Social Service Vouchers: Issues for Social Work Practice

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The current political climate has created renewed interest in vouchers as a method to finance and deliver human service programs. After explaining voucher theory and reviewing major voucher programs and experiments, this article discusses potential consequences of social service vouchers by identifying issues that are of concern to social work and related professions.

Vouchers are certificates or coupons, given by a government agency to eligible individuals, which can be used like money to purchase specific goods or services. The coupons have a cash value and can be spent at any authorized supplier—public or private—selected by the voucherholder. The supplier then redeems the vouchers at the funding agency. A popular example of vouchers is the Food Stamp Program. For instance, food stamp recipients are issued coupons (vouchers) giving them, in effect, money for food items. Recipients can spend their "voucher" at any approved retail store they choose. The retailer then exchanges the foodstamps for cash.

Vouchers are frequently recommended as a way to finance and deliver human service programs. Since the 1960s, vouchers have been used by federal, state, and local governments to provide a variety of services including nutrition, housing, education, child care, recreation, health care, and legal services. Political agendas, especially on the conservative right, increasingly include vouchers as a method to finance and deliver services (Friedman, 1980; Savas, 1982). Yet, the use of vouchers is one of the least understood welfare reform proposals. The results of voucher experiments have done little to reassure the viability of this approach and there is considerable discussion about the usefulness of vouchers (Crompton, 1983; Wynne, 1986; Raywid,
Understanding Vouchers

In order to understand vouchers, it is helpful to examine its theoretical basis, which comes from classical economic theory. Simply stated, social service vouchers will shift human service programs into the open market and expose them to the pressures of supply and demand. The expectation is that vouchers redistribute economic power between clients and agencies by giving subsidies directly to users rather than to providers. This changes the funding scheme from a supply subsidy to a demand subsidy.

Voucher advocates believe that open markets give clients more choice in selecting services and promote competition among human service providers. Vouchers allow clients to seek out and purchase services from the human service professional they judge to be best for their needs. In theory, providers attempt to offer services, at a competitive price, and of the type and quality desired by clients. Providers who attract the most clients receive the most vouchers and, hence, the most financial resources. In contrast, providers who attract fewer clients receive fewer resources.

A basic assumption of voucher theory is that increased client choice and expanded competition bring positive changes to the marketplace which, when applied to social service markets, compel the welfare system to improve. Expected benefits from social service vouchers include: improvements in the price, supply, and quality of social services; increased innovation and diversity in welfare programming; greater program efficiency and accountability; and increased client satisfaction (Friedman, 1962, 1980; Reid, 1972).
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Because few rigorous experiments have been conducted to evaluate the effects of vouchers on human service programs, proponents of vouchers look to economic theory to support their claims. As a result, there is a wide gap between theoretical models of vouchers and their proven value under actual service conditions. In the absence of scientific evidence, decisions to use vouchers have turned on theoretical and ideological speculation.

Current Voucher Programs

The G.I. Bill, the Food Stamp Program, and Medicare are major institutionalized voucher programs administered by the federal government. The starting point for gaining practical understanding of vouchers is to review the results of these programs.

The G.I. Bill

An early and very popular government voucher program is the G.I. Bill's education program of the Servicemen's Readjustment Act of 1944. Designed to help veterans and service personnel to a college education or to vocational training with tuition, fees, books, and supplies paid by the government. Under the terms of the G.I. Bill, eligible veterans are given a resource allocation for educational services which can be spent at any approved school they choose. The Veteran's Administration (VA) then reimburses the educational institution. In effect, the allotment is a voucher. By most accounts, the education provisions of the G.I. Bill have helped millions of veterans to successfully adjust to civilian life (Olson, 1974; Mosch, 1975; Hyman, 1986).

It is important to note that a major function of vouchers is to encourage the consumption of particular goods or services by a particular subgroup of consumers. Although over eight million veterans have used their education benefits (U.S. Department of Commerce, 1990), a study by Norman Frederikson and William Schrader (cited in Olson, 1974) indicates that 91.6% of the veterans would have attended college without the G.I. Bill. Put another way, the G.I. Bill increased veteran enrollment in educational institutions by a relatively small fraction
(9.4%)—although it undoubtedly eased the financial burdens of the veterans who attended college. The results of this study suggest that vouchers by themselves will not significantly increase the consumption of a particular good or service.

It is also worth noting that another purpose of vouchers is to improve program efficiency. Early reports show that, in an effort to increase revenues, some schools took advantage of the G.I. Bill by raising tuition, collecting nonresident tuition from veterans, falsifying attendance records or failing to inform the VA when veterans registered but did not attend classes (U.S. Congress, Senate, Committee on Labor and Public Welfare, 1952; Yoder, 1963; Frederikson and Schrader, cited in Olson, 1974). Other fraudulent practices included establishing "diploma mills" and other profit-making schools of doubtful value to obtain funds from the government (Yoder, 1963). To check waste and inefficiency, Congress has passed a series of restrictive amendments to the original bill. Apparently, vouchers alone do not guarantee programs will operate efficiently and safeguards must be provided to ensure against abuse.

During the 1960s and 1970s, higher education was characterized by "bigness." To meet increased enrollment demands, influenced by the influx of G.I. Bill students, educators and legislators relied on larger schools and crowded classrooms. According to Olson (1974), many veterans complained of receiving a lower quality education due to "assembly line operations in the classroom...and the increased pressure to make education an impersonal affair" (p. 104). The G.I. Bill experience also indicates that vouchers do not effectively improve the quality of a particular service.

*The Food Stamp Program*

Created in 1964, the Food Stamp Program is one of the most widely recognized government voucher programs. The objective of the program is to increase food purchases and raise the levels of nutrition among low-income households. Eligible households are entitled to monthly food stamp allotments (vouchers) which can be spent on food items in any approved retail store they choose. The stores turn in their food stamps to the United States Department of Agriculture for cash. In 1988,
there were 18.6 million participants in the program (U.S. Department of Commerce, 1990). Referring to its size, Levitan (1985) believes the Food Stamp Program has been successful in targeting benefits to those most in need and offering assistance to the working poor.

Several evaluative studies of the Food Stamp Program have been conducted to determine how well it is meeting its primary objectives. In two major studies, William Clarkson (1975) and Maurice MacDonald (1976) conclude that food stamps failed to achieve the objectives of increased food purchases and improved diets among the poor. Instead, the program increased the general purchasing power of participating households by replacing cash expenditures formerly made for food thereby, making money that would normally be spent on food available for other uses. Clarkson also found that the cash equivalent value of food stamps is 82% of the actual market value. In other words, participating households would have been as satisfied with $82 in a cash transfer as with $100 in foodstamps. These authors conclude that the Food Stamp Program is both inefficient and ineffective, and would be better replaced with a system of cash payments.

A recent study by Thomas Fraker, Barbara Devaney and Edward Cavin (1986) supports this recommendation. The authors looked at a pilot project in Puerto Rico where eligible households received cash grants instead of food stamps. The results indicated that the cashing out of foodstamps had no detectable effect on total food expenditures of participating families. Whether these results would extend to the U.S. Food Stamp Program remains to be determined.

The significance of the Food Stamp Program studies, as a representation of vouchers, is that they provide added evidence that vouchers alone do not significantly increase consumption of a particular good or service. This is due in part because vouchers are treated as income supplements by recipients thereby increasing their purchasing power for nonvoucher items. Another finding is that vouchers are inefficient because they are not cash equivalent. The voucherholders' subjective evaluation of vouchers may be below their actual purchasing power because they must be spent on particular goods or services. This
indicates that restricted subsidies (vouchers) are more costly than unrestricted subsidies (cash).

**The Medicare Program**

The largest federally administered program with voucher characteristics is Medicare. Enacted in 1964, the Medicare Program provides health insurance protection for the aged and disabled. Its primary goal is to increase access to health care services and to reduce the financial burden of the high costs of medical care. Under the terms of the program, Medicare recipients are issued an enrollment card (voucher) giving them, in effect, money for medical services. Cardholders can spend their "voucher" at any authorized health care provider they choose. The provider then bills the federal government for payment.

There is no doubt that the Medicare Program has done much to extend health care coverage to virtually all elderly and disabled Americans. In 1988, Medicare served 32.9 million elderly and disabled citizens (U.S. Department of Commerce, 1990). The program also receives consistent public support, with more than 90% of those surveyed agreeing with Medicare’s purposes and policy goals (Dobson, Lagenbrunner, Pelovitz, and Willis, 1986). Moreover, studies confirm that the health of the elderly improved after the program’s introduction (Lowenstein, 1971; Rosenwaike, Yaffe, and Sagi, 1980).

Voucher proponents argue that, through the power of competition, goods and services will be provided at the lowest possible cost. This is because voucher users are motivated to shop wisely so their vouchers will go further and they can buy more. And, providers have incentives to reduce or contain costs in order to capture a larger share of the market.

Since Medicare’s inception, a major issue in the development of the program has been cost containment. Medicare expenditures have increased at an annual rate of 17.7% from 1970 to 1982 (Davis and Rowland, 1986), well ahead of the general rate of inflation. In 1988, Medicare spending reached $86.3 billion (U.S. Department of Commerce, 1990). As a result of rising program costs there has been mounting pressure at the Federal level to regulate the health care market.
The Medicare experience indicates that vouchers failed to establish reasonable costs through market forces. Therefore, in an effort to bring health care costs under control, the federal government has developed policies to promote cost effectiveness and cost containment. It is important to note, however, that because of its reimbursement system the Medicare Program is not as good a voucher system as the G.I. Bill or the Food Stamp Program. Medicare operates by paying physicians on a fee-for-service basis according to a customary, prevailing, and reasonable charge method and paying hospitals on a retrospective basis according to their costs. (Effective October 1, 1983, payment rates for hospitals are prospectively determined on a case basis. The Medicare hospital prospective payment system (PPS) uses diagnosis-related groups (DRG's) to classify cases for payment.) Since reimbursement rates are fixed, there is no incentive for the beneficiary to seek out a low-cost, good quality health care provider. If a person finds a provider who charges less than the maximum, the savings will go to the federal government not the consumer. (Under the PPS plan, accrued savings will go the hospital.) Because these conditions threaten the integrity of vouchers, evidence from the Medicare Program should not be considered conclusive.

Past Experiments with Social Service Vouchers

In addition to the programs discussed above, social experiments with vouchers have been conducted, for the most part, in three service areas—education, housing, and child day care. It is helpful to look at major studies in each of these areas as they pertain to expected benefits of social service voucher systems.

Education Vouchers

Vouchers have a long history in education, where the concept is generally traced back to Adam Smith and Thomas Paine. Smith and Paine emphasized familial responsibility for the kind of education children receive. In the same tradition, recent proposals for education voucher plans have been made by Milton Friedman (1962, 1980), Christopher Jencks (1970), and John Coons and Stephen Sugerman (1978). In 1985, the Reagan
Administration introduced the Equity and Choice Act (TEACH). Although not enacted into law, the bill called for education vouchers for low-income families. A 1987 Gallop education survey found that parents favor a voucher system—44% for to 41% against—and 71% support the principle of school choice. The Bush Administration is reviving the voucher strategy for public school reform by promoting the notion of “educational choice.”

Between 1972 and 1975, a modified voucher plan was tested in the San Jose, California, Alum Rock Elementary School District. Parents received vouchers equal to their child’s fair share of public education funds and were allowed to select the school and programs of their choice. The intent of the experiment was to allow greater parent choice than before in choosing schools and to encourage competition among schools. However, the theoretical benefits from this voucher scheme were not realized. On the matter of choice, few parents “shopped around” for schools. Instead, most made their selection based on geographic proximity and sent their children to the nearest school. While the experiment did yield a range of educational alternatives from which parents could choose, most favored traditional curricula. After evaluating the experiment, the Rand Corporation (1981) concluded that, at best, overall effects of vouchers were negligible, and, at worst, vouchers worked in a direction opposite from theoretical expectations.

However, the Alum Rock experiment did shed some light on social service voucher issues (Lindelow, 1979). The evidence indicates that it is difficult to create a competitive market within an established human service system in part due to the monopoly structure of human service agencies. Monopoly implies exclusive control over the market and monopolists do not willingly yield their power. Another insight from this experiment, is that educators do not like competition; they prefer to exercise professional judgment on curriculum issues rather than respond to market forces. Finally, family choice may increase social stratification between white-collar and working-class families. In the Alum Rock experiment, wealthier families chose more innovative programs for their children, while working-class and minority families selected more traditional educational programs.
Housing Vouchers

Housing vouchers have been recommended at various times since 1935. The most recent effort was in 1985 when the Reagan Administration persuaded Congress to approve a one billion dollar, five-year demonstration program in 20 urban areas across the country. This experimental program uses rent vouchers as a way to shift federal housing policy away from construction (supply) subsidies and toward consumer (demand) subsidies. The program assumes that the housing problem is one of affordability not availability and helps the poor rent rehabilitated homes.

Evaluations of this program are not yet published, however, preliminary reports point to several problems (DePalma, 1987). In New York City most vouchers are returned because the holder cannot find an affordable apartment—high rents and low vacancy rates negate any advantages of a voucher, indicating that the affordable housing supply is not expanding due to vouchers. In some demonstration areas, vouchers are unused because they do not offer as much assistance as existing federal subsidies. Other reports indicate that, on average, the renter's share of rent is higher in the voucher program while the quality of housing is unchanged. It appears that, in some cities, vouchers have a negative effect on the price of housing and no effect on the overall quality of living arrangements. Despite efforts from the White House, Congress has consistently refused to expand the housing voucher program.

In 1970, the Department of Housing and Urban Development launched one of the most rigorous voucher experiments to date—the Experimental Housing Allowance Program (EHAP). Conducted over an 11 year period, EHAP covered 30,000 low-income households in 12 sites across the country. A central objective of the study was to assess the impact of voucher subsidies on patterns of housing consumption. Unlike vouchers that can be spent only for specific services, e.g., food and education, housing allowances could be spent in any way. However, eligibility requirements were established to help channel allowances towards housing consumption.

One significant finding from the EHAP study is that most participants did not use vouchers to increase housing-related
purchases—most housing allowance payments were spent on nonhousing items such as clothing and recreation (Struyk and Bendick, 1981). In effect, the voucher plan became an income supplement, increasing the households’ disposal income while leaving the housing arrangement unchanged. Put simply, the quality of housing was not improved through the use of vouchers. Another finding, one that has important implications for social service vouchers, is that individuals generally participate in a voucher program based upon a rational assessment of the benefits and costs to them in doing so. For instance, potential users must evaluate whether receiving the vouchers increases their well-being sufficiently to compensate for meeting the requirements of the program. Also, the greater the perceived transaction costs imposed by the program, such as time and trouble spent searching for information and shopping for market alternatives, the less the vouchers will be valued by the user. A fair assessment is that high costs, as perceived by potential users, are a disincentive for eligible clients to participate in this type of program.

Child Day Care Vouchers

Since the early 1970s, Florida, California, Minnesota, and Texas have tested child day care vouchers (Kahn and Kamerman, 1987). In 1987–88, five bills were introduced in Congress that contained voucher proposals for child day care (The Bureau of National Affairs, 1988). The Choices for Children Act of 1989, which incorporates vouchers into child day care, was also introduced in Congress. Although the bill was looked at by both the House and Senate, no action was taken. These legislative developments indicate that the voucher idea has considerable support as a policy option for development of a national child day care system.

In 1982, the Arizona Department of Economic Security (ADES) implemented a three-year pilot child day care voucher program. In the test area, low-income families received state vouchers which could be used to purchase day care services from any licensed or certified provider selected by the parents. By offering families a greater degree of choice and responsibility in selecting services and promoting competition among
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providers, it was anticipated that the price, supply, and quality of child day care would improve.

An evaluative study of the ADES child day care voucher program failed to provide evidence of the worth of day care vouchers (Parker, 1989). With regard to price, results indicate that, on average, voucher families paid more than nonvoucher families for comparable day care services—suggesting that a social service voucher system might bring about higher prices for many clients, with the poorest of the poor being at greatest risk. On the issue of supply, there was no evidence of a beneficial effect on the supply of day care available to voucher users—calling into question the economic efficiency of a social service voucher system. Finally, there was no indication that the quality of day care was improved by the voucher program—suggesting that a voucher program by itself does not improve the quality of social service programs. In conclusion, vouchers had a negligible, if not negative, effect on the price, supply, and quality of child day care in the pilot area.

Discussion

Any major change in the way human service programs are financed and delivered is certain to have consequences for social agencies, human service professionals, and their clients. Therefore, it is important for social workers and related professionals to examine the potential consequences of vouchers so that they can determine whether to support it, modify it, or accommodate to it. To better understand the important implications of vouchers, key issues are addressed below. These issues can be placed in three interrelated categories critical to economic theory—competition, information, and regulation.

Competition

Competition is a fundamental concept of classical economics. Theoretically, in a competitive market, consumers determine the allocation of resources by virtue of their demand and suppliers provide the goods and services consumers want, in the largest quantity, at the lowest possible price. It follows from this, according to voucher advocates, that encouraging competition
among human service agencies will produce similar results in social service markets.

In the past, the human service professions took pains to distance themselves from the competitive marketplace. The social work profession was largely successful in this regard and a set of values and behaviors emerged to guide the practice of its members. The resulting problem is that the interests of competition run counter to many strongly held professional values and behaviors. For instance, social workers tend to view other members of the profession as colleagues working toward a common end—not competitors. The profession promotes the concept of dedicated service for its own sake—not for economic gain or self-interest. Furthermore, there is also a general reluctance to participate in most forms of self-promotion and advertising among professional social workers.

A possible shift to vouchers raises key questions that must be explored before a competitive market strategy can be introduced into the human services. For example, will resources be allocated to the most persuasive rather than the most skilled provider? Will marketing skills become more important than professional skills in delivering services? Will name recognition and image become more important than substance? Will controversial and less popular services, such as working with AIDS patients or methadone counseling, be offered at all? How will less visible and frequently underserved clients, such as the rural poor and homeless families and children get the help they need? Finally, in a competitive market, will the general human service community become segmented, factional, and self-serving?

In sum, the voucher strategy of creating a competitive social service market, strikes directly at basic features of the human service system as it currently exists. At a minimum, a fully competitive human service system would result in a major re-ordering of relationships between human service professionals and their clients, with large implications for both human service organizations and the social work profession.

Information

The market system assumes that individuals are rational consumers and possess sufficient information to make intelli-
gent choices relevant to their needs. Obviously, without correct or adequate information individuals cannot make optimal choices. Following this line of thinking, if a social service voucher system is to be effective, clients must be well informed about the market.

Therein lies a problem. Traditional human service clients are disproportionately information-poor. Potential users of social service voucher programs include the ill-educated, the poor, the physically handicapped, and mentally disabled, the aged, the very young, and other disadvantaged individuals and families whose conditions or circumstances impede access to ordinary consumer information or complicate their ability to use information. This problem should be of greater-than-normal concern in a social service market for unlike other market goods, such as grocery items, human services cannot be easily compared, and the consequences for a bad choice are often more severe.

It should not be concluded from this discussion that all human service markets offer meaningful choice to consumers. Rural markets, for example, offer little in the way of consumer choice. Given the fundamental economic law of supply and demand, there is no reason to believe that vouchers will increase the range of choices in small human service markets.

Although access to information is vital to the success of vouchers the subject has received scant attention. There are many unanswered questions. For example, how can potential users be assured of having all the information they need to select the appropriate provider? What information is appropriate? Will human service agencies have to disclose information regarding their “success rate”, their treatment methods, qualifications of their workers and fees? How will information be made available to potential users? What measures will be taken to accommodate potential users who do not have the ability to make sound evaluations about alternative programs?

There is no doubt that voucher plans will require clients to evaluate human service agencies largely on the basis of their own observations and judgement. This clearly changes the primary role of individuals seeking help from clients to active selectors of human services. Under these circumstances, a social
service voucher system will empower and benefit the best informed consumer, but not necessarily the neediest client.

Regulation

According to classical economic theory, a competitive market will be self-regulating. That is, through free choice and intelligent purchasing, consumers maintain high standards of service by selecting superior programs over inferior ones. It follows that social service voucher plans would limit the regulatory power of government agencies by weakening their control over human service programs.

In a social service market, regulations represent society's concern for protecting the welfare of children, the elderly, the mentally and physically disabled, and other groups who are unable to safeguard their own welfare. The necessity for regulating human service programs is also apparent when one considers that human service users are frequently under emotional or environmental stresses that interfere with their ability to make rational decisions that are in their best interest. These conditions make them particularly susceptible to fraudulent practices and hucksterism that might take place in unregulated markets.

Before vouchers can be used on a large scale, without regulations, several key questions must be considered. For instance, will the market give genuine protection to all those whose welfare is at stake? Will the market provide what the community regards as desirable standards? How will the market guard against bias or caprice on the part of the community? Will deregulation lead to abuses by dishonest providers? How will defiance of standards be handled? Who will invoke authority in an unregulated market? How will standards be uniformly enforced from location to location and at different points in time as standards change? Will deregulation deflect political and social pressures that should properly be dealt with by a law-making body? Is it reasonable to expect standards to be maintained by the power of consumer choice?

Decisions on these issues should not be made arbitrarily on the basis of consumers' subjective judgement. To do so would result in uneven standards from program to program and from community to community, and open the door to lower-quality
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human services. In order to establish standards that provide special protections to human service consumers and ensure quality and stability in service delivery, expert and specialized knowledge are required.

Conclusion

In recent years, the human service environment has been characterized by fiscal uncertainty, increased concern for accountability, a trend toward contracting out, and an emphasis on privatization. In this environment it seems likely that vouchers will continue to be recommended as a finance mechanism and delivery system. Unfortunately, many important questions remain unanswered. Therefore, decisions to use vouchers will continue to turn on theoretical speculation rather than on scientific evidence. Perhaps, questions such as those raised in this discussion will eventually generate research to guide policy formulation. Until then, social workers and other human service professionals must be aware of the risks that accompany the use of social service vouchers and urge policy makers to approach the idea with caution.

References


