

# The Value of Choice in Public Policy

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## INTRODUCTION

The Labour governments have pushed a choice agenda in public service provision since a major speech Tony Blair gave on 16 October 2001 (Perri 6, 2003). They have argued that that choice can *both* improve service quality in many areas of public service and is *also* an intrinsic good in itself. We define choice as being instrumentally valuable in the sense that increasing choice in public services brings welfare gains through efficiency by the signals that choice gives to providers (generally though not exclusively through market or quasi-market processes). We define choice as being intrinsically valuable if it is desired for itself, even though why it is desired might be further explicated (for example, choice enhances individual autonomy). (In that sense any intrinsic value can be further justified instrumentally.) The choice agenda, both when first introduced by the Conservatives under Margaret Thatcher, and in its new guise under Blair (where the intrinsic benefits have been highlighted) is controversial. How far market and quasi-market mechanisms bring efficiency gains has been questioned, though the mainstream view is that they have brought efficiency gains in some areas though not others. More importantly, it has been argued that increasing citizen choice empowers the middle classes more than the lower classes, and so is inequitable. We set aside the instrumental value of choice when discussing the value of choice in the early part of this article – though it re-emerges in the second part. And we do not comment on the equity issue. We do not ignore the equity issue because it is unimportant; rather we do so because our focus is upon the claims of choice having an independent intrinsic value. This paper queries the intrinsic value of choice as we have defined that term. Even if choice does not increase efficiency, and even if it increases inequity, some might argue that increasing choice in public service could be justified on the grounds of its intrinsic value.

Surveys has demonstrated that people say they value choice in service provision, and the lower classes seem to value increasing choice even more than the middle classes (Le Grand forthcoming). We interrogate the concept of ‘increasing choice’. We examine what increasing choice might mean, and show that it is surprisingly difficult to measure whether choice has been increased in any area of public provision in a non-trivial and uncontroversial manner. The dilemma of measurement is whether to simply count the number of alternatives (a so-called ‘cardinality’ measure) or whether to take into account the welfare gains of those alternatives. The former measurement can make increasing choice seem trivial and value-less; the latter means it is possible to increase choice whilst reducing the number of alternatives: that seems counter-intuitive (and against government policy). The latter type of measurement also closes the gap between any intrinsic value choice might have and the instrumental value of choice as we have defined that term. If it is welfare gains by which we measure choice then it seems choice has no intrinsic value beyond the efficiency gains by which we defined its instrumental value.

We begin by explicating the measurement problem by informally describing some social choice results that demonstrate it. We then explicate what these results mean for government’s policy of attempting to increase citizen choice. We suggest that increasing choice by increasing alternatives does not necessarily empower people (Vidler and Newman 2006: 203-4), and perhaps the value of choice comes via empowerment. We define increasing alternatives (the cardinality measure) as ‘hard’ choice – hard in the sense it is easy to compile and provide targets; providing information, advice and helping people to makes choice we define as ‘soft’ choice – because target-setting and oversight is more difficult. We then look at some of the empirical attempts to measure whether the British government has succeeded in

increasing choice through the lens of the dilemma we have set out; and in terms of the hard and soft choice definitions. We find that the empirical attempts to measure gains in increasing choice largely rest upon welfare gains and not any supposed intrinsic value. Our analytic argument and review of the empirical literature together suggest that we should concentrate attention upon the welfare gains of any public policy (which should also include equity considerations), rather than any supposed intrinsic benefits of the choice agenda.

### **WHAT IS CHOICE AND HOW MIGHT IT BE MEASURED?**

In the social policy literature the very idea of increasing choice is not normally considered problematic. In fact formal literature from the social choice tradition demonstrates that this is not so. The very meaning of ‘choice’ and how increasing it might be measured are deeply problematic (Kreps, 1979; Dowding, 1992; Sen, 1988, 1990, 1991; Pattanaik and Xu, 1990, 1998; Arrow, 1995; Sugden, 1998, 2003; Van Hees, 2000). We explain these problems here and suggest why this is a problem for the choice agenda in social policy.

The central question posed in the social choice literature was set in one of the early contributions by Pattanaik and Xu (1990). Their ‘flavour of an impossibility theorem’ (that is, a flavour of a logical contradiction) is fashioned by three axioms which intuitively seem plausible and produce a simple counting rule for measuring choice. However, the simple counting rule has counter-intuitive implications. In their presentation Pattanaik and Xu (1990) present three axioms:

1. *Indifference between no-choice situations: opportunity sets consisting of only one item yield the same amount of choice.*

An ‘opportunity set’ consists of those possibilities that a person might be able to choose in some domain. The justification of this axiom is that an opportunity set of only one item yields no choice at all hence we should be indifferent between two sets each offering no choice.

*2. **Strict monotonicity:** for all distinct alternatives  $x, y$ , the opportunity set consisting of both  $x$  and  $y$  yields strictly more choice than one consisting of only  $x$  or only of  $y$ .*

The justification seems obvious. A set where I can choose from two items surely yields more choice than a set with only one of those items.

*(3) **Independence:** for all opportunity sets  $A$  and  $B$  and alternatives  $x$  which belong to neither  $A$  nor to  $B$ ,  $A$  gives at least as much choice as  $B$  if, and only if, the union of  $A$  and  $\{x\}$  gives at least as much choice as the union of  $B$  and  $\{x\}$ .*

The idea here is that adding or subtracting the same element from any two opportunity sets should not affect their evaluation with respect to each other. That is, if we prefer set  $A$  to set  $B$ , then we should still prefer set  $A$  to set  $B$  when element  $x$  is added to each of them.

Pattanaik and Xu (1980) show that these three axioms yield a unique cardinality rule where choice is measured simply by the number of items in an opportunity set. In other words, to measure choice we simply need to count how many items are open to the chooser. In a public policy context the cardinality rule is applied when we say a choice of four hospitals is greater than having just one; or a choice of three schools is greater than having just two. However, some very straightforward examples demonstrate that this simple cardinality rule does not correspond to our intuitions about what constitutes an increase in choice. In Pattanaik and Xu’s example, adding the alternative ‘blue car’ to the set {red car, train} does not seem to add as much choice as adding ‘blue car’ to the set {bicycle, train}. In a public policy

context, adding ‘Roman Catholic school’ to the set {Christian School, Muslim School} does not add as much as to the set {Muslim School, non-faith school}. Now note here that this is not a question of one set having more valued choice, but having more choice itself. To be sure, in both examples, there are two opportunity sets with two items in them. By the simple counting rule each set has the same amount of choice. But the question is whether they each offer equal choice. Do we consider we have a choice between identical cans of beer (Sugden 1998)? The problem is a deep one about how we designate objects so they constitute different objects of choice.

There are two responses in the social choice literature to this problem. One is to include ‘diversity’ within the counting rule; the other is to include the value of the alternatives within the measure. There have been several attempts to measure diversity of alternatives within opportunity sets (Bossert *et al.*, 1994, 2003; Sugden, 1998) which display various degrees of technical ingenuity. However, Martin van Hees (2004) demonstrates they are doomed to failure. It is not possible to combine the cardinality rule with diversity without one rule dominating. The impossibility result can be illustrated with a simple example. Imagine measuring diversity along a single dimension. In Figure 1(a), the two items  $w$  and  $x$  are closer together than the two items  $v$  and  $z$  in Figure 1(b). It appears therefore that 1(b) provides greater diversity and so we might argue that 1(b) provides greater choice. Of course, it might be countered, even in this figure a voter might prefer the choice between a moderate socialist and a moderate conservative to a one between a radical communist and a radical libertarian; so it is not *obvious* that 1(b) provides more choice than 1(a), let alone greater utility. The point is made even more manifest when 1(b) is compared to 1(c). Here we have three items  $w$ ,  $x$  and  $y$ . They are still contained within the bounds of the broader set 1(b) but there are now three items. Does 1(b) or 1(c) contain the

most choice? Do we value three alternatives closer together or two further apart? Our answer might depend on where we locate our ideal or bliss point on that dimension. Do we want more options or fewer more diverse ones? In a public policy context, do we prefer the choice of three hospitals which all offer much the same surgical techniques or two hospitals that offer radically different treatments for the condition? Do we prefer a choice of three faith schools or one faith and one non-faith school?

[Figure 1 About here]

Diversity in this literature does not have to be measured in terms of utility. Indeed Bossert *et al.* base their measure on an objective function from the physical sciences. But the most obvious and important way would be to include valuation of the alternatives. If we believe that what matters is how *much* we value the options, then we are suggesting that the degree of choice is defined by the amount of utility we would gain from the choice we make. Thus freedom of choice is defined by what economists call ‘indirect utility’ (Kreps 1990, 45-48). This is the utility the agent would receive through his most preferred alternative at the time of making that choice and that itself might depend on the choices others’ make. Some writers have suggested that freedom of choice should be defined by the indirect or potential utility as it provides ‘flexibility’ for choosers (Kreps, 1979; Arrow 1995); or it enables greater individual autonomy and community diversity (Sugden, 2003; Bavetta and Gualla, 2003). Van Hees’s (2004) result suggests, however, that any measure of freedom of choice must allow either number or diversity to *dominate* the calculation. In a public policy context, either the number of hospitals or schools, or the character of the alternatives, will determine how we measure the increase in choice. Either way is open to criticism, because of counter-intuitive examples, and they cannot be combined in any way that avoids such examples.

We should note, however, that these ‘impossibility results’ do not demonstrate that we can never be sure we have increased choice in any policy domain. Such impossibility results demonstrate only such measures cannot be applied to *all* cases. They do not show that they cannot, non-controversially, be applied to some cases. Sometimes it is obvious that the change from situation A to situation B has, non-controversially, increased choice. Adding a non-faith school to a menu of faith schools non-controversially increases choice, for example. It is only when the opportunity sets are not subsets of each other that the problems might arise. But scarcity ensures that the choice agenda cannot satisfy that requirement.

The conceptual problems we have considered concern unconstrained choice. Once feasibility constraints are added to the mix more problems emerge. One problem is individuation (Dowding, 1992: 308-12). People value objects under different descriptions thus how a choice is described also evaluates that choice. Consider choice of schools. Imagine a situation where parents could order the set of schools for their child. If there were too many subscribers for any particular school, final entry would be by lottery with those not attaining their first choice entering the lottery for their second choice and so on. For parents whose main concern is entry to the school with the best GCSE results, such a system might seem fair. If they fail to get their first choice they stand a chance of getting their child into their second choice, and so on. However, parents who want their child to go to the nearest school would lose out. If the nearest school was also the school that had the best GCSE results, their ability to choose the local school for their child would be reduced by comparison with any system where ‘catchment area’ plays a major role. So the implementation structure increases choice for some parents (by the cardinality rule), but reduces it for others (by reducing the probability of their successfully choosing their most preferred

alternative). The increase for some at the expense of others is due to the different, though reasonable, criteria we have for measuring increased choice. Enhancing choice under one criterion (number) reduces choice under another criterion (evaluation). Thus the spaces under which choices emerge and under which it might be evaluated become important.

Another stark example of where reducing choice whilst increasing it happened to one of the authors. When the author had a minor operation prior to the government's choice agenda being introduced he and the surgeon agreed a mutually convenient date. After the implementation of choice, when undergoing the same operation, the author had to be asked which hospital he wanted, and once that choice was made was simply assigned a date. It might be possible to introduce a choice of surgeon/hospital without losing the choice of dates, but since the latter was not an explicit part of the government's choice target implementation in the author's health area resulted in one choice being substituted for another. As it happens, the author was indifferent over choice of hospital (or rather wanted his local hospital which he would have got anyway) but was much more interested in having some control over the precise day of the operation. Of course, such an anecdote only illustrates the problem; it does not show how general it is.

## **THE VALUE OF CHOICE**

Choice might be valued instrumentally: for what it brings; or it might be valued intrinsically: for what it is. The instrumental value of choice is that it gives signals for providers that increase both allocative and productive efficiency. Market efficiency is driven by choice. With a large number of consumers and multiple providers consumers can choose products in terms of their type; quality and price. Given

heterogeneous tastes a large number of different types of product – such as cars – can be produced and some firms can specialize. Product variety occurs due to these market signals. Furthermore, such allocative signals also drive productive efficiency since price as well as type and quality matter to consumers. Thus consumer choice drives both allocative and productive efficiency.

Quasi-market processes are supposed to mirror the competitive pressures and produce these efficiencies. The main difference between quasi- and standard markets is that in the former the organizations are not developed to provide profits. How this affects their incentives has been much discussed and will not be repeated here (Le Grand and Bartlett eds 1993; Hardy and Wistow 1995. Flynn 1999). We can see that competition in the form of contracting-out has undoubtedly produced efficiencies in some areas of the public sector such as refuse collection. However, generally speaking, as we learn from transaction costs economics (Williamson 1975, 1996) such efficiencies most easily come in areas where contracts are easiest to specify. Their success in the health market has been difficult to demonstrate (Propper 2006). Similarly whilst Tiebout competition has been shown to operate in the sense that household do move to try to attain better tax-service packages no-one has definitely demonstrated efficiency gains through that process (Dowding *et al.* 1994; Dowding and Mergoupis 2003; Donahue 1997). Thus whilst hard choice might provide efficiency gains, demonstrating this outside of public services for which simple contracts can be written has proved problematic.

However, if people value choice in itself, then providing without such efficiency gains would still be justifiable. Why might choice be intrinsically valuable? If one prefers alternative  $x$  to all other alternatives, why would one prefer the set  $\{x, y, z\}$  to  $\{x, y\}$  to  $\{x\}$  (Dowding 1992)? Add any costs choosing might bring, and then

surely the preference revelation is likely to be contrariwise. Indeed a *Which?* survey suggests people value ‘access and quality’ to more choice in the areas of pensions, health and education (recounted in Le Grand forthcoming). The Labour government also discovered in focus group research when planning their 2005 election campaign (see ‘Voters Turn Against Choice in Public Services’, *Guardian*, 27 March 2004). And, as Le Grand points out, this finding can only show that people do not *intrinsically* prefer choice to quality, since choice may be the process by which quality is enhanced. The only reason people might prefer more choice to less if they end up with the same product anyway is that they *enjoy* choosing. Schwartz (2004: 18) for example reports that 93% of American female teenagers state shopping is their favourite activity. Or perhaps the security and control that choosing provides is preferable without actually being pleasurable. It has also been shown that people have stated preferences over the process by which health care is provided as well as the success of the care itself (Salkeld 1998; Ratcliffe and Buxton 1999; Bronwer *et al.* 2005). Such preferences are sometimes called ‘process utility’. Whilst people undoubtedly have preferences for the processes of product provision as well as the products itself and they gain utility from choice itself. One reason that choice might have intrinsic value is that we discover our preferences for outcomes through the act of choosing. It is only by having a menu of alternatives that we discover that we prefer one to the others and what features of those products we value the most.

Choice might be valued intrinsically in another sense: because it allows autonomy or at least leads people to believe they are autonomous (Sugden, 2003; Bavetta, 2003). That is, it gives people the feeling that they at least partly in control of the public services they consume, rather than having them forced upon them. There might be value in the autonomy that choosing brings. People would prefer to be

consulted by their GP on the type of treatments they might receive and what specialists they might see. They would prefer to be given the set of alternatives by their specialist or surgeon once it is established that surgery is a possible solution to their problem; rather than simply be assigned a treatment by their GP or be told that they need an operation by their surgeon. Treating people as autonomous beings able to make decisions for themselves once the alternatives, the risks and possibilities are laid open to them might be preferable for most people, *even if*, they recognize that by choosing for themselves they might end up with a treatment bringing lower welfare – say in the form of pain relief – than if the doctors simply assigned a treatment to them. That is one way that choice, or autonomy, might have intrinsic value. And if choice is to have any intrinsic value above and beyond instrumental welfare gains, then there must, at least in theory, be examples where we prefer choice even if it brings lower value than the outcome produced by another procedure.

Furthermore, people are habituated to having more choice in the private sector, from television stations, to holidays, to types of camera, phones, bread, sweets, and so on; and where the internet allows people to work through complex options through clicking boxes on a website rather than reading vast manuals. In virtually every area the private sector offers more options than in the past and so people might come to expect choice from the public sector too – and making the choice experience more common across all social groups. It is not so much a question of what they *value* as what they *expect*. On consideration someone might agree that television, in some ways, was more fun when there were fewer options, but still be surprised and complain when they find only five channels on their hotel TV set. Dissatisfaction with a service has as much to do with expectations as the quality of the product one eventually enjoys. Thus choice might be *indirectly* valued. A person might give no

intrinsic value to choice – she would not swap one opportunity set *A* for another larger set *B* if her top alternative in *A* was only fractionally more valuable to her than her top alternative in *B* – but would still be disappointed (her expectations for choice unfulfilled) if *A* did not have the range of choice she was expecting. In terms of choosing opportunity sets, prior to knowing the value of the alternatives, she would always prefer the larger set (with the caveat on size given below).

### **THE COSTS OF CHOICE**

So much for the potential benefits of choice: what are the costs? We might identify three types: (1) welfare costs, (2) information costs, and (3) psychological costs. Welfare costs have already been encountered: whilst patients feel more autonomous by choosing their treatment, it is possible that leaving everything up to the professional might bring greater welfare overall in terms of, say, quality-adjusted life years. In fact that stated preference evidence suggests people are willing to swap welfare in QALY terms for that autonomy (Olsen and Smith 2001). Similarly, having choice over pensions might make some better off, but bad choices by others mean a single state or company pension brings overall welfare gains. We might simply look at the costs and benefits of increasing choice to see if the efficiency and autonomy gains outweigh potential welfare losses.

Information costs can be so high that increasing choice by adding alternatives actually makes choice impossible. Imagine an opportunity set of infinite size. How could one choose one's most preferred alternative? A set that big is too large even to comprehend, let alone find out information about each alternative to distinguish them, far less decide which is better. All a person could do is to sub-divide the set in some manner and then choose between the alternatives in the sub-set. Such division is a

form of ‘picking’ (Ullmann-Margalit and Morgenbesser, 1977). One does not usually ‘choose’ a match from a matchbox one simply picks one and uses that (after all the easiest way to discover a bum match is to try striking it). So one picks a subset and then rationally chooses amongst the alternatives. Thus adding options to large sets need not add any instrumental value and indeed might subtract such value, since subdivision through picking may remove the best options. Furthermore sets large enough to confuse people mean they would have no intrinsic value or increase autonomy.

We can think of practical examples of rational ‘non-choosing’. Sometimes it is claimed that many consumers are ‘not rational’ since they insist on sticking long-term with their current utility providers: ‘By shopping around the average consumer could save themselves £40 a year on their gas and electricity bills’. Now assuming ‘shopping around’ needs to be done annually, is not itself enjoyable, and takes around four hours to collect the relevant information and work out the best deal and administer the switch, then it is not rational to shop around if the marginal value of a consumer’s time is more than £10 per hour. Note: the example shows an individual is not necessarily irrational if she does not shop around for the best utility provider. It shows that there may be no individual advantage for a consumer to spend time switching between utility providers even if she could reduce her annual bills. It does not show that opening up utility provision to market forces does not bring consumer advantages. Using a similar example Schwartz (2004: 25) claims ‘the problem is that state regulators aren’t around there anymore to make sure that consumers don’t get ripped off. In an era of deregulation, even if you keep what you’ve always had, you may end up paying substantially more for the same service.’ Well, you might. But equally, de-regulation might bring competitive advantages which drive down prices

overall as companies become more efficient in a competitive market. But hang on, the critic says, ‘how can the gas-market be efficient if consumers cannot “rationally” choose between companies?’ Well the example only shows that it is not rational for consumers who value their time at more than £10 per hour and there might be plenty who value it less. Furthermore, markets do not need to be driven by ‘rational’ consumers. Companies often have marketing drives to persuade people to switch to them, and some consumers do – perhaps because there are initial price advantages even if these disappear as their original supplier fights back and reduces their prices so the consumer would have been better off in the long-run not switching. And it would not be rational to switch back as they would have to spend too long finding out the precise costs and calculating the respective benefit. What matters for the market overall is that there are some switchers – rational or not – and the companies believe they are fighting for their market share and do so by becoming more efficient. In doing so, all consumers, even those who never shift providers, might gain through market processes. In fact it has never been established, even theoretically, what number of informed consumers is required to drive a market. It has been found that only 5% of furniture buyers, and 8% of appliance buyers gather much information prior to purchase (Claxton *et al.* 1974). Teske *et al.* (1993) argue that a small number of informed parents can create a market for state schools. Thus it is horrendously difficult demonstrating the value of choice in an empirical study.

Under this argument it is the market which has provided the efficiency gains; and the market requires there to be choice. But no individual may value choice in itself, and no individual need gain instrumental value *through their own choice* (that is all ‘switchers’ might have been better off sticking with their initial provider had the market operated as it did with all those who switched), even though everyone has

gained through the operation of the market. More simply, choice can be instrumentally rational for a community, even if it is not instrumentally rational for any one member of it. And it maybe more rational for some communities than others whereby choice encourages some groups to cluster around the provision of a good accessing the improved efficiency from voice or random spatial variation in service quality, meaning the middle classes club together to get the better schools and hospitals. There is a large literature on the equity impacts of choice and the evidence seems to point in both directions depending on the nature of the study (see the review of the evidence by the House of Commons Public Administration Committee 2005). Some proponents of choice often accept the idea of user selection cream-skimming but argue that overall welfare benefits outweigh this. Others, such as Julian Le Grand, suggest ways of trying to end cream-skimming.

Third, we have ‘psychological costs’. There are many ways in which greater choice might bring psychological costs. Some might be result from information costs. Schwartz (2004: 19-20) recounts an experiment in a gourmet food store the experimenters displayed a set of exotic jams. Customers were invited to taste the jams and received a coupon for a dollar off if they bought a jar. Under one condition the consumers were offered a choice of six jams; in another a choice of 24. In both conditions customers could spend their coupon on any of the 24 jams. The larger display attracted more people, and about the same number tasted about the same number of jams. However, around 30% of people who had a choice of six jams bought some; only 3% of those who faced the array of 24 did so. A second experiment in the laboratory involving chocolate produced similar results (Iyengar and Lepper, 2000). Why these findings? We might speculate that there are greater costs involved in working out which jam one prefers from the larger array.

Furthermore, choosing from the larger set might diminish one's enjoyment of the one actually chosen. Consumers might feel regret or have doubts about their choice knowing there were other jams they had not tried: in other words, being forced to pick leads to regret that one cannot rationally choose. Schwartz (2004: 122) suggests that if 'we assume that opportunity costs take away from the overall desirability of the most-preferred option and that we will feel the opportunity costs associated with many of the options we reject, then the more alternatives there are from which to choose, the greater our experience of the opportunity costs will be. And the greater our experience of the opportunity costs, the less satisfaction we will derive from our chosen alternative'. In addition, some households have cost free or cheap leisure time where choosing can be part of the pleasure (akin to long trips round shopping centres); other households may have more pressures from day-to-day life from the numbers of children, meeting bills, dealing with crime, facing poor health, and giving support to relatives, which makes choice less enjoyable and so more rational not to make choices – ironically for the very households that consume a greater variety of public services. Lower education may also decrease the value people place upon choice because it takes them longer to scrutinize the documentation. With greater mobility and access to wider networks, more affluent groups may have access to more soft information to help them make more informed and less costly choices.

What does this type of psychological cost mean for the introduction of choice into public services in the UK? Perhaps, not much: after all, choice over hospitals has increased to three or four. This is more like the array of six than 24 jams. But again choice means less for the poor who are more likely to want their closest producer which they would receive anyway. It might have more relevance for everyone for other choices. The Conservative government in the 1980s encouraged the growth of

choice in pension plans by inducing employers to close down simple company schemes, usually based on a share of final salary, and allowing the financial sector to open up private schemes offering a wider variety. Here people faced a much broader set of alternatives. Moreover, pension schemes are notoriously difficult to understand. Here the psychological costs of choosing might be great, not only because of the variety, but also the complexity and the importance of the decisions. The shift away from state or company-provided schemes to a mix of company, state and private ones also places much greater responsibility upon individuals, who might experience stress both while making the decision and subsequently. As evidence for this type of stress, Schwartz (2004: 116) reports a survey where of those who did not have cancer 65% said they would prefer to choose their treatment; but of those who actually had cancer 88% said they would prefer *not* to choose their treatment. When it comes to the crunch, people would sooner not take responsibility for a decision that brings pain and might make an important difference to their chances of survival.

Of course, people can feel regret even when they do not make choices. One may regret choosing one cancer treatment over another. But one may also regret not having one cancer treatment rather than another, if one gets to hear about it later: which regret is likely to be greatest is moot. However, ‘introducing choice’ into public services does not always introduce new possibilities rather it enables people to have some input into selecting amongst the available options. In that sense, bringing choice into public services is not necessarily introducing regret, it might simply change its character. Having said that, there is a great deal more stress involved in choosing a medical treatment, or school, than is involved over a choice of jam.

## **INTRODUCING CHOICE INTO PUBLIC SERVICES**

We have seen that increasing the number of alternatives ('hard choice') does not necessarily entail increasing choice in any valued sense; indeed it may induce costs. How hard choice is implemented may also decrease hard choice over alternatives not covered by regulatory accounting procedures. We need to examine the space of choice. Where hard choice is induced through market or quasi-market procedures efficiency might be improved. There have not been many quantified attempts to measure the effects of choice in public services and those that have been conducted have generally not sought to control for other factors affecting the quality of output. (For some reviews of the evidence, see Williams and Rossiter (2004), Farrington-Douglas and Allen (2005), Institute for Political and Economic Governance (2006), Le Grand (forthcoming).) In this section we review some increases in choice in British public services from the conceptual perspective we have adopted.

Parents have had greater choice over schools for their children since 1988. Its introduction has generally been popular and it would almost certainly be controversial to attempt to reverse this facility. A survey of parents found that 90% were satisfied with the outcome and 70% were satisfied with the process of school choice (Flatney *et al.*, 2001: 15). The attempt to bring greater equity into the process in Brighton in 2007 by introducing a lottery system for the most popular schools caused some local outcry. Satisfaction with the outcome of the choice process is certainly due to 90% of parents getting their first or second choice of school for their children. Variance in satisfaction depends upon the complexity of the process as implemented by different local education authorities. And lower rates of satisfaction were found among parents in London areas where there are shortages of secondary school places (Flatney *et al.*, 2001: 15).

Whilst there has been some examination of choice in the health market, it is not at all clear how generalizable these results are. There is little evidence as to whether the introduction of choice over hospitals has been successful. The London Patient Choice Project (LPCP) shows hard choice was welcomed, but this was a special initiative for patients who had been waiting for more than six months for treatment; it involved help with the costs of getting to and from the hospital chosen (Dawson *et al.* 2005). Patients were also provided with Patient Care Providers (PCA) to advise them. If the costs of going to hospitals farther afield are defrayed, and that the waiting time can be drastically reduced, choice is welcomed; but is it if those conditions do not obtain? Indeed the LPCP may only show that when more resources are put into a service, satisfaction increases. Furthermore, evidence from abroad shows that the referring doctor's advice is more important than the patient's views (Thomson and Dixon, 2004), though this may simply be a result of patients heeding expert advice in areas where they feel they are out of their depth. Patients in Manchester were more likely to make their own choice if advised by a PCA (Barber *et al.*, 2004), and those in London who did not take up the offer of choice on the whole were less satisfied (Coulter *et al.*, 2005) – though the causal path is not obvious here. It is also not obvious if the doctor's 'choice' is actually being replaced by the PCA's. Providing information is a key element of patients taking up choice opportunities (Barber *et al.* 2004; Le Maistre *et al.* 2004; Coulter *et al.* 2005). On the other hand, in the US fear of litigation has meant some doctors will not advise patients and simply list the options (Le Grand, forthcoming). Furthermore, crude measures of 'success rates' for surgeons might be misleading and lead to 'gaming' (Hood, 2002) where doctors choose not to operate on high-risk patients in order to preserve their success rate. Le Grand (forthcoming) examines various strategies for trying to

encourage knightly behaviour rather than gaming to poor targets. So the evidence for the success of hard choice in the hospital service is weak at best. Choice in health care should be more about soft choice – discussion with doctors and care professionals about the types and appropriateness of treatments available to that specific patient. An international study found that amongst six countries the UK was poorest at involving patients in soft choice (Schoen *et al.*, 2004). Some doctors may underestimate patients’ ability to make choices and manage choice procedures themselves (Farrell, 2004). The LPCP found that under a third of eligible patients were actually offered a choice by their consultant (Coulter *et al.*, 2005). Another study found that out of 24 users across four localities, 60% were given no information about the options presented to them and of those who received domiciliary care none was offered a choice of provider or sector (Knapp *et al.* 2001). Medical training now teaches patient involvement (Modernising Medical Careers 2005); implying that the continued introduction of soft choice is a long-term strategy. The need for information and the complexity of information processing suggests some patients need more guidance than others. Ensuring professionals are rewarded for helping those most in need rather than punished by crude productivity measures is necessary to maintain equity.

Has choice also helped to improve quality? Here the evidence is even sparser. There is some evidence of progressive outcomes in some services from enhanced choice schemes especially in relation to maintaining a mixed clientele and some gains in efficiency and responsiveness. Parental choice for secondary school selection may have led to more middle-class parents remaining within state provision rather than using private schools (Flatney *et al.* 2001). The Choice Based Letting experiment in social housing between 2001 and 2003 increased social housing take-up, especially

among working households and ethnic minorities, and was valued as transparent and open, even though the scheme was quite complicated (ODPM, 2004).

One large-scale study concluded that parental choice had increased competition between schools locally, with schools responding to consumer demands and failing schools closing (Bradley *et al.*, 1999). Efficiency gains occurred in many schools 1993-1997, according to Perri 6 (2003) with schools improving exam results and attendance – both of which are difficult to link directly to parental choice and are more likely to be the result of a package of reforms providing incentives for schools to improve (Bradley *et al.*, 1999). The regulation of secondary schools places limits on responsiveness and competition. Only large and well-resourced schools are able to bring major innovations to the curriculum and parents have had limited scope and resources to set up new schools. Here centrally directed standards stand in the way of greater flexibility and choice (DfES, 2005). The Nursery Voucher Scheme shows that (quasi-)markets might reduce choice. The range of alternatives decreased through parents making choices to send children to schools rather than nurseries and childminders. With their larger budgets, schools were able to expand in response to higher demand, resulting in private and voluntary sector provision declining in some areas. Again, however, the effect of regulations in providing the required pre-school curriculum may have been a major contribution to the narrowing of choice through this process (Education and Employment Committee 1997).

## **CONCLUSIONS**

If efficiency is really the aim, then introducing competition might be justified where contracts are easy to specify. Where they are difficult the benefits of competition are less obvious. As the government has been simultaneously pressing several buttons, it

is not always possible to judge whether it is top-down performance management and target-setting or any new managerial quasi-market processes that are responsible where quality gains have been achieved. Even then bureaucratic gaming might ensure the targets are reached rather than quality has improved over all.

If increasing choice is the aim then markets can reduce choice if some providers go out of business or some services dropped through low demand. Whilst surveys suggest people want better services then choice *per se*, choice might drive better services through competition. In some areas hard choice does seem popular, for example in schools, though even here getting one's first choice is important to its popularity. We have argued that the conceptual problems in measuring choice mean that it is very problematic to claim that increasing hard choice is valued. We have queried whether and to what extent choice is always desirable. We have also examined some empirical evidence about the successes and failures of the choice agenda in the UK. And we have noted just how difficult it is to really examine those successes and failures. We will conclude by suggesting some criteria to help in these judgements.

First, we need to consider the nature of choice being offered. Often adding extra alternatives may also exclude some and those excluded might be the most valued. Second, market and quasi-market choice might reduce options (as some providers go out of business) as well as increase them. What is the real objective – efficiency or wider choice? Third, the most important aspect of the choice agenda is implementation. Patient choice is about offering real alternatives that bring advantages to people, not simply a menu of alternatives. For that reason 'soft' expansion in the form of medical practitioners talking through potential procedures and letting patients have their say in their treatment may well bring much greater

benefits than ‘hard’ expansion of targeted numbers of alternatives. Soft expansion requires training and providing incentives for ‘knightly’ behaviour (Le Grand 2003), but is much more important than the hard expansion which might benefit only a few people. Encouraging knightly behaviour necessitates ensuring, at the very least, that it is not discouraged by simplistic targets. GPs and hospitals need to be encouraged to spend time with their most difficult patients, so data on the social and medical backgrounds of patients is required when judging ‘throughput’. Similarly, judging schools simply on the basis of the examination results without factoring in the socio-economic backgrounds of children encourages cream-skimming. Advantage Premium would give extra funding for children from a failed school (O’Shaughnessy and Leslie, 2005), while Bowles and Gintis (1998) suggest a voucher scheme where the voucher has variable value depending on the socio-economic background of the pupil and the socio-economic composition of the school (see also Le Grand, forthcoming).

Fourth, the costs and benefits need to be addressed. Would the money spent on implementing the choice agenda be better spent elsewhere? More importantly, what are the costs and benefits to consumers? Choice can be stressful. In some areas – such as pension policy or major surgery – the benefits of choice to some might be outweighed by the stress it causes others. Of course, patients always need to give consent for treatment, but doctors might judge that directing some is preferable to leaving decisions in their hands. Again the choice agenda might best be left soft, where street-level bureaucrats are given discretion to decide how best it can be implemented. The idea that we should not have a public service where ‘one size fits all’ can be applied to the process of offering choice, as well as to the idea of offering more than one alternative.

Most of our arguments on the criteria for judging choice rely upon the idea that choice is not represented by Pattanaik and Xu's cardinality rule. Policies that simply lead to a menu that enables the government to state that consumers now have a choice of possible alternatives whereas once they had none may add little to public welfare. Indeed, given the costs of implementation there may be welfare loss. Rather, choice must be viewed more broadly in terms of the welfare benefits it might bring, efficiency gains through competition and information, and in terms of the feelings of autonomy it enhances. These are all to be encouraged, but on the other hand one must be aware of the costs that implementing choice brings about. Doctors spending more time with patients, having PCAs to help with decisions all cost money and means lower throughput. And choice can be costly for the chooser too. Choice does not come free and those costs need to be examined carefully. However, with a fully rounded analysis and the right preconditions in place, the choice agenda might well be welfare-enhancing for the British welfare state in the years to come.

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