

USING THE PRIVATE SECTOR TO DELIVER PUBLIC BENEFITS

by Andrea Louise Campbell, MIT, and Kimberly J. Morgan, George Washington University

When people think of “the welfare state,” they imagine large bureaucracies operating out of Washington D.C. But most of America’s federally-funded benefits and services are actually run out of small agencies. State and local governments play a greater role than the federal government – and at all levels of government, programs are often delegated to nonprofit organizations or businesses. Physicians, hospitals, child care centers, and insurance companies interact with citizens receiving public benefits – even if the federal government pays the tab.

Delegated Governance and Social Welfare Marketplaces

Delegated governance is our term for arrangements in which the federal government relies on private actors to deliver public benefits. In directly governed programs, like Social Security and the Veterans Administration health system, government employees administer benefits and services. In delegated governance, by contrast, the government pays private entities to run programs or deliver services. These entities can be non-profit organizations, such as charities, or profit-making firms, such as health maintenance organizations. The federal government may delegate programs, or it may give responsibility for delegation to state or local governments.

A recent form of delegated governance uses public funds to create *social welfare marketplaces* in which individuals purchase benefits or services. One example is the prescription drug benefit added to Medicare in 2003. To get coverage, Medicare beneficiaries must choose among an average of 40 to 50 plans in each state. Insurance companies receive tax subsidies to determine menus of drugs; they negotiate with pharmaceutical companies and set prices for beneficiaries.

The Example of Obama’s Health Care Reform

Although often portrayed as a federal government takeover, the 2010 Affordable Care Act actually delegates most implementation to the states and private insurance companies. The law gives subsidies to businesses and the uninsured to help them purchase insurance plans; and the law also expands state Medicaid programs, many of which contract with for-profit managed care companies. Individuals and businesses will purchase insurance plans on social welfare markets called “health exchanges.” Each state has the responsibility for setting up its own exchange after negotiations with health-care providers, insurance companies, and consumer groups.

Why Does U.S. Social Policy Rely So Heavily on Private Actors?

Delegated governance has become central to U.S. social policy, for several reasons:

- Americans like social benefits ranging from publicly supported health care to college loans, yet they are also wary of “big government.” To have it both ways with public opinion, politicians try to expand social spending while keeping the visible footprint of government small.

- Delegated governance helps politicians buy off interest groups that might block social programs. Businesses may not want government to preempt profitable activities, and nonprofit groups may not want government to deal directly with favorite clientele. Private groups can be brought around if they are given a role in implementing a new program and are assured that oversight will be limited. For example, pharmaceutical giants long opposed adding a prescription drug benefit to Medicare, but became more amenable once responsibility was delegated to competing private insurers, who cannot readily unite to bargain for rock-bottom drug prices.
- Delegation allows politicians and national officials to avoid tough decisions about the allocation of scarce resources. In health care, for instance, many difficult decisions need to be made about the kinds of medical therapies to be covered, the levels at which government will reimburse private companies, and how much insurers can charge patients in co-pays. With big money at stake, legislators are happy to pass controversial determinations to state officials, nonprofit staffers, and company managers.

Does Delegated Governance Work?

Delegated governance may be politically expedient, yet it also blurs the boundaries between the public and private sectors and makes it hard for citizens to understand what government does or to assign responsibility. The act of governing involves the exertion of public authority over the lives of the citizenry, and in a democracy citizens are supposed to give or withhold consent through the electoral process. With the rise of the modern state, civil servants administer programs created by the legislative branch. But U.S.-style delegated governance stretches chains of responsibility from national to state and local governments and deep into the for-profit and nonprofit sectors. How are citizens supposed to know who is responsible for what? And if citizens can't tell, how can they use votes to register support or demand changes?

The democratic costs might be worth it if delegation is clearly more efficient than direct government delivery of taxpayer-funded social benefits. But there is little evidence that delegated governance is more cost-effective. For example, the U.S. federal government directly delivers Social Security benefits to senior citizens at very little overhead cost. In contrast, market-based programs such as the Medicare prescription drug benefit require more overhead, because they pay extra to allow companies to hire bureaucrats and make profits.

The extra overhead in delegated governance is supposed to pay for itself as market competition restrains costs. That is the theory. But in the real world, seniors in the Medicare program have trouble figuring out which of dozens of drug plans best meet their personal needs. Many end up making less than ideal choices, and few revisit their initial choices later on, even if they pay more than they should or government gets charged more. This dynamic stymies market forces that are supposed to ensure a better Medicare drug program at lower costs.

Delegated governance also requires the development of private bureaucracies as a substitute for public agencies. The overall result is far from smaller government, but instead amounts to a diffusion of government-like responsibilities to many private managers and professionals. The results are not necessarily better than direct government responsibility might be.

Read more in Kimberly J. Morgan and Andrea Louise Campbell, *The Delegated Welfare State: Medicare, Markets, and the Governance of Social Policy* (Oxford University Press, 2011).