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Redeeming Vouchers in Public Services

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Introduction

Public service vouchers enable service users to exercise choice among providers who are funded directly or indirectly by government.

They have long provoked heated debate, often along ideological lines and are often characterised as an exclusively pro-market, small-government measure. Yet perhaps the most successful voucher scheme anywhere in the world comes from Sweden, perennial exemplar of prosperous social democracy.

In fact, vouchers have been used in conjunction with many public services in different countries around the world, with contrasting policy goals and varying degrees of success. This paper seeks to clarify the concept, demonstrating that public service vouchers are used within a very broad framework. Their potential to improve service outcomes is complemented by their capacity to deliver a range of very different policy goals, addressing public expectations of justice and fairness as well as efficiency and effectiveness. This flexibility is evident from the wide range of programmes that fall under the broad umbrella of 'voucher schemes'.

Far from being ideological, vouchers are a technical device - a tool to help extract greater value from public services, where policy design and market conditions suit. To this end the paper draws together ideas from a variety of schemes to provide insights for policymakers considering their use.

1. History: a tale of two architects

The concept is most commonly attributed to the American economist Milton Friedman, who in 1955 outlined a voucher scheme for education. His ambition was to expose public monopolies in schooling to competition thereby increasing their efficiency, whilst safeguarding access to basic education for all.

The conceptual breakthrough lay in distinguishing between the *financing* and the *administration* of public services. Government would fund universal education but dismantle public monopoly in provision and encourage supply-side competition:

*'Governments could require a minimum level of education which they could finance by giving parents vouchers redeemable for a specified maximum sum per child per year if spent on "approved" educational services. Parents would then be free to spend this sum and any additional sum on purchasing educational services from an "approved" institution of their own choice.'*¹

This proposal prompted a strong reaction among supporters and opponents alike. It has since become a totemic statement of the potential role of markets in public service delivery both in the United States and elsewhere.

However, the history of the education voucher can be traced back at least another century and a half. In *Rights of Man* (1791) the revolutionary Thomas Paine made an early case for a welfare state in England and America where government would fund food, education and medicines for those too poor to provide for themselves.

Paine identified a significant number of families wedged between the wealthy and the poor who could afford to feed and clothe themselves but were still unable to provide education for their children. His solution was a "tuition scholarship plan" in which government targeted this group and funded their children's education:

*'After all the above cases are provided for, there will still be a number of families who, though not properly of the class of poor, yet find it difficult to give education to their children, and such children, under such a case, would be in a worse condition than if their parents were actually poor. A nation under a well regulated government should permit none to remain uninstructed. It is monarchical and aristocratical governments, only, that require ignorance for their support.'*²

Modern analysts might not call this a voucher. With a cash payment, there could be no guarantee that the money would be spent on education, and it takes no heed of potential price competition among suppliers. But the underlying principle is the same: the government accepts responsibility to fund a service, but recognises that families are best placed to purchase it.

These contrasting proposals demonstrate that the devil lies in the detail. On the one hand there is Paine's call for increased government intervention and redistribution of resources to promote equity; on the other Friedman's vision of reduced public provision prioritising efficiency.³ However, the policy architectures also differ in fundamental ways (as shown in Figure 1).

Figure 1

	Friedman	Paine
Eligibility	Universal: Issued to whole population	Targeted: Needs-based aimed at specific group
Coverage	Partial: Covered basic provision in full; recipients free to top up	Full: Covered provision for a group unable to top up ⁴
Means of Payment	Physical coupon ⁵	Cash payment ⁶

Of course, it is hardly surprising that these two great minds advocated sharply different approaches to improving education. They were writing about different countries some 150 years apart. What is instructive is that two policies so contrasting in philosophy and implementation can be readily categorised together. Both physical coupon and cash payment are simple voucher schemes.

2. Definition: when funding follows choice

This brief historical comparison suggests three dimensions along which a voucher scheme must be designed and developed (see Figure 2). Although they are most readily associated with the education sector, vouchers are applicable to any public service for which policymakers are prepared to allow competition in provision.

However, vouchers can be used to pursue other policy goals, and not just to subsidise public services. For example, they have been employed as an incentive to behavioural change. In the UK, government promotes a scheme that encourages addicts to remain drug-free by compensating them with vouchers:

‘Such vouchers may be exchanged for goods or services, and privileges to increase the service user’s choice (for example, use of take-home methadone doses); vouchers should have monetary values that start at about £2 and increase with each additional, continuous period of abstinence.’⁷

Since 2004, local authorities in Philadelphia have partnered with a private company to issue reward vouchers to people who recycle more of their refuse.⁸

To explore the use of vouchers in public services, then, is to do nothing more than to identify ‘a means of subsidy or payment designed to grant limited purchasing power among a restricted set of goods or services’.⁹

They are, of themselves, value neutral. Everything depends how they are used, with the target population, the level of payment and the underlying objectives determined by policymakers. Whenever government funding follows user choice in public services, this is a voucher scheme.

3. Benefits: choice, efficiency and public value

Thus, while vouchers are capable of supporting a wide range of policy options, all share three core potential benefits: the promotion of user choice, the introduction of competition into public service delivery and the creation of new sources of public value.

3.1 Individual choice

The promotion of individual choice is a growing priority in public service provision. In developed countries in particular, citizens have become more demanding, driving governments to become more attuned to how they are delivered.¹⁰

Choice has intrinsic benefit: the transfer of decision-making power from central government to citizens and local commissioners promises greater autonomy for individuals and the opportunity to shape their own lives and choices according to their values and preferences. In well-designed markets, the result will be public services that are more responsive to users' preferences rather than mandating centrally-determined, off-the-shelf solutions.

Figure 2 Policy architecture of vouchers

Means of Payment

Explicit: Physical coupon entitling holder to a service and allowing provider to exchange it for government funding e.g. food stamps or plastic cards.

Implicit: Eligible recipients choose from approved providers and upon registration the government pays the provider direct e.g. school choice in Sweden.

Reimbursement: Eligible recipients choose from approved providers and after payment apply to government for reimbursement e.g. health care in Australia.

Eligibility

Universal: Accessible to whole population e.g. health care in France

Targeted: Aimed at specific groups e.g. housing vouchers in the US.

Coverage

Full: Meets total cost of service; no top-up facility e.g. school choice in Sweden.

Partial: Subsidises cost of basic service and permits user top-up e.g. Medicare card in Australia.

3.2 Incentives to innovation

As Milton Friedman argued fifty years ago, public monopolies have few reasons to innovate or improve their quality and efficiency. While his school vouchers have been attempted only on a small scale, his idea of separating the finance and operation of public services now has widespread application not only through a variety of different voucher schemes but also through numerous public-private partnerships around the world.

The introduction of vouchers, coupled with appropriate market design to ensure choice and competition between providers, addresses the monopoly problem. By promoting competition, vouchers should also drive innovation and efficiency, offering an instrumental benefit. Ultimately, with good market design and certain conditions, voucher schemes have the potential to improve service outcomes.

3.3 Promoting public value

Extracting the greatest possible value from public services is a constant challenge for policymakers. Beyond the economic imperative of ensuring that public services offer value for money, Professor Mark Moore of Harvard University has developed the idea of 'public value':

*'Every time [an] organization ... uses money raised through the coercive power of taxation to pursue a purpose that has been authorized by citizens and representative government, the **value** of that enterprise must be judged against citizens' expectations for justice and fairness as well as efficiency and effectiveness.'*¹¹

With careful design, voucher schemes can safeguard public value at the same time as they make a contribution to improved efficiency and effectiveness. Indeed, as the introduction of Australia's Medicare card illustrates, in some cases vouchers have been employed as the primary tool for significantly enhancing public value. In incorporating wider considerations into design there is also considerable potential to contribute a significant social return on investment.

The basic concept of the voucher makes no assumption as to the content of this value. Vouchers can just as readily be tailored to address inequity (Paine), inefficiency (Friedman) or environmental costs (Philadelphia).

4 Case Studies: vouchers in action

A vast literature exists on the use of public service vouchers, although many studies address a single scheme within a narrow context. There are methodological difficulties in trying to measure the many different outcomes – quality, efficiency, equity, inclusiveness, responsiveness – as well as disagreement on how such outcomes should be valued and prioritised.

Although vouchers have a long history, the extent of their usage is often underestimated, with the result that some interesting and revealing examples are not considered in the debate.

With this in mind, the paper examines five case studies from different sectors around the world, supplemented by related examples. This enables the study of strengths and weaknesses in real-world approaches, and provides insights that might inform future policy design.

4.1 Universal choice in education (Sweden)

Vouchers are most widely associated with the education sector, with school choice evident across Europe and the United States. And yet only two countries have pursued universal choice: Sweden and Chile. Of these, the Swedish system is more established and better known. Their 1992 school reforms introduced a policy that included:

- equal government funding for both public and private schools;
- freedom of choice for parents (that is, public funding follows the student);
- for-profit organisations allowed to participate in the scheme (unlike most of the European countries where schools are run strictly by non-profit organisations);
- private schools not allowed to charge additional fees;
- selection of students exclusively on a 'first come, first served' basis, regardless of their background or academic ability;
- education objectives legislated at a national level, together with a national curriculum, which must be followed by all schools.

These principles are notable for the way that they challenge both sides of the vouchers debate. Encouragement of for-profit enterprises in schooling is unthinkable in many countries since it offends sensibilities on the political left. In Sweden it has been accepted, and indeed is necessary for the scheme to function given limited government capital for building new schools. On the other hand, the Swedish system does not allow top-up by parents. Many advocates of school choice would favour the option of supplementary charges, encouraging competition on price and promoting user choice, but the Swedish scheme is restricted in this regard to safeguard equality of opportunity.

The Swedish system is noteworthy for having introduced elements that both sides of the debate want: competition to drive innovation and efficiency, and prohibition of top-up to preserve equity and social inclusiveness. As such it can be seen as a strong example of the public value concept in voucher schemes, designed to harness the benefits of choice and competition yet still a consensual and aggregated view of citizen expectations for justice, fairness and value. The full impact of the reforms is yet to be determined.¹²

Other countries have attempted to introduce school vouchers with only limited success. In the United States there have been schemes in Cleveland, Ohio, Wisconsin and Florida, among others; in early 2011 Indiana instituted the largest school choice programme anywhere in the US to date.¹³ These schemes have tended to be targeted and partial, and before his death Milton Friedman lamented what he referred to as "charity voucher" schemes, believing that the benefits – particularly for the poorest – could only be realised through full implementation of his model.

A notable example is the Milwaukee Parental Choice Programme, which between 1989 and 1998 offered 1% of low-income families in the city a voucher worth 38% of the cost of a child's schooling. It was a limited success, neither mobilising a significant number of service

users nor providing a substantial incentive for providers to improve performance, although a revised version of the policy is now yielding better results.¹⁴

In the United States there has been a notable failure to build a consensus around a school choice model that would include elements of both choice-promotion and equality-protection, and half a century on, Friedman's plans remain mostly unused due to ongoing public concern about the wisdom of applying market forces in the provision of education.

The organisation of schooling in England and Wales has also had experience of limited voucher experiments. Pupils and parents notionally have choice as to which school in their area to attend, but the supply side has been unresponsive.

Historically it has been difficult for successful schools to expand and failing schools to close, and so the capacity for choice simply results in successful schools being oversubscribed. Middle-class parents move into the catchment areas of successful schools, driving up house prices and effectively purchasing a good state education. This clearly demonstrates that parents are prepared to invest private funds in a market where arbitrary barriers artificially limit supply.

The Academies scheme of the Labour government, marked for significant expansion under the Conservatives from 2010, attempts to correct this. Focused on removing the barriers to entry and exit for providers, and reducing the administrative burden to central government, it is a conscious imitation of the Swedish model.¹⁵ However, private schools remain free to operate on their own agenda and the inclusion of for-profit providers remains a vexed issue, so it is yet to be seen whether the Academies policy will reap the projected benefits.

Other developed nations, such as Australia and the Netherlands, have implemented partial vouchers as a way of achieving some parity between state-operated and religiously-based schools.

4.2 Nationalised health insurance (Australia)

Until 1975, primary health care in Australia was predominantly funded through private insurance with basic public provision. Secondary care was dominated by state hospitals where medical care and accommodation were provided free of charge, but with the privately-insured able to pay for choice of doctor and a higher standard of accommodation. While the majority of Australians were covered by the state or by private insurance, this scheme was vulnerable to criticism because of a significant minority who would not or could not afford to purchase health cover.

A Labor government then introduced a nationalised insurance scheme known as Medibank (later re-branded as Medicare) to ensure free or heavily-subsidised primary and secondary care for all. Provision of health care in Australia is mixed, with public hospitals owned and operated at state-level alongside private hospitals, while general practitioners and specialists are typically self-employed.

All permanent residents of Australia are eligible for a green plastic Medicare card, which is valid for treatment at general practitioners of their choosing. Reimbursement is calculated within specified allowances but typically government subsidises mostly or entirely hospital costs, GP costs and specialist consultations. The Medicare scheme has been a political

success, and quality of care in Australia compares favourably with the UK and Germany, and out-performs the US, Canada and New Zealand.¹⁶

In this case, a voucher was specifically used to deliver enhanced public value, with the result that it has received widespread approval among the people of Australia. Of course, the system has not been without its problems; in particular a key problem has been overservicing, where some medical practitioners dispense unnecessary treatment to patients for government reimbursement.¹⁷ This raises the challenge of moral hazard, one of several difficulties with voucher schemes, and the importance of effective monitoring of providers.

A social health insurance system operates in France that similarly promotes equality and access while protecting choice and competition among providers. All citizens have access to basic coverage through national insurance, funded by employer and employee contributions. The poor and the unemployed receive care for free. Modest co-payments are waived for the chronically ill, and many people subscribe to supplementary insurance to meet out-of-pocket costs as well as services such as dental and optical care. Treatment for chronic diseases including cancer and essential operations, for example heart bypass, are fully reimbursed.

This protective egalitarianism, sometimes characterised as ‘the sicker you are, the less you pay’, is accompanied by patient choice and supply-side competition. Patients select their own doctor and claim back 75-80% of the charges (100% for low-income groups). The social insurance system reimburses private and public hospitals alike and all are entitled to visit a specialist. As such, French health care is a compromise between solidarity and liberalism, a reflection of the public appetite for individual choice and autonomy underpinned by collective equity and access. The system has achieved excellent results, ranked best in the world by the World Health Organization (WHO) in 2000, and high patient satisfaction.¹⁸

In the United Kingdom the Labour government of the late 1990s and early 2000s performed small-scale experiments in expanding patient choice through Independent Sector Treatment Centres (ISTCs). These were conceived as private-owned facilities offering National Health Service patients care free at the point of use, thus harnessing benefits of choice while safeguarding access. Reaction to ISTCs has been mixed with some reports citing high quality of care and others questioning the value for money.¹⁹

4.3 Desegregation of public housing (United States)

Housing offers one of the best examples of targeted vouchers, generally used to facilitate low-income participation in the accommodation market. They are also one of the simplest vouchers, usually means-tested to bridge the difference between actual rent paid and a specified percentage of the recipient’s salary.²⁰

In addition to income redistribution, the essential case for housing vouchers is the scope that they offer for desegregation. Prior to the introduction of vouchers, the conventional approach to subsidised housing was to cluster beneficiaries together in public estates, which were characterised by low resident satisfaction and quality of life, and contributed to wider social problems such as higher crime rates.

The literature broadly acknowledges the benefits of desegregation for housing voucher recipients and promotion of residential mobility.²¹ In fact, opponents argue that some housing voucher schemes are too generous, incentivising recipients to preserve their eligibility for subsidy rather than pursuing more ambitious accommodation goals (another example of moral hazard).

Housing policy in the United States continues to be criticised for its failure to balance income support with incentives for self-improvement. The federal Housing Choice Voucher Programme (known as the 'Section 8' scheme) was launched in the 1970s to benefit extremely poor families, bridging the gap between income and housing costs. When applicant families reach the top of the waiting list they are entitled to a voucher that can be used for any dwelling within the market area of the housing agency. Rental payments are set by local housing agencies and are based on fair market rates in order to create incentives for voucher holders to negotiate the best deal.²²

The intention of the programme is to give beneficiaries freedom to choose the location and the type of housing that suits best their needs as well as promoting residential mobility to avoid stigmatisation and segregation. Voucher recipients value this flexibility although they also criticise long waiting lists, shortages of moderately priced housing, ineffective local administration, landlord reluctance to accept voucher payments and complicated changes across different jurisdictions.²³

Policy critics are also vocal. They argue that despite the potential benefits, housing vouchers can lead to a poverty trap and re-segregation.²⁴ The ultimate conclusion of opponents is that vouchers not only harm the beneficiaries by trapping them in dependency, but also undermine the basic principle of the scheme, which is to help those most in need. Thus Section 8 remains the subject of ongoing debate, seeking to promote public value while protecting public spending resources.

A similar demand-side subsidy is the Accommodation Supplement in New Zealand, introduced as part of the 1991 Housing Reforms. Paid to low-income households, the subsidy allows its recipients to use it for supplementing either rental or mortgage payments. As with Section 8, the Accommodation Supplement was designed to promote efficiency and personal choice. However, criticisms of the scheme included reduced affordability as landlords took subsidies into account and raised rents, and a failure to tackle desegregation.²⁵

4.4 Flexibility in social care (International)

The traditional way of providing social services to the disadvantages or those requiring protection, such as poor, disabled, elderly and young people, is direct allocation through care in the home or in residential facilities. However, an increasingly diverse set of vouchers has been devised, either implicit in the form of tax credits, or explicit, where care is provided through public and private providers and paid for out of funds supplied by central or local government.

Some examples of modern voucher systems in social care include:

- An elderly care voucher pilot scheme in Hong Kong (2009-2011), aimed at those 70 and above, entitled to five vouchers of HK\$50 per year as a partial subsidy towards their primary care services costs, with the objective of reducing the burden on public health providers.²⁶
- Vouchers for social and health care in Finland (since 2004), a means-tested tax-free fixed sum granted by municipalities to assist elderly people to live longer at home and to encourage new companies to enter the home care market.
- A French scheme introduced in 1997 allowing users to choose among different forms of care, including employing personal attendants such as family members.
- The carer short-break scheme at the London Borough of Hounslow, an explicit voucher system used for periods when the patient's primary carer is on a vacation, allowing a choice of care services provided by a list of approved providers.
- Ticket-to-Work scheme in the US in 1999, available to recipients of Disability Insurance and Supplemental Insurance Income who voluntarily decide to pursue employment. The voucher allows recipients to purchase various support services to help them to return to work.
- Individual Budgets in UK social care that aim to improve choice for older and disabled people in meeting their support needs as part of a shift in emphasis from service inputs to user-defined outcomes. Pilots between 2005 and 2007 were rolled out as a national policy with all councils offering Individual Budgets by April 2010 and a target for 30% of people eligible for social care support to be using a budget by April 2011.

The latter is the most notable success among these projects. The schemes, which are central to the current UK government's Putting People First programme, were extended to 31,000 social care users by January 2010. They have been widely praised for achieving increased user satisfaction and control around their choice of providers. These benefits have come with a small reduction in care costs off-set by a small increase in information costs, establishing Individual Budgets as a cost-neutral policy with significant advantages for users.²⁷

4.5 Avoiding stigmatisation (UK)

The aim of the UK government's Home Access programme was to 'ensure that all pupils aged 5 to 19 in state-maintained education in England have the opportunity to have access to computers and internet connectivity for education at home'. A pilot scheme was operated in Oldham and Suffolk between February and June 2009, which was subsequently expanded nationally, reaching 270,000 homes.²⁸

The scheme required eligible parents to make a conscious decision to purchase a subsidised computer and associated internet access (compared with universal issuance to eligible families relied upon in previous schemes). This switch should have improved the value added by the scheme, since only those who would use the computer would seek to participate.

But it also created the risk of stigmatisation. Voucher holders are vulnerable to being identified at the point of sale as the beneficiaries of government support. The philosophy of the programme – to empower disadvantaged pupils – would have been compromised if they and their families had been obliged to purchase the computer package using a payment method that identified them as the recipients of state assistance.

The solution to this problem lay in the development of a card which closely resembled an ordinary credit or debit card of a major bank: Home Access customers used their cards at the check-out counter of a local computer store in the same way that any other customer, with a pin number to afford them privacy. In this case, the physical artefact was employed not only to extend choice but to enhance public value by preserving beneficiaries' anonymity.

5 Vouchers: Some Insights

This examination of voucher schemes has shown their broad applicability and suggests that to yield maximum benefit, the following elements must be considered in their design: the underlying policy architecture, including questions of eligibility, coverage and method of payment; market design ensuring that choice and competition are real; the pursuit of innovation through market segmentation whilst avoiding so-called “creaming and parking”; appropriate regulation and effective audit.

5.1 Policy architecture

In designing a public service that involves significant user choice, policymakers must address the three elements of policy architecture outlined in section 2 – means of payment, eligibility and coverage – even if they do not consciously do so. Each of these design features has different advantages and disadvantages, and policymakers should consciously consider how these will impact on the delivery of the services in question and what compensating measures must be taken.

The question of eligibility – *who* will receive the vouchers – is first and foremost a question of policy: governments must decide which areas of social need will benefit from public support. Within those broad categories, however, they must still decide whether financial assistance will be targeted or universal for operational reasons. Targeting can be a highly effective way of controlling expenditure, limiting eligibility based on age, income or level of need. For example, in the case of the UK's Home Access programme, eligibility was narrowed based on the age of the students in order to stay within the budgetary allocation for the scheme. Targeting has been necessary with many of the school vouchers introduced in the United States, which have been directed to tightly-defined groups of disadvantaged students. The downsides of targeted vouchers are that they are inclined to be unfair at the threshold, and they tend to create poverty traps.

Coverage – *how much* the voucher will cover – is largely about equity. Under a full cost voucher, prices are regulated and additional charges over and above the cost of the voucher are not permitted. This is more equitable than the alternatives, but it also has the effect of encouraging overuse and discouraging innovation. The extent to which these disadvantages matter will differ from one public service to another: overservicing will be less problematic in primary education where school attendance is already compulsory, but more of a challenge

in primary healthcare where it is difficult to ascertain how unwell any particular patient is, and how much attention they should receive.

Under partial cost vouchers, prices are regulated but users are obliged by government to make a financial contribution at the point of service. Depending on the level of this charge, these schemes may be less equitable, but they also provide a significant incentive against overuse. As the French health insurance system demonstrates, it is possible to tailor such schemes so that low income patients and those with serious or chronic disease, pay little or nothing at the point of delivery, thereby ameliorating concerns about equity.

However, price regulation will mean that there are weak incentives to innovation and a partial voucher model – where providers are able to charge higher prices – may help to overcome this flaw. In this case, additional charges above the value of the voucher will be allowed but not mandated, although they still may be constrained to some extent by government policy. As long as the cost of the basic public service is covered, and depending on the social values of the country in question, this may not create significant problems of equity. In the case of hospitalisation, the core public service is high-quality medical care, and the availability at additional cost of higher-quality accommodation or choice of doctor may not compromise any fundamental principle of equity.

The means of payment – *how* and *where* reimbursement is to be made – is also an operational issue and will be heavily influenced by administrative costs. The issuance of physical vouchers such as plastic cards will give policymakers tighter control over eligibility, although they may also have the effect of making potential beneficiaries more aware of their entitlements, thereby driving up costs. The administration costs of any such scheme will tend to be high, and for this reason, entitlements are often tied to the possession of an existing benefit card: subsidised train and bus travel may be predicated on the beneficiary being qualified for a state pension. The credit cards designed for the UK's Home Access scheme shows that physical vouchers may also be more equitable in making beneficiaries anonymous at the point of service.

Implicit vouchers – where money follows the service user – provide less control over eligibility but they also have lower administration costs. They tend to be used in areas such as education, where the class of beneficiary is readily identifiable. Reimbursement models are much less common, if only because of their impact on low income beneficiaries, but they may have an impact on overuse since beneficiaries will be more aware of the true cost.

As this discussion makes clear, there is no one particular design that will suit every public service in every country. The case studies considered in section 4 suggest that policymakers already draw on these various insights in different ways to meet local needs.

5.2 Market design

There is little point in providing public service users with vouchers if they are not able to exercise meaningful choice among a range of alternative suppliers. As Julian Le Grand has expressed it, 'the competition must be real'.²⁹ Among other things, this means that the market must be responsive to consumer preferences – money must follow choice – and if the voucher-holder wants to change providers, or even threaten to do so, then that option must be authentic. Users should not be artificially excluded from particular providers and they must not be locked into long-term contracts.

Markets must also be contestable and fair. New providers must be able to enter the market (and old providers exit) with relative ease; successful providers must have the incentive and the scope to expand. Competitive neutrality must assure a level playing field for all potential providers.

Choice must also be informed. Without reliable, readily available information about the performance of alternative providers – exam results, hospital waiting times and the like – the utility of vouchers is substantially weakened. The provision of, access to and updating of information that will enable voucher-holders to make informed choices must be built into the design of the public service market.

Different groups use data in different ways. The criticism that voucher schemes are a middle-class obsession has been largely debunked. Research from a number of different countries indicates that lower-income groups are even more interested in choice than are the middle classes.³⁰ However, there appears to be a correlation between an individual's means and his or her capacity to navigate the system - the so-called 'pushy parents' or 'sharp-elbowed middle-classes' skewing outcomes in an inequitable way. If equality of opportunity is a key principle, then care must be taken to ensure assistance is available for groups less able to access and interpret complex government systems.

5.3 Market segmentation or cream skimming?

Voucher-based markets offer greater flexibility than public service monopolies and public-private partnerships based on competitive tendering, but they are artificial markets nevertheless, with government funding approved services provided to a defined population. This means that there will be scope for providers to profit inappropriately through gaming the system, seeking out beneficiaries who are relatively less costly to service.

Given a choice between an outstanding pupil and an average one, both bearing identical vouchers, an education provider will be inclined to enrol the former since she will achieve better results for the same level of government funding. Other things being equal, similar incentives will operate in the health sector, with providers able to profit more from serving a healthier population. In general, policymakers seek to design incentive regimes which preclude 'creaming and parking' of this kind.

However, there is growing recognition that public service delivery may improve more rapidly through market segmentation, either through early identification of the so-called 'low-hanging fruit', or through the development of innovative approaches for identifying and assisting specific classes of service beneficiary. For example, the UK Government's new Work Programme, although not a voucher based system, offers a scale of reimbursement levels depending on benefit status. This is an example of segmentation providing appropriate incentives tailored to different people. The problem lies not in market segmentation as such, but in paying providers longer than necessary at a higher rate than necessary.³¹

Once again, there is no simple formula that will inform policymakers when 'creaming and parking' will be politically unacceptable and when market segmentation will deliver more benefits than risks.

5.4 Regulation and audit

Voucher-based markets are not free markets, but policy instruments to assist in the more effective delivery of public services. As such, policymakers have an obligation to regulate *what* services are being provided and *who* is providing them. The decision as to what services should fall within the scope of a voucher scheme can sometimes prove controversial: in the UK, for example, the National Health Service subsidises homeopathic prescriptions, a policy that has been strongly criticised by medical practitioners. The fact that a large proportion of British residents support alternative therapies is not enough to justify their inclusion within a choice-based regime.³² At the same time, governments will usually want to scrutinise service providers, either through the regulation of professionals or through the certification of institutions and processes.

However, regulation comes at a cost. Policymakers are accountable for ensuring that public funds are spent wisely and the needs of monitoring and audit under a voucher scheme can be more complex and expensive than with direct delivery.

Nevertheless, one of the potential benefits of voucher-based markets is the scope that they provide for greater innovation. Commitment to a narrowly-based school curriculum rules out the possibility of discovering another Maria Montessori whilst the radical breakthroughs in public service delivery being made by social entrepreneurs in India demonstrate that low cost should not be a barrier to improving quality in the public service economies of the developed world. Such developments in Indian health care have led Harvard professor, Tarun Khanna, to comment: “The best outcomes appear to result when the public sector allows itself to be steered by private enterprise and civil society”.³³

5 Conclusion

Voucher schemes have two well-established benefits: increased choice for users and increased performance incentives for providers. Together these benefits are both intrinsic and instrumental. Increased autonomy for service-users has a value of its own however exercised; an individual’s capacity to pursue their own preferences is to be valued for its own sake, and recent policy trends seem to confirm this. However, by empowering users in this way, services will improve; user autonomy coupled with supply-side competition can deliver innovation and thereby services of increased quality, efficiency and responsiveness.³⁴

However, voucher schemes can also be used to protect and promote public value if designed to reflect citizens’ expectations of justice and fairness. Indeed, vouchers can be employed as a tool for extracting this public value in situations where other policy instruments cannot. Vouchers make no demands as to the content of justice and fairness: this is decided by elected representatives and their policymakers based on citizens’ expectations.

Public service vouchers are a complex instrument, capable of being constructed in a variety of different ways to serve a diversity of policy ends. These insights enable policymakers to draw on different approaches to create outcomes that are suited to the political environment and the service outcomes with which they are immediately concerned.

¹ Milton Friedman, *The Role of Government in Education*, in Robert A. Solo, ed., *Economics and the Public Interest*, Rutgers University Press, 1955, p.127. An early form of education voucher existed in some parts of Vermont and Maine as far back as the nineteenth century. The 'town tuitioning programs' date back to 1869 and 1873, respectively, and are still in operation today.

The origins of vouchers as a means of rationing scarce welfare subsidies and a tool to manage the distribution of unmarketable food surpluses cannot be precisely pinpointed in history, but since the first US Food Stamp Program of 1939, they have existed continuously in various forms.

² Thomas Paine, *Rights of Man: Being an Answer to Mr Burke's Attack on the French Revolution*, London: Holyoake, 1856, p.141.

³ There is not necessarily any contradiction between the two positions as abbreviated here. If both policies were intended solely to increase minimum standards then they could be viewed as compatible approaches from differing starting points. However a more expansive treatment would detail fundamental differences. Friedman takes a consequentialist approach contingent on net benefits from competition among providers. Paine's case is rights-based and gave little consideration to consumer choice – the "tuition scholarship" was a means of redistributing resources rather than reorganising provision.

⁴ Technically, Paine's might also be termed a partial scheme since, unlike for example in Swedish education, top-up was not expressly prohibited and in time we might expect supply-side competition to develop with different local tutors charging different prices at levels above and below Paine's subsidy. However the concept of the scheme was full coverage for education among the less well-off so it seems appropriate to term it 'full' here.

⁵ 'Here is a piece of paper you can use for the educational purposes of your child. It will cover the full cost per student at a government school. It is worth X dollars towards the cost of educational services that you purchase from parochial schools, private for-profit schools, private non-profit schools, or other purveyors of educational services. You may add from your own funds to the voucher if you wish to and can afford to.' – Milton Friedman, *Reason*, December 2005;

<http://reason.com/archives/2005/12/01/the-father-of-modern-school-re>

⁶ Paine continues in a footnote: 'Education, to be useful to the poor, should be on the spot, and the best method, I believe, to accomplish this is to enable the parents to pay the expenses themselves. There are always persons of both sexes to be found in every village, especially when growing into years, capable of such an undertaking. . . Whatever is given on this account to children answers two purposes. To them it is an education - to those who educate them it is a livelihood.'

⁷ S. Pilling, J. Strang & C. Gerada, 'Psychosocial interventions and opioid detoxification for drug misuse: summary of NICE guidance', *British Medical Journal*, (2007) 335, pp.203–205.

⁸ <http://www.phillyrecyclingpays.com/>

⁹ C. Eugene Steuerle et al, *Vouchers and the Provision of Public Services*, The Brookings Institution Committee for Economic Development, Urban Institute Press, Washington DC, 2000:3-4

¹⁰ For an overview see Serco Institute, *Customer Service in the Delivery of Public Services: International Experience*, Efficiency Unit, Government of Hong Kong SAR; 2008.

¹¹ Mark H. Moore, *Creating Public Value: Strategic Management in Government*, Harvard University Press, 1995, p 53.

¹² <http://www.bristol.ac.uk/cmpo/publications/allen10.pdf>

¹³ <http://www.edchoice.org/Newsroom/News/Indiana-Gov--Mitch-Daniels-Signs-Historic-Voucher-Bill-into-Law.aspx>

¹⁴ Julian Le Grand, *The Other Invisible Hand*, Princeton University Press, 2007, pp71-72

¹⁵ Michael Gove, Minister for Schools in the first Cameron government, has made repeated allusions to this imitation. E.g. 'Gove defends Tory Swedish schools plan',

<http://news.bbc.co.uk/2/hi/programmes/newsnight/8506214.stm>.

¹⁶ [http://www.commonwealthfund.org/usr_doc/1027_Davis_mirror_mirror_international_update_final.p](http://www.commonwealthfund.org/usr_doc/1027_Davis_mirror_mirror_international_update_final.pdf)

[df](#)

¹⁷ <http://www.psr.gov.au/docs/publications/Bell.pdf>

¹⁸ http://www.who.int/whr/2000/en/whr00_en.pdf

¹⁹ <http://www.cqc.org.uk/usingcareservices/healthcare/patientsurveys/hospitalcare/inpatientservices.cfm> ; Angus Wallace, Independent sector treatment centres: how the NHS is left to pick up the pieces, *British Medical Journal*, (2006) 332, p.614

²⁰ Jón R. Blöndal, *International Experience Using Outsourcing, Public-Private Partnerships, and Vouchers*, IBM Center for the Business of Government, October 2005: 25 -26;

<http://www.businessofgovernment.org/sites/default/files/BlondalReport.pdf>

²¹ Op cit; see also E. Jay Howenstine, Foreign Housing Voucher Systems: Evolution and Strategies,

Monthly Labour Review, May 1986, pp.21-27

²² C. Eugene Steuerle et al, *Vouchers and the Provision of Public Services*, The Brookings Institution Committee for Economic Development, Urban Institute Press, Washington DC, 2000:144-6

²³ Margery A. Turner, *Strengths and Weaknesses of the Housing Voucher Program*, 17 June 2003.

²⁴ Premius et al, *Housing vouchers in the United States, Great Britain and the Netherlands: Current Issues and Future Perspectives*, Housing Policy Debate, Vol. 16, Issues 3/4, Fannie Mae Foundation 2005; Turner 2003 *ibid*.

²⁵ Laurence Murphy, *New Zealand's Housing Reforms and Accommodation Supplement Experience*, Urban Policy and Research, (1997) Vol.5, No.4, p.274.

²⁶ For full details see <http://www.hcv.gov.hk/eng/>.

²⁷ <http://www.guardian.co.uk/society/2010/jan/28/individual-budgets-cost-effective> For an appraisal of the pilot scheme see <http://php.york.ac.uk/inst/spru/research/summs/ibsen.php>

²⁸ http://www.direct.gov.uk/en/NI1/Newsroom/DG_183990

²⁹ Julian LeGrand, *The Other Invisible Hand*, p.77

³⁰ Julian LeGrand, *The Other Invisible Hand*. pp.51-54.

³¹ Gary L. Sturgess and Lauren Cumming, et al, 'Payment by Outcome', London: 2020 Public Services Trust, at

[http://www.serco.com/Images/Payment%20by%20Outcome%20\(web%20version\)_tcm3-36967.pdf](http://www.serco.com/Images/Payment%20by%20Outcome%20(web%20version)_tcm3-36967.pdf)

³² <http://www.nhs.uk/news/2010/july07/pages/nhs-homeopathy.aspx>

³³ Tarun Khanna, *Billions of Entrepreneurs: How China and India are Reshaping their Futures and Yours*, Harvard Business School Press: Boston, Massachusetts; 2007; p.236

³⁴ Julian Le Grand, *The Other Invisible Hand*, Princeton University Press, 2007, p.43.