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Vouchers and Personal Welfare Accounts[1]

1. Problematic Sustainability

For some time now, the path of the welfare state has appeared to be proceeding constantly uphill without, however, affording those who travel it any clear and non-fragmentary overview of the panorama.[2]

The welfare system's characteristics of real sociality[3] and effective redistributive capacity, rather than mere discriminatively distributive allocation,[4] have been broadly called into question, especially in Italy,[5] not to mention its long-term "sustainability",[6] an issue on which misgivings have been expressed all over the world due to the international scale of the problem.

It is in any case hardly surprising that forms of "rent seeking" and "capture" on the part of reasonably well-to-do classes at the expense of those in real need should generally prove dominant factors in determining the area of effective welfare coverage.[7] These are in

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[1] This paper includes some largely reworked parts of a previous work published in Morley-Fletcher 2001.

[2] "If governments continue to address the problem of exploding Welfare State costs through a long-run sequence of short-run responses to budgetary crises, Welfare State services will continue to contact. If such an on-going contraction is socially undesirable – and it is hard to imagine how it could be desirable – then the social cost of this misallocation of resources will simply cumulate from year to year" (Snower 1993, 704).

[3] Boeri 2000.

[4] Ferrera 1998.

[5] Leaving aside the distortions peculiar to Italy, the redistributive model appears to be in difficulty everywhere, thus leading to the disappearance of what is classically considered an effective "incentive to tolerating the growth of public expenditure" (Jouvenel 1990, 73). In this connection, it is worth considering two significant observations made by the authoritative writers Assar Lindbeck and Wolfgang Streeck.

"We cannot be really certain that less disparity in income, if caused by political intervention, necessarily attenuates social conflict and political pressure for further redistribution of income through taxes, transfers and legislative provisions. The desire for redistribution could even increase subsequent to intervention for redistributive purposes. Among other reasons, this happens because such actions politicize redistribution issues and thus create the belief that differences in income are arbitrarily caused by the political process rather than an indispensable element of a functioning market system" (Lindbeck 1999, 118).

"Just as the availability of additional resources disappears or ceases to be taxable for purposes of social justice, solidarity based on the obligatory subsidizing of the weak by the strong becomes increasingly difficult to put into practice (…) In an attempt to adapt to new competitive pressure, national communities try (…) to defend their internal solidarity not so much through protection and policies of a redistributive nature as through the achievement of *competitive and productive success*. This success is sought (…) through the gradual replacement of *protective* and *redistributive* solidarity with solidarity of a *productive* and *competitive* nature" (Streeck 2000, 6-13).

[6] Ferrera and Rhodes 2000.

[7] Le Grand and Goodin 1987, Zepezauer and Naiman 1996, Howard 1997. See also Dahrendorf 1996 for a very forthright assertion: "The welfare state (...) was created to help those who could not help themselves: the poor, the sick and the elderly. As the years passed, however, the idea underwent strange distortions. We were led to believe that, as salaries rose, people would make less use of the benefits of the welfare state, but the opposite is increasingly often the case. The rich and the numerous poor often fail to take full advantage of the benefits to which they are entitled. The poorest sometimes do not even know what they are. But the members of the middle class are very good at seizing every opportunity to round up their salaries with various benefits and allowances. Paradoxically, and perhaps 'perversely', the welfare state has become a self-service for the middle classes."

fact distortions that appear to a great extent to be inherent in the basic mechanism generally adopted hitherto, i.e. the practice of regarding it as obvious if not indeed optimal to cover the costs of social security by increasingly broad recourse to fiscal or semi-fiscal funding accompanied by policies of targeted tax allowances.

As is well known, these tools have often proved susceptible to the influence of particular pressure groups or of neo-corporative attitudes, a point to which we shall be returning later in the course of this paper. Suffice it for the present to recall the apt expression “political raiding” adopted in this connection by the Onofri Committee.[8] Leaving aside their particular characteristics, attention should be drawn primarily to the fact that the pay-as-you-go (PAYG) system, which must also be seen as encompassing the forms of fiscal and semi-fiscal funding, will by definition necessarily prove inadequate with respect to the current development of the welfare system. In crucial sectors such as health and education but also social security (as a result of demographic change), the prevailing dynamic is currently characterized (and will probably continue to be so over a long historical period) by growth rates higher than those of the gross domestic product.

Given the situation of growing international fiscal competition and the increasingly widespread political and social demands for the reduction of fiscal burdens, one can hardly suggest that taxation should be increased, as happened in the past, to a level above the growth rate of GDP so as to keep up with the dynamics of sectors of the welfare system that now prove to be structurally characterized by higher rates of development.

There is no need here to reiterate the arguments repeatedly put forward by others, such as the so-called “pathology of costs” in activities not readily susceptible of automation (especially forms of care) pointed out by William Baumol (and all to often uncritically repeated in the current literature). Nor need we go over the intrinsic characteristics of certain sectors characterized by the apparently paradoxical fact that that the more we invest, the more we will have to invest (the “paradox of medicine” formulated by Olof Palme in the 1970s[9]).

At the same time, it will no longer suffice to invoke the perspective of a necessary transition from the *welfare state* to the *welfare society*, as was fashionable in the 1980s, i.e. the albeit necessary contribution offered on the one hand by strategies of de-institutionalization and the involvement of the non-profit sector, and on the other by the introduction of a “quasi-market” approach into the operative mechanisms of the public sector.[10] The fact cannot be overlooked that all of these often entail an immediate increase in expenditure (i.e. the “J effect”[11] whereby the benefits offered appear to be obtainable only in the longer term and only after an initial increase in running costs) as a result of what can be termed the “information paradox”.[12]

Centralized decision-making on the basis of bureaucratic data (i.e. assumptions formulated “upstream” with respect to the actual provision of services) is in fact certainly more economical (albeit less effective) than decision-making on the basis of decentralized

[8] Committee set up to analyze the macroeconomic compatibility of social spending, 1997.
[9] Morley-Fletcher 2000b.
[10] Le Grand and Bartlett 1993; Fazzi 2000; Taylor-Gooby 2000.
[11] In schematic terms, the “J effect” is to be understood as a trend in costs subsequent to the introduction of a new process characterized by a short-term increase followed by a prolonged decrease in the medium-long term, and hence similar to an inverted “J”. The difference in the two phases is generally due to the combination of the new costs connected with the introduction of the new process with the costs of the “old” process, which take a certain time to decrease, e.g. owing to rigidity of the productive structure (a typical case being provided by process innovations that automate many functions previously performed by personnel, who cannot, however, be immediately fired or absorbed in other functions).
[12] As Armen Alchian points out, some goods and services have still not been assigned a price also “because the cost of transaction *via* the market is higher” (Alchian 1969, 9).
For a more general examination of transaction costs within the sphere of the choices of public policy, see Dixit 1996. For an application to the “remonetization” of welfare, see Morley-Fletcher 1996b and 2000a.

meetings involving a multiplicity of autonomous parties all of which are capable of dynamic interaction with one another.

There is in any case nothing new about the observation that the mess served in barracks is more susceptible of bureaucratic management than the choice of dishes offered to customers of a restaurant. For some time now, however, private firms have shown an increasing tendency to supply luncheon vouchers for use with providers offering the highest levels of customer satisfaction rather than operate their own canteens, even through forms of outsourcing. While the immediate result is in fact an increase in costs, especially where economies of scale are available to company canteens, this proves a more efficient and effective solution in the medium term.[13]

The problem of the "short-term sustainability" of welfare systems has generally prompted efforts to cut costs by the following means:

i. Increasing recourse to forms of authentic "administrative rationing" of services (often masked as "rationalization"[14]) through what is referred to as targeting (i.e. making services conditional on "means tests" or other forms of selective access, or more simply by allowing waiting lists to build up)

ii. Cyclical political recourse to the crude and regressive tool of co-payment (e.g. through the introduction of prescription and treatment charges).

1.1. The welfare system as "piggy bank": a premise for new questions

In this context, interesting progress has recently been made in terms of increased realism with respect to the previous excesses of redistributive rhetoric. The discovery that welfare constitutes a form of "socialism in just one class"[15] in that it is paid for primarily by the employees who are also its primary beneficiaries, which was made as long ago as the 1980s, has led to the realization that the welfare system could be viewed as a sort of piggy-bank[16] enabling individuals to draw upon in advance or defer utilization of the resources they will need as a whole during their lives.

If it makes sense to interpret the basic logic underlying the systems of social security now operating in Europe in these terms, at least to a large extent, it may well be worth hazarding some innovative questions in this regard while bearing in mind a number of caveats.

There are in fact at least two points to be borne in mind. The first is the observation succinctly formulated by Samuel Bowles and Herbert Gintis in *Recasting Egalitarianism*: "If one considers a sufficiently long time-horizon, redistributions that are productivity reducing are difficult to support, even if one's sole concern were the well-being of the less well-off: after some years, they would have had a higher living standard under the less egalitarian status quo. A single minded desire to redivide the pie has sometimes diverted egalitarians from the task of producing a better pie."[17]

The second is due to the Nobel laureate Amartya Sen, who connects Marx's reiterated insistence on the importance of "replacing the domination of circumstances and chance over individuals by the domination of individuals over chance and circumstances"[18]

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[13] To such an extent as to have been regarded practically everywhere at the international level as worthy of support by means of special fiscal incentives.

[14] Frankel and West 1993.

[15] Scharpf 1988.

[16] Barr 2001.

[17] Bowles and Gintis 1998, 16.

[18] The specific citation is taken from *The German Ideology* (1846), but similar passages are recurrent in Marx's writings (Sen 1999, 289).

with the following assertion made by Peter Bauer in *Dissent on Development*: "I regard the extension of the range of choice (…) as the principal objective and criterion of economic development; and I judge a measure principally by its probable effects on the range of alternatives open to individuals."[19]

The hopefully innovative questions can be presented as a connected series of logical arguments arranged in the following order:

i. It is worth examining the idea that the way out of the crisis affecting the welfare state is to be sought in the creation of a "virtuous circuit" promoting responsibility and a free-market approach. By analogy with the previous example of luncheon vouchers, this would make it possible to obtain beneficial competitive effects together with greater satisfaction for users in that their continual choices would enable them to exercise a form of quality control over the services they are offered.

ii. Clear indications would in fact emerge as to the most efficient providers together with automatic sanctions for those proving inefficient.

iii. This circuit would make possible the long-term objective of making users jointly responsible for payment, thus creating an initial dynamic factor capable of helping to compensate for the structural insufficiency of fiscal yield alone.

iv. At the same time, the circuit could offer citizen-consumers the alternative of opting to "save" and capitalize the resources set aside to support the potential paying demand of users, thus introducing a second factor of dynamism and of responsibility in the use of resources and the pursuit of their necessary growth.

1.2. The approach adopted here

The set of points listed above can be summarized in two basic questions:

i. Should efforts not be made to effect an intelligent reduction of direct public spending, thus gradually bringing all the direct and indirect costs involved in the provision of welfare services under more efficient control?

ii. Can we not attempt to attain this goal by simultaneously promoting the growth of paying demand capable of fostering the development of a social market that can operate, through specific personal welfare accounts, also as a tool for the "guided" transfer over time of the resources available to individuals during their lifetimes?

If an affirmative answer can be given in both cases, the two questions (and their practical consequences) can be seen as an interconnected synthesis providing the ambitious recipe required by any political party proposing to carry out a radical reform of the welfare system at the beginning of the new millennium.

We shall seek in the following pages to outline a few essential features of this approach, starting from examination of the reforming potential inherent in the tool of vouchers and showing how this potential can be enhanced still further by harnessing advanced technology to introduce a system of personal welfare accounts.

It should also be pointed out that the perspective in which this possible pathway is viewed is pervaded by awareness of the urgent need to save one peculiar feature of the European model that prevailed during the "social democratic century",[20] a model that is now in danger of collapsing under the pressure of numerous calls to abandon its underlying

[19] Bauer 1971, cit. in Sen 1999, 290.
[20] Dahrendorf 1988.

logic due to the fact that it is seen increasingly as a source of bureaucratic impediments, distributive opacity, and an overall increase in costs.

After an initial examination of the various possible uses of vouchers and virtual welfare accounts,[21] the proposal considered will, as mentioned above, involve a process of fostering user responsibility through extensive recourse to the second of these tools. This will have to begin as early as possible in the user's lifetime so as to ensure the longest possible period of capitalization.

In specific terms, it is suggested that users be granted constant freedom of choice as regards the use of a set but growing amount of resources susceptible of accumulation (at compound interest) and integration (through a suitable component of cost sharing) in order to cope with the requirements of social protection on a "guided" basis.

A further suggestion, which we regard as particularly attractive and shall outline at the end,[22] is for a new form of property to be applied to the "social wealth" individually assigned through the mechanism of virtual welfare accounts and gradually accumulating within them. This would be capable of acting as a permanent (intergenerational) prerequisite for a stable core of extra-fiscal funding of the welfare system, which could become far more fully dependable in that it stems from a form of property that is individually accessible (on certain conditions) and yet "light" in that its sustainability no longer involves the burden of constant high taxation on productive activities.

Before arriving at this stage, which will also involve various proposals for a redrafting of the overall architecture of the welfare system, as outlined in the conclusion, it will be necessary to go through the whole range of the primary targets to be achieved. This will entail detailed examination of the mechanisms for the provision of services in cases where it is possible to opt for the use of one of the tools or the other, i.e. vouchers or personal welfare accounts, or an evolutionary pathway leading from one to the other.

Our analytical examination is also intended as an attempt to obviate, at least partially, what has proved until very recently a stubborn obstacle within the sphere of the options open to a policy for reform of the welfare system.[23] This needs to be discussed rigorously and with no stale prejudices as regards the effective potential of these tools, and especially vouchers, which are older and more limited but unquestionable less complicated in technological terms.

2. Vouchers: characteristics and cash-equivalence

Vouchers, which provide those who receive them (either free or at a charge) with purchasing power as regards particular goods and services, can be used in both the private and public sectors. The use of vouchers in the public sector obviously has greater economic and social implications, and constitutes a fundamental element of the "Copernican

[21] In sections 2-7.

[22] In section 8.

[23] Despite a few modest attempts on the part of the author of these notes, beginning a quarter of a century ago in 1977 with a *samizdat* circulated within the *Rivista Trimestrale* and a variety of subsequent efforts (see Morley-Fletcher 1981, 1984, 1988, 1990, 1993, 1994, 1995, 1996a and 1998b). Attention should be drawn, however, to the isolated exception of Giorgio Ruffolo, who began to make use of the concepts of "welfare market" and "social money" back in 1985 (see Ruffolo 1985a, 1985b and 1994. In this connection, see also the following striking assertion by Julian Le Grand: "now it is difficult for anyone on the Left to treat the idea of vouchers on its merits, because in recent years the idea has been colonized almost exclusively by the Right. This is a pity, for there seems nothing inherently right-wing or unsocialist in what is perhaps the principal merit of vouchers. That they empower the welfare client. Many of the aspects of vouchers to which the Left would rightly take objection – (…) such as the ability of wealthy parents to top up an education voucher by extra payments – are not essential to the idea. It is perfectly possible to construct voucher schemes that accord in most, if not all, respects with socialist value" (Le Grand 1989, 199).

revolution"[24] involved in the new view of welfare policies as the result of *demand-oriented* rather than *supply-oriented* processes.

While the use of vouchers instead of cash in the private sector can be attributed to particular motives regarding the objectives of the issuing party,[25] the use of vouchers in the public sector presents significant implications in terms of economic policy capable of justifying their use rather than cash, especially in relation to their allocational and productive efficiency as well as the redistribution of income and transaction costs.

As regards *allocational efficiency*, vouchers make it possible to control demand and direct it toward certain goods and services to which the policy makers attribute particular social or individual importance.

This characteristic makes them a suitable tool to tackle a series of problems connected with allocational efficiency, such as informational asymmetry, externalities, and merit goods.

2.1. Informational asymmetry

According to the neoclassical theory of demand, in a situation where complete information is enjoyed by consumers basing their choices on their individual preferences, the efficient allocation of resources can be ensured as regards consumption by unconditional freedom of choice with respect both to the goods and services to be purchased and to how the available resources are to be allocated amongst them.

There are, however, cases where it is necessary to start by assuming that complete information is not available to consumers.[26] As they can be used by holders only with authorized suppliers and only for specific goods and services, vouchers can thus make it possible to obtain an efficient allocation of consumption, at least in certain sectors. This holds even in the presence of information gaps whenever it is reasonable to assume that the authorities responsible for organizing their use are not equally handicapped by a situation of insuperable informational asymmetry. Where such conditions obtain, the information

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[24] Van der Laan 1998.

[25] Such as particular reductions that the issuer can obtain from the suppliers of the goods or services, or objectives connected with generating customer loyalty, social solidarity, the desire to take advantage of particular fiscal incentives (only in certain jurisdictions), etc.
Particular significance attaches to schemes of *frequent-flyer miles*, which now involve about 100 million people throughout the world. While this is, as *The Economist* recently pointed out (4 May 2002), the most widespread means of payment after the dollar, it remains unfunded, having now reached an estimated total of about 8.5 trillion as yet unused miles with an approximate value of $500 billion. This debt in frequent-flyer miles will prove very difficult to collect – observes the British weekly, reporting the estimates given by www.webflyer.com - since the airlines have printed this form of money an excessive quantities. They are issuing more miles than they will be able to provide in terms of free tickets. In actual fact, as *Le Monde* has also pointed out, "The total number of miles assigned every year has doubled over the last five years while the number of miles used to obtain free tickets has risen only by one third. At this rate, it would take 23 years to empty all the [existing *frequent flyer*] cards, assuming that no new miles are issued" (Tiphine 2002). Attention should also be drawn both to the attempts made to develop a business in air miles at reduced prices with companies such as Award Traveller and to the systems for the conversion of loyalty points into frequent-flyer miles offered by companies like American Express and Diners' for purchases made with their credit cards.

[26] A striking observation was made in this connection by an American charity at the beginning of the last century, to the effect that since "the poor Italians [immigrants] were '*unintelligent in the use of what they have*' charity organizations became determined to teach their clients how to use money properly" (letter to the managing director of the *New York Association for Improving the conditions of the poor*, 7 November 1913, document held in *Community Service Society Papers*, Box 25, Rare Book and Manuscript Library, Columbia University, cit. in Zelizer 1994, 120).

gap can thus be tackled (and potentially solved) “upstream” through the prior selection of products and suppliers.

A voucher system can, however, have a twofold effect on the informational asymmetry between principal and agent. As suggested, by permitting direct control over demand on the part of a public body presumed to be in possession of adequate information, such a system can help to reduce the effects of the shortage of information affecting beneficiaries. At the same time, however, control over demand does not always mean that beneficiaries are not free to choose. On the contrary, one important objective of a voucher scheme is in most cases precisely that of affording beneficiaries a certain freedom of choice.[27] Even in the presence of control over demand and supply, this freedom to choose among different competing parties can give rise to an informational asymmetry between the principal (the beneficiary) and the agent (the provider) that may have negative effects on the efficient allocation of resources in both social terms (e.g. in relation to externalities) and individual terms (e.g. in relation to merit goods).[28]

The effects of imposing stringent restrictions on the power to choose how to allocate resources amongst different goods and services can also be ambivalent. While such restrictions can be justified (also) by the incomplete nature of the information available to beneficiaries, they can also present risks in terms of effectiveness (information gaps could also exist in the opposite direction[29]) at the educational[30] and psychological[31] levels.

2.2. Merit Goods

There are also cases where the purchase of a certain good or service is accorded priority by policy makers in the interests of citizens, whereas the latter would not make such purchases in sufficient amounts on their own initiative despite being in possession of sufficient information as regards the characteristics of the items in question and how to obtain them. This is the case of merit goods, with respect to which the state plays a typically “paternalistic role”[32] with respect to citizen-consumers. The ability to direct demand offered by a voucher scheme can therefore serve also in this case to improve the efficiency of allocation.

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[27] In the case of school vouchers, for example, this is the primary objective, and the freedom of choice can be very great indeed. See also below.

[28] In the case of school vouchers, for example, “[competing] for-profit schools could use extravagant promises, sensational advertising and special programs to attract enrollments at the expense of academically superior institutions” (Krashinsky 1986, 140-151).

[29] In other words, individuals could possess more information than the public provider with respect to their real needs and how to meet them.

[30] In the case of social assistance for the poor, it has been pointed out, for example, that non-monetary forms of aid (which thus allow no freedom of choice with respect to the allocation of resources) do not teach the children of the poor “the art of spending”: “Money would also teach the children of the poor how to buy. Indeed, as part of their critique against institutionalizing dependent children, turn-of-the-century reformers blamed institutions for manufacturing handicapped consumers; the ‘institutional child’, contended Edward T. Devine, the prominent social worker and general secretary of the New York Charity Organization Society, never learned the value of money ‘because purchases are made by steward or superintendent” (Zelizer 1994, 150).

[31] With respect to forms of social assistance for the poor (cash or goods and services), it has also been pointed out that “if you deprive a person of the function (…) you make that person poor indeed”. Cash preserves “family independence and self-respect” (Dunn 1922, 72-74, cit. in Zelizer 1994, 122).

[32] “The use of vouchers rather than their equivalent in money is designed to oblige the beneficiary to make very specific use of the funds allocated by the public institution. Since not all goods and services possess equal merit in the eyes of the taxpayer and the public institution, the latter takes care to prevent citizens from ‘bartering’ the service to which the collectivity regards them as entitled for other goods or services that they may prefer (but are regarded as lacking merit by the collectivity). This ’barter’ is facilitated by all monetary transfers but proves more difficult in the case of vouchers” (Barbetta 1996, 110-111).

2.3. Externalities

Then we have the case where the purchase of a certain good or service by citizen-consumers must be ensured not only in their own interests but also in the interests of the community as a whole. This is the case of the positive externalities of consumption, which constitute one of the effects, for example, of schooling, which produces benefits in social, cultural, political and economic terms for the community for which no recompense is made.[33]

Externalities linked to vouchers can also serve as an incentive for donations to specific initiatives of social solidarity, guaranteeing the donors both direct benefits linked to the very act of donation and indirect benefits through the associated potential increase in consumption externalities. The sums donated are in fact of benefit both to the recipients, who are enabled to purchase certain goods and services, and indirectly to the donors by improving the social context in which they live.

2.4. Productive efficiency

As regards productive efficiency, vouchers can trigger virtuous mechanisms of cost reduction by enabling consumers to obtain certain goods and services from different competing suppliers.

Where the economic conditions of the market in question (including the nature and degree of the economies of scale and the presence or otherwise of barriers to entry and exit) permit the production and/or distribution of certain goods and services by competing private concerns, this competition on the supply side can help to improve productive efficiency[34] and "have important effects on quality".[35]

This is true above all to the extent that competition is expanded. In point of fact, a voucher system not only guarantees users of public services a substantially larger range of choices and exit margins but also places all the different types of suppliers of the service (or services in the case of multi-purpose vouchers) on an equal footing and thus contributes to a possible broadening of supply, even though the scale of this will depend on the conditions obtaining in the different markets. On the other hand, the users' freedom of choice and hence their concrete exit capacity can have the effect of reducing the economies of scale and thus increasing initial costs even where it does not extend to opting out completely but is restricted to the ability to switch to a different supplier. It will therefore be necessary to keep a constant check on the potential trade-off between the first effect (increased competition) and the second (reduced economies of scale).

As is known, information gaps between principal and agent can also lead to contract failures[36] where the agent's profit motive reduces the trust of the principal (the consumer)

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[33] "The benefit a child derives from education is not only to the advantage of the child or its parents but also to the other members of society" (Friedman 1967, 135).

[34] Even though "there is obviously significant ideological disagreement in our society (…) about how to assess the relative desirability of competitive private supply", the classic argument in support of the latter is that "the profit motive, when combined with the need to satisfy customers who have other options (…) is the best available goad to inducing both economizing behavior in production and socially valuable innovation. Government provision, under this view, suffers both from a tendency to encourage the creation of monopoly power (…) and from under-powered or misdirected bureaucratic incentives" (Bradford and Shaviro 1999, 45-46).

[35] Bradford and Shaviro 1999, 47.

[36] Hansmann 1980.

rather than increasing it. Situations of competition in conditions of informational asymmetry could thus sharpen the struggle for profits that are increasingly hard to obtain and thus have adverse effects on product quality. In other words, if competition on the supply side can offer the consumer a greater range of choice, there is a risk that this will be "better" only for the informed consumer.

A voucher system for certain public services can also help in the *redistribution of income* among different sections of the population. Public services are in fact one of the means of redistributing income and "the mechanism used to distribute public services, or – more narrowly – the details of a particular voucher scheme, may have a considerable impact upon the redistribution of income which is achieved".[37]

2.5. Impact in terms of transaction costs

Without going into the above-mentioned "information paradox" – whereby the massive influx of additional information made possible by setting up a voucher scheme necessarily entails an initial increase in transaction costs with respect to a scheme based on centralized decision making[38] – it must also be stressed that a voucher scheme can also help to bring about a significant reduction of the transaction costs deriving from the informational asymmetry between principal and agent within the mechanisms for the supply of public services. In a centralized system for the supply of public services, such transaction costs can take the form, for example, of spending on increased control procedures in the public agent's pursuit of ends other than those required ("moral hazard") or the gradual extinction of potentially efficient markets ("adverse selection").

By directly empowering its beneficiaries to obtain certain goods and services from specific competing suppliers, a voucher scheme reduces these transaction costs. For example, it could prove far more difficult and less attractive for criminal organizations to appropriate a huge number of vouchers distributed to numerous beneficiaries and usable only in order to obtain specific goods and services through specific structures than to bribe a public official to make improper use of the sums allocated by government to the body responsible for providing the good or service in question.[39] As a result, it could prove more economical to institute a voucher system upstream than to apply the necessary control procedures downstream.

In short, the particular feature of vouchers underlying all the advantages they offer in terms of efficient allocation and production, redistribution of income and reduction of certain transaction costs is the fact that they can be used only with certain providers and only for certain goods and services. In other words, vouchers differ from cash by making it possible to control demand directly through the earmarking of specific sums of money for the purchase of specific goods or services.[40]

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[37] Cave 2001, 64.

[38] At the beginning of a voucher scheme, "almost certainly the transaction costs would be considerable, but we must be careful not to fall into the trap of automatically assuming that they would exceed the benefits of pricing [the services]" (Judge 1981, 166).

[39] In this connection, practical interest attaches to the suggestion put forward in March 1999 during a meeting of the Third Sector and Employment Committee at the Ministry of Labor by Stefano Zamagni that vouchers be used (together with appropriate technologies) for many kinds of state transfers in southern Italy so as to create a wholly transparent and controllable market circuit for the benefits involved, with the evident objective of isolating and eliminating areas where conventional benefits are also channeled into the spheres of the black economy, organized crime, and corruption.

[40] It may be of interest to note that as a form of particular earmarking for specific expenditure, vouchers are not in this sense distinguished from other "forms of money". For example, "the standard practice of budgeting constitutes a special case of earmarking: the subdivision of funds available to an organization, government, individual, or household into distinct categories, each with its own rules of expenditure" (Zelizer 1994, 29).

2.6. Information content and the simplification of control procedures

As things now stand, the continued existence in modern welfare systems of vast sectors of services provided free of charge "in kind" appears to be due essentially to a widespread conviction of the greater efficiency of public monopolies in the presence of various kinds of "failings of the market", in which connection a significant role is also played by the high costs of administration and transactions in an decentralized system. As is known, a hierarchical structure proves to be the most efficient form of market organization when the costs are so high that contracts cannot be used for individual transactions.[41]

The revolutionizing of transaction costs brought about by digital technology can, however, make it economically efficient to grant citizens purchasing power also for services supplied in kind, which would also serve to redistribute power downwards and *empower* citizens.

What distinguishes vouchers from cash is the amount of information they contain, which extends far beyond mere purchasing power. The use of smart cards making it possible to store a vast amount of information and process it automatically at various levels could lead to an exponential increase in the amount of information contained in vouchers. This would work simultaneously to reduce the associated administration and transaction costs of vouchers and expand their use also in horizontal terms (for the purchase of goods and services belonging to different categories, with freedom of choice being granted to the citizen-consumer).

The technological potential deriving from the storage of voucher information in smart cards would serve first of all to bring about a concrete reduction of monitoring costs. This hinges basically on the fact that the digital accounts kept by smart cards make it possible to keep track of the operations carried out. In particular, the availability to policy-makers of analytic data in digital format permits the automatic creation of databases, aggregated in terms of the services utilized by the different categories of citizens, which can be queried at negligible cost.[42]

As a result of the increased opportunities for the horizontal use of vouchers, they would also come to resemble cash benefits more closely (in terms of "liquidity"). As Bradford and Shaviro point out, this would afford individual beneficiaries a higher degree of well-being with respect to the state before they received the vouchers (remaining equal in the abnormal case where the recipient is completely indifferent to the item to be obtained by means of the vouchers received), and hence place them on indifference curves equal to or higher than those that could be reached before the allocation of vouchers.[43] In the absence of informational asymmetry, situations such as to justify a paternalistic attitude on the part of the state, or externalities, vouchers thus make it possible to obtain a Pareto improvement.

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[41] Williamson 1975, Pitelis 1993.

[42] Morley-Fletcher 2000a.

[43] The highest indifference curve (U1), and hence the maximum level of individual well-being attainable by an individual after receiving a certain number of vouchers (*V*) for a specific good or service (*x*) is lower than the curve (U2) attainable by the same individual if, instead of *V*, he had received an equivalent sum of money ($) only in the case where the quantity (*x'*) of *x* desired after receiving $ proves lower than the quantity of *x* that can be obtained with *V*.
V therefore makes it possible to obtain a level of individual well-being (U1) greater than or equal to the level (U0) before receiving *V* (equal only in cases where *x* is of no use to the individual receiving *V*) and lower than or equal to the level (U2) corresponding to the allocation of an equivalent amount of money (equal only when the quantity of *x* purchased after the allocation of *V* is equal to *x'*, i.e. to the quantity the individual would have chosen if he had received an equivalent amount of money) (Bradford and Shaviro 1999, 18-22).

In the presence of the above-mentioned factors, however, the greater opportunities for the horizontal use of vouchers, as facilitated by the use of smart cards, could reduce the policy makers' ability to direct demand with respect to the allocation of resources amongst different categories of goods and services, thus reducing their social impact while preserving unaltered the possibility of monitoring the types of use actually chosen by users.

2.7. "Tied money" and cash equivalence

Vouchers thus constitute a form of tied money (*monnaie affectée*). Unlike money, vouchers produce no interest or, to be more precise, generate interest for the issuer, not the recipient. In this sense, the voucher acts for the recipient as what might be described as "Thomist" money in that it precludes any possibility of generating further value by assuming the power over time condemned for centuries by theologians, especially those of the Thomist school (but also their Muslim counterparts). It is instead money that accentuates the function of a means of exchange and mediation of needs, elements for which the voucher proves a highly suitable means of communication while being incapable of assuming a privileged position with respect to the goods exchanged. Acting essentially as a unit of measurement and means of exchange, the voucher – as has been pointed out – helps to distinguish the functions of *monnaie* from those of *argent*.[44]

In practical terms, the relationship between vouchers and money boils down to what is known as cash equivalence: the higher the degree of cash equivalence, the greater the resemblance of vouchers to cash.

One of the most evident indicators of the cash equivalence of vouchers is the possibility of using them for products belonging to different categories. Another regards individual preferences: the greater the difference between individual preferences and the

[44] Although the voucher, unlike money, generates no form of interest, it constitutes an authentic form of money by virtue of its nature as a unit of measurement and means of exchange, thus highlighting the fact that, according to Patrick Viveret, "*monnaie* is not *argent* and has practically never been *argent* historically" (Viveret 2002, 17). He also argues (with reference to Aglietta and Orléan 1982 and 2002) that while *argent* helped to make *monnaie* a "vector of the violence of social relations" (Viveret 2002, 19), the *voucher* helps to regain the moment of exchange, of *paying* in the Latin sense of *pacare*, it to *pacify*. Vouchers thus constitute a form of "social money" and as such could contribute not only to a sort of "democratic reappropriation" (Viveret 2002, 23) of *argent*, but also to a general process of "remonetizing" welfare services after years of constant pressure for their "de-commodification" (Esping-Andersen 1990). Without necessarily contradicting the free character of welfare services, this phenomenon reflects the attempts underway in various countries to create, also in the area of these services, mechanisms inspired by market logic understood as ways to boost efficiency. Vouchers could indeed constitute one of the possible formulas in this respect by transferring the purchasing power implied in the supply of services in kind directly to users. The phenomenon of remonetization is still in the early stages and presents no clear outline, even though it already appears possible to identify a basic tendency to make use of it in forms consistent with the objective of genuinely empowering the user.

In any case, this is a phenomenon that will be further accelerated and influenced by the expansion of the "information society".

At a time when the left is taking the proposals once put forward by Jacques Delors as a still relevant and valid point of reference, (see Antonio Macaluso's interview with Sergio Cofferati in *Il Corriere della Sera*, 5 August 2002), it may be worth recalling that the White Paper on Growth, Competitiveness and Employment presented by the European Commission in December 1993 already contained some particularly cogent observations in this connection: "Modern technologies radically alter the relations between state and citizens. The latter can access 'public services' on an individual basis and be charged on the basis of the use made" given that "some services, which were hitherto the exclusive preserve of the state and subjected to increasingly severe budgetary restrictions, can be transferred to the market once and for all" and it will make no sense to go on basing them on "on free provision and implicit funding from taxpayers" (European Commission, 1994, 198).

good (or goods) that can be obtained with vouchers, the lower their degree of cash equivalence.

In addition to the horizontal extension of the goods obtainable and individual preferences, the cash equivalence of vouchers may also depend on the value of the vouchers provided in relation to the other resources possessed by the recipient. In particular, the cash equivalence of vouchers may increase as their value decreases. The value of the vouchers received often decreases in actual fact as the recipient's income rises, and beneficiaries with a comparatively high income (who therefore receive vouchers of comparatively limited value) would in any case spend an equivalent amount of money (equivalent to the limited value of the vouchers received) on the purchase of the good or service in question (for example, food with respect to non-food).

2.8. Price discrimination and need discrimination

A further point that may be worth taking into consideration regards the possible effects in terms of price discrimination. This is a situation that could arise if certain suppliers of goods and services decided to charge voucher holders higher prices so as to make use of vouchers not as tools of consumption but as authentic "subsidies for production".[45]

On the other hand, as has been pointed out with respect to the problem of long-term care, the voucher system "enables the organization providing care to recognize the right to decent services while allowing those in a position to do so to add their own resources in order to receive services of higher quality without giving up the public component of care. In other words, the presence of a compulsory public system operated through a mechanism of 'service vouchers' can enable citizens to take out private insurance policies with an 'exemption' consisting of the value of the services covered by the public system. This may reduce the cost of such private supplementary policies (individual and collective) by a large amount."[46]

It is indeed well worth stressing that the voucher system constitutes a particularly advantageous tool precisely to the extent that it succeeds in discriminating between different need situations: "If it does not discriminate, it places all purchasers on the same footing and thus acts as a disincentive to individual responsibility (…). Good service is one way to stimulate demand by fostering the responsibility of citizens directly and indirectly. (…) If [they] know the cost of the service because they act as direct purchasers (…) they will tend to be more careful about their purchases and hence seek to select services that really correspond to their present needs. And this will happen especially if the value of the service voucher to calculated in relation to the purchaser's real spending power."[47]

We shall examine at a later stage the possibility of connecting the logic of the voucher system with special indicators of the recipient's economic, social and health situation so as to develop a market with "personalized" charges by harnessing the potential

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[45] "As an example of such price-discrimination, suppose that a school voucher program provided $ 1,000 tuition vouchers to a specific group of students, but that the schools could respond by charging these students $ 1,000 more in tuition (net of the vouchers) than other students. If this were a stable outcome, it would convert the grant into a supplier subsidy, without permitting vouchered students to pay less out of pocket than unvouchered students. Under fully competitive markets, however, this result is impossible. After all, so long as vouchered students are worth more in revenue to the schools than unvouchered but otherwise identical students, the schools would be expected to compete for them by cutting the price, until at equilibrium the vouchered students paid $ 1,000 less out of pocket" (Bradford and Shaviro 1999, 17).

[46] Beltrametti 1998

[47] Fazzi 2000, 55.

of smart cards for use as "citizenship cards" in conjunction with the creation of authentic "virtual citizenship accounts".

3. Further reforming potential of vouchers: from micro to macro

In order to understand the full scope of the effective reforming potential peculiar to vouchers and their capacity not only to make public services more competitive but also to transform them radically, it may be helpful to consider the framework formulated by Albert Hirschman[48] on the basis of three elements, namely *loyalty*, *voice* and *exit*.

To a great extent the distant paternalistic origins of the social state have left their imprint also on the bureaucratically oriented development of the modern welfare system. Despite the fact that their rights are recognized, citizens remain essentially in a position of simple *loyalty*, i.e. passive acceptance, with respect to the institutions. The development of widespread awareness of citizens' rights and the spread of democracy have unquestionably served to legitimize the expression of the citizens' opinions (*voice*) in various forms, in terms both of protest and of participation in organs of representation and self-government. The effectiveness of such expression has, however, been weakened by the lack of real alternatives, which has worked in the long run to make protest largely sterile and participation ineffective as regards the decisions that really count. It is thus time for citizens to move from the infantile state of obedience and the adolescent stage of protest and determination to have their say no matter what, to the adult condition of responsible and effective decision making, which can hardly be such if there is no possibility of *exit*, i.e. no practicable alternative.

By endowing citizens with purchasing power as users of public services, vouchers can open up for them the possibility of using one supplier rather than another for the same service (*exit*) within an articulated system of options.

By thus providing citizen-users with the tools needed to obtain access to services and take effective independent decisions, vouchers make it possible to introduce entrepreneurial and free-market elements into the organization and operation of public services. It is no coincidence that the approach thus developed has been adopted by the New Public Management school through the idea of customer-driven administration, i.e. a public sector capable of "putting customers in the driving seat" by entrusting them with the financial resources and power to decide on which supplier of services to use.[49] This may in fact serve to spread responsibility for the production and provision of services over a number of parties, thus making it possible to frame the relations between the same in terms of competition.

The recent amendment of title V of the Italian constitution also appears to move in a direction presenting analogous features in this connection, especially where it stipulates[50] that "State, regions, metropolitan cities, provinces and municipalities shall encourage autonomous initiatives of citizens, both as individuals and as associations, to undertake activities of general interest in accordance with the principle of subsidiarity." While no specifications are given as regards criteria for the selection of procedures and parties to carry out this task, the possibility is thus left open of taking advantage of the contribution of "promoters of initiatives", consisting not only of state institutions but also of movements generated by society.

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[48] Hirschman 1970.
[49] Osborne and Gaebler 1992; Regonini 2001.
[50] Article 118 (section 4).

3.1. "Essential levels of service" and the revised Title V of the Constitution

The amendment of Title V raises another question connected with the subject of vouchers, i.e. the question of "essential levels of service", which are endowed with the status of constitutional rights through their appearance in article 117 and entrusted to the "exclusive legislation" of the state.[51] Under the revised terms of the constitution, the "Government" is empowered to "take the place of the organs of regions, metropolitan cities, provinces and municipalities (…) when this is required in order to safeguard (…) economic unity and in particular the essential levels of service with respect to civil and social rights, regardless of the territorial boundaries of local government" (art. 120, II).

As has been pointed out, "with respect to [the respective legislative and regulatory powers of the state and the regions] the new Constitution is radically innovative, even though the absence of any provisions as regards institutions and mechanisms linking and relating the different levels of government makes highly problematic both the phase of transition from the old system to the new and the complete implementation of the new architecture. (…) Determination of the essential levels of service necessitates [moreover] preliminary identification of civil and social rights that admit of no differentiation as regards recognition, protection and satisfaction on the grounds of or as a result of the geographical location of their possessor. The essential level of service corresponds to a set amount of protection, guarantee and satisfaction that is not susceptible of other choices and must rather be available in any case to the possessor of the rights in question, which would otherwise presumably be violated. This is a condition never before reached in Italy, where inequality and disparity in the delivery of services over national territory are a constant feature of both the past and the present. In this respect, the definition of essential levels of service could be, for legislators endowed with courage and intelligence, a great opportunity to redefine the welfare system as a whole and correct its distortions, offering protection and guarantees for needs and risks now devoid of coverage and redressing injustice and disparity between different sectors and areas of territory."[52]

With respect to such perspectives, it may be worth pointing out that the concept of "essential" is itself by no means straightforward but characterized rather by a high degree of ambiguity. What is in fact meant by "essential"? Everything that ensures full enjoyment of civil and social rights or what government is able to provide in view of the resources available at the time? In the latter case, it might have been better to use the expression "guaranteed levels" rather than "essential levels".

In any case, the constitutional status conferred on the expression "essential levels" and the associated powers of protection entrusted to the state oblige the regions in concrete terms to preserve a delicate balance between equality and autonomy. Despite the intentions of the constitutional amendment as regards furthering federally oriented experimentation and forms of organization, this could actually lead to a reappearance of new pressures for centralized planning in the provision of services.

As long ago as 1984, the paper *I servizi pubblici negli anni '80* by constitutional expert Fabio Merusi pointed out, with reference to the Italian health service, "the contradiction between the generalized and unlimited right to services and the centralized funding of the health service through the state budget. Centralized funding presupposes

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[51] "Legislative power is exercised by the State and the Regions in accordance with the Constitution as well as EU regulations and international obligations.
The State enjoys exclusive powers of legislation in the following areas:
(…)
m) Determination of essential levels of services with respect to the civil and social rights to be guaranteed throughout national territory" (article 117 of the Constitution).

[52] Torchia 2002, 26-28.

prior estimation of costs giving rise to a plan of provision based on the costs foreseen. The generalized right to services inevitably entails unforeseeable expenditure and the progressive formation of costs based not on planning but on the trends as regards demand for services. The combination of predetermined external funding and a generalized right to services can only lead to the formation of an unforeseeable deficit for the institution providing the service to be settled *ex post* by the external source of funds, except of course in the practically impossible event of requests for services falling below the planned levels."[53]

3.2. Conflicting views in the USA

Problems of an analogous nature in some respects have given rise to heated debate in the United States, and it may prove useful to examine the terms of the discussion currently underway there with reference to two comparatively recent works, one by David Kelley and the other by Stephen Holmes and Cass Sunstein. These can be regarded in many respects as exemplary by virtue of their sharp ideological opposition, even though, as we shall see, this ends up somewhat crudely with the emergence of a few not very reassuring points of disconsolate convergence.

In actual fact, Kelley's book is intended as a direct and violent attack on the very conceptual foundations of social rights: "the concept of welfare rights does not represent a historic advance in moral development, as its advocates often assert. It represents a reversion to a primitive moral code."[54] Moreover, "the classical rights are rights to freedom of action, whereas welfare rights are rights to goods (…). The classical liberty rights are concerned with processes, whereas welfare rights are concerned with outcomes."[55] As a result, "welfare rights impose on others positive obligations to which they did not consent and which cannot be traced to any voluntary act (…). A welfare right is by nature a right to a guaranteed positive outcome that is not contingent on the success of one's own efforts. It must therefore impose on those who *can* produce the goods the obligation to share them."[56]

Holmes and Sunstein instead regard the essence of the question as lying in the fact that "a legal right exists (…) only when and if has budgetary costs",[57] and that "all rights are claims to an affirmative governmental response"[58] It must therefore be acknowledged that all rights are "positive rights" and "taking rights seriously means taking scarcity seriously", in that "nothing that costs money can be an absolute."[59] In this sense, they

[53] Merusi 1990, 26-27. The issue raised by Merusi has since been addressed on a number of occasions by the Constitutional Court with some substantial swings and variations that have continued to fuel intense debate on matters of interpretation. Some experts have, for example, pointed out that by describing (ruling no. 374 of 1988) the right to social services and budgetary requirements as "equally appreciable", the Court was in danger of "conferring the status of a principle on a matter of fact, i.e. a financial constraint" (Pinelli 1994, 555). The Court then invoked (ruling no. 455 of 1990) the concept of "conditional constitutional rights" with specific reference to health entitlement. As the "right to health care", the latter was in fact defined as a "constitutional right conditional upon the form in which it is implemented by the legislator by balancing the interest safeguarded by that right with other constitutionally protected interests, taking into account the objective limitations encountered by the legislator with respect to the organizational and financial resources available at the time."

[54] Kelley 1998, 100.

[55] *Cit.*, 22.

[56] *Cit.*, 24.

[57] Holmes and Sunstein 1999, 19.

[58] *Cit.*, 43-44.

[59] *Cit.*, 97. Analogous views were previously expressed by Stefano Rodotà: "It is practically impossible to dissolve the relationship between citizens' rights and resources with the sole exception of cases where rights require no more than omissive conduct on the part of the authorities. In all the other cases, it is possible to discuss the scale of the resources needed and the forms of their distribution and use, not the possibility of

conclude, "redistribution is omnipresent" because "redistribution also occurs (…) when the public force is made available, at the expense of taxpayers generally, to protect wealthy individuals from private violence and threats of violence."[60] In any case, "there is nothing particularly eleemosynary about poor relief when seen from the property owner's perspective (…) Welfare benefits can also be understood as a tactical side payment to the poor attached to the original taxation-for-protection deal struck between property owners and their government." In point of fact, "to interpret rights as welfare-enhancing investments, extracted by society for society's purposes" is a key step that "should improve our understanding not only of the rationale for rights, but also of their inevitably redistributive character".[61]

As they point out, however, experience teaches us that unfortunately "it is generally true (…) that vital public services are allocated unequally because the weak and the poor, being relatively disorganized, have too little political leverage to obtain their share of public resources", and that "unfortunately but inevitably, whenever money is distributed, power is likely to have some influence on who loses and who gains. Politically untouchable expenditures are usually those that provide special benefits to well-organized social groups."[62]

Thus, as they are forced to admit, "while it may sound fair or prudent to restrict entitlements to the most desperately impoverished, programs that prove to be of no benefit to members of the middle class or others with political clout risk becoming extremely attractive candidates for the next round of budget cuts."[63] In this sense, it can be stated that since welfare is a sort of agreement between conflicting interests, guaranteeing a safety net for the needy ends up being far more costly than it actually need be.

To quote Kelley, it is therefore possible for Holmes and Sunstein to adopt, albeit with a reversed value judgment, the words of Wilbur Cohen, former head of the department of health, education and welfare: "A program that is only for the poor – one that has nothing in it for the middle income and upper income – is, in the long run, a program the American public won't support."[64]

3.3. A proposal for individually based quantification and charges

Returning to the situation in Italy, in order to ensure that the "essential levels" do not become "a right that is formally recognized but not *justiciable* (…) [and hence] wholly non-existent"[65], and that they do not come to form an inevitable source of waste, as Holmes and Sunstein apparently take for granted, we can examine the alternative possibility of their being quantified and charged for on a rigorously individual basis in close connection with specific indicators of health and economic situation. Given an approach of this nature, vouchers would be related to the needs of the individual within a multiplicity of personalized situations and could thus constitute an effective way to give concrete shape to the need to eliminate arbitrary elements set forth in the revised constitutional provisions

identifying a characteristic feature of *true* citizens' rights in the fact that they do *not* require the use of public resources. It is clear that the line of demarcation between rights in the technical sense and mere expectations cannot be drawn by adopting the criterion of cost and thus assuming that all the cases costing less than a certain amount are rights and all the rest are not. This criterion is deprived on any scientific validity whatsoever by its wholly arbitrary nature" (Rodotà 1994, 304-305).

[60] *Cit.*, 229.
[61] *Cit.*, 226.
[62] *Cit.*, 202-203.
[63] *Cit.*, 211.
[64] Cit. in Kelley 1998, 140.
[65] Zolo 1994, 32-33

while avoiding any risk of thereby leading to any outmoded and inadvisable return to the logic of centralized planning.

In this perspective, with European welfare systems increasingly obliged to face the terrible political and economic dilemma of raising taxes and/or social contributions (an alternative practically ruled out by the already high levels of fiscal pressure) or seeking to contain costs through forms of rationing, vouchers "could become *the* public policy innovation of this decade" – as Michael Prowse observed in the *Financial Times* as long ago as 1990 – and prove "as important in reshaping the public landscape in Britain as privatisation was in the 1980s".[66]

In actual fact, a voucher system may also have interesting political consequences. If the presence of a situation of scarcity in the supply of welfare services is no longer masked by de facto forms of rationing – often introduced by increasing the cost of access in terms of time, which can give rise to the paradoxical situation whereby certain services appear practically inaccessible to everyone except pensioners in reasonably good health – and visibility and transparency are instead conferred upon the objective fact of the amount of resources the government has decided to allocate in order to cover certain socially important needs, this may give rise to a political battle to alter the decision taken, but will leave no space for the currently prevailing irresponsibility in terms either of the preventive allocation of resources or of the final balance sheet because the global capacity for expenditure will have been the figure set and will have been used up by the citizens themselves.

With regard to the possibility of using vouchers in connection with the "essential levels", it may be worth considering an example drawn from what is probably the most difficult sector, namely health.

Let us examine the "emerging paradigm" at the international level as stated by Dov Chernichovsky. Vouchers based on a scheme of universal capitation that can be transferred at the user's discretion to bodies responsible for organizing and managing the consumption of care (OMCC institutions) make it possible to combine "the advantages of a centralized, state-run system with those of a decentralized system (…). [In a system of this type], the levels of public expenditure on medical care are determined in advance. In addition, the capitation formula can be designed so that public resources are allocated according to a set policy and priorities. At the same time, capitation lets consumers choose among competing OMCC institutions offering an assortment of services, subject to some mandatory and other regulations (…). [Finally], capitation has another important feature: it specifies in financial terms the public entitlement to a package of care whose substance and form are largely determined by consumers as a group."[67]

3.4. The logic of a "social dividend"

Following a similar approach designed to translate the objective of "essential levels" into a form of welfare guarantee for citizens, the adoption of mechanisms such as vouchers – or better still (as we shall see) "virtual citizenship accounts", understood as tools for a transparent redrafting of the system of social security for the entire body of

[66] *Financial Times*, 30 March 1990

[67] Chernichovsky 2002, 19. A proposal of a more limited character but still presenting identifiable analogies with Chernichovsky's scheme was discussed with the minister Guzzanti and then with the minister Bindi by the author of these notes when he coordinated the CNEL working group on the social market during the 1995-2000 term. Reference was then made to the possibility of allowing freedom of choice as regards the use of at least a part of the per capita quota envisaged in the National Health Plan in connection with an expansion of the co-payment system. A cogent summary of this approach is to be found in Grossi 1998, 37-39.

citizens – takes its place within a perspective of radical reform. In this perspective, it is regarded as advisable that a start should be made on transferring back to citizens a proportion of what society has accumulated hitherto. This could be commenced by instituting, for example, a "social dividend"[68] capable of reflecting to a growing extent the potential of a renewed economic system in which the state is gradually transformed from an often clumsy manager into a *rentier* of financial resources entrusted to competing institutional entrepreneurs in order to distribute the revenues thus obtained amongst citizen-shareholders in the form of a "dividend".[69]

Within this framework, vouchers or "virtual citizenship accounts" would not only make it possible to grant the citizen-user freedom of choice as regards the services to be used, which is in fact denied in the traditional form of welfare, but also provide a valid tool to make the reasons underlying political and electoral choices more transparent, concrete and conscious.

Attention will be drawn below to the recent developments in this area as exemplified by the writing of Bruce Ackermann and Anne Alstott[70] and the "baby bonds" initiative launched by the Blair government in the United Kingdom in 2001. It may also be worth recalling that even proposals for market-based socialism, such as the one put forward by John Roemer in *A Future for Socialism* (1994), refer to the potential of vouchers as a tool to introduce a new form of property allocation that can be methodically reallocated from generation to generation.[71]

3.5. The proposal for euro-vouchers

If for no other reason than the spiritual climate to which it bears witness, interest attaches to the proposal for euro-vouchers put forward by Phillip Schmitter, albeit in a wholly different context concerned with the need to democratize certain specific participatory mechanisms operating at the level of the European Union. The proposal involves "selecting and financing lobbies" within the European Union by means of a

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[68] Meade 1989; 1993

[69] Another approach tried out in Czechoslovakia and other East European countries in the early 1990s involved the issuing of special privatization vouchers. See Nuti 1994, Burowoy 1996 and Wiskopf 1996 for a critical appraisal. For the views of Morley-Fletcher, Nuti, De Cecco, Leon and Preite on the applicability of such an approach in order to obtain large-scale privatization together with a marked improvement in the public debt in Italy, see Lega Nazionale delle Cooperative e Mutue 1992 and CLES-Lega Nazionale delle Cooperative e Mutue 1992.

[70] Ackerman and Alstott 1999, Ackerman 2002.

[71] "In my proposal firms are also financed by loans from public banks, which are responsible for monitoring firm management (…) Owning a share of a firm entitles the citizen to a share of the firm's profits. More realistically, citizens may invest their coupons in shares of mutual funds, which purchase shares of firms. One cannot purchase shares or coupons with money. People, however, can trade shares in firms for shares in other firms, at coupon prices. Thus, prices on the coupon stock market will oscillate as they do on a regular stock market.

Because money cannot be used on the coupon stock market, the small class of wealthy citizens will not end up owning the majority of shares (…) [In any case,] the coupon stock market should provide the same discipline over firm management as a capitalist stock market does. When banks see the coupon share price of a firm falling, that is a sign that investors think the firm is performing poorly, and the banks would step in to monitor closely the management. Everyone's coupon portfolio would be returned to the public treasury at death, and allocations of coupons would be returned to the public treasury at death, and allocations of coupons would continually be made to the new generation of adults. Thus, the coupon system is a mechanism for giving people a share of the economy's total profits during their lifetimes while also harnessing what good properties the stock market has as a device for risk-bearing and monitoring of firms" (Roemer 1994, 49-50).

"'charter of entitlements and duties' for European associations and movements, which would thus be recognized as 'supplementary (organizational) citizens of Europe'."[72]

Schmitter suggests that a voucher system could be used to regulate the activities of lobbies in view of the increasingly important role they now play at the European level in influencing the decisions of the European Commission and Parliament.

Schmitter's argument is based on the premise that the lobbies interested in a relationship of interaction with European institutions are not all endowed with the same capacity and opportunities to influence the policies of EU organs in that this depends on the resources available to them. It thus happens that lobbies unable to draw upon large amounts of resources to support their activities, e.g. environmentalists, have less chance of seeing their proposals put into effect that other lobbies endowed with vast resources and capable of exerting far more influence over the policies adopted by the European Commission and Parliament.

Schmitter suggests that one way to tackle this problem, which directly affects the possibility of democratizing the decision-making processes of the governing bodies of the EU, is to institute "a semi-public status for associations representing interests and social movements", including lobbies, and to finance these bodies "through compulsory contributions" paid by all EU citizens[73] and distributed in the form of citizen vouchers.

As Schmitter argues, "If each citizen paid the equivalent of ten dollars, we would arrive in the present-day EU (15 countries) at the considerable figure of 2.81 billion dollars. This sum could serve to finance a great many initiatives and, depending on how citizens chose to 'spend' their 'vouchers', could also serve to redress the inequalities existing in terms of organizational resources and systematic under-representation within EU institutions. At the same time, it is important to maintain a low level of individual payments so as not to discourage potential supporters of the reform as well as an aggregate level of resources gathered high enough to compensate for the continuing disparities between interests. It is also essential to convince the public that this will constitute an important expansion of democratic rights, analogous to the previous extension of universal suffrage. This is where the idea of the voucher system leads."[74]

3.6. "Social money" for the development of the social market

Vouchers have long been recognized as the primary tool for the creation of a social market "capable of expanding the area of inclusion and fostering the emergence of paying demand and entrepreneurial supply"[75], and of involving the "greatest number of citizens within new logics such as to combine efficiency and the assuming of responsibility, acceptance of a motivated constraint of solidarity and control over the 'transparency' of the use of resources"[76]. In this context, welfare will be able to accompany market relations, without taking their place, while vouchers can replace the redistribution of services in kind with the redistribution of purchasing power, thus placing beneficiaries (now customers) in a position to select and change their suppliers.

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[72] Schmitter 2000, 88.

[73] But "not by firms or joint-stock companies, as they would be obliged to pay twice and could therefore exert greater influence on the subsequent distribution of income (being able in any case to pass the cost onto their consumers). Persons wishing to do so could also contribute voluntarily to the numerous national and European causes, even though this would grant them no exemption from the general 'representative contribution'", *cit*., 91.

[74] Schmitter 2000, 92.

[75] De Vincenti, Morelli, Pollastri 1999, 124-125.

[76] Morley-Fletcher 1996a, 298.

Together with public institutions, it would thus also be possible to involve non-profit associations in the supply of services available through vouchers, thus expanding still further the citizen's margins of choice and serving to supplement, complete and – where possible – replace a series of strictly public administrative structures.

In addition to developing forms of supply stemming directly from society, the non-profit sector would also lend itself to the management of the voucher system by virtue of its tendency to take the characteristic shape of a sector with an emergent entrepreneurial structure capable of attracting other resources in addition to public funding. These are additional not only as gifts or donations on the part of those participating but also because they are handled in such a way as to enrich both the results achieved and the parties performing the activities required by the social objective pursued, to the point where the latter can find true fulfillment and expression, thus obtaining a "bonus" in moral and psychological terms.

The emergence in competitive rather than monopolistic conditions of non-profit firms operating in the sector of merit goods can also serve to create overall conditions of information, regulation and market structure such as to allow the reappearance of for-profit concerns precisely in an area initially characterized by the presence of glaring "failings of the market" that made it unacceptable or unsuitable for the purposes of the criteria pursued by public policies. In this sense, the "social market" will be increasingly able to acquire the characteristics of a market that is regulated and open to a growing number of suppliers.

In this context, having abandoned the role of a monopolistic producer and provider, the state will finally be in a position to assume a new function of regulating and promoting supply and demand, redistributing resources, and strengthening the purchasing power of the poorer sections of the population without discouraging the social consumption of those more fortunate and better off.

4. Vouchers in public services

There are many areas of application for vouchers in public services. As Albert Hirschman points out, "Voucher schemes have been proposed for many other public services (…) but their appropriateness largely turns on the characteristics of the good or service that is to be provided. According to one survey the voucher (or exit) solution works best under the following conditions: (1) when there are widespread differences in taste that are recognized as legitimate; (2) when people are well informed about the quality of the goods and services they want and can easily compare and evaluate them; (3) when purchases are relatively small in relation to income and recurrent, so that buyers can learn from experience and easily switch from one brand and supplier to another; and (4) when there are many competing suppliers."[77]

Particular importance attaches to four of the many areas of application for vouchers in public services: food, health care, housing and education. The following pages provide an overview of the characteristics of the application of "service vouchers" in each of these areas, with particular attention focused on education vouchers and "solidarity vouchers".

The first area of application is food. In their most elementary form (*food stamps*), these vouchers are intended to ensure an adequate, minimum level of diet, above all in quantitative terms.

More advanced forms of food vouchers can, however, serve to guarantee a diet that is not only sufficient but also qualitatively complete and/or particular (e.g. consisting of

[77] Hirschman 1992, 88.

foodstuffs that have not undergone genetic modification, should these be made compulsory in state schools or hospitals, etc.).

The target functions obviously become more complex. The amount of information to be managed increases – together with the opportunities to cut management and transaction costs offered by the use of smart cards[78] – as does the overlapping of spheres of operation. For example, in the case of a food voucher scheme designed to ensure a diet that is not only complete but also suited to the specific characteristics of each individual (both physical characteristics such as height, weight, etc., and medical characteristics, e.g. diets set for particular illnesses), there is an overlapping of the food and health areas. Consider also the case of employment vouchers acting as a sort of "dowry" brought to the employer by the new employee, the use of which could be accompanied by particular forms of control ensuring compliance with specific provisions of the law governing the employment sector.

In their most elementary form of application, i.e. the form presenting quantitative objectives, food vouchers are distributed free of charge to parties meeting certain set requirements. In order to guarantee an effective structure of incentives and for obvious reasons of cost, the quantity of vouchers received by each entitled party varies in relation to a number of variables (e.g. income).[79] These vouchers can only be spent on specific products (typically for home preparation) at specific distributors, which can then present them physically to the issuing body for reimbursement or have the relevant amounts credited to their accounts in the case of transactions digitally registered via smart card.

4.1. Health care vouchers

The second area of application is health care. These vouchers can be used both in a public system of health services and in a private system based on insurance coverage, even though the application of vouchers in contexts connected with insurance presents specific characteristics and complexity.[80]

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[78] Which also makes it possible to foster certain forms of user behavior. For example, those agreeing to adopt specific channels of information or types of environmental and organizational conduct could thus receive points for further welfare goods and services. In short, the state could encourage individual citizens to follow a rational itinerary capable of strengthening their overall social capacity and ability to access increasingly high levels of information in the fields in question.

[79] A form of relation between the value of the vouchers received and income can be represented by a formula of the type $V = A^* - bR$, where V is the value of the vouchers received, A* the value of the minimum diet set as a target, b a coefficient (e.g. 30%), and R the income received (variable).

[80] A schematic outline of a wholly private health service based on insurance involving a combination of tax reduction and vouchers for the lower income groups and families in greatest difficulty was formulated by Milton Friedman in 1991. "Even if the government were to pay directly for major medical insurance for everyone – rather than by reducing taxes – there is little doubt that both the government's and the total health cost would decline drastically because of the elimination of the tremendous governmental bureaucratic structure that has been built up to supervise a large fraction of all health activities" (Friedman 1991).

For a broader spectrum of proposals designed to enhance the user's role in the health care system with a marked preference for forms of personalized insurance connected with mechanisms of *experience rating* rather than *community rating*, see in particular Herzlinger 1997 and 2002b. "When consumers apply pressure on an industry, whether it's retailing or banking, cars or computers, it invariably produces a surge of innovation that increases productivity, reduces prices, improves quality, and expands choices. The essential problem with the health care industry is that it has been shielded from consumer control – by employers, insurers, and the government. As a result, costs have exploded as choices have narrowed (…) in the current health care system, consumers are almost entirely insulated from real purchasing decisions; their employers select plans, negotiate terms, and pay premiums. For the system to change, employees will need to shop for health insurance as if they were using their own money. [It will thus be necessary to institute a mechanism whereby] an employer gives its employees the sum it would have spent on their health benefits or lets them contribute their own pretax funds, or both. Employees will be required to use some of that money to purchase, Health care vouchers can also be applied in mixed or intermediate systems with respect to the above two extremes, as in the example given above with reference to Chernichovsky's hypothesis in connection with the constitutional issue of "essential levels of assistance".

The objectives of a voucher scheme can vary in different cases.[81] In schematic terms, where health services are provided directly and free of charge by the public sector, a voucher scheme could be applied more readily in the area of prevention. This holds especially for cases where the costs of illness are covered completely by the national health service while preventive activities are carried out predominantly by private concerns, thus denying access to a certain section of the population. In such cases, vouchers could provide an effective tool to direct the demand for health services toward preventive types of health care potentially capable in the long run or raising the general level of health and thus reducing the proportion of GDP taken up by public spending on health.

In the sector of directly provided national health services, interesting areas of application can, however, be identified not only in prevention but also in the case of medical treatment for illnesses. A system for the provision of all health services where the sum charged for the treatment received by each patient is linked to set indicators of economic and social situation and/or health[82] could in fact present considerable potential with respect to reducing national health expenditure. Smart cards could once again be used to store and process the information needed to determine the level of co-payment for the treatment received by the patient in accordance with a series of set parameters.

In the case of health services provided privately through insurance, the most elementary form of voucher scheme could involve automatic coverage for certain essential services costing above a set level[83] and optional coverage for services such as laboratory tests, rehabilitation, etc.

Voucher schemes connected with medical savings accounts are already operating in Singapore[84] and have been introduced in China.[85]

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at a minimum, an insurance policy that protects them against financially catastrophic medical events. (…) By varying payments according to individual employees' care requirements, insurers and providers will be motivated to develop new offerings – for example, multiyear policies that promote the health of people suffering from chronic diseases (…) I foresee health care providers responding to consumer demands by pursuing three dramatic innovations: *focused factories* of providers that work together to better treat specific diseases or patient groups, *integrated information records* that consolidate currently dispersed patient information, and *personalized medical technologies* that enable treatments to be designed for individuals. These innovations will be bundled in a variety of ways by creative insurers ... Because focused factories are more modest in scope than everything-for-everybody systems, they are much more efficient and effective – and they're much easier to manage. In many ways, they resemble the mass-customization production processes that are enhancing manufacturing productivity by replacing cavernous, fragmented, and rigid assembly-line factories with coordinated and flexible team-bases ones" (Herzlinger 2002a).

81 A scheme for the application of vouchers in the health sector was proposed in Italy by Mario Timio, who presented the health voucher as "a credit certificate given to individual citizens and families to be used freely in public and private health institutions". In the case in question, the health voucher offers "the opportunity to spend an entitlement, making the citizen a user or customer of the health service and giving the patient and patients and their families in addition to a 'freedom ticket' a tool serving to direct the health service along the path of quality and efficiency". The voucher would ensure "coverage of primary assistance and pharmaceutical treatment, specialized medicines, laboratory and instrument-based diagnostics, and hospitalization". It would not be aimed "solely at the 'needy' but at all, albeit with possible differentiations". In such a scheme, the state "does not pay individual health structures but issues the vouchers to individual citizens (or individual families)", thus introducing "'controlled' market rules to improve performance and moralize conduct" through "incremental doses of free competition and state control over the level of services provided by the public and private sectors" (Antiseri, Timio, Gamaleri 1998, 78-79). See also Timio 1996.

82 A system comparable to a voucher scheme in that it involves higher contributions in favor of those in specific income brackets or social and medical situations.

83 The cost of this insurance coverage could be shared by the user involved in proportion to his or her income.

84 Hsiao 1995; Massaro and Wong 1995.

4.2. Housing vouchers

The third area of application is housing. The purpose of such schemes is to guarantee accommodation for families in certain income brackets by issuing vouchers equal in value to the fair market rent area in the area "based on the cost of modest but decent private housing on the local market".[86] Unlike a public housing system, such schemes offer a wide range of choice to beneficiaries, who can also add their own resources to the voucher.

One by no means negligible advantage can thus also be identified in terms of positive externalities. A voucher scheme for housing makes it possible to scatter the needy over the urban area as a whole and hence to avoid the formation of ghettos and their associated consequences as regards concrete employment opportunities, effective compliance with suitable rules of civic coexistence, and "environmental tolerance" toward endemic forms of crime. The recipients of vouchers, clearly entitled to the same on the basis of objective situations identified by means of reliable indicators, will also be less dependant on political "favors", which will help to prevent the creation of "constituencies" built up on patronage.

This holds even though, unlike other voucher schemes, housing vouchers are not involved with services but with the particularly scarce commodity of real estate, a sector where demand is necessarily limited by restricted supply that is normally capable of catering for one prospective customer out of three.[87]

4.3. Employment vouchers

One criticism often expressed with respect to employment policies is that government ends up paying people when they are unemployed and taxing them when they get a job. Instead of encouraging workers to seek employment and firms to hire them, these policies thus create disincentives for both parties and ultimately work to increase unemployment.

The argument put forward by the leading advocate of employment vouchers is as follows: "If the money governments spend on unemployment benefit could be redirected so as to provide an incentive, rather than a disincentive, for employment, many countries struggling with the twin burdens of high unemployment and costly unemployment benefits might reap a substantial benefit."[88]

The basic idea of the Benefit Transfer Programme (BTP) proposed by Snower is that the jobless, and especially those that have been so for a long period, should be offered "a new option: to use a portion of their unemployment benefit *as vouchers for employers that hire them*. In this way, unemployment benefit systems, which currently impose an implicit tax on work, could become a source of employment subsidies for the people who need these subsidies most, namely, the longterm unemployed."[89]

As regards young unemployed people, the analysis carried out by Snower together with Michael Orszag suggests that an optimal voucher scheme would need to draw a distinction between mature and young workers in relation to a number of key variables: the

[85] Yip and Hsiao 1997.
[86] Weicher 1997, 3.
[87] Hershkoff 1997.
[88] Snower 1997, 163.
[89] *Cit.*, 163-164.

"deadweight" effect as regards their respective rates of employability, i.e. the waste involved in issuing vouchers to people who would find jobs in any case; the disruptive effect of the increase in sackings that could be produced by the introduction of employment vouchers; voucher-effectiveness, i.e. the impact of the new voucher system on the hiring of young and mature workers; the mortality rate; the level of unemployment benefits.

Having made the necessary calculations and identified the optimal form of voucher scheme, the authors claim that this "can lead to significant reductions in unemployment at no extra cost to the government".[90]. These are in fact *budget-balancing vouchers*, i.e. vouchers subject to the constraint of not costing more than the reduction in previous spending on unemployment benefits brought about by their introduction.[91].

After this short overview of some of the main applications of vouchers in the sphere of public goods and services, we shall go on to examine in greater detail the particularly important and ideologically controversial case of education vouchers, which have long been one of the most debated and widespread applications of this tool. Large-scale experiments have been carried out in the United States together with referendums in individual states and repeated rulings of constitutional law at the federal level.

Within the sphere of vouchers issued by private concerns, we shall then examine the particular case of "*solidarity vouchers*", which focus on certain externalities of consumption and can thus constitute an incentive for donations aimed at specific initiatives.

5. The controversial case of education vouchers

In the United States, school vouchers have proved to be the voucher scheme with the largest number of applications and arousing the greatest attention, not only in the academic and political spheres but also recently in the legal field.

In this connection, a number of similarly oriented regional initiatives are now underway in Italy[92] subsequent to the new law on educational equality introduced by the last government.[93]

This law laid the conceptual foundations for the introduction of a distinction between the public function and public provision of schooling into the law governing the Italian education system.

Without going into the issue, it should be pointed out that this is in any case a legislative innovation that could prove to have certain implications with respect to the suitability of launching pilot voucher schemes in the national education system, above all if agreement could be reached in this connection with those who have argued for years and from all parts of the political spectrum[94] in favor of abolishing the legal status of educational qualifications.[95]

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[90] Orszag and Snower 1997b, 15.

[91] For further examination of employment vouchers, see Snower 1994; Orszag and Snower 1996, 1997a, 1997c. For a proposal for application in Italy, see Di Marco and Padoa Schioppa Kostoris 1998.

[92] Interest attaches in this connection to those promoted by the regional administrations of Emilia Romagna, Lombardy and the Veneto, which have introduced education vouchers for children attending both state and private primary and secondary schools.

[93] Law no. 62 of 2 March 2000. The law recognizes the principle of educational pluralism, without prejudice to the right to education guaranteed to all citizens, and the complementary role performed by private schools with respect to the public system.

[94] Among recent works, see Rossi 1997. In this connection, it is impossible not to recall Luigi Sturzo: "Education is suffocated by state qualifications and certificates (…) The situation must be reversed so that it is education and not the diploma that opens the doors to employment. Every school (…) must be in a position to award its diplomas not in the name of the Italian republic but in the name of its own authority (…) If a school has a recognized reputation, a respectable tradition, a personality known in its province or country, or even internationally, its diplomas will be sought after. If it is just one of many, its diploma will be one of

The law on educational equality was finally approved over twenty years after the initial draft was presented in a bill concerning “free compulsory education”, the first signatory being the Christian Democrat Francesco Casati, which already suggested the idea of proceeding in this field through the introduction of special school vouchers.[96]

As the leading institutions involved in framing Italy’s public education policy over the last few years (including the Italian Episcopal Conference) have constantly refrained in actual fact from explicitly taking up this point, it will be advisable here to confine our examination to the intense debate openly developed on the issue of school vouchers in the Anglo-Saxon education systems, and especially in the United States.[97]

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many. While it is true that this devaluation or revaluation of school certificates deprives the state of its educational monopoly, it places all schools in a position to improve themselves so as to gain respect and consideration in the areas where they operate and in the country as a whole (…) The only legal value the school certificate can possess is that of granting admission to examinations for access to higher education, for employment in the public sector, for the right to practice professions for which legal authorization is required, such as medicine, pharmacy, engineering and law” (Sturzo 1995, 65-66).
See also the Confindustria: “The ‘terminal’ value of educational certificates and qualifications has undergone a gradual change and (…) come increasingly to lose contact with the sector of employment and the demand expressed by companies. It will be necessary to aim in the near future at an education system where the various qualifications will lose their legal value, thus avoiding any further increase in the number of schools, both public and private, that churn out courses and diplomas but succeed in imparting so few professional skills” (Confindustria 2000,19).

[95] “If further decline in the quality of education is to be prevented, it is essential to avoid any form of ‘cutthroat’ competition among schools. And what other sort of competition could there be when each school can only survive by attracting the highest possible number of students? As long as public and authorized private schools continue to award qualifications that are legally valid (and hence of equal value), students and le families will obviously prefer, costs being equal, those where the courses are easier and where it is possible to obtain a diploma with less effort and risk of unforeseen obstacles. It is no use fooling ourselves on this point” (Visentin 1999).

[96] “In order to ensure the provision of compulsory education effectively free of charge also for the pupils of authorized private schools”, article 16 of the Casati bill presented on 28 June 1979 required that the state provide “parents” with “an education voucher to be used exclusively in order to enroll their children in the authorized private school of their choice”. The value of the education voucher would be “linked annually to the cost per pupil of the corresponding state school so as to cover at least 80% of the cost”. The “administration” of this system would be “entrusted to a joint body to be set up at each school representing management, executive personnel, both teaching and non-teaching staff, parents and pupils of age”. The education voucher should also “include an amount for the emoluments of the executive personnel, both teaching and non-teaching staff, of the authorized private school and an amount for running costs”. Nothing would be “owed to the management of the authorized private school in addition to the education voucher by the parents of pupils for the services specified in the previous clause when such services are actually covered by the voucher” (Martino 1994, 129).
After ample coverage of the education voucher scheme in the weekly *Mondo Economico* of 16 September 1986 (including the cover), the vice-secretary of the Italian Socialist Party Claudio Martelli observed in a speech delivered in 1986 at the Conference of Young Socialists that “in principle, the ideal would be for the state to provide each student with an education voucher to be used at the school of his or her choice”. Through the fiscal system, he pointed out, “the weaker social groups pay for the university education of the children of those in higher income brackets (…) The Italian community as a whole, including the large majority of workers’ families, most of whom derive no benefit from it, pay about 3 trillion lire a year to finance a university system that costs practically nothing to the families of the wealthy students that comprise the majority of its users. This is one of the most appalling paradoxes of egalitarianism in conditions of a state monopoly of education!” (Martelli 1986a; see also Martelli C. 1986b and Martelli P. 1987). Along the same lines, another attempt at quantification revealed that the Italian university student makes “an investment that is possible because every other Italian family make a donation of 308,000 lire a year” (Martinotti 1992).

[97] In the vast literature thus developed in this connection, attention should be drawn at least to Jenks 1970, Lieberman 1989, Chubb and Moe 1990, Kirkpatrick 1990, Harmer 1994, Henig 1994, OECD 1994, Gerstner 1995, Sugarman and Kemerer 1999, Viteritti 1999, Fiske and Ladd 2000, Witte 2000.

5.1. A form of funding transferred to the user

As is known, the use of education vouchers makes it possible to create a system of public funding for education that can also be combined with private or non-profit forms of provision. While accentuating the autonomy of each individual educational institution, this mechanism thus subjects it simultaneously to constant competitive pressure and immediate economic sanctions on the part of users, thus avoiding the risk inherent in the absence of control pointed out by Adam Smith[98]. In point of fact, it provides an effective way for students and parents to switch from the use of 'voice', which "is inherently inequitable since parents differ in the capacity to persuade, to the power to 'exit', which makes 'voice' effective or unnecessary".[99]

One of the first to suggest the possibility of public funding for the education system in forms not necessarily linked to the public provision of education services was Milton Friedman,[100] who identified freedom and equality of opportunity as the key objectives of a voucher scheme. In particular, this would facilitate the mobility of the poorer classes, obliged to use the often second-rate state schools located near their homes, unlike the more affluent classes, which can afford to use schools of higher quality even when located at a distance.[101]

Friedman suggests that the value of the voucher should be estimated on the basis of the average cost borne by the state for each student, whereas others argue that it should also include the cost of transport and could be inversely proportional in value to the income of the beneficiary's family.[102]

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[98] In describing Anglo-Saxon universities as bodies with the de facto character of labor-managed enterprises, Richard Layard cites a striking passage from *The Wealth of Nations* (1776, L. 5, c. 1), where Smith draws attention to the risk that, if subjected solely to self-government, teachers will tend "to make a common cause, to be all very indulgent to one another, and every man to consent that his neighbour may neglect his duty, provided he himself is allowed to neglect his own" (Layard 1999, 314-315).

[99] Seldon 1986, 53.

[100] "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. The educational service could be rendered by private enterprises operated for profit, or by non-profit institutions of various kinds. The role of the government would be limited to assuring that the schools met certain minimum standards such as the inclusion of a minimum common content in their programs" (Friedman 1955, 4). The essay from which this citation is taken was written nearly half a century ago. (Friedman has, however, returned to this point repeatedly together with his proposal for the introduction of a system of "honor loans" for vocational education; see in particular Friedman 1962 and Friedman M. & R. 1980.) It has in any case been pointed out that "vouchers are an old idea" (Le Grand 1991, 77). References to vouchers for education have been identified in *The Rights of Man* (1792) by Thomas Paine (West 1967) and in John Stuart Mill (Blaug 1970, 308). Education vouchers were discussed by the French Parliament in the 1870s (Van Fliet and Smith 1982), and proposed by Cardinal Bourne in 1926 (Seldon 1986, 12).

[101] West 1994, 98. "Thirdly, parents in the future are likely to want to spend more money on education than the political system will produce, not only to buy tangibles like smaller classes, better teachers, better libraries, equipment and facilities, but also intangibles like beautiful surroundings, ethos, religious values, and so on. A small minority already 'go private' to get these things. But a much larger group is debarred from doing so because they cannot afford to pay 'twice over' – once for the private school place their child takes up, and once for the state school place he or she does not. As a result there is a pent-up demand for better or different styles of education which is not being met by the present state system and which, I believe, can be released only by allowing parents to pay fees in state schools (…) The starting point would be to make all state schools legally independent, non-profit making private corporations. This would put them in the same position as most private schools and all universities … Privatising state schools, rather than nationalising private schools, is the unexpected solution to the problem of the class divide in education" (Skidelsky 1996, 16-17).

[102] Blaug 1984, 162-163.

5.2. Failings of the market and failures of the state

The American Nobel laureate's proposal has been followed by widespread debate with support for education vouchers coming from various renowned figures including Friedrich von Hayek, another winner of the Nobel Prize for economics.[103]

The basic idea of a school voucher scheme is to recognize certain shortcomings of the market inherent in the education sector, e.g. externalities or the fact that education is a *merit good* (hence the foundation of public funding), and to rectify certain shortcomings of the non-market regarding freedom of choice, incentives, and especially productive efficiency (hence private provision).[104]

The private provision of education presupposes, however, the absence of market shortcomings. On the one hand, the education sector does in fact appear to involve no economies of scale such as might give rise to monopoly situations[105] and no significant barriers to entry or exit. The conditions also appear to be in place to ensure that competition in the provision of services can lead to greater productive efficiency and innovation.[106]

On the other, it is probable that a system for the private provision of education would lead to market shortcomings in terms of informational asymmetry. Freedom to choose among different competing private schools – whose desire to obtain the highest number of students and hence maximize profits could lead them, for example, to offer alternative and particularly attractive syllabuses – would necessitate the possession of adequate information, to which many families may lack access.

While this system thus offers greater opportunity for choice with respect to meeting individual needs, less informed parties can be exposed to risks in terms of education quality, which necessitates public intervention in the form of regulation and control.[107]

As has been pointed out, in addition to its possible effects on the quality of education when families constitute the principal and the provider of the service the agent, informational asymmetry may also affect the real correspondence of choices to individual

[103] "Expenditure on general education could easily be met out of the public purse without making it necessary for the state to maintain the schools by providing parents with vouchers covering the education costs of each child to be used at the school of their choice" (Hayek 1969, 423). With reference to Friedman, Antonio Martino also points out that "'public' funding and the compulsory element would be maintained, but the funds, in the form of education vouchers, would go not to the schools but to the students entitled, who would be free 'spend' them at the school of their choice. In order to prevent fraud, the vouchers would obviously have to be personal and non-negotiable, and (…) valid for use only at schools meeting at least certain minimum standards, laid down in clear and non-discriminatory terms by the authorities, which would also be responsible for monitoring compliance with the same" (Martino 1994, 125).

[104] A survey carried out in the United States in the early 1980s showed that private schools were run at about half the cost of comparable public schools (Coleman, Hoffer and Kilgore 1982).

[105] Even though there is the risk in scarcely populated areas of the "replacement of a state monopoly by a private one", [which] "will do little to increase [the beneficiaries'] freedom of choice" (Le Grand 1991, 82).

[106] "Leaders can urge schools to improve; legislatures can order schools to improve; outstanding principals and superintendents can force schools to improve. But only competition can motivate *all* schools to improve – because only competition for customers creates real consequences and real pressure for change when schools fail. Only competition forces principals and teachers – constantly – to make the difficult changes necessary to meet the needs of their students" (Osborne and Gaebler 1992, 96). "Competitive provision [of public education] would promote efficiency and innovative schooling practices" (Cave 2001, 73).

[107] "Users [of public services] are often ill-informed about the quality or other aspects of the service concerned (…) In a conventional market this situation leads to the possibility of the exploitation of monopoly power by providers; and a quasi-market with vouchers is no exception (…) In such cases it is hard to escape the conclusion that there has to be a certain amount of state regulation and monitoring (…) The tyranny of the agent will have to be counterbalanced by the tyranny of the state. The extent to which vouchers actually create freedom of choice for consumers in practice will depend on that balance" (Le Grand 1991, 83-87).

requirements when the principal is the student and the agent the parent, who may pursue personal interests clashing with those of his or her child.[108]

Another possible shortcoming of the market with respect to the private provision of education is connected with its necessary universality at equal conditions of price. A private system could in fact institute admission policies to discriminate against students involving higher costs, e.g. due to problems of a physical or psychological nature.

While such discriminatory practices could be countered by means of regulations and/or economic sanctions,[109] the effectiveness of these measures could be limited due to the transaction costs (e.g. legal expenses) borne by the person refused admittance in order to prove that this was for improper reasons.

5.3. Charges of elitism

All the proposals put forward in the United States over the last thirty years for the introduction of education vouchers have been strongly opposed by the unions of American school teachers.[110] Large-scale mobilization on the part of the National Education Association (NEA) contributed significantly to the defeat of the referendums held in various states to introduce school voucher schemes.[111]. The NEA website makes the assertion that despite desperate efforts to restrict the debate on vouchers to the possibility of improving opportunities for students from low-income families, this remains an elitist strategy designed to subsidize education for students of private schools and not to broaden

[108] "[In the case of] vouchers for primary and secondary education (…) the relevant decisions – children's – are taken for them by agents – their parents. All of these are what might be termed agent-voucher schemes. Now the problem with agent-voucher schemes is that there is no guarantee that the agents concerned will necessarily act in the users' best interests. Parents will have their private interests (…) to pursue. Some of these may coincide with the interests of the user, but some may not (…) Anecdotal evidence suggests that it is not unusual for bright working class children to be encouraged to leave school at 16 and get a job in order to supplement the family income" (Le Grand 1991, 84).

[109] In the case of a school voucher program instituted by the state of Ohio and challenged by a group of taxpayers, for example, a recent ruling of the Supreme Court of the United States makes the following assertion: "Participating private schools must agree not to discriminate on the basis of race, religion, or ethnic background, or to 'advocate or foster unlawful behavior or teach hatred of any person or group on the basis of race, ethnicity, national origin, or religion" [and] "all participating schools, whether public or private, are required to accept students in accordance with rules and procedures established by the state superintendent" (536 U.S. ___2002, 3-4).

[110] In the case of United Kingdom, it is worth recalling that the ideologue and later minister of education Keith Joseph described education vouchers during an interview with Guy Sorman in the 1980s as a useful bogeyman. The mere mention of them during negotiations was enough, he claimed, to frighten the teachers' union and reach a quick satisfactory agreement on the implicit understanding that they would not be introduced (Sorman 1984). In fact, the Baker Act introduced by the Thatcher government in 1988 preferred to institute a system of optional financial independence based on enrolment numbers for such schools as submitted applications. "The fact that the resources consist of state fiscal revenues rather than the individual funds of parents makes this a form of internal market" (Pirie 1992).

A technical argument (which in no way contradicts Joseph's assertion) with respect to the marked trade-union preference for a public monopoly over the supply of education regards the fact that this "is usually accompanied by trade union monopoly of the supply of labour (…) [This situation of bilateral monopoly leads to] a struggle between different interests, the outcome depending on their relative bargaining strengths and other adventitious circumstances, including political and other pressures (…) There is also a possibility of collusion between the two monopolists to exploit the public. Various cases of wage settlements under government pressure, under-written by taxpayers' money, come close to this outcome" (Dennison 1984, 20).

[111] In Maryland (1972, For: 45%, Against: 55%), Michigan (1978, For: 26%, Against: 74%), Colorado (1992, For: 33%, Against: 67%), California (1993, For: 30%, Against: 70%), Washington (1996, For: 36%, Against: 64%), Michigan (2000, For: 31%, Against: 69%), California (2000, For: 29%, Against: 71%). In the case of California, it is calculated that the opponents of Proposition 174 for the introduction of *Parental Choice in Education*, invested $16 million in a campaign (Harmer 1994).

the range of opportunities for student from families with lower incomes.[112] The National Education Association stresses the concern that public funding earmarked for education might be used to subsidize students of private schools rather than support public schools in a state of need, thus transferring resources from those with less to those with more.[113]

It is also possible that school voucher schemes based on forms of co-payment by beneficiaries will produce a social layering of education whereby, even though access to quality schools is actually expanded to a significant degree, students from families with very low incomes could come to be concentrated in the public schools. This typical phenomenon of mass opting out with respect to a public service regarded as substandard could involve two types of cost for those still making use of the service. On the one hand, there is the loss of positive externalities deriving from the interaction of individuals from different social and cultural backgrounds. On the other, a "ghetto effect" could be produced with long-term social costs (e.g. in terms of security) that are hard to estimate. As has also been observed, however, "If one consequence of vouchers is schools that specialize in educating the children of the rich, why should not another consequence be schools that specialize in the challenge of educating children from the poor?"[114]

Recent experience with a system of "quasi vouchers"[115] in New Zealand has in fact shown that "Parental choice significantly exacerbated the problems faced by many schools serving concentrations of disadvantaged students (…) One potential benefit of the new governance arrangement is that the failures of such schools are more visible and less easily ignored than under the old system" (Fiske and Ladd 2000, 288). For this very reason, however, it is also argued that "If in fact there is a concentration effect, so that the educational challenges facing a school are disproportionately greater as the proportion of disadvantaged students increases, a better way to compensate schools for the educational challenges they face is to direct additional funds to schools based on the mix of students in the school. That is what New Zealand currently does through its program of targeted funding for educational achievement (TFEA)."[116]

5.4. Honor loans

Another classic tool proposed to counter the possibility of discrimination against low-income groups is the "honor loan" devised by Milton Friedman as long ago as 1955. Friedman's initial argument was that despite "considerable empirical evidence that the rate of return on investment in training is very much higher than the rate of return on investment in physical capital" there was "sizable underinvestment in human beings" due

[112] www.nea.org/issues/vouchers.
[113] This concern about the effects of education vouchers on equity appears to rest on foundations similar to those referred to by Le Grand in his assertion that education vouchers raise "an equity issue here, in that many students [of private schools] (indeed most) come from well-off backgrounds; moreover, many will go on to well-paid jobs as a consequence of the education they have received at the public expense" (Le Grand 1991, 80). Le Grand was referring, however, to a situation where vouchers of equal value were issued to all students of both public and private schools regardless of their financial status. Concern as to the possible inequality of education vouchers and their allegedly elitist nature would instead prove far less justified in the case of a scheme where only students belonging to the low-income bracket were entitled to receive vouchers, or where the value of the same varied in relation to appropriate indicators. In this case, the vouchers would enable their beneficiaries to obtain a Pareto improvement and thus increase the range of choice at no cost or with gradual costs of co-funding.
[114] Le Grand 1989, 203.
[115] The term comes from Wylie 1998. In New Zealand's system, a proportion of the education funds, including the program of selective funding in relation to academic results, is still assigned directly to the schools on the basis of criteria other than the mere number of enrolments.
[116] *Cit.*, 302.

to "an imperfection in the capital market (…). A loan to finance the training of an individual who has no security to offer other than his future earnings is therefore a much less attractive proposition than a loan to finance, say, the erection of a building"[117]

Given the law of large numbers, however, such problems of risk management can only be solved if the honor loan system is applied on a vast scale. It is in fact possible to "advance him the funds needed to finance his training on condition that he agree to pay the lender a specified fraction of his future earnings. In this way, a lender would get back more than his initial investment from relatively successful individuals, which would compensate for the failure to recoup his original investment from the unsuccessful."[118]

In this connection, an interesting variation would be to link the amount of the loan to indicators of economic situation and above all to organize its repayment through an additional tax on income (graduate tax) spread over the recipient's lifetime.[119] This would minimize the impact both of greater or lesser propensity to take risks (which may also be related to one's initial economic situation) and of the rate of interest, given that an interest rate higher than zero should in any case be charged on the loan in order to distinguish it from a subsidy.[120]

Combining the honor loan system with a voucher scheme would make quality education really available to all those sufficiently motivated to seek it. This appears, however, to be more easily implemented, at least initially, in the sector of university education, given its more direct links with working life.

Another tool capable of helping to solve the problems of social layering in education is the introduction of *tutorial aid vouchers* for those choosing to remain in the public school. First introduced in the state of Ohio, such vouchers could probably find an interesting form of application in Italy with respect to the longstanding problem of private lessons, which a great many teachers offer to pupils of other classes in order to supplement their incomes.

5.5. The effects of increased demand

Finally, it will also be necessary to examine the concern expressed that a voucher scheme could have the effect of increasing overall spending on education not only in the short term, due to the "J effect", but also in the long term due to the increase in overall demand and hence price generated, supply remaining equal, by the entry of beneficiaries into the market of private education. On the realistic assumption that non-beneficiaries, i.e. those from higher income brackets, present lower elasticity of demand with respect to price than beneficiaries, one of the effects of vouchers would in fact be to increase the profits of private schools.[121]

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[117] Friedman, 1955, 10, 11.

[118] *Ibid*.

[119] Blaug 1980, 45.

[120] In his examination of the concrete case of the British Student Loan System, Edwin West claims that the decision not to charge interest on such loans actually means a net subsidy of "£500 per student – about 22 per cent of the value of the original (…) [which] the government wants students to pay them (…) A loan is a loan and a subsidy is a subsidy and the two concepts must be clearly distinguished. (…) a loan is not a loan under the usual definition if the real interest charged is zero" (West, 1994, 39). Others argue, however, that "subsidisation of demand could expand the market further and may be justified by its broader social and economic effects" (Hillman, 1996, xii).

[121] Bradford and Shaviro 1999, 51. From the economic viewpoint, the spread of voucher programs "depends on the income and price elasticities of demand by beneficiaries and nonbeneficiaries, as well as on the price (and perhaps income) elasticity of supply" (*cit.*, 52). For example, if the elasticity with respect to price of demand by beneficiaries and of demand by non-beneficiaries (who contribute to the program through taxation) were the same, and the marginal effect of a dollar of income were hence the same in the two groups,

Julian Le Grand also suggests that a further effect of the increase in demand brought about by the adoption of a voucher scheme could be the introduction of "rationing devices, such as entrance examinations or the use of family connections".[122]

An important role is played in the United States by the positive precedent of the great success[123] achieved in the postwar period by the Servicemen's Readjustment Act, better known as the GI Bill of Rights, introduced by Roosevelt in June 1944, which encouraged former servicemen to enroll in higher education with the support of a sort of voucher system.[124] Congress "didn't fund GI colleges; it let every GI pick an accredited university, college, or technical school and offered to pay for it. With this act, Congress turned millions of battle-scarred young men into the educated backbone of a 30-year economic boom."[125]

5.6. One way to counter the risks of public monopoly

Not least in connection with its legal implications, a key element distinguishing school voucher schemes from any other kind is the greater importance attached in this case to the consumer's freedom of choice, which involves ideological and cultural components that are not present in other forms of application. This ideological dimension of the analysis is then combined with other considerations of an economic and social nature, which can make it more complicated to draw clear conclusions.

One of the most important aspects in this connection regards the effects of state education as a potential de facto public monopoly for the poorer sections of the population. While such a situation can have some specific justification[126] and produce various economic and social effects with respect both to incentives and to the efficiency of production and resource allocation,[127] it can also lead in the specific case of education to

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the program would simply transfer resources from one social group (non-beneficiaries) to another (beneficiaries). There would be no change in overall demand, i.e. the sum of the demand of the two groups, or in the equilibrium price. Non-beneficiaries would consume less private education than before, but this decrease would be balanced perfectly by the increased consumption of private education by beneficiaries.
But if, as it is realistic to assume, demand by non-beneficiaries is less elastic with respect to price (due to their higher incomes, for example) and the drop in their demand is therefore less than the increased demand of beneficiaries, this may lead to a rise in overall demand and a consequent rise in the equilibrium price. Therefore, in these realistic conditions of elasticity, "part of the program's effect is to increase the surplus of suppliers" (*cit.*, 51) and hence of private schools (Le Grand 1991, 87).

[122] *Ibid.*

[123] "Perhaps the most successful social program in American history" (Osborne and Gaebler 1992, 181).

[124] "Each veteran who qualified was given a maximum sum per year that could be spent at any institution of his choice, provided it met certain minimum standards" (Friedman 1955, 4).

[125] Osborne and Gaebler 1992, 181. "In health care, Congress took the more traditional route. It built GI hospitals, and it assigned veterans to specific hospitals. One system let customers choose their institution, hence promoting competition; the other system assigned customers to institutions that could take them for granted, because they were monopolies. Which worked better, the GI bill or veterans' hospitals?" The authors draw the following conclusion: "The single best way to make public service providers respond to the needs of their customers is to put resources in the customers' hands and let them choose (…) if the customers do not have a choice of providers (…) they remain dependent on the goodwill of the provider (…) When providers have to compete, they constantly look for ways to cut their costs and increase their quality (…) When they get their funds from their customers, rather than from a legislature, they also have far greater incentives to invest in innovation" (Osborne and Gaebler 1992, 180-182) .

[126] In particular, as mentioned above, the existence of externalities (including public goods), informational asymmetry, merit goods, economies of scale, and barriers to entry and exit.

[127] "Perhaps the most important issue at stake in the choice between vouchers and other methods of delivering earmarked commodities to specified beneficiaries is the incentives bearing on suppliers. Differences in the incentives faced by the personnel in public agencies as compared to private firms are often considered the most important factor at stake in voucher debates." Even though "there is obviously significant ideological

the risk of a "collectivization of opinion". In other words, it can also be argued that, in particular circumstances, a public monopoly of education could provide a way of disseminating certain values amongst the population. But while this can have an impact on future generations in terms of education and cultural harmony, "with this justification the purpose of government schools is revealed not as solving a problem of externalities or inequality – legitimate goals – but as an ideological one that embraces the very collectivization of opinion".[128]

The absence of a voucher system allowing all to choose their own form of education on religious, social, academic and other grounds can therefore also violate some principles of individual freedom: "As a consequence of the free choices of individuals, vouchers (…) preserve a healthy competition of religious and secular ideas relating to education that, like other forms of competition, provides a decentralized route to social progress. The alternative of public control over all education leads to monopoly power (…) [which comes in the context of the United States] perilously close to the establishment of orthodoxy that the Establishment Clause[129] was designed to prevent. In short, public funding of education without public control over the content (…) resembles the kind of spontaneous order of norms that the Framers [of the Constitution of the United States of America] favored more than a system of public funding and control where individuals are penalized through taxation for seeking an education infused with their own ideals."[130]

While some thus see school voucher schemes as a valid alternative to a system that combines public funding and control and is held to violate some principles of individual freedom, others maintain that plans to introduce such schemes are to be viewed as tools capable of "collectivizing ideas", and religious ideas in particular.[131]

5.7. The fear of favoring religious schools

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disagreement in our society (…) on how to assess the relative desirability of competitive private supply" the classic argument in support of the latter is that "the profit motive, when combined with the need to satisfy customers who have other options (…) is the best available goad to inducing both economizing behavior in production and socially valuable innovation (…) Government provision, under this view, suffers both from a tendency to encourage the creation of monopoly power and from under-powered or misdirected bureaucratic incentives" (Bradford and Shaviro 1999, 45-46).

[128] McGinnis 2001, 15.

[129] "The Establishment Clause of the First Amendment………prevents a State from enacting laws that have the 'purpose' or 'effect' of advancing or inhibiting religion" (536 U.S. ____ 2002, 7).

[130] McGinnis 2001, 3.

[131] In Italy, for example, proposals for the introduction of education vouchers have usually been restricted exclusively to middle and elementary schools and day care centers, where the non-state organizations operating are in most cases characterized by marked religious affiliations. They do not extend to universities, where non-religious organizations also operate in the private sector, which is often of excellent quality. The possibility of using a voucher system limited to compulsory schooling or higher education has thus led to doubts in many quarters that this might be an attempt to favor organizations which already enjoy a de facto relative monopoly (in some cases religious institutions), where students could instead find teaching of a different and alternative nature with respect to the public supply. Moreover, the trial application of vouchers where users are more directly in a position to evaluate how far the service provided corresponds to their expectations is unquestionably easier in the case of high school and university than at the lower levels. In the latter case, the parents would be able to judge, but they are not the pupils and it is not necessarily desirable that, in addition to the influence they exercise in the family at that age, they should also be able to control every aspect of the sort of teaching received by infants. Attention should be drawn in this connection to a more general observation made by Le Grand and Robinson (1984, 12-13): "Many libertarians would like a lot of the decisions currently made by the state to be returned to the family. Yet the powers of the family do not seem intrinsically less coercive than the powers of the state. Indeed, many of the welfare state's activities can be viewed as protecting individuals against the tyranny of their families."

This is an important aspect in that it constitutes the central issue involved over the last six years in the legal proceedings that recently came to an end with the ruling delivered by the Supreme Court of the United States.[132] Reversing previous verdicts delivered by the District Court in August 1999[133] and the Appeals Court in December 2000[134] (and making a judgment that in some respects also clashes with the results of the referendums on education vouchers previously held in various American states[135]), it established by a majority of just five votes out of nine that programs for the introduction of education vouchers do not violate the Establishment Clause of the First Amendment and hence do not constitute a tool advancing religion.

The verdict of the Supreme Court regards a school voucher scheme instituted in 1996 by the state of Ohio[136] to tackle what was described as "a crisis perhaps unprecedented in the history of American education".[137] The program was then challenged by a group of citizens as conflicting with the Establishment Clause.

While the Court acknowledged that the overwhelming majority (82%) of the private schools taking part in the project were religiously affiliated and that practically all the students making use of the scheme (96%) "enrolled in religiously affiliated schools",[138] it stressed the absolute neutrality of the project with respect to the different types of school. In addition to establishing that the program in question was instituted "for the valid secular purpose of providing educational assistance to poor children in a demonstrably failing public school system" the Court stated that its decisions "have drawn a consistent distinction between government programs that provide aid directly to religious schools and programs of true private choice, in which government aid reaches religious schools only as a result of the genuine and independent choices of private individuals".[139]

The terms of the debate on the question of whether a voucher program in itself constitutes a violation of the Establishment Clause thus appear to boil down to an asymmetry between theoretical approach and practical application. While the Court ruled

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[132] No. 00-1751, 27.6.2002, (cited as 536 U.S.___2002).

[133] 54 F. Supp. 2d 725 (ND Ohio).

[134] 234 F. 3d 945 (CA6).

[135] See note 104.

[136] The program offers two sorts of assistance to the parents of students living in the district in question. First, the program offers tuition aid for students up to the third grade so that they can attend public or private schools at the sole discretion of their parents. Second, it provides tutorial aid for students who decide to continue their studies in the public school of their district. Tuition aid is granted to families in relation to their financial situation: "Families with incomes below 200% of the poverty line are given priority and are eligible to receive 90% of private school tuition up to $2,250. (…) For these lowest-income families, participating private schools may not charge a parental co-payment greater than $250 (…) For all other families, the program pays 75% of tuition costs, up to $1,875, with no co-payment" (536 U.S.___(2002), 4). Tutorial aid is also proportional to income: "Students from low-income families receive 90% of the amount charged for such assistance up to $360. All other students receive 75% of that amount" (536 U.S.___(2002), 4). In addition to these two options (using tuition aid to attend a private school freely chosen by the parents or staying in the public school and receiving tutorial aid), in theory students can also opt to attend a public school located in the adjoining district that has chosen to take part in the program: "Adjacent public schools are eligible to receive a $2,250 tuition grant for each program student accepted in addition to the full amount of per-pupil state funding attributable to each additional student" (536 U.S.___(2002), 3). As of July 2002, about 4,000 low-income families had opted for private rather than public schools despite the fact that this obliges them to meet 10% of the cost.

[137] "The district had failed to meet any of the 18 state standards for minimal acceptable performance" and "more than two-thirds of high school students either dropped or failed out before graduation". Of the students awarded diplomas, "few could read, write, or compute at levels comparable to their counterparts in other cities" (536 U.S.___(2002), 2). In view of this situation, a district federal court placed the entire educational district of the city of Cleveland under state control in 1995.

[138] 536 U.S.___(2002), 5.

[139] *Cit.*, 7.

that a voucher program does not violate the Establishment Clause, it remains a fact that practically all the private schools accepting vouchers are religious.

Milton Friedman suggests, however, that this asymmetry stems from the low value of the voucher and that a simple solution can therefore be found: "The Supreme Court's voucher decision clears the way for a major expansion of parental school choice. (…) Most schools that accept vouchers are religious for a simple reason, and one that is easily corrected. That reason is the low value of the voucher. It is not easy, perhaps not possible, to provide a satisfactory education for $2,500 per student. Most private schools spend more than that. But parochial schools are able to accept that low voucher amount because they are subsidized by their churches. Raise the voucher amount to $7,000 – the sum that Ohio state and local governments now spend per child in government schools – and make it available to all students, not simply to students from low-income families, and most private schools accepting vouchers would no longer be religious. A host of new nonprofit and for-profit schools would emerge. Voucher-bearing students would then be less dependent on low-tuition parochial schools. Parents would then truly have a choice, and the quality of schooling – in both public and private schools – would soar as competition worked its magic. This has happened in Milwaukee, where the voucher program has evolved over the past 10 years. Since that program's creation, 37 new schools have opened, nearly two-thirds of them nonreligious."[140]

On the one hand, extension of the program to students from more prosperous families may help to create the demand for secular private schools spoken of by Friedman. On the other, however, not least due to the negative effects it may have in terms of equality,[141] education prices, and hence public spending, it may not prove a necessary step for the implementation of a voucher scheme, at least during an initial pilot phase.

6. Other types of vouchers

6.1. Municipal vouchers for social services

A law for the creation of an integrated system of social services[142] was passed in Italy during the year 2000.

The law is markedly innovative in character in that explicit provision is made in article 17 for the introduction of voucher systems for public social services.[143] At the same time, while introducing a "social services charter" for access to general information on procedures for the provision of the services in question,[144] the law goes no further and

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[140] Friedman 2002.

[141] Le Grand 1991, 80. See also note 98.

[142] Law 328 of 8 November 2000.

[143] The law empowers municipalities to issue "vouchers for social services (…) in place of economic services other than those connected with the minimum standard of living" (art. 17, c. 1)

[144] The primary purpose of this social services charter (Law 328/2000) is to "safeguard users' subjective positions" (art. 13, c. 1). It specifies "criteria for access to services, functional procedures, conditions to facilitate appraisal by users" (art. 13, c. 2). In particular, in terms of content, "the charter is to specify:

- the conditions for a pact of social citizenship at the local level
- the social opportunities and pathways available
- the map of institutional and social resources
- the essential levels of assistance envisaged
- the standards of quality to be met
- the forms of citizen participation
- the procedures for safeguarding rights, especially for the more vulnerable
- the commitments and plans for improvement
- the rules to be applied in the event of failure to meet standards"

makes no mention of the need to issue smart cards in order to facilitate digitized management of the vouchers for public services.

Moreover, while the law recognizes "the fostering of social solidarity, with the promotion of initiatives launched by persons (…) and organized solidarity" (art. 1, c. 5) as one of its aims, it does not rule out, in principle, recourse to particular types of voucher making new forms of organization possible. In actual fact, due also to the ability to exercise control over demand while ensuring that beneficiaries enjoy a certain freedom of choice, new forms of organization based on the use of vouchers appear to possess interesting potential in terms not only of reducing transaction costs but also of the capacity to attract sizeable donations.

By ensuring that donations are used solely to purchase specific goods and services generating particular externalities of consumption and only from certified suppliers, vouchers are in fact capable of making significant improvements as regards in the structure of incentives for donations and thus laying the foundations for considerable expansion.

The fact that the flow of donations is closely linked to the guarantee that the sums donated are to be used solely and exclusively for the purposes specified by the donor is demonstrated by a recent survey reported in the *International Herald Tribune*,[145] which states that 75.8% of the donations made in the United States in 2001 came from individuals and the rest from legacies (7.7%), foundations (12.2%) and commercial companies (4.3%).

A concrete example of the application of vouchers in the social sphere is provided by *Ticket Service*, a company founded in France in 1992 and specializing in the issuing and management of "vouchers for the purchase of social services" in place of aid in cash form, the goal being to use tools for administrative simplification and to monitor the effectiveness of the services provided.[146] The company now operates in various European countries including Austria, Germany, Belgium and Italy (since a few months ago).

6.2. Solidarity vouchers

Another concrete application of vouchers for social services is contained in a project to be launched shortly that was initially proposed to the Fondazione Gerolamo Gaslini, Genoa, by the research and consultancy firm Lynkeus. The program is being joined by other foundations and organizations of social utility, and has been endorsed by many important figures. It will be managed by a leading company in the sector of consumption vouchers.[147]

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[145] With reference to donations to the fund for victims of the terrorist attacks of 11 September 2001, the newspaper reports that when the donors learned that the American Red Cross Liberty Fund had received $543 million in donations "on the basis of the attack" and did not intend to use the entire sum for the victims but to create reserves for other disasters, feeling of betrayal and outrage ran so high that Bernardine Helay, the president of the organization, was forced to resign. Some local Red Cross chapters subsequently reported a drop of 30% in donations (*International Herald Tribune*, 22-23 June 2002, 17).

[146] "Ticket Service is aimed at all organizations seeking to help the poorest and disadvantaged sections of the community: social services, local authorities and humanitarian associations. Ticket Service is a non-discriminatory legitimizing voucher scheme that makes it possible, while respecting the dignity of the beneficiary, to obtain the products and services needed for daily life and correct social integration. For the bodies and organizations that have adopted it, Ticket Service constitutes a useful means of control over expenditure due to the fact that its circuit and specific functioning guarantee its legitimate use. It also lightens the administrative and organizational burden in that all technical and operative aspects are handled by a specific company. On the basis of information provided by the organization, this company also organizes "the network of affiliates (…) [which] can comprise supermarkets, shops, pharmacies, clothing stores, etc." (Ticket Service 2001).

[147] The Gemeaz Cusin Group, owned by the French multinational Accor, which already operates the Ticket Restaurant luncheon voucher system and the innovative Ticket Service program mentioned above.

The "solidarity voucher" project is to be called *AssegnoAmico* and will be piloted locally at the outset.[148] It is designed to assist the weaker sections of the community, especially children, by channeling new flows of funding towards solidarity activities.

The *AssegnoAmico* project hinges on the issuing and distribution of vouchers for essential goods and services to beneficiaries in need of concrete support and solidarity. The vouchers can be distributed in place of cash aid and will make it possible to achieve five primary objectives.

i. Donors will know for certain how their money is spent.
ii. The flow of *ad personam* donations for children and other disadvantaged sections of the community will be channeled to accredited public and non-profit organizations capable of providing essential goods and services, thereby bringing beneficiaries into a circuit of legality and support.
iii. Starting from initial pilot schemes at the local level, every effort will be made to win the support of public institutions and a broad range of private donors so as to expand and replicate the fiduciary circuit channeled through *AssegnoAmico* at the inter-regional, national, and ultimately European levels.
iv. The creation of a new fiduciary circuit that is better organized and guaranteed will make it possible to increase the spontaneous flow of solidarity initiatives, where improvisation currently plays too large a part.
v. Companies and individuals involved in the *AssegnoAmico* project will become eligible for tax deductions.

A specific organization will be appointed to run the entire operation and to develop and promote, directly or indirectly, activities and initiatives designed to channel donations to those in need.

This organization will enter into an agreement with a partner responsible for issuing the vouchers. It will order their production, handle their delivery to donors, coordinate all the activities designed to publicize and promote the project, and guarantee its non-profit nature.

Donors can obtain vouchers from the organization in question or from the issuing company (and hopefully from other points of sale in banks and post offices) and supply them to beneficiaries by whatever means they choose, both directly and through special channels of distribution (e.g. parishes, social workers, specific non-profit organizations selected *ad hoc*).

The beneficiaries can use the vouchers as they choose at one of the accredited service centers, which will take the vouchers and send them to the management company periodically for reimbursement.

The aim of the *AssegnoAmico* project is to develop a fiduciary circuit consisting primarily of donors, beneficiaries and accredited providers of goods and services. This should serve to establish a network of structures capable of providing the services required by those in need and offering solid guarantees for donors and recipients alike. Donors will know that their money is going into a system capable of channeling the flow of donations with no waste and that they are taking part in a charitable initiative to assist the less fortunate. Recipients will benefit in two ways:

1. They will receive financial and moral support with no loss of dignity.
2. They will be welcomed into the *AssegnoAmico* circuit, which will not only direct them to accredited centers where they can make real use of the services they

[148] Especially in the province of Genoa.

require but also help to protect them against possible forms of exploitation and foster social integration.

The accredited centers will be essentially public and non-profit structures explicitly responsible for providing specific types of goods (medical items, food, clothing, etc.) and services (accommodation, housing, training, legal assistance, etc.). They will be inspected periodically to ensure that they are operating correctly.

6.3. Service credits

Another interesting possibility of implementation for the vouchers introduced by the new law regards the application of solidarity vouchers (e.g. the above-mentioned case of *AssegnoAmico*) together with service credits.

Service credits were introduced by Edgar S. Cahn in 1986 and have found concrete application in various parts of the United States. They are intended to act as a new kind of money applicable in the area of care and based on units of time.

Schematically, the basic idea is to enable individuals to offer a certain number of hours of their time (depending on availability) to undertake non-specialized social services (e.g. general assistance for the elderly, the ill, and so on.) with the guarantee (which Cahn originally envisaged as being provided by an agency of local government) of receiving the same number of hours when in need.

The project is based on an idea primarily regarding the elderly:[149] "When a society has vast unmet needs at the same time that there are large numbers of healthy, energetic productive human beings for whom the society can find no use – even though they would like to be useful – then something is wrong."[150]

One potential problem with Cahn's model lies in the ratio of 1:1 between units of time given and received. There are people, e.g. the unemployed and immigrants, who generally have a great deal of time on their hands. As time is not a scarce commodity for them, they might well be very willing to "trade" it, but much less interested in receiving it.

Another important element is the formation of human capital that the system of service credits produces. In addition to keeping a person active, with all the positive effects this can bring at different levels, carrying out a social service can enrich the performer with certain skills and contacts that could also increase, where possible, his or her chances of obtaining employment.

Service credits have come in for criticism on four counts. The first regards the quality of the services ("The non-professional work performed under the scheme [could prove] qualitatively insufficient to meet the needs and requirements of its users."[151]). The second refers to problem of a redistributive nature and the possible creation of "distributive vacuums" ("As people grow older they can no longer enter the system on the supply side." [152]). The third concerns problems of the "erosion of altruistic motivation"[153] (the possibility of service credits introducing motives that some would regard as "selfish"[154] also in the sphere of unpaid voluntary work). The fourth points out the risk that such a system might

[149] "Service credits are a market-oriented way to use the talent and time of our senior population" (Green and Lebbetter 1988, 12).

[150] Cahn 1986, 1. See also Cahn 1992 and 2000.

[151] Offe and Heinze 1997, 163.

[152] *Cit.*, 166.

[153] *Cit.*, 167.

[154] *Ibid.*

offer “a pretext to reduce welfare services, which are already under pressure, still further and rely on their role being taken over spontaneously by self-help mechanisms”.[155]

The experience with service credits subsequently led to the *Time Bank* project. The concept was taken up in Parma[156] in the early 1990s and the first concrete *banca del tempo* was founded in the same period by a group of women at Santarcangelo di Romagna. About 220 time banks were founded in Italy between 1995 and 2001, a success that won the project some international resonance.[157] Frequently compared with the British LETS (*Local Exchange Trading System*) and the German *Talente Tauschringe*,[158] the *Banca del Tempo* is based on the reciprocal exchange of time but eschews the barter approach peculiar to the LETS in favor of indirect exchange. In other words, each exchange results in debits and credits with respect to the bank rather than between the actual individuals involved. Those who lend some of their time thus accrue credit in the bank, which it will pay back by making available the time owed by those who have enjoyed services for an equivalent number of hours. This time can also be used for services other than those through which the credit was accrued. To give an example, if Tom devotes two hours of his time to gardening for Dick, he has a credit of two hours at the bank, which can repay him with two hours of babysitting from Harry. The time involved is in any case “objectivized”, i.e. an hour is always an hour regardless of whether the person involved is a housewife, employee, worker or employer.[159]

On this basis, those registering with the time bank normally specify the services they can provide and those they need. A current time account is then usually opened to record the transactions and a checkbook is issued for accounting purposes, units of time being credited to those who perform services and debited to those who receive them.

It is possible to imagine possible forms of convergence between this approach and solidarity projects such as *AssegnoAmico*. Under certain conditions, time checks could become convertible into solidarity vouchers, thus combining the system of reciprocal exchange with that of donations. For professionals registered with time banks, this could constitute an attractive form of non-monetary[160] exchange by permitting access to certain social services and goods that are otherwise hard to obtain while also offering some freedom of choice. Moreover, the fact of “earning” vouchers rather than receiving them as charity could obviously have positive effects for the beneficiary (e.g. at the psychological

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[155] *Cit.*, 169.

[156] The term was originally coined by the Swede Gosta Rehn. See Standing 1999, where reference is made to the idea of a *citizenship welfare card* in connection with the remonetization of social services and the possibility of “a system of *social drawing rights* [that] would give all citizens a personalised account of entitlements” (…) “this relates to Gosta Rehn’s idea of a *time bank*, although it should also have points for disability, for childbearing, and so on. It would be a form of saving for those earning income, and a form of social income for those not receiving a money income” (Standing 1999, 369-370).

[157] As regards the need for France and Europe to “promote the allocation of capital for socially and environmentally useful activities”, Patrick Viveret asserts that the “exchange systems invented or reinvented in recent years, especially those based on the exchange of time, seek to recreate the exchange of proximity on the principle that ‘the [social] bond is superior to the good’”. He thus regards the time bank as constituting a new form of monetary exchange capable of strengthening social ties, unlike “official money, which ends up concealing them” (Viveret 2002, 8).

[158] Kennedy 1992, Tibbett 1997, Bauklage and Wendel 1998, Boyle 1999, Lietaer 2001. See also the *International Journal of Community Currency Research*, accessible on www.geog.le.ac.uk/ijccr.

[159] For more general discussion of the economy in relation to the assumed objectivity of the time value, see Bresson 1984 and 1994, and Bresson and Guitton 1991.

[160] The exchange would be between time and services in kind, and therefore not directly monetary in character. Unlike Cahn’s model, however, the exchange is indirectly monetary (albeit only in part). One element involved in the exchange (the services obtainable by means of vouchers) will give rise to conversion into money when the providers of the services present the vouchers to the issuing concern.

level) and also serve to improve the incentive structure significantly for donors,[161] thus helping to increase the flow of donations.

7. From vouchers to virtual citizenship accounts

With reference to the rich and varied range of applications examined above, importance obviously attaches to the fact that any voucher system can in principle be organized as a mechanism based on smart cards.[162]

As pointed out, these cards can be used to store the information contained in the vouchers and indeed to strengthen and fine-tune their character as "tied money", making them a tool capable of acting as the "social money" needed to take advantage of the opportunities of the "social market" while minimizing transaction costs.

In point of fact, the use of smart cards would permit both automatic processing of the information contained at various levels and a marked reduction in monitoring, management and transaction costs.

In this technological form, vouchers would be easy to personalize and could also become multifunctional, permitting the holder access to goods and services from a multiplicity of sectors governed by different rules, constraints and indicators of economic, social and health status.[163] Transformed into "cards for access to social services", vouchers would thus also come to form an effective technological prerequisite for the launching of a welfare policy based on the creation of "virtual citizenship accounts" capable of permitting far broader and more equitable recourse to forms of co-payment.

The technology of virtual accounts in the welfare sector has been tested extensively in the United States with a view to the electronic management of many social services, within the framework of the EBT project (*Electronic Benefit Transfer*). This initiative successfully undertook to digitize the benefit system through the introduction of a conventional stripe card replacing all previous paper documents for access to and payment for services. In this connection, attention should be drawn to the firm decision (open to

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[161] Who might be more inclined to make donations to people working actively for society.

[162] No mention is made here of the problem raised by the fact that there will probably be no adequate economic incentive to proceed in the direction indicated until smart cards are adopted by the POS system operating for normal payment cards. At the same time, a determined effort to introduce smart cards in the welfare sector could provide an excellent opportunity to accelerate and cut the cost (estimated by the ABI as amounting to a total of €500 million) of the inevitable "migration" to smart cards, which the banking system cannot put off for much longer and is indeed scheduled to commence in 2003.

[163] "One way to cut the administrative costs of a voucher system and reduce transaction costs in general might be the introduction of a 'social credit card' storing not only the consumer's data required to obtain a discount on the price of the service in question (starting from the value given by the "yardstick" of means determination) but also a set of vouchers for services. The consumer could use the card to pay for the various services by using up the vouchers. In addition to the considerable reduction in transaction costs, one advantage of this system lies in the creation of an overall budget constraint in terms of the vouchers available to the individual consumer. In this case, the voucher would also represent the part of the price of the service covered by the state, and the citizen would thus have to make up the difference out of his or her private resources at the moment of purchase from the provider.

With respect to the state budget, the scheme has the advantage of concentrating public resources solely on the difference between the price paid to the producer and the price for the consumers whose demand is to be supported. In the present situation, if the quantity of services used remains equal, the burden on public finances decreases. Alternatively, and better still, if the amount of public funds spent remains the same, the quantity of services used increases, markets can grow, and there is a rise in the number of people included in the circuits of access to high-quality social services. Moreover, as the market for a specific service expands, the better use of economies of scale reduces costs while it is possible that preferences will change in such a way as to increase the willingness of individuals to pay. The public resources used to support the service would thus be freed for the promotion of other markets" (CER 1997, 109-110).

question but unquestionably clear and effective) to bring the new and pervasive EBT program – launched in 1994 and still expanding – into line with the commercial standards of credit cards.[164]

Given the essentially residual nature of the US welfare system, EBT accounts cover only a section of the population. In the universalistic perspective characteristic of European approach to welfare, every citizen would have a personal virtual account to handle all transactions with government at both the central and the local level. Virtual accounts were also created in Italy with the reform of the pension system in 1995 and transition to a mechanism based on contributions.[165]

7.1. Four personal welfare accounts for each citizen

Any proposal for a generalized system of virtual accounts for all citizens would probably need to be framed in terms of the four welfare accounts suggested by Michael Orszag and Dennis Snower:

i. Pension account (pension coverage)
ii. Unemployment account (unemployment benefit)
iii. Human capital account (education and training)
iv. Health account (insurance against illness and invalidity).

Unlike present-day welfare systems – where, as pointed out above, services tend to be financed primarily out of general tax revenues – the system proposed by Orszag and Snower would require citizens to pay specific "compulsory periodical contributions into each of these accounts, the balances of which should meet the primary welfare requirements of their holders".[166]

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[164] The basic objective of the EBT project can be summarized as creating "virtual accounts" for the millions of unbanked citizens who receive services through American welfare programs. These citizens can access their virtual accounts by means of a payment card usable both at POS terminals and at ATMs.
The EBT Task Force estimated the value of the services that could be electronically credited to these accounts as amounting to $110 billion a year in 1995. EBT thus created a new sector of the payments system comparable in size – in the USA – to that of major commercial circuits such as Visa or Mastercard.
Estimates developed by the EBT Task Force suggested that government had every reason to provide active encouragement for the creation these virtual accounts. While this would involve both a certain initial investment for the implementation of a nationwide EBT system and a constant cost for the maintenance of the virtual accounts, the net savings generated by electronic transfer (and hence the elimination of paper) was estimated as about $200 million a year.
In this connection, see Morley-Fletcher 1996c and 1998a, Donati and Cubello 1999. Mention is also made of EBT in relation to the idea of a "citizenship account" in Biondi and Casilli 1999.
[165] See the description given, shortly after its introduction, by the Paymaster General (*Ragioniere Generale dello Stato*): "A 'virtual' account is opened for every insured citizen. Contributions are deposited on this account and it is charged for the use of services. The balance grows until retirement and then starts to decrease until it is eliminated completely at the end of the period of pension entitlement" (Monorchio 1996, 303).
[166] Orszag and Snower 1999, 185-186. Attention should be drawn in this connection to the proposal contained in the Charter of Workers' Rights (*Carta dei diritti delle lavoratrici e dei lavoratori*) recently presented by the Ulivo coalition, which displays clear progress in the direction of a virtual citizenship account. Article 34 (Title IV, point c) provides for the "creation of an 'individual security account' for those entitled under the terms of Title II and for categories of temporary employed workers identified with the assistance of the most representative trade union organizations in accordance with the following criteria: use of the account to cover socially important needs such as continuity in the payment of social insurance contributions, also in the sphere of supplementary insurance, the payment of installments of mortgages taken out for the first home, the payment of school or university fees, benefits for involuntary unemployment on the basis of reduced requisites; responsibility for the management of the individual accounts entrusted to the *Istituto nazionale*

These "virtual accounts" – which could develop into "personal savings accounts" if used to hold the compound interest generated on the resources accumulated in them – can be linked to co-payment mechanisms related to the citizen, who is both the account holder and the beneficiary of the services to which access is thus permitted. This will serve both to avoid consumption that is not strictly necessary and to permit a sharper personalization of preferences. It will also become possible to create a mechanism of supplementary insurance for account holders.

The accumulation of "tied money" in virtual accounts will in fact provide incentives to save with a view to future needs, especially as regard health care. Such developments are made particularly attractive by the prospect of a constant increase in average life span and the associated consumption of health care goods and services. Some may obviously need to use their endowments before they reach old age, and it is hardly possible to demand the maximum foresight from everyone. It is worth stressing, however, that the argument developed here is set in the European welfare context, i.e. a system where it is presupposed, e.g. in the health sector, that the cost of major illnesses will be wholly borne by the state and that charges for routine services will be restricted in relation to each citizen's actual financial circumstances. Fiscal resources remaining equal, the possibility of accumulating over time a "health capital" that is universally available for every citizen (and usable at will – within the range of permitted options – when the need is most felt) therefore constitutes one of the positive results to be obtained through the introduction of welfare accounts.

Citizens should thus be encouraged to save freely available resources outside the limit within which the costs can be borne by the collectivity. Co-payment would explicitly become a tool for the accumulation of resources beyond the individual ceiling and not merely a way of rationing public resources. In other words, public rationing could be used

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della previdenza sociale or to specific organizations set up by associations representing the workers involved; fifty percent of the funding to be supplied by the parties involved and fifty percent out of the state budget, within the limits laid down in section 4 of the present article; further regulations to be issued by the ministry of labor after consultation with the associations representing the parties involved and, in the case of management responsibility being entrusted to health insurance organizations, by agreement with the same" (Ulivo 2002). This is a significant innovation bearing witness to a willingness to address the issue of virtual welfare accounts. As "one swallow does not make a summer", however, the actual feasibility of this scheme will have to be examined in depth.

In point of fact, as things now stand, there is a negative precedent that stemmed from an excellent idea and could have provided the opportunity for a concrete initial pilot scheme if pursued with sufficient determination and sufficient awareness of the implications also in technological terms (e.g. regarding the mechanisms for the issuing of a virtual credit card for online purchases). Instead of which, nothing came of it. We refer to the initiative whereby the Amato government allocated 50 billion lire in the 2001 Finance Act (within an overall sum of nearly 1 trillion lire earmarked for technological innovation and obtained out of revenues from UMTS licenses) to create a training credit card for Italian citizens turning 18 in the year 2001. If the program had been repeated on an annual basis, it would have made it possible for successive groups of about 100,000 young people a year to purchase information technology and online training through a special system of "honor loans" guaranteed by the state. The beneficiaries would have been required to repay the interest-free loans to the companies supplying the products on a monthly installment plan. To this end, the ministry of industry was to have reached an agreement with firms in the ICT sector and banks so as to obtain the best possible conditions for the use of the training credit card for the purchase of goods, services and training courses to take place by 2005. The program never came into operation, however, because the government did not find the time before the elections either to issue the *ad hoc* decree specifying the procedures for coverage of the expected percentage of failures to repay the honor loan or to reach the necessary agreements with firms and banks. The new Berlusconi government decided against repeating the program in the 2002 Finance Act. The brilliant idea put forward by Umberto Sulpasso, initially in *Reset* (see Sulpasso 1998 and Morley-Fletcher 1998c) and then at the CNEL (Sulpasso 1999) and finally adopted by Giuliano Amato when he was still at the Treasury (see Rampini 1999), was thus included in the 2001 Finance Act and allocated a funding that, while particularly modest, was in any case sufficient to launch a significant pilot scheme. In the end, however, nothing came of it.

in order to go beyond the limits, not to impose a glass ceiling on the amount citizens wish to spend on the consumption of healthcare goods and services.

At the same time, it is known that the major (theoretical) obstacle to the large-scale development of cost sharing for beneficiaries of welfare services has hitherto lain in the problem of exemption. It should be noted that this problem could remain also in cases of cost sharing implicitly covered by individualized allocation of public resources, e.g. personal welfare accounts, since it may be regarded as advisable for a proportion of out-of-pocket exemption to be associated in certain circumstances with forms of publicly pre-financed co-payment, as in the case of vouchers.

7.2. Cost sharing with no "ticket" system

It is, however, possible to go beyond the classic form of co-payment, designed to deter consumption that is not strictly necessary and consisting of a "*ticket modérateur*" paid by citizens at a set rate above a certain threshold of exemption regardless of further differences in incomes. This form of co-payment presents fairly obvious limitations. Being necessarily restricted to modest sums, these "tickets" constitute a form of markedly regressive taxation that primarily affects citizens with low incomes, due to their need for welfare services, and especially the poorest of citizens not granted exemption. Attempts have often been made to get round this problem by expanding the area of exemption to cover the lowest income brackets and the worst forms of illness, but this entails implicitly recognition of the need for an increasingly high level of "personalization" in access to welfare.[167]

The introduction of a reliable (digitized) indicator of economic situation (IES) could make it possible to establish a multiplicity of co-payment thresholds without thereby incurring a dangerous rise in transaction costs. It is equally evident that if all citizens were credited with personal amounts for social spending that enabled them to select and pay their own providers of welfare services, public systems could also gain greater credibility and flexibility. Payment would thus become the rule rather than the exception in a welfare system based no longer on the central and regional planning of services but on an administrative market where the state would act above all as guarantor, not merely as a "gate-keeper". The state would no longer provide all citizens with merit goods free of charge, but guarantee the ability of all citizens to purchase the same. The relationship of giving and receiving between state and citizens would therefore be completely explicit and quantified,[168] no longer covered by the implicit relations incapable of individual breakdown inherent in a rationing system playing the part of an organization providing services in kind.[169]

In this case, the need may once again arise to counter the possibility of "moral hazard" by combining the quota of personalized co-payment to be made with resources individually assigned on the basis of different IES thresholds with a proportion of exemption. Given a system of personal welfare accounts, however, this problem can be tackled on highly innovative lines.

As the Swede Steffan Fölster points out, it becomes possible to use the account "to move payments of premiums and exemptions from periods in which individuals receive low incomes to periods in which they have the ability or incentive to earn higher incomes".

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[167] For a broad discussion of these aspects, see Morley-Fletcher 1998b and 1998d.

[168] In this connection, "generational accounting" constitutes an interesting precedent (Kotlikoff 1992, Auerbach, Kotlikoff, and Leibfritz 1999). For Italy, se also Guiso, Kotlikoff and Sartor 1992 and CER 1997.

[169] New 1997 and Spiers 1999. Attention should also be drawn in this context to the challenging principle suggested for government by Regina Herzlinger: "Innovate, don't ration" (Herzlinger 1997, 288).

As a result, the account "makes it possible to set a higher exemption than would be permissible in the case of conventional actuarial insurance while in no way compromising the minimum living standard".[170]

In point of fact, the welfare account can serve to ensure "the availability of liquidity in the sense that withdrawals can be made even when the balance is non-existent or negative". It will then be necessary to set "a limit on the debt that can be built up on the account for the same reason that the bankruptcy laws permit the cancellation of liabilities; excessive debt makes reimbursement improbable. Once the debt ceiling has been reached, withdrawals from the account [must be] covered by (non-actuarial) public insurance."[171]

It is clear why, in this perspective, the key tool of a strategy based on co-payments logically consists of the citizen's welfare account, with respect to which the voucher constitutes a rudimental forerunner, effective though it is in transferring purchasing power to users free of charge and hence granting them freedom of choice and the ability to apply immediate sanctions by opting to change provider. This is what Albert Hirschman refers to as exit,[172] i.e. a possible form of action whose presence, if employed with a certain degree of loyalty toward the institution in question, is capable of strengthening the effectiveness of protest ("voice") expressed in order to obtain changes.

As Steffan Fölster goes on to explain, "It is assumed in the extended version that the personal account completely replaces the bulk of social insurance and transfers to families. In the sector of public services, however, only a proportion of payments take place through the account. In the health field, for example, it is assumed that charges for routine services amounting to about 50% of total expenditure of health care are borne by users and financed through the savings account. The other half, to be borne by the state, covers more expensive operations as well as a series of lesser functions such as medical research and monitoring disease. This public funding essentially provides further insurance against the risk of incurring high costs for health care."[173]

Some interest also attaches to the idea that the public system could pay into the entire set of citizens' welfare accounts a sum equal to the amount saved through the introduction of cost sharing. On the assumption that the area of co-payment regards only half the health services, for example, even with an average co-payment of 25% (i.e. half the amount envisaged by Fölster), about an eighth of the public budget would thus be saved and become available for redistribution in the citizens' virtual accounts. The health account of each citizen would thus be endowed with a certain amount of "tied money" to be used at his or her discretion.[174]

Access to autonomous spending power can prove particularly important in view of the de facto ceiling that a rationing system imposes on citizens' health expenditure during their lives. If this ceiling were made explicit on an individual basis (as in the proposal by Chernichovsky mentioned above), albeit with the necessary flexibility related to specific illnesses, citizens would be aware of the concrete need to accumulate resources in order to pay autonomously for treatment costing above it.

To quote Orszag and Snower, "In general, welfare accounts would help to 'internalize' both the benefits and the costs of welfare, and would hence deter users from waste in their recourse to services. Waste in the use of health services would be discouraged, for example, because the greater the use of services, the smaller the balance in

[170] Fölster 1999, 139.
[171] *Cit.*, 141.
[172] Hirschman 1970.
[173] Fölster 1999, 159. For *Medical Savings Accounts*, see also Paul 1994, Ferrara 1995, Hsiao 1995, Masaro and Wong 1995, Pauly and Goddman 1995, Tanner 1995, Hip and Hsiao 1997, Saltman1998, Scheffler and Yu 1998.
[174] This suggestion is taken up in Morley-Fletcher 1998d.

the citizen's health account. This also holds for education and training. The human capital account would be more effective than present-day education and training courses as a way of ensuring employability throughout working life in that it can be drawn upon whenever the need is felt by employees and their employers. Nor would there be any incentive to waste in recourse to the pension account, given the opportunity to find work by making withdrawals from it in order to obtain employment vouchers." Moreover, "as the public and private sectors would both be able to offer social services (e.g. in the areas of health, education and training), services of transfer during lifetime (such as pensions) and social insurance (e.g. against unemployment and invalidity), these markets would be opened up to competition, thus improving efficiency in the supply of the services offered."[175]

It should, of course, also be pointed out that "the increased incentive effects deriving from unemployment accounts are obtained at the cost of higher levels of risk and inequality", so that "shifting both the pension system and unemployment benefits to individual accounts would improve incentives, but probably accentuate income inequality *ex post*."[176]

This could be offset to some degree, however, by the use of individual learning accounts funded from a range of different sources: the family, students' earnings while still students, their future earnings, employers, and even taxpayers.

The creation of such accounts is clearly grounded on the assumption that the individual is the party best able to take decisions as to the professional skills he or she should acquire. The state can pursue two objectives in this: firstly to inject an element of private funding into learning subsequent to compulsory education, and secondly to integrate the roles of the different stakeholders. On the one hand, students would be allowed to assert their preferences; on the other, employers would be provided with a mechanism capable of transmitting their priorities both to students and to educational institutions.

As Nicholas Barr points out, these accounts can be made compatible with a variety of funding mechanisms, including other types of fiscally promoted saving and forms of pension accumulation, and also with proposals designed to build up a stock of capital for every young person, including those put forward by Ackerman and Alstott in the United States and Le Grand and Nissan in Great Britain (as examined below). "In some ways individual learning accounts close the circle. Pensions are concerned with lifetime redistribution from middle years to later years, investment in human capital with redistribution from middle years to younger years. Individual learning accounts integrate the two sets of consumption-smoothing."[177]

7.3. Redistributive transparency

Seen as a whole, personal welfare accounts not only constitute a fundamental prerequisite for the functioning of a sufficiently competitive "social market" but also present a further surprising peculiarity.

On the one hand, they can be used to address the fact that "in many welfare states (…) only 20-25% of social transfers actually give rise to redistribution amongst individuals (…) The remaining 75-80% do no more that redistribute income over the individual's lifetime."[178]

[175] Orszag and Snower 1999, 195.
[176] Orszag J. and P., Snower, Stiglitz 1999. For employment accounts, see also Orszag and Snower 1998.
[177] Barr 2001, 238. For personal training accounts, see also Millns and Piatt 2000.
[178] Fölster 1999, 137.

On the other, and by virtue of this very characteristic, while "programs that redistribute income over the lifetime are mostly systems that confer entitlements, where there is little correlation between services and contributions and a fiscal 'wedge' is therefore created", welfare accounts "explicitly register the sums paid in by the holder, thus avoiding practically all the fiscal 'wedges' created by incongruities in the rules conferring entitlements".[179] In short, they would constitute an effective barrier to "political raiding" and the creation of fresh incongruities giving rise inevitably to demands that equality be restored.

Then there is the still more stringent precautionary measure suggested by Orszag and Snower, who regard their scheme as having the further advantage of isolating the welfare system from the other parts of the state budget: "There would be two budget systems, one including expenditure not allocated to welfare (...) financed out of taxation as a whole (…) and the other including public sector spending on welfare services, financed out of the sums paid into individual accounts."[180]

The government would still be able, however, "to redistribute income through citizens' welfare accounts,[181] on condition that this took place in conditions of parity: the total burden of taxation on individual welfare accounts would have to remain equal to the sum total of transfers carried out on each account."[182] The proposal would thus meet "one of the primary challenges of welfare reform, i.e. it would permit the redistribution of income from the rich to the poor, but without authorizing any funding of the public supply of welfare services through the system of taxes and transfers to the disadvantage of private competition."[183]

As welfare services would instead by financed "out of the sums that citizens choose to spend and withdraw from their own welfare accounts", in supplying such services "the public and private sectors would operate in conditions of equality, setting prices and competing for the custom of account holders (...) In order to prevent private firms from 'creaming off' the market (...), regulations would need to be set for the insurance premiums charged by the private sector (…) [For example,] firms could be forced to set prices for welfare services on the basis of a small subset of characteristics such as age and income, and ignore all the others. The resulting competing between public and private sectors would stimulate both to improve efficiency in the provision of services."[184]

"Constitutional" limits on the operations of distributive coalitions

The question thus raised is to be regarded as by no means secondary. In point of fact, the proposal put forward by Orszag and Snower makes it possible to adopt an innovative approach to a problem mentioned above with reference both to the "capture" of welfare services by the middle class and to the disconsolate (but convergent) conclusion of American debate on "social entitlements". The problem can be examined here in terms of an influential interpretation of how redistribution operates in democracy first stated by Aaron Director and hence known as Director's law.

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179 *Cit.*, 138.
180 Orszag and Snower 1999, 187.
181 The possibility of implementing effective redistribution policies within the framework of a voucher scheme is clearly argued in Le Grand 1989.
182 For the sake of greater clarity, the translation of this passage differs slightly from the version contained in the edition published by Il Mulino and used for the other passages. For the original text, see Orszag and Snower 1997, 13.
183 Orszag and Snower 1999, 188.
184 *Ibid.*

Subsequently developed by George Stigler[185] and Gordon Tullock[186], this law can be summarized as follows. When given the choice between taking only from the rich and taking from both the rich and the poor, the average selfish voter will prefer to take from both.[187]

The problem has been repeatedly addressed by James Buchanan at different levels of depth.[188] For the sake of simplicity, we shall refer here to a short work (but with markedly radical ambitions) entitled *Can Democracy Promote the General Welfare?*[189] As we shall see, this is of considerable interest for our purposes.

"The analysis must start from the recognition and acknowledgment that 'democracy', as this structure of politics is commonly understood, is not compatible with nondiscriminatory collective action." The reason for this lies in the fact that "if a subset of those persons involved in an interaction that is collectivized is assigned the authority to select a collectively imposed outcome, then an outcome that is differentially beneficial to members of that subset will be dictated by the logic of the choice process itself. The general welfare will not be promoted by nongeneral choice-making."[190]

As he points out, "Majoritarian politics (…) tends predictably to act in furtherance of the short-term interests of members of dominant coalitions, taking actions that are necessarily discriminatory in effect. Why should a legislative majority promote the general interest? (…) If democracy is equated with majority rule, and if general welfare is defined as the welfare of all members of the polity, the structural contradiction is obvious. As stated before, nongeneral decision-making cannot produce general results."[191]

For these reasons, "the expressed public dissatisfaction with the modern welfare state may (…) be traced, in part, to the failure to keep transfer programs within the limits of generality that are broadly acceptable (…). Citizens may very quickly withdraw their support for the welfare state if they observe shifting political coalitions to be using their authority to exploit particular groups for the differential benefit of others."[192]

As one might expect of Buchanan, the solution to this problem is indicated as lying in the introduction of suitable constitutional constraints. "Democracy can promote the general welfare if democracy, like Ulysses, recognizes that it must bind itself against the opportunistic temptations that its defining institution, majority rule, guarantees must emerge. The general welfare state can survive; the discriminatory welfare state cannot."[193]

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[185] Stigler, 1970, 1-10.

[186] Tullock, 1986 and 1997.

[187] The need has also been stressed for a general view of "the political arena [as] populated by actors with the primary goal of maximizing their personal interests, exactly as happens in the market. Public policies are the goods used by governments to obtain the agreement of the governed and take control of a part of their income through taxation. The voters and taxpayers play their part, voting and paying taxes, because they are interested in the government's output in terms of national defense, pensions and public transport. The problem is that, unlike the market, in the political arena there is a risk that the point of equilibrium between the demand for public policies expressed by ordinary citizens and their supply by government will prove systematically inefficient in Pareto's sense and lead to situations in which the short-sighted interest in exploitation for personal ends (…) turns into a collective evil" (Regonini 2001, 423-424).

[188] See most recently Buchanan and Congleton 1998.

[189] Buchanan 1997.

[190] *Cit.*, 167.

[191] *Cit.*, 177-178. Attention should also be drawn to the well-known observation that in a democratic system the approval of a measure requires half the voters plus one while the funding of the same measure entails contributions from all. As has been pointed out, this means that in a democracy, "the policies preferred by the winners are also produced with the taxes of the losers", thus involving de facto "the concrete risk (…) of dictatorship by a majority consisting of a cartel of restricted interests and held together by the transfer of resources from the losers to the winners through the unscrupulous use of discriminatory policies tailor-made so as to obtain the minimum degree of consensus needed for their approval" (Regonini 2001, 427-428).

[192] *Cit.*, 179.

[193] *Ibid.*

The budgetary constraints indicated by Orszag and Snower with respect to the boundaries within which the redistributive action of welfare must be confined appear, however, to correspond sufficiently to the requisites laid down by Buchanan. It is also significant that the Nobel laureate of the Public Choice school should be induced by his arguments to maintain the possibility of operating solely through taxation of a rigorously proportional nature (*flat tax*) and transfers that are equal for everybody (*demogrants*). He does so on the grounds that "somewhat surprisingly perhaps, the major transfer programs of the welfare state (…). do, in fact, incorporate elements of generality that counter predictions about the workings of majoritarian democracy derived from elementary public-choice theory". For example, "The old-age support system in the United State has been financed by a flat tax on payrolls, and eligibility has been almost exclusively limited by the age criterion."[194]

7.4. New property dimensions of citizenship

Is it permissible at this point to draw the conclusion that, for all the apparent complexity of the approach outlined here (especially with respect to such simplified solutions as flat tax and demogrants), it should be regarded as by no means lacking in appeal?

Clearly enough, the approach referred to is the path of redistributive transparency and co-payment combined with the digitization of relations between government and citizen, which also involves the introduction of welfare accounts in order to bring about a generalized assumption of responsibility as regards decisions on how best to use the resources of "social money" granted to all citizens during their lifetimes.

This path is by no means unattractive, not least because, for the reasons given above, there is hardly any other way to obtain the resources needed to fuel an expanding welfare system.

Will this approach prove sufficient, or will it not need to be combined with ever-increasing injections of capitalization?

While a positive answer can be given to both questions, there is nothing to rule out the possibility of meeting with a few agreeable surprises if we press on with the argument developed so far.

Food for thought is offered first of all by C.B. Macpherson's striking and stimulating observation that the left wing's tradition of focusing on "human rights as opposed to property rights" may have been "a mistake, and that we will get further if we treat human rights as property rights".[195]

This suggests that a system based on personal welfare accounts will not necessarily have to be framed in conventional forms of property.

While some writers do take a more conventional view of this system ("Whatever the individual or family [holding the account] does not spend during their lives remains as an inheritance, a capital fund, for the next generation [of the same family]."[196]), markedly innovative views are now being put forward, e.g. the approach suggested by Bruce

[194] Ibid. p. 178.
[195] Macpherson 1997, 84.
[196] Novack 1999, 110. Similar views are put forward in Butler, Pirie and Young 1997, 5 and 34.

Ackerman and Anne Alstott in a most interesting book[197] and recently taken up also in Italy at a conference on "new forms of welfare".[198]

Ackerman and Alstott counter the idea of a basic income with that of a basic stock created by means of a 2% tax on wealth, calculating that in the United States such a levy could finance an individual stock of $80,000 for every American citizen on coming of age. There is nothing particularly original in this idea so far, and the authors themselves indicate Tom Paine as their most illustrious forerunner.[199] Greater originality is to be found in the suggestion that the stock should ultimately be returned, if possible plus interest and minus the use made of it by the citizen during his or her life. The individual stock would thus be returned to a national fund perpetuated from one generation to the next, gradually reducing the application of the wealth tax until it could be abandoned completely.

Attention should be drawn to a striking analogy between Ackermann and Alstott's proposal and the one put forward by the British Nobel laureate James Meade first in *Agathotopia* and then in *Liberty, Equality and Efficiency*.[200]

One of James Meade's merits lies in having highlighted the possibility of obtaining a "social dividend" from a stock of public assets jointly owned by all citizens but managed on market criteria through a multiplicity of investment funds.[201] Meade suggested that this stock could be accumulated by channeling state surpluses into a national fund, which naturally raised the problem of how to obtain budget surpluses and build up the stock. He pointed out that the "magic of compound interest" could play a key role in accumulation, but recognized that this process would entail a painful series of fiscal and economic sacrifices over a fairly long period.

It is not difficult to demonstrate in abstract terms that if one began to assign a minimum stock to each citizen at birth, this would immediately pave the way to arrive, after a certain length of time, at a situation where the need for taxation in order to redistribute income would prove to have been gradually minimized.

The arithmetic of compound interest is fairly simple, as the United States senators promoting the Kerrey-Moynihan Kidsave Accounts Plan appear to have realized back in 1999.[202]

Meade held that only the revenues generated by the national stock were to be

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[197] Ackerman and Alstott 1999.

[198] Ackerman 2002. Significance attaches to the fact that Guido Rossi asked Ackerman to deliver the introductory paper at the conference entitled *Towards New Forms of Welfare*, held in the spring of 2002 by the Osservatorio "Giordano Dell'Amore" sui rapporti fra diritto ed economia.

[199] *Agrarian Justice* (1797), cit. in Ackerman and Alstott 1999, 181. A similar proposal (based on a 0.5% wealth tax) had already been put forward about ten years earlier in Morley-Fletcher 1989. The concept of a "social inheritance" referred to at the time was drawn from the writings of the extraordinary Hungarian economist Tibor Liska. See Liska 1986, Matyaszovski 1986a and b, Morley-Fletcher 1986.

[200] Meade 1989 and 1993.

[201] As pointed out by Gerald Holthman, director of the Labour Party's IPPR think tank, Meade's proposal presents aspects of great topical relevance in relation to the problems of the welfare system and the fact that health and education constitute sectors in which "demand grows faster than national income (…) We are in the situation of having to look for ways to finance expenditure growing faster than GDP while being obliged simultaneously to keep fiscal pressure constant. This is where Meade's idea of a fund comes into its own (…) Imagine the situation we would be in today if in 1945, instead of nationalizing coal, the railways, steel, etc, the Labour government had nationalized only 15% of the shares of all the companies quoted on the Stock Exchange, placed them in the hands of managers of private funds, and enjoyed the dividends (…) With a good fund yielding 6%, the problem of financing these rapidly growing services would disappear" (Holthman 1997, 11).

[202] This is a bipartisan proposal put forward by two well-known senators, the Democrat Daniel Patrick Mohynihan and the Republican Bob Kerrey, to set up a social security account at birth with an initial public endowment of $1,000 and further public contributions of $500 a year for the first five years of life. Compound interest would thus begin to accrue nearly 30 years before the holders found jobs and began to pay in their own contributions.

distributed in the form of a "social dividend" and serve, when fully operational, as a "basic income". Both in his proposal and in the one put forward by Ackerman and Alstott, however, the objective is to identify a financing mechanism that will no longer depend in the long run on taxation (or a PAYG system in the broad sense) but on the revenues generated by capital owned by all citizens.

In this sense, it is possible to see systems based on the redistribution of income and systems based on a stock of capital as linked and alternative to one another with reference both to the funding mechanisms of redistribution and to the form to be assumed by the wealth redistributed amongst all the citizens.

8. Beyond the historical forms of "social property" created by welfare systems

It can be claimed, in short, that systems based on the redistribution of flows of income entail a choice rife with consequences for future generations. The traditional welfare state has in fact placed us on a path where it is difficult to turn back. The choice of a PAYG system tends in fact to rule out indefinitely any possibility of accumulating a stock of capital belonging to all citizens, since it is hard to imagine the sustainability of double redistributive taxation.

On the other hand, a stock of capital owned by citizens would obviously be capable, once accumulated, of providing massive support in meeting the financial requirements of public welfare and indeed placing them on a truly sustainable basis, no longer dependent exclusively on comparatively aleatory decisions as regards fiscal redistribution.

On an optimistic view (which is also attractive, given the problems that now outweigh every effort to ensure the sustainability of social welfare systems), once the initial stock has been accumulated, the fact that the amounts remaining in each individual welfare account are subject to a mechanism of final payback at death[203] into a general fund would gradually serve to build up a growing amount of collective assets[204] capable of providing funds for every successive cycle of accounts. This source of funding would gradually develop to such a degree as to guarantee all future generations.

Leaving aside all further consideration of time, method and concrete feasibility, this approach would in any case have the merit of finally indicating a path of growing long-term sustainability for welfare. At the same time, such a radical reform of the social welfare system also prompts reconsideration of the overall historical development hitherto. It is basically possible to argue that welfare was in fact originally devised as a different and innovative form of property.

Given the framework now delineated, it would, however, become possible to formulate a possible trajectory of future developments in a different light. This would no longer be the primarily defensive approach of "insurance against revolution"[205] that stretches from the Speenhamland system adopted in Britain (1795-1834) to counter any spread of French Jacobinism to Bismarck's creation of the *Wohlfahrtsstaat* (1881-1889), explicitly designed to "draw the sting of socialism's promises", and on up to the achievements of the Scandinavian social democracies and the universal welfare system introduced by the Beveridge Revolution in Britain in the wake of the Great Crisis of the

[203] Ackerman 2002, 4: "The basic philosophical motivation for Stakeholding (…) is a proposal to create a form of *citizen inheritance* to coexist with the existing system of private inheritance" (*cit.*, 11).
[204] "The revenue yield would be substantial. If just 10 percent of decedents paid back their stakes in full [and estimating the value of these at death as $250,000], the stakeholding fund would collect $ 48 billion each year" (Ackerman and Alstott 1999, 226).
[205] Morley-Fletcher 1996a, 295-296.

1930s and World War II, and in constant competition with the network of social protection that was the goal and the proud boast of the Soviet Union until its collapse in 1991.

It was in fact the government of the "Iron Chancellor" that created the initial nucleus of a fundamental innovation, aptly described by Robert Castel as "social property" or "assets" built up essentially (in direct or indirect form) out of the contributions paid by wage earners, "which has a social origin and functional procedures but acts as a private fund of assets".[206]

In putting forward this interpretation, Castel could well claim to be following in the wake of observations made over a century earlier by Lorenz von Stein and Alexis de Tocqueville.

The former stated that "the next revolution (…) cannot be other than social"[207] and that in order to avoid it "the administration [will have to] increase the degree of movement within society by allowing workers access to capital and hence to social property".[208] Tocqueville regarded it of crucial importance in a democratic system "to give workers an owner's interest"[209] and "accustom workers to ownership", because "seeking to halt democracy will then be like seeking to fight against God and the nations will thus have no alternative but to adorn themselves with the social state imposed upon them by Providence".[210]

In terms of the approach that was introduced by Bismarck's reform and remained the cornerstone of welfare throughout the 20th century, workers can be described as "shareholders" possessing a stake in public assets for use as private property, e.g. through health systems or public education. The amount socially accumulated remained an integral part of common assets to be handed down to future generations, but had a "providential function"[211] in common with private property. It may be possible to regard as immaterial in this perspective the observation that this also made it possible to achieve the political objective of ensuring that workers interested in the peaceful development of society abandoned all revolutionary aims in favor of what has been described as "integration in subordination",[212] integration that trade unions and political parties then became responsible for representing at the institutional level (and transforming – we might add – into full negotiatory powers and full citizenship in political and social terms).

John Roemer has also argued that "a form of property relation must be evaluated, *inter alia*, with respect to the kinds of public goods and bads it will engender"[213] and the time has probably come to apply such a test to the old forms of "social property" promoted by welfare and expanded to their maximum degree with the spread of PAYG systems.

8.1. The possibility of transition to a fully funded system

If we now examine the possible developments in the direction of a fully funded system, it appears possible to state that "personal citizen accounts" present more than one interesting feature in this connection.

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[206] Castel 1995, 310.
[207] Stein 1986, 51-52, cit. in Ricciardi 2001, 142.
[208] Ricciardi 2001, 143.
[209] Tocqueville 1999, 65.
[210] Tocqueville 1977, I, 1, 4-5.
[211] "For tax payers, this transferred property is the functional equivalent of private property with respect to the crucial aspect of protection against future need and hardship. Transferred property has the same providential function as private property (...) Security now appears to be a question of private property (...) Social security is nothing other than collectivization on the part of the state" (Swaan 1995, 206- 209).
[212] Castel, 324.
[213] Roemer 1994, 22.

As Orszag and Snower point out, they could serve to facilitate transition from present welfare systems in that "initially (…) they could be operated in accordance with the PAYG criterion (…). With time, welfare accounts could ultimately be transformed into systems that are fully funded in all respects. This transition could take place at very different speeds for the different accounts depending on the different levels of fiscal pressure."[214]

Being compatible with a PAYG system while offering complete individual transparency in bookkeeping terms, welfare accounts thus present two advantages. On the one hand, they make it possible to move more easily toward forms of fully funded systems. On the other, they ensure that "the question of the feasibility of this transition can (…) be separated from the question of its validity in social terms".[215]

They also offer another advantage. By making the amounts visible, concentrating the contributions paid by each citizen into an account together with a proportion of the resources obtained through taxation, the mechanism of welfare accounts makes it possible both to spend one's stock of "social money" on co-payments for services based on parameters of income, assets, health, etc., and to defer use of the sums accumulated over time.

If they were embedded in a framework of property rights ensuring that all assets remaining on the account holder's death were returned to a collectively owned fund, as mentioned above, welfare accounts could generate very positive effects for welfare funding as a whole once fully operative.

8.2. Baby Bonds and the Savings Gateway

Among the various proposals for systems of redistribution designed to build up a stock of capital for every citizen, attention should be drawn to the *Child Trust Fund* (or *Baby Bonds*) and the *Savings Gateway*,[216] not least in view of the importance they have assumed in the United Kingdom within the framework of the economic policy of the second Blair government.

The *Child Trust Fund* (or *Baby Bond*) is an individual account opened for every child at birth with an initial sum of between £400 and £800 deposited by the government. The account cannot be touched until the holder comes of age, and accrues interest until that time. Three successive government "top-ups" are made when the holder reaches the age of 5, 11 and 18, and parents can deposit further sums voluntarily. Both the initial deposit and the top-ups are subject to a progressive mechanism whereby the amount is inversely proportional to the family's income. On turning 18, the holder thus has an initial capital of £2,000-£5,000 (about €3,000-€7,500).

The *Savings Gateway* is an incentive introduced by the government for workers with low incomes. Over a set period (5 years), for every pound saved, the government deposits another on the same dedicated account, which remains blocked for the whole period only as regards the government contributions. At the end of the fifth year, the funds become fully available to the holder and the account is closed.

Both schemes share the objective of promoting the distribution of wealth through the creation of semi-restricted individual saving financed either wholly or partly by the government.

The need for this form of property redistribution is justified, according to Kelly and Le Grand, by the deep and growing inequalities caused by the present forms of wealth

[214] Orszag, Snower 1999, 192-193.
[215] *Cit.*, 198.
[216] Le Grand 2000 and Kelly and Le Grand 2002.

redistribution, especially in relation to the formation of assets (and hence property) and the advantages and opportunities deriving therefrom.

Starting from the assumption of a positive connection between property and freedom, Kelly and Le Grand refer in particular to studies and surveys that provide data on the growing gap in available wealth between the different sections of the population and show how the possession of adequate initial capital can have positive effects in terms of health, the chances of obtaining more qualified and better paid work, the possibility of becoming self-employed and, last but not least, peace of mind.

Within the same perspective of equal opportunity, the authors identify taxes on the transfer of wealth between generations as one of the primary tools serving to achieve a redistribution of wealth based on the spreading of property.

As Kelly and Le Grand point out, these schemes have been subjected essentially to three types of criticism. Some regard them as insufficient to generate any significant improvement in the assets of their beneficiaries. Others fear that they might come in time to replace the current forms of welfare and thus work to widen the social divide in terms of wealth, guarantees and opportunities still further. Finally, attention has been drawn to possibility of a negative impact on the structure of individual incentives leading to increased dependence on the state.[217]

The authors close in this connection with "a word of warning". Some have suggested – they note – that "access to capital-endowments could be made conditional upon certain life style choices, such as the decision to get married[218]. Government sponsored asset-accounts used to advance a crass communitarism could end up discrediting both the policies and philosophies concerned. Emancipation, rather than social control, must lie at the heart of the emerging asset-based agenda."[219]

8.3. Looking at welfare also in terms of stock and not only flow

Though different in their substance, albeit not necessarily alternative, the proposals outlined above constitute an initial conceptual framework that may make it possible to start taking a cooler look at the problems inherent in a reform of the welfare system that adopts a perspective encompassing both stock and flow in its drive for a new mechanism based on user choice.

Those who make the effort to examine the prospects for such reform on the threshold of the new millennium are not infrequently heard to remark that while perils of an epic nature appear to be widespread, there is little sign of a modern-day Ulysses. In other words, there is an apparent lack of heroes endowed with comparable wisdom and thirst for knowledge, capable of sailing over unknown seas and braving the Sirens' song because they have already made it impossible for themselves to deviate from their set course and destination.

In the case in question, the possibility exists that the Sirens will ultimately prove victorious, i.e. that it will eventually be necessary for the welfare state to adopt systems based on individual property rights[220] and fully funded mechanisms but without necessarily having to fear dramatic results as long as adequate measures can be taken in time.

In actual fact, we have already witnessed some unexpected cases of capitulation to

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[217] *Cit.*, 10-11.
[218] As proposed by Mandelson and Liddle 1996.
[219] Kelly and Le Grand 2002, 11.
[220] Also in order to allow the necessary "portability" in terms of the individualization and internationalization of social protection: "people need to be able to carry their welfare state on their back like a snail shell" (Barr 2001, 149).

capitalism on the part of figures who have been unable or unwilling to examine in suitable depth the problem of the shortcomings of the model regarded as alternative. It may thus be advisable for defenders of welfare to make some effort so as to be less unprepared should they be required to face this eventuality. With reference to the “alluring” nature of the Sirens’ song, it may also be advisable to try to use the leverage and time resources still available to direct the current drive for a transformation of welfare in terms of individual property rights, hypothetically regarded as practically irresistible, toward social developments capable of allowing the substantial “attractions of solidarity” to emerge through new property dimensions of citizenship.

Drawing inspiration from the “pessimism of reality, Ferrera and Gualmini wrote in 1999 that “reforming welfare ‘from the left’ involves authentic contortions at the ideological-programmatic and political-electoral level in some cases. It also means embarking on a difficult path of small steps (some of which may be backward), of revisions and revisions of revisions, with obvious effects at the level of the consistency, efficiency and effectiveness of the reforms. But none of the ‘consensual’ democracies (…) appear to offer practicable political alternatives.”[221]

The pursuit of a welfare system based on transparency rather than opacity could perhaps make it possible to flush out the “veto players” feared by Ferrera and Gualmini, and help to develop the type of “virtuous” cooperation that they rightly consider necessary in tackling welfare issues. “Cooperation must work ‘in the shadows’ on these issues. It is the task of governments to set the boundaries. They must have the institutional capacity to do so and take responsibility for this action when necessary.”[222] Therefore, “bipolarism, stable and cohesive majorities, stronger executives, more efficient bureaucracy, ‘responsible’ decentralization, etc.”[223] would be among the prerequisites – as essential as they are difficult to obtain, at least in the short term – for more incisive action in the area of welfare.

In more modest and programmatic terms, however, “the development of a social market might be one of the paths available to highlight the attractions of solidarity and transfer this term from the vocabulary of political rhetoric to the calculation of consensus.”[224] In other words, personalized co-payments, virtual welfare accounts and smart cards for access to services might prove effective tools to marshal a new general consensus behind the “social market” and the underlying “social state” pursued by those who, seeking to reaffirm the value of social solidarity today and preserve it for tomorrow, recognize the urgent need to reform the traditional mechanisms for the funding and provision of public welfare.

[221] Ferrera and Gualmini 1999, 140.
[222] *Cit*., 161.
[223] *Cit*., 160.
[224] Morley-Fletcher 1996a, 305.

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