ECONOMIC BELIEFS
AND
SOCIAL POLICY BEHAVIOUR

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Abstract

Enthusiasm for the expansion of markets in welfare reflects the currency of assumptions derived from rational choice theory among policy-makers. This paper reviews recent evidence that calls into question the basic tenet of the rational choice approach - that individual choices are driven by instrumental rationality - and argues that welfare markets require a normative framework in which trust plays an important role. Experimental evidence from recent work in economic psychology indicates that individuals often display a level of trust in market interactions that is hard to explain on the basis of simple rationality, but that such trust is fragile and easily undermined by egoistic action. Current welfare markets may depend on such trust to a greater degree than is sometimes recognised. Surveys of attitudes and behaviour in a range of welfare markets conducted by the ESRC's Economic Beliefs and Behaviour research programme indicate that rational choice assumptions about motivation are often inappropriate. Normative factors exert considerable influence on behaviour. Incentives for short-term egoism may deplete the moral legacy of welfare citizenship on which the successful operation of such markets depends.

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ECONOMIC BELIEFS AND SOCIAL POLICY BEHAVIOUR

Introduction

Since welfare outcomes are determined by the way people behave in response to law, regulation, benefits and services in the context of social expectations, norms, values and other factors, policy-making is strongly influenced by guesses about why people do what they they do. A recent and influential article points to a 'fundamental shift in policy-makers beliefs about human nature and behaviour' (Le Grand, 1997, 149). The traditional Beveridgean welfare state model supposed that service planners, providers and professionals were motivated by an altruistic concern for the good of the citizenry, while tax-payers and service users were seen to be compliant and trusting, willing to pay the taxes deemed necessary to finance provision and relatively uninfluenced in their behaviour by the availability of universal benefits. The conceptual framework that underlies recent developments in welfare policy is suspicious of the motives of both providers and consumers. It assumes that the rational pursuit of self-interest replaces trust and altruism; that tax-payers are reluctant to finance services unless they think that they will benefit directly; that officials and professionals will tend to regulate the operation of services to serve their interests in a comfortable, interesting and rewarding life rather than the needs of user; and that those entitled to benefits are vulnerable to moral hazard, so that they will shirk responsibilities to maintain dependants or seek employment if the state provides maintenance on proof of need. The solution is the substitution of the discipline of the market (through privatisation or the use of quasi-markets in the state sector) and, where this is inapplicable, direct control of behaviour through a stringent and punitive regime in relation to benefit fraud, maintenance of the work ethic and responsibility for defined dependants.

The new approach in welfare rests on rational choice theory in social science, influenced by the work of Schumpeter (1944), Niskanen (1973, 120) and Downs (1957) on political and bureaucratic behaviour, Breton (1974) and Brennan and Buchanan (1980) on tax payers' behaviour and Murray (1984) and Mead (1986) on the behaviour of service users. While this work is controversial (for example: Granovetter and Swedborg, 1992; Green and Shapiro, 1994; Dunleavy, 1991; Taylor-Gooby, 1995; Coughlin, 1991) the main political groupings in the UK seem convinced of the desirability of sustaining the shift towards market welfare and of tough measures to control fraud. As an account of how people behave in social policy contexts, the rational choice approach has won the practical argument.

This article argues that rational choice analysis is one of a number of accounts of market behaviour. Other approaches stress the importance of a normative framework in constraining the dysfunctionalities of too immediate an egoism. Norms supportive of trust are likely to be particularly desirable in many areas of market welfare, such as social care or medical insurance or inscrutable professional provision, since good information is hard to obtain, both for providers and service users. Evidence from economic psychology indicates that behaviour in market contexts is often in fact regulated by normative principles that transcend simple rationality. This point may be helpful to proponents of welfare markets, since it implies that the problem of sustaining trust within a market system is not insoluble. However the evidence also indicates that such a framework is vulnerable to rapid erosion if it is not reinforced in behaviour. The risk is that over-reliance on a rational choice account of motivation in welfare markets may lead to over-emphasis on self-interest which will eventually deplete the normative legacy of welfare citizenship. This may not be immediately obvious, since the moral presumptions of collective welfare may persist for a time.

The case for welfare markets

The case for the expansion of welfare markets can be made at both a practical and a theoretical level. The practical argument claims that markets are responsive to effective demand, that they facilitate learning on the part of participants, and that they allow innovations to be rapidly assessed, diffused or discarded. This claim presents markets as particularly appropriate for contemporary economic relationships that are changing rapidly as the result of the introduction of new technology and the rapid growth of cross-national trade. The success of market economies compared with former command systems suggests that markets are best at producing what people want. Similar arguments apply to the restructuring of welfare systems to meet changing patterns of need as working and family life become, for some people, more flexible and uncertain and as the range of options available expands for some, with real growth in living standards, and contracts for others as inequalities grow wider and opportunities for less skilled workers become more constrained. It highlights the importance of good information for successful market choice.

The theoretical argument derives ultimately from the tradition of welfare economics influenced by the work of Pareto. It can be demonstrated that, providing certain conditions are met, a competitive market system is capable of achieving social 'efficiency', in the sense of a distribution of resources under which the circumstances of no-one can be further improved without making someone worse-off (for example Sloman, 1991, 363-73). In the progress towards efficiency, the gainers can always (in principle) compensate the losers and still have something left over. Thus competitive markets in welfare promise to allocate resources in this area in an efficient manner.

The main conditions assumed in this argument are three: that people should behave rationally, in the sense of choosing activities according to the extent to which anticipated gains exceed the sacrifices involved, so that good information is essential, that the markets should be competitive, so that there is no monopoly or oligarchic power, and that there should be no externalities - circumstances in which the costs or benefits of a transaction fall on a third party, and are not brought home to the market actors. In addition, it is recognised that market activity may under-supply public goods (goods which give a relatively small benefit to an individual in relation to their cost, and are non-rivalrous and non-excludable in consumption). There is no obvious reason why any individual should pay for such goods. Since it is not possible to exclude someone from the good if someone else pays for it, you might as well wait for them to do so. Some of the outcomes of welfare states - civic order, public health, a general reduction in stress, participation in a more competitive national economy - may be seen as (partly) public goods, and there may therefore be problems in ensuring adequate provision if welfare is allocated through markets. Those interested in welfare will also be concerned about the extent to which markets produce inequitable outcomes and damage the interests of poorer groups, since the better-off will always be able to reserve disproportionately more of any good in relation to their numbers.

The case for markets as stated above rests on assumptions about the rational direction of behaviour according to judgements of interest similar to those identified by Le Grand in his account of the ascendancy of rational choice approaches to welfare behaviour in recent policy developments. The relevance of this notion of instrumental rationality to market behaviour has been challenged both at a theoretical and a practical level. It is hard to understand some valued human activities in terms of the rational deployment of means to an end - for example, going to sleep, being altruistic or creative or spontaneous (Hargreaves-Heap et al, 14, Hollis, 1987, ch 12). There are also problems to do with the analysis of rational activity over time. Preferences change, and the question arises of which preferences should be used to analyze the rationality of current choices. The situation is complicated by the fact that some choices, particularly in areas like education, pension provision, career, parenthood or membership of a religion, influence the choice-sets a person will face at a later date, so that it is difficult to separate the evaluation of options understood as means from the ends of actions. Rationality may be understood as expressive rather than instrumental, so that actions are taken to embody a commitment to a way of life or to a system of values rather than being a means to a particular end (Weber, 1922, 24-5; Sen, 1979, 95). Further theoretical issues relate to macro-sociological approaches which understand human motivations in different ways - for example, Etzioni's communitarian blend of psychoanalytic and rational elements in motivation (1988) or the range of high-modern and post-modern accounts which interpret behaviour as increasingly directed by a life-politics which is both expressive and instrumental (Giddens, 1994, 90-2).

Practical evidence from economic psychology indicates that people often do not behave as if motivated by the pursuit of the kind of stable goals arranged in a consistent preference order that the approach assumes. People discount the value of goods irrationally (in other words at rates widely divergent from the market interest at which they could presumably get or lend an equivalent amount of money) over time (Chapman, 1996, Hoch and Lowenstein, 1991, Thaler, 1992, 94). They assess the same risk as of different significance according to the way in which it is expressed or the standpoint they view it from (Beattie, Bullock and Loomes, 1994, Jones-Lee and Loomes, 1996, Adams, 1995, pp 95-8), Sugden, 1996). They tend to be more aggrieved by loss than delighted by an equivalent gain Kahneman and Tversky, 1979, Thaler, 1980). They are frequently value the component parts of a good at a greater rate than is implicit in their valuation of the whole they constitute (Starmer and Sugden, 1993, Bateman et al, 1996).

The manifest irrationality of choice in practice leads one commentator to write 'there was a time when...the job of the economic theorist seemed to be one of drawing out the often complex implications of a simple and uncontroversial set of axioms. But it is becoming clear that these foundations are less secure than we thought, and that they need to be examined and perhaps rebuilt' (Sugden, 1991, 783). Another concludes a review of current literature on choice under uncertainty: 'instead of trying to devise some general theory of an essentially conventional..form, [modeling 'individuals as if characterized by some set of fully formed preferences which they apply to every decision problem'] perhaps we should switch our attention and our efforts to understanding more about the processes by which people select and apply strategies for dealing with particular forms of decision problem..'(Loomes, 1997, 11). One of the two originators of the leading psychological theory of the evaluation of different options, prospect theory, comments on assumptions about rational choice in market settings in a recent review 'there is compelling evidence that the maintenance of coherent beliefs and preferences is too demanding a task for limited minds. Maximizing the experienced utility of a stream of future outcomes can only be harder' (Kahneman,1995, quoted in Hutton

1995, 230).

The case for welfare markets is compelling, in view of the practical success of market economies and the theoretical possibilities for enhancing responsiveness and innovation. The rational choice account of market behaviour encounters the difficulties outlines above. This has directed attention to alternative accounts.

Accounts of market behaviour: the role of trust

Political economists point out that markets driven by purely egoistic concerns require a regulatory framework to prevent them degenerating into a Hobbesian conflict of each against all, in which the costs of ensuring that transactions take place according to contract becomes excessive. Most commentators have agreed that a minimal framework of law, order and monetary regulation is efficiently provided by government (for example, Friedman, 1966, ch. 2). However, there are two additional circumstances in which further constraint on the exercise of rational self-interest may be desirable. These concern the provision of public goods and related ideas associated with social capital.

Since market actors have no incentive to provide public goods, the provision of such benefits may be seen as a legitimate role of government by advocates of market freedom, legitimating state involvement in, for example, public health, communication and education (Freidman, 1966, ch.2). The notion of social capital developed by Coleman (1990, 304) and Putnam (1993) refers to ‘features of social organisation, such as trust, norms and networks, that can improve the efficiency of society by facilitating co-ordinated actions’ (Putnam, 1993, 167). The interesting feature of this argument is that it refers to factors which that cannot be provided directly by government, but are not obviously created by immediate market self-interest. Putnam illustrates the point in his influential account of the superior economic development of northern as against southern Italy as resulting from a socio-political framework which enabled individuals to develop economic relationships, confident that contracts would be honoured and that individuals would recognise a common interest in ensuring that supportive economic institutions worked. The accuracy of this account in relation Italian regions is controversial (Sabetti, 1996, 40; Bagnasco, 1996, 365). Putnam’s own example of social capital (also employed by Coleman) is a rotating credit association, and it is open to dispute whether market-oriented banking will fill the role of such an institution with greater or less efficiency. The question of whether social capital in this sense can be generated adequately by the institutions of civil society or whether the state also has a role to play is also subject to debate (for example, Levi, 1996, 50-52).

The extent to which markets are facilitated by social capital is an empirical question. The idea that a certain level of general trust will aid the operation of market systems is plausible. It can be identified in the work of the founding fathers of political economy (see for example Hume’s argument that the observation of market self-interest is bound up with ‘universal and inflexible observation of the rules of justice’- 1739, 585-6, reflected in Smith’s notion of sympathy in *Theory of the Moral Sentiments* - 1759, see especially, 191-2, and echoed more recently by Coleman - 1986, 316). Smith also saw normative factors - ‘habit, custom and education’ - as essential to maintain the social division of labour which sustained *The Wealth of Nations* (1776, 120). More recently, Fukuyama argues that a high degree of trust contributes to the competitive advantage of the leading capitalist nations (1995, 18 - see also Hirsch, 1977, 137;

Hutton, 1995, 298-300). All these arguments imply that an internalized mechanisms of normative regulation as well as external legal control help markets to operate efficiently, and that trust makes a powerful contribution to such 'social capital'.

The argument has merit at face value. Individuals who trust each other are better equipped to reduce the transaction costs involved in the detailed and continual checking of contract compliance and can invest in the future with greater confidence that obligations will be honoured. Thus the benefits of egoistic rationality may best be realized when it is accompanied by its contrary. Governments cannot legislate for trust directly, but they may be able to encourage its growth and penalize self-interested defections from trust.

Trust and welfare markets

The market transactions involved in the new welfare policies generate three contexts in which the role of norms in governing behaviour appear likely to be significant:

- The *lay consumer judgements* made by service users in choice of school, family doctor, dentist or private or local authority provider of care services;

- The *insurance judgements* made in relation to purchase of insurance to save for eventualities such as retirement or cover risks such as loss of earnings through disability, the inability to meet mortgage payments through unemployment or the need for social care in old age, as state provision for such needs diminishes; and

- The *entrepreneurial judgements* made by budget-holding professionals such as GPs, case-managers or school, hospital or college managers with devolved or corporate budgets in securing the appropriate service from other state-financed or private profit-making or voluntary agencies, on behalf of lay users.

In relation to ***lay consumer judgement***, the argument that service users simply have to trust professional providers appears at its strongest. In health care, consumers and potential consumers encounter serious information problems. They are simply unable to predict their future needs (Arrow, 1963). Some theoreticians generalise the argument to suggest that the diffusion of 'active trust' (trust which cannot be taken for granted on the basis of institutional relationships, but 'has to be actively produced and negotiated') is a defining characteristic of post-traditional societies precisely because we are increasingly dependent on experts but increasingly aware of the shortcomings of guarantees such as those provided by membership of a profession (Giddens, 1994, 93). Service users find it difficult to understand complex technical information or weigh the advice of different doctors, are typically not at leisure to compare different providers, may fear that a mistaken choice will produce irreversible consequences and may be influenced by emotions. Similar arguments apply to those confronted with choice between different social care providers (Baldock and Ungerson, 1994, 53-4).

The information requirement may be more nearly met in relation to education. Many people have strong ideas about the quality of schools and there is often a considerable measure of agreement on which are best (David, 1993). However, the capacity to assess and utilise information varies between different social groups, so that middle-class people are advantaged in the education market (Barr, 1993, 375). It is also difficult to disrupt a child's education and network by withdrawal so that an exit option will only be used sparingly.

In the area of ***insurance judgements*** the problems of information and equity have been extensively discussed. If information is not equally available to the firm providing the policy and the person seeking insurance cover, problems of adverse selection and moral hazard can result. In practice individuals may have a better idea whether they are a good or a bad risk than the insurers do, and those aware of a higher degree of risk will be attracted by a policy written on an 'average need' basis. Under some circumstances, individual behaviour may influence the degree of risk, so that the fact of being insured inclines individuals to act in ways that increase the likelihood of suffering a problem and making a claim - for example, someone who has insurance against unemployment will be less anxious to find a job quickly, and again the average need approach will encounter problems (Barr, 1993, 119-122).

Insurance companies tend to respond to these problems with caution. Policies are offered with a large number of restrictions, or only at high premia, particularly in areas where market actors have acquired little experience. A recent review shows that policies for mortgage protection in the event of unemployment, permanent health insurance and long-term care carry extensive exclusion clauses and appear to charge higher premia than is actuarially justified (Burchardt, 1997, 8, 15, 35, 74), points confirmed by Parker for care insurance (1988) Munro for mortgage protection (1988) and Calnan, Cant and Gabe for medical insurance (1993, 15). Good information on the likely risk of needing social care in the future is not available for people of working age in the UK who might be likely to consider insurance. Most UK policies are in fact written either on the basis of US experience or using evidence on the proportion of different age and gender groups actually in receipt of care, which is not necessarily related to need (Parker and Clarke, 1995, 19-20).

Burchardt's study concludes 'the complexity of the products and the difficulty of estimating the risks that one might face in the future mean that the assessment of the value for money offered by a policy is in many cases impossible' (1997, 76). In practice much insurance provision is unattractive. A national sample survey of 1000 individuals by Parker showed that while most of those interviewed overestimated their risk of needing social care in old age (roughly 75 per cent thought they would need care by the age of 85, while the current proportion receiving care is less than 25 per cent) only six per cent expressed interest in purchasing policies on current terms. Similarly, an interview study of 800 households seeking to buy or sell houses in Bristol and Glasgow carried out by the programme found that very few people regarded the terms on which mortgage protection insurance policies were written as sufficiently attractive to purchase them (Munro, 1998). Under these circumstances, a high degree of trust in the product is necessary to enable insurance provision to make headway.

Private pension provision is well established. However, recent developments have diminished confidence. Debate sparked off by the well-publicised Maxwell case (in which occupational pensioners were effectively defrauded by default on unsecured loans from the pension fund of the publishers companies) has severely damaged public confidence in the insurance industry (Goode Committee, 1994). The situation has been exacerbated by the selling of inappropriate pensions to large numbers of purchasers of personal pensions and the weakness of compensation arrangements (OFT, 1997).

In relation to ***welfare entrepreneurship*** among budget holders, commentators often argue that relationships of trust improve the efficiency of markets for services where a high degree of professional expertise is essential to check the quality of a service that itself involves considerable professional discretion - such as health care. The transaction costs of checking quality otherwise become inconvenient. Recent studies indicate that trust is important in facilitating the 'high-discretion' work involved and that relationships between professionals that are closer to those of a network than a contract are more appropriate (Walsh, 1995; Flynn, Williams and Pickard, 1996, 142-4). These arguments draw on a broader literature about industrial organisation (for example, Fox, 1974, 30-37).

It is at present uncertain how forcefully such arguments apply to recent quasi-market reforms in the UK welfare state. A recent literature review indicates that although the evidence on which to base a full assessment of the market reforms in the NHS is not yet available, there may be real benefits in terms of cost reductions which may compensate for the increased transaction costs required to maintain trust (Dixon and Glennerster, 1995, 311). The response of GPs to the opportunities and pressures of fundholding appears to be diverse (Glennerster, Cohern and Bovell, 1996, 55; Ennew and Whynes, 1996, 3). The particular role played by the normative framework in the success of the system is unclear.

These arguments suggest that, while markets in which behaviour is motivated by instrumental rationality may have theoretical advantages in promoting the efficient use of resources to meet people's needs, their operation in practice is likely to be complicated by difficulties in ensuring that good information is available to all participants, and by problems in safeguarding equity. These difficulties can be mitigated by a framework of trust, so that lay individuals can have a greater degree of confidence in decisions made on their behalf by professionals in quasi-markets and in the advice that professional suppliers who are in competition with other suppliers give them about both current health, social care and educational needs and their risk of needing provision at some stage in the future; that parties to insurance contracts can have some confidence that the information supplied by the other party is not misleading; and that service users can have confidence that suppliers are adequately regulated. It is often suggested that the operation of markets in which professionals and managers as budget-holders bargain with suppliers of services on behalf of consumers are facilitated by a high degree of trust, but it is not yet clear on the basis of UK experience whether the possible benefits in responsiveness and innovation outweigh the costs of checking transactions.

A normative framework of trust is particularly desirable in welfare markets, and the above arguments suggest that the such a climate might function as a sort of social capital sustained in a successful market welfare system and facilitating the efficient operation of networks of interaction between the various participants. It is difficult to see how instrumentally rational participation in a market driven by egoistic rationality will generate such capital since it depends on mutual interactions from which the other may defect on self-interested grounds. Why should the previously trust-worthy personal financial adviser not sell over-priced health insurance for the commission, the school misrepresent its academic standards by excluding marginal children from GCSE, the applicant for care insurance conceal a family history of chronic dependency? We now consider evidence from economic psychology on factors which nourish the development of such normative systems.

Norms and the market

Recent work in experimental economics has investigated the production of social capital. The results indicate that people often construct and follow normative systems to achieve a preferable outcome to that available from the exercise of individual instrumental rationality. However, learning by experience is capable of undermining as well as reinforcing this process. A simple game, based on the notion of an ultimatum, addresses the question of rationality directly. Two players must divide a stake (provided by the experimenter) according to the following procedure: one proposes an allocation of the stake between them. If the other accepts, the division is adopted - and paid out. If the proposal is not accepted, neither gets anything. From a rational perspective the allocator holds the whip hand. The most that the recipient can get is what is offered and that by accepting it, so the way to maximize one's return is to accept. Following this logic the rational allocator should offer the minimal concession to maximize their own return, confident of acceptance on the part of the co-player.

In fact, most recipients will not accept less than a certain amount (between a quarter and a third of the money) and will cut off their nose to spite their face at offers below that (see reviews by Güth and Tiertz, 1990, Camerer and Thaler, 1995). The finding is repeated in studies funded by US foundations in third-world and Eastern European countries where stakes that are substantial in real terms can be offered due to differences in the purchasing power of the dollar (Bolle, 1990). This finding is widely interpreted to imply that individuals do employ extra-rational normative principles to guide economic decisions and that these principles are not immediately undermined by the rationality of circumstances (for example, Bethwaite and Tompkinson, 1996, 269-71). This suggests that a helpful normative framework can be sustained in a welfare market driven by rational choice.

This point has been disputed by game theorists committed to the importance of instrumental rationality. One of the most prominent UK researchers in this field has extended the game to two rounds to allow substantial opportunities for learning. When the players exchange roles in the second round the amounts offered and accepted fall substantially. The experimenters conclude that individuals tend to choose an equal division when faced with a new problem, because it is 'obvious' and an 'acceptable compromise', but that 'such considerations are easily displaced by considerations of strategic advantage, once players fully appreciate the structure of the game' (Binmore et al, 1985, 1180). Similar findings are reported by Weg and Smith (1993) and Suleiman, 1996). In a variant of the game (the Dictator game) in which one player simply allocates the stake and the co-player has no veto and cannot prevent the allocator getting the stake minus the offer to the other player, participants tend to be more egoistical. This implies that norms about fairness are more salient in negotiation than in simple allocation (Hoffman et al, 1994). The conclusion from this work is that people can follow norms of fairness when they seem appropriate and when they are reinforced by the social context in which they operate, but are also capable of learning rapidly to pursue rational self-interest.

A related family of games investigates the capacity to construct normative social capital in terms of an outcome that exceeds the initial contributions of the players. The process can be thought of as mimicking the positive sum process of investment leading to economic growth. A typical game gives participants a stake and invites them to invest in a common pot which is then increased proportionately by the experimenter and distributed equally among the players, including non-investors. Thus individuals create and augment a common resource which has the non-excludability characteristic of a public good and is non-rivalrous in consumption in the sense that although it is divided, the proportion each gets is fixed by a predetermined rule, not by competition. The optimum solution for all is that all should invest and get the biggest increment to their investment which is then equally divided. The problem is that those who invest must share stake and product with those who do not. An egoistic non-investor keeps their own stake and then gets a share in the investment of others plus its product. If every one is egoistic, there is no investment and no product. Instrumental rationality reaps no benefit.

Variations on the game can be devised to examine the impact of differential investments and returns, learning in repeated trials of the game, opportunities for communication between subjects and other factors. The findings of various studies show that, in one-shot games, there is an irrationally high rate of contribution - 40 to 60 per cent (except among economics students where a well-known experiment indicates a lower rate of 20 per cent, Marwell and Ames, 1981). However, in repeated trial games the rate falls to about 16 per cent. If those taking part are allowed to communicate either before or during the game, the rate of contribution increases substantially (Thaler, 1992, 9-15). These findings have been interpreted in different ways. A conclusion common to all interpretations is again that norms of cooperation exist, but that individuals are capable of learning where their own rational self-interest lies in a context where other people are assumed to pursue rational self-interest.

The problem of coordinating instrumentally rational choices to achieve an advantageous mutual outcome which is precluded by egoism is well-recognized. An example is voluntary subscription to build a hospital - what any one individual can afford provides little, and the incentive is to keep it, unless convinced that everyone else will act cooperatively and also subscribe. In experimental games based on the ‘prisoner’s dilemma’ and similar problems players often in fact cooperate to achieve the best mutual outcome. However, such cooperation is typically vulnerable to rapid erosion if player’s feel that it is not reciprocated (Lave, 1962, Rapoport and Chammah, 1965; Sen, 1979, 106; Thaler, 1992, 20; Sugden, 1991, 775). In one well-known experiment the most successful strategy was simply to repeat what the co-player did in the previous round, and to punish lack of trust by lack of trust and reward confidence by confidence (Axelrod, 1984). Again supportive norms are not unattainable, but learning can undermine them as effectively as it can reinforce them.

These findings are in some ways supportive of the welfare market project. They imply that market structures do not immediately impose a crude rationality on their participants, so that the normative framework which is desirable to reduce transaction costs and to enable the welfare market to function effectively will not necessarily fall victim to egoism. At the same time, people learn rapidly in market contexts and will respond appropriately to behaviour founded on contrary norms. There is a real fragility to the normative frameworks in which welfare markets flourish. Positive action on the part of government may be required to sustain them.

Some empirical evidence

It is difficult to evaluate the impact of the shift to a market-oriented welfare system, since many changes are recent. Work on attitudes to tax and spending, to the provision of care for older people, to owner occupation and social housing and to social security fraud in the *Economic Beliefs and Behaviour* programme indicates two things: first, the attitudes that people express do not simply reflect the instrumental rationality which Le Grand points out is assumed in the new welfare model. Secondly, there is considerable disquiet about many of the new measures. The relation between such attitudes and behaviour is however complex.

The British Social Attitudes survey study of attitudes to public spending concludes ‘although people are less likely to advocate large increases in public spending when the personal tax consequences are spelled out to them a comfortable majority nonetheless supports increases in spending on at least one or more of the core areas of health, education and universal welfare benefits. There is no evidence either that richer people are less in sympathy than poorer ones with increases in public spending, even if they are asked to pay a higher share of the tax burden to finance them’ (Brook, Hall and Preston, 1996, 200). Access to private alternatives to state education and health care makes little difference to attitudes (197-8).

Surveys of 800 home-owners and buyers in Bristol and Glasgow carried out in 1995 showed that, while there was strong evidence of self-interest (for example, 76 per cent of the sample disagreed with the phasing out of mortgage tax relief) there was also strong support for more altruistic policies. Eighty-six per cent of those interviewed believed that the government should expand the provision of social housing (Munro, 1996, 4). Sixty per cent of a representative national sample interviewed for the study of the finance of care for elderly people, felt that the state should pay for care either for everyone or for those who could not afford it. Of these 84 per cent agreed that the state should pay if this led to a tax increase of £100 a year and 57 per cent if it led to an increase of £500 a year (Parker and Clarke, 1996b, tables 5 to 8). These findings are more difficult to interpret since the motives for supporting state provision may be self-interested (concerned with the risk of needing care) rather than altruistic (concerned to meet the needs of others). There was no obvious relationship with obvious indicators of need such as age, health or family structure. However, individuals do appear willing to pay tax increases necessary to finance support, implying that they do not follow rational self-interest to the extent of seeking to free-ride on state services financed by others.

Evidence of disquiet about the spread of market relations in welfare emerges in the concern about privatization and the individualization of responsibility expressed in discursive interviews in these studies (Taylor-Gooby, 1998, ch.1) and, most strongly, in the attitudes expressed in qualitative research on petty social security fraudsters in Luton and Brixton, carried out in 1995. This survey showed that for the most part, Income Support and Housing Benefits fraud was opportunistic rather than instrumentally rational. Typically, individuals had discovered that it was possible to claim while working casually, and did not plan and execute fraud as a response to economic incentives. They felt unhappy and anxious about the role of fraudster and that their citizenship was effectively impoverished by the punitive regime and meagre benefits offered by the welfare state (Dean , 1996, 20).

Conclusions and implications

This article points to two problems with the assumptions about the motives and behaviour of individuals making choices within welfare markets current in the mainstream of policy debate: first, individual capacity for instrumentally rational choice is constrained by psychological and practical factors which are likely to result in lower levels of future provision than are necessary to meet the needs people recognize. Secondly, markets in welfare are likely to depend to an even greater extent than elsewhere on a normative framework of trust, due to the importance of professional judgments, inscrutable to the lay user, and the difficulty of assessing relevant future risks and products available to meet them. Findings from the ESRC programme imply that normative principles more appropriate to universal citizenship provision than to individual responsibility for meeting one's needs in a competitive market are current among many users of welfare services.

These findings point to four conclusions. First, it is striking that rational choice approaches become popular in policy-making just as evidence challenging rational choice accounts of market behaviour is increasingly influential among academic commentators. Secondly, it is unclear how far welfare markets at present in operation are sustained by a moral legacy from the culture of welfare state citizenship and whether instrumental logic will deplete that legacy over time, so that the markets become less efficient. Thirdly, if expanded market systems are to serve the traditional equity concerns of welfare, compulsion will be required, since many people will not choose to provide adequate cover for themselves. Fourthly, markets should be designed to foster rather than erode inclusive normative frameworks which assist them in achieving welfare goals. Suggestions are: a strong and transparent regulatory framework to encourage trust; the limitation on the capacity of the most successful players to control resources, so that the inequalities between provision in leading and lagging schools or hospitals is minimized; and the design of mechanisms to diffuse the achievements of the leaders. In this context, the Labour manifesto proposal (1997, p.21) to reform fund-holding to include incentives for the most successful and innovative GPs in an area to set standards for provision in hospital contracts which apply to the patients of all GPs, may point to a use of market opportunities which mitigates the problems of cream-skimming and inequality.

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