Chapter 2

Social Policy Design: Market-Oriented Solutions, Rationality, and Federalism

The Great Depression and the mass suffering that it engendered was a significant challenge to the American belief in individual and market-oriented solutions. This great market failure offered the political opportunity to institute the first welfare state programs. In 1935 Francis Perkins, the secretary of Labor, made a direct appeal to the people to think beyond rugged frontier individualism and consider instituting a modern welfare state. In a radio address she urged,

"It may come as a surprise to many of us that we in this country should be so far behind Europe in providing our citizens with those safeguards which assure a decent standard of living in both good times and bad, but the reasons are not far to seek. We are much younger than our European neighbors. Our abundant pioneer days are not very far behind us. With unlimited opportunities, in those days, for the individual who wished to take advantage of them, dependency seemed a reflection on the individual himself, rather than the result of social or economic conditions. There seemed little need for any systematic organized plan, such as has now become necessary. (Perkins, 1935)"

Once the welfare state was established, there was no turning back, at least in terms of removing the welfare state. However, there has been a shift in the form that the welfare state takes. In particular, over the past 30 years social policy has been redesigned to engage markets, rational choice, and local control in program design. This trend was accelerated by Osborne and Gaebler’s well-received book *Reinventing Government* (1992). One central argument of the book was that the government should steer public services rather than administer them; that is, public services should be outsourced.

"Freeing policy managers to shop around for the most effective and efficient service providers helps them squeeze more bang out of every buck. It allows them to use competition between service providers. It preserves maximum..."
flexibility to respond to changing circumstances. And it helps them insist on accountability for quality and performance. (35)

The motivation for moving to pseudo-markets largely had to do with government failures in terms of bureaucracy, waste, and poor quality services. But introducing pseudo-markets failed to solve these problems and at the same time introduced many new problems with respect to coordination failures, unintended incentives, and wasteful additional layers of administration. This book shows that the past 30 years of experience in social policy would suggest that central coordination could often (though not necessarily) lead to better outcomes than unfettered individual choice and pseudo-markets constructed by the government. Organizational structure is not what determines efficacy. What determines efficacy is our ability to see what is being delivered, how it is working, and to adjust programs in response to those results. In other words, the key to good public services is the infinite loop between practice, empirical investigation, and public debate, not private sector provision. Good social policy, regardless of who provides it, depends on transparency, information, and debate.

Reinventing Government also advocated for local and decentralized policy solutions to avoid bureaucracy and increase empowerment and competition. Arguments for local public goods provision have a long history and often make sense, particularly in terms of logistics and responsible funding. The argument was even put forward by Adam Smith in the classic Wealth of Nations (1776):

Those local or provincial expences of which the benefit is local or provincial (what is laid out, for example, upon the police of a particular town or district) ought to be defrayed by a local or provincial revenue, and ought to be no burden upon the general revenue of the society. It is unjust that the whole society should contribute towards an expence of which the benefit is confined to a part of the society.

In other words, the citizens of one region should not profit exclusively from the revenues of another. While this principle still holds theoretically, in practice, given modern mobility, local funding can often lead to unfair and discriminatory public goods provision. Furthermore local policy often allowed in the name of experimentation is often not used for experimentation at all, but rather to allow the manifestation of local political preferences, leading to an inconsistent safety net across the country.

It is difficult to make general assertions about the use of pseudo-markets or the level of government control in policy design. Implementing the idea that “markets are efficient” or “local government is closer to the people” does not necessarily guarantee (or inhibit) good policy. Each policy area is different, with a different historical legacy, different challenges, and different solutions. The only thing that does guarantee good policy is endless iterations between empirical measurement, informed discussion, and the redesign of policy.