

Individual Choice and  
Responsibility: Quasi-Markets and  
Bambini Bonds

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IRER Conference 15 June 2007

Lombardy

# STATIST WELFARE SYSTEMS

- Provides assistance for those who are not in work (unemployed, sickness, retired). Assistance (replacement income level) generous. Not means-tested.
- No conditions associated with assistance
- Heavy regulation of the labour market
- The key assumption is that individuals have few choices and hence little personal responsibility. Responsibility for individual outcomes lies with the state.

# INDIVIDUALIST WELFARE SYSTEMS

- Assistance at low level, often means-tested
- Conditions on assistance. Requirement to look for work to accept work if offered. 'Workfare'.
- Light regulation of the labour market
- Emphasis on measures designed to promote self-help: e.g. asset-based welfare
- Key assumption is that individuals have choices and hence responsibility. State's responsibility is to enable individuals to make choices and look after themselves.

# STATIST PUBLIC SERVICES

- State finances services, such as health care and education. Service free at the point of use for users (patients, families).
- State also provides services, employing staff, doctors, nurses teachers etc. Gives budget directly to providers (hospitals, schools)
- State (or its agents) allocates users to providers (children to schools, patients to hospitals). Users have little freedom of choice and hence little responsibility.

# PROBLEMS WITH STATIST SYSTEMS

- Inefficient. Few incentives for efficiency or innovation
- Inequitable. Better off can manipulate system more effectively than poor.

# NHS without choice: existing inequities

- Unemployed, and individuals with low income and poor educational qualifications use health services less relative to need than the employed, the rich and the better educated
- Intervention rates of Coronary Artery Bypass Grafts (CABG) or angiography following heart attack were 30% lower in lowest socio-economic group (SEG) than the highest.
- Hip replacements 20% lower among lower SEGs despite 30% higher need.
- A one point move down a seven point deprivation scale resulted in GPs spending 3.4% less time per consultation

# PROBLEMS WITH STATIST SYSTEMS

- Inefficient. Few incentives for efficiency or innovation
- Inequitable. Better off can manipulate system more effectively than poor.
- Unresponsive to needs and wants of users. Often organised more in the interest of providers than users
- Paternalistic. Doctor, teacher, civil servants know best. Individual has little choice, little responsibility.

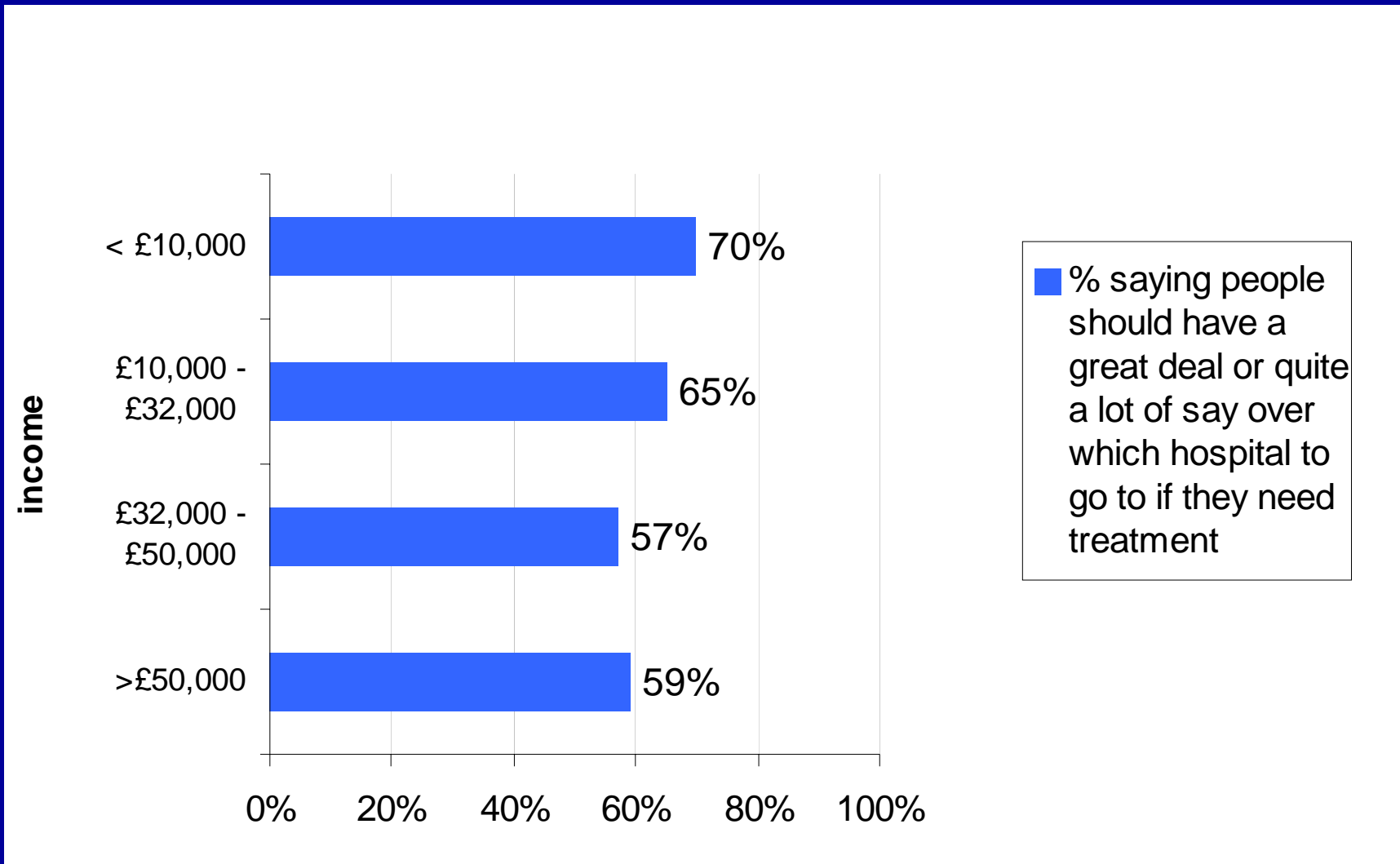
# QUASI-MARKET PUBLIC SERVICES

- State finances services, such as health care and education. Service free at the point of use for users (patients, families).
- Providers independent. Funded according to how many users they can attract
- Users make choices between providers. Money follows the choice.

# QUASI-MARKETS: ADVANTAGES

- Provides incentives to increase efficiency and promotes innovation
- Increased equity. Equalises power. Poor prefer choice.
- Incentives for increased responsiveness to users
- Non-paternalistic: users in control

# Who wants choice: Income



Source: Public Responses to NHS Reform, John Appleby + Arturo Alvarez, British Social Attitudes Survey 22nd Report (2005)

# BUT.....

For quasi-markets to work properly, there needs to be:

- Competition. No monopoly. Possibility of entry and exit.
- Good information for users
- Little opportunity for cream-skimming

# ASSET-BASED WELFARE

Assets: savings (bank accounts, shares etc), property.

Evidence that individuals who own assets have:

- Better health
- Lower mortality
- Higher marital stability
- Less domestic violence
- Better educational outcomes for children
- Higher savings

# ASSETS AND YOUTH

Asset holding at 23 has strong links with:

- Time spent in full time employment between 22-33 for men and women
- Earnings at age 33 for men
- Health of men and women at 33

Links remain even when income, class and personality type controlled for.

# ASSET-BASED WELFARE AND YOUTH SCHEMES

Tom Paine: £15 for every 21 year old paid from inheritance tax

Le Grand and Nissan: £10,000 at 18, funded from by inheritance tax

Institute for Public Policy Research: £1000 grant at birth funded from general taxation

Ackerman and Alstott: \$80,000 at age 21 funded from wealth tax

Italy, Hungary, France, Canada all considering/have introduced schemes

UK Child Trust Fund

# UK CHILD TRUST FUND

- Every child born in UK receives a grant of 375 euro (equivalent) to set up a trust fund account.
- Children from poor families receive 750 euro.
- Parents, grandparents, friends and children can save up to 150 euro a month into account. Income from account tax free.
- Government pays in a further 375 euro at age 7 (750 euro for poor families).

# CHILD TRUST FUND

- Money can be invested in savings accounts, or shares. Can choose from funds offered by 40+ financial institutions. Government will invest it if parents don't take it up.
- Account available for use when child reaches 18. No restrictions on use.
- Financial help and education available

Amount at Birth (euros)	Interest rate	Amount saved	Capital at 18 (euros)
375	9% (shares)	150 p.m.	75,195
375	7% (shares)	37.50 p.m	16,860
750	5% (savings account)	15 p.m.	7,980

# Views of Parents in Deprived Areas

- Approved of the policy
- Preferred it to be spent this way than on education or child benefit
- Supported the fact that it was 'locked away'
- Supported its universalism. Didn't like the means-tested addition (even the poor)
- Encouraged them and others to save
- Mixed views about restrictions on use

# A Generalised Child Trust Fund

- A euro account set up with 500 euros for every baby born.
- Money could be invested in shares, government bonds or saving accounts
- The child could access the account when he or she was 18 (21?).
- Parents could save into the account, but not take money from it.

# Challenges

- Age of receipt: at birth or on maturity?
- Universal or means-tested?
- Restrictions on use?
  - Higher education or other training
  - Towards house purchase
  - Small business
  - Pension fund
- Cost

# Cost

- 4,792,600 births per year in EU 25 in 2004
- Total annual cost at 500 euro per child: 2,400 million euro.
- 0.02% of EU 25 GDP.
- 2% of EU budget.
- Savings on other budgets, especially higher education and social insurance

# A Generalised Child Trust Fund

A way of investing in youth that:

- Promotes higher earnings, employment, health.
- Helps savings and savings habits.
- Helps the less well off as well as the better off (unlike education)
- A noble enterprise. Universal across citizens .  
Contributes to citizenship

# Title?

- Demogrant
- Capital Endowment
- Baby bond
  
- Bambini Bond

# CONCLUSION

Both quasi-markets and asset-based welfare share a philosophy. This:

- Focuses on individuals and families
- Empowers the individual. Gives him/her responsibility for life choices.
- Changes role of state. Instead of a 'provider' or a 'paternalist' it becomes an 'enabler': providing the resources to enable individuals and families to achieve their own ends.

# CONCLUSION (cont)

So quasi-markets and asset-based welfare can deliver:

- More efficient, equitable and responsive public services
- Empowered individuals – with choice and responsibility - and happier, more secure, more stable families.
- A better balance between the state and the individual?
- Doux Commerce Publique