an incentive to take on children from poorer backgrounds; similar schemes in health and social care would encourage suppliers of such care to look after those who need it most.

A difficulty with PDVs is that if income were used as the basis for discrimination, so that in general poorer families received larger vouchers, there might have to be some elaborate means test, with the attendant problems of stigma, administrative complexity and low takeup. An attractive alternative here is to use place of residence as the basis for discrimination, with larger vouchers being given to families who live in poorer areas. The wealth of an area could be assessed by a sample survey of the gross capital value of houses in the area. This would have the

the area to benefit from the larger voucher, for if they did so, house prices would rise and the value of the voucher would fall.

IV. QUASI MARKETS; THE WAY FORWARD?

The list of potential problems with quasi-markets is impressive. But the old-style welfare state was itself far from perfect. There is much yet to be discovered about quasi-markets. Some of the consequences of introducing them may be beneficial, others less so. What is important is not to take an a priori stand either for or against all the ideas.

In some ways the present government has made a gift to economists analysing social policy. Many of the ideas are directly amenable to economic analysis, both standard micro-economic theory and more recent developments such as transactions costs analysis (Williamson 1975, 1985).[4] It has also provided a set of quasi-market 'experiments' against which to test those theories. Properly monitored, these should be able to provide economists and other analysts of social policy with evidence as to whether, suitably adapted and extended, quasi-markets constitute the way forward for social policy - or whether they are a retrograde development that will need reversing as soon as is politically or practically feasible.

NOTES

1. I have received many helpful comments from colleagues at the School for Advanced Urban Studies working on the SAUS Quasi-Markets Programme, and those at the London School of Economics working on the ESRC-STICERD Welfare State Programme. Earlier versions of this paper formed the basis for the Eric Roll lecture at the University of Southampton, for a lecture at the University of Durham and for Le Grand (1990a). The research was supported the Economic and Social Research Council as part of their Functioning of Markets Initiative under Grant No. W 102251016.

2. Vouchers in education have been extensively discussed (see Blaug, 1984, and the references therein) but rarely implemented. The experience of what was perhaps the only voucher experiment prior to open enrolment is discussed in Maynard (1975).

3. The bidding process was suspended in 1990/1991 for universities, but, at the time of writing, is still intended to form the basis of future university funding.

4. Williamson (1975) was actually the first person to use

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