Choosing a Bruise Over a Puncture Wound: Vouchers and the Collective Choice Dilemma

A large part of economics is about choice, and how we might improve human well-being by either making better ones, or setting up institutions and economic systems that allow better choices to be made. For economists, choices are fun. If we have a choice, we have a good chance of making the best one. Normal people have little trouble making choices among good alternatives. I can test this theory any nice spring day when attendance is down in my afternoon class. But choosing among bad alternatives is more troubling to normal people. I’ve found over the years that maximizing profit is much easier for students to understand than minimizing a loss. In normal discourse, we even have a word for it, dilemma. Being on the “horns of a dilemma” means that any choice results in a bad outcome. Choosing something less bad is not much fun.

We often face a normative economic dilemma when confronted with market failure from the existence of imperfect competition or collective goods. In each of these cases, the market will produce too little of a good. Take education for example. Much of the benefit of education accrues to the educated person, both in terms of lifetime income and better quality of life. But an individual’s education also conveys benefits to others as well. Altruism being in short supply, people choose their level of education to maximize their personal benefit, not the collective external benefit, leaving the latter up to others. If we leave the level of education to market decisions, we are gored by the market failure horn of the dilemma.
But wait, that’s what we have government for. If people choose to buy too little education, we can use government taxation to coerce them to pay for more. This is the standard economic justification for government action, to counter the market failure from the existence of collective goods. But government legislators and bureaucrats don’t all ride in to save the day wearing white hats astride white horses. I learned this first-hand in the early 1980s when consulting for the U.S. Fish and Wildlife Service, helping them estimate the nonmarket value of fishing and hunting. One day, as we were returning from lunch, I noticed some rather large printers stored in a corner of one of the offices. I asked a Fish and Wildlife staffer what they were. He told me that they were plotters that could print graphs in color. This was pretty fancy equipment in the early 80s. I asked what they used them for. He said that they didn’t use them at all. They had had some “end of year money” that they needed to spend in a hurry, and this was all they could come up with quickly. No rational bureaucrat returns unused budget to the legislature at the end of a year. Rather, a government agency will spend the money so as not to have their budget reduced in the next legislative session. Other examples of government failure include, among others, budget or staff maximization by mission-oriented agencies, overly zealous application and enforcement of regulations, production of private (not collective) goods, and general inefficiency caused by weak incentives to control costs. Calling on the government to solve a market failure problem risks being gored by the other horn of the normative economic dilemma, government failure.

What do we do in this case of a choice between two bad outcomes, market failure or government failure. Unlike normal people, we economists enjoy a good dilemma now and then, and wouldn’t avoid the responsibility of choosing the least worst puncture
wound. But we really enjoy dulling the horns of the dilemma a little bit. A bruise beats a puncture wound any day. This is where voucher systems are useful.

A voucher system is an attempt to utilize the best abilities of the market AND the government. With a voucher system, we use the government to provide increased amounts of collective goods through the power of taxation, but we don’t allow the government to use the resources generated with taxes to produce the good. Instead, we give consumers of the collective good a voucher that they can spend in the marketplace for the good produced by the private sector. This increased demand calls forth more production and we solve, or at least address, the collective goods problem of too little of the good produced and consumed.

Here, we have the best of both worlds. Governments are very good at using taxes to force people to pay. But governments are not very good producers of goods and services. The ballot box and public hearings cannot rival the dollar votes of the marketplace in giving people what they want for their money. In order for private producers to stay in business, they have to be attuned to consumer preferences. They have to control costs. They have to try new ideas and innovate.

Let’s look at a few examples of voucher systems. Knowledge that the poor are adequately housed is a collective good. We could use economic arguments to justify government involvement in housing. But should we allow the government to use tax revenue to produce public housing. The history of public housing in the U.S. is not a pretty sight, literally and in a policy sense. A voucher system would take the resources raised through taxation and give vouchers to the poor to buy housing on the open market.
Another example is health care. Suppose we decide the external benefits of improved health in a country justifies government involvement in health care. One alternative would be government production with government doctors and government hospitals, or government health insurance. The voucher alternative would use resources raised through taxation to give people vouchers that they could use to buy the health care of their choice, or the health insurance of their choice.

The most controversial current example of the use of vouchers instead of government production is in education. Government production overwhelmingly characterizes the current approach to education in the U.S. States and local school districts collect taxes, then use the resources to build and run government schools. With a voucher system, the government still forces people to pay for education whether they want to or not, but it uses the resources to give vouchers to parents of school children that they can spend in the marketplace at the school of their choice. Demand for education increases, and we address the collective goods problem. But at the same time we harness the power of the marketplace to innovate, provide variety and control costs.

Voucher systems are controversial, especially when they are offered as alternatives to existing government production. There are valid arguments on both sides of the issue. Voucher systems in education substitute parental choice for school board choice. Parents might not make the best decisions for their children. But do monopoly school boards make better decisions? No perfect solution to the collective goods problem exists. But economists are those most likely to offer voucher systems as a means of dulling the horns of this collective choice dilemma. Maybe with vouchers we’ll be
bumped and not gored. To an economist, a bruise is better than a puncture wound any day.