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SOCIAL SERVICE DELIVERY AND THE VOLUNTARY SECTOR IN CONTEMPORARY AUSTRALIA: A CONCEPTUAL NOTE ON "CONSTRUCTIVE COMPASSION" AND THE McCLURE REPORT

by

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Abstract

Continuing poverty, deprivation and unemployment in rich English-speaking countries has led governments to reconsider existing methods of delivering social services. In Australia Minister Abbott has developed a doctrine of "constructive compassion" to justify human service delivery through private firms and voluntary organisations and the McClure Report has also argued for "social partnerships" involving governments, the business community and the voluntary sector. The limited purpose of this note is to evaluate these arguments using the conceptual tools of market failure, government failure and voluntary failure and drawing on some of the theoretical literature on the voluntary sector, especially Billis and Glennerster (1998). We contend that considerable scope does indeed exist for social service delivery by voluntary organisations, subject to at leat one important caveat.

Key Words: voluntary sector, voluntary failure, social service delivery, constructive compassion

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Throughout the advanced English-speaking world social commentators have become increasingly dismayed at the persistence of deprivation, poverty and unemployment, despite almost a decade of economic prosperity. The realisation that existing redistributive mechanisms encompassed under the contemporary "welfare state" do not seem to have alleviated the plight of a significant economic and social "underclass" has led governments of various political persuasions to explore alternative methods of dealing with this apparently intractable problem. Perhaps inspired by the Blair government and Clinton administration's well-documented search for a "Third Way", conservative politicians have also sought to develop and implement new ways of approaching effective welfare delivery. For example, the incoming Bush administration in the United States is already articulating an emphasis on religious and other not-for-profit groups in official welfare programs, despite potential constitutional obstacles. Similarly, the Howard government in Australia is presently experimenting with alternative systems of delivering social services.

Social scientists should find the nascent Australian approach interesting for at least two reasons. Firstly, in some ways it represents a novel approach to the problem of improving welfare service delivery in the sense that it seeks to harness the respective strengths of the traditional public sector, the private sector and the voluntary sector in a joint endeavour. And secondly, the architects of this approach have sought to develop a coherent philosophical framework within which to articulate the aims of the new policy.

The cornerstone of this policy framework resides in the doctrine of "mutual obligation" which has been defined *inter alia* by Minister Tony Abbott in a "Bert Kelly Lecture" to the Centre for Independent Studies in Sydney on 3 August 2000 entitled “Mutual Obligation and the Social Fabric” as follows:

“…[I]ndividuals have responsibilities to the community as well as the other way round. It encompasses the notion of give and take which is party to every dealing worthy of the term relationship. It’s an aspect of complementarity which should exist between citizens in a free country. It’s the service we all owe to one another if society is to flourish”.

The notion of mutual obligation has been used to justify programs subsumed under the Howard governments “Work for the Dole” plan which seeks to oblige unemployment benefits recipients to contribute in some tangible way to Australian society. It also forms a crucial part of the recommendations of the Final Report of the Reference Group on Welfare Reform which presented its findings in a report entitled *Participation Support for a More Equitable Society* in July 2000, known colloquially as the McClure Report. This Report has expressed concern that “jobless families” and “job poor communities” might become “entrenched” in Australia, pronounced its support for the encouragement of “social participation” (not necessarily through paid employment and possibly through voluntary contributions to society) by all capable citizens and emphasised the importance of “social partnerships” to enhance “community capacity”. The Report has also stressed the need for “individualised service delivery” of social services to needy people and indicated that this can best be achieved through “social partnerships between business, government and community organisations”. The advantage of these social partnerships resides in the fact that “the providers of the associated training, counselling and work opportunities are in direct contact with those in need”. Leading religious and charitable bodies involved in these partnerships in Australia include the Society of St. Vincent de Paul Society, the Salvation Army, the Brotherhood of St. Laurence, the Wesley Mission and Anglicare, all of which enjoy considerable esteem amongst the general public.

Both the Work for the Dole scheme and the new Job Network have been justified as exemplifying the doctrine of mutual obligation. In an important speech to the H. R.

Nicholls Society on 6 May 2000 entitled "Constructive Compassion", Minister Abbott set out this argument as follows:

"The Job Network and Work for the Dole are good examples of how the new politics can create social enterprise rather than government enterprise. The Job Network replaced a 50 year old bureaucratic monolith working to a public sector rule book with more than 200 private, community-based and charitable organisations with a mandate to do whatever they thought was necessary to get people into work".

In a later speech at the Wesley Mission Conference on 17 November 2000, entitled "Job Network: Where to Next?" Minister Abbott reiterated his belief that the Job Network represented the Howard government's attempt to substitute "constructive compassion" for the earlier "kindness which kills" philosophy underlying the open-ended wealth transfers hitherto characteristic of the Australian welfare state in the post-war era. Moreover, the Job Network was "an act of faith based on reason: faith in the ability of private-sector, community-based and religious organisations to deliver better services than an over-stressed and inflexible bureacracy; and reason based on previous experience of these organisations' good work in case management". However, he was quick to qualify the new approach as a "work-in-progress subject to fine-tuning in the light of practical experience".

Rhetorical flourish aside, an argument which asserts that, under certain circumstances, public agencies, private firms and voluntary organisations each possess comparative advantages in different kinds of social service delivery is eminently amenable to analysis using the tools of social science in general and economics in particular. If we reformulate Minister Abbott's argument in the language of contemporary policy analysis, with its emphasis on a comparative institutions approach and its analytical prisms in the form of market failure, government failure and voluntary failure, then we can examine his claims with at least some degree of conceptual precision. This forms the subject matter of the present research note.

The research note itself comprises three main parts. In the first section we provide a brief synoptic review of the salient literature on market failure, government failure and voluntary failure. The second section considers the comparative advantages of public agencies, private firms and voluntary organisations respectively in the provision of social services to various kinds of "disadvantaged" people by bringing to bear Billis and Glennerster's (1998) theory comparative institutional advantage. The research note ends with some brief concluding remarks in section three.

1. MARKET FAILURE, GOVERNMENT FAILURE AND VOLUNTARY SECTOR FAILURE

Market Failure

In generic terms market failure may be defined as the inability of a market or system of markets to provide goods and services either at all or in an economically optimal manner. For instance, market failure occurs when marginal social costs do not coincide with marginal social benefits for a particular good or service. Put differently, market failure occurs when market prices do not equate with marginal social costs. This means that market prices as signaling devices will not accurately reflect the full social costs of producing the economic good in question and so producers will either under - or over-produce the good.

Although this way of defining market failure exclusively in terms of allocative efficiency represents the conventional wisdom in standard neoclassical economics, it is regarded by many as far too narrow. Numerous critics have observed that even if markets yield allocatively efficient outcomes, these outcomes may still be unsatisfactory viewed from a wider ethical or distributional perspective. In other words, if we broaden the definition of market failure to include equity as well as efficiency, then the full societal consequences of the operation of markets can be considered. Some commentators have indeed sought to provide a more comprehensive definition of market failure. For example, Charles Wolf (1989, p. 19-20) has developed a more complete definition of market failure which embraces both efficiency and equity elements; that is, "…markets may fail to produce economically optimal (efficient) outcomes or socially desirable (equitable) outcomes".

Needless to add, the introduction of equity or "fairness" issues into economic analysis brings with it complex considerations, not least the fact that a virtually inexhaustible range of plausible ethical standards for evaluating equity exist (Kolm 1993). Weimer and Vining (1999, p. 134) have posed the problem as follows:

"As individuals we turn to philosophy, religion, and our moral intuition to help ourselves develop systems of values to guide our assessments. Absent a consensus on the values to be considered and their relative importance when they conflict, our political institutions must unavoidably play a role in selecting the specific values to guide our assessments".

For these and other reasons, economists have (perhaps understandably) been reticent about the specific introduction of ethical yardsticks into economic analysis. But from the pragmatic perspective of real-world policymaking, it seems impossible to avoid equity issues no matter how much they complicate policy formulation, especially in the area of human service delivery. After all, as Wolf (1989, p. 30) has observed, "most public policy decisions are usually even more concerned with distributional issues (namely, who gets the benefits and who pays the costs) rather than efficiency issues (namely, how large are the benefits and the costs)".

The introduction of explicit ethical norms into economic analysis creates at least two forms of complexity. Firstly, it is difficult to identify moral value on which there exists widespread consensus. Needless to add, reasonable people often disagree on the content of "universal" values and these disagreements cannot be resolved through logical disputation or any other intellectual process. A second and related source of difficulty resides in selecting from the almost unlimited range of potential ethical claims, a manageable number of equity arguments likely to command popular assent.

In their influential text on policy analysis, Weimer and Vining (1998, p. 146) identify three main "…rationales for some of the more important substantive values that often compete with efficiency". These include "human dignity" which has implications for public policy in terms of income transfer schemes to ensure minimum consumption levels or "floors on consumption", participation in public decision-making processes along the lines of the universal franchise, and "paternalistic" intervention on behalf of children and mentally impaired adults. A second rationale involves 'increasing the equality of outcomes' in a relative sense of considering the "aggregate wealth of society". Finally, "preserving institutional values" requires an adherence to existing constitutional frameworks, which engender "perceptions of fairness".

Apart from the formidable problems posed by the existence of alternative equity criteria, further complications arise when different methods of approaching ethical questions are adopted. For example, it is possible to distinguish between ethical frameworks, which emphasize either distributive processes or distributive opportunities or distributive outcomes (New Zealand Treasury 1987). Thus if a distributive outcomes approach is followed aimed at equality of income, then this could conflict with the prescriptions offered by a distributive processes model or the opportunities *modus operandi.* For instance, it is entirely conceivable that unequal distributions may be fair if they result from fair processes of exchange. It is thus evident that the adoption of any one of these generic approaches to equity involves tradeoffs between processes, opportunities and outcomes, not to mention more general tradeoffs between equity and efficiency.

The phenomenon of market failure (broadly defined to include both equity and efficiency) has led to at least two kinds of responses in the area of social service delivery. Firstly, government agencies have historically attempted to intervene to provide services which private markets do not adequately supply. When this intervention is imperfect, then government failure is said to occur – a concept which we will review in more detail shortly. Ben-Ner and Van Hoomissen (1996) argue that market failure will also give rise to a demand for the activities of voluntary organisations, especially in the provision of "charitable goods" (where only recipients and not donors benefit from their receipt) and "trust goods" (where stakeholders are suspicious of the profit motive).

Government Failure

Government failure may be defined as the inability of public agencies to achieve their intended outcomes. By far the most important positive theory of government failure resides in public choice theory. In essence, public choice theory seeks to apply the tools of economics to non-market or political processes underlying public policy formulation and implementation, and in so doing has developed a comprehensive critique of government intervention in a market economy. In stark contrast to the market failure paradigm, public choice theorists have rejected the "common good doctrine" (Bretton 1996) implicit in this approach and instead have developed models of decision making in advanced representative democracies on the assumption '…that people should be treated as rational utility maximisers in all of their behavioral capacities' (Buchanan 1978, p. 17). In other words, politicians, public servants, voters, and members of special interest groups involved in public policy formulation and implementation are presumed to use the resources and opportunities available to them to pursue their own objectives rather than the 'common good'. Crain and Tollison (1993, p. 3) have summarized the public choice approach as follows:

"At the most basic level public choice is founded on the idea that human behavior in governmental settings is motivated by the same self-interested forces that guide human behavior in private settings. This does not mean that behavior is the same in the two environments – the constraints on self-interest will differ between government and the private sector. But people acting in both sectors are the same sort of people, whatever the context in which they work, and public choice hypothesizes that private interest will dominate decision making in a large number of cases."

The application of the public choice approach to the public sector has generated various taxonomic systems of government failure. Perhaps the most comprehensive typology of government failure has been developed by Weisbrod (1978), who has advanced a fourfold classification. "Legislative failure" refers to excessive public expenditure attendant upon the vote maximizing behavior of politicians. Secondly, "administrative failure" derives from the observation that the "…administration of any law inevitably requires discretion, and the combination of information and incentives acts to affect the manner in which the discretion is exercised" (Weisbrod 1978, p. 36). Thirdly, "judicial failure" occurs when the legal system does not yield economically optimal outcomes. And finally, "enforcement failure" is defined as the sub-optimal "…enforcement and non-enforcement of judicial, legislative, or administrative directives [which] can thus vitiate the effectiveness of actions of these other stages" (p. 39).

The phenomenon of government failure in the broad area of human service delivery has various implications for the voluntary sector. Weisbrod (1977) has developed a theory of the voluntary sector which holds that public agencies will only supply public goods to a level that satisfies the median voter and thereby leave considerable residual unsatisfied demand by people who require greater levels of the public good in question. Voluntary organisations can then fill this vacuum by supplementing government output.

Voluntary Failure

In contrast to both market failure and government failure, voluntary failure has attracted much less scholarly attention and accordingly is not well understood. Indeed, even providing a satisfactory definition of the voluntary sector has proved exceedingly difficult, given its heterogenous nature. Susan Rose-Ackerman (1996, p.701), a leading thinker in the field, has observed that "as the study of nonprofits has developed and the data base has grown, analytic efforts that preserve sharp distinctions between the for-profit, nonprofit and public sectors look increasingly problematic". Nevertheless, attempts have been made to determine the nature of voluntary failure. Salamon (1987) proposed a model which viewed governments and markets as "residual" providers of public goods since collective action on community problems is best achieved on a voluntary basis by the charitable sector. Thus, only when the voluntary sector "fails" to provide these goods should governments and private market agencies be required to take their place. Moreover, the sources of voluntary sector failure may be attributed to its inability to generate sufficient resources and its consequent vulnerability to the whims of wealthy patrons, especially amateurism and paternalism. We can thus characterise voluntary failure as the inability of voluntary organisations to achieve their intended aims.

Armed with the analytical notions of market failure, government failure and voluntary failure, we can now examine the Australian welfare delivery policy which seeks to provide human services through a combination of government agencies, private firms and voluntary organisations. Underlying this delivery system is a presumption of comparative advantage between these three sectors.

2. COMPARATIVE ADVANTAGE IN SOCIAL SERVICE DELIVERY

In their theory of the comparative advantage of the voluntary sector, Billis and Glennester (1998) attempt to epitomise the essential characteristics of the supply of, and the demand for, human services in the modern welfare state. On the supply side, Billis and Glennester evaluate organisational stakeholders and their likely behavioural motivations. Government agencies are seen as heavily influenced by the electoral exigencies of their political masters along conventional public choice lines, private welfare agencies are conceptualised as driven by the profit motive following orthodox neoclassical economics, and voluntary organisations are conceived of as complex and “ambiguous” because they possess “multiple” stakeholders.

In contrast to standard public choice assumptions about the utility maximising characteristics of consumers of public goods, Billis and Glennerster (1998) approach the demand for human services by emphasising the “disadvantaged” nature of recipients of human services. Four kinds of disadvantage are identified. Firstly, some people are “financially disadvantaged” and thus unable to participate in the normal market exchanges necessary to sustain a viable way of life. In the second place, individuals may suffer “personal disadvantage”, like mental illness, retardation and extreme age, which renders them unable to exercise rational preferences even if they possess the requisite financial resources. ‘Societally disadvantaged” people include ethnic minorities, drug addicts, homosexuals, single mothers and other groups which are “stigmatised” and excluded from the broader community despite generally being able to function well. Finally, Billis and Glennester (1998, p.88) identify “community disadvantaged” citizens as people who live in ghettos where “market, political and civil structures have broken down” to such an extent that they cannot participate in normal life.

Given the fourfold taxonomy of disadvantage amongst recipients of social services, the question arises as to the comparative advantages of government agencies, private firms and voluntary organisations in delivering these services to variously disadvantaged citizens. Billis and Glennerster (1998) suggest two methods of approaching this problem. In the first instance, it may be “fruitful” to examine “the structural features of ‘typical’ agencies in each sector which might cause them to align with particular categories of disadvantage” (p. 88). Alternatively, and more promisingly, combinations of disadvantage can be correlated with specific sector responses. In other words, we need to consider under what conditions of disadvantage we can expect the emergence of government failure, market failure and voluntary failure.

If we examine each for of disadvantage in turn, then this can assist in highlighting potential structural comparative advantages possessed by the three means of delivering human services. Financial disadvantage by itself represents the clearest case. Billis and Glennerster (1998, p.88/89) unequivocally that “…the state in most instances can, if the need is deemed justified, provide the cash and thus remove the disadvantage”: neither the private sector nor voluntary agencies is deemed to enjoy any comparative advantage. While at first sight this argument may seem convincing, upon further reflection it seems unnecessarily restrictive since it considers only the effectiveness of outcomes and not their efficiency in terms of resources. Monetary transfers to financially disadvantaged persons in the form of unemployment benefits and other social security payments are typically legislatively determined, easily calculated and readily monitored. Accordingly, if we distinguish between public provision and public production, then it is difficult to see why government funded welfare payments could not be delivered by private sector firms. After all, transfer payments consisting of public funds delivered by private firms can be safely monitored with minimal principal agent problems given the straightforward nature of the transaction. Moreover, there is ample evidence that the private sector can perform this task at lower unit costs than the public sector, especially with powerful public sector trade unions raising costs and reducing labour productivity. It would thus seem that, contrary to Billis and Glennerster (1998), the private sector may enjoy the greatest comparative advantage in this sphere of disadvantage. The complexities and ambiguities associated with voluntary organisations, especially their loose hierarchical structures, would seem to make them prone to voluntary failure under these circumstances.

In contrast to financial disadvantage, which is relatively easily remedied, personal disadvantage represents a much more thorny problem. People in this category generally require others, like parents, relatives or guardians, to act on their behalf. But many personally disadvantaged individuals may not have anyone to represent them or available act in their interests. Given its profit motive, the private sector would seem unsuitable since it would confront strong moral hazards and thus market failure may be expected to exhibit itself. Similarly, public sector delivery agencies are "…likely to receive weak messages from politicians defining their goals and standards" and accordingly "normal practice will therefore be to leave it to the 'professionals' to act as interpreter and guardian of the personally disadvantaged person" (Billis and Glennerster, 1998, p. 89). Past experience in Australia and elsewhere has indicated that under these circumstances government failure in the tragic form of sexual and other abuse often occurs. In comparison, voluntary organisations seem to possess definite advantages deriving from stakeholder ambiguity. By ambiguity in this sense, Billis and Glennerster mean the "overlapping roles" characteristic of many voluntary organisations, where often no clear-cut distinctions can be drawn between "employer and employee, employee and non-employee, provider and recipient, chairperson and director, director and subordinate" (p. 91). The "informality of an ambiguous and relatively small voluntary organisation", together with highly committed staff, might thus well be best suited to the complexities of assisting personally disadvantaged clients. A second attribute of voluntary organisations, not invoked by Billis and Glennester (1998), derives from the work of Hansman (1980) on information asymmetries. Hansman argues that since any surpluses deriving from the operation of voluntary organisations are subject to a "non-distribution constraint", this reduces the incentives for voluntary sector workers to misrepresent their activities to consumers of their services and to donors. Voluntary organisations are thus often regarded as more "trustworthy" than their private or public sector counterparts.

Similar arguments appear to hold force in the case of societally disadvantaged people, although to a lesser degree. Alcoholics, drug addicts, Aids sufferers and other stigmatised people are not always blessed with much public sympathy and cannot always expect sympathetic treatment from electorally sensitive vote maximising politicians. This renders assistance by public agencies problematic and government failure highly likely. On the other hand, if societally disadvataged persons are not financially disadvantaged, then often private sector firms, such as detoxification clinics and hospices, can deal with the problem. But voluntary agencies would seem to have a comparative advantage where financial disability is combined with societal disability. This is readily evident in contemporary Australia, where, for example, organisations like the Salvation Army and the Wesley Mission routinely care for poor homeless alcoholics.

Community disadvantage, characterised by the absence of the usual institutions of civil society, seems to be the form of disadvantage least amenable to successful intervention from any of the three possible avenues of human service delivery. Public agency responses to community disadvantage are typically "short term" and beset by government failure, often consisting simply of emergency relief and riot suppresion. Moreover, disadvantaged communities are not normally endowed with a viable market economy and accordingly face endemic market failure. Thus, "self-help and community mobilisation, despite resouice constraints, appear to be one of the few ingredients of a possible upwards cycle" (Billis and Glennerster, 1998, p. 93), in which voluntary organisations may act as a vital catalyst. In Australia, whereas metropolitan centres fortunately seem to have few of these areas, many remote Aboriginal settlements appear to be disadvantaged communities.

3. CONCLUDING REMARKS

The aforegoing analysis of the potential comparative advantages possessed by government agencies, private firms and voluntary organisations respectively is hardly definitive. But it does at least provide some conceptual grounds for evaluating the arguments advanced by Minister Abbott in his doctrine of "constructive compassion" and the McClure Report's emphasise on "social partnerships", "community capacity", "individualised service delivery", and "social partnerships between business, government and community organisations". For example, the mobilisation of church and other voluntary organisations to deal with people suffering from personal disadvantage, societal disadvantage and community disadvantage seems most promising, given the comparative advantages of the voluntary sector in these areas. Moreover, public-voluntary partnerships in these spheres, with the government providing most of the requisite financial resources (thereby overcoming the generic funding problems which plague the voluntary sector) and the voluntary agencies actually delivering human services, appear eminently sensible. The Work for the Dole program, financed by the Commonwealth Government and run by voluntary and community groups, would seem to fit this category well. Similarly, in the specific instance of the Job Network, where work-seekers are financially disadvantaged, but not otherwise disadvantaged, there seems to be no coherent conceptual argument against the participation of private firms. Indeed, as we argued earlier, private firms may well enjoy a comparative advantage over public sector employment agencies in this regard. However, as we have seen, where unemployed persons endure disadvantages in addition to financial disadvantage, it is difficult to see a constructive role for the private sector. And since many unemployed people undoubtedly suffer from personal disadvantage, societal disadvantage or community disadvantage, this may represent a significant caveat.

Despite the ostensibly favourable linkages between theory and evolving practice in human service delivery in contemporary Australia, considerable caution should be exercised in the manner in which the voluntary sector is deployed. For instance, it has been argued that ambiguity and structural complexity, particularly in the form of the overlapping organisational roles of voluntary sector workers, constitute a strong comparative advantage for voluntary organisations when it comes to dealing with the difficulties of personal, societal and community disadvantage. Indeed, it is precisely the much more delineated and structured hierarchies of public agencies and private firms which makes them more susceptible to government failure and market failure in these circumstances. Accordingly, any attempt by official policymakers to force voluntary sector organisations to adopt more formal structures and practices as a precondition for engaging in human service delivery will serve to undermine the very strengths which give them a comparative advantage. Given the current legislative emphasis on financial and other forms of accountability at all levels of government in Australia, and the concomitant legal obligations on organisations in receipt of public funding, this is by no means a trivial problem. Whilst we are the last to argue for less statutory accountability in the expenditure of scarce public funds, some way must be found to reconcile the existing nature of voluntary organisations with public accountability.

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