

# Grand's "Market- Oriented Welfare Distribution Model" and Its Enlightenment

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**Abstract.** Julian Le Grand is a professor about public policy at Bridgestone University's urban issues institute and Toyota international research centre director in the London economic school. He aimed at the prevailing criticism on low efficiency inequality in welfare state and designed the famous "market-oriented welfare distribution model", in which he suggested using national welfare supply with market mechanism, education voucher plan, sharer's tax system, property system, and personal subsidy plan to realize welfare arrangement's efficiency and equalization, economic resource redistribution's equalization in such as education, health care, housing, social security and other fields. This enlightens us that we must face up to government's guarantee function with market arrangement in welfare system, promote basic welfare system's reform, make good use of tax system's regulation function on economic resources' redistribution to promote Shared development.

## 1. Introduction

Julian Le Grand is a professor about public policy at Bridgestone University's urban issues institute and Toyota international research centre director in the London economic school, whose major works include *strategies for achieving equality* (1982), *economy about social problems* (1984), *middle class and welfare state* (1987). From the criticism on welfare state's low efficiency and inequality, he put forward the famous "market-oriented welfare distribution model" to construct a welfare system " which can not only ensure higher efficiency and faster response, and also realize a resource redistribution from the rich to the poor with market-oriented"[1]to bring some creative thinking for education, health care, housing, tax, resource redistribution to provide some enlightenment for us to promote Shared Development.

## 2. "Market-oriented welfare distribution Model's" basic connotation

"Market-oriented welfare distribution model" is a response to the criticism on welfare state combining with the fact that the British state provides welfare resources and activities such as education, medical care, pension, unemployment and so on. New right thinkers argued that there were always ineffective and inefficient welfare arrangements in welfare state to bring resources' waste, bureaucracy, individual conscience's damaged, which led to greater inequality in the welfare distribution. But Grande argued that welfare state is not as "terrible" as the new right thinkers' accuses, nor was it "perfect". Therefore, if they would introduce market system within the welfare state system with some necessary conditions, they can overcome welfare state's disadvantages. To the end, he envisaged a "market-oriented welfare distribution model" with market-oriented welfare provision reform as the main logic, welfare equality's maximum as the goal, the core index based on education, health care, housing, tax, resource redistribution to improve welfare supply's efficiency and sensitivity.

### **3. " Market-oriented welfare distribution model's" Main features**

#### **3.1 Combination between state welfare system and market mechanism**

Grande firmly rejected welfare arrangements' full privatisation. Instead he believed that although welfare arrangements' privatization provided certain free choices for welfare recipients in some cases to close state welfare system's loopholes, such as ineffective, bureaucratic and poor service, welfare system's full privatization also had fatal defects. He pointed out that Private welfare providers generally only pay attention to welfare recipients' direct benefits but not "spillover" effect. In order to maximize profits, private welfare providers take advantage of beneficiaries' "relative ignorance" to provide inferior or invalid services according to welfare recipients' "insufficient market information" to satisfy their own profit attributes. In addition, welfare arrangements' technical problems will also limit privatization welfare arrangement's benefit maximization and bring about practical market income-based welfare arrangements' inequality, also sometimes it can lead to exploitation within the family. "Welfare system's full privatization is not a recipe for salvation, but it is also true that market has some efficient and responsive advantages." [2] Therefore, the combination between state welfare system and market mechanism can not only make use of market's advantages, but also reduce inequality, inefficiency, exploitation, improper information and unclear decision-making.

#### **3.2 Education voucher program**

Education voucher program originated from Tom Paines' "educational collateral" which was beginning of market-oriented reform in the welfare system , following which New right thinkers put forward "education voucher program", which was "an innovative program aimed at making up for public school education system's defects ".[3] Grande inherited and developed predecessors' theoretical exploration and put forward left-wing "education voucher program" to extend the plan to housing, medical care, assistance for the disabled, retirement, unemployment, charity and other fields to constructed a perfect welfare voucher program. The essential difference between the new right's "voucher program" and the left's "voucher program" lies in the comprehensive privatization and nationalization in welfare system. From New right thinkers' ideas that all schools should be private nonprofit and can not get funding from government directly, government send a yearly tuition to each school-age children's parents by "education voucher" , students can select a school and give the " voucher " to their choosing school, and the school transfer "certificate" to government to receive government subsidies. In addition, schools can charge higher fees than government vouchers, which parents voluntarily pay. In this way, welfare arrangements in other fields can be implemented with reference to "voucher plan", and the comprehensive privatization "voucher plan" is constructed.

Grande believed that although New right thinkers' voucher program has many advantages, such as giving welfare power to welfare beneficiaries, welfare arrangement's full privatization also widened the gap between the rich and the poor. As a result, he advocated a left-wing "voucher education programme", in which all schools should be owned by the state or managed by teachers' cooperatives. Parents of school-age children can also obtain "voucher" in accordance with the above method, but they can consider giving "voucher" to school-age teenagers over 16 years old to reduce exploitation's possibility by families using "voucher". In addition, to achieve a greater equality, it is forbidden to purchase education in other ways or schools to charge more tuition. In order to avoid "parents ignorance" and "spillover" caused by message occlusion and raise students' exercise choice, he suggested that there should be a national curriculum table decided by experts or political process to allow schools to put forward some substantive content variation around the core course. In order to deal with school choice caused by "education voucher", he proposed to set up a special "voucher" with higher value for poor families to encourage schools to accept students from poor parents so as to obtain more educational resources and he broke the traditional "living test evaluation for poor students according to" place "with " vouchers " to avoid the greater inequality.

### **3.3 Sharer's tax system**

In order to solve national free welfare system's problems, Grande learned from the practice about introducing market factors into welfare supply field -- welfare service charging and designed to charge through "sharer's tax system" to avoid welfare charging system's adverse impact. He argued that "sharer's tax" is a tax levied on different services or goods and an important part in existing tax system. One is taxation based on welfare services enjoyed. According to different services and incomes, different taxes are adopted to realize fees and taxes' combination which not only guarantees welfare enjoyment's fairness, but also guarantees the fees for welfare enjoyment to improve welfare arrangement's efficiency. For example, "graduation tax" is a tax levied on graduates of higher education according to their income's proportion whose tax rate is determined according to education cost. People with lower income and less education fees can reduce fees. In medical insurance, social insurance amount can be collected through "sharer's tax", which can be selected according to different occupations' risk. For those who work in industries enjoying less state pension and higher death rate, they should pay lower cost. The other one is the goods levied. According to the types of goods enjoyed by consumers, such as cigarettes, alcohol and other harmful products to human health, such product is easy to get sick resulting in rising medical expenses, so it is necessary to impose special commodity tax on the beneficiaries to subsidize the wasted medical expenses. However, "sharer's tax" must be imposed on all possible sharers through mandatory means to avoid tax evasion. Meanwhile, the "sharer's tax" can not affect the existing overall tax rate.

### **3.4 Property taxes and capitation grants**

Grande said that equality depend not only on welfare system, but also on equality in other fields, real equality must rely on economic resources' equality, and he proposed to redistribute resources through property taxes and capitation grants. He proposed that property taxes include taxes on possession and transfers, which are levied annually on possession or on inheritance or gifts. The difficulties levying property tax are how to make property's value. As for property estimation, he suggested adopting individual's declaration value stipulated that the tax bureau has the right to make acquisitions according to this declaration. About the unfairness of inheritance tax and ordinary property tax, He suggested a variety of policies to encourage people to disperse and bequeath to those who do not inherit, thereby reducing inheritance tax collection and promoting greater economic equality, for "in the case of purposeful estate motive, estate tax will cause income gap to widen"[4]. About how to use property taxes, Grand suggested capitation grants, which used property taxes collected as capital grants to provide a subsidy for people who reach legal age of adulthood to use wealth for cultivating future generations to maximize wealth's equalization.

## **4. " Market-oriented welfare distribution model's" enlightenment**

### **4.1 Facing up to government and market's guarantee function to welfare supply**

state plays an important role in welfare distribution in China, which makes state as direct provider for welfare, main source of welfare funds, main regulators in welfare activities, inevitably producing some disadvantages such as low efficiency, inferior problem, welfare practitioners' lack, welfare dependency problem, etc. At present, we have entered a critical moment when market plays a decisive role which requires us to continue to improve national welfare system to increase market's guiding function in welfare distribution. Grand's "market-oriented welfare distribution model" enlightens us that we must keep on government welfare attribute, oppose to comprehensive welfare system arrangement's privatisation, maintain in education, health care, pension, housing and other system attributes, but also constantly lead market to in welfare system arrangement to promote welfare arrangements' efficiency and sensitivity. At the same time, some private sectors should also be encouraged to undertake welfare system, develop social charities, social service organizations, social insurance business, etc. to realize welfare system arrangement's rationalization.

#### **4.2 Attaching basic welfare system's reform**

China has entered an important period of Shared development, which makes Social welfare programs, such as education, medical care and housing concerning of people's vital interests become important areas. In recent years, we have broken traditional planned welfare arrangement, and gradually formed market-oriented welfare arrangement mode. We have also made significant breakthroughs in compulsory education, medical insurance system, housing reform system, social security system and other fields making welfare arrangement system matured. However, we must note that there is still a certain gap between current welfare system and people's better life. Grand's "Market-oriented welfare distribution model" suggests that we must pay attention to welfare arrangement in education, medical care, housing, social security, etc., constantly expand new measures to solve welfare arrangement, give full play to market-oriented welfare system arrangement, solve the basic problems in welfare arrangement. Grand's voucher scheme can give us a lot of enlighten to our current foundation education voucher, school district housing problems, the curriculum, school resources' allocation problems, medical competition issues, which broaden our welfare system arrangement ideas, encourage private schools, private hospitals and private social security and other positive development path to realize welfare system integration's diversification with "social responsibility" "fair" benefits of combining,[5] to construct a high level, wide coverage social welfare system.

#### **4.3 Improving tax system's functions in redistribution**

Tax system, as an important economic regulation's carrier, plays a crucial role in economic development, especially when the market plays a decisive role leading tax system more important economic regulation function. At present, China has constructed a relatively perfect tax system, and made great progress in tax system's reform. However, we must admit that our tax system is still not perfect, especially in adjusting income gap, in various types of taxes, tax rates. Grand's "market-based welfare distribution model" suggests that we must constantly improve tax system and strengthen tax system reform's important function for resources' redistribution. For example, Grand's sharer's tax system can provide some thoughts for our personal income tax system. Property tax, inheritance tax and other systems are bound to provide reference for us to coordinate income distribution gap; Capitation assistance can also provide a reference for realizing initial resources' equalization.

#### **5. Conclusion**

Grand's "market-oriented welfare distribution model" can supply market reform direction, combine with Britain and western welfare state development's practice from the voucher scheme, sharer's tax, property tax, head allowance, etc., to explore market equal distribution in welfare issues to promote some enlightenment for our Shared Development.

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