Jane Gingrich, Assistant Professor of Political Science, University of Minnesota
Abstract for the RC-19 Conference, Florence, 2007

"Divergent Neo-Liberalism: Building Welfare States in an Era of Markets"

Many scholars of developed welfare states have portrayed the origins of social policy in terms of a struggle against the vagaries of the market economy. As a corollary of this portrayal, the recent turn to market reforms is seen as a rolling back of the state. However, public social services in much of developing world are being extended through markets, where competitive models of health care financing and production, school vouchers, and public-private-partnerships often dominate the discussion of social policy. While analysis of these reforms is rife with disagreement on the appropriateness of market forces, much of it builds on the implicit trade-off between the market and the state in the social policy literature. As such, the politics of market making is reduced to either depoliticized 'good policy' or externally imposed neo-liberalism, minimizing the scope for domestic political choices.

In this paper I draw on my previous research on market reforms in the developed world to argue that the structure of markets in social services varies and that this variation serves the interests of different societal actors. The paper presents a typology of market variation that draws on recent micro-economic analysis of incomplete contracts and principle-agent theory. I show that there are profound differences between markets built around detailed contracting that actually increases *state* control, markets built through tendering out to *producers* in ways that leave the state powerless, and markets that use *user* choice as the main vehicle for competition. I argue that this typology also illuminates reform outside the developed world, and that attention to particular market forms and the subsequent winners and losers is central to understanding the diversity of neo-liberal projects in developing welfare states.

The paper presents evidence for these claims by examining three non-Western cases, often cited as exemplars of neo-liberal policy. The first case is Singapore's use of medical savings accounts, which combine forced individual saving for medical care with competition among hospitals. While these reforms initially allowed funds to follow patient choice, over time, the Singaporean state has reinserted control over contracting and in so doing has increased its power over the medical sector. By contrast, the introduction of market reforms in the Colombian health care system has reduced the power of the state vis-à-vis producers. While drawing on the World Bank blueprint for market reform alongside an expansion of health insurance for the poor, the actual changes were negotiated with domestic producers and occurred without a build up of state control over the market. The outcome was a weakly competitive market, where both insurers and hospitals were able to reap the benefits of new spending at the cost of the state and users. The third case turns to a market built around user control, exemplified by Chilean school vouchers. Initially, the Pinochet government's voucher reforms were accompanied by massive cuts in education spending and repression of teacher's unions, reorienting the education system to benefit specific high income users. Recent reforms by the Left have modified the market and increased spending, developing the user orientation so as to gain middle-class allegiance while alleviating inequality.

The cases demonstrate that domestic policymakers introduce different markets – markets that benefited the state, producers, and users of services - to serve varying interests. In tracing this

variation at both a theoretical and empirical level, this paper contributes to a central theme of contemporary social policy in both the developed and developing world.