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Vouchers: Looking Across the Board

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Vouchers: Looking Across the Board

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PREFACE

In recent years, a vigorous debate has emerged on the use of vouchers to encourage greater consumer choice in public service delivery. Yet, no comprehensive examination has been made of the general conditions that determine how effective vouchers are as an instrument of public policy—and little or no effort has been made to catalogue the federal, state, and local programs that use vouchers.

On October 2 and 3, 1998, a distinguished group of economists and policy analysts met at the Brookings Institution to help fill this void. The conference, “Vouchers and Related Delivery Mechanisms: Consumer Choice in the Provision of Public Services,” was co-sponsored by the Urban Institute, the Brookings Institution, and the Committee for Economic Development.

A series of cross-cutting analyses of the use and impact of vouchers was prepared for the conference. They formed the basis of panel presentations, commentaries, and discussion by participants. A conference volume containing the revised papers will be published later in 1999.

This booklet provides an overview and summary of the major issues discussed at that conference. We hope that both the shorter guide and the full volume will help frame future policy discussions and clarify options on this subject.

C. Eugene Steuerle, Urban Institute

Robert Reischauer, Brookings Institution

Van Doorn Ooms, Committee for Economic Development

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VOUCHERS: LOOKING ACROSS THE BOARD

It may be the best of times—and the worst of times—for vouchers, as this tale of two vouchers illustrates.

Last August, the Republican-led Congress and the Democratic-controlled White House fought a monumental battle over a proposal for a relatively small \$6.4 million voucher experiment to provide scholarships that would have allowed 2,000 public school students in the District of Columbia to attend private school. To forestall the president's veto of the District's overall appropriation, which was more than a thousand times larger than this provision, Congress dropped the voucher proposal.

While all this was going on, however, the same antagonists joined together with minimum fanfare and little controversy to create a \$10 billion, bipartisan voucher program for job training.

“Such a juxtaposition emphasizes that there is no single ‘politics of vouchers,’” explained Burdett A. Loomis, a political science professor at the University of Kansas. “Rather, like many other policy tools, vouchers must be viewed within the many contexts of politics and interest group activities.”

Loomis was one of 30 speakers at “Vouchers and Related Delivery Mechanisms: Consumer Choice in the Provision of Public Services,” a conference convened on October 2–3, 1998, in Washington, D.C., by the Urban Institute, the Brookings Institution, and the Committee for Economic Development (CED). Participants looked comprehensively at the concept of vouchers, an increasingly popular approach to providing government assistance. The conference examined the pros and cons, uses and possible misuses, history, economics and administration, and various issues related to the implementation of vouchers.

“We don't really have a paradigmatic kind of literature on vouchers and, therefore, one isn't used to trying to think about vouchers at a high level of abstraction and generality,” Van Doorn Ooms, CED's senior vice president and director of research and a conference organizer, commented. The papers prepared for the conference fill that gap. Together they construct a framework for comparative analysis of specific policy issues related to vouchers. Later in 1999, the Urban

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CHILD CARE: The Child Care and Development Block Grant of 1996, which consolidated four federal child care programs, required states to offer a child care certificate—i.e., a voucher—option to low-income families. The law allows states to issue this assistance in the form of a certificate or a check to the parents. Parents can use the certificate at a licensed day care center or to pay for informal care. Most choose the latter. For fiscal year 1997, the federal government provided \$2.9 billion and the states \$1.5 billion for this program.

Institute, Brookings, and CED will publish a book based on conference deliberations.

Vouchers “are a powerful tool in the government’s tool chest,” said C. Eugene Steuerle, a senior fellow at the Urban Institute, who presented two papers. “Their expansion in recent years attests to their usefulness but also increases our responsibility to learn better how to structure and channel this growing body of public expenditures.”

ONE TOOL AMONG MANY

Often lost in the political heat of voucher wars is the fact that vouchers are not ends in themselves, but merely one means to an end—a particular way of distributing government assistance. A voucher is simply a capped or restricted subsidy that provides the recipient some freedom to choose how to spend the aid. It may be paid out in cash or provided indirectly as a tax subsidy; it may go to the consumer or to the service provider.

In the spectrum of government assistance programs, vouchers fall somewhere between the extremes of direct government provision of services (such as public housing or health clinics), which is the most restrictive approach, and cash, the vehicle of ultimate choice. While vouchers may increase customer choice and reduce government red tape, they are never totally free of regulations. As long as the government remains accountable to taxpayers for the funds it distributes, it will attach some strings to government money, including vouchers.

“A voucher both prescribes and proscribes,” Steuerle explained. “On the one hand, it prescribes a set of goods that the customer can buy. But, on the other hand, it limits the types of goods and services that can be purchased.”

This middle ground appears to be gaining favor with Congress and American voters. Direct government programs have been on the wane for decades. Since the 1996 enactment of welfare reform, cash assistance has declined as a proportion of federal aid and voucher-type programs have increased. Still, as David Bradford (Princeton

University) and Dan Shaviro (New York University School of Law) explained, some vouchers can still operate very much like cash, depending on how much they actually change the consumption or production of the good being subsidized.

Fresh and different uses are being suggested for vouchers, but the instrument itself is not new. The GI Bill of Rights, that much-loved veterans' education program inaugurated in 1944, was a voucher. Vouchers for food and college aid date from the 1960s; for housing assistance, from the 1970s; and for child care and Medicare, from the 1980s. The Individual Training Account (ITA) program, adopted as part of the Workforce Investment Act of 1998, is the latest addition to the list. Opponents of vouchers for elementary and secondary education have successfully forestalled their enactment at the federal level for at least two decades. But two cities—Cleveland, Ohio, and Milwaukee, Wisconsin—now have state-sponsored school voucher experiments under way.

“You can design a voucher proposal for almost any purpose you want to achieve,” Isabel V. Sawhill, a senior fellow at the Brookings Institution, said. “The devil is always in the details.”

Vouchers go by many different names, in some cases specifically to avoid the controversy that often accompanies the label. Through certificates, stamps, coupons, scrip, and other forms, the federal government currently distributes billions of dollars in aid for child care, employment and training, food, higher education, housing, and medical care. (See boxes throughout text.) Additional funds are allocated through complementary state and local voucher programs.

A report prepared for the conference by Paul Posner and Bob Yetvin, both from the General Accounting Office, and Mark Schneiderman, Council of Chief State School Officers, lists 63 voucher programs in 10 general categories. Specialty vouchers assist and encourage such disparate behaviors as the use of taxi rides by drunks, the neutering of pets, and the purchase of lawn mowers that don't pollute the air or toilets that don't use much water.

“This wide range implies that vouchers are here to stay but does not speak to their merit relative to alternative dispersions of funds,”

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Isabel V. Sawhill

Steuerle said. “Moreover, it does not help explain why in one area there will be furious controversy over their use, while in another there will be little disagreement at all.”

VOUCHER POLITICS

Voucher politics is a rough-and-tumble, participatory game for policy analysts rather than an intellectual exercise for academic observers. “There is virtually no [academic] literature on the politics of vouchers,” Loomis said. “If you look into American [political science] textbooks, vouchers are simply not listed anywhere.”

Abstract symbolism and dollars-and-cents practicality operate side by side in the politics of vouchers. Symbolism plays a central role because many equate vouchers with choice, a concept that can mean different things to different audiences. Choice evokes both market-based ideas of efficiency and consumer-oriented notions of equity. But the practical politics of vouchers closely tracks the needs, goals, fears, and economics of the intended beneficiaries—and, more important, the interest groups that work on behalf of the beneficiaries, provide them services, or hope to profit from the use of vouchers.

The romantic notion of choice can make strange bedfellows. Free-market adherents may promote vouchers for education or housing assistance in the belief that choice will spark competition among suppliers, which will improve the product or services (better schools or more low-income housing), and, as a result, increase the system’s efficiency. Representatives of the poor, on the other hand, may support such vouchers because they believe that enabling beneficiaries to choose their own services gives them a better deal—a better school for their children, for example, or a nicer apartment in a more desirable location. Furthermore, some contend that simply exercising choice is good in itself—a mainstream, middle-class kind of activity.

While these symbols may permeate the political rhetoric, the life or death of a voucher probably rests more heavily on how interest groups calculate their own benefits or losses. The Food Stamp Program, for example, is one of the most popular and enduring voucher programs. Many factors contribute to its long-term viability,



EDUCATION (HIGHER): Four types of higher education programs provide vouchers to students to be used for tuition and other expenses at colleges, universities, and certain other post-secondary education institutions. All the programs are administered by the federal government, but they are financed in very different ways and targeted at different student populations. All are entitlement programs for those who meet eligibility requirements. The first voucher program, the GI Bill of Rights, was established in 1944 to help military veterans pay college expenses. Neither the original program nor subsequent versions of the GI Bill required an income test. Federal Student Loans,
continued on next page

but interest group support ranks high on the list. “One of the notable features of the Food Stamp Program is that it has a powerful agricultural lobby [both farmers and food retailers] which supports it,” said Robert A. Moffitt, an economics professor at Johns Hopkins University. “While all in-kind transfers presumably have lobbies, the agricultural lobby is perhaps the strongest. The existence of this lobby may in and of itself be the prime explanation for many puzzles about the Food Stamp Program,” he said, such as the federal government’s continued 100 percent financing of food stamps in an era of block grants and devolution to the states.

The self-interest of interest groups can thus facilitate or block the creation of voucher programs. Many commentators have attributed the ease with which the job training voucher slipped through Congress to the absence of a strong lobby against it. Controversy dogged other aspects of that legislation, delaying its enactment for years. But many job training providers believed the Individual Training Accounts would increase their business and simplify their regulatory process. So they supported the voucher plan.

Conversely, the consistent and vocal opposition of teacher unions and other members of the education establishment to elementary and secondary school vouchers remains the major political obstacle to their enactment.

Public dissatisfaction with particular government-run services also can weigh heavily in favor of a voucher. The poor reputation of public housing projects, for example, probably had as much to do with the decision to enact housing vouchers in the 1970s as economics did. According to Hugo Priemus of the OTB Research Institute for Housing, Urban and Mobility Studies in the Netherlands, the rise in housing allowances was linked to a reduction or even lifting of producer subsidies in most European countries as well. In the United States, well-organized Public Housing Authorities could not combat the negative publicity received by a handful of big-city projects. Now that the worst public housing projects have been demolished and housing authorities are getting better press, recent proposals to “voucher-out” all subsidized housing have been less successful. Instead, supply subsidies live on as low-income housing credits.

continued

established in 1965 as Guaranteed Student Loans, provide low-cost loans to students from all but the most affluent families. (Students from families whose income is more than \$100,000 may obtain a loan to attend very-high-priced institutions.) The federal government subsidizes the interest on all loans and pays the interest while the student is in school. Initially, the federal government guaranteed loans made by banks; in 1993, it created a direct loan program as well. Pell Grants, enacted as Basic Grants in 1972, don’t have to be repaid but go only to students from low-income families—90 percent of the benefits go to students whose family income is less than \$30,000. Since 1997, the federal government has also provided two kinds of tuition tax credits for higher education: HOPE credits for the first two years of higher education and Lifetime Learning credits for older adults taking undergraduate or graduate courses. Because the credits are not refundable, families with incomes below \$30,000 don’t benefit; the credits phase out for families with incomes above \$80,000.



EDUCATION (K-12): Because this is, by far, the most controversial kind of voucher, no federal voucher program for elementary and secondary education has passed Congress. Several states have adopted voucher programs, however. The two biggest state programs provide vouchers that enable some low-income students in Milwaukee, Wisconsin, and Cleveland, Ohio, to attend private school. All of the state programs have been subject to extensive litigation. The U.S. Supreme Court on November 9 decided not to review the Milwaukee program.

Meanwhile, growing unhappiness with public school systems is breaching the once-impenetrable barrier of vouchers for elementary and secondary education. Thus, it took the threat of a presidential veto to derail the D.C. voucher proposal in Congress; once, interest group lobbying would have been sufficient.

The constitutional issue of separation of church and state has bedeviled proposals for elementary and secondary school vouchers but has not touched other kinds of vouchers. (See box, page 11.)

EFFICIENCY

The preeminent economic argument for vouchers is that they are more efficient than direct government programs. The popular Food Stamp Program offers one proof. It certainly appears to make more financial sense for the government to provide scrip to families for the purchase of food than to set up a vast network of food banks or commodity distribution points. However, the efficiency of food stamps has as much to do with the characteristics of the existing marketplace for groceries as with the intrinsic nature of a voucher program.

“It is a massive market with large numbers of buyers and sellers, and the transaction costs of trades are quite small. Competition is strong and prices are kept in line by that competition,” Moffitt pointed out. A consumer who isn’t satisfied with the quality of food in one store “can walk across the street to purchase food from a different grocery store,” he said.

Some advocates for the poor respond that such choice doesn’t exist in many inner-city neighborhoods, which may offer only one inadequately stocked mom-and-pop store. That mom-and-pop store doesn’t have a monopoly on food sales across the metropolitan area, however. The low-income consumer may have to take several buses, but he or she can take his or her food-purchasing business to a suburban supermarket.

No similar market exists for elementary and secondary education. Despite their bad publicity, public schools continue to dominate the local scene. Higher education, however, does operate in a large and competitive market, which may explain some of the success of



CONSTITUTIONAL ISSUES: In early November 1998, the U.S. Supreme Court took a pass on the most controversial constitutional issue related to vouchers: whether governments can use taxpayer money to send elementary and secondary students to private, religious schools. The Court voted 8-1 not to hear a challenge to the Milwaukee, Wisconsin, school voucher program and thus let stand a Wisconsin State Supreme Court ruling that upheld the Milwaukee program.

The Court is likely to have another chance to take up this issue. Similar cases are working their way through state courts in Arizona, Maine, Ohio, and Vermont.

“At first blush, it may seem surprising that there is any doubt about the constitutionality of such a program,” Michael W. McConnell, a law professor at the University of Utah College of Law, told the vouchers conference participants the month before the ruling. “Vouchers are used, without serious legal controversy, at the preschool level and the college level, at religious as well as public and other secular schools.” Low-income families use religiously affiliated day care centers, preschools, and kindergarten for as much as 40 percent of their child care needs. In addition, “the welfare reform legislation included a charitable choice provision which extends vouchers and religious participation in a number of whole new fields,” he continued. “None of this arouses much debate,” he said. “The place where the constitutionality of vouchers is really being fought out and where it is the most controversial is the issue of elementary and secondary education.”

That school vouchers are controversial should come as no surprise, responded Elliot Minberg, legal director of the People for the American Way Foundation. “K–12 education is very different from many other areas” in which vouchers are used, he said. “It’s different in terms of policy, the monetary effects of vouchers, who’s doing the choosing, the school versus the students, and it is very different in terms of the law.”

He gave two primary reasons for this difference: The government provides universal free public education, which is not the case for higher education or other federal voucher programs; and, he said, in most geographic areas in our country, the overwhelmingly high percentage of alternatives to public schools are, in fact, not just religious but pervasively sectarian in nature.

While the Supreme Court seems unready right now to tackle the separation-of-church-and-state question regarding K–12 vouchers, its views have been evolving over the past 20 years. “I think had a case of this sort gone to the Supreme Court 20 years ago, it is almost certain that the court would have held that the program is unconstitutional,” McConnell said. “Had it come up about 10 years ago, it’s a little unclear.” McConnell said that he expects that at some time soon, the Court is likely to hold that the program is constitutional.

He explained that the controversy revolves around a fundamental clash of two basic principles: “The insistence that taxpayers must not be compelled to support religious education, and the notion that religious institutions must be treated neutrally.” “Obviously,” he said, “these two principles cannot coexist.”



HEALTH CARE (ELDERLY): Like several of the higher education vouchers but unlike most other federal vouchers, health care for the elderly is an entitlement that has no income test. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) established a voucherlike option for Medicare recipients to join a health maintenance organization (HMO). For many reasons, including the scarcity of HMO plans, less than 5 percent of Medicare recipients took that option through the 1980s and into the 1990s. With the growing popularity of HMOs, the proportion of Medicare recipients going the voucher route jumped to 15 percent in 1998 and is projected to rise to 38 percent by 2008. A variety of design problems hampered the HMO option; some of these were dealt with in amendments adopted as part of the Balanced Budget Act of 1997.

college and university voucher programs such as Pell Grants for student aid.

Market composition isn't the only determinant of vouchers' efficiency or lack thereof. While the housing market is broad and diverse, the transaction costs—the time and effort required to find a new apartment and the cost of moving—somewhat reduce the efficiency of housing vouchers compared with food stamps, Moffitt explains. In addition, the average food shopper has a pretty good handle on what constitutes good food and thus can use food stamps efficiently. That's not as true with medical care vouchers, for example, where quality is harder to identify, providers know much more than consumers about what constitutes quality, and third parties (insurers) intervene between the supplier and the user.

To some, efficiency means fewer constraints on the dealings between buyer and seller. Thus, many proponents of smaller government turn to vouchers as a way to reduce regulations on providers. Many of these small government advocates are doomed to disappointment. While fewer strings may be attached to vouchers than to direct government programs, vouchers still come with conditions. The housing voucher program is heavily regulated, for example. Landlords and tenants alike must meet various eligibility criteria and abide by stringent rules. The property must meet health and safety standards. The rent must fall within a government-sanctioned range. Fewer strings are attached to the use of child care vouchers, but in many states a vigorous debate is under way to tighten those regulations as well. Part of the difficulty in designing a medical care voucher is working through the plethora of rules and regulations.

According to economic theory, efficiency should increase supply and lower costs. That happens sometimes with vouchers. But sometimes it doesn't. "Creating a voucher does not necessarily build a single unit of housing for a poor person," E.J. Dionne Jr., a senior fellow at the Brookings Institution and columnist for the *Washington Post*, observed. Housing vouchers are economical, however. George E. Peterson, a senior fellow at the Urban Institute, showed that the federal government spent 24 percent more to construct a subsidized rental unit than to provide a tenant with a voucher.

Child care vouchers, on the other hand, do not always promote greater supply or lower cost. Child care consumers are not cost-conscious, according to Douglas J. Besharov, a resident scholar at the American Enterprise Institute for Public Policy Research. They aren't required to be, he said. In many states, the government simply gives the family a check and says, "Use it for child care." So the family may pay a relative to care for the child, the same relative whose services were free before the voucher came into the picture. Even if the voucher is used to pay for attendance at a day care center, the family has limited incentive to shop around for a lower-cost deal. "If I have \$100 worth of child care [in a voucher], I'm going to go buy \$100 worth of child care whether I need that amount or quality of child care or not. This effectively gives the middle-class family a discount on child care," Besharov said.

Economic theory also predicts that competition stimulated by vouchers should foster better products. For this reason, proponents of elementary and secondary school vouchers insist that the competition they will spark will improve the quality of the schools and, thus, the achievement of the students.

So far, however, tests are inconclusive. The Milwaukee voucher program, launched in 1990, is the only domestic system that has been subjected to sustained, controlled evaluations. One of the three academic studies conducted to date concluded that children in the voucher program did substantially better than their public school peers in both reading and math; another concluded that there was no difference in outcome; and the third concluded that they gained in math but not in reading.

Voucher programs have a much longer and broader history in European education. But after examining the results of several of these programs, John H. Bishop, Cornell University, found that by themselves vouchers made little difference in student outcomes. They raised achievement only when accompanied by high-stakes tests—in effect, when curriculum-based exams accompanied the voucher.

Education vouchers, whether for elementary and secondary or higher education, are usually scholarships that can be used only for the purpose designated. Other vouchers, particularly those for child



HEALTH CARE (NONELDERLY):

Health care assistance for the nonelderly is restricted to the poor and near-poor, primarily through Medicaid and the new State Children's Health Insurance Program (S-CHIP) for uninsured low-income children who are not covered by Medicaid. Although states are attempting to move these low-income recipients into HMO-type managed care programs and thus into a voucher system, they have faced very large obstacles in designing a voucher program that is both fair and within the budget constraints.



FOOD AND NUTRITION: One of the most popular and successful modern voucher programs, the Food Stamp Program, was enacted in 1964 to help poor families buy food. Until 1977, recipients obtained coupons for a sliding-scale fee, based on family size and income. The coupons were good for most immediate-consumption food, except restaurant-type hot food. The federal government finances this \$27.6 billion assistance program, but states administer it, paying half the administration costs. The use of coupon books is giving way to the use of electronic benefit transfers—in effect, credit cards—to reduce fraud and save administrative costs. A more restrictive voucher program, the \$3.7 billion-a-year Women, Infants, and Children (WIC) program, provides vouchers to low-income pregnant women and recent mothers to buy infant formula and other nutritious foods, such as cereals.

care, look and act a lot like cash. That raises the argument: Why bother with vouchers at all? Why not simply cash out all these voucher programs and provide the beneficiaries with the ultimate choice and flexibility of dollars?

Neither government policymakers nor American taxpayers appear ready to go that far. Policymakers and policy analysts have argued fruitlessly for decades over establishing a negative income tax, that is, a cash grant that is phased out as income rises.

For that reason, Congress and various administrations have built into vouchers constraints on both suppliers and consumers. The American public doesn't want to subsidize bad habits, for example, so food stamps have to be used for food, not alcohol or drugs. Similarly, one aim of government housing subsidies is to provide decent, safe, and sanitary housing; therefore, landlords who participate in the housing voucher program must provide safe and sanitary places to live. So far, child care vouchers come the closest to being cash of any voucher. Besharov, who came to that conclusion after surveying state child care voucher programs, suggested that that feature ironically made these vouchers less efficient rather than more so. They encouraged families to “buy” child care even when they didn't need “paid” care.

EQUITY

Enhancing equity through choice is as important to some voucher proponents concerned about civil rights and the welfare of low-income people as the economic efficiency of vouchers is to market-oriented backers. As with market justification, however, the equity rationale for vouchers varies from situation to situation and from program to program.

Equity is a common battle cry among supporters of elementary and secondary school vouchers. “A lot of parents might argue that they should have the right to choose the school their children attend since richer people can more easily move across jurisdictions [to a better school district] or simply pay for private school,” the Urban Institute's Steuerle explained.

However, an inequitable situation that economists call “adverse selection” can creep into the equation. As Steuerle explained it, that occurs when a benefit that appears the same on the surface is actually of different value to different recipients. Some beneficiaries—those who are luckier or better informed or have other advantages—can band together to exclude the less fortunate from the full value of the benefit. If a school rejects voucher students who are disabled, unruly, or otherwise expensive to educate, for example, those students who do get accepted obtain more value from their vouchers than would have been the case if the school accepted students on a first-come, first-served basis. “One issue that can arise is whether the neediest will garner some inappropriately low level of benefits,” Steuerle warned.

Despite the rhetoric devoted to fairness in the politics of elementary and secondary school vouchers, in practice these vouchers have less effect on equity among students than on the efficiency—that is, the quality—of education.

By contrast, equity is at the heart of the far less controversial, and much more politically successful, higher education vouchers. “The primary goal of [four kinds of higher education vouchers] has been to expand access to college,” said Arthur M. Hauptman, an independent public policy expert on higher education. “There has been very little policy focus on improving quality. This is in sharp contrast to the experience in K–12 education, where the primary goal of various voucher experiments has been on improving the quality of the public schools and the academic performance of students.”

There is ample proof of expanded access. The post–World War II GI Bill of Rights, the grandfather of today’s vouchers, is credited with increasing college enrollment from 1.7 million in 1945 to 2.5 million in 1949. Studies calculate that at least one-fifth of those students would not have been able to attend college without the voucher, Hauptman said. The modern-day voucher counterpart for low-income students is the Pell Grant. Between 1973, the year after its enactment, and 1993, college enrollment rates more than doubled from 20 percent of recent high school graduates to 45 percent. But access for whom? A lot more poor students did get to go to college

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over those 20 years, but the gap in college attendance between rich and poor remained constant—a low-income student was half as likely to attend college as an affluent one in both 1973 and 1993.

“Some argue that the persistent gap in college participation rates indicates that Pell Grants have failed in their basic mission of expanding educational opportunities for traditionally disadvantaged groups of students,” Hauptman said. “More optimistic observers suggest that the gap between rich and poor students would have grown considerably in the absence of the Pell Grant program.”

A different kind of equity question complicates the design of the Medicare voucher, a small but growing option under the giant federal health insurance plan for the elderly. How do you calculate a fair and appropriate size for a voucher? Setting the amount for food stamps is comparatively simple. It is a guaranteed amount set by the U.S. Department of Agriculture to reflect the cost of the lowest-cost food plan, adjusted for household size and annually for inflation. This amount is reduced as net monthly income rises. For housing vouchers, geographic differences in rental prices must be factored in, along with the size of the family—harder, but doable. But a bewildering web of disparate factors influences the amount of health care an individual obtains and the expense of providing it. In 1996, for example, 45 percent of Medicare expenditures went to pay the medical bills of just 5 percent of participants. In contrast, 52 percent of participants used up a mere 3 percent of the expenditure total.

A complex set of adjustments designed to correct the problem didn't do the job. Today, some Medicare participants get a voucher worth more than three times the amount of the vouchers others get. “While large, the adjustments made for geographic and individual cost differences have proved to be neither accurate nor adequate,” explained Robert D. Reischauer, a senior fellow at Brookings. “Failure to set voucher payments at appropriate levels has not only cost the government money, it also has created inequities.” Health maintenance organizations (HMOs) try to encourage only healthy Medicare participants to sign up for their plans, for example. In some parts of the country, HMOs simply don't offer the voucher option.

“Five states do not even have plans offering Medicare services, and in only six states is the voucher option available statewide,” Reischauer said. “The inequity inherent in the nonuniform availability of the voucher option is compounded by differences in the generosity of the benefits that HMOs offer from market area to market area.”

Vouchers are supposed to increase equity partly by giving disadvantaged recipients a choice, thus treating them like middle-class consumers. But studies of some voucher programs show that that so-called benefit might not be doing the recipients a kindness after all. Without adequate information, education, experience, and guidance, choice can do more harm than good, critics maintain. Voucher supporters label that argument simple paternalism.

Vouchers for job training provide an example. The new Workforce Investment Act of 1998 requires that Individual Training Accounts be established for disadvantaged and dislocated workers. This new mandate will greatly increase the extent to which vouchers are used for job training programs, but previous job training programs have had small voucher components. Few of them have been rigorously evaluated, but one study of voucher experiments in Seattle and Denver between 1970 and 1978 actually showed a negative impact. The training didn't raise the participants' earnings. In fact, some participants ended up with lower earnings after the experiment. Apparently, these unfortunate participants had to make choices in the absence of information about the jobs they were training for, the quality of the trainers, and their own capacity to perform the jobs for which they were being trained.

“Participants in training programs may lack appropriate information about their own skills and aptitudes as well as the characteristics of training vendors,” explained Burt S. Barnow, from the Johns Hopkins University's Institute for Policy Studies. “Providing information about placement rates of vendors [as provided in the new ITA program] will help eliminate the latter problem, but it will not deal with the former.”

He asked: “Can we trust training participants to look after their own interests?” Very often, you cannot, he said, and thus any job training voucher program must include provision for assessment, counseling, and guidance.



TRAINING: Small voucher programs have existed for years to help workers whose jobs disappeared when their plants closed. For the most part, however, the federal government simply contracted with training providers to hold classes in selected subjects or occupations. The Workforce Investment Act of 1998 is intended to change all that by establishing Individual Training Accounts to enable various categories of recipients—those in transition from welfare to work, dislocated workers, and others—to pay for training much in the same way as college students pay their tuition.



HOUSING: The Housing and Community Development Act of 1974 set up the Section 8 rental certificate program, which now provides subsidized housing for 1.4 million households. Recipients get a voucher to shop for an apartment, but payments are made directly to qualifying landlords. The voucher pays the difference between 30 percent of the recipient's income and what is considered the fair market rent—up to 40 percent of the median rent paid in a local area. Housing assistance is not an entitlement; indeed, less than one-third of eligible families actually receive subsidies. Thus, there are long waiting lists for rental assistance in most large urban areas.

But choice is a tricky factor. “On the other hand,” he said, “training programs that do not take the preferences of participants into account are almost certainly doomed. ...”

The implementation of vouchers in Medicaid poses many similar problems. Linda Billheimer of the Congressional Budget Office points to the growth since 1991 in managed care plans, from less than 10 percent to more than 50 percent of total Medicaid enrollment. Yet, many Medicaid beneficiaries who are required to enroll in managed care plans do not exercise their right to choose, so states assign them to plans.

TOO MUCH OF A GOOD THING

If one voucher is a good thing, are five vouchers even better? Probably not, policymakers are discovering. As more and more government assistance is distributed through vouchers, coordination and the need for a system to structure choice become more important.

Here's one hypothetical problem and a structured solution. “Suppose, for example, a working mother heading a family could avoid or reduce child care costs by moving to a neighborhood near close relatives or nearer a subsidized local facility, but this move raised transportation costs,” Robert I. Lerman, a senior researcher at the Urban Institute, posited. If she had to rely on distinct vouchers tied to specific services, she would be stuck in the old neighborhood. Under a structured choice program, however, “the mother could propose to use some of the child care savings to pay for the additional transportation.”

Some states are already experimenting with this concept as part of welfare reform. Michigan, for example, has adopted a “Tool Chest” program: recipients can choose which services would be of greatest help to them in the job market. (See box, page 20.)

In the absence of cross-program coordination, several unintended problems arise for voucher recipients. One of the most severe is what economists call the “tax rate” applied to using more than one program, documented extensively by Lerman and Steuerle.

Most assistance for low-income people phases out as their income rises—simple justice by most Americans' lights. However, many forms of government aid are counted as income, so they accelerate the phaseout and create some situations that don't look equitable.

"Recipients who raise their wage from a \$5.15 per hour job to a \$9 per hour job will gain only about 15–40 percent of the rise in earnings, thus implying about a 60–85 percent marginal tax rate," Lerman said. In other words, for each additional dollar earned, recipients really only earn 15–40¢ more. "Food stamps and housing benefits, together with payroll taxes, can reduce benefits by more than 70 percent." But policymakers rarely consider how interactions among programs can affect these incentives, he said.

Simply consolidating all voucher programs, however, could create new problems. Recipients might make counterproductive choices. While renting a cheaper apartment to save money for education might be considered a good use of structured choice, for example, dispensing with health care altogether, in the hope that a free clinic will materialize when the need arises, might not be. That problem could be avoided by insisting that a caseworker approve the recipient's choices. But this latter approach would be open to charges of paternalism.

Consolidation undoubtedly would have political ramifications as well. Interest groups would be less inclined to go to bat for a program that is not guaranteed to provide them with direct benefits. Also, the history of block grants shows how consolidation of programs can ultimately reduce government support.

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SPECIALIZED VOUCHER PROGRAMS:

In addition to the major categories of voucher programs, there are specialized ones, including:

- **Goods for Guns:** Programs in at least six states allow people to trade in their guns for vouchers to purchase food or retail merchandise.
- **Mow Down Pollution:** People use vouchers in such cities as Phoenix and Sacramento to trade in gas-powered lawnmowers for new electric ones.
- **Vouchers for Panhandlers:** In Berkeley, Chicago, New York, and other large cities, people can buy vouchers at local stores to give panhandlers for food, laundry services, or bus passes.
- **Cocaine Dependence Treatment:** “Clean” patients in such cities as Baltimore and San Francisco get vouchers to buy items promoting healthy living.
- **Mass Transit Vouchers:** Employers receive federal tax incentives to offer their employees transportation vouchers.
- **Michigan “Tool Chest” Program:** Recipients receive a “tool chest” of blank vouchers for various services to improve their employability.

Creating vouchers has rarely been easy, politically or substantively. Consolidating them is likely to ratchet up the difficulty another several notches. But many policy analysts believe it is worth the effort. Using vouchers, the government can openly choose how best to reconcile conflicting goals of concentrating benefits on those with greater needs and providing reasonable incentives to work, according to both Lerman and Steuerle. Bundling vouchers into a system of structured choice allows more choice than a set of individual vouchers but still requires more structure than cash assistance. And that would appear to offer the best of multiple assistance worlds.

Whether vouchers are bundled or not, the first policy decision to be made is whether to use vouchers or some alternative (such as cash payments or public provision) as the delivery mechanism. Vouchers are but one policy tool among many. Using them to deliver public services requires understanding which market conditions favor the use of vouchers to promote efficiency without resulting in undesirable inequities. The devil is in the details, as Sawhill remarked.

A B O U T T H E I N S T I T U T I O N S

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The Urban Institute is a nonprofit policy research organization established in Washington, D.C., in 1968. It seeks to sharpen thinking about society's problems and efforts to solve them, improve government decisions and their implementation, and increase citizens' awareness about important public choices. Originally focusing on urban problems, its research agenda now includes the study of national issues that reflect, respond to, and at times anticipate the changing needs of our society. Recently, this mission has expanded to include the analysis of similar problems and policies in developing countries, Eastern Europe, and the Russian Federation.

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C O N F E R E N C E A G E N D A

VOUCHERS AND RELATED DELIVERY MECHANISMS:
CONSUMER CHOICE IN THE PROVISION OF PUBLIC SERVICES

October 2-3, 1998, co-sponsored by the Urban Institute, the Brookings Institution, and the Committee for Economic Development



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George Peterson

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