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Consumer Choice, Welfare Reform and Participation in Europe A Framework for Analysis

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Abstract

The objective of this paper is to study the effects on solidarity, risk and equity of the introduction of choice and competition into the provision of public services. Many European countries have embraced the choice agenda in welfare arrangements with a view of improving efficiency and/or quality. For example, citizens are freer to choose between health and education services than they were a decade ago. We first examine the motivations behind the consumer choice agenda, including the role of the European Union in enhancing choice within social and welfare institutions. Second, we analyze how the introduction of choice may introduce new trade-offs and affect the pooling of risks in European welfare states. Third, we outline the research methodology for our case studies on education, employment services and long-term care. The paper explores the possibility that rather than presenting a challenge to solidaristic welfare citizenship, the introduction of choice may in the longer term safeguard the public provision of services by providing the basis for a new political consensus.

Keywords

Political Economy — Risk-Sharing Mechanisms — Social Policy — Social Regulation — Welfare State

Introduction¹

Our argument and point of departure in this paper is that potentially profound changes in welfare arrangements are driven by the introduction of 'consumer choice'. This is in contrast to the literature on welfare retrenchment, most prominently the 'new politics of the welfare state' (Pierson 2001), which has argued that 'permanent fiscal austerity' is the main driver. The ensuing literature focused on the income distributive effects of dwindling resources to explain changes in European welfare states. But a related literature also documented considerable change, often quite hidden and subtle (eg Ferrera and Rhodes 2000, Hacker 2005). Among these changes, liberalisation has been identified as a 'dominant trend in advanced political economies' (Streeck and Thelen 2005: 30). At the same time, social expenditure measures of welfare effort have stagnated at high levels (Castles 2001, Adema and Ladaique 2005).

The reasons for our different point of departure from the new politics of welfare are threefold: First, in welfare economic terms the choice agenda breaks with the time-honoured equity-efficiency tradeoff and thus comes with a novel and robust justification for social policy interventions which relies less on solidaristic motives. Second, in political terms the involvement of the private sector creates its own dynamic of support and demand for more choice. And third, European integration is a complementary driver and supporter of the choice agenda at the member state level and, in turn, the EU has strong motives for supporting the choice agenda.

Consumer choice is understood here as offering patients or clients of welfare services the opportunity to demand quality, variety and alternatives. This is typically achieved by introducing competition between providers, eg by making their funding dependent on actually delivering a service for which there is an alternative. But why would policymakers offer choice in public services? Motives can be quite varied: proponents of the choice and competition agenda claim that the tailored services, improved quality, and subsequent greater consumer satisfaction, will lead new stakeholders to embrace public service provision. Also, the promise of the choice/competition agenda is that the offer of differentiated services will lead to greater consumer satisfaction, which in itself may lead to a greater willingness to pay, hence, to potentially higher income generation in welfare markets. But it can also be a pro-active, government-led reform strategy: increasing consumer choice is intended to stir up entrenched redistributive systems, create supposedly healthy competition at the margins and induce reforms. These reforms tend to allow for differentiated services in return for stricter control and often part-privatization of costs.

In this framework paper, we first clarify the possible interpretations of choice and discuss which manifestations of choice have in practice proved to be most relevant. Then we examine the motivations behind the agenda to introduce choice analogous to consumer demand, including the role of the European Union in enhancing choice

¹ An earlier version of this paper was presented at the EUSA Eleventh Biennial International Conference, Los Angeles, 23-25 April 2009, and the 5TAD Conference on The Future of Governance in Europe and the US, organized by the School of Public Affairs and Administration, Rutgers University, Washington DC, 10-13 June 2009. The authors gratefully acknowledge feedback from participants at these conferences, and research assistance from Sotiria Theodoropoulou and Max Freier.

within social and welfare institutions. Third, we analyze how the introduction of consumer choice may introduce new trade-offs and affect the pooling of risks in European welfare states. Finally, we outline the research methodology for our case studies on education, employment services and long-term care in the context of European integration. Overall, we are interested in the possibility that rather than presenting a challenge to solidaristic welfare citizenship, the introduction of choice may in the longer term safeguard the public provision of services by providing the basis for a new political consensus.

The various meanings of choice

In principle, choice can extend to at least five dimensions of a social service (Le Grand 2007: 39-40): where, who, what, when, and how. *Where* relates to the choice of provider (which care home, which school or which training provider?), *who* to the choice of the professional (which carer, teacher or mentor?), *what* to the choice of the service or treatment (eg residential or home care, with or without after school care, professional qualification or mental and psychological preparation?), *when* to the choice of timing (of an appointment or a treatment) and *how* concerns the choice of access and communication (e.g. consultation face-to-face, over-the-phone or web-based; one-to-one or small-group teaching). In practice, there is an important sixth dimension, namely the question of '*who does the choosing?*': the individual user, an individual agent (a relative or the GP; parents or teacher; benefit paying agency or personal trainer) who represents the user? The most relevant choices in practice seem to be the choice of providers or of services and whether this is done by the individual user or by a collective on behalf of the individual (Williams and Rossiter 2004: 6).

Introducing choice of providers does and did not necessarily mean privatization of services; it can be between public providers that are given financial incentives to compete.² Furthermore, a very important dimension to delimit privatisation is to distinguish the important role of non-profit private organisation in complementing public coverage which must not be confused with marketisation of welfare. But '*who pays?*' can be seen as a seventh dimension of choice if it is related to privatizing social services. Various forms of cost sharing for basic services and co-payments for additional services allows monitoring demand in line with individual's capacity and willingness to pay. A related dimension, finally is the territorial one, namely the assignment of decision making authority and its financing. For instance, it is well-known from the literature on federalism that decentralisation to the lowest level of authority (local level) without providing full federal funding is likely to make local authorities ration services and introduce stricter means or needs-testing (Joumard and Kongsrud 2003: 22-23).

This leads to a more general point: despite the common reference to 'post-welfare policies' (Gorard et al. 2003), consumer choice is not quite as new a feature of the welfare state as its proponents sometimes make us believe. But the interesting point for us is that this has become a 'selling point' for welfare reforms. While additional services against co-payment have been a time-honoured item in many insurance

² "It is the presence of competition that matters, not the ownership structure of providers [...]" (Le Grand 2007: 42).

contracts, notably health care, the fact of additional services was often neglected while co-payments were understood and justified as a means of containing moral hazard and thus the 'cost explosion' in health care. The choice agenda can turn this on its head: that the co-payment is unrelated to the likely cost of the additional service may be downplayed or ignored altogether while the availability of more services becomes the centre of attention. It is exactly this shift of emphasis and what drives it politically and economically that interests us here.

As will be argued in the next section, we have strong reasons to believe that the thrust of European welfare reforms is no longer on retrenchment but has moved on to a more positive (sounding) agenda of choice. But in practice quite a few tensions arise and they affect the pooling of risks between citizens which will be outlined in the fourth section. In the fifth section, the research design will be explained: We try to identify patterns of choice elements that can be interpreted in favour of particular motivations for introducing choice, such as middle-class electoral politics, legitimising public welfare or, indeed, cost containment. We conclude with some pointers to further research, to in-depth qualitative case studies that are necessary since not all hypotheses about motivations can really be distinguished at this general level.

The rationale for introducing more choice in European welfare states

Our first reason for the hypothesis that the choice agenda is a potentially more profound and powerful determinant of welfare systems and their change than 'permanent fiscal austerity' is its more appealing, legitimate economic foundation. The economic rationale for choice in welfare presupposes that there is a wide range of social policies to which the equity-efficiency trade-off does not apply, opening up opportunities for economically equivalent choices. The new economics of the welfare state (Barr 1992, 2004; Sinn 1995) supports this view that social policy can act 'as a productive factor', to paraphrase the Social Agenda of the EU. It has identified two routes through which social policy interventions can make the market economy work better: either by compensating for market failures such as adverse selection or negative externalities or by allowing individuals to take riskier choices that will, on average, yield higher returns. The economic literature on user choice and provider competition added to this reconciliation of markets and social policy by studying how, in turn, social policy can emulate market mechanisms to improve welfare provisions, specifically in health care (Le Grand 1991; Le Grand and Bartlett 1993).

The concept of 'quasi-markets' captures arrangements in which providers on the supply side compete just like in commercial markets. But the users on the demand side make their choice without being constrained by unequal purchasing power, i.e. the service is paid for by the state following the user's choice, for instance through vouchers or a funding formula that responds to demand. "The quasi-market is thus a fundamentally egalitarian device, enabling public services to be delivered in such a way as to avoid most of the inequalities that arise in normal markets from differences in people's purchasing power." (Le Grand 2007: 41) This redistribution through market mechanisms, *ex ante* (from the rich to the poor) and *ex post* (from the lucky to the unlucky), seems to combine the best of both worlds: the efficiency of markets with the equity of welfare. Its appeal to users depends less on solidaristic motives than on improved satisfaction with the individual service that taxpayers or contributors

collectively finance (CEC 2008: 63-64). However, we will argue below that other tradeoffs may be involved in the reconstruction of risk communities implied by user choice and provider competition.

Second, the political dynamic that the choice agenda creates is likely to be self-perpetuating (Blomqvist 2004: 152). For one, it tends to be supported by those who are actually interested and able to make choices and these tend to be the more resourceful members of society. To the extent that choice does indeed lead to the involvement of private providers, there will also be political support from the supply side of a quasi-market. Moreover, the development of ever more diversified and tailor-made social services could feed on itself if “the logic of stratification (that social groups seek to define themselves by separation from others and continuously invent new ways of doing so) is likely to create ever-increasing demands for more exclusive and culturally ‘distinct’ service alternatives.” (Blomqvist 2004: 152). Distinct services may again be provided more for the resourceful and articulate members of society who are willing and able to demand them politically. Finally, the provision of user choice in quasi-markets may lead to the privatisation of financing them, fully or in parts, because the beneficiaries do not want to wait for authorities to purchase them on their behalf. The privatisation of welfare finance would again create political support among providers and the beneficiaries of tailor-made services.

Third, though choice in social welfare is not an explicit policy objective of the European Union, the choice agenda gets some of its impetus from European integration. We have already indicated that the mantra of the EU’s agenda, ‘social policy as a productive factor’, fits the welfare economic rationale of the choice agenda perfectly. ‘Modernisation’ is another catchword by which the Commission identifies a trend that involves more choice for users. A substantial study for DG Employment identifies user orientation (‘more choice’) as one of six drivers of modernization of social services and healthcare systems (Huber et al 2008: 16).³ However, more importantly, the EU’s goal to advance cross-border mobility in areas such as health care, education, and employment service provision has clearly helped the consumer choice agenda, though to different degrees in each of the three areas. For example, following several ECJ rulings in the late 1990s holding that the freedom to provide services includes the freedom for the recipients of services to go to another Member State in order to receive those services, patient mobility and consumer choice have become an integral part of the policy agenda in health care provision. Notably, the Commission’s proposal for a directive on cross-border health care, which amongst others aims to ensure ‘clear information that enables people to make informed choices about their health care’ (Commission 2008a: 9), will reduce the risks patients bear when receiving cross-border health services, thus contributing to the choice agenda and an element of competition in health care. The EU also promotes a ‘European Higher Education Area’ that gives students more choice of universities where they can study. And finally, in the landmark ruling on *Höfner* (Case C-41/90, *Höfner & Elser*

³ “Modernisation is a response to the main social and economic challenges EU societies are facing (ageing, gender equality, social integration, labour market flexibility and efficiency, etc.). The necessity to adapt to changing needs, which cannot be dissociated from the search for quality improvement, efficiency and cost containment, is amongst the most important drivers of modernisation. In a context where the services needed are becoming more sophisticated and complex, the need to develop a stronger user orientation, to increase user empowerment and to promote access to social rights also play a role in this process.” (CEC 2008: 61).

v Macrotron), the ECJ held that employment services must be opened to private providers if public monopolies manifestly fail in providing clients adequate service – read: a choice of job offers.

A final reason for our contention that the choice agenda has a profound impact on welfare arrangements is more circumspect, and is related to how it potentially may affect the democratic consensus as enshrined in national welfare state arrangements. The literature allows us to identify at least three routes through which the democratic consensus may be affected.⁴ First, in line with deliberative supranationalism (Sandholtz and Stone Sweet 1998; Eriksen 1999), we may see ‘choice’ in social welfare as the material underpinning for a cosmopolitan identity of EU citizens, realising that Europe empowers taxpayers vis-à-vis the national welfare bureaucracies. The choices available in other member states can bolster demands for a reconsideration of the institutionally enshrined welfare consensus at home. Second, in line with fiscal and political federalism (Marks and Hooghe 2001; Nicolaïdes 2001), the choice agenda can be understood as contributing to the building of a European welfare state, which guarantees minimum standards of entitlement and improves the use of regional capacities through the mobility of clients. Finally, in line with the literature on the rise of the EU regulatory state (Majone 1996), we can rationalise consumer choice as a vehicle for separating redistributive goals from objectives of efficiency and productivity, so that this ‘fourth branch of government’ becomes responsible for the efficiency-enhancing aspects of policies that tend to be neglected in national democracies. In other words, different conceptions of democracy in the EU would each justify the reconstruction of risk communities at the national, supra- and even subnational level through choice. The EU therefore has an inherent interest in this agenda even though it does not see itself as the main driver of a more consumerist orientation in welfare (CEC 2008: 61-4).

Tensions in the choice agenda and the resultant effects on risk-pooling

The economic rationale and the likely political dynamic outlined above indicate that the choice agenda inherently incorporates some tension /new trade-offs, or perhaps simply presents the old equity-efficiency trade-off in a new guise. As argued, choice may be politically more attractive for resourceful members of society, educated middle-class households, rather than for the less well-off (as much as they may like choice as well), and hence be economically regressive. This would also affect the image of the EU as a destroyer or a rescuer of the European welfare state. The following is a general outline with a few examples of the trade-offs involved in implementing a choice agenda, mainly taken from the case of long-term care.

Even strong proponents of user choice and provider competition in welfare economics concede that a number of preconditions have to be fulfilled for quasi-markets to deliver on their promise of improving the quality of social services

⁴ See Eriksen and Fossum (2007) for a conceptual outline of these three democratic configurations on which the legitimation of an EU-driven agenda of choice in social services can be based. The special issue on Choice in *Social Policy & Administration* also touches on the implications of choice reforms for citizenship (Greve 2009).

“without adverse consequences in terms of increased inequity” (Bartlett and Le Grand 1993: 19, cf.19-33 for the following). First, the *market structure* will never follow the ideal, atomistically competitive model of an economics textbook since the price mechanism will not fully reflect individual user preferences but decisions of the funding public agency. Hence ‘voice’ or political mechanisms of user involvement need to be put in place so as to make up for this relative deficiency of the price mechanism. The voice of users may also help to compensate for some loss of control over the supply side, ie the social service professionals and the cost of their labour, which was “one of the major virtues of a monopsonistic public sector” (Bartlett and Le Grand 1993: 23). Furthermore, note that competition between providers may come at the cost of driving out cooperation between providers, e.g. hospitals, which may generally not be desirable (Williams and Rossiter 2004: 12).

Second, with a multitude of providers, the problem of *asymmetric information* is likely to get worse: “[T]hese include the likelihood that providers will adopt opportunistic strategies in the face of incomplete information; the increased risk premia required by the risk-averse providers of services; and the increased administrative costs of fully specified cost-per-case contracts.” (Bartlett and Le Grand 1993: 26) On the demand side, this is the notorious problem of quality uncertainty (Akerlof 1970). Clients will need help and advice to make choices between providers or treatments efficiently. This is the basic rationale for having intermediaries making the choice on behalf of the individual user but it also implies that choice is actually confined.

A third trade-off concerns the transaction cost involved. As we know from Coasian institutional economics, market coordination has considerable *transaction costs*, especially under conditions of uncertainty when it is not possible to specify future contingent prices fully in advance. Under these conditions, hierarchies in the public sector or in firms can be less costly allocation mechanisms. Transaction costs also figure on the demand side in that exercising choice effectively requires clients to incur some costs and search actively for information (Williams and Rossiter 2004: 5).

A fourth problem that needs to be recognised is that the *motivation* of market actors and social service providers is not necessarily compatible. For providers being responsive to (quasi-)market signals, they must be driven, at least to some extent, by financial considerations. Yet, the clientele may be vulnerable and incapacitated, and the services they need are typically more vital than a haircut. In order to avoid that commercially driven providers exploit the power asymmetry in the relationship, the public sector purchasers need to be strong advocates of user interests still. Moreover, some excess capacity is a necessary cost of choice for providers to be able to respond flexibly to demand (Williams and Rossiter 2004: 10).

Last but not least, a particular form of *adverse selection or discrimination* is likely to become a problem with market provision, namely cherry picking or cream skimming. It means that the least needy clients get the best services because they are less costly to serve. “Only if the contract price varies in an appropriate fashion with the needs of the client will cream-skimming not be a problem.” (Bartlett and Le Grand 1993: 33) However, even if a highly geared pricing formula can incentivise providers to serve ‘difficult’ clients, this may lead to mistrust between purchaser and providers as they will have opposite incentives to downplay or overstate, respectively, the real need of clients (Bredgaard and Larsen 2008: 349).

The most fundamental tension or trade-off becomes obvious if we take the political dynamic into account. Above all, the prediction that resourceful clients will take up the offer for choice more effectively than the less well-off households suggests that any assessment has to look at both choosers and non-choosers (Williams and Rossiter 2004: 18). The *negative externality* of providing choice for some on those who do not take it up or are not choosers is aptly illustrated by Bartlett and Le Grand (1993: 17): granting choice for users to get (support for) residential care may reduce choice for carers on whom there is now moral pressure to care at home. Generally, there is a danger that public services, for instance state schools, deteriorate because private alternatives are taken up selectively, leading to segregation into poor public and well-endowed private services. However, in theory there may also be a 'leveling-up effect' on public provisions because competition puts healthy pressure on bureaucracies to improve their ways (Williams and Rossiter 2004: 9). The level in take-up rates as well as the share of different user groups in take-up are indicators of this effect on social service provision that can go either way: undermine public services as we know them or improve them by providing competition and more choice. For the European Union and its inadvertent as well as explicit support for the choice agenda it is a vital question which effect prevails.

All these tensions affect the amount of risk pooling and segregation that results from introducing choice into welfare systems. In theory, it is not always clear whether this works out in favour of more or less social security, or which user groups are exactly affected. For instance, does the imperfection of quasi-market structures – given the atomistic competitive market as the benchmark – lead to better insurance of so far neglected risks because users are allowed now to choose according to their preferences and constraints? Or does the loss of control over the supply side lead to cream-skimming and other forms of segregation, of the less well-informed or those less inclined to incur all the search costs involved in making choices? Or, to take another example, does the negative externality from providing private alternatives lead to less insurance/ lower quality of services for those dependent on public risk management of last resort?

Motivations driving the agenda for more choice

The literature on welfare reforms in general and choice in particular has in theory established a number of motivations behind the introduction of choice in welfare systems. Many observers have noted that an important impetus to governments' embrace of market-based reforms in public services has been the dual concerns over quality and cost (Adnett, 2004). In areas such as healthcare but also education, governments have become increasingly concerned about perceived slacking of standards and care, while at the same time costs have grown exponentially. In so far as introducing choice and competition into education or health care is expected to induce schools or hospitals to deliver higher quality services more efficiently, the government will not find it hard to sell its reforms. What is not easy to discern, however, is the relative emphasis put by reform proponents on quality enhancement versus cost containment. When evaluating the (political) motives for market-based reforms in public services, it is important to distinguish whether the reform is primarily driven by budgetary constraints or by consumer demand for better quality, better services, etc. In our empirical case studies, we will make an effort to differentiate the drivers of the choice and competition agenda by looking at patterns

of choice elements and by trying to identify the political coalitions that support the introduction of choice and competition in areas such as health care, education and employment services.

Our methodological approach is inspired by the new politics of welfare which analysed major policy programmes as the source of reform politics (Pierson 1994: 39-40). How a policy is institutionalised, determines which interest groups have a stake in it and which have reasons to push for change, how resources are allocated and how rules constrain or facilitate certain changes. This way of looking at the politics of reform follows an older tradition in comparative public policy research, founded by Erich Schattschneider and Theodore Lowi, who thus responded to the claims of political pluralism where it was interest group politics that produced certain policies. Our take of the opposite maxim 'new policies create a new politics' is to infer from choice reforms we observe what the political motivations and possibly economic rationales are. We are not so much interested in the original intentions of reformers, than in what has actually been the outcome in terms of the new stakeholders created and risk pools separated or created. Having said that, where we can infer the original intentions, say from subsequent adaptations, they may give us a clue about the political and social policy difficulties of liberalising welfare.

Cost containment is a prominent motivation, and one that comes closest to the theme of retrenchment under 'permanent fiscal austerity' in the new politics of the welfare state (Pierson 2001). A problem with this motivation is that it is both omnipresent and yet hard to pin down. It is always present since even governments with traditionally soft budget constraints have become rather cost-conscious, if only because EU fiscal surveillance keeps on asking them to justify unsustainable spending paths. Politically, however, it is hard to pin down and can easily be overestimated as a motivation; otherwise we should see more cuts in the big spending programmes of health and pensions but, on the whole, we do not. Moreover, budgetary cutbacks are often disguised with appeals to quality improvement. Our approach here is to look at the financing arrangements for a particular scheme: cost containment is likely to be at work if for instance means-testing that restricts entitlement is combined with decentralised financing, for instance by local authorities, which creates disincentives for generous funding, and if private for-profit alternatives are rather restricted because they tend to be expensive (Lundsgaard 2005: 28).

Commercial interests of for-profit providers can be the driving force behind choice reforms and this is what many social policy scholars (e.g. Hacker 2005: 65-68) and public authorities suspect (Bredgaard and Larsen 2008: 349). We would locate them in the fact that for-profit providers actually play a prominent role in social service provision, that the authority over financing is quite fragmented (thus increasing the availability of resources) and that users are given the option to substitute a public for a privately funded scheme. It should be noted that commercial interests as the driving force make cost containment quite difficult because the government loses control over finances.

Administrative modernisation is a motivation that clearly comes out of the literature on quasi-markets; and scholars who adhere to this approach have advised governments to that effect (Le Grand 2007). The modernisation aspect is discernible in the attempt to foster competition between public and non-profit providers while there is centralised authority over the financing of the choice scheme. If this motivation is

prevalent, existing institutions are largely preserved, such as contribution-based or means-tested entitlement. We would also not expect an emphasis on for-profit providers which do not compete on a level-playing field and their involvement (beyond some trial schemes) may be too disruptive if gradual modernisation is the driving force. It may be indistinguishable, in terms of observation, from another motivation, namely *legitimising public welfare* that can be discerned conceptually in the early quasi-market literature (Le Grand and Bartlett 1993). In an effort to shore up the legitimacy of public welfare, allowing choice and competition are calculated to increase consumer satisfaction, hence, giving previously perhaps poorly performing hospitals or schools a new lease of life by securing a continued stake in the system for important constituents. Thus, paradoxically, a genuine belief in the effectiveness and fairness of public provision, such as state schooling, may drive the introduction of market-based reforms in public services. This motivation is related but possibly different from administrative modernisation insofar as the basis of entitlement tends to be universal, i.e. services over which choice is given are financed out of taxes, non-profit providers are co-opted as advocacy groups and outside options can be chosen as a complement. The motivation shares with administrative modernisation that the central control over finances is not relinquished.

Middle-class electoral politics is the motivation that political scientists like Blomqvist (2004) put forward as a motivation behind choice reforms in Sweden. We would see this motivation at work if contribution-based entitlement is combined with choice of private outside options, either as a top-up (supplement) or for complete opt-out for the private alternative (substitute). The attempt at enticing middle-class voters could also be seen in providing maximum choice of providers, including private for-profit providers, which cater tailored services to well-informed clients. *Family policy* is a related motivation. It can only be distinguished as separate from middle-class electoral politics if it addresses the specific needs and interests of (female) carers. We would see this at work if universal entitlement financed out of general taxes (i.e. no means test or contributions as basis of entitlement) is combined with choice among non-profit providers. In this we would see the attempt to allow women to reconcile career and care obligations even if their work does not provide ample resources to pay relevant amounts for the opportunity of choice. If family policy is mainly directed at raising female employment rates, we would expect to find the same pattern as in middle-class electoral politics, namely contribution-based entitlements and choice among providers that includes for-profit agencies.

Despite some scholars' skepticism about the relative paucity of friends in the political world for post-welfare policies (Le Grand, 2007:167), we submit that the choice and competition model's appeal to middle-class voters and private providers may make it an attractive option across the political spectrum. Indeed, the introduction of choice and competition in public services "do not fit neatly into boxes of left and right." (Le Grand 2007: 156). Politically parties are generally divided, with factions within opposite parties arguing the merits or not of post-welfare policies. Certainly, the debate on choice and competition in public services does not easily divide into a traditional left-right axis, with Social Democrats opposing market-based reforms and private sector involvement and Conservatives in favour. We hypothesise that the key to understanding this 'post-partisanship on post-welfare policies' lies in the position of the middle class and the possible legitimizing effects of the reforms on welfare services. The middle class is the most likely to benefit from the introduction of consumer choice, possessing the voice to demand and the information to obtain

quality but at the same time not having the means to go fully private, and they are a crucially constituency to mainstream political parties in most European countries (Baldwin 1990).

Given the complexity of motivations, our strategy in the empirical case studies is specifically to see to what extent we can exclude cost containment as the primary motivation and then discern other motivations in line with our research design. If we preliminary look for example at the case of long-term health care, *cost containment* strategies in long-term care (LTC) would give limited support for formal residential care (e.g. communal day care) but not allow private institutional care, favours means-testing and local authority over financing because that tends to keep costs down. On the other hand, *commercial interests* as the driver, characterised by the option of private nursing homes, massive involvement of for-profit providers and the possibility to opt out of public schemes altogether (ie substitute) would be at odds with cost containment. Similarly, free choice between supported residential care and nursing homes of a good quality, i.e. between a relatively 'cheap' and the expensive option of institutional care, and the option to pay for additional services (supplement) or even an opt-out (substitute), would suggest that *middle class voters* and 'productivist' (work-oriented) family policy are drivers, incentivising women to enter employment. *Care-oriented family policy* is distinguishable in that it does not give expensive institutional care options but in contrast to cost containment gives generous support to formal residential care and provides universal entitlements. *Administrative modernisation*, including better pay and career opportunities for staff in institutional care, and more tailored, decentralised provision combined with central finance (quasi-markets) is also incompatible with prioritizing cost containment. Finally, *legitimising public welfare* as a motivation for reform in long-term health care, can be discerned in universal entitlement, in complementary and supplementary financing of services, and in the attempt to co-opt non-profit providers, largely for political reasons.

The Choice Agenda in the European Union⁵

As previously stated, one of the reasons for why the choice and competition agenda may have a profound impact on welfare state changes and participation in Europe is that these policies dovetail with the European Union's agenda. Though consumer choice in social welfare is not an explicit policy objective of the EU, the EU's goals in the single market and particularly cross-border mobility have enhanced consumer choice significantly in the EU. Advancing cross-border mobility in health care, education and employment has clearly increased consumer choice in these three areas, though to different degrees. Beyond the enhancement of mobility, the effect of EU policies on choice is less clear, however. Policy coordination at European level – within the context of the Lisbon Agenda, for example – has potentially a positive effect on the degree of consumer choice. But critics would argue that it may lead to a downsizing of services free at the point of delivery and thus lead effectively to less choice for the less well-off. This may be an unintended consequence of the EU acting as a constant reminder that governments need to be mindful of fiscal sustainability. In

⁵ This section draws heavily on the note "Consumer choice in social welfare – the European Union agenda", prepared by Maximilian Freier whose excellent research assistance we would like to explicitly acknowledge.

the following we briefly outline the EU's policies on health care, education, and employment services with a view to sketch the apparent effects of the EU's policy agenda.

Health care

A prominent reference to choice in health care can be found in the 2006 Council Conclusions on Common values and principles in European Union Health Systems. The then 25 health ministers of the European Union agreed to "aim to involve patients in their treatment, to be transparent with them, and to offer them choices where this is possible, e.g. a choice between different health care service providers" (Council 2006a: C 146/3). Further, the Council Conclusions make explicit reference to the introduction of market mechanisms in the health care sector:

We note increasing interest in the question of the role of market mechanisms (including competitive pressure) in the management of health systems. There are many policy developments in this area under way in the health systems of the European Union which are aimed at encouraging plurality and choice and making most efficient use of resources. We can learn from each other's policy developments in this area, but it is for individual member states to determine their own approach with specific interventions tailored to the health system concerned.

(Council 2006a: C 146/3)

However, there has been no policy follow-up on the 2006 Council Conclusions regarding consumer choice. While the Commission has noted in a 2007 White Paper⁶ that "healthcare is becoming increasingly patient-centred and individualised, with the patient becoming an active subject rather than a mere object of healthcare" (Commission 2007: 4) and suggests empowering patients through education and information to be able to make informed choices in health care, the paper does not make any direct references to consumer choice. Very much in line with the spirit of the 2006 Council Conclusions, the Commission seems to believe that the organisation of the national health care systems falls within the purview of the member states.

A major exception to this general rule, however, is the area of cross border health care provision, where consumer choice is integral part of the policy agenda. Policy initiatives in this field follow several ECJ rulings in the late 1990s holding that the freedom to provide services includes the freedom for the recipients of services to go to another Member State in order to receive those services there, including persons in need of medical treatment. In July 2008, the European Commission published a proposal for a Directive on patients' rights in cross border healthcare with the aim of providing a clear framework for cross border healthcare (Commission 2008a). The proposed directive aims to regulate reimbursements for health care provided in other member states as well as ensure minimum standards of quality, safety and efficiency for cross-border care. The Directive passed the European Parliament in April 2009 and was last discussed in the Council on 8 June 2009 (Council 2009).

⁶ "Together for Health: A Strategic Approach for the EU 2008-2013", COM(2007) 630 final, Brussels, 23 October 2007.

Clearly, the ECJ rulings on cross border healthcare has increased consumer choice. The Commission proposal, which aims to ensure "clear information that enables people to make informed choices about their healthcare" (Commission 2008a: 9) among others, will reduce the risks patients bear when receiving cross border health services, thus contributing to the choice agenda and an element of competition in health care. However, it should be noted that the volume of cross border health services remains relatively small. Only 1 per cent of the EU healthcare budget is spent in another EU member state (Commission 2008b). This means that consumer choice and subsequent competition is likely to remain contained to border areas and non-acute health services such as aesthetic dental care and hearing aids.

Education

The EU's regulatory competences in the field of education are even more limited than in the area of health care. Education has traditionally been one of the mainstays of national welfare states, with its contribution to citizenship, solidarity and equity (Kap 2008; Wilkens 2005). Similarly to the field of health care, in education too the limited competences that the EU possesses, effectively supports an agenda that increases consumer choice in educational provision. While in the past the role of the Commission was largely limited to programmes fostering cross border mobility of students, education policy has gained new impetus through its inclusion in the Lisbon Agenda, which recognises education as one of the key policy priorities to enhance the competitiveness of the EU.⁷

Following the 2000 Lisbon Council and a subsequent draft report by the Commission (Commission 2001), the Ministers of Education adopted in 2001 a report on the future objectives of education and training systems (Council 2001), followed by a 10-year work programme in 2002 (Council 2002). The main objectives laid down in these Council documents were: (1) the improvement of the quality and effectiveness of education and training systems; (2) facilitating access to education and training systems; and (3) opening up EU education and training systems to the wider world. In May 2009 the Council passed a new work programme, titled 'Education & Training 2020' (Council 2009a). It comprises four slightly revised main objectives, now making more explicit mentioning of mobility.⁸ Similarly, Council Conclusions on enhancing partnerships between education and training institutions and social partners call for increases of awareness "among all stakeholders - employers, education and training institutions and the learners themselves - of the opportunities which exist for mobility, in particular in the field of work placements and apprenticeships" (Council 2009b: 9). Improving mobility in education and training has the potential to increase the choice by opening up new education and training alternatives hitherto out of the reach of the learners.

⁷ The Integrated Guidelines for Jobs and Growth include Guidelines on the need to expand and improve investment in human capital (guideline no. 23) and adapt education and training systems to new competence requirements (guideline no. 24) as well as a guideline on innovation (guideline no. 7).

⁸ The four main objectives are: (1) making lifelong learning and mobility a reality; (2) Improving the quality and efficiency of education and training; (3) promoting equity, social cohesion and active citizenship; (4) enhancing creativity and innovation, including entrepreneurship, at all levels of education and training. Council 2009a.

The EC has supported programmes for cross border exchange since the 1980s, including programmes in school education (Comenius), higher education (Erasmus), vocational training (Leonardo da Vinci) and adult education (Grundtvig). These programmes have been renewed under an integrated action programme in the field of lifelong learning for the 2007-2013 budgetary framework (Council 2006). Similarly, the European Union has worked towards facilitating cross border mobility with educational and training qualification recognition policies by embracing the tools of the Bologna Process such as the European Credit Transfer System (ECTS), and introducing other standardised skill certificates, such as the Europass (Council 2004). Other aspects covered by the Lifelong Learning Programme include higher education reform, school education policies, vocational education and training, adult education, and new skills for new jobs (see below).⁹

Much of these initiatives are closely tied to the Lisbon Process. The policies discussed in these different areas mirror the policy programme of the Education & Training 2020 work programme, including (again) mobility, quality and efficiency, equity and social cohesion, and creativity and innovation. They fall short, however, of explicitly addressing the student choice dimension in the mobility agenda or the impact of competition among higher education institutions within the member states. The deliberations on school education systems focus exclusively on education quality and social inclusion (Council 2008b). Whereas free school choice has been a much debated topic in education politics, particularly in the United States, the EU has not developed an explicit policy stance on school choice. One possible reason is that a research report published by the Commission finds no clear equality enhancing effect through free school choice (Horn 2006), but the reasoning would need further exploration in our empirical case studies.

Employment services

The employment services policy of the European Union is also conducted within the Open Method of Coordination (OMC) framework of the Lisbon Agenda, particularly the European Employment Strategy. Following a Council Resolution in November 2007, the Commission published a Communication titled 'New Skills for New Jobs'. The Commission initiative "stresses the need for more effective education and training policies and modernisation of labour markets through flexicurity" (Commission 2008: 10). The document proposes several mechanisms to anticipate and counteract mismatches in skill formation and labour market demands. In line with what we observed on health care and education, among these mechanisms is a clear reference to cross border mobility of employees:

The removal of obstacles, including administrative barriers, to the free movement of workers in the EU, as well as more transparent information on labour market trends and skills requirements, would contribute to the promotion of occupational, sector and geographical mobility and allow a better match between peoples' skills and job opportunities.

(Commission 2008: 9)

⁹ Available at: <http://ec.europa.eu/education/lifelong-learning-policy/doc36_en.htm> (accessed 20 June 2009).

Most prominently, the European Commission has intensified its efforts to increase the cross border mobility of the European workforce. The European Job Mobility Portal (EURES) for example, is a relatively sophisticated internet platform, created "to provide information, advice and recruitment/placement (job-matching) services for the benefit of workers and employers as well as any citizen wishing to benefit from the principle of the free movement of persons".¹⁰ EURES offers a European job-placement service, practically providing an alternative to the national public employment services. Moreover, employment services are receiving more prominent and institutionalised attention. The Commission for example has established a unit called 'Employment Services, Mobility' within the Directorate-General Employment, Social Affairs and Equal Opportunities.¹¹ In an Opinion drafted in preparation of the post-2010 Lisbon Process, the Employment Committee (EMCO) also demands more attention for employment services: "Employment Services (ES) are key actors in fostering mobility and upgrading the skills of jobseekers, together with companies, social partners, and other service providers. Closer cooperation amongst the network of ES is crucial" (EMCO 2009: 4).

Again, even though there is no explicit mentioning of a choice agenda in any of the recent documents and a clear swift to the choice and competition model does not seem to drive the policy changes, similar to what we observed in the areas of health and long-term care and education, the efforts to increase mobility in effect enhance consumer choice.

In our empirical case studies, we plan to specify the EU's contribution to post-welfare changes. We hypothesise that the synchronisation of the EU's single market and mobility agenda with post-welfare policies may help advance the EU's legitimacy by offering citizens (consumers, clients, students, etc) more choice and better access to high-quality services.

Research Agenda

The framework and hypotheses developed above form the basis for further empirical research into the political and economic effects of introducing choice and competition in the areas of health and long-term care, education, and employment services. The general questions that guide our empirical research can be summarised as follows:

- 1) Is the choice agenda a specific challenge to solidaristic welfare citizenship or, paradoxically, can it safeguard public services by providing the basis for a new political consensus?
- 2) To what extent is the choice and competition agenda motivated by quality enhancement or expenditure retrenchment respectively? What are the coalitions driving choice and competition reforms in the provision of public services?

¹⁰ Available at: <<http://ec.europa.eu/eures/home.jsp?lang=en>> (accessed 22 June 2009).

¹¹ The unit is active in employment services in several ways, among others the facilitation of cross border mobility of workers (EURES), anticipating future skill requirement and matching skills and jobs, as well as a networking process between the public employment services within the member states.

- 3) How does choice for users and competition between providers affect access to and governance of public services? If applicable, how does the introduction of choice and competition affect the balance between public and private financing and provision of welfare services?
- 4) How does the introduction of choice affect the spreading and sharing of risks, both among the different groups of users and among choosers and non-choosers? Does the restructuring of risk pools reflect different preferences or different risk levels of users? Was the emerging risk allocation explicit in the original proposal and intended; or does it look like an unintended consequence that puts pressure on reformers to adjust the original policy design?
- 5) To what extent does the synchronisation of the EU's agenda and choice reforms in member states increase the EU's legitimacy? Is a trust of the EU discernible, in the language or the timing of reform?

Obviously, policy case studies of European integration cannot be related in a straightforward way to the question of which model of democracy – delegated, federal or cosmopolitan – applies. But we will answer the question to what extent choice in each of the areas under scrutiny is driven by an agenda in the EU that tries to promote social citizenship beyond the nation state or whether the reforms are directed at modernisation of domestic institutions, be they national or sub-national.

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RECON seeks to clarify whether democracy is possible under conditions of complexity, pluralism and multilevel governance. Three models for reconstituting democracy in Europe are delineated and assessed: (i) reframing the EU as a functional regime and reconstituting democracy at the national level; (ii) establishing the EU as a multi-national federal state; or (iii) developing a post-national Union with an explicit cosmopolitan imprint.

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Project website: www.reconproject.eu

RECON Online Working Paper Series

The Working Paper Series publishes work from all the researchers involved in the RECON project, but it is also open to submissions from other researchers working within the fields covered by RECON. The topics of the series correspond to the research focus of RECON's work packages. RECON Online Working Papers are widely circulated and included in online social science databases. Contact: admin@reconproject.eu.

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