Human Services Inquiry
Productivity Commission
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CENTRE FOR SOCIAL IMPACT SUBMISSION

The Centre for Social Impact (CSI) welcomes the opportunity to submit its views on the Issues Paper: Reforms to Human Services.

While CSI works on a large range of issues covered by the Issues Paper, in this submission, we focus on key questions within Section 3 – Tailoring Reform Options (see Appendix A)[1]:

- How do market forces (this includes greater user choice, competition and contestability) impact the quality, equity, efficiency, effectiveness, responsiveness and accountability of service provision?
- What does informed choice look like in a market for human services?
- What role should government play?

WHO WE ARE

The Centre for Social Impact is an independent, not-for-profit research and education centre, and is a collaboration of three of Australia's leading universities: UNSW Sydney, The University of Western Australia, and Swinburne University of Technology. CSI acts as a catalyst for social change by creating knowledge through research, and translating and transferring that knowledge through teaching and public engagement. CSI's ultimate aim is to be a catalyst for a stronger, better society.

CSI's research examines the effects of innovation, ingenuity and collaboration within our social system. We focus particularly on the intersections within systems between government, business, and the social sector. We tackle the most complex social problems and examine how people, organisations, groups and sectors work and might work differently, and understand how, why and under what circumstances social change is achieved. We have particular expertise in understanding social problems and how we go about addressing them (using complex systems thinking and social policy and business lenses), and in measuring and reporting social impact across sectors.

While this submission focuses on consumer choice, competition and contestability, CSI has

BACKGROUND ON MARKET FORCES

Not-for-profit organizations have traditionally been entrusted with the provision of social services as mission-driven organisations working towards a social purpose (Brezis and Wiist 2011a; Rose-Ackerman 1996; Serra, Serneels and Barr 2011). However, recent decades have seen a global shift

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[1] This response is drawn from a recently submitted journal article titled "Can market forces stimulate social change? A case example using the National Disability Insurance Scheme in Australia", which was written by CSI's Professor Kristy Muir and Dr Fanny Salignac.

towards the marketization of social services (Krachler and Greer 2015: 215; Stolt, Blomqvist and Winblad 2011).

In Australia, for example, the National Disability Insurance Scheme (NDIS) (National Disability Insurance Scheme 2015) aims to transform the disability service system into a market that potentially offers more choice, and provides services at a competitive cost while maintaining access and high quality of care when needed (Rosenau and Linder 2003).

The marketization of human services is said to: stimulate innovation, improve management and product quality and decrease price (Holman and Hayward 2011; Krachler and Greer 2015; Le Grand 2013; Noailly and Visser 2009; Taylor-Gooby 1999). Under this model, price-based competition and standardisation of goods and services are set to increase, organizations will become more sensitive to changing market conditions and for-profit providers may be more likely to enter or exit as they see fit to satisfy profit maximization (Lakdawalla and Philipson 2006).

IMPACT OF MARKET FORCES

How do market forces (this includes greater user choice, competition and contestability) impact the quality, equity, efficiency, effectiveness, responsiveness and accountability of service provision?

A market is a meeting place where buyers and sellers make exchanges (Musgrave 2006).

The mechanisms of the market: i.e. market forces, work together through the interaction of supply and demand. Under this mechanism, buyers and sellers respond to changing market conditions by adjusting their demands and supplies of goods and services (Lipsey and Harbury 1992) – buyers to maximise their satisfaction and sellers their profits.

The dynamic interplay between supply and demand in a market means that as demand grows, suppliers enter the market, driving competition up – a key characteristic of an effective market. As competition increases, so does innovation and the diversity and range of services and supports available, thereby increasing choice as well as pushing quality up and prices down.

Traditional economic theory tells us that for-profit providers of social products and services are more cost-efficient than their non-profit counterparts because of market incentives (Clark 1980; Rosenau and Linder 2003).

Others have argued, however, that not-for-profits are in fact able to provide better quality services and at lower costs than their for-profit counterparts due to their altruistic and non-pecuniary motives (Rosenau and Linder 2003). Not-for-profits also typically choose to forego profits to expand output as they cannot re-distribute revenues to their owners (e.g. cash dividends) (Serra, Serneels and Barr 2011), which promotes trust amongst customers. Operating outside a profit-maximization constraint also means that not-for-profits are more likely to “stick around” where their services are needed regardless of the impact on their bottom line (albeit needing to maintain sustainability overall).

In comparison, for-profits are ‘more sensitive to demand changes and more likely to enter or exit in response to changing market conditions’ (Lakdawalla and Philipson 2006: 1695). It means that in certain locations, in thin markets for example, not-for-profits are more likely to provide services. Nonetheless, not-for-profits have been portrayed by some as less efficient than for-profit firms. Critics argue that not having to re-distribute revenues to their owners means that not-for-profit ‘managers have little incentive to manage their firms efficiently’ (Rose-Ackerman 1996: 716). However, as CSI’s analysis of charities' ACNC data demonstrates, many not-for-profits are operating under tight margins.

To better understand the effectiveness and efficiency of introducing market force models into human services delivery, it is useful to examine international case studies and research.

Brezis and Wiist (2011b: 232) studied the impact of marketization on the health care system in the US. They found that it created 'inefficient health care, the marketing of unhealthy products, environmental pollution, and deepening socioeconomic inequities'. Indeed, research has shown that higher investments in the health-care industry by for-profit companies 'may actually translate into worse care' (Brezis and Wiist 2011b: 232). 'Over the last decade, studies have repeatedly shown that for-profit health care is inferior in several outcomes to that provided by not-for-profit care' (Brezis and Wiist 2011a: 245). This is mainly because for-profit health care providers operate under a profit-maximization constraint that comes before public benefit or social welfare motives (Brezis and Wiist 2011a). The commercialisation of the health care system in the US has meant that 'a highly personal set of services unique to each individual patient/ physician relationship' has had to be converted into 'a fungible commercial product available from a variety of vendors' (Budetti 2008: 93). Similar conclusions were reported by Taylor-Gooby et al. (2004: 573) who argue that a market-oriented welfare system such as that of the UK 'faces intractable problems in stimulating and regulating private providers of welfare' as welfare and market objectives are incompatible. This is because free market oriented policies tend to prioritize 'business interests over public well-being' promoting 'a race-to-the-bottom in the social safety net' (Lobao, Adua and Hooks 2014: 644/47).

Similar results have been found regarding the impact of market forces in the child care industry. The provision of child care services vary widely across countries, although quality, affordability and accessibility appears core to all (Leira 1993; Noailly and Visser 2009). For example, in Denmark, France and Sweden, child care is provided exclusively by the public sector; while in Germany, Italy and Spain it is supplemented by the not-for-profit sector. The US and the UK, on the other hand, allow for the private sector to evolve alongside the not-for-profit one by imposing generic quality regulations (Noailly and Visser 2009). The impact of market forces on the provision of child care is significant. Noailly and Visser (2009) showed that after the introduction of such mechanism with the 2005 Child Care Act in the Netherlands, the provision of child care services has become driven by demand, with a shift towards wealthy and urbanised areas due to higher purchasing power. Most importantly, they found that such shift came at the expense of more disadvantaged rural areas from which providers withdrew their services (Noailly and Visser 2009).

In Australia, Sumsion (2006; 2012) found that ABC Learning – the world's largest for-profit child care provider until its collapse in 2008, did not provide higher quality care nor provide parents with greater choice. While the company became listed on the Australian Stock Exchange in 2001, ABC Learning collapsed due to an unsustainable model, poor financial situation, and impact of the global financial crisis creating negative economic and social impact (Sumsion 2006; 2012).

Key points and implications

- International studies have shown that service provision provided by for-profit companies (e.g. health care and childcare) can be inferior to services provided by not-for-profits.
- As they are driven by profit-maximization, private organizations are sensitive to changes in the market and likely to enter and exit markets in response to changing conditions. They are likely to prioritise profit over wellbeing. This means that private organisations are likely to stay in areas where demand is higher, leaving people in regional, rural and remote locations with few (or no) choices.
- Government should be wary of:

- Profit-driven services that are of poorer quality than those provided by not-for-profit organisations
  - The marketing of inappropriate products;
  - A shift away from individualised services in favour of standardised commercially viable models;
  - Thin markets and market failure in particular areas or for particular groups;
  - Decreased equity if people with lower levels of needs / less complex needs are prioritised by providers because they can be served more efficiently and feasibly;
  - Niche providers (likely to be not-for-profits) who support people with the most complex needs going out of business because the funding model is not sustainable from a market perspective.
- In introducing competitive practices and market forces government should
  - Consider the required regulatory environment to help ensure business interests do not compromise public wellbeing;
  - Set and hold organisations to account for acceptable standards of quality;
  - Require evidence of individual consumer outcomes;
  - Consider supporting and incentivising collaborations between providers where value can be reciprocally added using a partnership model;
  - Ensure there is funding for quality support services for people with complex-needs, people who need services but may not traditionally access services, and in locations with thin markets.

INFORMED CHOICE

What does informed choice look like in a market for human services?

Traditional economic theory assumes that people are "rational actors" in the market. In theory "rational economic man" (or woman) possesses full knowledge of their own preferences, consistently acts in self-interest to meet those preferences and is responsive to appropriate 'incentives' offered (Morse 1997: 180). Individuals are said to make decisions based on a known and stable set of preferences. They have knowledge of alternatives so that their decisions are fully informed. In making decisions they are able to objectively use this knowledge so as to maximize their "happiness and wellbeing" as well as to quickly update their behaviours in the face of new information. This conventional approach assumes their decisions are calculated, consistent, and unaffected by emotions or other people (Altman 2012; McDonald 2008).

In the context of the provision of human services, this assumes two important things:

1. individuals are well informed about the services they might be able to access; and
2. individuals know and can communicate their preferences, goals and needs.

In a "perfect market", consumers have access to information and are therefore able to make informed decisions. Through exercising 'discernment', consumers 'reward suppliers of high-quality goods or services through their informed purchases' (Holman and Hayward 2011: 241). By being financially motivated, consumers are 'sensitive to price, which promotes efficiency by giving suppliers an incentive to keep costs low' (Holman and Hayward 2011: 241). The issue with complex social issues such as health, disability and aging is that people are unlikely to have access to enough and/or the right information to make informed decisions (Holman and Hayward 2011: 241). Indeed, without a range of services to choose from or sufficient information about what they will receive from each service (outcomes, service quality and approach etc), people can be vulnerable to 'provider- and profession-induced demand' (Holman and Hayward 2011: 241). This may lead to profit-driven care, rather than value-driven care or to individuals remaining with current service providers and not exercising choice.

Implications

- Access to information is important in any type of market for customers to be able to make informed choices – studies show this is even more so in a market for human services in which people might be experiencing various types of vulnerabilities.
- Information needs to be appropriate, acceptable and accessible and regulations put in place to ensure this is the case.

GOVERNMENT'S ROLE

What role should government play?

> The use of market-mechanisms for public policy is consistent with neoclassical liberalism – the idea that governments should reduce their intervention and abide by a 'laissez faire' approach (Smith 1776: 294).

Proponents to the marketization of human services argue that free market conditions stimulate innovation, and improve management and product quality. However, critics argue that markets typically fail. They fail in addressing needs, fail in serving minorities, fail in providing information, fail in stopping anti-competitive practices and provide poorer quality services because of the drive to generate profit (Stamate 2012). Krachler and Greer (2015) argue that the marketization of social services is bound to increase inequalities and the rationing of services as organizations become motivated by profit maximization (see also Hunter 2013; Lister 2012).

An alternative to the neoclassical economy implies 'shared responsibility and concern for the communal well-being' (Budetti 2008: 92) with a certain role for government to ensure equity in the provision of social products and services and the creation of positive social outcomes. Market forces are one tool to provide human services, but as a model, it is unlikely to succeed on its own. The market is not a panacea.

Government can play a role in the following areas to help enable high quality outcomes, to protect and support vulnerable people and to minimise risk:

- Developing, implementing regulation and standards of service quality;
- Providing funding and services to fill gaps where markets fail (especially for individuals with complex needs; those who fall through traditional service gaps; and where there are thin markets);
- Consider supporting collaborations between for- and not-for-profit providers where value can be reciprocally added using a partnership model.
- Assisting with independent accessible information;
- Assisting with processes to help individuals exercise choice;

- Support the development of shared outcomes measurement systems (including linked data) to help track whether and where outcomes are being achieved, for who and under what circumstances; and
- Provide frameworks for reporting and accountability.

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