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Introduction to the theories of social market

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Introduction

The undergraduates and graduate students specializing in economics as well as economists consider market economies to be self-evident ones. But if you regard a "market" as one accompanying some form of barter (trade), it is not necessarily an economic market where money is used as a medium. Of course, a single exchange is not equal to market. It is only when the exchange is 1) in quantity, 2) continuous, and 3) regular, a market is formed. An example of such exchange is a political market among other forms of markets. In a political market, such exchange as the "deal" between the voting electorate and the politician who makes a favorable public commitment for the electorate. There also exists social market where social exchanges are carried out on the basis of reciprocity.

To clarify the characteristics of this market will be one of the most urgent political theory tasks for social sciences today. In particular, I think that social market can be an important term of socio-economic theories that show the viewpoint and basis of theorization of social security.

Here I would like to revalue from a modern viewpoint the concept of social market proposed by R. Titmuss (Note 1) in the U.K. in the 1960s --- and the concept of social market in welfare capitalism expanded by N. Gilbert (Note 2) in the U.S. in the 1980s. (See Titmuss (1967) (1971) and Gilbert (1983)) The theories on social market can essentially be applied more broadly to education, housing, labor and other public policies, but in this paper I will define these theories as the basic theories of social security and express my personal view about them.

1. History of social market theories: how have social market theories been

developed from the days of R. Titmuss to the present?

Strictly speaking, the term "social market" is not necessarily an academic term, but also a political term different from quasi-market which was proposed by economists, such as Le Grand (Note 3). This word has its origin in the proposal advanced by R. Titmuss, a British great scientist on social policy, in the 1960s to counter arguments by monetarists (Note 4), such as M. Friedman. Friedman and other monetarists proposed so-called negative income tax and argued that social security should use the framework of economic market, too, and should be left to the autonomous activities of economic market. Based on so-called "market fundamentalism" , Friedman said about economic market that because supply of and demand for goods and services are basically determined by the price mechanism so that they agree with each other, whereas the price level is decided in proportion to the money supply spent in the entire national economy, the autonomous movement of the economic market should be regarded as important and social security should be left to free market. Thus he proposed negative income tax, which has no great effect of reducing the incentive to work, as a means of income maintainance for low-income earners.

On the other hand, from the standpoint of a Fabian socialist (Note 6), Titmuss thought that low-income earners include a diversity of people known as the "socially disadvantaged," such as elderly people, those with disabilities and fatherless families, and it would be important to meet the different needs of each group. Realizing that the needs of the socially disadvantaged are very diverse, he argued that if the social security is left to economic market according to laissez-faire principles, it would become harder for people with various disadvantages to continue their living. Thus Titmuss proposed the concept of social market (made of social exchanges) for social security, which differs from the exchanges in economic market. Economic market may be considered to be social policy market where price mechanism-based supply-demand adjustments do not work well.

Titmuss takes blood buying (as a means of economic assistance) as an example of the problems of the economic market. If you try to meet all the needs for blood for operations at hospitals in the economic market, blood buying will increase, causing public health problems. To cope with this, the system for meeting the needs for blood for transfusion by blood donation based on voluntarism has been established in most countries. In this system, exchanges by donation with the good intention of citizens (social exchanges not through the medium of money), where the needs for blood transfusion are satisfied by their own blood donation, that is, a social market, is created. However, Titmass, unlike the sociologist J. Coleman, did not have the concept of "social exchange", and Coleman, on the other hand, did not think of it as "social market".

In either way, Titmuss and Friedman have opposite views about the relations between the government and the private market, too. Titmuss started to build his theory on the socialistic dualism stating that the market covered by social policies is a social market, while the one not covered by these policies is an economic market. This is the case with Friedman, too, in a sense; he adopts the liberalistic dualism based on the pattern of two sectors, the government and the private market, and argues that it would be better that while the government only decides the price level by adjusting money supply, economic activities are left to the autonomous supply-demand adjustments in the economic market (Note 7).

If we consider the difference between Titmuss and Friedman from the aspect of social security, where is the theoretical meaning of the social market? In the social market, not only the government and businesses but also what is called the third sector (Note 8) and NPOs (Note 9) take part in the provision of social security services. Considering the situations of the time, Titmuss thought it better that the social market was opposed to and separated from the economic market, and thus his attitude to the participation of private businesses in the social market seem to have been negative. But Friedman was in an opposite position and argued that the government should not take part in the social market as much as possible except income guarantee (negative income tax). He tried to minimize public-sector effects on social policies; for example, he proposed voucher systems that could be applied to the economic market. This is because he expected that competition between businesses in the economic market would reduce production costs, for example, which would in turn lead to reduction in price and as a result better-quality goods and services would be supplied to the market at the same price. However, the social market and the economic market overlap with each other today, and I think that this situation will be more advantageous because competition in quality will be encouraged among others.

The characteristic of vouchers that Friedman regarded as important as the means to supply social servies was the fact that the voucher recipient can select goods and services in the economic market within the value of the voucher, that is, that the system could protect consumer sovereignty. However, this is based on the assumption that the voucher recipient can choose in an economically rational way within his or her budget if he or she is given the buying power and is provided with the same information as the information available to other people active in the economic market, in other words, that there exists no asymmetry of information (Note 10).

But actually, those in need of social services are in a disadvantageous position where they cannot always have perfect information due to asymmetry of information. Therefore, I think that we should realize more substantial consumer sovereignty of those requiring social needs that is surfaced by the proper supply-demand adjustment of social services in the social market instead of the consumer sovereignty emphasized only formally by the utilization of vouchers. Therefore, I think that, in the social market, in addition to the provision of services themselves, such as long-term care service, it will be indispensable to provide information service, such as social work and care management, which clarities and defines the social needs and which make the service more effective. I also consider that one of the characteristics of social services can be found rather in the combination of such services and proper provision of information for realizing consumer sovereignty.

The social market is an external market that meets the social needs diversified with the changing socio economies. I would also like to pay attention to the dynamism in which social supply, such as social services exchanged in the social market, changes and the provider of the social supply changes, too, in answer to social demand developed as potential social needs are revealed. Changes in the provider of social supply include the fact that before administrative steps taken by the government, volunteer groups, NPOs and other social capitals (Note 11), which are closer to those in need of help, appear newly and start to provide new social services, thus expanding the range of service providers into non-governmental sectors.

But considering the interaction between the social market and the economic market, these markets are not necessarily interdependent with each other. For example, as N. Gilbert at California State University says, the providers of supply in the social market include private businesses, too; if businesses enter and are active in the social market, competition for the quality of service may increase, while employment may be expanded and the national economy may grow. As evident from this example, the two markets have interdependence in a good sense.

Gilbert, the advocate of welfare capitalism, is a U.S. social policy scientist. After returning from the study in the U.K., he grafted Titmuss' concept of "social market" onto his old "welfare capitalism theory." Gilbert is also an economist, and avoided using the term "welfare state" often used by political scientists and sociologists in an easy way. He defined modern capitalism as a special capitalism (welfare capitalism) that forms the foundation of a welfare state and attempted to analyze the capitalism from its economic structure instead of from a so-called superstructure, like a state. (Note 12) But Gilbert did not succeed well in the analysis of the economic features of welfare capitalism and thought it enough just to point out that social policies (social security and soon) and tax expenditure are built in the economic structure (domestic market). On the other hand, it is true that by making the "social market" proposed by Titmuss a component of the economic structure together with the economic market, Gilbert made it possible to define welfare capitalism as the combination of the "economic market" and the "social market." Regrettably, however, Gilbert has not taken any step forward for about 20 years since then. He may have abandoned the attempt to analyze of the multilayered relations and interactions between a welfare state and the social market. As a result, he has left his theories in a vague state by, for example, including families, friends and other informal elements in the "social market."

Still, it is a great achievement of Gilbert that instead of making an error in drawing a clear distinction between the economic market and the social market as Titmuss did, he recognized the overlapping of the two markets.

Gilbert defined the social market as the place where social security-related benefits are exchanged (so called policy space). Because he did not limit the motivation for this exchange to people's altruistic behaviors (volunteer activities) like Titmuss did, he gave more universal and more general definition to the social market.

What is noteworthy is the fact that the social market advocated by Gilbert includes not merely the supply of social services by their providers and the exchanges in the social market but also the income transfers (income guarantees such as pensions, allowances and public assistance) and tax expenditure by the government (central or local) (Note 13). If you regard the social market narrowly as only the place where social services are exchanged under governmental social control, you tend to overlook income transfers and tax expenditure (e.g., preferential tax treatment). Therefore, I think we need a special term referring to these elements. Here I would like to use the words "social money," which belongs to "benefits in cash," as opposed to "social services," which are part of "benefits in kind." "Social money" also includes vouchers and regional currency (Note 14) If we understand that income transfers are a form of the government's social services aiming at solving the problem of low income, they can be regarded as "social money" paid to the beneficiary that helps realize the settlement of the problem. Similarly, we consider that tax expenditure is the latent supply of income transfer service by the government in an effort to improve the economic state of the beneficiary by increasing their disposable income, and so the amount of tax cut (e.g., amount of tax refunds) becomes "social money" paid to the person. While Titmuss does not include families, friends and other informal elements as the members of the social market, Gilbert do approve of these elements positively as part of the private sector. The supply of services between families and friends (mutual support) mostly contains altruistic feelings; because of this, the supply and transfer of informal services between families and friends cannot be regarded as any formal services based on the exchange system the social market and the economic market have commonly and are, as it were, the internal market.

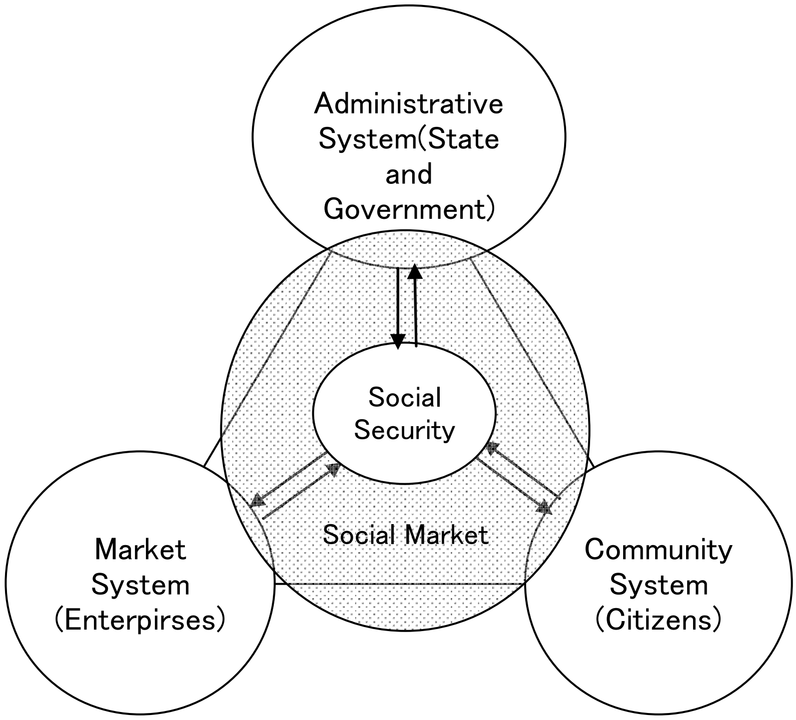
As described above, the theories of the social market have developed to a considerable extent from the years of Titmuss in the 1960s to those of Gilbert in the 1980s. Today, probably because the social market theory did not fare well with quantitative analysis, their achievements are forgotten. What has been in the public limelight recently is the quasi-market theory of Le Grand and others. The reason is probably that the theories of the two scholars had some defects that made them not very useful for any empirical policy research. Now I will discuss my own concepts of the social market.

2. Structure of the social market: characteristics of Kyogoku's social market theory

Social security systems have been systematized in each country and have been deeply built in modern welfare states as sub-social systems for supporting people's minimum living standards or national minimum, regardless of the areas of social security and whether the tax system or the social insurance system is adopted. Sub-social systems mean the subordinate systems defined by the fundamental social systems of the whole community.

If classified according to K. Boulding (Note 15) and my own views, the fundamental social systems have three types: administrative system (= threatening system by Boulding), market system (= exchanging system) and community system (= integration system). Social security systems are the sub-social systems defined by these three types of fundamental social systems. Specifically, social security is legally institutionalized as social insurance and social assistance; it is established as a means to solve problems of people's life which cannot be settled by the economic market and community systems and can be regarded as what is defined both by the market system (businesses) and the community system (citizens) where these systems are integrated under the control (social security laws) of the administrative system (state), or conversely, as what state control (social security laws) is imposed on the combination of the market system and the community system. (See Fig. 1)

Fig.1 Social Security as A Subsystem in a Socie



(Source)Kyogoku Takanobu(National Inst. Of population and Social Security Resear

Let's take funds for social insurance as an example. The state provides tax revenue, businesses offer social insurance premiums, and citizens pay social insurance premiums and user fees. These provide funds to the social insurance system and are spent for cash benefits or benefits in kind.

In the case of funds for social assistance, the state provides citizens with benefits using tax revenue, while citizens pay minimal or no fees for social services. Figure 1 shows this mechanism plainly.

As seen in this figure, it is natural that interdisciplinary view of economists, sociologists, political scientists, etc. is needed to examine the structure of social security as a special sub-social system defined by the above-mentioned three systems.

The characteristics of the social market as compared with the economic market can be summarized into the following three:

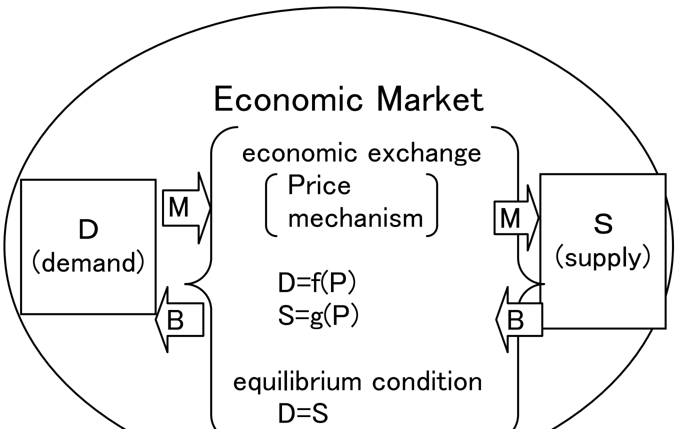
First, the consumer (demander) has not always effective demand (demand supported by money) (e.g., existence of low-income earners).

Second, the provider (supplier) does not always pursue profits.

Third, supply-demand adjustments are made not by the price mechanism but by the needs-satisfaction principle (including cases where c_j is charged). Further, it should be noted that the charge (c_j) is different from price, and that it satisfies $0 <= c_j < p$, and it could be set according to the ability to pay or the amount of benefit, or set at a fixed price.

In either way, economic exchanges in the economic market, what economists are familiar with, are shown in Figure 2. Economic exchanges in the economic market are the exchanges by means of money between the consumer (user) as the demander and the producer as the supplier. While the consumer shows how much goods and services they demand at the price quoted in the market (money), the producer shows how much goods and services they supply at the quoted price. Supply and demand do not always agree with each other in the short run; it is considered that in such a case, the price mechanism (which can be shown as the ratio of exchange between goods & services and money) works in such a way that supply and demand agree, and as a result the two agree with each other.

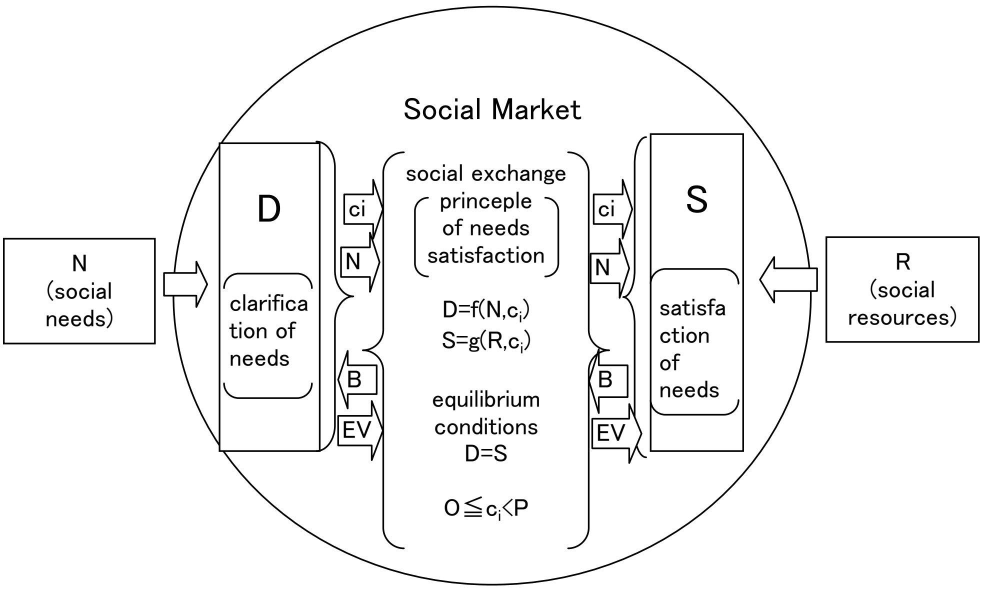
Fig. 2 Model of Economic Market



(source)created by T. Kyogoku and Y. Kaneko (IPSS).
(注1)P indicates price.
(注2)M indicates money and B indicates benefit。

In social exchanges in the social market, demand is generated by the expression (revelation and clarification) of needs for social services by those in need of help. In this case, social exchanges are made when the supplier of social services, i.e. those who will meet the social demand (providers), offers social services and social money to those in need of help according to the social needs-satisfaction principle. This relation is shown in **Figure 3**.

Fig. 3 Model of Social Market



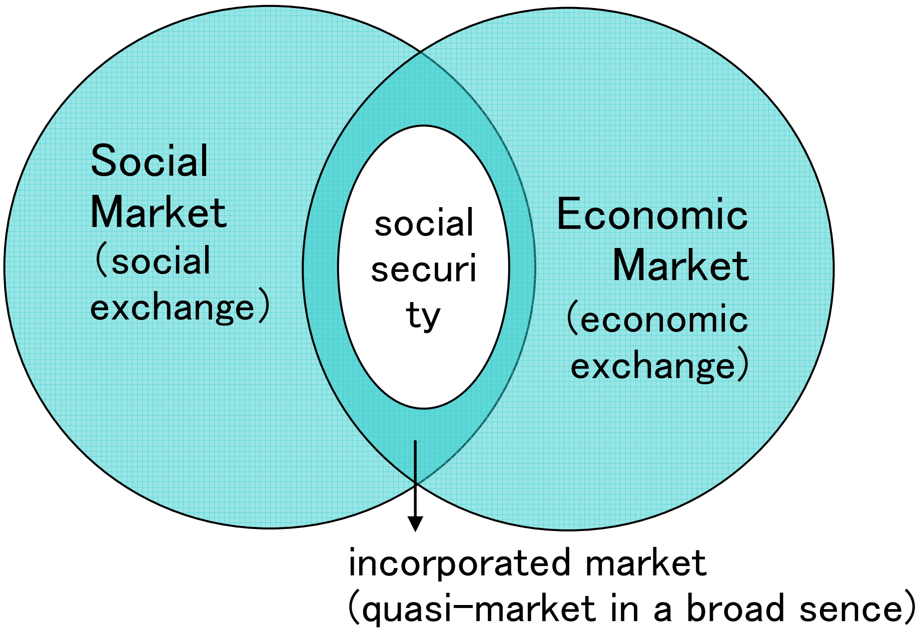
(source) Created by T. Kyogoku and Y. Kaneko (IPSS).
(note1) Same as fig. 2
(note2) C_i is different from Price and it indicates charge ($0 \leqq c_i < P$).
(note3) N indicates social needs (with which can not be satisfied in the economic market) and R indicates social resources.
(note4) EV indicates evaluation of service effects by commsumer.

In the case where the supplier provides goods and services in the economic market to meet the consumer's demand, the supplier will act in order to maximize profits. Thus they will offer the price that they can bear the costs in such a way that they do not suffer any deficit at least, and supply goods and services to only the consumer who has demand for such goods and services at the offered price. Because of this, there will be the cases where some people cannot buy even though they want to buy, but this poses no problem in economic exchanges.

By contrast, in a pure social market, if social exchanges (Note 16) take place and social demand emerge as a result of the needs of those with social needs (consumers and users), the provider will provide the consumer, the recipient of social needs, with necessary social services, etc. even if the consumer cannot bear all of the costs. This is the needs-satisfaction principle. The portion of the expenses that cannot be covered by the contribution of those in need are covered not only by public funds and contributions by the private sector but also by various non-monetary methods. Satisfaction of the consumers and users by meeting their needs, in turn, will be returned to the provider in the form of evaluation of service effectiveness. The satisfaction of needs and the evaluation of service effectiveness are exchanged concurrently.

The payment of expenses ($0 <= c_j < P$) in social exchanges is not always a full (100%) payment unlike in economic exchanges. Let's take tips you give to the waiter in a restaurant when you are given some service, such as serving food, as an example. How much you give is at your discretion, and there is room to choose. But unlike the payment of your bill for the food at the restaurant (economic exchange), the tip is the expression of your gratitude to the waiter for his service (social exchange) and so you don't have to regard it as the price of the service provided. Here, the social market and the economic market overlap each other and form "incorporated market" (in my words), where even if those in need of social services are unable to cover all the expenses for supplying such services, the portion not covered is made up for by various methods; when the provider is the government, tax will be used, and when it is an NPO, the NPO may cover the shortage voluntarily. The private sector may also offer subsidies to private providers. (See Fig. 4)

Fig. 4 The position of social security in social market and economic market(conceptual diagram)



(source)created by T. Kyogoku

The main relationship within the modern social security system is obviously the relationship between the benefits and contributions, I will reexamine this important relation within the framework of the social market.

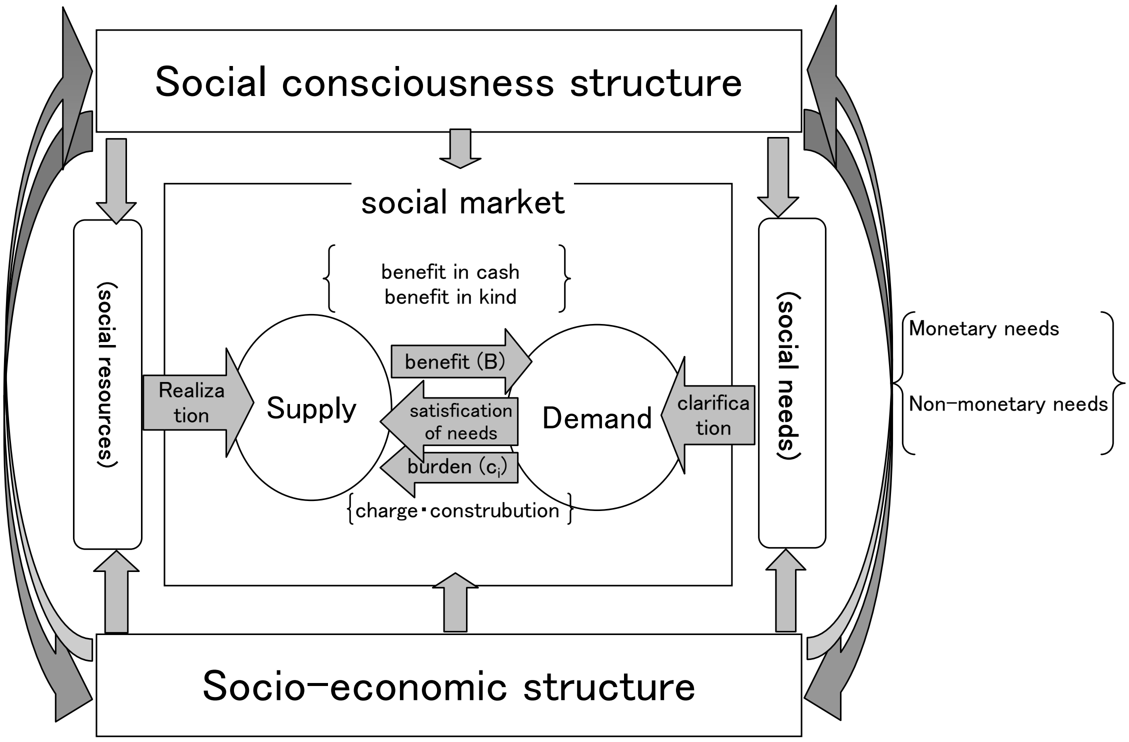
As for social policies, if described somewhat in a schematic way, there existed, as already noted, two opposite typical models of the supply-demand relation of social security services: (1) Titmuss type developed by the social policy scholars in the U.K.; and (2) Friedman type representative of American economists.(See Kyogoku (2007))

First, the Titmuss type is abbreviated as the (N-R) Model and is the opinion offered by many British social policy scientists specializing in social administration, including Titmuss. They look at social policies (in a broad sense), including social security, in the policy market (social market in the term coined by Titmuss) and regard the adjustment relation between social needs (N) and social resources (R) as a supply-demand relation. Thus they say that the social needs of the poor who cannot bear the cost should be met by publicly reserved social resources. This opinion has a defect in that it regards the relation between social needs and social resources, which exist outside of the relation between supply and demand, as the supply-demand relation of social security. Moreover, the scope of the social needs (N) and social resources (R) they defined is so broad that the relationship between the benefits and contributions of social security might be neglected.

Then the Friedman type can be called the (D-S) Model. This may be regarded as the main theory of modern economics rather than the opinion unique to monetarists. First, this group regards by analogy the supply-demand relation in social security as the supply-demand relation (D-S) in the economic market (or the quasi-market). Their theory has a defect in that it tries to unreasonably explain social security, which is incompatible with the market mechanism, using a market model (e.g., disregarding needs not supported by money and explaining them by "market failure," "moral hazard", "non-asymmetry of information"). It has also weakness because it sees the social needs of the poor only on an income guarantee level, neglecting all the other social services, and is apt to rely on the easygoing idea of "negative income tax" supported by monetarists.

As a concept that would resolve the problems of these two views, I developed a supply-demand model (which can be called the Kyogoku type), which may be abbreviated as the (N...D-S...R) model, by distinguishing the dimension of needs and demand and also by distinguishing the dimension of resources and supply. What is important here is that even the social market, as far as it is a market, exists in the (D-S) relation rather than in the (N-R) relation as proposed by Titmuss. Friedman failed to recognize this, but I think we should realize that the (D-S) relation exists not only in the economic market but also in the social market. Then outside the social market are the socioeconomic structure and the social awareness structure that interacts with the socioeconomic structure respectively as a superstructure and a substructure, and social needs and social resources are produced defined by these two structures. Social needs emerge as the demand for social security services presupposing the supply, and part of the needs becomes established as demand. for public services It can be said that social resources are embodied as the supply (benefits) of social security through the organization of funds, human resources and other elements. If expressed mathematically, $D=F_d(N)$ and $S=f_s(R)$. (See Fig. 5)

Fig.5 Demand and Supply Model of Social Security



(Source) Kyotoku, T (2007) In Search of New Theory on Social Security, "Journal of Social Insurance" No. 2310, p. 12, IPSS Discussion Paper Series (No. 2007-E01), Diagram 2
(Note) ⇒ indicates the directions of the influence (the effect of an influential element), and ⇔indicates the interraction.

In any event, the concept of the social market is indispensable for grasping social security in relation to the national economy. Thus in the years ahead, we will be able to expect that there will be discussions broader and more profound than those about the quasi-market, which I will discuss later.

3. Similarities and differences between the quasi-market and the social market

By reexamining the concept of "social market" proposed by Titmuss and expanded by Gilbert, I redefined the "social market" as a market (as a policy space) where supply of and demand for social services, etc. are adjusted according to citizens' needs. As for social services, the idea known as "quasi-market" has recently attracted attention as a somewhat similar concept. The idea of "quasi-market" takes account of the quality warranty and efficiency of health care and public education services from the viewpoint of providing users choice and efficiency, which lacked in the national health care system, education at public schools, etc. in the U.K., as in the economic market where the market mechanism works. The concept of quasi-market is a revolutionary one proposed by researchers in the U.K., including J. Le Grand, in the early 1990s. Apart from the evaluation in Japan, it seems that in the U.K., some people think highly of the idea because its application has led to the introduction of economic vitality into the health care and welfare to realize a more efficient distribution of resources, while others criticize it saying that it has allowed government control and intervention, thereby suppressing the economic market.

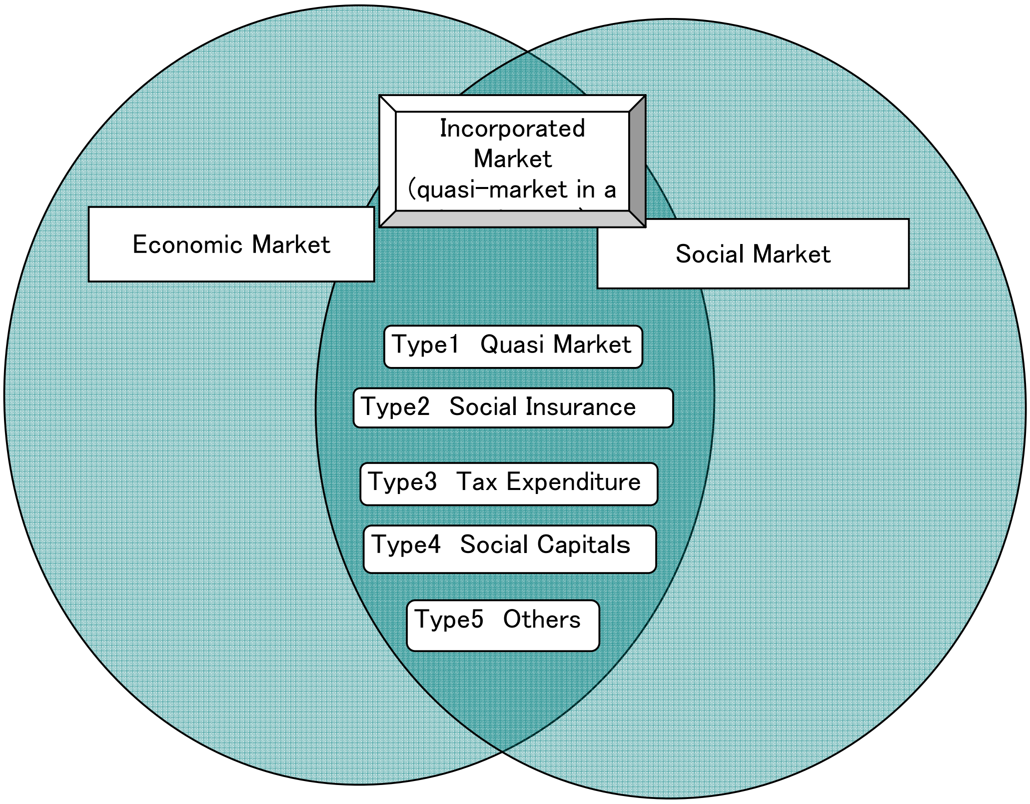
Public policies have their own limitations, and so I agree with the goals and policies of "quasi-market" advocated by Le Grand and his group in an attempt to cope with the inefficiency of the government.

In the U.K., based on the idea of "quasi-market," the National Health Service (NHS) had been reformed. It is considered that while it basically maintained the NHS framework, the reform improved the system's mechanisms: for example, the hospitals that patients could choose with an introduction from a general practitioner (GP) increased, encouraging hospitals increase their efforts to improve services in an attempt to be selected by patients.

According to Le Grand and Takashi Yamamoto (1991), the characteristics of "quasi-market" are: (1) funds are raised by the government; (2) the purchase programs are developed by specialists; and (3) the pursuit of profit is not the only basis for activities of market participants (See Le Grand and Takashi Yamamoto (1991)). In addition, the fact that the "quasi-market" has two or more market participants means that there is competition among these participants in the "quasi-market" under the administrative control of the government (central and local). In any case, Le Grand and his group try, to solve problems by the concept and method acceptable in terms of both economic theories and social policies instead of reforming the social security that lays stress on measures for low-income earners by giving priority to the economic market, as stressed by Friedman and other monetarists.

The functions of the "quasi-market" proposed by Le Grand and others have two aspects: first, it provides, using the market mechanism, subsidies or vouchers to beneficiaries by the "funds raised by the state", and second, it leaves the supply of the services to the private sector, thereby matching the selection of services to demand (consumption) in the market. But strictly speaking, my understanding of the structure of the "quasi-market" somewhat differs from that of Le Grand and others. As already noted, I use the term "incorporated market" to refer to the overlapped portion of the social market and the economic market and regard the part of the "incorporated market" that satisfies the conditions shown by Le Grand and others (part of the incorporated market) as the "quasi-market." (See Fig. 6).

Fig.6 Classified Types of Incorporated Markets(1～5)



(source)Kyogoku Takanobu and Yoshihiro Kaneko(NIPSSR)
Note1) Incorporated Market is a dupulication between Economic market and Social market.
Note2) Each of Types 1 to 5 consits of the elements of Incorporated Market and Quasi Market is regarded as Type1 because of its importance in Imcorporated Market.

But a very important fact is that what is considered to be the quasi-market by many economists is a quasi-economic market. The "quasi-market" is, however, part of the market as the place of social exchanges (social market), too, as regarded by J. Coleman (Note 17) and other sociologists. Therefore, the "quasi-market" has duality in that it is a quasi-economic market and a quasi-social market at the same time. However, some sociologists regard all markets as economic markets and do not recognize or are not confident of recognizing the existence of any social market; thus, they often mistake the quasi-market for a virtual quasi-economic market.

As for the relation between the incorporated market and the quasi-market, the "quasi-market" is characterized by the fact that "funds are raised by the state." Another characteristic is that the pursuit of profit is not the only purpose of activities of market participants.

But the "quasi-market" proposed by Le Grand and other economists does not recognize fully the fact that there are cases where two or more nonprofit foundations, NPOs and the like supply social services using the private sector funds provided to these foundations, NPOs, etc., which are not tax and other state funds. On the other hand, the discussions on social capital (NPOs and other social network resources) by J. Coleman, a great sociologist, take these cases into consideration.

Third, as for the relation between the "social market" and the "quasi-market," the "social market" has what can be called social money, such as cash benefits for income redistribution. The "quasi-market" should include income guarantee, which has a close relation to social money, but strangely, the "quasi-market" advocated by Le Grand and his group is defined as not including social insurance and social assistance, the two main elements of income guarantee. This is probably because Le Grand and his group consider income guarantee as the area covered by public policies, that is, a non-market area.

In any event, the "quasi-market" can be said to be the concept somewhat opposite to the pure economic market thought highly of by Friedman. It also differs from the way of thinking of the Nordic School, which is critical of the quasi-market and says that social services should be left only to public sectors. It can be said that the idea of "quasi-market" was proposed in an attempt to correct the defects of the viewpoints of both Friedman and his group and of the Nordic School.

What we should note here is the fact that the "quasi-market" advocated by Le Grand and his proponents did not descend from the social policies of the "social market" proposed by Titmuss and Gilbert but is closer to public finance (Note 18) in public economics, etc. On the other hand, the theory of the "social market" I am trying to build up is, as it were, fusion of social policy concepts and public finance ones.

The relation between the social market and quasi-market can be briefly summarized as follows: while the "social market" can comprise the "quasi-market," the "quasi-market" cannot comprise the "social market." This is because the "social market" is a broad concept that contains, among others, part of exchange not necessarily mediated by money (so-called social exchange). As already noted, political science has also a concept that might be named political market, the place for political exchanges.

Seen from the whole social security system, the "quasi-market" of Le Grand and his group at this moment is too a narrow concept (in sum a narrow definition of quasi-market). This is because the quasi-market is an idea proposed by them for reforming the state health care system and public education policies in the U.K. Therefore, they did not take up the problem of social insurance, the basis of social security, perhaps because they tried to avoid tacitly. They probably regard social insurance as not within the quasi-market, considering it to be belonging to public sectors and is non-market. Rather, it can be said that they avoided discussing income guarantee systems, such as pension insurance, which should naturally be analyzed by the "social market" and "incorporated market" I propose. This is because according to the theory of "quasi-market" of Le Grand's group, it was thought that income guarantee systems, for example, belong to public policies or related policies and are incompatible with market and so these systems are naturally excluded from the scope of the "quasi-market."

However, it is not necessarily true that the "quasi-market" concept has no meaning. The social services covered by the "quasi-market" are an important part of social security, and are common but also "quasi-market" offers the analyzing method more detailed than those of debates in the past. In this sense, I highly value the theory of the "quasi-market". If the definition of quasi-market is expanded a little more, I believe it will almost overlap what I call "incorporated market".

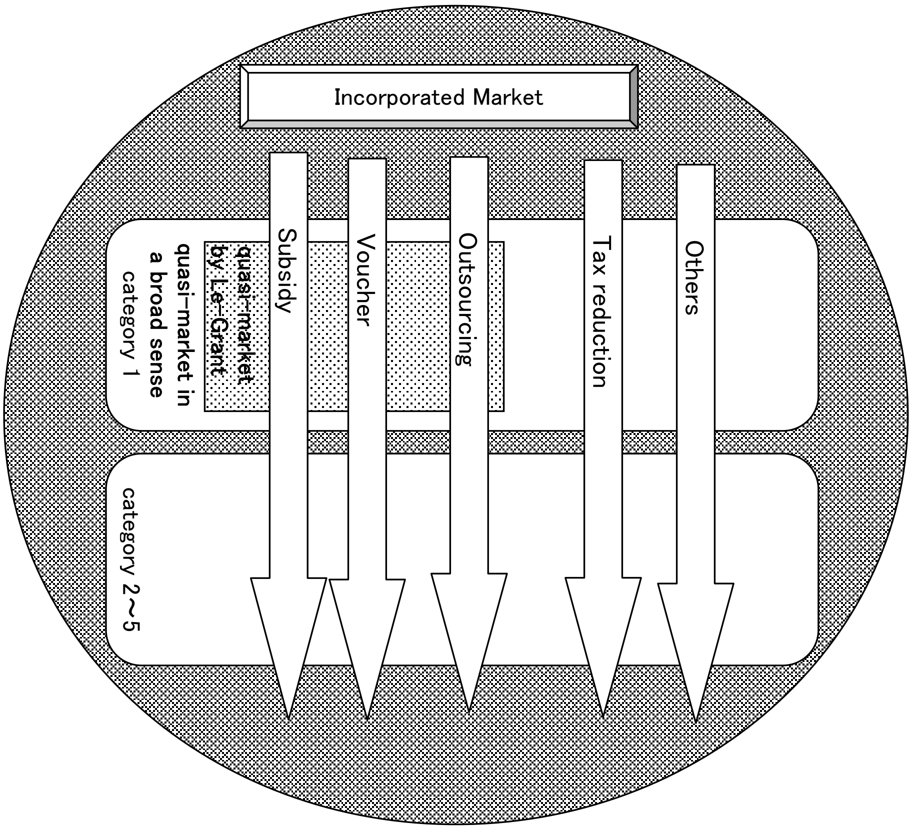
The social market theories of Titmuss and the quasi-market theory of Gilbert and Le Grand have both similarities and differences. While Titmuss adopts dichotomy of the "economic market" and the "social market, Le Grand uses trichotomy where he places the "quasi-market" between public policies and the economic market, the dichotomy that former economists were apt to fall into. His concept somewhat resembles the composition of the "social market" of Gilbert, although it descends from different origins. But as for the analyzing method, Le Grand, an economist, can make more detailed and functional analysis than a social policy scientist.

In addition, the "incorporated market" contains the part of tax expenditure (category of the in corporated market) unlike the "quasi-market." (See Fig. 6) Tax expenditure helps increase the disposable income of the beneficiaries of social services and thus virtually plays the same role as that of the subsidies paid by the state-raised fund, which are contended by the "quasi-market" theory. I think that the "incorporated market" has more diverse policy tools than the supply of social services in the "quasi-market."

Gilbert attaches rather greater importance to the relation between the social market and the economic market. The credit for adding tax expenditure as a component of the "social market" belongs to Gilbert. Tax credit, a typical form of tax expenditure, brings about a higher disposable income to citizens having social needs just as benefits for children and people with disabilities, including tax deductions for children and the disabled.

Tax expenditure has similar effects to those of tax expenditure for social service beneficiaries in the case of the tax expenditure for the private businesses, NPOs and others that supply social services through such preferential tax measures as a cut in corporation tax and a tax deduction for donations. In other words, tax expenditure plays, first, the role similar to subsidies for businesses. Second, because it reduces both the cost of social services and users' burdens, tax expenditure has the ripple effect similar to an increase in the disposable income of the beneficiary as a result. Moreover, Le Grand and his proponents do not clearly include tax expenditure, equivalent to latent subsidies to the private sector, in the "quasi-market," although they do include subsidies. This is why the social market does not equal the quasi-market. Here it is shown that while the incorporated market (overlapping part of the social market and the economic market) I propose overlaps the quasi-market, it has a broader and more multilayered structure than the "quasi-market" advocated by Le Grand and his group as discussed in more detail later. (See Fig. 6 & 7)

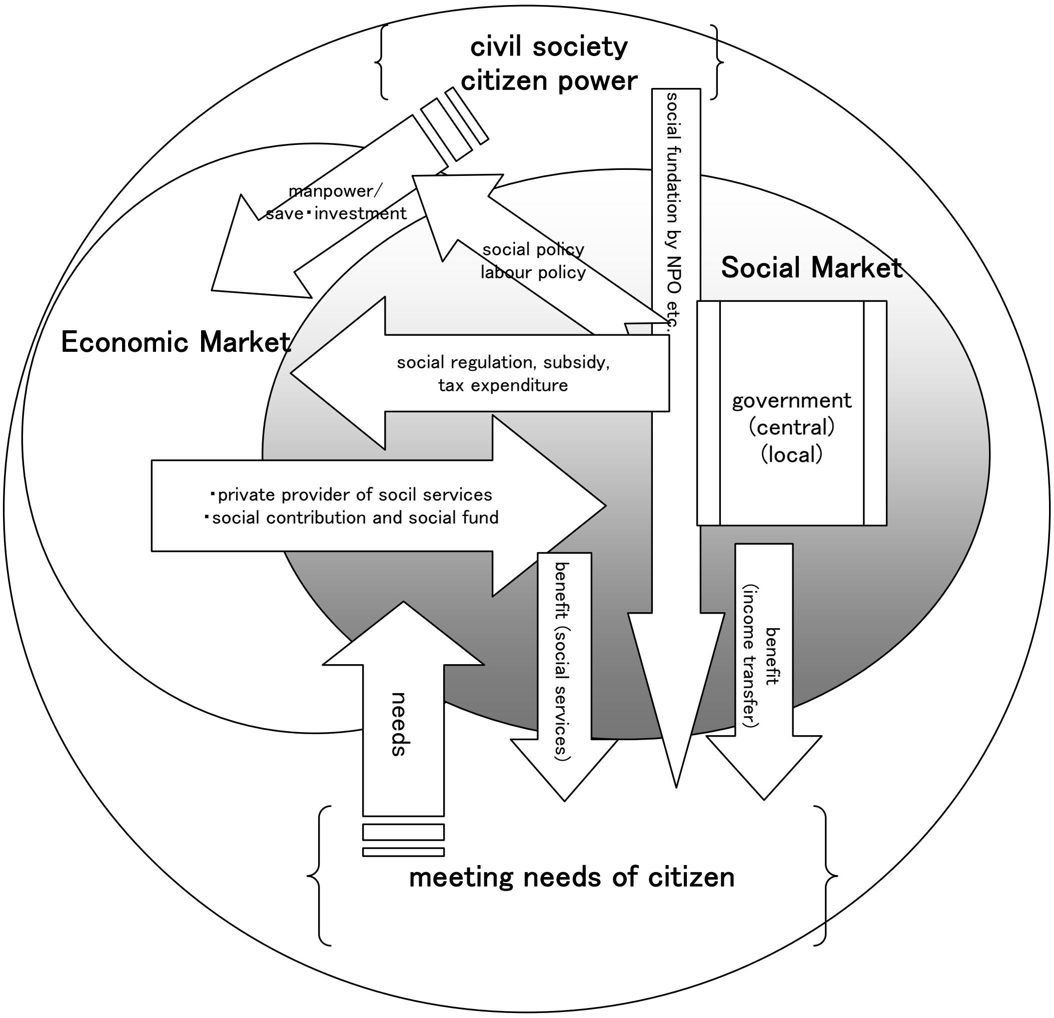
Fig.7 The relation of Incorporated Market and Policy-methods



(source)Takanobu Kyogoku and Yoshihiro Kaneko (NIPSSR)
(note1) Thick arrows up to under show policy-methods of incorporated market which includes not only social security but also the related social policies such as educational, housing etc.
(note2) Each category (1-5) means quasi-market (category 1), social insurance (category 2), tax expenditure (category 3), social capital (category 4) and others (category 5).
(note3)Category 1 is included in quasi market in a broad sense, which is broader than "quasi-market" by Le-grant, and it includes tax expenditure etc.
(note4) Here, tax reduction is differ from tax expenditure and is located in one of policy-methods.

By the way, social insurance, Category 2 of the incorporated market, seems to have no exchange because it is financed partly by public costs, but this is not so. Actually, social insurance does have, first, the intergenerational exchange between contributions based on the insurance principle and pension benefits paid by the fund, second, the exchange between public funds and the portion of pension benefits subsidized by the government, and third, other social exchanges. (See Fig. 8)

Fig. 8 Economic Market and Social Market (image diagram)



(source)Takanobu Kyogoku and Yoshihiro Kaneko (NIPSSR)

The theory of quasi-market is never a cure-all; for example, it can not always make the macroeconomic discussions that would include the ripple effect of the whole social security on the economic market. It may be said that if the "social market" and "incorporated market" that embrace the entire social security are supposed to be a chain of mountains, the "quasi-market" would be a small mountain of them. The entire size of the incorporated market is the sum of the quasi-market (in the narrow definition), social insurance, tax expenditures, and social capital, etc. The relative size of each, within the whole spectrum of the incorporated market, quantitatively reveals the typology of each welfare state.

Now, as **Figure 7** shows, the policy tools of the "incorporated market" include subsidies, vouchers, outsourcing, preferential tax treatment and the provision of information. The information provided includes the one given by specialists (those in social work, care management and so on) about the clarification of the needs and qualitative improvement in the use of services.

Of these policy tools, government subsidies, vouchers and outsourcing are, as shown by Le Grand, also the tools of the "quasi-market," which clearly belongs to Category 1 of the incorporated market. We should recognize that these are not the spectra, the elements of the structure, but policy tools. I think that we have not recognized very well the distinction between the structure and tools of each market.

From the viewpoint of policy tools, how should we understand the relation between the incorporated market and the economic market? Taking vouchers as an example, I will discuss this question very briefly.

From the standpoint of policy tools, vouchers have a close relation to the economic market in that those having social needs who receive them can freely select the goods and services covered by the vouchers in the economic market. However, the neo-liberal and optimistic opinion that vouchers revitalize both the provision of social services and the economic market because free selection is promoted, is not a very correct one. According to my social market theory, vouchers are only one of the tools of the quasi-market in the "incorporated market" and can be an effective tool only within a given scope.

5. Ideal relation between the economic market and the social market: the creation and growth of the social market will support the 21st century-type economy of industrialized countries

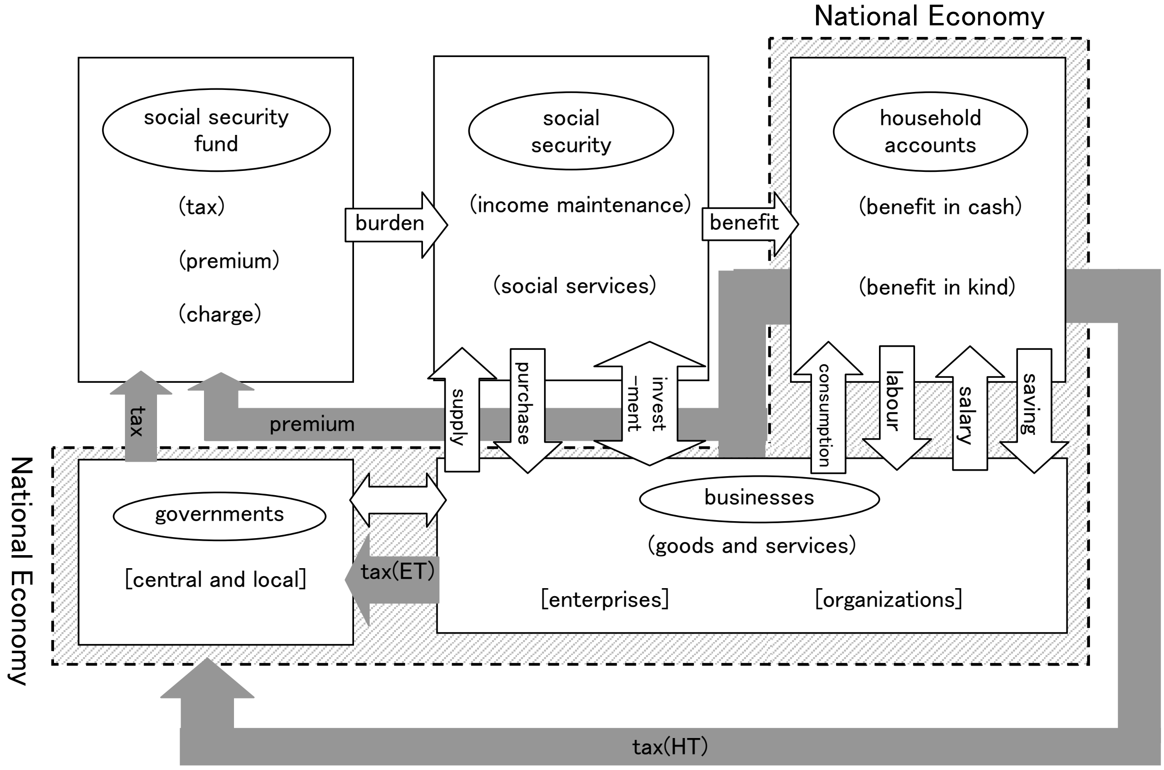
One thing about the relation between the social market and the economic market that we should not disregard is the fact that social resources in the social market for social money (income transfer) and social services (human resources, products and money) are mainly provided by the economic market. We have to pay attention to the impact of the social market on the economic market, too. For example, the health care service from the health insurance, workers' compensation insurance and the like that is needed in the event of an illness or an accident is available just because the social market exists, and the social market has the role of securing healthy labor force necessary for the economic market, too. As stated above, there are diverse interactions between the economic market and the social market.

According to my idea about the social market, not only the Sozial Politik born from labor policies in Germany but also the U.K.-type social policies have an important relation to the economic market. In the U.K.-style social policies, what is called "policy for welfare" is social services in a broad sense, and the policy space where social services are supplied and demanded (as it were, the place where the supply-demand relation is adjusted) can be regarded as the social market. The traditional German-type Sozial Politik tends to focus on cash benefits for the working class too much and is defined narrowly as labor policies. On the other hand, my social market theory is not limited to the narrow definition. Instead, I think that an extensive social market will be formed by expanding social policies, including the U.K.-style ones, more widely in people's life and by providing social benefits not merely by the government and businesses but also by non-profit private organizations and others. This idea can be expressed as shown in **Figure 8**. German-type Sozial Politik is included in the social market as related to the labor force that appears as the effect of citizens (the working class) on the economic market, but the new social market is broader than this and has diverse relations to the economic market, too.

The new social market is based on needs, and the citizens' needs include effective and latent needs. Latent needs may not be satisfied by public benefits provided by the government but may become effective by, for example, an NPO, and the provision of social services and social funds to meet these needs may start in the form of volunteer activities. As shown in **Figure 8**, this is why the activities of NPOs and others link the citizens' power to the citizens' needs. For effective needs, on the basis of the social control by the government and its subsidies and tax expenditure, businesses, NPOs, etc. carry out activities to provide social services (including the supply of goods and services, such as the manufacture of welfare equipment and long-term care service) in the direction of the arrow from the economic market to the social market as shown in **Figure 8**. The government sector can provide cash benefits by, for example, income transfers, too. The new social market includes all of these elements and so I think that it has diverse and broad relations to the economic market. For example, pension insurance has a close relation to the three economic markets: the labor market, consumer market and financial capital market. (See Kyogoku (2007))

In this paper I do not intend to examine the relation between social security and the national economy from many angles. But I present here **Figure 9** that shows what relations the benefits and contributions of social security have with the national economy.

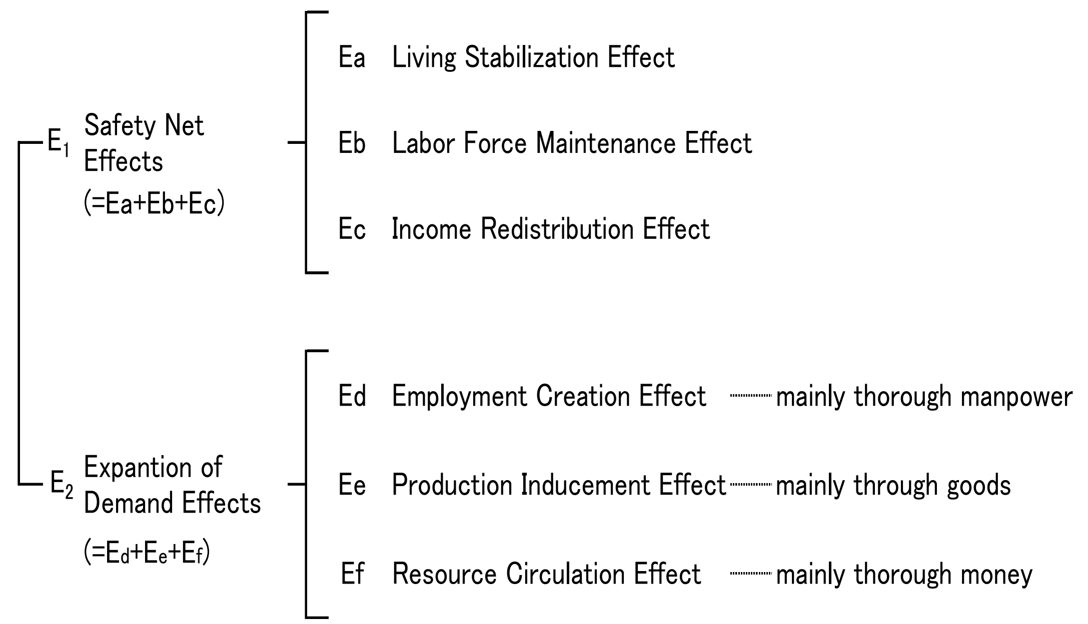
Fig. 9 General relationship between social security and national economy



(source) Takanobu Kyogoku"Social Security and National Economy in Japan (Japanese)"(Keio university press, 2007) ,p. 53, fig. 3-1, IPSS Discussion Paper Series (No. 2007-E01), Diagram 3
(note1) Economic acctivities by central and rocal governments are included in business.(EE)
(note2) Manetary investment and so on are included in goods and services of business.(EE)
(note3) ODE investment for developping countries are included in social security funds.
(note4) premiums in social security are generally small and the amount of premium are omitted here.

Figure 10 is the functions (effects) of social security derived from the relations in **Figure 9** and is a very effective one for empirical analysis of the functions (effects). It serves as an economic basis of the argument that it cannot be said that an enlargement in the scale of social security hinders the growth of the national economy. (See Kyogoku (2007))

Fig. 10 Main Functions of Social Security (Economic Effects)



(source)Takanobu Kyogoku"Social Security and National Economy in Japan (Japanese)"(Keio university press, 2007)p. 61, fig. 3-2, IPSS Discussion Paper Series (No. 2007-E01), May 2007, Table 2

To avoid misunderstanding, I would like to say here that I do not regard the economic market as the place for perfect competition. Together with the perfectly competitive market, the imperfectly competitive market is a component of the economic market and has become a main structural characteristic of the market for goods and services.

In the imperfectly competitive market, the price mechanism itself works in its own way although price formation may be more distorted than in the perfectly competitive market as in the case of the existence of "oligopolistic prices." In this sense, the price control and subsidies by the government utilize the price mechanism of the economic market. But both perfect and imperfect competition in the economic market are the competition based on the price mechanism itself in principle, and so should be distinguished from the social market based on the principle of needs satisfaction. On that basis, the social market may partly introduce the price mechanism as the quasi-market does.

As a matter of course, social control exists not only in the social market but also in the economic market. The problem is the content of the social control from the viewpoint of, for example, consumers. First in the economic market, monopoly and oligopoly are certainly the examples of ″market failures″ from the consumer's viewpoint. It is known that unlike in the perfect competition where the consumer and the producer have perfect information and exchange goods and services by a reasonable judgment, losses of economic welfare often occur in the imperfect competition. This is why anti-monopoly policies are introduced as a means of social control.

As noted, the existence of social control not always results in the evil effects of monopoly across the country. There are cases where social control (fair rules) is introduced in an attempt to promote fair and just competition. I think it important to take steps like this in order to protect free competition. We have to say that reasonable social criticism is especially indispensable for the incorporated market where the economic market and the social market overlap each other.

In the framework of the social market, there are cases where social needs, such as the need for public assistance for low-income earners, are revealed by, for example, the help of case workers. Unlike in the economic market, in the social market, important problems are not merely how to provide those having social needs with social money and social services but also whether it is possible to make the social work function so that necessary information to the socially disadvanage and others (which is not always performed by social workers but is the role of social workers in the main areas) to accompany the provision of social services. The social work steps for low-income earners are taken as an example first here because there was the history of settlement work before the birth of the new social market.

In the social services in the U.K., the distinction between social work and social policies is considered to be important. In the social market, they are not only distinguished but also have relations mutually.

How should we consider the problem of ″adverse selection″, a term named by G. A. Akerlof. (phenomenon where only poor-quality goods and services are around in the market, resulting in the collapse of the market) in the overlapping part of the economic market and the social market (incorporated market)? You will be able to see the possibility that "adverse selection" occurs in the social market, too, because there is a part where the economic market and the social market overlap each other. Moreover, there are also problems before "adverse selection," such as cream skimming like a child who only eats the delicious cream on top of a cake first, or more specifically, the business that corrals customers favorable to it. It will be never possible to meet the needs for health care services of the entire nation only by the system that would not go into the red, such as a private health insurance, by doing cream skimming and leaving the problem to the free economic market.

Conclusion

The social market theory I advance here resembles the views of Titmuss and Gilbert and is an expanded version of their concepts. The quasi-market theory of Le Grand is also contained within. In the social market (including the incorporated market), it is important how fair and just social services for satisfying social needs are provided, and efforts are made to adopt non-market methods by which the government offers subsidies and the like under the condition of rules of social control if the conditions are insufficient from the consumer's point of view, while steps are taken to promote the decentralization of power and privatization as much as possible. In the social market theory, an inductive approach through which realistic thinking is done in taking account of people's life and needs is more important than abstract discussion using academic theories of the market economy. In that respect, if the quasi-market theory of Le Grand is expanded to include various aspects of social security such as health from the view point of the people, it can be overlapped with the incorporated market theory.

In this paper my theory of the social market is limited to the discussion of social security. I shall be happy if you pay attention to the fact that my idea can be well applicable to education, housing, labor policy and other social policies, too, and that it may become an interdisciplinary public scientific theory quite capable of realizing interdisciplinary collaboration between economics, sociology and political sciences instead of traditional market economics and public economics in a narrow sense.

＊This paper is based on Kyogoku, T (2008) “Introduction to the Theory of Social Market” *Keizai Seminar Vol.636 and 637.*

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(Notes)

(Note 1) Richard Titmuss (1907-1973): a British social policy scientist. His main works translated into Japanese include "Ideals and Realities of the Welfare State" (1967) (translated by Akitsune Tani), Institute of Social Insurance, and "Social Welfare and Social Security" (1971) (translation supervised by Fumio Miura), University of Tokyo Press.

(Note 2) N. Gilbert: an American social policy scientist and well-known columnist who advocated the concept of welfare capitalism. At the time of writing, he was professor at California State University, Berkeley. His main works include N. Gilbert (1983) and a Japanese translation supervised by Hideo Ibe (1999).

(Note 3) A. Le Grand: a British public economist who advocated the quasi-market theory together with H. Glennerster.

(Note 4) Monetarists refer to the economists having new liberalism-like thinking, such as Milton Friedman (1912-2006), an American economist awarded the Nobel Prize in Economic Sciences.

(Note 5) The proposal of new relations between social security and tax systems arguing that the financial burdens of insurance (health care) and welfare services, etc. on the central and local governments should be abolished by, for example, paying livelihood security money (negative income tax) to the low-income earning group, collecting progressive positive income tax from medium- and high-income earners and distributing vouchers.

(Note 6) Fabianism is also known as Fabian socialism and is British-type socialism (mainstream thought of the British Labour Party) advocated by the Fabian Society formed in 1884. Sidney Webbs and his wife and George Bernard Shaw are among well-known Fabianists.

(Note 7) The name "monetarist" derives from this fact.

(Note 8) The third sector is a general term for diverse intermediate forms between the first sector (public sector) and the second sector (private business sector).

(Note 9) NPO is short for non-profit organization that supports voluntary citizens' activities. In Japan, an NPO can obtain a non-profit legal personality.

(Note 10) The asymmetry of information means the situation where there exists a striking difference in information between, for example, the provider of goods and services and the consumer. J.E. Stiglitz, A.M. Spence and G.A. Akerlof were awarded the Nobel Prize in Economic Sciences for their theory of the asymmetry of information.

(Note 11) Social capital is a new concept proposed by J. Coleman (Note 17) and other American sociologists.

(Note 12) See Chapter 1 of N. Gilbert (1989).

(Note 13) Also known as virtual tax expenditure, tax expenditure is what has similar effects to the granting of subsidies, such as preferential tax treatment.

(Note 14) See Research Note 2 of Takanobu Kyogoku (2008).

(Note 15) Kenneth E. Boulding (1910-1993): an American economist and the father of evolutionary economics. His main works include "Evolutionary Economics (1981).

(Note 16) For more details about social exchange, see Chapter 6 of James Coleman (2004).

(Note 17) James Samuel Coleman (1926-1995): an American sociologist and professor at the University of Chicago. His main work is a voluminous one "Foundations of Social Theory" (1990) (Japanese translation supervised by Toshitake Kuji published by Aoki Shoten Publishers in two volumes in 2004 and 2006).

(Note 18) Public finance belongs to the field of public economics.

(Note 19) Advocated by G.A. Akerlof (1940-), professor at the Massachusetts Institute of Technology who won the Nobel Prize in Economic Sciences, the theory of adverse selection analyzed the phenomenon where only poor-quality goods and services are around in the market, resulting in the collapse of the market, and emphasized the need for social rules (social control) to prevent such situation.

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