The Nature of Choice
- When More Can be Less

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Australian Association of Gerontologists Annual Conference
Sydney
27 November 2013
Overview

• Choice

• Choice and Options

• Market failure and choice

• Other issues - supply side, government funding

• Some Implications
Choice Theory

• Schwartz, B. (2004) *The Paradox of Choice - Why more is Less*

• Choice theory looks at how people make choices and the outcomes of those choices

• Originates from psychology, but has applications in many other fields

• Especially important for behavioural economics
  – Which looks behind the assumptions about human behaviour that underpin orthodox economics in order to see how people actually do behave as consumers and producers

• Simmons, R., Powell, M., & Greener, I. (eds) (2009), *The Consumer in Public Services: Choice, Values and Difference*
Desirability of choice

• Choice
  – Empowers people
  – Enables people to express their identity
  – On the supply side, it reduces problems associated with monopoly, forcing suppliers to become more responsive, to provide a wider variety of offerings, etc.

• Effects of no choice - ‘learned helplessness’ (Seligman 1975)

• Essential that older people have choice and control over their own care
  – Within whatever limits are agreed as reasonable things on which to spend public funds

• Arguments for choice come from both ends of the philosophical spectrum
  – Neo-liberals with a very individualistic world-view
  – Human rights arguments

• But how is choice and control best achieved?
Choice, Voice, and Control
- Some Complexities

• Choice of what?
  – In aged care, it may be providers, the services, the care-workers, other?
  – Many older people are most concerned about the care-workers they have

• Paradoxes and inconsistencies in the meaning of choice, voice, and control. For example:
  – More options do not necessarily mean more choice and control
  – Voice can be more powerful than choice
  – Voice only means something if it actually has an effect on what happens
  – Allowing greater choice for all may end up with
    • Reduced choice for some
    • Lower quality services for those not in a position to exercise the potential choice
Why have a lot of options?

- Marketisation has increasingly led to the idea that human services can be provided via conventional consumer markets where a multiplicity of options is supposed to produce the best outcomes.

- What are the arguments for having a large number of providers for service users to choose from?
  - There are a wide range of individual preferences
  - More options can expand a user’s understanding of what is possible
  - Ensures that innovative providers are not excluded
  - Ensure good providers are not excluded because of bureaucratic processes
  - Competitive efficiency arguments of orthodox economics
  - Concept of consumer sovereignty

- While all noble objectives, are they actually achieved in practice by having a lot of options?
Do more options mean more choice and control?

- More and more options from which to choose often means less control.
- A lot of options does not necessarily mean more choice
- With many options, people choose to minimise risk - to avoid bad ones - not to get the best one
- A ‘Confusopoly’ (Adams 1997)
- Importance of individual differences in how people approach a situation with many options
  - maximisers and satisficers
- Relationship of many options to
  - Satisfaction with a choice
  - General happiness
Homo Economicus?

• Thus far the assumption has been that consumers are *homo economicus* (economic man) of orthodox economic theory
  – People are able to make a totally rational decision based on self-interest and all possible information

• Again, that is not true in general for conventional markets
  – Bounded rationality (Simon 1991)
  – Imperfect information and asymmetries of information
    • especially so where the ‘product’ is not measurable or observable
    • Weisbrod & Schlesinger (1986)
  – This imposes transaction costs (ex ante and ex post, and trade offs) (Williamson 1998)
  – People vary in their ‘personal agency’ (capacity to assess a situation and make a decision)

• The assumptions of orthodox theory are even less And it is even less so for aged care
Human Services and Market Failure

• Substantial intrinsic market failure in most human services, especially
  – the *personal agency* of many people who require the services (users)
  – the *financial capacity* of many users and their families
  – the *measurability* of the inputs, outputs, and quality of services
  – the *observability* of services, or the capacity of those who are choosing and paying for services to observe them being provided; and
  – the capacity of providers to *increase productive efficiency* (productivity) without reducing the quality and accessibility of services (Baumol 1967)

• Markets for human services have developed
  – These are ‘real markets’ (including ones based on tenders to government)
  – Market mechanisms can be used to ensure older people can determine the care they get
  – But they work better if we understand they are different sorts of markets driven by some quite different dynamics
Overcoming Information Asymmetries?

- Regulation of providers
  - Entry - Accreditation and standards
  - Behaviour – Monitoring
  - But ‘all complex contracts are incomplete (Williamson 2000)

- When government choose providers?
  - Tenders

- When services users choose providers
  - Word of mouth, affiliations (e.g. church), trusted professionals (GPs)
  - myagedcare.com ?
  - Care advisors?
Supply Side Issues

• In some ways, community care is a classic product that is best organised and provided in a decentralised atomised industry structure
  – But this is qualified by the substantial intrinsic market failure

• There are also strong arguments on the supply side for not having an excessive number of options
  – Productive Efficiency
    • excess capacity of differentiated competition (Chamberlin 1933, Robinson 1933)
    • Loss of economies of scale and scope
  – Quality, especially at the lower end
  – Higher costs of accreditation and monitoring
  – Greater risks of problems with major impacts on users
Government Funding and Rationing

• Inevitably government funding involves rationing
  – Service users do not pay most of the costs
  – Not clear that individualised funding or cash-for-care changes that very much

• With so-called ‘entitlement schemes, rationing is embedded in
  – The conditions of eligibility
  – The levels of assistance available to each eligible person

• Alternatively there has to be a queue
  – As in aged care - and especially in community aged care
  – A range of queuing principles across the various government programs

• Limiting assistance to enable an ‘entitlement’ scheme?
  – permanently locks in a lower level of care
Choice and Funding models

• Broadly, three models by which service providers are chosen
  – (Davidson 2012)

• By the funding agency
  – Competitive tendering and contracting (CTC)

• By the individual service users
  – Quasi-voucher Licensing (QVL) - cash/vouchers, tax deductions, or reimbursement of providers
  – Includes cash-for-care schemes (Ungerson & Yeandle 2007)

• By a Hybrid
  – a combination where funding agencies determine those providers from which people eligible for funding assistance can choose
  – As occurs in aged care, including quite a few HACC personal care services
Some Implications (1)

• Very complex, with a number of conflicting considerations

• It is important that older people have real control over their care
  – BUT there are limits arising from government funding (rationing, what funds can be used on)

• There are a lot of very good providers, large and small
  – BUT there are many other considerations
  – And aged care is not a business development program to assist providers

• This does not mean there is not an important place for a lot of providers
  – BUT not necessarily within a system of ‘open competition’

• The principle of person-directed or consumer-directed care is important
  – BUT how should that be operationalised and implemented?
  – Individual invoices mean major new transaction costs
  – Limiting cross-subsidisation mean that providers have less capacity to manage their total resources in a way that best responds to the individual needs all of their clients
Some Implications (2)

• Ensuring the voice of older people within providers is critical
  – And a provider’s capacity to deliver meaningful voice for its clients should be a key criteria in accreditation and funding

• It’s not a case of saying “Let those who want a lot of choice have it because it doesn’t affect the others”
  – Because it does! There are system and incentive effects on providers

• The market reduces the role of the professional
  – Is that necessarily desirable?

• There are a number of aspects of the current system that need to be changed.
  – A range of things that can be done to improve tender processes

• But is the system really that broke?
  – Or is it fundamentally that there is not enough money?
Conclusion

• This paper is underpinned by a strong endorsement of
  – Older people having real choice and control over their care
  – Vigorous competition between high quality providers

• But in a complex world it is important that we find the most effective ways of achieving this
  – There are a range of ways of giving older people real choice and control over their care and of enhancing the responsiveness of providers to their needs without creating a conventional consumer market

• No arrangement is perfect
  – Just as “democracy is the worst system of government except for all the others”, we need to be careful of what changes are made
  – The Goldilocks principle of public policy is probably very important in finding the best answer
    • That is, avoid the extremes at either end of the marketisation spectrum.
References


References (2)


• Robinson, Joan (1933), *The Economics of Imperfect Competition*, Macmillan, London.


References (3)


THE END