

Tools: Consumer Choice

"Certainly, the growing prominence of vouchers in the United States is hinged to the pervasive tenants of privatization and devolution, but even the G.I. Bill, which provided college assistance to World War II veterans, was at its core a voucher program." —[Steurle and Twombly, 2002](#)

Rather than contracting for service provision for citizen consumption, government can again decide what service is needed and then let any certified provider compete directly for the citizen's service. In this case, the funding is granted to the provider based on the number of eligible citizens who are provided the service. Brandl (1998) saw this arrangement as follows:

1. Citizens choose among potential suppliers
2. Splitting purchaser and producer
3. De-bureaucratization
4. Explicit provision for attainment of social objectives
5. Independent monitoring

A well-known example of funding consumers directly is the G.I. Bill following World War II. It worked in this way: Each G.I., if he chose, received the "right" to go to college free of charge. The federal government then paid the respective colleges and universities the appropriate tuition. This allowed all colleges and universities to compete for the soldier students and let the soldier students personally decide which institutions were best for them.

Le Grand (2007) noted three key points about consumer choice:

- **Competition:** It must be real
- **Choice:** It must be informed
- **Cream-skimming:** It must be avoided

[Steurle and Twombly](#), (2002) described the steps of a consumer choice program:

1. Find funding source(s) for suppliers
2. Specify service
3. Determine eligibility
4. Clarify supplier standards
5. Ensure adequate consumer knowledge
6. Have consumers select supplier
7. Monitor and enforce standards
8. Coordinate the program



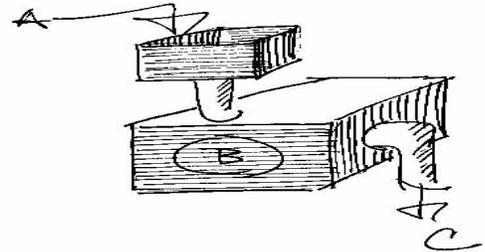
Each of these steps is important or a choice experiment can easily fail. For instance, the step of determining eligibility is needed to ensure that the competitors don't select the easiest and cheapest consumers. This has been a fear of charter schools and open enrollment in Minnesota schools—that only the best students will be attracted to these options, leaving public schools with the more difficult students.

There is also a need to ensure that the competitors are fully capable of performing the consumer service per the standards set by the government that is establishing the program. For example, Section 8 vouchers are used to assist the poor in securing adequate housing. The recipient is allowed to select the housing unit of his or her choice, but the housing unit has to meet all of the community standards for housing.

To illustrate the *problem to redesign* methodology for this section, an example of open enrollment for high school students follows:

Step 1. Clearly define the problem

Need to provide enriched classes for high school students in Minnesota.



Step 2. State the desired measurable outcome

All high school students have an opportunity to take enriched classes.

Step 3. Investigate why traditional approaches aren't working

It is very expensive to offer advanced classes in each high school statewide to provide the opportunities some students need.

Step 4. Identify alternative theories or assumptions that address the problem

Competition will increase efficiency. Choice will improve effectiveness.

Step 5. Innovate and redesign

Allow high school students to take college courses from state colleges and universities for high school credit (i.e. open enrollment)



[Steurle and Twombly](#) (2002) named some of the difficulties of instituting consumer choice:

- Ensuring competition from suppliers
- Overcoming information asymmetries
- Managing access
- Evaluating performance
- Coordinating with other subsidy programs
- Managing adverse selection

Real examples of consumer choice include:

- [Charter Schools](#): In Minnesota, charter schools have been around since the late 1980s. They allow for greater site self-determination and administrative flexibility. This is a good example of systems redesign that enables consumer choice.
- [Open Enrollment](#): Allows Minnesotans to choose where their children go to school rather than the traditional approach of zoning to neighborhood schools.
- [Post- Secondary Options](#): School districts across the state and MNSCU colleges are facilitating high school students' transition to college by easing them into a few college classes at the high school level.
- [Federal Housing Section 8 Certificates](#): Allow program customers to choose their own housing, rather than forcing them into traditional housing projects.
- [Daycare Subsidies](#): Administered at the state and county level, these allow program recipients to choose their own daycare provider.



Further readings and examples of Consumer Choice are available at The Humphrey School of Public Affairs [Local Government Innovations Website](#).

