

GOVERNANCE: THE LOMBARDY WAY
Assessing an experience, designing new perspectives

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Sustaining responsibility: quasi-markets and baby bonds

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Testo non rivisto dall'autore

Thank you very much, Mr. Chairman, and thank you all very much for inviting me here and enabling me to learn about the Lombardy model. I must say I have been very impressed with what I have heard. I think it is something very interesting and worth further development. And, indeed, I think we have a great deal to learn from you, perhaps more than you have to learn from us. So, I look forward very much to the discussion and the debate about what we are going to talk about.

Now, as I have understood in my talk with Alessandro, there are really three aspects on which you would like to focus during these seminars: the first is a discussion of the philosophical underpinning of the Lombardy model; you would like to better understand its fundamentals, the philosophy that underlies the model. The second are the problems with the model, the difficulties it arises, what are the unintended consequences of some of the measures you have put in place. The third aspect are the new ideas that are consistent with the underlying philosophy of the Lombardy model. And I want to say something about all three of those. I am going to change my presentation slightly, so you can ignore some of the slides that I have brought.

I will talk first of all about the quasi-market aspect, which is part of your Lombardy model, and talk a little bit about some of the problems that we have encountered in some of the measures for dealing with it. I shall then talk about one new idea which has been mentioned already by the President and by the Chairman, the idea of capital endowment, what I like to call "bambini bonds". Finally I shall close with a few words about the philosophic issues underlying the Lombardy model as best I understand it. I would emphasize of course that you are the experts on the Lombardy model, not me. Therefore, although I have read some of the things you are doing, I look forward to your telling me where I get it wrong.

Let us now go straight into the quasi-markets discussion. Like Lombardy, we in the United Kingdom have been moving towards a quasi-markets philosophy, both in terms of health and health care delivery and in the delivery of education. As in many countries in Western Europe, we started with statist public service, where the State finances services - such as health care and education - provides them free at the point of use, employs the staff (the doctors, the nurses, the teachers and so on), and gives the budget directly to the hospitals and the schools. The State also allocates users to providers, and basically decides who gets what, that is who gets the services (the State allocates children to the schools, patients to the hospitals). Therefore the users have very little freedom of choice, and very little responsibility for those choices.

Now, that was the kind of history of the British welfare state, and many welfare states: throughout Western Europe the systems are rather similar to that. What we and you in Lombardy have moved towards (in some ways you further than us, I think) is quasi-markets. We did that because of the problems encountered with these statist systems. One of the problems were inefficiency: there were few incentives in the system and even fewer for innovation, lots of resistance to innovation. These systems were inequitable, in that they tended to favour the better off. In fact, the better off were better able to manipulate the system, they were better able to talk to the bureaucrats, talk to the professionals to make sure that they got their services. Let me give you an example of this. The British National Health Service actually favoured the better off in the way the services were provided. The unemployed individuals and low-income individuals got less health care relative to their need than the employed. If you looked at specific diseases, specific treatments with - forgive me the technical term - coronary artery by-pass crafts or angiography - again, it was the better off who got more of the service than the less well off, despite the less well off having greater need. The same with hip replacements and even with family doctors. Family doctors spent more time with the middle-class, with the better off than they did with the poor. And this was under a system where the users had no choices, they had no freedoms to choose. So, it was inefficient and inequitable. It was also unresponsive to the needs of the users, organised more in the interests of the people providing the service than those using the service, and it was fundamentally paternalistic. The doctor, the teacher, the civil servant knows best, the individual user has little choice and little responsibility for those choices.

So, from here comes the idea of the quasi-market. You will be very familiar with this idea, as it is very similar to what you have done in health care and, to some extent, in education in Lombardy. In a quasi-market the State finances the services and still retains the power. The services are still free at the point of use, but the providers - the hospitals, the schools - are independent. There may be private hospitals or private schools, they may remain within the public sector but have a measure of independence, and they are funded not by money just given to them by the State, but according to how many users they can attract. So the hospitals are funded according to the number of patients they get, the schools according to the number of pupils they get, and the users make choices between

the providers, with the money following the choice. Therefore, if a hospital does not attract users and a school does not attract pupils, it does not get any money.

This has many advantages. It provides very strong incentives to increase efficiency and promote innovation, because the schools and the hospitals that are not efficient and do not innovate will tend to fall behind and will lose their position. It also provides a more equitable system, even though people often believe that introducing choice will favour the better off. In fact it equalizes the power, and the poor actually prefer choice. Some studies that we did in a hospital, about who actually wanted choice, showed that the less well off, the poor, wanted choice more than the better off. Right across the board, women wanted choice more than men. The less educated wanted choice more than the more educated. The lower social classes wanted choice more than the higher social classes. Also, I may say, this is not just true in England: there have been studies in the United States that show that black and ethnic minority groups want choice more than white groups; in New Zealand it is also true that the poorer groups wanted choice more than the better off groups; even in Finland, which is the home of social democracy, the younger, poorer groups want choice more than the better off do. And in a way this is quite understandable from what I have been saying earlier: the better off can do all right in the present system, they can manipulate the system quite successfully without choice, they can talk to the bureaucrats, they can talk to the professionals, the poorer do not have that option open to them. Giving them choice means giving them power, and they recognize that. It is interesting that the same it is true with men and women; in the whole it is the less advantaged, the less powerful who want this kind of mechanism to make sure they get a good service. Therefore the quasi-market increases equity and provides obviously incentives for increased responsiveness to users, makes the system more responsive to users and it is not paternalistic: the users have powering control. Right, now, you will be familiar with much of that, although I would be interested to know whether you have evidence about the poor or the less well off and what their attitude towards the new system you are introducing in Lombardy is and whether it is the same as our experience.

However of course there are problems, it is not a perfect system, no system is perfect. I do not know if this phrase translates into Italian, but you are not looking for the best system, you are looking for the least worst system, and we are looking for the least worst system. In order to have quasi-markets work properly, there must be competition – you must not have monopolies, since handing over things to a private monopoly is worse than having a State monopoly – and there must be the possibility of entry and exit. Now, here I understand one of the issues about your system in Lombardy about hospitals. I understand – you will correct me if I am wrong – that the public hospitals do not necessarily lose money if they lose patients. Under your scheme, the public hospitals still receive money from the Government even if many of the patients choose to go to the private hospitals: if that is true, that is not a very good system, because it gives no incentive to the public hospitals to improve. They know that whatever they do, they will be bailed out by the Government. We have had this problem, and as soon as you start helping the hospitals that are in trouble, bailing them out with Government

money, all the incentives in the system disappear, and the changing in behaviour stop. They stop improving, they just say: “oh, well, it doesn’t matter”.

Of course, in order to have quasi-markets work properly there must also be good information for users. We are developing also computer-assisted sources of information, by which users can find out their own information about the hospitals they are using, even about the surgeons. We hope the mortality rate of the different surgeons will be available soon so that patients can choose which surgeon they prefer to go. And there must be little opportunity for cream-scheming: this is a real problem, especially in education. It is when schools choose the pupils rather than the pupils choosing the schools, and the temptation is always to choose the easiest and the cheapest people. To cope with this problem I like the idea of what we call a disadvantage premium or discriminating voucher, which imply giving to the children from poor families a larger sum of money, a larger voucher than to the children from better off families. This way the schools would have an incentive to accept children from poorer families because they get more resources. This might be an idea we can discuss, I know that in Italy education is a national competency, but I understand in Lombardy you do have a system of adding a little extra-money for private education. It would be very interesting to discuss how that is working in the debate, and whether you do get this cream-scheming problem. So, that is the quasi-market.

Now, let me move on to the second theme, which is that of investing in youth, the question of assistance, and the Lombard model with respect to this. Here is where I want to talk about essentially a new idea which seems consistent with your model. It comes from the idea of asset-based welfare, a welfare that is directed at increasing people’s assets, their capital, as much as assisting them by providing them with income. This is an area that has been neglected by many welfare systems: they do not bother with people saving their assets, they think about human capital, they think about education, but they do not think so much about physical capital or financial capital. And yet, there is a lot of evidence that this matters a great deal, there is evidence that individuals and families who have assets compared to families who do not have better health, lower mortality, stay longer together, have a higher marital stability; there is even less domestic violence, better educational outcomes for the children and higher savings. And this remains even when you control for all the other factors (incomes and education above all); even when you take account of all that, you still get this asset effect, where assets make a difference. This is particularly true for young people: we have done studies that show that if you hold assets at the age of 23, it means that over the next decade you are more likely to be in full-time employment (both men and women), have higher earnings, have better health. Even when you control for the other factors like income, social class, and even personality type, even when you control for all those factors, you still observe the fact that people who own assets do better in almost every field.

Therefore, what is the new idea in this respect? What can we do about this? Well, there have been various ideas. There was an English revolutionary – who actually worked very heavily in the American Revolution of 1776 and was a big

supporter of the French Revolution – who had the idea to give 15 pounds to every 21 year old who paid enough inheritance tax. I had a similar idea: I think of 10,000 pounds at the age of 18, again funded by inheritance stock. The Institute for Public Policy Research also had a similar idea and published it about the same time as mine: its plan was to give 1,000 pound grant at birth, funded by general taxation. In the United States too, I think, they give 80,000 dollars – which is a lot of money – at the age of 21, funded from the wealth tax. I know that in Italy you have been thinking about this – Maurizio has been telling me about some of the ideas that you have here –. Finally, also Hungary, France, and other countries have all considered or have introduced somewhat similar schemes. Perhaps we will talk about the philosophic difference between the countries: in the French system, for instance, they have a very different view of this idea than, say, the British do. It is interesting to think about the philosophical differences, and perhaps we will come to that later on. Anyhow I suppose that the country that has gone furthest has been the United Kingdom, by developing this idea called the Child Trust Fund.

Let me tell you a little bit about it. Every child born in the U.K. receives a grant equivalent to 375 euros to set up a trust fund account. Children from poor families receive a little more: they receive 750 euros. Parents, grand-parents, friends and children can save into the account up to 150 euros a month, and the income from the account is tax-free. The Government pays in a further 375 euros at the age of 7 (750 euros again for poorer families). The money can be invested in savings account or in shares: there are number of financial institutions that have offered accounts that they will manage. If the parents do not do anything about it, the Government will do it for the parents. The account is available for use when the child reaches 18. There are no restrictions for its use, the child can use it as he likes. Nobody else can touch the account, not even the parents. Moreover there is financial help in education available in schools: the children receive a statement about their account, and they will bring the account into the school, and the classroom then will receive advice and understanding on how it might be used. It can create a lot of money. If you take the first line of this table, 375 euros, if it is invested in shares, that tends to increase on average of about 9% per year. And if the parents or the grand-parents save 150 euros per month into the account, at 18 that will have accumulated 75,000 euros, a lot of money. Let us see the poor. He earns 750 euros. At lowest interest rate of 5%, and by only saving 15 euros a month into the account, that will accumulate 8,000 euros, a substantial sum of money.

We were worried, when we introduced this, that the poorer would not like it. We thought the poorer would say: “why did they not you just give us the money? We are starving children and you are locking away this money into an account. Why not give it to us so we can spend it properly?” But we did some surveys looking at parents in deprived areas and discovered they liked it, they liked the idea, they preferred it to be spent this way instead of being spent on education, they liked the idea that it was locked away and they could not touch it. They liked the fact that it was universal and went to everybody. Even the poor parents did not like the fact that the poor got more. They did not like that, they preferred the idea

that it was equal, they felt that it did provide and encourage them to save. Furthermore they said interestingly that it really encourages the grand-parents and the friends to save into the account. In fact previously the grand-parents had been reluctant to give money for the child to the parents since they thought the parents would just spend it. But with this account the grand-parents could know that the money went to the child and stay for the child. The only thing they were not sure of was whether there should be restrictions on use, whether they really ought to allow the child to do whatever they liked.

It is the kind of thing that you could do in Lombardy, if you so wished. A fair amount could be 500 euros, say; the money could be invested in shares, government bonds, savings accounts; the child could access the account when they were 18, maybe at 21 if you are a little anxious about giving all that money – I have 18 years olds and am little anxious –; the parents could save into the account but not take the money from it.

Now – of course there are problems. A first question that arises is: do you give it at birth or at majority? The Institute of Public Policy Research recommended giving it at birth, I recommended giving at majority. I think the Institute of Public Policy Research was right. It allows time for the savings to develop. Should it be universal or means tested? I like it universal. Should there be restrictions on use? Should it be only for, e.g., higher education, house purchase, small business, pension fund? We considered all this in the U.K. and we decided it would be unpractical to pose restrictions on the use, perhaps we can talk about that later. Finally, there is the issue of the cost. I have not done any cost for Lombardy because I do not have the relevant data as to how much it would cost to you to do it, I did do some cost for the European Union as a whole, and it does not come to come across as very expensive: about 0. to 0.2% of GDP. I imagine it would be rather similar for Lombardy as a proportion since you have a very high GDP. Therefore it would probably not cost an enormous amount, I think. As far as the European Union is concerned, it was about 2% of the budget. [...] Savings on higher education [...]. So I think it would be quite consistent with your model: it would be a way of investing in youth that promotes higher earnings, employment and health; it helps savings habits, helps the less well off as well as the better off unlike much of education that tend to favour the better off. It is a noble enterprise. It is universal across citizens and may contribute to people's notion of citizenship. There is a real question as to what you call it: I called it demogrant, but I think it was a bad idea, I think again, the idea of the IPPR was cleverer. They called it a baby bond, and I think baby bond was a better idea than demogrant, as I say, the name I really like is bambini bond. I think bambini bond is the really good title for it.

Let me finish on the philosophical issues. Both quasi-markets and asset-based welfare share a philosophy with the Lombardy model, it seems to me, which focuses on individuals and families, and it empowers them, by giving them freedom of choice, and responsibility for those choices (because they can make mistakes for those choices, of course, and they will not necessarily be helped if they do mistakes, they have to take responsibility for the decisions they made).

And it changes the role of the State: the State, instead of being a provider or paternalist, becomes an enabler. The President talked about investment: if you do not like the word 'enabler', maybe the word investor is a better word. The State becomes an investor. At a fundamental level it does not tell the individuals what to do, it provides the resources to enable individuals and families to achieve their own ends. That – it seems to me – is exactly the essence of the Lombardy model that you are developing here, and it is the essence of the kind of model that we are trying to develop in the U.K. And, I have to say, I think it is the essence of the least worst kind of model for providing welfare and social services. Thank you.

Answering to questions:

Thank you for your very interesting comments. Too many, though, and very difficult to answer. However, I will try.

Tax relief and incentives to save – I am never a great enthusiast for tax relief because it favours the rich, it is a regressive system: those who pay the highest tax rate get the greatest benefit from it. I would prefer a system, if we want to have incentives to save, of matching grants, so that for every euro that is saved, the state provides a euro or provides 50 cents, creating a matching system. We have experimented with that in U.K. in fact, and it worked, especially for the poor; it encourages the poor to save, quite effectively. It is a simple matching grant system where the State saves and which parallels the savings that the individuals make. I also quite like to see that combined with the baby bond idea, therefore if parents – particularly poor parents – save into the account, the State might match some of the savings. I will come back to that in a moment.

The migration question – This is one of the difficult ones. Of course it applies in the sense of any nation within the European Union, and indeed any region within the European Union has this problem, whether it provides better benefits than its neighbours of whatever kind. This is obviously an issue. In the specific case of the baby bond, there are ways you can think of coping with the problem: one would be the one we use in the U.K., i.e. that it is confined to those who are born within the nation and State, or within the region. In Lombardy, particularly if you have got good hospitals, you have got a double problem because it would mean the people would flock into the hospitals in order to be born in Lombardy. This way the children benefit from the baby bond as well as getting good care. I suppose the answer would have to be some sort of requirement, so that a family would have to live for 10 years, say, in Lombardy, before they became eligible for the programme. I think you probably need to have something like that, otherwise, as you say, I think the migration problem will be very acute.

The involvement of voluntary sector and private organisations – In our quasi-market in health we are encouraging private sector providers and not-for-profit voluntary organisations to provide services. In education, we have been more anxious: I do not know quite well why, but the Government is not allowing at the

moment private corporations to provide schooling, which is bizarre because we already have private schools for the rich. Anyway for some reason at the moment the Government is reluctant to allow the State money to be used to directly fund private schools. There are some halfway solutions that have been used, such as sponsorships, but not a lot, and reluctantly, too. However, in general I think the principle of using private sector organisations and not-for-profit organisations in a quasi-market is a good one. Particularly, not for profits are particularly interesting because one of the problems for quasi-markets, as I mentioned, is information for users, having users able to monitor the quality of what is being provided. Now, if it is difficult to monitor quality, you need to have some elements of trust, you have to trust the organisation with whom you are contracting; and sometimes a not-for-profit organisation might be perceived by the Government to be more trustworthy, in that sense, than a for-profit one. Therefore, there are some advantages to using that.

Lessons from other countries – I believe one has to be very careful because taking one model from one country and try to move it to another usually does not work. I think there are two ways of using the lessons from other countries: one is just simply to get ideas (other countries that may have some ideas you never thought of, and it is worth thinking what could be applied in this context). The other is to use them while dealing with opposition. Sometimes it is very easy to develop a list of objections to any policy: for any new policy, somebody will come along with a list of problems; and it can often be very distracting. In this situation you can refer to the good things about other countries. E.g., Sweden tried it, and the world has not collapsed, it was not a disaster. And Finland has done this, and actually. I have particularly picked Scandinavia because Scandinavia models are usually very useful in this respect : they have often been the most progressive, including quasi-markets: Sweden has been quite adventurous in quasi-markets for education. And it is useful to look at those models. The world does not end when you try this; these objections may be real objections, but they are not absolutely catastrophic, they do not destroy the policy.

The impact on the generations – it is too early to say, we have only introduced it in 2005, there has been some backdating to 2002 but, as yet we do not know. But I quite agree with you, I think there will be a very interesting question about how and what this will do about the relation between generations, including the grand-parents of the children. I think it will be a very interesting development to observe, and I plan to put in lot of application research projects to observe it as it develops.

About informal transfers – There can be a little of worry that the baby bond idea will displace informal transfers, that it will reduce them, that people will not do other kinds of giving. I think that this will only apply to the better off, I think it will probably divert some of the savings that the better off would have made in other ways into the baby bond or into the child trust fund account. Which generally relates to another interesting point. I mentioned that France, both the Chirac Government and the Sarkozy Government and Royal's team talked to us about the idea of the child trust fund: their worry was they would not like to allow parents or grand-parents to save into the account for their children, only the State

could save into the account. In fact, one of the ideas was that the State, only the State would save every year into the account, which makes it of course a very expensive scheme for the public funds. They felt that it was too inegalitarian to allow parents to save into the account. It is an interesting difference: I do not think it will be all that inegalitarian, because, as I said, I think for the better off it would simply divert other forms of savings, I do not think it would lead to a net increase in their savings. So, it will leave things much as they were in that sense. But it is interesting to see the philosophical difference between the French and the U.K., and other countries as well.

Inheritance tax – I like the idea of tying it in with the inheritance tax. The nice thing about taking the inheritance tax and using the money for baby bond is that you take the wealth of one generation and you spread it to fertilize the growth of the next generation, so it is a way of transferring money from the generations. However I also think inheritance tax tends to be extremely unpopular. I have been on radio programmes, where the public have phoned in after I had talked about the inheritance tax and I have never encountered such hostility as when you say “inheritance tax”. It is extraordinary the extent to which people dislike it. It seems extraordinary to me because to me it seems to be the most classic, the fairest of all taxes. Anyway if you tied it in with a more popular policy, like the baby bond policy, you might be able to overcome some of that hostility.

Constraints on use – I can see your idea of social services, of giving money to elderly people or to their carers, to allow them to make their own decisions about whether they spend the money or go into residential care or try and care for at home or whatever. We have introduced a scheme of giving money to the disabled people directly to allow them to purchase their own services that were preciously provided by the State; now we give them the money instead and they are allowed to purchase them. We have had the problem that the local government refused quite often to take off the scheme to allow this to happen, because they have been worried about their own employment, the employment of the people providing services. I understand you have exactly the same problem with your [...] reluctant to undertake this current of ideas, and you feel sometimes that you are waiting through [...] to try to get these things in action, but it’s a sort of idea you have, and I think it would be very interesting to swap experiences about how this is done. You are constraining the use of your money for education purposes, for instance; we did it for the baby bond (you did think about that). As I say, we look quite keen that some of the money could be used for small businesses. We discovered that you only need a very small amount of capital to start a successful business, about 7,000 euros; the difference in having no money and having 7,000 euros for the success of the start of a small business was enormous. The success rate was 5 or 6 times higher. So we wanted the bambini bond to be spent on small businesses, somebody wanted to, and we just thought it would be very difficult to police: if we compelled them to spend that money that way, or compelled them to spend that money in another way, we felt it would be very difficult to police. also, there was a principal question: if you are giving individual choices then you give them responsibility. For example, in Britain we still subsidise University education, we subsidise the development of human capital, but we do not tell

people what to do with that human capital, we do not constraint their decisions about jobs and how they use it, so why should we constraint their decisions of physical capital? I think that is it for the moment. I am sure there are other points, but there is no time left.