

# **BOUNDARIES BETWEEN PUBLIC AND PRIVATE WELFARE : A TYPOLOGY AND MAP OF SERVICES**

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## **Editorial Note**

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## **Abstract**

This paper develops a typology of welfare services and attempts to illustrate its use in clarifying discussions about the privatisation of welfare and in analysing changes in expenditure. A third dimension, which concerns the extent of the consumer's decision-making power and turns on the question of *agency* and *exit*, is added to the now-familiar dimensions of provision and finance. This third dimension is found to have been increasingly important in policy terms, as attempts have been made to reduce the role of the "pure public" sector. The assisted places scheme, NHS glasses vouchers, and tax relief on pension contributions are all examples of policies which sought to promote consumer decision-making. However despite the policy interest in moving from public to private decision, the second half of the paper shows that the impact in terms of changes in patterns of welfare expenditure since 1979/80 has been small. The overall picture is one of continuing importance of the publicly provided, financed and decided sector, accounting for just over half of all welfare expenditure in 1979/80 and just under half in 1995/96.

## **1. Introduction**

Since the days of the Poor Law, it has been accepted that the state has some role to play in the provision of welfare. But appropriate limits to state involvement have been the subject of continual debate: on the one hand, it has been argued that state provision undermines family and individual responsibility, limits choice and stifles private enterprise, while on the other hand, private or informal provision has been accused of being inadequate, inefficient and inequitable. In recent years, the argument has turned on the question of finance - a growing realisation across political parties that if welfare services are to be sustained at their current level, either taxes will have to rise or alternative methods of funding will have to be sought.

These on-going debates have led to changes in policy and a complex mix of public, private and informal welfare provision. Nor have the divisions between the sectors remained clear-cut: since 1979, new ways have been sought of harnessing the advantages of the private sector whilst retaining some state finance or public control. In particular, incentive structures have been altered in an attempt to galvanise both state and private supply.

This paper proposes a typology of welfare services which may help in making sense of changing patterns of provision. It identifies three dimensions of "private welfare", provision, finance and decision, each of which may operate independently of the others. The second part of the paper uses the typology to chart changes in the relative sizes of public and private welfare sectors between 1979/80 and 1995/96 and presents an overview of policies which have affected, or sought to affect, boundaries between them.

## **2. A Typology of Private and Public Welfare Services**

### ***One- and two-dimensional approaches***

Simplistically, welfare can be divided into a dominant and monolithic state sector with a residual 'private' category including anything that is not directly provided by the state or is not tax-funded (*Chart 1*). However this can neither capture the complexity of modern welfare provision, nor is it historically accurate. Papadakis and Taylor-Gooby (1987) identify five phases in the development of the welfare state from 1800 onwards, and in none of these could welfare be represented

sensibly with a single public/private split. Up to around 1870, state intervention in welfare largely took the form of regulation, and although in the late nineteenth and early twentieth centuries the state became increasingly involved in direct provision of services (for example primary education and housing), it still supported private and charitable forms of provision. Self-help through Friendly Societies and the Trade Union movement was a major source of support in sickness and old age, at least for some sections of population. The inter-war years were characterised by a further expansion of state activity but a simultaneous growth in home ownership and occupational pensions. It was only with the establishment of the National Health Service and the boom in council house building that state welfare could really be said to become dominant. Even then, other forms of welfare continued to co-exist, as Titmuss, writing in 1958, made clear: the 'divisions of welfare' included occupational welfare, informal care, tax reliefs, and services provided by voluntary and private organisations.

In the present era, we have experienced a much-heralded 'crisis' in the welfare state, with ways being sought to limit direct public involvement. This has included promoting a distinction between providers and the purchasers, such that a public body may decide to purchase a private service (for example, contracted-out hospital catering), and private individuals may pay for publicly-run services (for example, pay-beds in NHS hospitals).

A more sophisticated approach than a simple public/private classification is therefore necessary if we want to reflect actual welfare provision. The theoretical distinction between purchase and provision began to be made as early as 1968 (Peacock, Glennerster and Lavers) and became standard in the 1980s. This two-dimensional split allows for state purchases of private services, and private purchases of public services, as well as the more traditional all-public and all-private sectors (Glennerster, 1992). In *Chart 2*, everything in the top semi-circle is publicly provided, and everything in the bottom semi-circle is privately provided, but there is also a left-right split, with the right-hand semi-circle representing publicly-purchased services, and the left, privately-purchased services. The quadrant at top right is the overlap between public provision and public purchase, and the quadrant at bottom left is the overlap between private provision and private purchase.

### ***A third dimension - ‘decision’***

This is often where categorisation stops. But some recent developments in welfare services are not readily placed in the chart as it stands, for example, the now-defunct nursery voucher scheme. A private nursery place purchased by a parent with a voucher is provided privately, so it should clearly be in the bottom semi-circle, but although the government provides the money (public purchase: right half), the place is chosen by the parent (private purchase: left half). There are other cases where it appears that selection of the service has been “privatised”, i.e. handed to the consumer, whilst the state retains responsibility for finance and possibly also for provision.<sup>1</sup> For this reason, a third dimension may be helpful, splitting “purchase” into “finance” and “decision”.

This is illustrated in *Chart 3*. The inner circle represents services which are ‘publicly decided’ (in a sense elaborated below) and the outer ring represents services where an individual has decision-making power. As in the previous chart, anything in the top semi-circle is publicly provided (whether in the inner circle or the outer ring), and anything in the right half is publicly financed.

The distinction between public and private decision-making power is a fuzzy one: the difference between services in the outer ring and inner circle is a matter of degree and the sharpness of the lines between them are for the sake of presentational clarity rather than representational accuracy. Nevertheless, the ‘decision’ dimension does pick up an important feature of welfare provision which is obscured in two-dimensional approaches.

The degree of decision-making power which consumers have is determined firstly by how directly they choose the service, and secondly on the extent to which there are viable alternatives. Choosing a service involves selecting the provider and/or the level of service received. The directness of an individual’s choice of service depends on whether he or she is able to choose for themselves or only via an agent or third party. For example, NHS patients who need hospital treatment have only indirect control over the service they will receive since it is their local Health Authority (or, in the case of fund-holding practices, their GP) who contract on their behalf with the hospital to provide treatment. On the other hand, someone who goes to the optician is in a position to choose a pair of glasses for him or herself, even if the purchase is state-

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<sup>1</sup> Throughout, the term “consumer” is treated as synonymous with “client” and “user”.

financed (through an NHS voucher). This first part of decision-making power therefore turns on the question of *agency*. There are borderline cases, for example advocacy arrangements or directly-instructed agents, but in general a consumer will be said to have direct choice only if the service contract is between the consumer and the provider, with no intermediaries.

The second part of decision-making power depends on the existence of viable alternatives, or, in Hirschmann's (1970) terminology, the possibility of *exit*. If there is a range of services offering a range of qualities and prices, and consumers are free to choose between them, they can express their dissatisfaction with the service offered by one provider by switching to another. However for 'exit' to be a realistic possibility, the alternatives must be, firstly, known and available to the individual concerned, and secondly, reasonably similar to the rejected option in terms of quality and cost to the consumer.

Availability may be restricted by eligibility conditions imposed by the provider, by geographical location, or by other access barriers. Huge discontinuities in price or quality will mean high costs are incurred by shifting provider and will act as a disincentive. For example, parents who are unhappy with the local state school theoretically have the option of sending their children to private school, but the difference in cost is so large that for most it is not a practical possibility. For there to be genuine choice, it must be possible to gain a little in quality (possibly for a slightly higher price) by switching provider; alternatives which are too far apart in terms of either quality or price do not constitute 'viable' alternatives in this sense. In technical terms, marginal trades must be possible.

So for "decision" to be considered private (i.e. outer ring in *Chart 3*), there must be a range of services available to the consumer which are close in terms of price and quality, and the choice of service must be made directly by the consumer. For it to be considered public (i.e. inner circle), either there must be agents acting on behalf of consumers, or decisions on level of service and identity of provider are made by a public body rather than individual consumers.

It needs to be emphasised that public/private decision is not a clear-cut distinction. On the one hand, consumers may be able to exercise some control over services like Local Education Authority schools which appear to be governed by decisions made by public bodies. Parents may not have a realistic option of taking their custom

elsewhere, but they can express their preferences directly, individually or collectively, via the Parents Teachers Association, the Governing Body or the LEA. In Hirschmann's terminology, this is the exercise of *voice*. The extent to which 'voice' is effective depends on the structure of the organisation - the greater the degree of democratic control, the more likely 'voice' is to be influential - and on the number of people saying the same thing. In the limit, consumers can have as much or even more decision-making power in an organisation which is responsive to preferences expressed through 'voice', as they can in a market governed by 'exit'. On the other hand, choices made by consumers in a supposedly 'free' market can be severely constrained, by the narrow range of services on offer, by eligibility restrictions, imperfect information or budget constraints. So apparently paradigm cases of 'public' and 'private' decision may turn out to be closer than at first seemed.

This typology is not intended to imply any value judgement about the desirability of a service being located in the inner circle or outer ring. Whilst it may in general be considered preferable to give consumers choice over services they use, information problems, equity objectives and the need for rationing may mitigate against that. Furthermore, 'exit' can be a crude way of indicating preferences, while 'voice' may be more direct. In practice the way a service is delivered - private or public decision, provision and finance - may be more a product of political dogma than of an assessment of relative efficiency or equity. The development of private alternatives to public welfare is looked at in the second part of the paper, but first the other two dimensions - provision and finance - need to be defined in a little more detail.

### ***Provision and finance***

Whether the *provider* is private sector or not depends on the degree to which the organisation is owned and controlled independently of Government. At one extreme, government departments and local authorities are easy to classify as "public", and at the other, commercial companies are clearly "private", but that leaves a large number of welfare-providing organisations - quangos, voluntary organisations and individuals - inbetween.

Moreover, all welfare providers are subject to regulation to a greater or lesser extent. Indeed Le Grand (1997) suggests regulation is in itself an important mechanism for providing welfare. Field (1995)

advocates the use of organisations at arms-length from government to run second-tier pensions but the terms and conditions under which they would operate would be subject to specific legislation, and their performance to public scrutiny. At what point should they be considered public organisations?

Difficult cases include Housing Associations, which are voluntary organisations operating under the auspices of the Housing Corporation, itself a government agency; universities, which are generally considered to be state institutions, but are independently owned and governed; and GPs and dentists, who are commonly held to be part of the NHS, and, by implication, the state sector, but are in fact self-employed contractors to the NHS.

The National Accounts (CSO, 1996) treat government agencies and public corporations as public sector, and assign both “non-profit-making bodies serving persons” (including Housing Associations and universities), and “unincorporated businesses” (including GPs and dentists), to the personal sector. This classification has the advantage of providing a comprehensive list and I therefore follow it in this paper.<sup>2</sup>

The *non-public* sector therefore consists of the self-employed, profit-making companies which are not subject to detailed financial control by government, and non-profit-making non-governmental organisations such as charities, voluntary organisations, housing associations, mutuals and friendly societies. For convenience, this is sometimes referred to below as “private provision”, although it is recognised that not-for-profit organisations form an important part of the non-public sector.

A service may be *financed* in two basic ways. The first is that taxpayers pay through general taxation (national or local) or ear-marked taxes such as National Insurance Contributions (NICs). This is *public* or *state* finance; an example of state-financed welfare is the basic state pension. Taxes and most NICs are compulsory, bear some relation to income or ability to pay, and are often payable by those who do not use the service as well as those who do. The second possibility is that consumers pay for the service directly, in which case it is a *privately* financed service. Only those who use the service pay for it, and use of

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<sup>2</sup> The single exception is grant-maintained schools, which I treat as public sector, on the grounds that their assets are owned by the state and their self-governing status may be removed by direct intervention of the Secretary of State if the school is held to be performing badly.



the service is generally not compulsory. An example would be a home help paid for by the recipient.

Some finance is not immediately classifiable. Benefits paid for by employers - such as corporate private medical insurance - may seem to be neither public nor private. But at least in theory, any benefits provided by employers for employees are in lieu of wages and hence should be counted as privately financed. Finance by trusts, and charities, for example, educational scholarships, can also be allocated to private finance on the grounds that their origins are probably private donations.

Tax reliefs and allowances are a form of public finance in so far as they are in lieu of public expenditure. The effect of a relief is nominally the same as if the Inland Revenue had collected the money as taxes and the government had redistributed it back to the same people as a benefit.

Transfers under the Child Support Agency present an interesting problem. They do not appear as a state expenditure in the national accounts, yet they are compulsory payments, enforced by the state and which bear some relation to ability to pay. They look very much like a tax hypothecated on being an absent parent, especially when we consider that their main effect is to reduce the (tax-funded) social security expenditure on lone parents.

Funds raised by the Private Finance Initiative are private in the short-term (loaned by profit-making companies), but public in the longer-term (paid back through higher tax rates). They can therefore be seen as deferred taxation, and despite their name, belong in public finance.

Finally, many services are financed in part by the state and in part by the consumer. This is often the case where user-charges are imposed, or where there is tax relief for a particular type of private expenditure – these parts are separated, in so far as is possible, in the Charts which follow.

### ***Wheels of welfare***

Returning to *Chart 3*, the *white* sector represents “pure public” welfare - publicly provided, financed and determined. This includes traditional welfare like unemployment benefit, but also includes services operating in quasi-markets, since in such markets consumers do not act directly but through an agent (their GP or Health Authority).

The *black* sector represents the other extreme - “pure private”, where individual consumers, using their own money, buy a service from

a private organisation. Individually-purchased Private Medical Insurance is an example. In theory, services in this slice operate in a free market, although in practice there are likely to be information problems, supply-side constraints, and state regulation.

The primary colours - red, yellow and blue - represent cases where public involvement is limited to one of the three dimensions. The *red* sector is for public provision, with private finance and private decision. If someone chose to buy a service from a public organisation - like an NHS pay-bed - that would come into this sector.

The *yellow* sector is for public finance, with private provision and private decision. This occurs where the state provides individuals with the means to buy services from the private sector, for example through vouchers, grants or tax-reliefs. NHS glasses are now provided in this way with vouchers which can be spent at private opticians.

The *blue* sector is for public decision, with private provision and finance. This is where an individual pays directly for a privately-provided service, but differs from the black (all private) sector, in that the individual does not have full decision-making power. This might arise where an agent selects the service on behalf of the consumer - for example, a care manager who puts together a package of services for her elderly client including some privately-provided meals-on-wheels, for which a charge is made. A privately-provided and financed service 'chosen' directly by the consumer but where alternative services are limited or non-existent (such that the consumer does not have significant power of exit) would also be classified in this sector.

The remaining sectors are combinations of primary colours. *Orange* is red and yellow, i.e. public provision and public finance. This sector differs from the white sector adjacent to it on the inner circle only in that the decision has been passed to the consumer. SERPS, the state second-tier pension scheme, is an example: employees may opt out of SERPS by means of either an occupational pension or a personal pension, so that although the state insists the individual must make some pension contributions when employed, he or she is allowed to choose the pension provider.

*Green* is yellow and blue, i.e. public finance and public decision, but private provision. This differs from the white slice above it in that the state is using a private organisation to provide the service - often known as contracting-out. The public organisation - for example, a

health authority - chooses a private organisation to carry out a service, like hospital cleaning, and provides the finance for them to do so.

Finally, the *purple* sector - red and blue, public provision and public decision - is for cases where individual consumers provide the finance but the state provides and decides on the service. Charges for prescriptions are an example. The purple sector differs from the white sector in that the finance comes directly from users, rather than through taxation.

It is possible to classify welfare services in any number of different ways. Another candidate for the “third dimension”, for example, would be regulation. It has been argued that the degree to which welfare objectives are achieved through regulation of markets and individuals’ behaviour is on the increase (Le Grand,1997), and regulation can clearly have a profound affect on the way in which a service is delivered. However it is less clear that regulation constitutes a dimension which is independent of provision and finance. Regulation itself is almost invariably public; even where a private industry is self-regulating, this is usually backed up by legally enforceable obligations. So the range of the dimension would presumably be more-less rather than public-private. But in that case “regulation” has already been incorporated into the “provision” dimension, since the classification of the provider is determined by the “degree to which it is owned and controlled independently of Government”. A tightly regulated organisation, like an NHS Trust, is more likely to be considered to be public than private. Regulation may affect the finance dimension too, as in the case of rent controls. The “fair rent” legislation, in so far as it was an alternative to Housing Benefit, could be considered as public finance for private provision.

To avoid the charge of needlessly adding to an already large set of typologies, an addition must justify itself on the grounds of conceptual clarity and explanatory power. It is hoped that the one proposed here can help us to understand welfare policy in two ways. Firstly, we can see how different mechanisms which are used to deliver welfare are related. The inner ring on *Chart 3* shows how services may be delivered where agents acting on behalf of consumers, or decisions on level of service and identity of provider are made by a public body rather than individual consumers, may be delivered. Publicly-decided services may be contracted-out (bottom half), or not. If contracted out, they may be paid for by the state (right-hand) or through user-charges (left-hand).

Similarly, services provided directly by the state may incur user charges (left-hand) or not (right-hand). Quasi-markets remain in the “all public” sector - they introduce an element of competition between public providers, but finance and decision-making remain in the hands of public agents.

The outer ring shows mechanisms which are used to deliver welfare where the consumer has decision-making power. Vouchers are one such mechanism, for example, the now-defunct nursery vouchers. Under the scheme, the government financed nursery education for 4-year olds, but allowed individual parents to choose the provider of the nursery place and to add to the value of the voucher if necessary. This would therefore be outer ring (private decision), right-hand side (public finance) and either in the top or bottom sector, depending on whether the parent chose an LEA or a private nursery. The ability to ‘top-up’ the value of the voucher is significant, since it is likely to affect supplier behaviour and allows consumers to trade up. Knowing that parents may be willing to pay more for a higher-quality service, nurseries will compete on that basis. If vouchers could not be supplemented, the price element of competition would be removed, and nurseries hoping to attract voucher-bearing parents would have to charge a fixed amount.

The second way in which this typology may be helpful is in allowing us to depict welfare policy under successive governments as moving out from the “all public” sector in different directions. This is explored in greater depth in the second part of the paper, but *Chart 4* provides a thumb-nail sketch. We can think of the underlying Conservative policy objective as being to minimise the importance of the “all public” sector which represented everything they stood against: state-owned monopolies, big demands on the public finances, and lack of individual choice. The early 1980s saw moves towards outright privatisation - moving out from the “all public” (white sector) into the “all private” (black). Selling off council houses under Right-to-Buy is perhaps one of the most best-known examples. But by the late 1980s, other ways of minimising the “all public” sector were being explored, with an increased emphasis on user charges (moving left in the inner circle) and on contracting-out (moving down into the left and right inner circle sectors). Some public bodies were also encouraged to market their services, for example, pay-beds in NHS hospitals (increasing the importance of the top left outer ring). These moves restrict the role of the state to either purchaser or provider, but not both. Finally in the 1990s,

we have seen a concern with “agency” - directly, by giving consumers decision-making power in the form of vouchers (moving into the right hand outer ring), and indirectly, by creating incentive structures in public organisations which encourage employees to act as agents on behalf of consumers (a sub-division of the white sector).

### **3. Changing patterns of expenditure, 1979/80-1995/96**

In this section, the typology developed above is used to analyse changes in expenditure on welfare. The colour charts compare spending in five main areas - education, health, housing, social security and personal social services - in 1979/80 and 1995/96. Of course, expenditure is not equivalent to outcome: a greater proportion of total expenditure being spent in one area does not necessarily mean more “welfare” is produced, or even more units of service provided. The “snapshot” approach also has limitations - it cannot show when changes took place and there is a danger that one or other year is atypical - and for this reason the main charts are supplemented with figures giving time series on provision or expenditure where possible.

Other limitations are imposed by the data, as detailed in the Appendix. In general, the charts should be taken as illustrative rather than exact to the last decimal place - the necessity of using data from many different sources and the fact that administrative and household expenditure data do not tend to be broken down in the categories used here mean that some estimates have to be made.

#### ***Education***

The change in pattern of current expenditure on education between 1979/80 and 1995/96 is illustrated in *Chart 5*.

Whether state schooling should be classified as inner or outer ring is a mute point. The last two Conservative governments sought to promote “parental choice” in education, in particular by allowing schools to “opt-out” of Local Education Authority (LEA) control.<sup>3</sup> While these institutions have a greater degree of budgetary discretion than their LEA counterparts, they remain within the public sector, so this policy can be seen as an attempt to move some state schooling from the

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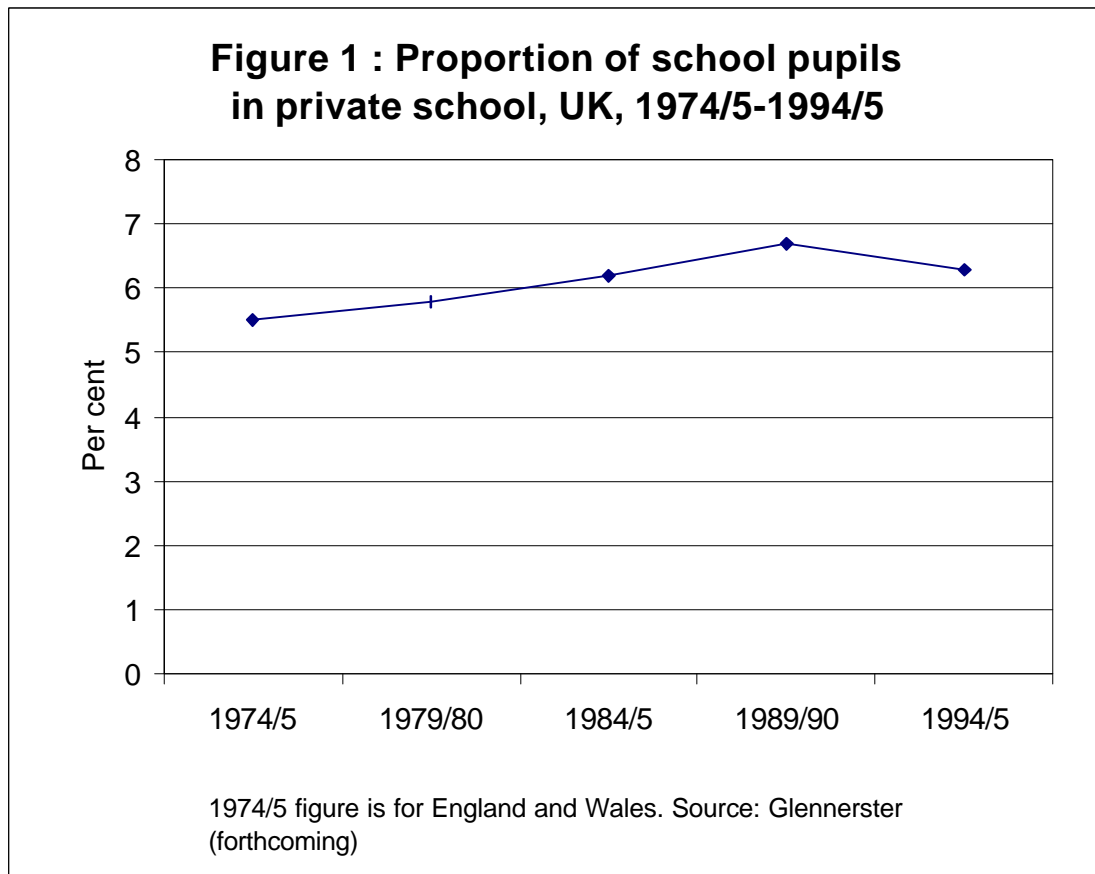
<sup>3</sup> See for example the Foreword in DfEE (1996b).

white “all public” sector into the orange “state provision but private decision” sector.

However, the success of this policy is arguably limited. Parents can now - at least in theory - choose between an LEA-controlled and an opted-out school. State primary and secondary education have effectively become voucher schemes without top-ups: parents may ‘spend’ their ‘voucher’ by sending their child to any state school, but they cannot purchase a place at a better school by paying more. What has not changed is that entry is restricted geographically, so that in most cases options are limited to one or two local schools. Private alternatives - independent schools or educating the child at home - involve considerably higher costs and cannot be considered as part of the same market. The only marginal trade possible is additional private tuition, which can be purchased in small amounts and added on at the end of the school day or in the holidays, but the bulk of schooling still has to be provided for. On balance, the practical constraints on parents’ decisions probably outweigh the theoretical freedom they have, and state primary and secondary education are placed in the inner circle in the chart.

On this basis, expenditure in the “all public” (white) sector is dominant in both 1979/80 and 1995/96. In the earlier year, this expenditure is consists mainly of local authority spending on primary, secondary and special maintained schools, including sixth form colleges. In 1995/96, government spending on grant-maintained schools is added.

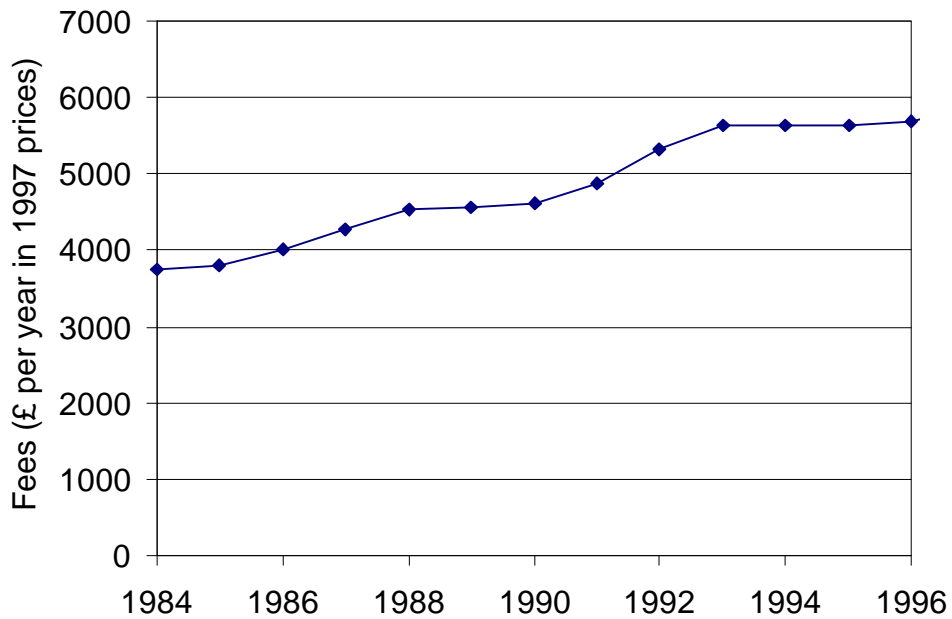
There appears to have been significant growth in “all private” expenditure (black sector). However this may be a misleading impression, since the only measure available for private expenditure on education is a general one which includes fees for driving lessons, music instruction and leisure courses, as well as private school fees and university tuition fees. The growth in private expenditure may therefore have come partly from those other sources. However some of the growth will have come from private schooling: although the proportion of pupils attending private schools has remained relatively constant, school fees have risen faster than inflation (*Figures 1 and 2*). Some of the increase may have come from the increasing proportion of students whose tuition fees are paid privately: *Figure 3* shows the trend for post-



graduates.

**Figure 2: Private school fees, UK 1984-1996**

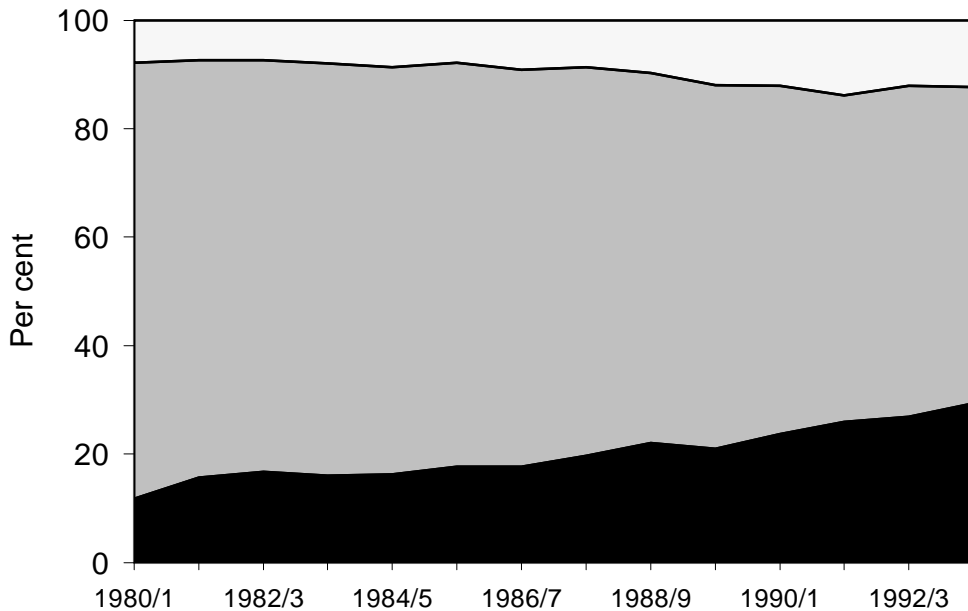
Weighted boarding and day school average



Source: author's calculations using  
ISIS (various years)

**Figure 3: Source of tuition fees, GB, 1980/1-1993/4**

Full-time, home, postgraduates



■ Self ■ State □ Other

'State' is local authority, research council or central government.  
Source: DES (various years)



The Assisted Places Scheme was introduced in 1981, under which parents whose children had been offered places at an independent school could apply for means-tested assistance with school fees from central government. This makes its appearance in the yellow sector (public finance, private provision and decision) in the 1995/96 chart. Although the number of places under the scheme grew from 5,300 initially to 34,000 by 1995/96 (DfEE, 1996c), expenditure remained relatively insignificant. The scheme is now to be phased out by the Labour government.

The government also provides financial assistance to diplomats and service personnel posted abroad who wish to send their children to private school. This expenditure should be added to the yellow sector, but figures were not available.

The green sector represents government grants to independent establishments such as music and ballet schools, City Technology Colleges, further education colleges, polytechnics and universities. It also includes local authority expenditure on non-maintained school fees. Most of these fees are for children attending non-maintained special schools whose placements are arranged by the LEA. This expenditure therefore counts as inner circle, since the decision on provider and type of service is made primarily by a public body rather than by the parent or child.

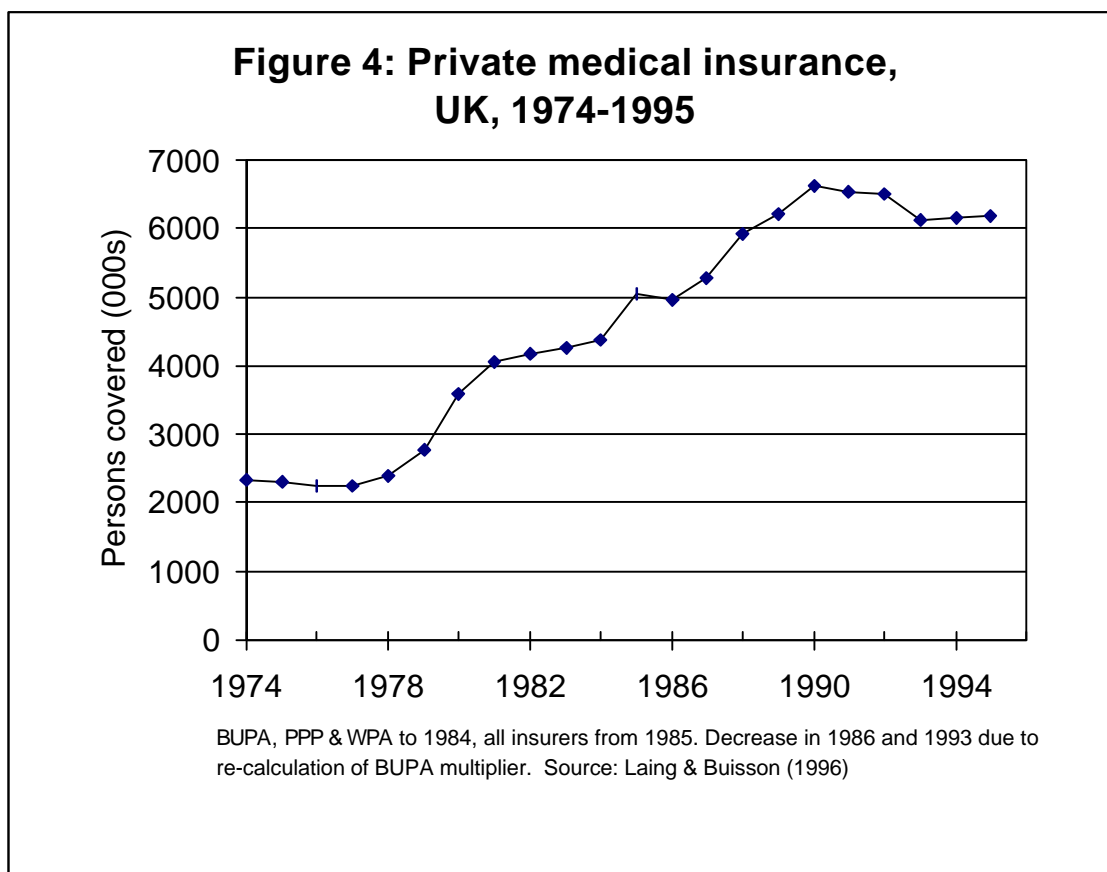
Other items of expenditure which should theoretically be included but for which data were unavailable or too small to appear, include contributions for state school compulsory activities (cookery classes, field trips, etc.) which would come into the purple sector, and parental expenditure on state boarding schools, of which there are 37 in England and Wales, which would appear in the red sector (publicly-provided service, privately-financed, chosen by consumers). Nursery education, student maintenance and expenditure on training are not included.

Overall, the picture in education is one of continuing dominance of the “all public” sector, though with growth in the “all private” sector. Hotly-debated reforms such as opting-out and the assisted places scheme had relatively little impact, the former failing to move state schools from inner circle to outer ring since geographical constraints remain dominant in schooling decisions, and the latter affecting only a small minority of pupils.

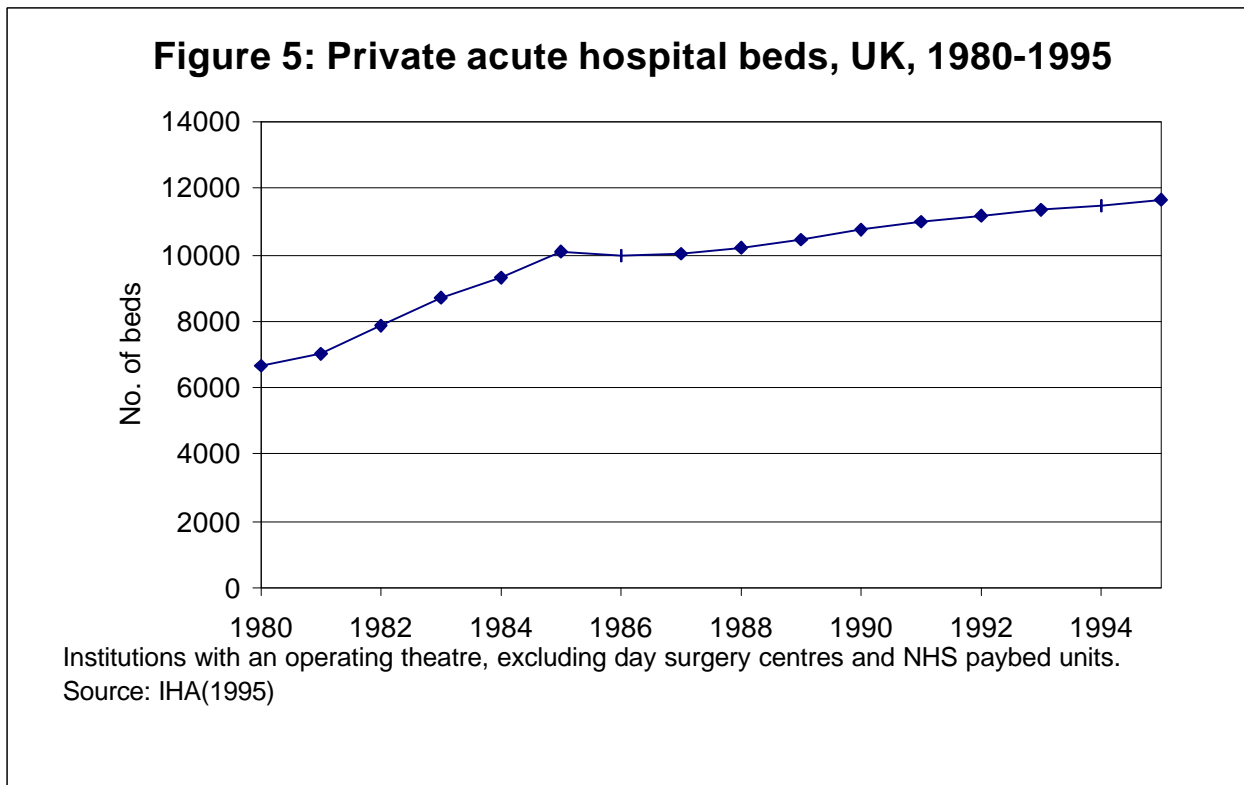
## Health

Changes in the pattern of expenditure on health are illustrated in *Chart 6*. As for education, the “pure public” sector is dominant in both years. The introduction of quasi-markets in the health service in 1991 does not show up in these charts, since whilst quasi-markets affect internal incentives, public provision and finance is retained and decisions are made by agents acting on behalf of consumers (health authorities and GPs) rather than by consumers directly. Services delivered through quasi-markets therefore remain in the “all public” (white) sector.

“Pure private” expenditure on health grew from 9 per cent of total expenditure in 1979/80 to 15 per cent in 1995/96. This figure is made up of private medical insurance premiums (whether made by employers or individuals) and out-of-pocket expenditure by consumers on private medical services and goods. *Figure 4* gives a time series for the number of people covered by private medical insurance, confirming that PMI coverage has continued to grow, although it flattened off in the recession of the early 1990s. This is despite the introduction in 1989 of tax-relief on PMI for people over 60. (The cost of tax relief appears in the yellow sector). *Figure 5* shows that the number of acute beds in private hospitals has also grown.



The “all public” and “all private” sectors together account for about 80 per cent of total health expenditure in both years. The remaining 20 per cent is mostly accounted for by public expenditure on

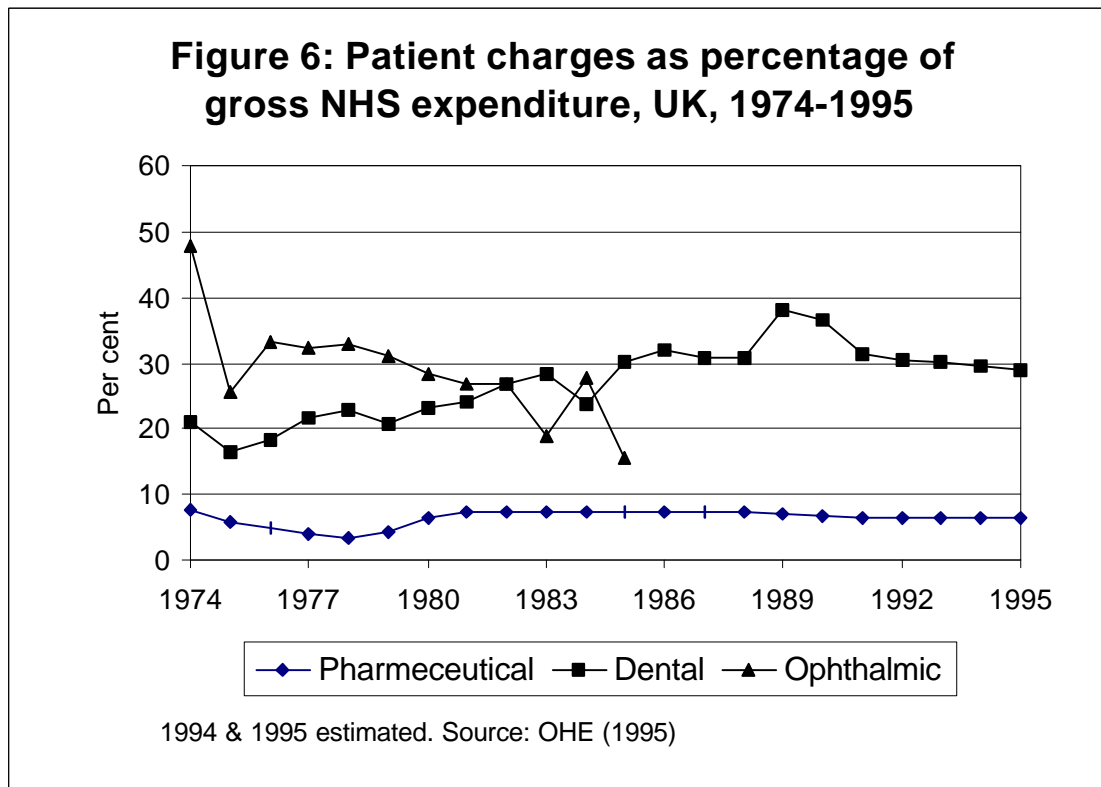


contracted-out services (green sector). This includes expenditure on GP services and General Dental Services, since GPs and dentists are formally self-employed and contracted to the NHS.

Contracting-out to private providers for both care services and ‘hotel’ services was encouraged from 1983 onwards, and by 1986, hospitals were required to have “market-tested” non-clinical services such as catering and cleaning. The green sector in 1995/96 therefore includes a figure for laundry and catering services provided under external contracts. At the same time, health authorities were urged to buy operations from the private sector where this was cheaper, but this expenditure has remained small relative to the whole NHS budget (figures included in green sector for both 1979/80 and 1995/96).

Patient payments for NHS services appear in the blue and purple sectors (blue for contracted-out services and purple for directly-provided services). Charges represent the same proportion of total health expenditure in 1995/96 as 1979/80, but this conceals several changes over the period. Prescription charges have risen faster than

inflation, but the proportion of prescriptions exempt from charges has also grown, and in 1994 stood at over 80 per cent. Overall, the proportion of public expenditure on pharmaceutical services met by patient charges has remained fairly constant (*Figure 6*).

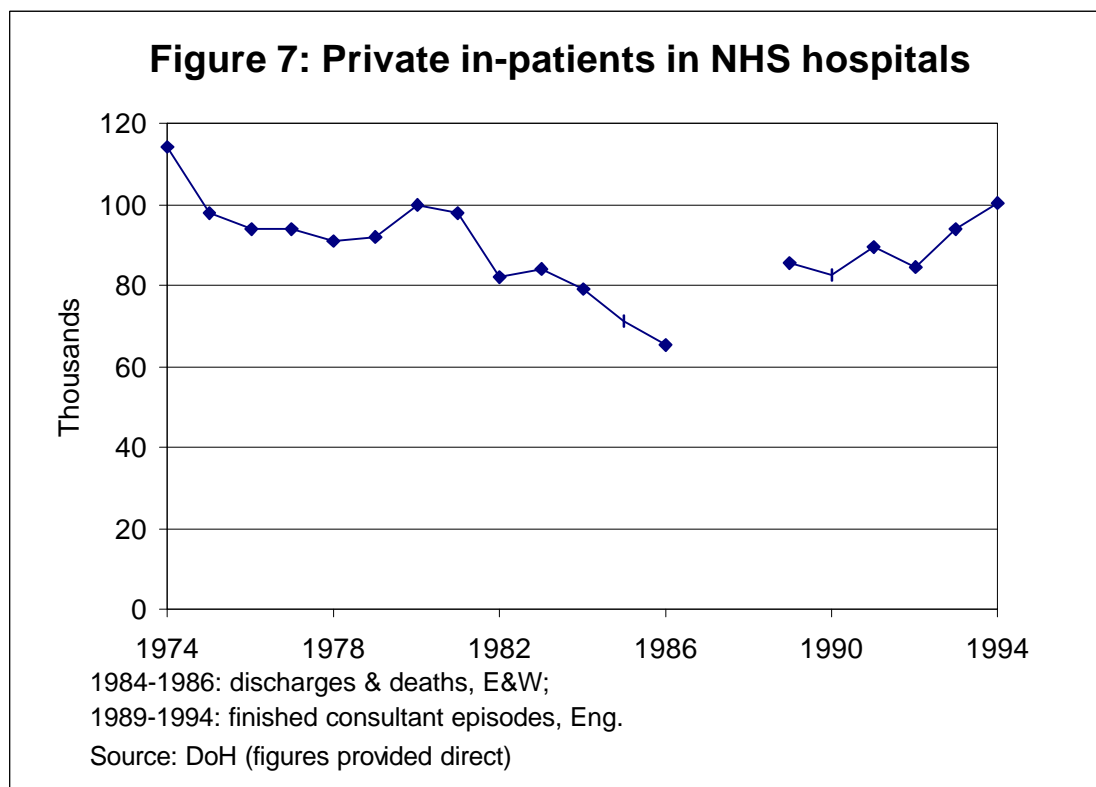


NHS glasses were restricted in 1985 to certain groups (children, students under 19, people on low incomes and users of certain complex lenses). This moved some expenditure from the “all public” to the “all private” sector. The following year, NHS glasses were replaced by vouchers, enabling those groups to choose their spectacles, although the value of the voucher was insufficient to buy most glasses. This moved another slice of expenditure from the “all public” sector, this time into the yellow sector (public finance for private provision and decision). In 1989, free sight tests and dental check-ups were limited to special groups - a further move out of the “all public” sector.

Expenditure on services purchased privately from the NHS (pay-beds), represented by the red cylinder, is a higher proportion of NHS expenditure in 1995/96 than 1979/80, although the same proportion of all health expenditure. Restrictions on pay beds in NHS hospitals initially imposed by the 1974-79 Labour government were lifted by the first Thatcher government and new pay beds were encouraged

(Papadakis and Taylor-Gooby, 1987). *Figure 7* gives an impression of the numbers of private patients in NHS hospitals over the period.

The “all public” sector remains dominant in health as in education, but was a smaller proportion of total expenditure in 1995/96 than in 1979/80. Most of the growth was in “all private” expenditure - PMI and out-of-pocket private health spending - but a yellow sector (private



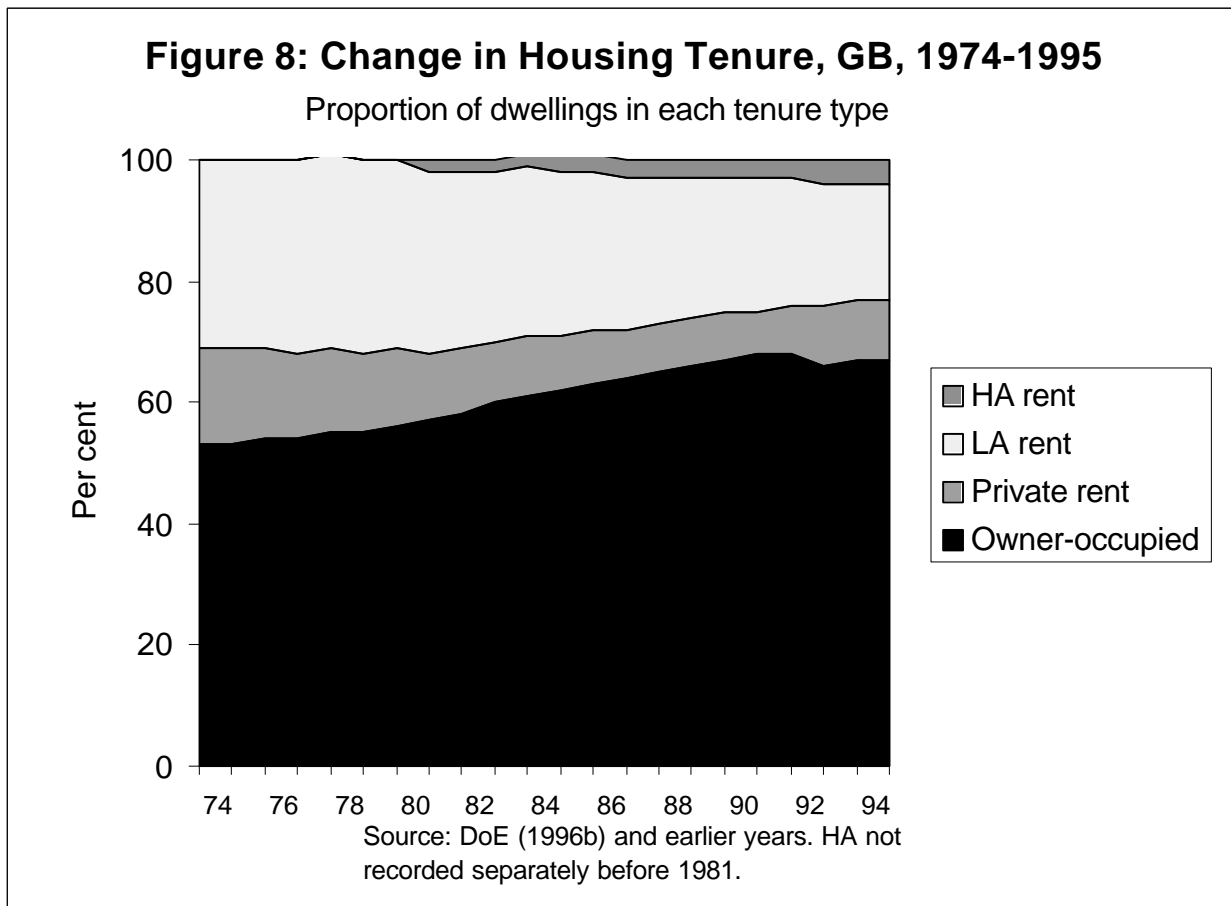
provision, public finance, private decision) also made its appearance as the result of tax relief on PMI for the over-60s (now abolished) and NHS vouchers for glasses. Pay-beds (red sector) gained slightly in importance.

### **Housing**

Changes in the pattern of expenditure on housing are presented in *Chart 7*. The methodology adopted to measure expenditure was to approximate current rental value for all tenures and divide that between the various sectors. Current rental value in theory reflects capital as well as current expenditure; however, a number of estimates had to be made, so the figures are approximate (for details of calculations, see Appendix).

In contrast to education and health, the dominant sector is “all private”. This is true in 1979/80 as well as 1995/96, and its share grows between the two years. The “all private” sector is made up of rent paid on privately-owned dwellings, imputed rents for owner-occupiers and

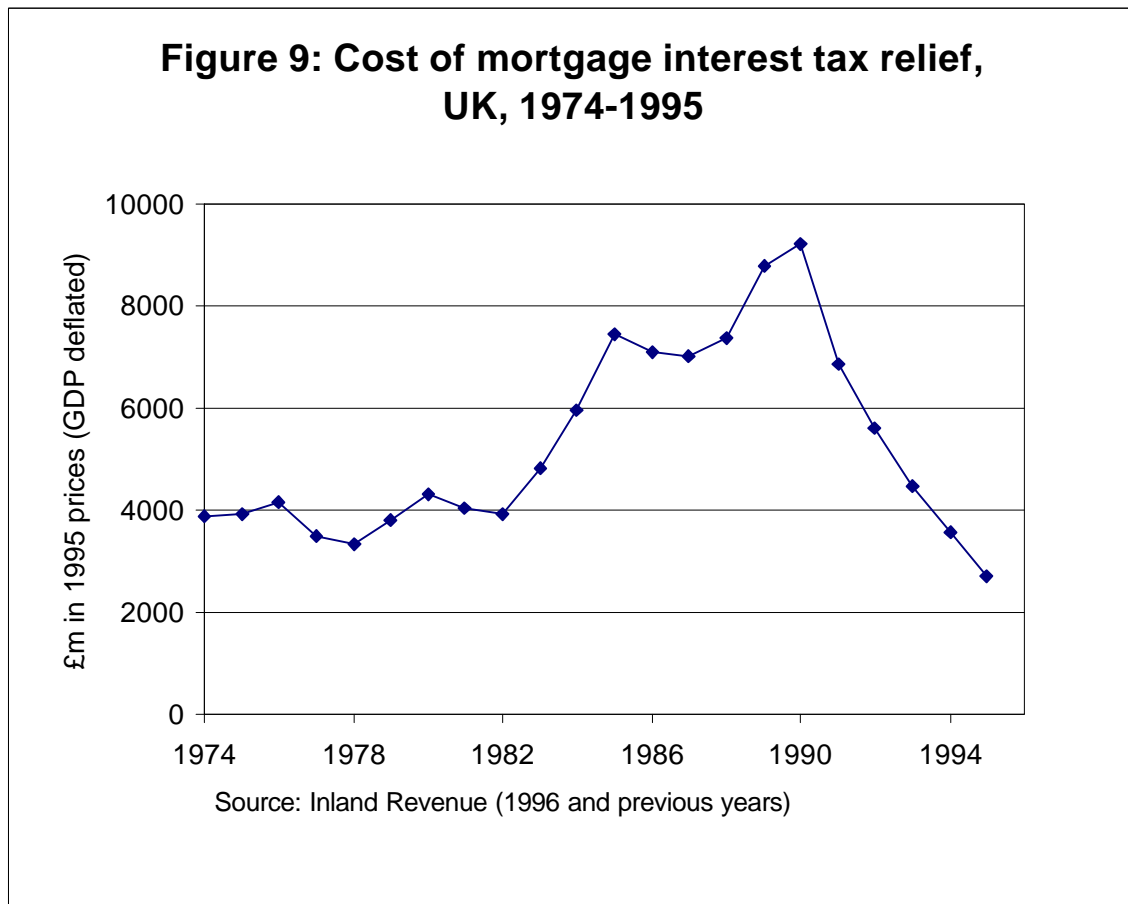
their spending on repairs and maintenance, net of support given by the state to those tenures. The growth and dominance of this sector is not surprising when we consider that at the beginning of the period, owner-occupation accounted for just over half of all dwellings in Great Britain, and by 1995, that share had risen to two-thirds (*Figure 8*).



Part of this growth was by means of the Right-to-Buy policy, introduced in 1980. Under the scheme, local authority tenants of at least three years' standing gained the right to purchase the house or flat they occupied, at a discounted price. Discounts started at 33 per cent of market value, and rose by one per cent for each additional year of tenure, up to a maximum of 50 per cent or £25,000. The conditions were made more attractive in 1984 and again in 1986. The policy made home-ownership financially possible for thousands of tenants, but was not without its costs. An estimate of the annualised value of Right-to-Buy discounts given is included in *Chart 7* in the yellow sector, as state support for private provision.

Owner-occupation is also supported by the state through mortgage interest tax relief, which was available at both higher and basic rates of tax in 1979. Successive cuts brought the relief rate down to 15

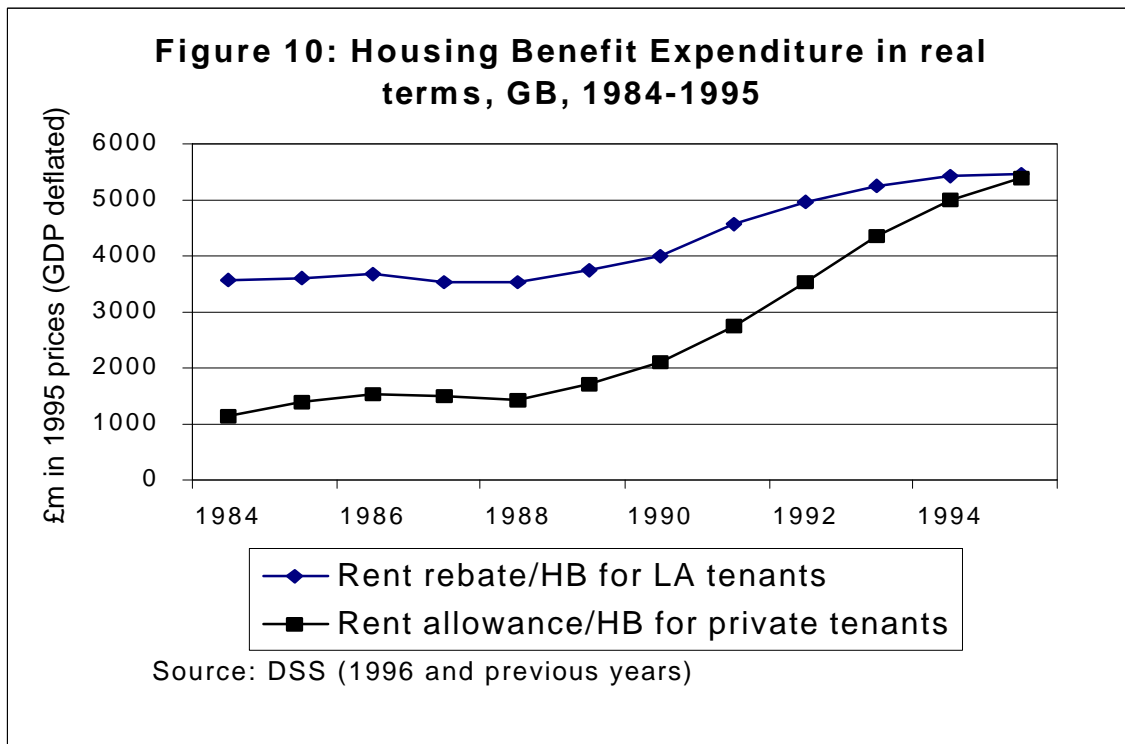
per cent in 1995, and the 1997 budget cut it by a further 5 per cent. The financial cost of tax relief is included in the yellow sector in both the 1979/80 and the 1995/96 charts, and a time series is given in *Figure 9*.



Numerous attempts have been made to revitalise the private rented sector, but with limited success. Rent restrictions, first introduced at the beginning of the century were eased in the early 1980s, further deregulated in 1988 for all new lettings, and again in 1993. As a result, private rents have risen in real terms, although the proportion of dwellings privately rented has begun to grow only recently. Largely as a consequence, the Housing Benefit bill for private tenants has increased substantially and is continuing to grow (*Figure 10*). The cost of Housing Benefit for private rent is included in the yellow sector.

Expenditure on Housing Associations (HA) tenancies is placed in the inner circle in *Charts 7*, because in most cases tenants are nominated by the local housing authority, rather than themselves choosing to live in HA properties. The decision is therefore public (inner circle), the provider is non-public (bottom semi-circle), and the finance is either

private (rents: blue sector) or public (Housing Benefit and economic subsidy<sup>4</sup>: green sector).



Renting from a Housing Association has grown in importance as a tenure since the role of the Housing Corporation was expanded in 1974 and grants to Associations made more generous. HAs also benefited from the voluntary transfer of stock from local authorities in the late 1980s and early 1990s, since they were not subject to the same spending restrictions as councils.

Public renting has declined both in terms of volume and public expenditure. Rising local authority rents have decreased the economic subsidy to tenants while increasing Housing Benefit. Rents paid for local authority houses and flats appear in the purple, (public provision, private finance, public decision) sector, and Housing Benefit and the economic subsidy on local authority dwellings appear in the white, “all public” sector.

In summary, housing differs markedly from education and health in the balance of provision, although the direction of change is more familiar - away from the “all public” sector into the “all private” and other outer-ring sectors. The increased use of Housing Associations to

<sup>4</sup> The economic subsidy is the difference between the “economic rent” for the property and the rent actually charged, with various adjustments. Calculations were based on Sefton (1997).



provide social housing shows up in the greater size of the green and blue sectors.

### ***Social security***

Changes in patterns of expenditure in social security are shown in *Chart 8*. Housing Benefit, Income Support for Mortgage Interest, and Income Support for residential care are excluded from these charts since they are included in the housing and personal social services charts. Included here are other state benefits (both means-tested and universal), pensions, and private welfare insurance.

The proportion which is “all public” has risen by 9 per cent between 1979/80 and 1995/96, driven partly by demographics and partly by higher unemployment rates (Evans, forthcoming). This is not to say that there have been no attempts to move out from the “all public” sector. In a number of cases benefits have been cut back or eligibility restricted - for example the numerous changes to unemployment benefit, and the harsher test of disability for Incapacity Benefit. Alternatives in the form of private insurance, for example Permanent Health Insurance, do exist and have been encouraged with tax breaks, but are expensive and not available to ‘high-risk’ groups, so take-up is low (Burchardt and Hills, 1997). The Child Support Agency was also an attempt to reduce the social security bill, by enforcing maintenance payments from absent parents. Payments made through the Child Support Agency to parents fall into the purple sector (public provision, private finance, public decision), but are too small to appear in the Chart.

Perhaps the most interesting developments in social security as far as public and private boundaries are concerned have taken place in the provision of pensions, and expenditure on pensions is therefore illustrated separately in *Chart 9*.

Pensions expenditure can be measured either in terms of pensions in payment or in terms of contributions currently being made towards future pensions. The latter approach is adopted here, with the exception of the basic state pension, which, being unfunded, is measured as the cost to the taxpayer of the pensions paid to today’s elderly population. A further difficulty arises over the treatment of tax reliefs.<sup>5</sup> Although tax relief is given on pension contributions and (until the recent Budget) on assets accruing to pension funds, regular pension income - the result of

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<sup>5</sup> For a thorough examination, see Hills (1984).

contributions and interest on the fund - is taxable. So tax relief on contributions and pension funds can be seen as merely deferring taxation. However, in some cases pension income is taxed only at the basic rate whilst contributions attracted relief at the higher rate, and in all cases, lump sum pension payments received on retirement are tax-free. Moreover, taxing the outcome of fund growth has a different effect from taxing interest on the fund as it accrues. The cost of these anomalies must be treated as a genuine tax expenditure (for details of estimates, see Appendix).

In 1979/80, “pure public” expenditure on pensions, in other words the cost of the basic state pension, was 40 per cent of total pension expenditure. This rose to 44 per cent in 1995/96, even though pensions have been up-rated in line with prices rather than earnings since 1980.

The second-tier state pension scheme (SERPS), paid for through National Insurance contributions and general taxation, was introduced in 1975. By 1979/80, it accounted for 14 per cent of pensions expenditure. However, in 1986 it was cut back and opting out from the scheme was encouraged. The Government anticipated that between half and one million people would leave SERPS, but in fact the incentives were more effective: nearly five million people opted out (Dean, 1993). By 1995/96, SERPS represented only 6 per cent of total expenditure on pensions.

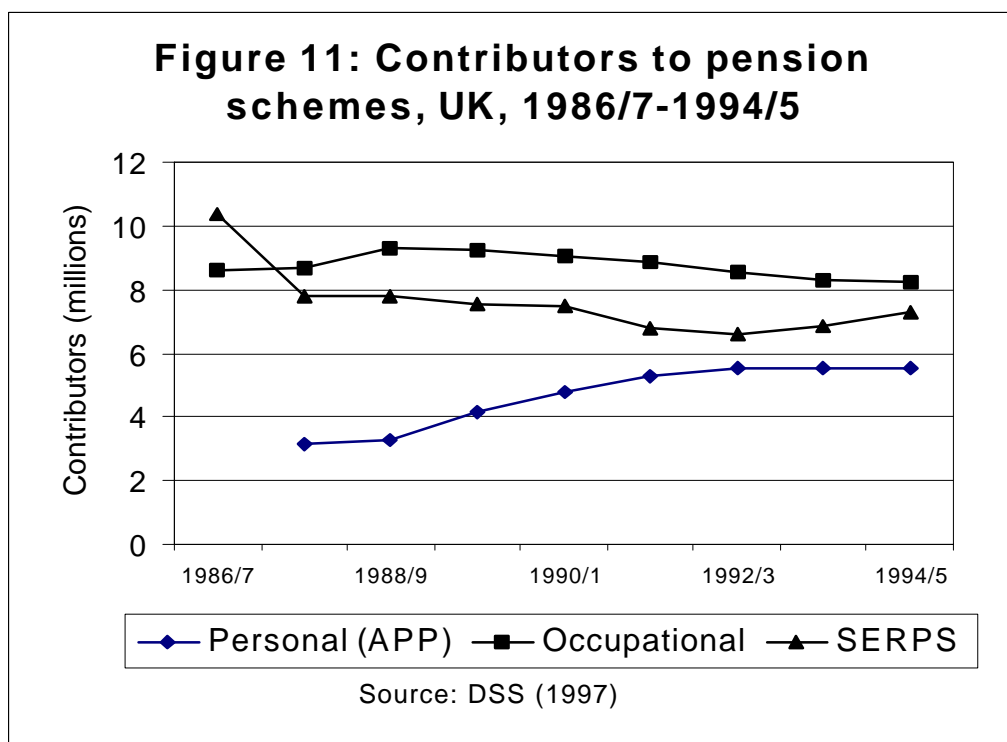
SERPS contributions are placed in the orange sector, since, although contributing to a second-tier pension is compulsory for all employees, individuals may choose whether to remain in the state scheme or opt out by means of an occupational pension, or, more recently, a personal pension. SERPS is therefore public finance and provision but private decision.

From the outset, members of occupational pension schemes could opt out of SERPS and get a National Insurance rebate of 5.4 per cent, provided the occupational scheme guaranteed a minimum pension to match the state scheme. In 1986, the contracted-out rebate was increased to 5.8 per cent, and money-purchase schemes were admitted alongside final salary schemes. The result is dual-financing for occupational schemes: part is effectively public finance in the form of National Insurance rebates (and tax reliefs), and part is private finance - contributions by employers and employees. Expenditure on occupational schemes is therefore distributed between the yellow and black sectors in *Chart 9*.

From 1987, people with recognised personal pensions were also permitted to opt out of SERPS. Rebates on National Insurance contributions were paid directly into the personal pension and special incentive payments were made by the Department of Social Security (2 per cent of reckonable earnings up to 1993, and, for people aged over 30, 1 per cent for the next five years). Financing for personal pensions is therefore also split between the yellow and black sectors. The self-employed are not eligible for National Insurance rebates, since they are not part of SERPS, but may contribute to a personal pension. Their contributions are included in the black sector.

The black sector remains more or less constant in proportionate size, but the yellow sector grows appreciably. This suggests that contributions to occupational and personal pensions over and above the value of the contracted-out deduction have remained constant, while incentive payments, rebates and tax reliefs have grown. Nearly two-thirds of the reduction in the proportion of total expenditure going on SERPS contributions re-appears as public finance for private provision (the yellow sector).

Figure 11 shows changes in the numbers of contributors to SERPS, occupational pension schemes and appropriate personal pension plans over time. SERPS membership falls away, the number of contributors to occupational schemes remains constant, and the number of people contributing to a personal pension grows steadily from 1987 to 1992 but subsequently levels off.

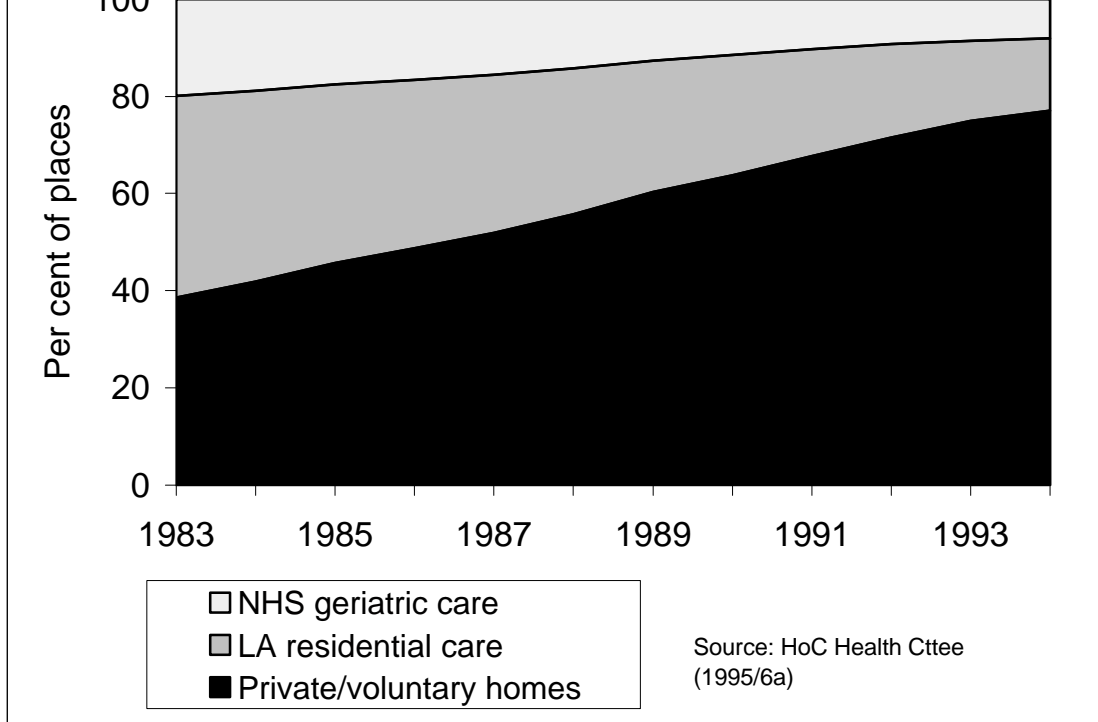


### ***Personal social services***

Changes in patterns of expenditure on personal social services are illustrated in *Chart 10*. Unfortunately, appropriate breakdowns of expenditure, especially private expenditure, were not always available, and the “black sector” figure is an under-estimate in both years. Comparison with aggregate figures suggests that in 1995/96 the green sector may be over-estimated at the expense of the white sector - see Appendix for details.

Although the size of the shift may be exaggerated in the Charts, there can be little doubt that there has been a re-allocation of expenditure from “pure public” expenditure (70 per cent of the 1979/80 total) to contracted-out expenditure (green sector: up from 11 per cent to 34 per cent in 1995/96). This is largely due to changes in residential care provision (*Figure 12*). Placements in local authority residential homes were discouraged in favour of private and voluntary care homes by the system of funding places in private and voluntary care homes through Supplementary Benefit/Income Support in the 1980s. At the same time, elderly people who would previously have been cared for in long-stay NHS geriatric wards were moved into private nursing homes, paid for by the NHS or by Income Support. In April 1993, responsibility for funding long-term care passed to local authorities, who were required to pay the fees (up to a limit) of any elderly person assessed as needing care who passed the means test. A high proportion - over 60 per cent - of residents of independent care homes are supported by the state in some form (Laing and Buisson, 1995).

**Figure 12: Long-Term Care places by sector, England, 1983-1994**



The increase in the blue sector (private provision, private finance, public decision) and the decrease in the purple sector (the same but public provision), are largely consequences of the switch from local authority to private provision of residential care. Frequently, fees paid by the local authority are insufficient to meet the costs of a placement, either because the client has been assessed as being able to make a contribution, or because the fees charged by the particular care home are above the local authority's normal limit. The difference, met by the client or his/her relatives, appears in the blue sector.

Expenditure by entirely self-financing elderly residents of private care homes - who perhaps have savings above the limit for the means-test or who require a residential placement in the authority's assessment - appears in the black, "all private" sector. Accurate figures are hard to obtain; the 1979/80 figure is estimated from a number of sources and assumes, amongst other things, that care home fees for self-payers are not higher or lower than average care home fees. There are self-financing residents of care homes who are not elderly (those with physical or mental disabilities, or those who are chronically sick or mentally ill), but no estimates were available for their expenditure.

In non-residential care, the major changes came about as a result of the Griffiths report and the subsequent White Paper, *Caring for People* (DoH and DSS, 1989). This introduced the purchaser/provider split, encouraging local authority social services departments to contract with private or voluntary sector service providers (moving from the “all public” sector to the green sector), whilst remaining responsible for assessing needs and ensuring they were met. But private provision remains patchy, with few companies willing to take on the low-intensity care required by many people. Local authorities have also been encouraged to charge for their services on a means-tested basis, and the proportion of expenditure which is recouped through user charges has grown for some services. This contributes to the growth in the blue sector.

Informal care is not included in the charts because of the difficulties in placing a monetary value on the time and energy expended by unpaid carers. Laing and Buisson’s (1995) estimate of £41,000 million in 1994/5 was arrived at by valuing informal care at £7.00 per hour, but estimates will vary widely depending on the figure used. It is clear, however, that the number of hours of care provided informally dwarfs formal provision, and any decline in the availability of informal carers is likely to result in increased pressure on formal care services.

The most substantial moves in personal social services have been from public to private providers, but decision-making has remained centralised, with social workers compiling care packages on behalf of most clients. The purchaser/provider split has perhaps been taken further in social services than in some other areas of welfare, but moves from inner circle to outer ring have been less prominent. The “all private” sector probably plays a growing but still small role, although data on expenditure are scarce.

### ***All welfare expenditure***

The expenditure charts for each of the areas of welfare are combined in *Chart 11*. The picture which emerges is one of perhaps surprising constancy - with “pure public” expenditure remaining dominant in both years. However its share of total expenditure does fall from 54 per cent to 49 per cent. Most of the difference is picked up by a growth in the “pure private” sector, which rises from 25 per cent to 29 per cent. Public finance for private provision is the next most important sector overall:

the yellow and green sectors between them account for 14 per cent and 19 per cent of expenditure in 1979/80 and 1995/96 respectively. The growth is more due to contracting-out than it is due to tax-reliefs and other “privately decided” mechanisms. The orange sector (public provision and finance, private decision) falls from 5 per cent to 1 per cent, and this is driven by the demise of SERPS. Other sectors remain more or less constant between the two years.

#### **4. Conclusion**

This paper has presented a typology of welfare services and attempted to illustrate its use in policy analysis and, in particular, in clarifying discussions about the privatisation of welfare.

A third dimension was added to the now-traditional provision and finance classification. This third dimension concerns the extent of the consumer’s decision-making power, and turns on the question of *agency* and *exit*. Services were held to be privately-decided (outer ring on the charts) where consumers made decisions directly and had a range of providers offering a range of qualities of service to choose between.

In the second half of the paper, the third dimension was found to be increasingly important in policy terms. In education, Grant Maintained schools were an attempt to move state education out from the “all public” sector into the privately-decided sector. The assisted places scheme and short-lived nursery vouchers were likewise attempts to promote consumer decision-making. Parallel policies in health were small scale, though much discussed, for example NHS glasses vouchers and tax relief for PMI. Out-right privatisation took place with the withdrawal of free dental check-ups and eye-tests for most groups, while the encouragement of pay-beds was an attempt to market state services privately. Housing started with a larger “all private” sector than either education or health, and this dominance was cemented through the Right-to-Buy policy. State support for owner-occupation continued by means of MIRAS. In the rented sector, Housing Benefit took the place of subsidy for social housing and regulation of private rents. Finally in the area of pensions, incentives to opt-out of the state scheme were increased, and resulted in a sharp increase in contributors to personal pension plans.

Despite the policy interest in moving from public to private decision, the impact was often small in terms of expenditure.

Contracting-out to the private providers became more important but the level of public finance for individuals who themselves chose private providers remained at 10 per cent of total expenditure. Entirely private welfare was the second largest sector in both 1979/80 and 1995/96, and grew slightly over the period to 29 per cent of total expenditure. But the overall picture in terms of expenditure is one of continuing importance of the publicly provided, financed and decided sector: just over half of all expenditure in 1979/80 and just under half in 1995/96. It may be that it is more problematic in practice to devolve decision-making power to the level of consumers in the area of welfare than some policy-makers would like to assume.



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## Appendix

### EDUCATION

All figures are for England in 1995/6 £million (GDP deflated), unless otherwise stated

#### General notes

1. Does not include training or pre-school education expenditure
2. Does not include student maintenance grants
3. Current expenditure only

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
<b>White</b>	Public provision, finance and decision	State primary and secondary schools	9776	11128	Local authority current expenditure. Includes 6th Form Colleges in 1979/80.
		Special schools	600	973	Local authority current expenditure.
		Grant-maintained schools		1643	Central government grant and local authority current expenditure.
		Meals & transport	1344		Local authority current expenditure. Assumed to be public provision in 1979/80.
		Teachers centres, child guidance & pupil support		514	Local authority current expenditure. Not separately identifiable in 1979/80.
		Miscellaneous	1045	1434	Local authority and central government current expenditure. Includes research , administration

					and inspection.
		<b>TOTAL</b>	<b>12764</b>	<b>15692</b>	
		<b>TOTAL (UK)</b>	<b>15317</b>	<b>18830</b>	England totals multiplied by 1.2.
		Percent of grand total	65.5%	52.4%	
<b>Orange</b>	Public provision and finance, private decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Purple</b>	Public provision, private finance, public decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Red</b>	Public provision, private finance, private decision				
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Green</b>	Private provision, public finance and decision	Non-maintained school fees	330	197	Local authority current expenditure. In 1979/80 includes teachers centres, child guidance and pupil support.

		City Technology Colleges		53	Central government expenditure
		Voluntary, non-maintained special, music & ballet schools	113	114	Central government grants.
		Meals & transport		803	Local authority current expenditure. Assumed to be contracted-out in 1995/6.
		Higher and further education	4120	6342	Local authority and central government grants to institutions. Includes teacher training.
		<b>TOTAL</b>	<b>4563</b>	<b>7509</b>	
		<b>TOTAL (UK)</b>	<b>5476</b>	<b>9011</b>	England totals multiplied by 1.2.
		Percent of grand total	23.4%	25.1%	
<b>Yellow</b>	Private provision, public finance, private decision	Assisted places scheme		104	Central government expenditure
		Higher and further education	566	1365	Local authority and central government expenditure on tuition fees. Includes teacher training.
		<b>TOTAL</b>	<b>566</b>	<b>1469</b>	
		<b>TOTAL (UK)</b>	<b>679</b>	<b>1763</b>	England totals multiplied by 1.2.
		Percent of grand total	2.9%	4.9%	

<b>Blue</b>	Private provision and finance, public decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Black</b>	Private provision, finance and decision	Consumer expenditure	1592	5301	Includes university tuition fees, private school fees, fees for private tuition and leisure courses. In 1979/80, also includes local authority school charges for education, which should be in purple category.
		<b>TOTAL</b>	<b>1592</b>	<b>5301</b>	
		<b>TOTAL (UK)</b>	<b>1910</b>	<b>6361</b>	England totals multiplied by 1.2.
		Percent of grand total	8.2%	17.7%	
<b>All</b>		<b>GRAND TOTAL</b>	<b>19485</b>	<b>29971</b>	
		Percent	100%	100%	
		<b>GRAND TOTAL (UK)</b>	<b>23382</b>	<b>35965</b>	England totals multiplied by 1.2.

**Sources:**

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Glennister (forthcoming) "Education : reaping the harvest?"

ONS (1996a) Consumer Trends Q4 1996



## HEALTH

All figures are for UK in 1995/6 £million (GDP deflated), unless otherwise stated

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
<b>White</b>	Public provision, finance and decision	NHS hospital and community services	14820	25845	Net of NHS patient charges, private patients' payments, acute medical care purchased by NHS and, in 1995/6, contracted out laundry and catering
		Misc. NHS expenditure	2988	5478	eg central administration costs, ambulance services, mass radiography, laboratory, vaccination, research & development
		General ophthalmic services	154		Sight tests and dispensing paid out of public funds. Assumed to be all public provision in 1979/80.
		<b>TOTAL</b>	<b>17962</b>	<b>31323</b>	
		Percent of grand total	70.5%	62.9%	
<b>Orange</b>	Public provision and finance, private decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	

<b>Purple</b>	Public provision, private finance, public decision	NHS hospital charges	119	228	Patient payments for supply and repair of appliances, drugs, amenity beds. Not including private patients in NHS hospitals.
		General ophthalmic services	85		Patient payments for sight tests and dispensing. Assumed to be public provision in 1979/80.
		<b>TOTAL</b> Percent of grand total	<b>204</b> 0.8%	<b>228</b> 0.5%	
<b>Red</b>	Public provision, private finance and decision	NHS private patients	98	233	"Pay-beds"
		<b>TOTAL</b> Percent of grand total	<b>98</b> 0.4%	<b>233</b> 0.5%	
<b>Green</b>	Private provision, public finance and decision	General dental services, prescriptions, general medical services	4586	9153	Paid out of public funds. Assumes no patient charges for general medical services (eg GPs)
		General ophthalmic services		112	Sight tests. Assumes all privately provided in 1995/6.

		Contracted-out care	77	51	In 1979/80: NHS expenditure on "contractual homes and hospitals" (grossed up from England & Wales figure); in 1995/6: Laing & Buisson estimate of acute health care purchased from independent sector.
		Catering and laundry		109	Contracted-out laundry and catering contracts (grossed up from England figure). Not available for 1979/80.
		<b>TOTAL</b>	<b>4663</b>	<b>9425</b>	
		Percent of grand total	18.3%	18.9%	
<b>Yellow</b>	Private provision, public finance, private decision	Glasses voucher scheme		166	
		Private medical insurance		86	Cost of tax relief on PMI for over-60s
		<b>TOTAL</b>	<b>0</b>	<b>253</b>	
		Percent of grand total	0.0%	0.5%	
<b>Blue</b>	Private provision and finance, public decision	General dental services & prescriptions	331	821	Patient charges. Includes patient charges for services not detailed elsewhere.
		<b>TOTAL</b>	<b>331</b>	<b>821</b>	
		Percent of grand total	1.3%	1.7%	

<b>Black</b>	Private provision, finance and decision	Over-the-counter medicines, spectacles and contact lenses	1563	4285	Consumer expenditure, excluding NHS charges
		Private medical insurance	323	2059	Premiums (whether paid by employer or self), net of tax relief in 1995/6
		Other private medicine	344	1136	Consumer expenditure on private medical, dental, optical and nursing fees. Excludes NHS payments, PMI, purchase of medicines or other goods.
		<b>TOTAL</b>	<b>2231</b>	<b>7481</b>	
		Percent of grand total	8.8%	15.0%	
<b>All</b>	All	<b>GRAND TOTAL</b>	<b>25488</b>	<b>49764</b>	
		Percent	100.0%	100.0%	

### Sources

CSO (1981) Annual Abstract of Statistics 1981

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CSO (1983) Family Spending: A report on the 1981 Family Expenditure Survey

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House of Commons (1980/1) National Health Service Summarised Accounts 1979/80, HC 312

Laing & Buisson (1996) Laing's Review of Private Healthcare

OHE (1995) Compendium of Health Statistics

ONS (1996a) Consumer Trends Q4 1996

ONS (1997) Annual Abstract of Statistics 1997

## HOUSING

All figures are for UK in 1995/6 £million (GDP deflated), unless otherwise stated

### General notes

1. Method is to distribute current rental value of all dwellings between the various categories.
2. Minor tax reliefs, eg rent-a-room scheme, not included.
3. Effect of rent controls on private properties not included.
4. LA = local authority; HA = Housing Association

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
<b>White</b>	Public provision, finance and decision	Housing Benefit for LA tenants	1854	5562	Rent rebates in 1979/80.
		Economic subsidy for LA tenants	4782	1817	Economic subsidy calculated according to method in Sefton (1997)
		Homelessness provision		42	Public provision. Grossed up from England figure. Not identified separately in 1979/80.
		<b>TOTAL</b> Percent of grand total	<b>6636</b> 18.0%	<b>7421</b> 10.4%	
<b>Orange</b>	Public provision and finance, private decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	

		Percent of grand total	0.0%	0.0%	
<b>Purple</b>	Public provision, private finance, public decision	LA rents	3346	2638	Net of Housing Benefit
		<b>TOTAL</b>	<b>3346</b>	<b>2638</b>	
		Percent of grand total	9.1%	3.7%	
<b>Red</b>	Public provision, private finance and decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Green</b>	Private provision, public finance and decision	Housing Benefit for HA tenants	183	1100	Rent allowances in 1979/80.
		Economic subsidy for HA tenants	142	380	Assumes economic subsidy is same proportion of rent per dwelling as for LA dwellings, calculated following method in Sefton (1997)
		Homelessness provision		166	Bed & Breakfast accommodation and private leasing. Not identified separately in 1979/80.

		<b>TOTAL</b>	<b>325</b>	<b>1646</b>	
		Percent of grand total	0.9%	2.3%	
<b>Yellow</b>	Private provision, public finance, private decision	Mortgage Interest tax relief	4200	2800	
		Income Support for Mortgage Interest	100	1100	
		Housing Benefit for private rents	517	4300	
		Right-to-Buy discount		1300	Annualised value, following method in Sefton (1997). 1993 figure GDP deflated.
		<b>TOTAL</b>	<b>4817</b>	<b>9500</b>	
		Percent of grand total	13.0%	13.4%	
<b>Blue</b>	Private provision and finance, public decision	HA rents	341	1100	In 1979/80, estimated from number of HA tenants and average fair rent. Net of Housing Benefit.
		<b>TOTAL</b>	<b>341</b>	<b>1100</b>	
		Percent of grand total	0.9%	1.5%	

<b>Black</b>	Private provision, finance and decision	Owner-occupiers' imputed rents & spending on repairs & maintenance	18800	44200	Net of MIRAS, ISMI and, in 1995/6, annualised RTB discount
		Private rents	2660	4600	Net of Housing Benefit
		<b>TOTAL</b>	<b>21460</b>	<b>48800</b>	
		Percent of grand total	58.1%	68.6%	
<b>All</b>	All	<b>GRAND TOTAL</b>	<b>36925</b>	<b>71105</b>	
		Percent	100.0%	100.0%	

### Sources

CSO (1980) United Kingdom National Accounts: The Blue Book

DoE (1996a) Local Government Financial Statistics 1996

DoE (1996b and previous years) United Kingdom Housing and Construction Statistics

DSS (1996 and previous years) Social Security Statistics

Hills (forthcoming) "Housing: a decent home within the reach of every family"

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Sefton (1997) The Changing Distribution of the Social Wage



## SOCIAL SECURITY

All figures are for UK in 1995/6 £million (GDP deflated), unless otherwise stated

General notes: See separate table for details of pension calculations

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
<b>White</b>	Public provision, finance and decision	Expenditure on basic state pension	23489	29782	Including non-contributory pension, widows pensions and Christmas bonus.
		Other social security	23335	46187	Grossed up from GB figure. Excluding pension, Housing Benefit, Income Support for Mortgage Interest and Income Support for residential care, as these all included elsewhere.
		Child Support Agency		48	Payments to Secretary of State for benefits repaid. Grossed up from GB figure.
		<b>TOTAL</b> Percent of grand total	<b>46824</b> 57.2%	<b>76017</b> 66.1%	
<b>Orange</b>	Public provision and finance, private decision	SERPS contributions	7937	4009	Non-contracted out contributions which could have been contracted-out. See pensions table for details.
		<b>TOTAL</b> Percent of grand total	<b>7937</b> 9.7%	<b>4009</b> 3.5%	

<b>Purple</b>	Public provision, private finance, public decision	Child Support Agency		27	Payments to persons with care.
		<b>TOTAL</b>	<b>0</b>	<b>27</b>	
		Percent of grand total	0.0%	0.0%	
<b>Red</b>	Public provision, private finance and decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Green</b>	Private provision, public finance and decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Yellow</b>	Private provision, public finance, private decision	Contracted-out deductions, incentives and tax reliefs on pensions	11209	16434	See pensions table for details.
		<b>TOTAL</b>	<b>11209</b>	<b>16434</b>	
		Percent of grand total	13.7%	14.3%	
<b>Blue</b>	Private provision and finance, public decision		0	0	

		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Black</b>	Private provision, finance and decision	Occupational and private pension contributions	15820	17762	Net of tax reliefs and contracted out deductions. See pensions table for details.
		Private "welfare" insurance	89	681	Permanent Health Insurance, plus Mortgage Payment Protection in 1995/6.
		<b>TOTAL</b>	<b>15909</b>	<b>18443</b>	
		Percent of grand total	19.4%	16.0%	
<b>All</b>	All	<b>GRAND TOTAL</b>	<b>81879</b>	<b>114930</b>	

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Child Support Agency (1996) Annual Report and Accounts, HC 466

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Evans (forthcoming) "Social Security: dismantling the pyramids?"

House of Commons (1979/80) The Government's Expenditure Plans 1980-81 to 1983-84, Cm 7841

See also pensions table.

## PENSIONS

All figures are for UK in 1995/6 £million (GDP deflated), unless otherwise stated

### General notes

1. Method is to measure current contributions to pension provision.
2. Since basic state pension is unfunded, this is measured as cost of pensions now in payment.
3. Tax reliefs are calculated as, roughly, difference between current tax regime and a comprehensive income tax treatment, i.e. all higher-minus-basic rate relief, 25% of basic rate relief (to represent tax-free lump sums), and (1-basic rate) relief on fund income.

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
<b>White</b>	Public provision, finance and decision	Basic state pension	23489	29782	Contributory and non-contributory retirement pensions, widows pensions and Christmas bonus. Grossed up from GB figures.
		<b>TOTAL</b>	<b>23489</b>	<b>29782</b>	
		Percent of grand total	40.2%	43.8%	
<b>Orange</b>	Public provision and finance, private decision	SERPS	7937	4009	Proportion of contracted-in contributions which could have been contracted-out. Grossed up from GB figures.
		<b>TOTAL</b>	<b>7937</b>	<b>4009</b>	
		Percent of grand total	13.6%	5.9%	

<b>Purple</b>	Public provision, private finance, public decision		0	0	
	<b>TOTAL</b>		<b>0</b>	<b>0</b>	
	Percent of grand total		0.0%	0.0%	
<b>Red</b>	Public provision, private finance and decision		0	0	
	<b>TOTAL</b>		<b>0</b>	<b>0</b>	
	Percent of grand total		0.0%	0.0%	
<b>Green</b>	Private provision, public finance and decision		0	0	
	<b>TOTAL</b>		<b>0</b>	<b>0</b>	
	Percent of grand total		0.0%	0.0%	
<b>Yellow</b>	Private provision, public finance, private decision	Contracted-out deduction for occupational pension	6460	5829	Difference between full NI rate and contracted- out rate.
		Tax relief	4748	8535	Higher-minus-basic rate relief, plus 25% of basic rate relief, plus (1-basic rate)*relief on fund income.
		Incentive payments and rebates for personal pensions		2070	

		<b>TOTAL</b>	<b>11209</b>	<b>16434</b>	
		Percent of grand total	19.2%	24.2%	
<b>Blue</b>	Private provision and finance, public decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Black</b>	Private provision, finance and decision	Occupational pensions	15295	13140	Employees and employers contributions, net of tax relief and contracted-out rebates.
		Personal pensions	525	4622	Net of tax relief and any incentives/rebates. In 1979/80: self-employed retirement annuities "business in force" yearly premiums. In 1995/6 includes AVCs and employer contributions.
		<b>TOTAL</b>	<b>15820</b>	<b>17762</b>	
		Percent of grand total	27.1%	26.1%	
<b>All</b>	All	<b>GRAND TOTAL</b>	<b>58455</b>	<b>67987</b>	
		Percent	100.0%	100.0%	

## **Sources**

Association of British Insurers: figures provided in response to personal inquiry

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DSS (1996 and previous years) Social Security Statistics

DSS (1997) Pension Scheme Contributors 1986/7 to 1994/5

House of Commons (1981/2) National Insurance Fund Long term Financial Estimates, HC 451

House of Commons (1994/5) National Insurance Fund Long term Financial Estimates, HC 160

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Inland Revenue (1996 and previous years) Inland Revenue Statistics 1996

Inland Revenue: figures supplied in response to personal inquiry

ONS (1996c) United Kingdom National Accounts: The Blue Book

## PERSONAL SOCIAL SERVICES

All figures are for England and Wales in 1995/6 £million (GDP deflated), unless otherwise stated

### General notes

1. Data for 1979/80 and 1995/6 collected under different headings, so not directly comparable.
2. Local authority expenditure includes capital charges.
3. By comparison with aggregate figures, green sector appears to be overestimated for 1995/6, and white sector underestimated.

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
White	Public provision, finance and decision	Residential care	1216	1058	Local authority expenditure on own provision, net of user charges. In 1979/80, assumes residential care for "other groups" is all publicly-provided. In 1995/6 calculated from no. of own clients multiplied by average gross cost per client less user charges.
		Non-residential care	816	3296	Local authority expenditure on own provision, net of user charges. In 1979/80, assumes playgroups, intermediate treatment, day centres & clubs, home helps, children & YP act, sheltered housing is all own provision, and assumes no charges for sheltered employment. In 1995/6 assumes all intermediate treatment, home care, and "other" services, are own provision.



		Miscellaneous	917	532	Administration and regulation. In 1979/80 includes fieldwork. In 1995/6 includes capital charges not included elsewhere.
		Centrally-financed	31	32	eg training and research. Current expenditure.
		<b>TOTAL</b>	<b>2981</b>	<b>4918</b>	
		<b>TOTAL (UK)</b>	<b>3398</b>	<b>5607</b>	England & Wales multiplied by 1.14
		Percent of grand total	70.2%	41.1%	
<b>Orange</b>	Public provision and finance, private decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Purple</b>	Public provision, private finance, public decision	Residential care	361	307	User charges for LA-provided services. Where more precise information unavailable, total user charges divided in proportion of all clients in own-provision.
		Non-residential care	51	163	User charges for LA-provided services. See notes for residential care.
		Miscellaneous	10		
		<b>TOTAL</b>	<b>421</b>	<b>470</b>	
		<b>TOTAL (UK)</b>	<b>480</b>	<b>536</b>	England & Wales multiplied by 1.14
		Percent of grand total	9.9%	3.9%	

<b>Red</b>	Public provision, private finance and decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	
<b>Green</b>	Private provision, public finance and decision	Residential care	262	2139	Local authority expenditure on contracted-out services. In 1979/80, estimated as total net cost minus cost of own provision. In 1995/6, estimated as number of other-provision clients multiplied by gross cost per client minus user charges.
		Non-residential care	183	363	See notes for residential care.
		Income Support	22	1592	For residents of independent care homes.
		<b>TOTAL</b>	<b>467</b>	<b>4094</b>	
		<b>TOTAL (UK)</b>	<b>533</b>	<b>4667</b>	England & Wales multiplied by 1.14
		Percent of grand total	11.0%	34.2%	
<b>Yellow</b>	Private provision, public finance, private decision		0	0	
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	
		Percent of grand total	0.0%	0.0%	

<b>Blue</b>	Private provision and finance, public decision	Residential care	8	595	User charges for contracted-out services. Where no better information available, estimated as total charges multiplied by proportion of all clients who are other-provision clients.
		Non-residential care	12	18	See notes for residential care.
		<b>TOTAL</b>	<b>20</b>	<b>613</b>	
		<b>TOTAL (UK)</b>	<b>23</b>	<b>699</b>	England & Wales multiplied by 1.14
		Percent of grand total	0.5%	5.1%	
<b>Black</b>	Private provision, finance and decision	Residential and non-residential care	354	1871	1979/80 estimate is for elderly residential care only. 1995/6 estimate is for elderly, chronically sick and physically disabled, residential and non-residential care.
		<b>TOTAL</b>	<b>354</b>	<b>1871</b>	
		<b>TOTAL (UK)</b>	<b>404</b>	<b>2133</b>	England & Wales multiplied by 1.14
		Percent of grand total	8.3%	15.6%	
		<b>GRAND TOTAL</b>	<b>4244</b>	<b>11966</b>	
		Percent	100.0%	100.0%	
	<b>GRAND TOTAL (UK)</b>	<b>4838</b>	<b>13641</b>	England & Wales multiplied by 1.14	

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Laing and Buisson (1995) Care of Elderly People Market Survey 1995

Laing and Buisson (1996) Laing's Review of Private Healthcare

## ALL

All figures are for UK in 1995/6 £million (GDP deflated), unless otherwise stated

Colour	Category	Description	Amount in 1979/80	Amount in 1995/6	Notes
<i>White</i>	Public provision, finance and decision	Education	15317	18830	
		Health	17962	31323	
		Housing	6636	7421	
		Social Security	46824	76017	
		Personal Social Services	3398	5607	
		<b>TOTAL</b>	<b>90137</b>	<b>139198</b>	
		Percent of grand total	53.6%	48.7%	

<b>Orange</b>	Public provision and finance, private decision	Education	0	0
		Health	0	0
		Housing	0	0
		Social Security	7937	4009
		Personal Social Services	0	0
		<b>TOTAL</b>	<b>7937</b>	<b>4009</b>
		Percent of grand total	4.7%	1.4%
<b>Purple</b>	Public provision, private finance, public decision	Education	0	0
		Health	204	228
		Housing	3346	2638
		Social Security	0	27
		Personal Social Services	480	536
		<b>TOTAL</b>	<b>4030</b>	<b>3429</b>
		Percent of grand total	2.4%	1.2%
<b>Red</b>	Public provision, private finance and decision	Education	0	0
		Health	98	233
		Housing	0	0
		Social Security	0	0
		Personal Social Services	0	0

		<b>TOTAL</b>	<b>98</b>	<b>233</b>
		Percent of grand total	0.1%	0.1%
<b>Green</b>	Private provision, public finance and decision	Education	5476	9011
		Health	463	9425
		Housing	325	1646
		Social Security	0	0
		Personal Social Services	533	4667
		<b>TOTAL</b>	<b>6797</b>	<b>24749</b>
		Percent of grand total	4.0%	8.7%
<b>Yellow</b>	Private provision, public finance, private decision	Education	679	1763
		Health	0	253
		Housing	4817	9500
		Social Security	11209	16434
		Personal Social Services	0	0
		<b>TOTAL</b>	<b>16705</b>	<b>27950</b>
		Percent of grand total	9.9%	9.8%
<b>Blue</b>	Private provision and finance, public decision	Education	0	0
		Health	331	821
		Housing	341	1100

		Social Security	0	0
		Personal Social Services	23	699
		<b>TOTAL</b>	<b>695</b>	<b>2620</b>
		Percent of grand total	0.4%	0.9%
<b>Black</b>	Private provision, finance and decision	Education	1910	6361
		Health	2231	7841
		Housing	21460	48800
		Social Security	15909	18443
		Personal Social Services	404	2133
		<b>TOTAL</b>	<b>41914</b>	<b>83578</b>
		Percent of grand total	24.9%	29.2%
		<b>GRAND TOTAL</b>	<b>168313</b>	<b>285766</b>
		Percent	100.0%	100.0%

# Wheels of welfare

Chart 1

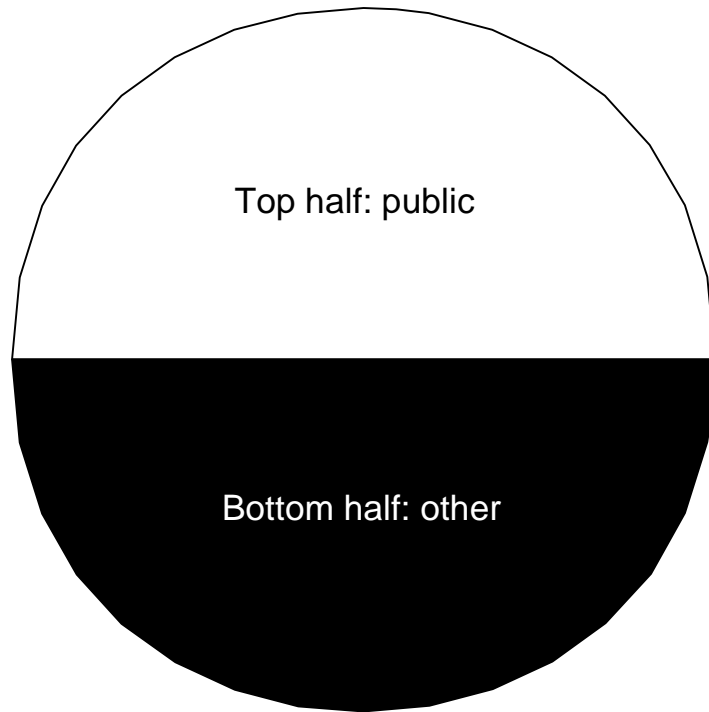
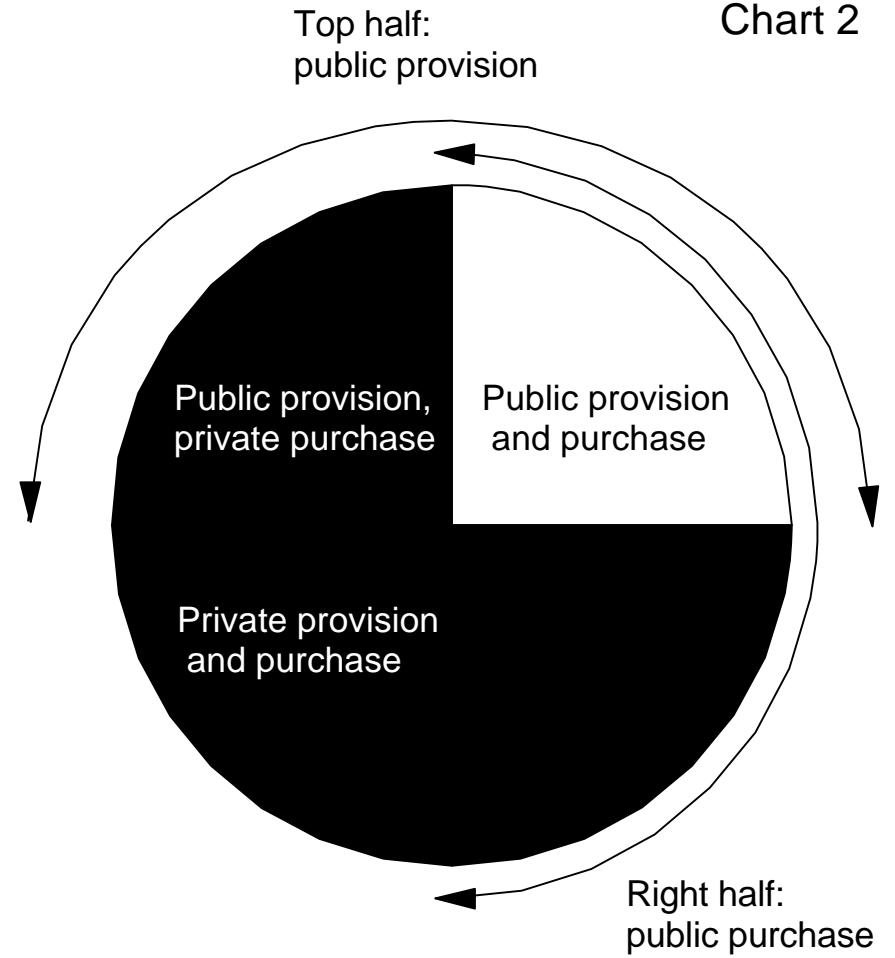


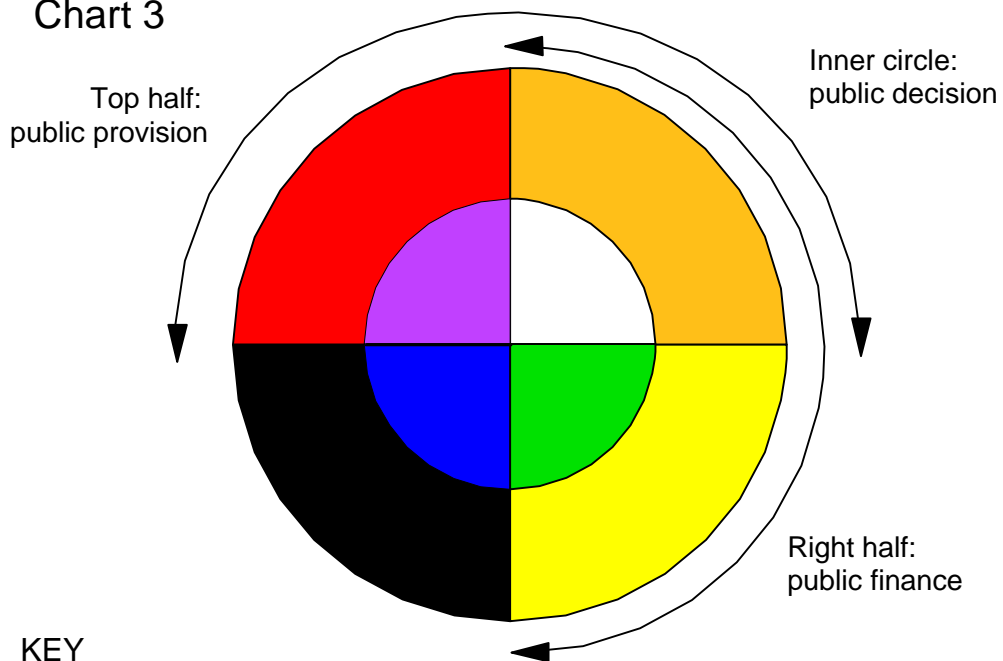
Chart 2



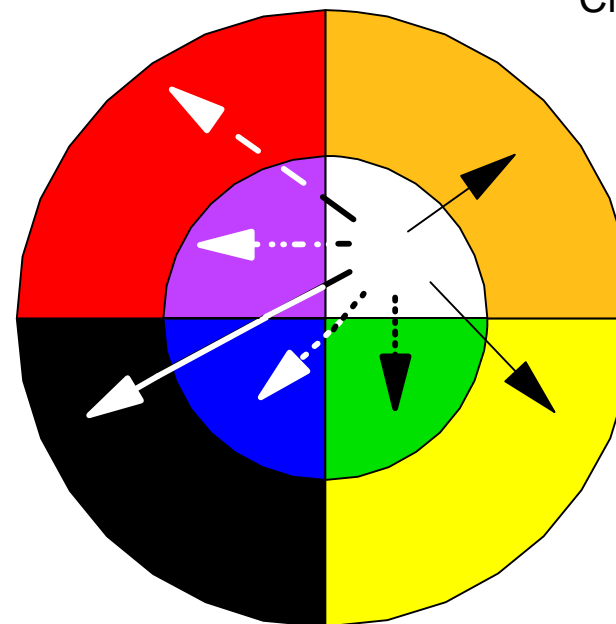


# Wheels of welfare

## Chart 3



## Chart 4



### KEY

#### Inner circle

- eg "pure public" services; quasi-markets
- eg publicly-provided services paid for by user charges
- eg contracted-out services paid for by consumer
- eg contracted-out services purchased by the state

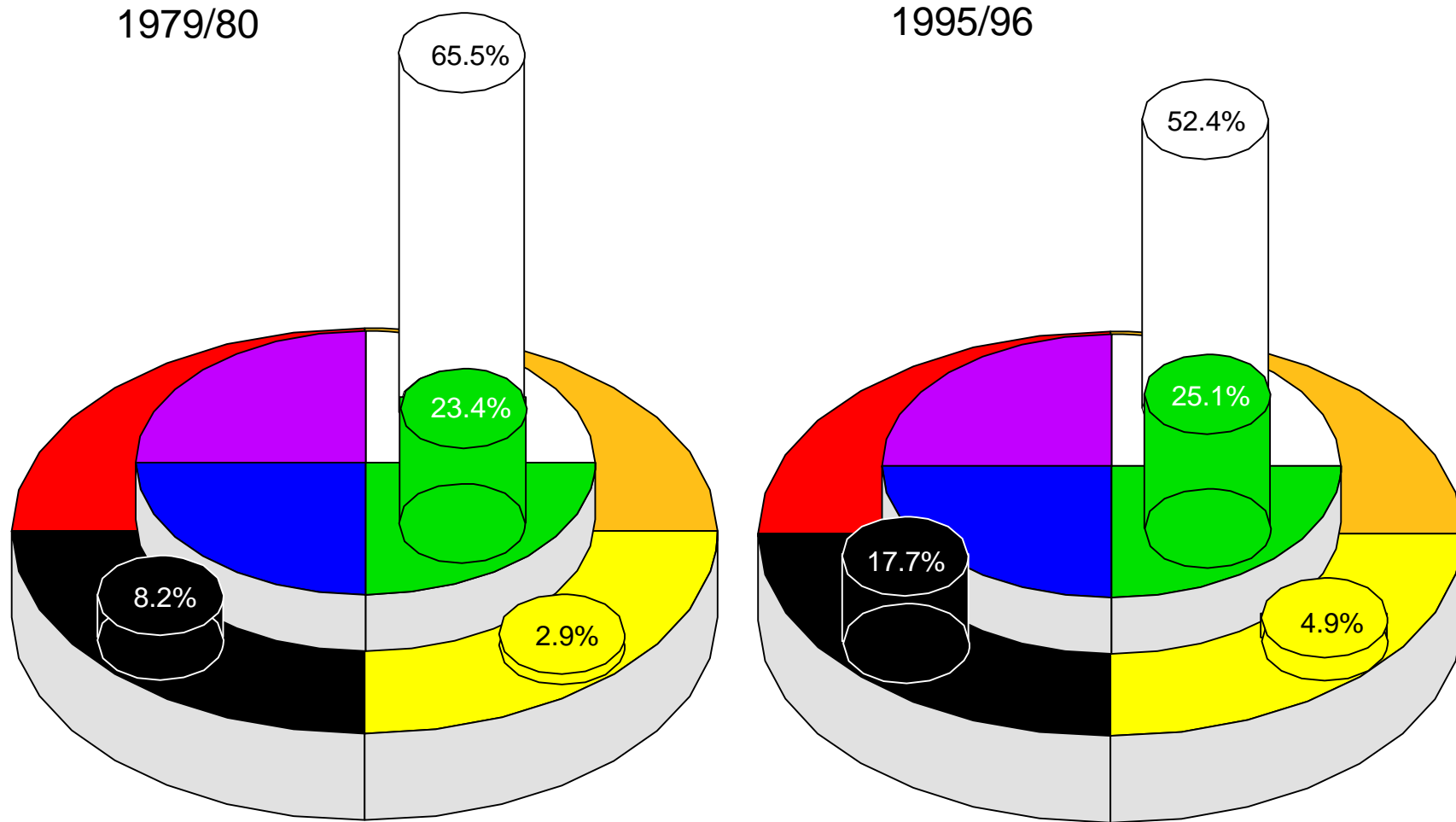
#### Outer circle

- eg "free market" services
- eg privately-provided services bought with vouchers, tax-reliefs or grants
- eg publicly-provided services bought with vouchers
- eg publicly-provided services bought by individuals

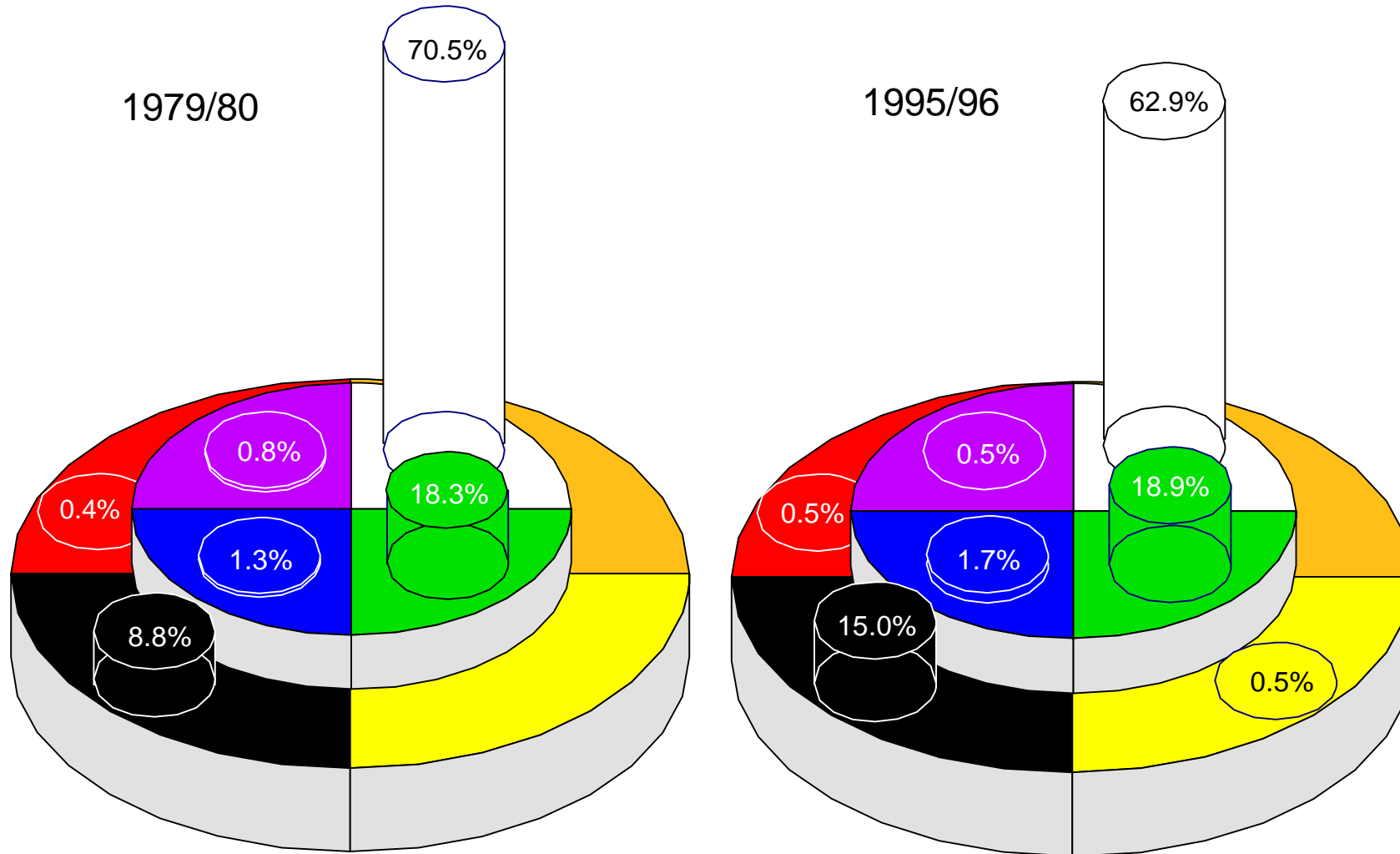
### KEY

- Outright privatization
- Contracting out
- Marketing public services
- User charges
- Vouchers

# Chart 5: Expenditure on education



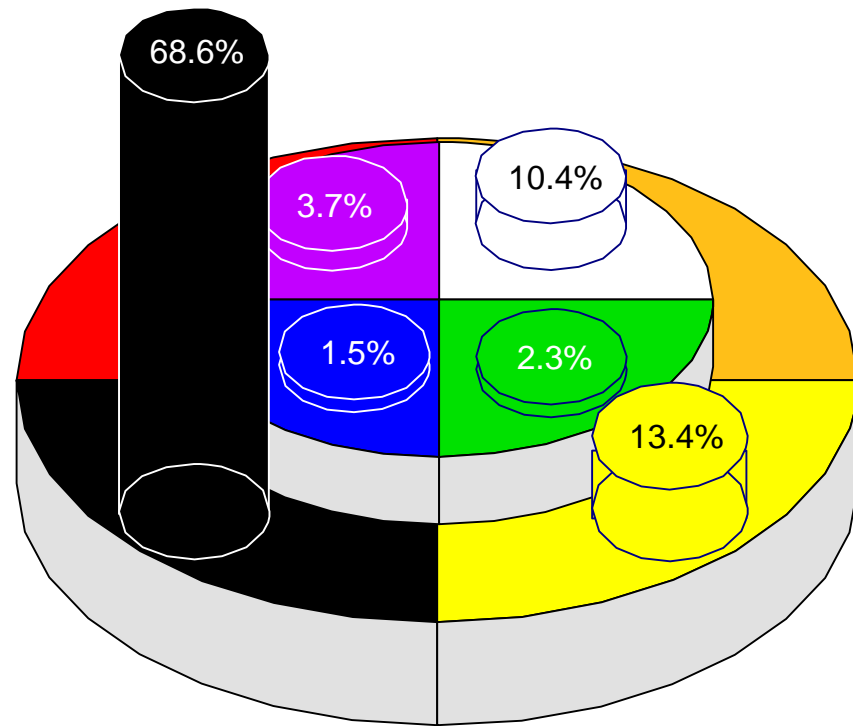
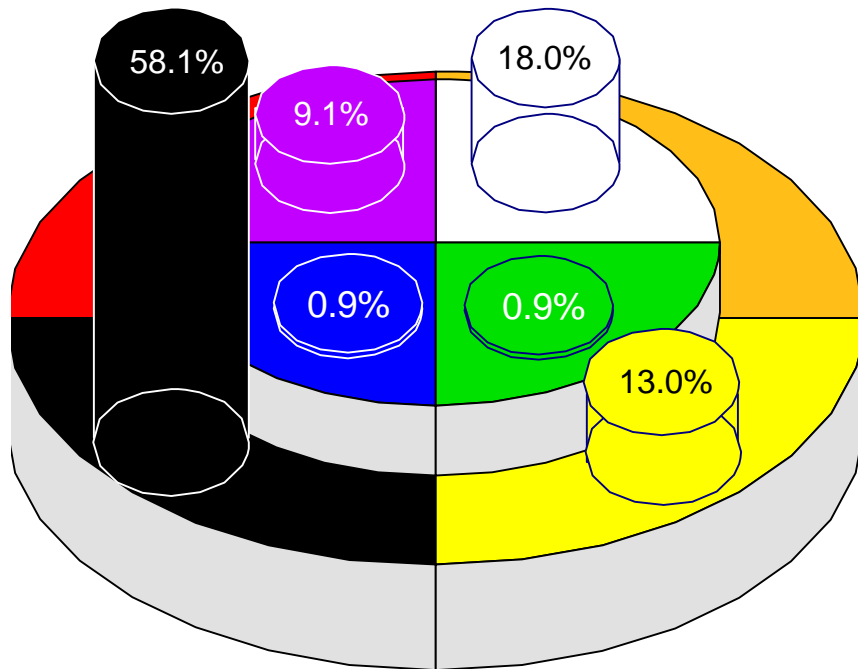
# Chart 6: Expenditure on health



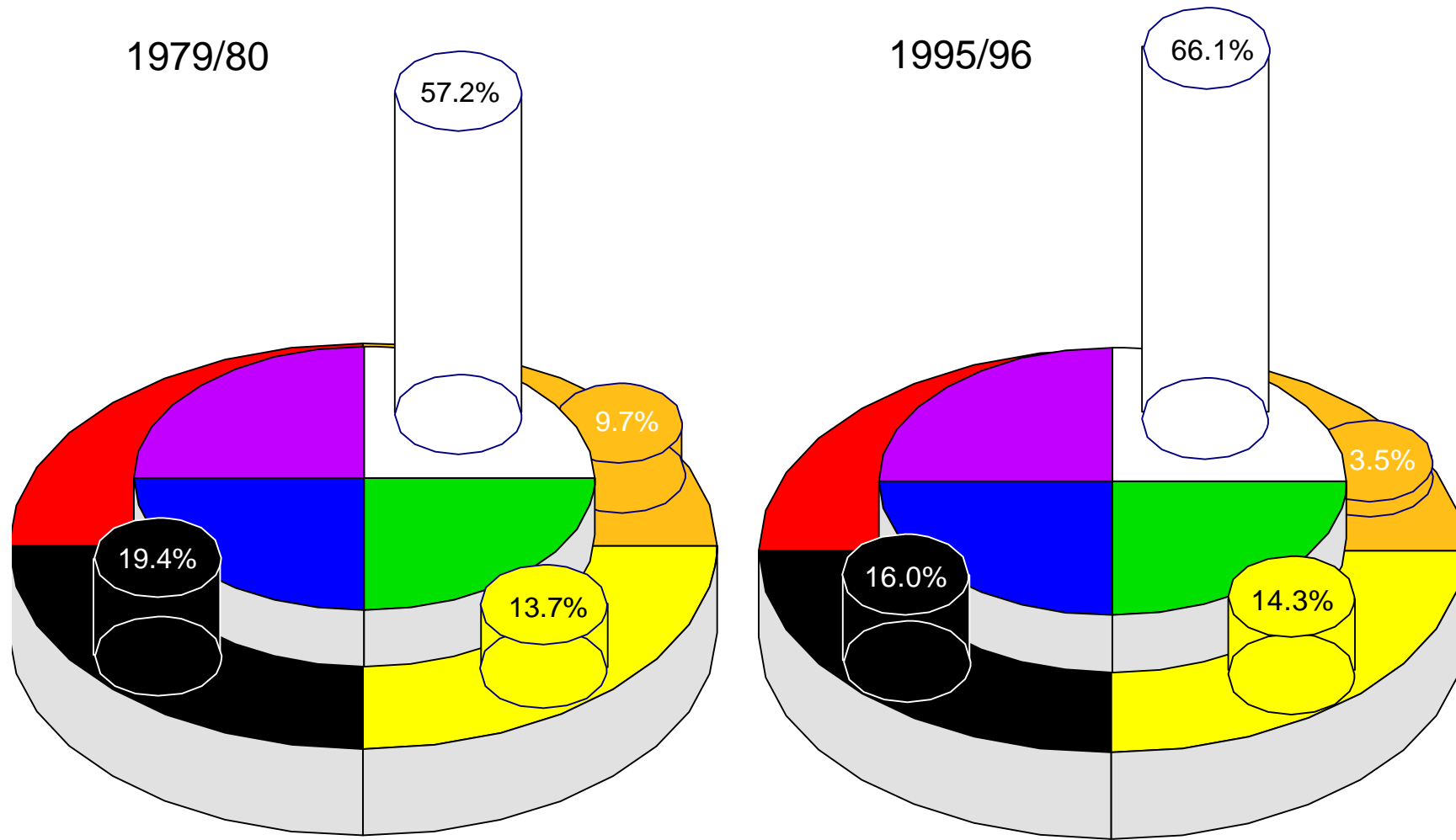
# Chart 7: Expenditure on housing

1979/80

1995/96

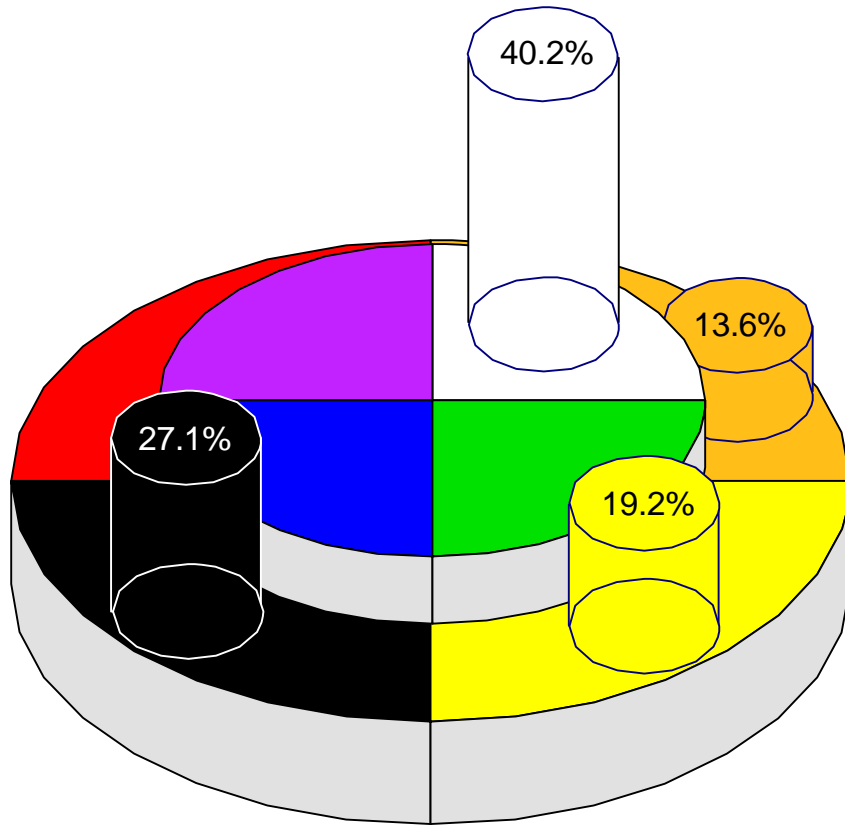


# Chart 8: Expenditure on social security

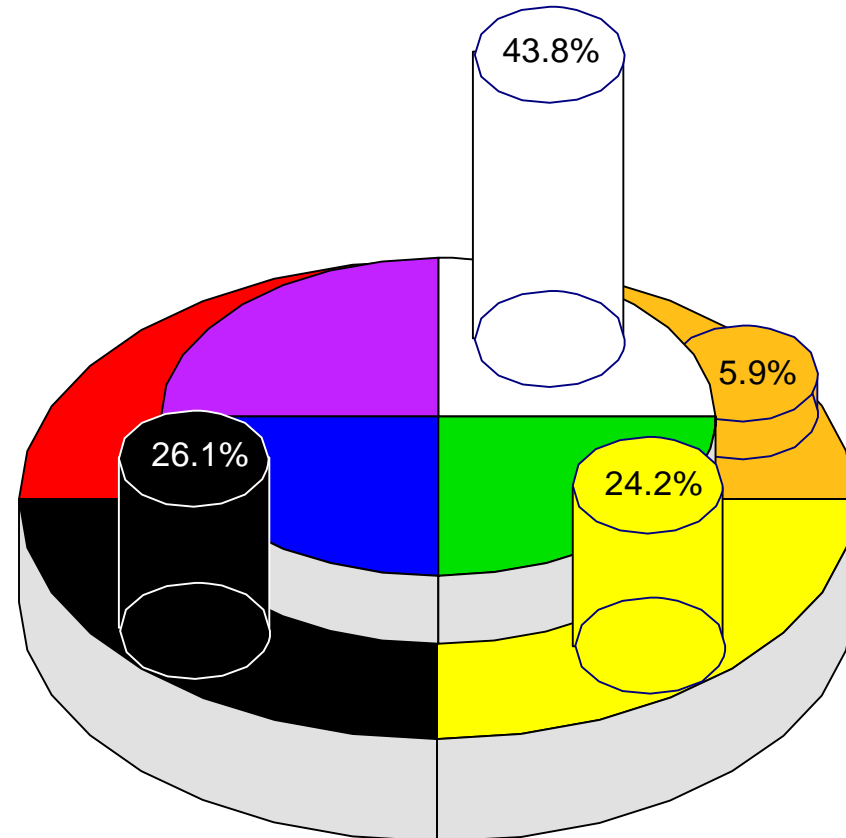


# Chart 9: Expenditure on pensions

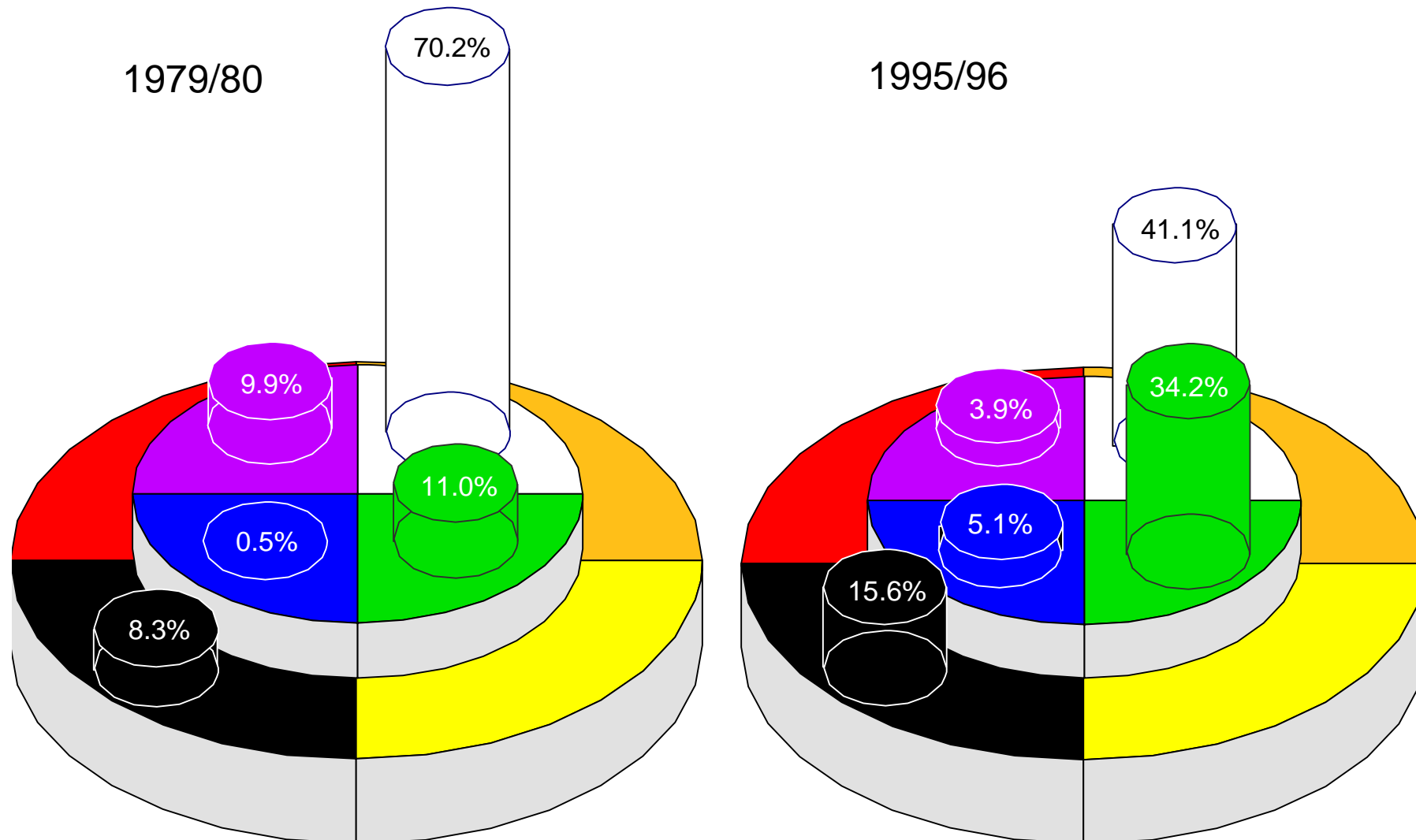
1979/80



1995/6



# Chart 10: Expenditure on personal social services



# Chart 11: Expenditure on welfare

1979/80

1995/96

