

**SUBMISSION**  
**to the**  
**PRODUCTIVITY COMMISSION INQUIRY**  
**into**  
**HUMAN SERVICES**

**Dr Bob Davidson**

Honorary Fellow, Macquarie University  
Director, Danett Associates

October 2016

## **1. Introduction**

This submission is simply to correct the record where I have been cited in the Preliminary Findings Report (PFR) of the Inquiry.

I have intended to make a substantial submission to the Inquiry, but have so far been unable to do so for medical reasons (i.e. a major leg injury, surgery, and rehabilitation in recent months). I still intend to forward that submission when it is completed, as I believe it is still relevant to the next stage of the Inquiry, in that it covers a number of critical issues that need to be taken into account in assessing whether and how the designated services should be further marketised.

One overall observation I would make at this stage, however, is that using market mechanisms in the provision of human services is a more complex and problematic task than has been presented in the two papers distributed by the Inquiry thus far. While those two papers do acknowledge the existence of many of the issues involved in using markets in human services - (and in some important ways are a step forward in this respect compared to previous reports by the Productivity Commission and Harper about human services) - they significantly under-estimate and under-state the extent and depth of these issues.

While each case is different (depending largely on the type of service and the location), in general there are tight natural limits to the use of markets in human services. This is clear from both well-established mainstream economic and organisational theory, and from the very real problems that have emerged with using markets in human services across many nations and services over the last thirty years. The current VETS debacle in Australia is such a big elephant in the room it could not be ignored, but in general there is little acknowledgement in the two papers of the extent and depth of both the natural limits and the extensive problems that have occurred. The claim that “concern[s] about service provision being subject to greater competition and contestability ... may be minimised or removed by designing appropriate systems to provide human services” (Preliminary Findings Report, p.10) does not adequately acknowledge the reality of markets in the special case when a human service is the product.

My own position is that (1) market mechanisms can certainly improve human services and their outcomes for users, government, and broader society, but they can also do harm to the services and outcomes, and (2) the optimum benefits from using market mechanisms in the provision of human services are obtained when there are limits - sometimes significant - in the use of these mechanisms. In some ways, that is not too different from the stated position of the Inquiry as set out in the two papers. I would argue, however, that both theory and empirical experience clearly show that the limits to what is possible are much tighter than what has thus far been acknowledged in the two papers from the Inquiry.

I will cover these matters in depth in the paper I plan to send to the Inquiry. In the meantime, a list of my recent publications and presentations about markets in human services can be found at: [http://mq.edu.au/about\\_us/faculties\\_and\\_departments/faculty\\_of\\_arts/department\\_of\\_sociology/staff/dr\\_bob\\_davidson.jsp](http://mq.edu.au/about_us/faculties_and_departments/faculty_of_arts/department_of_sociology/staff/dr_bob_davidson.jsp)

## 2. Citations of My Work in the Preliminary Findings Report

My work is cited at three points in the Preliminary Findings Report (PFR) of the Inquiry.

- 1) **p.36:** No comment
- 2) **p.40:** It is stated that “*Some considered effectiveness as an aspect of quality based on Davidson’s (2011) conceptualisation (CPSA, sub121),...*”

That is certainly not my position, and in fact is the reverse of what was said in the Issues Paper which (more correctly) quoted me as stating that “‘quality’ and ‘responsiveness’ [are] dimensions of effectiveness” - not that effectiveness is an aspect of quality as is said on p.40.

This reference on p.40 misquotes both the CPSA and myself.

- The actual position of the CPSA submission (and how it explains my position on p.4 of sub 121) is the opposite of what appears on p.40.
- As well, while the CPSA submission does state that its position is based on a 2011 paper of mine, that paper actually contains no such ‘conceptualisation’ of the criteria used for assessing human services.

My suggestion is that you delete the rest of the words in the relevant paragraph after “*Some considered ...*” and replace it with wording along the lines of “*..., although the scope and definition of what constitutes ‘effectiveness’ varied between submissions.*” And then simply go on to the next paragraph beginning “*In the Commission’s view...*”

My actual overall position on this issue is set out in Davidson (2016, p.366).

The criteria most commonly used to assess the ‘performance’ of a human services industry, market, or provider are how well it facilitates: (1) effective services (which is a function of the quantity, quality, and appropriateness of services in meeting user needs); (2) equity of access to services, at both a geographic and individual level; (3) the efficient use of resources; (4) choice and control for service users; (5) stability; and (6) accountability to both the users and funders of services.

The above should also have included ‘service system’ before ‘or provider’.

The Inquiry’s view (PFR, p.40) is that “*effectiveness is best considered in the context of human services as an overarching concept, incorporating the attributes of quality, equity, efficiency, accountability and responsiveness to determine whether the service is achieving its intended outcomes.*”

I have no problem with moving forward with that definition, which essentially is to use ‘effectiveness’ to describe the overall increase in individual and society well-being as a result of a service (or programs, instrument, etc).

- However, it is at odds with how the term is more commonly used in the sector and the literature, and means there is no single term that is focused on the absolute level of improved outcomes before taking into account how those improvements have been distributed (equity) or other factors affecting the overall impact on well-being. It is similar to having a measure of the overall impact of economic growth on society without having

a measure of the increase in GDP. Some writers use the term ‘quality’ to meet this need, but that is not how the PFR approaches the concept of quality.

- However, terminology in this field is used very inconsistently by different writers and the differences generally cannot objectively be resolved. Often, as perhaps here, it is ultimately only a semantic debate. What is important is that each paper defines what it means by a given term (as the Inquiry does on p.40).

- 3) **p.42:** It is stated that “*The meaning of equity can vary. Davidson (2015. p.193) defines it as occurring when services are ‘accessible to all people who need them.’*” This repeats what was said on page 7 of the Issues Paper.

I have not *defined* equity in that way. The words used on p.42 have been taken from the following sentence, which was used in a context where I was simply indicating how the service providers may differ in their capacity to meet the objectives of human services. I was *not* ‘defining’ those objectives.

One important aspect of this has been a focus on the *types* of organisations that have emerged as providers, and whether different types of providers differ in their capacity to achieve the core objectives of the services, namely that the services are high quality and responsive to user needs (effectiveness), accessible to all people who need them (equity), and make the best use of available resources (efficiency).

My main concern in that context was to point to the widespread practice of cream-skimming (or cherry picking) of regions and individual service users by providers (i.e. giving priority to service users and regions who have relatively low needs and/or are more affluent), but that of course is only one aspect of equity in human services.

- My *definition* of equity in this context would be more along the lines of “*services are available to all people who need them on an agreed basis for priority of access.*”

In the context of the provision of human services, equity is essentially about the ‘fairness’ of the distribution of resources and services between different individuals and regions.

- However, equity is a complex concept. People differ in their view of what represents equity, and the way it is applied in any government program is essentially a political decision.
- Most people would agree that equity is about ‘fairness’ and that there should be both horizontal and vertical equity, but beyond that, the basis for what is fair and what represents ‘equity’ is a very contestable and often case-specific concept (Rawls 1971). Moreover, depending on the specific case, even determining whether different people have the same or greater needs as a basis to establish horizontal and vertical equity will often be complex and decided subjectively.
- For example, O’Dwyer (2015) says that it is necessary to “reclaim the fairness agenda and highlight fairness[s] many dimensions”, including “reward for effort [and] personal responsibility”. That is, it is fair that people who show more personal effort and responsibility should get more government services/benefits, rather than resources simply being allocated on the basis of those with the greatest need for the services/benefits. This argument, of course, represents much of the rationale for the significant increase over the last two decades of what is commonly described as ‘middle class welfare’.

- It is also the case that the *nature* of the resources, and not just the level, may need to differ between individuals and regions to ensure equity of access to a given service.

I note that neither the Issues Paper nor the Preliminary Findings Report appears to contain a concise definition of equity.

## References

Davidson, Bob (2016), 'Marketisation and human services providers: An industry study', in *Handbook of Research Methods and Applications in Heterodox Economics*, (eds) Frederic S. Lee & Bruce Cronin, Edward Elgar, Cheltenham UK, Chapter 19.

O'Dwyer, Kelly (2015), "Looking to the Future: fairness, families and free enterprise" Address to the Centre for Independent Studies, February 16.

Rawls, John (1971), *A Theory of Justice*, Harvard University Press, Cambridge