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**EUROPEAN SEMINAR ON  
SUBSIDIES FOR CONSUMPTION  
AND SERVICE VOUCHERS**

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## FOREWORD

In 1993, in the White Paper “Growth, competitiveness, employment”, the European Commission referred for the first time to the services voucher and to the potential of job creation connected with the development of the neighbourhood services.

During the last two years, these proposals were specified and were consolidated in various studies and official documents, at Community level. They thus contributed to developing a debate on new economic and social policy measures in the Member States. As these suggestions meet a broader audience, including public opinion, and give place to concrete experiments, it becomes pressing to acknowledge the perspectives and the mechanisms brought into play.

The seminar organized in Brussels, on 15 May 1996 by DG V and the Forward Studies Unit, aimed, therefore, to bring together some research workers and national officials in charge of the employment policies to exchange information on the existing or future measures of their economic and social effects and to evaluate their overall coherence.

Presentations<sup>1</sup> followed the order of the classification proposed by the introductory report of the CERISIS-UCL, which stressed the aim pursued by the measure, namely the quality of life, the job creation or the “social management” of unemployment. Without being exhaustive, this seminar made it possible to produce a rather broad review of the current questions and to study in greater detail the conditions of strengthened effectiveness of the subsidies to consumption, aimed at improving the quality of life of the Europeans on the one hand and creating new jobs on the other hand.

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<sup>1</sup> All the participants expressed themselves individually.



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## I. INTRODUCTORY REPORT

### CONSUMPTION SUBSIDIES FOR LOCAL SERVICES

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#### Introduction

Local services cover a vast range of activities which can be grouped, according to the European Commission's proposal<sup>2</sup>, under the following headings: day-to-day services (help for the elderly, child care, home help services, etc.), services to improve living conditions (such as housing improvements and the upgrading of urban areas), cultural and leisure services and environmental services (including waste management and recycling).

Demographic, socio-cultural and economic changes, such as population ageing, the massive influx of women into the labour market, changes in consumption patterns, the decline of certain districts, etc., have meant that the demand for these services is now growing or diversifying.

Local service development is currently faced, however, with a number of obstacles relating both to the supply which is still not very structured in some sectors and the demand which is not effective because the cost of these services is too high. It is therefore important to devise measures that help to create an effective demand and to structure the supply. This raises two questions:

- By what criteria can public intervention in the development of these services be justified?
- What system(s) need(s) to be established?

Two types of consideration can be put forward at this point. On the one hand, public authority action can be based on the concern to satisfy a demand connected with quality of life and considered by the community to reflect important needs. In this way, society can guarantee equitable access to services and ensure a structured and high-quality supply. On the other hand, public intervention may be justified in order to exploit the potential for the integration of the unemployed and/or job creation, in particular for workers with few skills, represented by some local services.

From this point of view, it is important to evaluate which subsidy mechanisms will best help to develop the supply and create an effective demand for these services. Two types of mechanism can be envisaged: consumption subsidies and production subsidies.

A grid for the analysis of the various consumption subsidy formulae that exist or are planned in a number of EU Member States is put forward in this report. We have taken as our starting point the questionnaire sent to those taking part in the seminar held on 15 May 1996 in Brussels (see Annexes). The aim of this seminar was to improve our knowledge of existing consumption subsidy initiatives through an exchange of information between the different countries<sup>3</sup>.

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<sup>2</sup> For a description of the various fields of service activity, see the Commission's report SEC (95) 564, "Local development and employment initiatives, Survey in the European Union", 1995.

<sup>3</sup> We should like to take this opportunity to thank Marjorie Jouen of the Forward Planning Unit and Jean-François Lebrun of DG V for their valuable advice on this report.

We feel that it is important in the first instance to clarify what is meant by consumption and production subsidies, even though this report deals chiefly with consumption subsidies. Part 1 therefore examines the differences between these two types of subsidy. In Part 2, we put forward a typology of consumption subsidies based on the type of service to which they relate and the objectives that they pursue. Part 3 reviews the various methods that can be used for consumption subsidies, i.e. targeting, the form of the subsidy, the distribution method, the level of regulation and back-up measures, thereby taking up the various issues explored in the questionnaire. Part 4 analyses the role of these methods against six evaluation criteria which can be linked to objectives. It is then possible to identify a set of methods that are preferable from the point of view of the main objective pursued by the subsidy and the type of service to which it relates. Part 5 summarises this information in the form of synoptic tables. These make it possible to evaluate consumption subsidies from the point of view of consistency between the methods used, the type of service involved and the objectives pursued. In the final part, we conclude by proposing two transverse questions that place this thinking in the broader perspective of local service development and choices of methods of public intervention.

### **I.1 What do we mean by production and consumption subsidies?**

As mentioned above, two types of measure can be envisaged to promote the development of emerging services, involving support for the supply and the creation of an effective demand: production subsidies and consumption subsidies.

*Production subsidies* reduce the cost of producing the service by reducing the cost of labour (for instance by reductions of or exemptions from social security contributions), reducing the cost of capital (for instance by exempting costs connected with the initial investment from taxation) and/or partially offsetting the operating costs of the service. Subsidies reducing the cost of labour may be targeted on a type of labour (for instance exemption from social security contributions in the case of low wages), on a specific sector (such as the non-commercial sector) or may be part of a policy to reduce unemployment (for instance the partial funding of jobs for the long-term unemployed). These subsidies may lead to a reduction of the price of the service, thereby promoting consumption. They may also be used to increase profits or improve the quality of the service. The impact of subsidies of this kind is therefore likely to depend on the conditions attached to their payment. Some production subsidies are calculated on the basis of an annual forecast of consumption of the service (child care services, for instance). In this case, they are similar to consumption subsidies.

*Consumption subsidies* promote an increase in the consumption of specific goods or services by increasing consumers' purchasing power or by reducing the price of these goods and services. This means that the price set by service providers, which covers all their costs, is not the price actually paid by consumers who make use of the subsidy. This type of subsidy has the advantage, therefore, that it does not interfere with the way in which the supply is structured. Leaving aside this aspect, one of the main features of consumption subsidies is that they are consumer-led, in the sense that consumers are free to choose the service provider who offers the service at the best quality/price ratio. This mechanism therefore steps up competition among service providers. The different forms that consumption subsidies can take are examined in Section 3.2.

The relative advantages and drawbacks of each type of subsidy need to be discussed in detail before a choice is made. The following analysis relates exclusively, however, to consumption subsidies. The importance of these discussions is taken up again, however, in the context of a transverse question in the final part of this report, where an initial comparison grid is given for this purpose.



## I.2 Typology of consumption subsidies

The various types of consumption subsidy can be defined in terms of the objectives that they pursue, the type of service to which they relate and the public or private nature of the promoter of the scheme.

### I.2.1 Type of service

The choice of a consumption subsidy is not without links with the type of service covered by the scheme. Consumption subsidies are linked to personal services for which needs remain unmet, among other things because there is not an effective enough demand.

At present, most consumption subsidies are linked to day-to-day services. Consumption subsidies could also be envisaged in other service areas, for instance in cultural and leisure services<sup>4</sup>.

Day-to-day services can be divided into two types of service, i.e.:

- *personal services*, i.e. services meeting needs shaped by family circumstances (home helps and child care) and/or dependency (the elderly, sick or those unable to care for themselves);
- *household services*, i.e. all those services which make daily life easier (housework, ironing, small electrical or plumbing repairs, home shopping, gardening, etc.). These services may be provided at home or at the workplace (for instance ironing services for workers).

The main difference between these services lies in the importance that is attached to the relationship between the provider and the user. In the case of personal services, this relationship is decisive in determining the quality of the service. This same does not apply to household services.

### I.2.2 Objectives

Consumption subsidies may be introduced to achieve a whole range of objectives. While these objectives can be grouped under two main headings, both may be involved simultaneously. Our hypothesis in this case is that one takes priority. These two objectives are:

- *Improving the quality of life (quality of life objective)*

Local services need to be developed and consolidated, in terms of both quantity and quality, to meet the increased or diversified demand resulting from social change. The objective of improving the quality of life may, for instance, involve creating an effective demand, diversifying service providers or simplifying administrative formalities so that these services are easier to obtain, etc.

We have linked the following evaluation criteria with this objective: equal access to the service, quality of the service, coverage of needs and structuring of the supply. The importance of these criteria can be assessed on a case by case basis.

- *Promoting employment (employment objective)*

In the light of increasing unemployment, which has hit people with few skills particularly hard, local services seem to offer considerable potential for new jobs. Two policy strands can be pinpointed within measures to promote employment: the first promoting the creation of durable jobs under ordinary law

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<sup>4</sup> The Spanish *Insero* programme is an example of a subsidy intended to develop low-season tourism for elderly people. In France, the *chèque-vacances* (holiday voucher) is also a subsidy intended to develop social tourism.

and the second connected with the social management of unemployment. Integration policies which help unemployed people ultimately to find durable jobs come within the first strand. The second strand includes policies which simply aim to provide the unemployed with some kind of "occupation" without changing their status<sup>5</sup>. The first strand has the objective of *job creation* and the second the objective of *social management of unemployment*.

Reducing undeclared work or making recruitment easier by simplifying administrative formalities are also concerns to be found in this context.

Quantitative and qualitative evaluation criteria relating to the jobs or occupational activities created are linked to this objective.

Curbing or reducing public expenditure may be a further explicit objective. In practice, this objective rarely appears on its own. It is more usual for subsidies intended to diversify the supply of local services and to step up competition among service providers to have the simultaneous objective of improving the quality of life, by increasing the consumer's choice, and of curbing public expenditure in this field. In some cases, the social management of unemployment objective also goes together with an attempt to rationalise unemployment benefit expenditure; the benefits are paid provided that unemployed people are willing to accept the "occupations" that they are offered. Outside these typical cases, the balance of public finances is generally a constraint that has to be respected in the context of both the improvement of the quality of life and the promotion of employment. For this reason and so as not to overcomplicate our analysis, we shall not consider the balance of public finances as a third objective but as a constraint to be taken into account in the evaluation of consumption subsidies whether the objective that they are pursuing is one of improving the quality of life or promoting employment.

Consumption subsidies can be classified initially on the basis of the type of service to which they relate (i.e. targeting on the service) and the objectives pursued by their introduction. The same measure may be included in several boxes, in cases where the subsidy relates to both types of service or pursues both objectives simultaneously.

**Table 1: An initial classification of subsidies**

	Personal services	Household services
Quality of life objective		
Employment objective: - <i>job creation</i>		
- <i>social management of unemployment</i>		

### 1.2.3 Nature of the promoter

A third factor needs, however, to be taken into account in our classification of the different types of subsidy: the private or public status of the promoter of the consumption subsidy. In the first case, the promoter may be a profit-making or non-profit-making private organisation (enterprise or association). The second case includes all public authorities at national and local level.

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<sup>5</sup> This strand leads in some cases to the creation of a "secondary labour market" (see below).

This raises the question of the correlations that exist between the types of service promoted, the objective pursued and the status of the promoter.

**Table 2: Private promoters**

	Personal services	Household services
Quality of life objective	Chèque-Prestation (France)	
Employment objective: - <i>job creation</i>	Titre-emploi-service (France)	Titre-emploi-service (France) Ironing voucher (Belgian project)
- <i>social management of unemployment</i>		

In the case of private promoters, the employment objective is linked chiefly to subsidies for household services; the enterprise may wish to create employment for people with few skills in activities that are of benefit to the enterprise or its employees. This may explain why such initiatives are concentrated in the household service area, bearing in mind that household services require lower-level skills than personal services.

In the area of the improvement of the quality of life, the measures set up by private promoters may include both household and personal services. The motivations for this may vary: making employees more available for work, improving the enterprise's image, improving customer loyalty and attracting new customers, simplifying formalities so that the service can be more readily obtained, etc.

Private promoters may be in one of three situations - which undoubtedly have an impact on the subsidy promoter's motivations: either the promoter is also the service provider, or he accredits providers eligible for the subsidy or he is not the provider and sets no criteria for the choice of the provider (the promoter may for instance be no more than the issuer of a service voucher).

**Table 3: Public promoters**

	Personal services	Household services
Quality of life objective	Dependency insurance (Germany); Dependent persons and child care vouchers (Finland); Child care vouchers (United Kingdom)	
Employment objective: - <i>job creation</i>	Chèque-emploi-service* (France)	Chèque-emploi-service* (France); Home Service Scheme (Denmark)
- <i>social management of unemployment</i>	Chèque-ALE* (Belgium)	Chèque-ALE* (Belgium)

\* These "multi-service" formulae are included in both columns. In practice, however, the demand is almost entirely (80%) for household services (see page 27).

When the public authorities are promoters of consumption subsidies, most such measures linked to the employment promotion objective are introduced in the household service area, whether the aim is job creation, as in the case of the French *Chèque-Emploi-Service* and the Danish *Home Service* scheme, or the social management of unemployment, as in the case of the Belgian *Chèque-ALE*. The Belgian *Chèque-ALE*, like the French *Chèque-Emploi-Service*, may also cover personal services (in particular child care) which may be somewhat risky as there is no guarantee of the quality of the service and

equity is not a consideration (the price of the service is the same for all users and the tax allowances granted to users favour people on high incomes).

The public authorities may also offer subsidies intended to improve the quality of life. This objective is chiefly linked to personal services where the quality of life concern is, among other things, to provide everyone with more equitable access to these services and to guarantee the quality of the service on offer.

Consumption subsidies which are also linked to an explicit objective of curbing public expenditure are to be found in this context. This is true, for instance, of the Finnish *service voucher* schemes.

From a more dynamic point of view, it is important to see how schemes can evolve over time. The private sector can, in some cases, help to reveal a new or badly satisfied demand for needs that society considers important with the result that the private initiative is supported or supplemented by public intervention. In other cases, the public authorities may encourage the private sector to contribute to the development of local services. In France, for instance, the Law of 29 January 1996 on the development of personal service jobs encourages enterprises to assist employees who recruit providers of home services by issuing them with vouchers called *titres-emploi-service*. This assistance is exempt from employers' and employees' social security contributions. Some services could well be subsidised, therefore, by partnerships between the public and private sectors.

### **I.3 Description of different consumption subsidy methods**

The various methods that can be used for consumption subsidies, as set out in the questionnaire (see Annex 1), are reviewed in this section. These methods will be analysed against a set of criteria in the following section.

#### *I.3.1 Targeting*

##### I.3.1.1 The service

The consumption subsidy may be targeted on a particular type of service - as for instance in the British system of care *vouchers* for four-year-old children or in the Danish case where the subsidy relates solely to household services - or may cover a wide range of services. A multi-service voucher system, such as the Belgian *Chèque-ALE*, is an example of this second option. As discussed in Section 1, most measures are targeted, however, on a particular type of service.

##### I.3.1.2 The provider

Targeting on providers may relate, on the one hand, to the type of organisation and, on the other hand, to the type of worker. From the point of view of the type of organisation, providers may be self-employed or employees. Various types of organisation may be targeted by the subsidy: public or State-controlled organisations, private enterprises or social economy organisations (associations, mutual societies or cooperatives).

From the point of view of the type of worker, the consumption subsidy may be conditional on the use of a particular socio-occupational group of providers. In the context of a policy to fight unemployment, for instance, the subsidy may be targeted on the long-term unemployed, as in the Belgian ALE system.

### I.3.1.3 The consumer<sup>6</sup>

Targeting on a group of consumers is often linked to the type of service. This is particularly true of services for the elderly and child care services. Targeting on the consumer may go together with more explicit criteria such as intensity of need (i.e. number of dependent children, degree of dependency) or income level (i.e. subsidies that decrease as income increases).

## *I.3.2 Subsidy mechanisms*

### I.3.2.1 The budgetary framework

The subsidy may form part of the system of welfare allowances (family, health, unemployment or pension benefits), wage policy, taxation policy or may be a private scheme (in an enterprise, a foundation, an association, etc.). The choice of the budgetary framework may be shaped by the objectives pursued and the service involved - as in the case of dependency insurance - and by considerations of political feasibility. In the current climate, additional tax allowances seem, for instance, more acceptable than direct increases in welfare expenditure. *Dependency insurance* in Germany involves a direct increase in social security expenditure (financed from increased social security contributions) whereas the establishment of a service voucher accompanied by a tax allowance, as in the case of the *chèque-emploi-service* in France, leads to a decrease in revenue from taxation. Bearing in mind the budgetary constraints that obtain in different countries, the choice of further expenditure or reduced revenue will have an impact on the political acceptability of the proposed subsidy, although these two budget allocations may well have the same impact on public finances in the long run.

### I.3.2.2 Ex ante or ex post subsidies

The basis on which the consumer receives the consumption subsidy may be ex ante, i.e. in advance or at the time of purchase, or ex post, via a refund mechanism. In the case of an ex ante subsidy for the consumer, who does not therefore pay the full price, the provider may receive the remainder of the price when the service is provided, i.e. ex ante (in the case, for instance, of payment by a voucher corresponding to the full price of the service but purchased at half price by the consumer), or be reimbursed subsequently after proving that the service has been provided (ex post). The Danish *Home Service Scheme* is based, for instance, on an ex ante subsidy for the consumer and an ex post subsidy for the provider.

### I.3.2.3 Fixed subsidies or subsidies varying on the basis of income and/or need

The consumption subsidy may be fixed or variable. One of the advantages of this kind of subsidy is that it can be adjusted to take account of income and/or need. *Dependency insurance* in Germany is an example of a subsidy that varies according to need. In Finland, most local authorities have chosen to link the child care subsidy to the level of income. Under the British *child care voucher* system, however, the subsidy is fixed.

### I.3.2.4 Subsidies in the form of benefits in kind or in cash

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<sup>6</sup> In this report, we have used the term *consumer* (or in some cases *user*) in place of the term *recipient* of services used in the questionnaire, in order to avoid any confusion between the recipients of the subsidy (who may be service providers) and the recipients of services. It should be noted, however, that the term *consumer* is in some cases restrictive as it does not make it possible correctly to designate recipients (or users) of services who play an active part in designing these services in cooperation with providers.

A subsidy that takes the form of a benefit in kind is a subsidy which can be used only for the consumption of a specific type of service. In some cases, the benefit in kind is for a specific type of service which is also provided by a specific type of provider<sup>7</sup>.

In contrast, a subsidy that is not subject to strict conditions on the consumption of particular services is a cash benefit. This method is connected with targeting on a larger or smaller range of services. Granting an annual child care allowance to all households with children increases the purchasing power of households but does not guarantee that households will make use of child care services. It is therefore a cash benefit. If, however, the subsidy can be obtained only by using a child care service, it is a benefit in kind. The German *dependency insurance* system offers the choice between a subsidy in kind and a cash payment with most people opting for the latter.

### *I.3.3 Distribution methods*

#### I.3.3.1 Individual or collective distribution methods

The way in which the formula is distributed may be individual or collective. A collective distribution method is involved when it has already been decided to earmark a proportion of available income for the consumption of services when this income becomes available, whether by remuneration or social security transfer (Saintrain & Streel, 1996, 32). Collective distribution is not the same as automatic distribution<sup>8</sup>. For instance, the allocation of a pay increase for the consumption of services under collective bargaining may be imposed on workers (automatic distribution) or left to their discretion (voluntary distribution). In the case of voluntary distribution, the worker can choose to take this increase in the form of cash with no additional subsidy or in the form of a service voucher whose value is greater than the cash amount. The German *dependency insurance* system is, however, an example of collective distribution which is financed from the automatic allocation of a proportion of pay.

#### I.3.3.2 Paying subsidies in cash or via another medium

The consumption subsidy may be paid using a medium such as a service voucher. Another solution is to pay an allowance in cash without using a particular medium.

It may be useful to pay the consumption subsidy using some kind of medium when it is accompanied by other methods to increase demand (simplification of administrative formalities, monitoring of the quality of the service, etc.), as in the case of the French *chèque-emploi-service*.

### *I.3.4 Regulation*

Regulation covers all those regulations and measures that back up the subsidy methods so that the planned objectives can be achieved.

### *I.3.5 Supporting measures*

Various back-up measures can be introduced when it is decided to establish a subsidy. They may relate to the training of providers, mediation between supply and demand, support for new project development, etc. The importance of these measures will vary depending on the objectives and the type of service involved.

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<sup>7</sup> See Floc'hic, O., (1995).

<sup>8</sup> The term "automatic" refers to compulsory distribution, as mentioned in the questionnaire.

## I.4 Analysis of methods

Six criteria for evaluating the methods connected with these subsidies are put forward in this section; they relate to the objectives pursued. We shall see in the following section that the type of service involved shapes the importance to be attached to each criterion.

The evaluation criteria are as follows:

- In connection with the quality of life objective:
  - equity;
  - quality of the service;
  - structuring of the supply;
  - budget constraints.
  
- In connection with the employment promotion objective:
  - quantitative effects in terms of jobs or the social management of unemployment;
  - qualitative effects in terms of jobs or the social management of unemployment;
  - budget constraints.

### I.4.1 Factors relating to the quality of life

#### I.4.1.1 Equity

The criterion of equity covers the objectives of opening up access to the service and of redistribution. Several ways of achieving this objective can be envisaged:

- the form of the subsidy:
  - *adjustment of the subsidy on the basis of income and/or need*: the subsidy may decrease as income increases or increase according to need, in order to ensure that everyone has equal access to the services involved. A subsidy that varies according to the intensity of need makes it possible, for instance, to curb any creaming off (i.e. when providers disregard those with the greatest needs in favour of people requiring less demanding services).
  - *ex ante or ex post subsidy from the point of view of the consumer*: an ex ante subsidy has the advantage that it is received immediately whereas an ex post subsidy has to be paid in advance by the consumer which may discourage people on low incomes; an ex ante subsidy can be obtained even by people who do not pay tax which is not the case with ex post subsidies that take the form of tax allowances. An ex post subsidy may, however, take the form of a non-wastable credit, i.e. a tax credit paid in cash to people whose tax is zero or too low to benefit fully from the tax allowance.
  - *subsidy in kind or in cash*: the advantage of a subsidy in kind is that it ensures that the subsidy cannot be used for purposes other than the consumption of the service to which it relates. From the point of view of equal access to services that society considers important this formula makes it possible to target the subsidy on those



beneficiaries for whom it is wished to guarantee the service. In this case, the subsidy could for instance be granted in the form of a personal, non-exchangeable voucher which can be used only for a specific service (service vouchers for home care for the elderly). The opposite to this would be an open, transferable voucher covering a wide range of services (for instance the Belgian *luncheon voucher*).

- the distribution method:
  - an automatic allocation of income for the consumption of some services felt to be indispensable by the community could be introduced by making access to this service a universal right of every citizen (as in the case of German *dependency insurance* or the French *independence benefit*). The measure is then part of national solidarity. The choice of an automatic income allocation could also be justified by the concern to prevent irresponsible individuals or those with financial problems from choosing to receive their income supplement in the form of cash and using it for purposes other than the needs which it is intended to meet. As a way of guaranteeing children's rights, it could, for instance, be envisaged for an increase in family allowances to take the form solely of a service voucher giving access to high-quality child care establishments.
- regulation:
  - from the point of view of equity, it is important to adopt *regulations to guarantee the same quality of service for everyone*, if the subsidy methods chosen do not guarantee this.
  - similarly, it may be necessary to adopt *regulations to prevent creaming-off risks*, for instance in cases where the subsidy takes no account of the intensity of need (as in the case of the British *service vouchers*).

#### I.4.1.2 Quality of the service

In order to ensure the quality of the service - from the point of view of both the service itself and the relationship that it entails - and to increase consumer confidence, several factors need to be taken into account:

- *the formulation of accreditation criteria* which take account of:
  - providers' qualifications;
  - quality standards for the service.
- *the use of employer organisations rather than self-employed workers*: placing service providers within an organisation offers guarantees of supervision and control by the organisation, possibilities of continuing training and increased consumer protection since it is easier for consumers to take complaints to an organisation.
- *the establishment of intermediate facilities* for training, information and quality control.

This makes it possible to target particular types of provider, for instance accredited providers or organisations.

#### I.4.1.3 Structuring the supply

Over and above the quality of the service itself, the quality of the supply may be shaped by a number of factors:

- *the choice offered to consumers*: if a range of providers is available, a wide-ranging demand for services can be met;
- *managing a plurality of providers*: the coexistence of various types of provider (private enterprises, associations, public or State-controlled bodies) can be promoted in various ways; these include, for instance, credit facilities for associations or harmonised taxation for all providers;
- *the establishment of intermediate facilities* making it easier to match the supply to the diversity of the demand, in particular from the point of view of local situations.

#### I.4.1.4 Budget constraints

From the point of view of improving the quality of life, the budget constraint criterion covers both the issue of finding out whether the methods selected are likely to keep the budget balanced and whether they allow for the long-term coverage of needs:

- the source of funding chosen for the subsidy has an impact on the possibility of its long-term extension. From this point of view, and bearing in mind the current climate of public expenditure cuts, it is possible to envisage innovative funding formulae which, for instance, combine several sources of funds from both the public and private sectors (such as the creation of a fund financed by enterprises and the State in order to finance child care facilities);
- it is important to find out whether the scheme makes it possible to determine the overall cost of the subsidy in advance. When this is not possible, in the case, for instance, of a subsidy in the form of a tax allowance, the possibility of maintaining the balance of public finances becomes somewhat uncertain.

#### *I.4.2 Factors relating to employment promotion*

In a policy to promote employment, various methods may influence the impact of the subsidy on the quantity and quality of employment.

##### I.4.2.1 Quantitative effects

If the consumption subsidy is to have a maximum impact on employment, it is important to choose subsidy methods that not only stimulate an actual increase in demand but also convert this increase into new, high-quality jobs.

##### *a) Methods ensuring an increase in effective demand*

Various methods may have a positive impact on effective demand:

- *the range of services*
  - the job creation effect will be the greater the more the subsidy is targeted on services for which the demand is very elastic from the point of view of price;
  - it is also important to limit substitution effects (i.e. effects where the consumption of subsidised services replaces the consumption of similar services that already exist but are not subsidised) either by targeting the subsidy on a smaller range of services or on services for which substitution effects are limited;
  - while it may be advantageous to reduce the range of services in order to minimise substitution effects, the choice of a wider range of services has the advantage of promoting a "mass effect" and of making the formula more attractive. If the supply is

to develop and the increase in demand to be converted into job creation, the demand has to exceed a certain threshold with the result that this mass effect is necessary.

- *the distribution method:*

- using a collective distribution method for the subsidy may well lead to a greater increase in demand than an individual distribution method;
- combining an automatic allocation of income (pay, welfare allowances, etc.) with a collective distribution method ensures that a mass effect is created. This raises the question, however, of people's freedom to choose how they use their income. From this point of view, automatic income allocation seems less acceptable if it relates solely to household services. Moreover, in the case of personal services, the demand is linked to needs in such a way that a subsidy not subject to constraints should be enough to stimulate the development of a substantial effective demand. A number of analyses<sup>9</sup> note, however, that the development of household services and some personal services (home care for the elderly) comes up against a cultural obstacle as households are reluctant to call upon external help in this area. Automatic income allocation during the launch (or development) of these services should make it possible to overcome this obstacle. Automatic income allocation consequently entails a tension between the pursuit of collective objectives and individual freedom.

- *the form of the subsidy:*

- a subsidy adjusted to take account of income makes it possible to limit any windfall effects (i.e. people on high incomes who receive a subsidy for the consumption of services that they would have purchased without the subsidy with the result that this subsidy does not create additional employment);
- an ex ante subsidy means that potential consumers receive their benefit directly - whether this takes the form of an increase in purchasing power or a reduction of the price of the service - thereby promoting consumption, whereas, in the case of an ex post subsidy, the benefit is deferred and is psychologically less tangible for the potential consumer.

- *the quality of jobs and services:* methods to promote the quality of jobs (see 4.2.2) and the quality of services (see 4.1.2) are likely to improve the confidence of potential consumers and stimulate demand. Schemes which have the social management of unemployment as their objective offer, however, few guarantees in this area. They often go together with a negative image of menial jobs which may ultimately deter people from using this type of service.

The range of services, distribution methods, forms of the subsidy and the quality of jobs and services can therefore be combined in different ways so that mediation between achieving a mass effect, limiting windfall and substitution effects and making the formula acceptable can be better managed.

*b) Methods promoting the conversion of increased demand into employment*

While the initial effect of consumption subsidies is to promote increased demand, converting this increased demand into employment makes it necessary to look at the supply of the services concerned.

The more subsidies relate to the consumption of employment-intensive services, the greater the employment effect will be. Leaving aside this preliminary and well known factor, however, the way in

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<sup>9</sup> See, among others, Enjolras (1995) and Saintrain & Streeel (1996).

which the supply is structured and its ability to meet the demand are key factors in job creation. The following factors are important from this point of view:

- the adoption of methods that help to create a mass effect - such as a wide range of services and/or a collective or even automatic distribution method - also has a *publicising effect* which promotes the creation of a large enough number of enterprises in the sector;
- an *ex ante subsidy* is more likely to encourage enterprise creation than an ex post subsidy as providers can obtain cash straight away and do not have to wait for a refund;
- factors connected with the *social organisation of the sector, the professionalism of the supply and the status of workers* (see 4.2.2) also have an impact on the quantity of jobs created. For instance, if the supply develops on the basis of precarious jobs involving occasional work at times that are hard to anticipate, a very small number of jobs may well be created in practice.

#### I.4.2.2 Qualitative effects

The quality of jobs can be assessed in several ways: the nature of the activity, the image associated with this activity and the status of workers. A range of factors has to be taken into account if high-quality jobs are to be created:

- the *professionalism of the supply*: establishment of training schemes, accreditation of providers, inclusion of workers in an organisation. These are essential conditions for a high-quality service;
- the *status of workers*: socio-occupational grouping, type of contract (length, method of remuneration, etc.).

Particular attention needs to be paid to these factors in the case of schemes whose main aim is to promote employment, especially in the area of household services. For personal services, bearing in mind existing structures in Europe, there are relatively substantial guarantees as regards the quality of the jobs created.

#### I.4.2.3 Budget constraints

In the area of employment promotion, the budget constraint criterion covers both the respect of the balance of public finances and the possible impact of the way in which the employment measure is financed:

- the budget methods for the mechanism discussed in the section on the improvement of the quality of life (see 4.1.4), in order to determine the possibility of long-term extension of the measure and anticipate the overall cost of the subsidy, are also relevant here;
- *the method by which the mechanism is financed* may have spin-off effects on employment throughout the economy. For instance, financing based entirely on labour may be a major curb on job creation. Other sources of financing may be envisaged such as the activation of passive expenditure on unemployment, taxes on enterprise profits, taxes on energy, etc. While these financing methods may seem attractive, they also have some limits. If passive expenditure on employment is activated without back-up measures to upgrade professional skills, unemployed people may be "left high and dry" and the sector in question downgraded. Decisions to levy new taxes, such as taxes on energy, require substantial social consensus, which is far from the case at present.

#### I.4.2.4 Job creation or social management of unemployment?

We need, at this stage, to pinpoint the difference between subsidies intended directly to create employment and those whose objective is limited to the social management of unemployment. While the above analysis is relevant to the former, it is not very relevant to the latter. An approach based on the social management of unemployment is out of kilter with a number of the requirements associated with high-quality jobs. The quality of services and the image of the sector are inevitably affected and there may ultimately be an adverse impact on the number of occupational positions created.

Some methods that have an impact on the quantity of positions created remain valid, but it does not seem very plausible to envisage a collective and even less an automatic distribution method when there are no guarantees of the quality of the services and jobs created. This may further reduce the quantitative impact of this kind of approach.

There is a fairly substantial risk that this kind of approach will entail competition between ordinary jobs and occupational positions, leading ultimately to the destruction of genuine jobs in favour of the creation of occupational positions.

This leads us to conclude that a study of the quantitative and qualitative effects of consumption subsidies on employment is of meaning only if the objective is genuinely one of job creation. Integration policies, provided that they make provision for the establishment of progressive qualification schemes and allow unemployed people to gain access to high-quality jobs, are similar to these measures.

## I.5 Evaluation of subsidy measures

### I.5.1 A proposed analysis grid

Evaluation criteria can be introduced into the initial grid locating the various subsidies on the basis of objectives and type of services. This makes it possible to formulate an analysis grid for subsidy measures.

**Table 4: A proposed analysis grid**

OBJECTIVE	REFERENCE CRITERIA	METHODS	TYPE OF SERVICES	
			Personal services	Household services
QUALITY OF LIFE	Equity			
	Quality of the service			
	Structuring of the supply			
	Budget constraints			
EMPLOYMENT	Quantitative effects			
	Qualitative effects			
	Budget constraints			

The following tables can be used to assess the consistency of the methods used, the type of service involved and the objectives pursued for each consumption subsidy. For this purpose, the methods that may influence the impact of the subsidy are listed for each criterion and their relevance or importance determined on the basis of the type of service that is being promoted. The analysis has shown that

mediation may be necessary between methods of equal importance. For instance, if the automatic allocation of income for the consumption of household services makes it possible to guarantee a certain level of job creation, it may limit people's freedom to choose what they consume. We have therefore divided "important" methods into those that are "preferable" and those which may be "questionable".

The subsidy can then be evaluated by checking whether or not these methods have been used. The lack of a "preferable" method raises questions about the consistency of the measure from the point of view of the target objective and the type of service involved. It should be noted, however, that some methods overlap to some extent and that the lack of one method may be of no consequence if use has been made of another method making it possible to achieve the same result. For instance, if the amount of the subsidy is adjusted according to intensity of needs, it is not absolutely necessary to adopt regulations to prevent the creaming off of those needs that require the most attention.

**Table 5: Subsidies whose (main) aim is to improve the quality of life<sup>10</sup>**

Reference criteria	Methods	Personal services	Household services
Equity	a) Subsidy adjusted on the basis of income		
	b) Subsidy proportional to needs		
	c) Ex ante subsidy (or ex post with facility for non-taxpayers)		
	d) Subsidy in kind (targeted on a specific service)		
	e) Automatic allocation in the case of collective distribution		
	f) Regulations to ensure the same quality for everyone		
	g) Regulations to prevent creaming off of greatest needs		
Quality of the service	h) Formulation of accreditation criteria for providers		
	i) Definition of service quality standards		
	j) Use of a provider organisation rather than self-employed workers		
	k) Intermediate facilities: - training - information - quality control		
Structuring of the supply	l) Choice offered to users		
	m) Overall management of providers		
	n) Intermediate information facilities		
Budget	o) Sources of finance		

<sup>10</sup> Key to Tables 5 and 6

	"preferable" method
	important, but "questionable" method
	"irrelevant" method

Example: The automatic allocation of income for the consumption of personal services is questionable as regards the quality of life objective [box e, marked 2) in Table 5]. It is "irrelevant" from the point of view of the employment promotion objective, given that the demand, and therefore employment, will develop as a function of needs [box c), marked 3] in Table 6).

constraints			
	p) Cost of subsidy can be predetermined		



Table 5 shows the connection between the choice of methods and the type of service covered by the consumption subsidy.

In the case of personal services, the issue of equity is paramount. The best formulae from this point of view in all likelihood entail a subsidy adjusted according to need and possibly income, which is *ex ante*, personal and non-exchangeable. If a flat-rate subsidy or a subsidy that is adjusted solely on the basis of income is chosen, it is important for the subsidy to be backed up by regulations limiting creaming-off risks. In the case of household services, however, which provide essentially private benefits, equity is not a key issue as regards access to these services. If equity is a concern, it is obviously always possible to adjust the subsidy and/or to enact regulations.

The anti-redistributive nature of a subsidy taking the form of a tax allowance for the consumption of certain services should also be borne in mind. Low-income households who have no tax to pay are unable to benefit from a subsidy of this type. Depending on the nature of the tax allowance, it may even provide a benefit that is proportional to household income. In addition to this anti-redistributive effect, questions are raised as to whether a measure of this type will create a market limited to those who are best off - running counter to the principle of equal access to personal services - and may lead to the emergence of a new domestic service rather than a genuine occupational sector. This latter risk seems to apply chiefly to household services.

The quality of the service is also paramount in personal services. Quality requires professional and relational qualifications, thereby making it necessary to step up the professionalism of the supply and to organise the sector in the form of businesses. These conditions are often already satisfied in part by existing providers. This is for instance true in Belgium in the fields of home help services and child care. Household services require less demanding qualifications than personal services. It is for this reason that these services are often seen as a major source of jobs for people with few skills. The conditions under which subsidies are granted, such as accreditation of providers, their registration with an organisation and recognised professional status may help, however, to ensure a high-quality supply and create confidence among potential consumers.

From the point of view of the structuring of the supply, it is important to develop intermediate structures in order to reassure consumers about providers and rectify any information problems (see §6.2). This is particularly true of services with a high relational intensity, where consumers lack a priori criteria for assessing the quality of the service.

Budget constraints that influence the choice of financing methods for the subsidy should obviously not be forgotten. For reasons of both political feasibility and the long-term development of the sector, it seems more advisable to adopt a financing method for the subsidy that minimises public expenditure.

In very schematic terms, Table 5 shows that in the case of personal services, most emphasis needs to be placed on equal access to such services and on their quality. Considerations of equity and quality of the service seem, however, less crucial in the case of household services, although guarantees of the quality of the service may stimulate demand for these services.

**Table 6: Subsidies whose (main) aim is to promote employment**

Reference criteria	Methods	Personal services	Household services
Quantitative effects	a) Wide range of services*		
	b) Collective distribution		
	c) Automatic allocation of income for consumption		
	d) Subsidy adjusted on the basis of income		
	e) Ex ante subsidy		
	f) Subsidy in kind (targeted on a specific service)		
	g) Guarantees of service and job quality: - accreditation of providers - formulation of service quality standards - inclusion in an organisation - quality of professional status		
Qualitative effects	h) Aspects relating to the professional nature of the supply - training schemes - provider accreditation - inclusion in an organisation		
	i) Aspects relating to the quality of professional status		
Budget constraints	j) Sources of finance		
	k) Cost of subsidy can be predetermined		

\* Bearing in mind the risk of substitution effects.

Table 6 also highlights some priorities in the choice of methods in terms of the service in question. If an employment promotion objective is being pursued, it can be expected that, in the case of personal services, the quantitative effect on employment will be shaped largely by the extent of the needs identified and actually expressed. A consumption subsidy should then lead to job creation in this sector. The quality of employment is guaranteed in all likelihood by the requirements of greater professionalism on which a quality service is based. These requirements mean that formulae whose objective is the social management of unemployment are inappropriate.

In the case of household services, however, the methods to which priority should be given are those likely to improve the quality of the jobs created. It seems essential in this case to avoid the creation of a secondary labour market (which might lead to a new domestic service or create menial jobs). A development of this type could well create a negative image which could ultimately curb consumption and therefore employment. While the quality of the service is less crucial here than in the case of personal services, it does seem to play a fairly substantial role in terms of the number of jobs created, especially from the point of the view of confidence in providers of household services. Some experiences show, however, that other factors, especially financial factors, may encourage people to

use the subsidy even though there are no guarantees of the quality of the service and or of the status of the workers providing these services.

It is also important to consider the case of a subsidy that relates to both types of service simultaneously. Given the different requirements of the two types of service in the area of quality of life it seems that the employment objective will be paramount. If this approach is also to satisfy quality requirements, a single subsidy undoubtedly has to be associated with a number of institutions specific to each type of service so that the supply can be organised in a way that is in keeping with the specific requirements of each service. The same applies to any regulation measures that may need to be associated with certain services in order to ensure equity.

### 1.5.2 Evaluation of existing or planned subsidies

The various consumption subsidies examined (see Annex 2) can be located in our general analysis grid. Each of these subsidies can be analysed in detail using the grid set out above. In this instance we shall merely present the initial and general lessons that can be drawn from a comparison of these various subsidies.

**Table 7**

	Personal services	Household services
Quality of life objective	Chèque-Prestation (France); Dependency insurance (Germany); Service vouchers for dependent persons and for child care (Finland); Service vouchers for child care (United Kingdom)	
Employment objective: - job creation	Chèque-emploi-service (France); Titre-emploi-service (France)	Chèque-emploi-service (France); Home Service Scheme (Denmark); Centres for home care services (Germany)
- social management of unemployment	Chèque-ALE (Belgium)	Chèque-ALE (Belgium)

It can be seen from the table that most existing subsidies whose aim is to improve the quality of life are in the area of personal services, whereas those intended to promote employment are being introduced chiefly in the area of household services. In the case of "multi-service" formulae, such as the Belgian *chèque-ALE* or the French *chèque-emploi-service*, it can also be seen that almost all the demand (over 80%) is in practice for household services. This bears out the priorities identified in our analysis.

In the first instance, there are higher vocational qualification and relational requirements for personal services than for household services. In most subsidy formulae relating to personal services, the stress is placed on the importance of using professionals and setting up facilities to control the quality of services and accredit providers. A policy to promote employment in the area of personal services may therefore require back-up measures, such as the establishment of training schemes, and will be effective only over a longer period (one to two years). Bearing in mind their lower qualification requirements, household services may seem to be a source of jobs that can be tapped more easily by people with few skills and/or the long-term unemployed and that can be more rapidly exploited. Increasing the professionalism of the supply of services is, however, also a concern in formulae

relating to household services, as in the case of the Danish *Home Service Scheme* where it is wished to encourage the development of home service enterprises. This is also a major concern in France in the case of the *chèque-service-emploi* where provision has been made, in the Law of January 1996, for a levy of 0.15% of the wage bill paid during the current year to be paid by employers and set aside for the continuing vocational training of providers.

A second explanation may have to do with the European notion of the welfare state: the public authorities recognise that the needs satisfied by personal services are important and consequently want to guarantee the quality of these services and equal access. The community does not, at present, consider that the needs covered by household services are fundamental for people's quality of life. It is therefore more for reasons of the potential source of jobs that this sector represents that the community considers it important to subsidise this kind of service<sup>11</sup>.

Lastly, job creation initiatives are in most cases intended to convert undeclared into legal work; this obviously has more of an effect on the household service sector bearing in mind that the supply of personal services is more structured and professional.

In practice, moreover, subsidies that have a quality of life objective and relate in most cases to personal services make a significant contribution to job creation.

It may be asked in this context whether every citizen should have a universal right to personal services. This would justify an automatic allocation of income for the consumption of these services, together with collective distribution and the adjustment of the subsidy according to need. This is for instance true of German *dependency insurance*.

Choosing to adjust the subsidy on the basis of income again raises the debate on selectivity. Most subsidies are in practice paid as flat-rate subsidies, such as the British *service vouchers*, or as a tax allowance which is more beneficial the higher the income, such as the French *chèque-service-emploi*. None of these formulae achieve an objective of redistribution. To achieve this objective, it would be necessary to establish a subsidy that decreases as income increases or a "negative tax" that is paid to people whose income is too low to benefit from a tax allowance. The Belgian *chèque-ALE* is somewhere in the middle: the subsidy takes the form of a tax allowance but has a minimum that is not linked to income and, moreover, the price of the service may be slightly reduced for people on low incomes. The Finnish system of *service vouchers* is a good example of a redistribution system as the subsidy is, in most local authorities, higher the lower the consumer's income.

Our analysis has also made it possible to connect the choice of targets with the objectives pursued and the services involved. In the context of a "quality of life" objective, targeting on personal services entails targeting on consumers (the elderly, households with children).

The "employment" objective may also entail a risk of creating a secondary labour market. Subsidies targeted on a type of provider such as the long-term unemployed may be risky if they are not supported by back-up measures or guarantees of the creation of high-quality jobs. The French *chèque-service-emploi*, under which a contract of employment must be agreed between the consumer and the provider if the service exceeds eight hours per week or four consecutive weeks per year, is a formula which offers genuine prospects of job creation. Under the Belgian scheme, however, unemployed service providers retain their unemployed status with the result that long-term unemployed people are trapped in a secondary labour market.

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<sup>11</sup> If these services are intended for beneficiaries whose demand is felt to be important by the community, they come into the category of personal services. This is true of household service subsidies for the elderly or for convalescents.

These lessons may provide food for thought when developing new formulae for consumption subsidies. For instance, the Irish project whose objective is (according to the questionnaire received) to integrate the long-term unemployed through the provision of household and personal services, could well take note of the drawbacks of the Belgian *chèque-ALE* and French *chèque-service-emploi* schemes.

## I.6 Transverse questions

By way of conclusion, we feel that it is important to place this debate on consumption subsidies back in the context of the development of local services. It is then necessary to compare consumption and production subsidies so that their respective advantages and drawbacks can be discussed. This discussion cannot, moreover, be isolated from the broader issue of the socio-economic framework within which local services can be organised.

### *I.6.1 Consumption subsidy or production subsidy?*

Although we have concentrated up to now on consumption subsidies, it may be interesting to examine the advantages of a consumption subsidy in comparison with a production subsidy. A consumption subsidy, whose aim is to create an effective demand, needs the supply to develop to an extent that is able to meet this growth in demand. Measures to promote the growth of the supply consequently need to be considered. Similarly, the use of a production subsidy will increase the ability of the supply to meet the demand but will not guarantee the creation of a new demand. In some cases, measures to support the demand may therefore also need to be taken. This highlights the importance of promoting the growth of both supply and demand.

This issue goes beyond the scope of this report and is worth examining in greater depth. An analysis grid is included here as a starting point for further discussion<sup>12</sup>.

Table 9 examines various production and consumption subsidy formulae (making use initially of a "generic formula" for consumption subsidies) against the six evaluation criteria discussed above. Impact on public finances, considered up to now as a constraint, could prove to be a key factor in choosing between these two main types of subsidy.

The table shows the potential advantages offered by each type of subsidy with respect to these evaluation criteria. Ultimately, however, the methods used for the subsidy will determine whether or not these potential advantages can be put into practice. It should be borne in mind that production subsidies can take many forms and are not just limited to policies connected with employment and intended to reduce the cost of labour or integration (see Part 1). It is therefore important to include subsidies paid to social services, as in the case of nurseries or home help services, in the table.

The boundary between the two types of subsidy is not always clear. Taking the example of a per-service subsidy paid to child care facilities, this aid is paid directly to the provider and leads to a reduction of the price paid by the consumer. It can be considered, therefore, that this subsidy is consumer-oriented (and can thus be considered as a consumption subsidy) or producer-oriented, given that the subsidy is paid directly to the producer but depends on the number of services provided (and therefore the extent of consumption). The Danish and Finnish schemes, discussed above as consumption subsidy schemes on the basis of the questionnaires, are in fact based on per-service subsidies.

Even at this stage of the analysis the table highlights some important factors. In the first instance, consumption subsidies may be finely adjusted to income or intensity of need. This possibility of adjustment (or targeting) promotes equity - among other things by limiting creaming-off risks - and possibly employment by reducing windfall effects. Production subsidies do not offer the same

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<sup>12</sup> The presentation at the seminar on 15 May of a proposed Dutch subsidy taking the form of a reduction of labour costs and intended to promote employment by developing household cleaning services made it clear that it would be useful to extend this analysis to production subsidies.

possibilities, except perhaps in the case of a "forward funding" system where the amount of the subsidy is based on anticipated needs, thereby making it possible to apply a graduated tariff to users. A per-service subsidy, which could be seen as a production subsidy, also enables this type of adjustment.

Consumption subsidies are also "consumer-led", thereby encouraging competition among providers more than production subsidy systems. This increased competition may have positive effects on the range and quality of the services on offer. It was this type of consideration that to some extent shaped the establishment of the *child care voucher system* in Finland.

It is important, lastly, to bear in mind the impact of these various subsidy measures on public finances in the present context of budget constraints. The budget context in which these measures are placed will, in particular, shape their impact.

In more general terms, it would be interesting to take this analysis further by comparing the efficiency of different types of subsidy from the point of view, in particular, of public finances, employment and growth. A study of this kind was conducted in France, using an economic simulation which took account of secondary macro-economic effects, for the report on local development and employment initiatives (European Commission, 1995).

In this study, the effects of an active employment policy geared to the development of local services and making use of a consumption subsidy were in particular compared with the effects of a policy of general reduction of employers' social security contributions in exchange for job creation, i.e. a supply-side subsidy. It is noted in the study that: "the main difference between these two policies is sequential. In an active policy to create service-sector jobs, the jobs are created first and lead to an immediate reduction in the cost of social security expenditure. In the case of a reduction of employers' social security contributions, the social security balance initially deteriorates and then improves as employees' contributions are recovered. (...) If job creation is left entirely to the good will of private enterprises, the overall outcome is some three times less effective than that of an active policy to create service-sector jobs. In the long term, however, the budget cost per ex-post job created is comparable". According to these calculations, the former policy makes it possible to envisage the creation of 235 000 jobs for a budget cost per job of ECU 12 000.

Under the latter policy some 79 000 jobs would be created, however, for an individual budget cost of ECU 10 000<sup>13</sup>.

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<sup>13</sup> See European Commission, 1995, Chapter 3, p. 37.

	Equity	Quality	Structuring of supply	Quantitative employment
Consumption subsidy	Ability to target and adjust on the basis of income and need; possible limitation of creaming-off risks	encourages competition among providers, which may promote an improvement in quality	competition among providers	adjustment on the basis of income limits windfall effects
Production subsidy	no adjustment possible			
1) reduction of the cost of labour				
- targeted on a category of labour				
- targeted on a particular sector				
- policies to integrate the unemployed		risks		
2) service subsidy (operation, investment, etc.)	in the case of forward funding: relative ability to adjust according to need; ability to target services	conditions relating to service and provider quality may be linked to the subsidy		



### *I.6.2 What type of consumption subsidy matches what type of socio-economic organisation of local services*

A discussion of subsidies cannot be separated from more general thinking about the development and organisation of local services.

The local services covered by a consumption subsidy meet individual demand on the basis of an "objective" geographical proximity or a "subjective" proximity shaped by the relational dimension of the service. In the case of personal services, therefore, the relationship between the provider and user is crucial in determining the quality of the service. In some cases, this proximity can be enhanced by the way in which the service itself is organised and in particular by the degree of involvement of users in the design and/or operation of the service. Users can play a part both in the operation of the service (nurseries where parents help professionals to look after the children) and in the design of the service (management board, consultation on organisational methods, etc.) or even by supporting the values underpinning the body so that "supply and demand is jointly constructed" (Laville, 1992). This demand therefore obeys a dynamic which differs from the conventional consumption of goods sold on the market and from conventional social services.

In order to grasp one of the fundamental issues in the organisation of these services, it should be borne in mind that in almost all Member States, the community sets great store by the social utility of some local services, in particular personal services, and assigns criteria of equity and social well-being to them. These services do not just generate private benefits (i.e. for the individuals who consume them) but collective benefits as well. They generally require, therefore, public regulation or even non-commercial funding, because, if they were produced by market rules, their operation would entail production choices and a distribution that would not be acceptable to the community.

The debate on local services is therefore at the crossroads of economic, social and political choices. While the public authorities are showing considerable interest in the employment potential offered by these services, their development cannot be dissociated from social and political issues. These services may therefore help to strengthen solidarity. Depending on the way in which users are involved in the organisation of these services at local level, their development may ultimately play a part in constructing active citizenship.

Local services entail far-reaching change to the organisational methods shaped by the market/welfare state synergy. Although some sectors have already been well regulated (for instance home care), developments in organisational methods and in particular the introduction of consumption subsidies will have an impact on the way in which this field is structured. Various configurations are possible depending on the directions taken. It is possible to sketch out three "general scenarios" which could emerge as local services develop: an integration sector, a quasi-market and the acceptance of a plural economy.

#### I.6.2.1 An integration sector

If the main objective of public policies is to exploit local services as a sector into which the unemployed can be integrated in a context of social management of unemployment, the above analysis has highlighted the risk that a secondary labour market may emerge, within which the State would become "the manager of marginalised labour". This scenario would create a dual society by offering (or even imposing) an occupation, pretend job (or pretend activity) to people excluded from the conventional labour market. Formulae intended to employ the unemployed under precarious conditions that trap them in a circuit parallel to the labour market are good examples of this.

This policy does little to solve the problem of the exclusion of the unemployed and may, in contrast, help to develop activities taking the form of "a new domestic service on the cheap and with no proper status". This system offers, moreover, no guarantees from the point of view of the quality of services.

In an "integration sector" of this type, the negative image of menial jobs requiring few qualifications would undoubtedly be reinforced. Initial evaluations (among others the Belgian *chèque-ALE*) show that these formulae relate chiefly to household rather than personal services. While these formulae may be appropriate for "manual" services, services with a high relational content where trust is crucial would be difficult to develop in an environment which does not point towards quality. Steps need to be taken to resolve the question of trust between the provider and consumer. Any consumption subsidy formula targeted on a socio-occupational category of providers, i.e. those excluded from the labour market, may well drift in this way towards an "integration sector".

#### 1.6.2.2. The emergence of a "quasi-market"

The creation of a "quasi-market" is generally seen as an alternative to this "integration sector", i.e. the development of a local services market where consumers can choose among various providers who have been caused to compete in order to encourage efficient practices and where subsidies are used to create an effective demand. While this formula has undoubted advantages (choice of the provider by the consumer, stimulation of efficiency, match between supply and demand, etc.), the extension of a market approach to some local services may entail a number of risks from the point of view of the quality of the service, the structure of the supply and equity. Both economic theory and national experiences (Legrand, 1993) have highlighted "market failures" in this field, in particular in the personal services sector.

In relational services, the information gap between the provider and the consumer means that the latter finds it difficult to evaluate the quality of the service. The provider can use the consumer's lack of information about or control over the quality of the service to provide a service of lower quality or entailing less effort. Trust is therefore crucial to many personal services. Various ways of remedying these obstacles are contained in economic theory. The provider can, if the relationship between the provider and the consumer takes place over time, build up a reputation. He can also highlight the quality of the service. The use of qualified workers may be a positive signal. Using an intermediary who certifies the quality of providers is another possible route (applicable, for instance, to self-employed workers affiliated to a network which provides training and control). The adoption of a legal non-profit-making status (such as an association) is also a way of showing that the information gap is not going to be exploited to the detriment of the consumer. The involvement of consumers in the operation of the service is another way in which this relationship of trust can be built up. These considerations point to various subsidy methods: qualification and training of workers, accreditation standards for providers, place of associations and involvement of consumers in the operation of the service, etc.

If it is accepted that different types of provider (enterprises, associations and public authorities) are needed to satisfy a wide-ranging demand, it also has to be recognised that the market will not bring about this plurality on its own. Barriers to entry (for instance unequal access to capital) may limit the market entry chances of some types of provider. The vulnerability of consumers in many relational services also makes it difficult to change from one provider to another with the result that they become captive (once the relationship has been forged between the consumer and the provider, the cost of change is substantial for the consumer), thereby limiting the possibility of competition. The dynamic by which needs are expressed also differs from traditional consumption patterns that can be revealed only by a commercial approach. There could also be unhealthy competition between providers if different subsidy mechanisms were to coexist with no harmonisation. The introduction of a new consumption subsidy, for instance, for which only some providers are eligible would destabilise an existing supply subsidised by other mechanisms. This may be a key problem when different subsidies have different objectives. A consumption subsidy forming part of an employment policy, for instance, raises the question of the effects that this subsidy will have on mechanisms tied in with national solidarity.

It is therefore important to adopt a broader-ranging approach to subsidy mechanisms and to analyse the interactions between different subsidies. Instead of creating a separate "new market", it is necessary to find ways of adapting a field where there are already many actors and financing methods in order to cope with increasing demand. This raises the question of the back-up measures that are needed if this plurality is to take shape: mediation between supply and demand, support for the development of new projects, improved access to capital for associations, harmonising the tax situations of different providers, etc.

From the point of view of equity, a quasi-market formula provided with a system of consumption subsidies that does not take sufficient account of the intensity of need may entail a risk of creaming off. Providers will, in this case, tend to disregard people whose needs are greatest. It is therefore necessary to avoid any incentives to discriminate between consumers.

Promoting the organisation of a new quasi-market without accepting the limits of this market and the experience of many of those involved in the field of personal services would have detrimental effects from the point of view of service quality, the actual emergence of a plurality of providers and equity. The approach used to create a plural economy consequently differs from the approach used to develop a new market.

### I.6.2.3 Towards a plural economy

If a "plural economy" is to emerge, the plurality of providers needs to be recognised and the various sources of funds articulated.

Public and private providers are supplemented by all those involved in the social economy who often play a role of anticipation, exposure of demand and social innovation in the area of local services. Many initiatives are organised on the basis of partnerships or agreements between one or more service providers. How is this plurality of providers to be managed? What are their specific features? What partnerships should be encouraged?

Local services may be financed by various resources. Commercial resources are represented by the fees paid by consumers. Non-commercial resources are formed by all the subsidies awarded by the public authorities. "Voluntary" resources include gifts, local solidarity contributions and charitable works. If there are different forms of finance in the field of local services, one initiative in most cases harnesses the different commercial, non-commercial and voluntary resources. The challenge is then to design packages that are durable, efficient and guarantee equal access.

This plural economy therefore calls into question various oppositions that have been shaped by the market/welfare state synergy: private/public, commercial/non-commercial, economic/social, market/State, etc. The challenge is to place the development of local services within this plural economy in a dynamic way. What structures need to be promoted to ensure the durable development of activities intended to improve the quality of life and social cohesion? The development of local services requires a change in the organisational methods practised by the public authorities. The question of finance and therefore of forms of subsidy is an important facet of this thinking.

We hope that we have opened up some paths for exploration in this respect by putting forward an analysis grid for consumption subsidy methods. An analysis of subsidy methods has, however, to be accompanied by more general thinking about the type of development that is appropriate for local services. We are at the crossroads: reinforcing the divide in our societies by creating an integration sector solely for the marginalised who are placed in menial jobs, promoting a quasi-market whose limits are obvious in the light of the high relational content of the demand or promoting the emergence of a plural economy in which the specific nature of each field is recognised, thereby setting in motion durable development and high-quality activities that have an impact on social cohesion and ... creating high-quality jobs.

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## ANNEX 2 : QUESTIONNAIRE FOR AN ANALYSIS OF CONSUMPTION SUBSIDIES

In this annex, we reproduce the questionnaire which has been sent to the participants to the seminar on subsidies to consumption organised by the European Commission on 15 May 1996. This questionnaire has to make it possible to collect complete and structured information for each kind of subsidy for the consumption of household services. The data are intended to allow a comparative analysis of the aims, the expected results and the limitations of the various measures. The possible choices will make it possible to identify a limited number of "models", as terms of reference for the analysis.

### Questionnaire

You are invited to answer directly on the questionnaire in the spaces provided for this purpose. With regard to the series of options, simply put a cross in front of the relevant choice. Several options can be selected simultaneously.

If the range of the options does not enable you to answer satisfactorily, do not hesitate to propose another answer accompanied by an explanation, either in the answer spaces, or on additional sheets by specifying the number of the question concerned. Answer spaces are not intended to be constricting.

#### I. Practical information

1. Specify the nature of the measure studied:

- Services voucher: -----
- Direct consumption subsidy: -----
- Dependence insurance: -----
- Other : -----

Specify if necessary : -----

2. The studied measure:

- is a proposal : -----
- has been put into action : -----  
in the latter case, since when? -----
- other possibility : -----

3. This involves :

- an experimental measure : ----- anticipated until -----
- a final measure: -----
- other possibility : -----

4. Does this mechanism involve an initiative :

- private : -----
- public : -----

Specify: -----

5. The measure is in force at the :

- national level : -----
- regional level : -----
- local level : -----
- company level : -----
- other option : -----

6. Is there other practical information you wish to mention within this framework: -----

-----

## II. Objectives

7. Explain in brief the aims pursued by the measure:

- Objective 1 : -----
- Objective 2 : -----
- Objective 3 : -----
- Additional objectives : -----

*For example: to meet certain needs that are currently badly satisfied, to promote the job creation, to promote the recruitment of poorly qualified unemployed workers, to ease administrative requirements, to promote the development of new sectors, to reduce moonlighting, to diversify the range of possibilities offered to the consumers, etc.*

## III. Targeting

8. The mechanism

- does it cover a varied number of services : -----
- is it targeted on an individual type of service: -----

Which service :

- Aid for dependent persons (old, sick, handicapped persons) : -----
- Specify : -----
- Childhood (guard in residence sick child, crèches, etc.) : -----  
Specify : -----
- Domestic services (domestic tasks, gardening, etc.) : -----  
Specify : -----
- Others : -----

Specify if necessary : -----

9. Is the formula targeted on a particular type of service provider? By type of service provider, one includes both type of organisation and type of worker.

- **With regard to the type of organisation :**

9.1. The authorized service providers are:

- self-employed persons -----
- organisations -----

In the latter case, specify if the organisation acts as a :

- Public organisation : -----
- Private company with the profit motive -----
- Organisation of social economy (associations, mutual societies, co-operatives, etc.) -----
- Other : -----

Specify if necessary : -----

9.2. Do people providing services have to be approved?

- yes : -----
- not : -----

If so, what conditions are required for approval? : -----

9.3. Are there providers of these same services who would not benefit from the subsidy?

- yes : -----
- not : -----

If so, who? : -----

**- With regard to the type of worker:**

9.4. Does the formula address itself to a particular socio-professional category ?

- Professionals : -----
- Unemployed : -----
- Long-term unemployed: -----
- Unqualified persons : -----
- Non specified : -----
- Other : -----

Specify if necessary: -----

9.5. What is the statute planned for these people receiving benefits?

- Employee : ----- • Self-employed person : ----- • Unemployed person : -----
- Other : -----
- Full time : ----- • Part-time work: -----
- Maximum number of permitted hours : -----
- Contract of given duration : ----- • Contract of unspecified duration: -----

9.6. What is the type of remuneration ?

- Hourly -----
- On a contract basis -----
- Other: -----

Specify if necessary: -----

10. Is the mechanism intended for one particular category of recipients ?

- Yes : ----- • No : -----

If so, which ?

- -----

*Examples: the elderly, employees, all private individuals with children, etc.*

11. Clarify the links existing between your objectives (question 7) and your choices regarding the various types of targeting envisaged above (questions 8 to 10) ?

On this basis, can you prioritize the three identified types of targeting ?

- Priority 1: -----
- Priority 2 -----
- Priority 3 : -----

*Example: one can envisage a formula of which the principal objective is the reintegration of the unemployed, so that priority is given to targeting the type of person receiving benefits, the choice of the services being secondary and conditioned by the type of person receiving benefits.*

**IV. Subsidy mechanism and financing**

12. Within which budgetary framework is the mechanism registered ?

- Social allocations (family benefits, health, unemployment, pensions) : -----
- Public budget (taxation) : -----
- Wage bill : -----
- Private budget (companies, associations, etc.): : -----
- Other : -----

Specify if necessary : -----

13. Is the subsidy received ex ante (i.e. in a way anticipated at purchase) or ex-post (i.e. via a refunding or tax deduction mechanism)?



- by the consumer :                    ex ante:                    -----                    ex post:                    -----
- by the service provider :        ex ante:                    -----                    ex post:                    -----

Explain if necessary : -----

*Example 1: if the service provider pays a price after deduction of the subsidy, it acts as an ex-ante subsidy. Conversely, if the recipient pays the full price and receives the subsidy by means of a tax deduction, it acts as an ex-post subsidy.*

*Example 2: When the service provider receives the ex-ante subsidy, the person receiving benefits can receive the subsidy at the time of the benefit (in addition to the price paid by the recipient) or receive the subsidy after the benefit, for example by returning to the public authorities a part of the service voucher giving him a right to a subsidy.*

14. Is the subsidy an amount that is :

- fixed : -----
- variable according to the income : -----
- variable according to the needs : -----
- variable according to income and to needs : -----

In each case, indicate if a maximum amount is set out in the subsidy : -----  
-----

Specify if necessary : -----

*Example: one can imagine a dependence-cheque for residential care of elderly people, where the subsidy is proportionate to the level of poverty and dependence. The subsidy can, however, have a ceiling value of 20,000 Belgian francs a month.*

15. Specify the amount of the subsidy by elaborating the mechanism.  
-----

*Example 1: the service value is of BFR 800 / hour; the consumer pays the whole of it by means of a voucher that he buys BFR 800 each; he re-claims a part of this amount in the form of a fixed tax deduction of BFR500. In the best case, the service therefore costs BFR 300 (ex post) to the consumer.*

*Example 2: for the same service, one can imagine a system that operates through giving wages in the form of vouchers. BFR 300 in wages can be received by the employee in the form of a voucher worth BFR 800 exempted from tax. This formula also involves a public subsidy of BFR 500.*

16. How is the cost of the subsidy supposed to be financed ?  
-----

*Example: partly by an increase in taxation and partly by using the savings made as regards unemployment following the creation jobs; by reallocating certain resources of Social Security; etc..*

**V. Operation of the subsidy**

17. Specify the method of distribution involved in the mechanism :

- Individual method of distribution :
  - possibility for any authorized recipient to purchase subsidy (see. question 10) : -----
- Collective method of distribution (organised) :
  - assigned a share of rise in wages : -----
  - assigned social allocations : -----
  - other : -----

Specify if necessary : -----

18. In the case of collective distribution, is the assignment of income to the consumption of the subsidized services :

- obligatory ? -----
- voluntary ? -----

*Example: certain formulas involve a part of rise in wages in the form of service vouchers, others allow individuals to buy services vouchers if they wish to pay for them.*

19. What is the support for the mechanism (in particular for service vouchers, for the other types of mechanism if necessary) :

- paper-support ? -----
- bank account? -----
- another support ? -----

Specify :

20. In the event of paper-support:

- personal ? -----
- exchangeable ? -----

Specify : -----

- Fixed duration of validity or not? Specify: -----

21. What is the organisation responsible for the distribution of the mechanism (in particular for the vouchers, for the other types of mechanism if necessary) ?

*Example: The distribution of the services voucher can be ensured by the post office, by a financial organisation, by a non-profit-making association, etc.*

## VI. Régulation

By regulation, one intends the set of standards and measures which together come to support the methods of the mechanism in achieving its aims.

22. Can you specify the elements of regulation that you defined within the framework of your objectives ?

*Example: As an indication, the following standards and measures can correspond to the following objectives :*

- *Equality in service access: obligation for the service providers to accept anybody's voucher (in the case where it would be in the interest of service providers to select the demand to which they respond).*
- *Quality of the service: quality standards, conditions of approval for the service providers, required qualifications, etc*
- *Management of the diversity of service providers and of financing: measures to avoid competition between subsidies of different nature and to avoid unfair competition (example: the black economy).*

## VII. Supporting measures

So that the mechanism can achieve the set aims, it is advisable in the majority of the cases, to consider measures other than just those designed to directly stimulate consumption.

23. Within the framework of your mechanism, do you envisage measures covering the following aspects? If so, specify why and how.

- the setting up of adequate training structures : -----
- the setting up of intermediate structures intended to play a role of mediation between supply and demand, and between the various service providers: . -----
- the setting up of structures of support for the creation of new companies via credit facilities, agencies of council, etc.: -----

- other supporting measures that you envisage: -----

*Example: a specific training structure will be necessary if the objective is to create jobs for low-qualified unemployed people through the development of services requiring certain qualifications.*

**VIII. Institutional framework and other relevant structures already in existence**

If the mechanism covers an existing range of services, we wish here to have a vision of the organisation of services concerned before its introduction, and whether they benefit from this mechanism, or not (even potentially).

In this heading, distinguish according to fields of service as necessary.

*The First Type of Service Discussed*

24. Within which institutional framework are the services concerned registered?

24.1. Organisation's level:

- national : -----
- regional : -----
- local : -----
- company : -----

Specify if necessary:-----

24.2. Which institution(s) are responsible for the regulation and for the financing of these services(a ministry, a semi-public body, a company, etc.)?

Specify : -----

24.3. Other information regarding the institutional framework if necessary :

-----

*Example: child care in Belgium falls within the competence of the communities. For the French community, the institution responsible for approval and for control of service providers is ONE (office of birth and of childhood).*

25. Who are the service providers involved in offering these services? If necessary, also mention the existence of examples belonging to the informal sphere (on the black economy or within the family):

- Public organisation: -----
- Private company with a profit motive: -----
- Organisation of social economy (associations, mutual societies, co-operatives, etc.): -----
- Black economy: -----
- Family sphere: -----
- Other : -----

Specify if necessary : -----

*Example: child care in Belgium is currently ensured by a multiplicity of service providers, at the same time public (communal crèches), private with the profit motive (private crèches), private non-profit-making (association crèches), without counting an important share of these services that is in the black economy or within the family.*

26. What are the types of financing—apart from the studied mechanism— used for these services, whether public or private ? : -----

27. Does the studied mechanism replace these types of financing or can it be used to augment them? If so, specify in which proportions or according to which methods.

-----

*Example: certain child care services combine public subsidies with private funding on the part of the service provider, others are entirely privately financed. One can imagine that the introduction of a matched service voucher of an important subsidy is accompanied by the suppression of the current subsidies that crèches receive, like those covering the operating costs.*

*Other Type(s) of Service(s) Mentioned*

If you distinguish between various types of services, refer to questions 24 to 27 in the space below.

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**IX. Results and evaluation**

If the consumption subsidy mechanism is a proposal, answer the following questions according to your estimates.

28. What are the observed or awaited results of the measure at the following levels :

- number created jobs (in equivalent full-time, in worked hours, etc.):-----
- composition of these jobs (full-time, part-time; qualified work or not; independents, employees or unemployed; etc.) :
- number and composition of service providers :
- other indicators of the extent of the measure (number of emitted vouchers, etc.) : -----
- distribution of the use of the mechanism between the various proposed services : -----
- cost for public finance. As far as possible, distinguish the rough cost of the measure and the net cost of this measure in view of the economies induced, inter alia by the creation employment :

29. Does the mechanism make it possible to avoid the induced effects and/or gaps following?  
 Answer by "yes", "no" or "no idea", and explain whenever necessary.

- **In the field of the response to the needs :**

- anti-redistributive effects connected with the selected mechanism : -----
- low quality of the services :-----
- weak structuring of supply -----
- low capacity of adaptation of supply to the diversity of demands : -----
- inadequate choice at the level of the consumed services and of the service providers : -----

-----

**In the field of the employment policy :**

- 'wasted bonus' effect (i.e. to subsidise a service which would have been consumed without this subsidy, so that the subsidy does not give rise to a net creation of employment): -----
- effect of substitution (i.e. the subsidised service replaces an existing service so that this subsidy does not lead to a net creation of employment): -----
- attraction of unemployed (increase in the rate of activity): -----
- development of a secondary labour market (dualisation) with few bridges towards other forms of employment : -----

- Do you identify different effects induced that are both negative and positive to mention here? If so, explain:

-----

30. What are the limiting obstacles encountered?

- in the event of massive success of the mechanism, what are the budgetary constraints (on the side of subsidising) or those connected with the development of supply which are likely to limit capacity to satisfy demand for these services (thus creating rationing which would result in a price rise)?: -----
- does the mechanism enter into competition with, or threaten, other existing measures? -----
- does the introduction of this measure meet resistance both from the political point of view and from the point of view of the potential service providers and consumers (refusals to comply, cultural blocking, etc.)? -----
- do different elements seem important to you? -----

**X. Conclusion**

31. At the end of this questionnaire, how do you justify the choice of your mechanism in particular, in preference to other possible mechanisms (subsidies to production for example) to encourage the development of the household services?  
-----

32. Carry out, if possible, a short explanatory assessment of the implementation (real or simulated) of the mechanism: -----

**XI. Preliminary studies and bibliographical references**

33. Was your mechanism the object of preliminary studies? If so, specify in nature.  
-----

34. Please mention here your possible bibliographical references :  
-----

### ANNEX 3: LIST OF THE STUDIED SCHEMES

#### *Belgium*

- Agence Locale de l'Emploi (Local employment agency) scheme. <sup>(1)(2)</sup>

#### *Denmark*

- Home Service Scheme subsidy. <sup>(1)(2)</sup>

#### *Finland*

- Service vouchers for child care intended to develop a private (profit-making or non-profit-making) child care supply. <sup>(1)(2)</sup>
- Service voucher allowing those caring informally for dependent persons to call upon outside service providers for respite care for a set period. <sup>(1)(2)</sup>

#### *France*

- Chèque-emploi-service: scheme to simplify the administrative formalities on households employing home care and in particular household service providers, supplemented by a tax allowance for households making use of the scheme. <sup>(1)(2)</sup>
- Titre-emploi-service: granted by a works council or an enterprise, together with enterprise aid to encourage the consumption of personal services. <sup>(1)(2)</sup>
- Chèque-Prestation: voucher issued by Age d'Or Services for services to help elderly or disabled people, such as escort services or meals on wheels. <sup>(1)</sup>

#### *Germany*

- Dependency insurance which includes a subsidy for home services for dependent persons. <sup>(1)(2)</sup>
- Home service centres: experiment being run in Frankenthal. <sup>(2)</sup>

#### *Spain*

- Inverso voucher for elderly persons' holidays. <sup>(1)(2)</sup>

#### *United Kingdom*

- Service voucher for care for four-year-old children distributed to all households. <sup>(1)(2)</sup>

<sup>(1)</sup> Questionnaire received

<sup>(2)</sup> Scheme presented at seminar

## II. SEMINAIRE - PRESENTATION OF THE SCHEMES IN THE EUROPEAN UNION

### II.1 Introduction :

#### **What is the place of local services or which systems are needed for which policies?**

**Jean-François LEBRUN**

**Directorate-General V, European Commission**

It is only in the last two or three years that employment policies have included issues connected with local services. The central position that these issues have acquired in the debate on employment is in keeping with European Commission action since December 1993. The first component of Community action was undoubtedly the White Paper on "Growth, Competitiveness and Employment".

Since then, at the Essen European Council at the end of 1994, the Heads of State and Government stated that local services were one of the key areas around which the multi-annual employment plans that States have undertaken to submit should be structured.

It is possible to try to estimate the importance attached to local services by analysing the multi-annual employment plans formulated in 1995. It should be noted, in the first instance, that local services account for some 10% of all measures.

It is also interesting to note that the largest number of new measures is to be found in this field (55% in comparison with an average of 39%).

An examination of the policies that support and frame the development of local services shows that these policies have evolved over time.

Before the 1980s, priority was given to measures of a general type intended to support global demand. These were measures to raise wages, to increase welfare pensions and to lower taxation. These measures had relatively limited effects on local services largely because they were not targeted. Far less use is nowadays made of this kind of measure, in some cases largely for reasons of competitiveness and in other cases for budgetary reasons. The only component of general measures still to be found involves the macro-economic framework where it is hoped that wage restraint will make it possible to reduce prices in industrial sectors through productivity increases that are higher than wage increases. Reducing prices in this way makes it possible to increase purchasing power and therefore to use this increase to purchase services where productivity gains have not been so high.

A number of local services have also been developed in connection with the public or social authorities. For budgetary reasons and for other reasons connected with the very nature of some local services, States have not been very keen, however, to produce these services directly.

Since the 1980s, there has been a shift away from general policies focusing on demand towards supply-side policies and policies to return the unemployed to work, in particular in the form of recruitment incentives intended to offset their lower productivity. Many policies to develop local services have for this reason forged direct links with the fight against unemployment.



Under these measures it is possible to recruit unemployed people who qualify for subsidies or reductions of social security contributions, thereby promoting the development of the business by reducing the cost of labour. This type of policy has, however, a number of limits connected with:

- the personal development of the workers employed and the image associated with such activities. People speak of "menial jobs" because "they are done by unemployed people".
- the development of the service provided, in particular because training and professional development are lacking.
- the creation of durable employment, since the operation is only viable as long as the worker is eligible for a subsidy. When this person is no longer eligible for a subsidy, he or she very often leaves the business and a new person eligible for a subsidy is recruited.

Employment policies now seem to be starting to move towards targeting on activities, combining demand-side measures, rather than on workers. Service vouchers and consumer subsidies for some activities are examples of this. Further examples are those welfare benefits that are paid in kind and are therefore targeted on certain kinds of service, such as the dependency allowance system for elderly people in Germany. Some taxation policies intended to increase the consumption taxes on some products or services (such as packagings or disposal) are part and parcel of these measures targeted on consumption as they modify economic market conditions.

This development is not without links with the Commission's philosophy on the supervision of employment aid. The Commission notes in its guidelines<sup>14</sup> that "employment aid in respect of activities that do not involve trade between Member States (e.g. neighbourhood care services, certain local employment initiatives) does not fall within the scope of Article 92" (Aids granted by States).

In its inquiry report on local development and employment initiatives in Europe<sup>15</sup>, the Commission has also stressed that service vouchers could be a very advantageous way of stimulating the supply of and demand for new services, by creating a reference price and making it easier for new service providers to gain a foothold without discrimination based on their legal status.

Since 1993, many experiments have taken place in the Member States. Each has its own characteristics and is in keeping with the objectives that governments have chosen on the basis of their national cultural, economic and social contexts.

It now seems to be a good moment to draw the first lessons from these policies, to understand the content of programmes, to compare results and, possibly, to enable other countries to profit from the good practice highlighted by exchanges at European level.

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<sup>14</sup> OJ of 12.12.95 C/334/5.

<sup>15</sup> SEC(95)564 - OJ of 12.10.95 C/265/03.

## II.2 Existing national schemes

### II.2.1 Objective “Improving the quality of life”

#### II.2.1.1 Service vouchers in child day care, a national experiment in Finland 1995-1997 - Matti HEIKKILÄ, Director in the National Research and Development Centre for Welfare and Health (STAKES), (Helsinki, Finland)

#### **Some background notes**

Finland applies the Scandinavian type welfare model which has several implications in relation to any market-based attempts in service provision.

- (1) Welfare services tend to be universalistic by their nature, i.e. they are meant and provided for all citizens in need, not only for the worst-off. For that reason, services are mainly public and based on firm legislation. Income-testing is not applied when deciding who will be entitled to get service. This principle of universalism covers e.g. home help, elderly care, health services as well as child and family services.
- (2) Public sector, i.e. local municipalities have at the moment a clear monopoly in service provision. Services are thus financed from general taxes. There are no real market relations and competition in welfare provision.
- (3) Services are mainly free for clients. Fees are low, sometimes income-related. This means that the whole service sector is heavily subsidized.

This public production model is deeply rooted in the Finnish imagination of welfare. Public model is also seen as a very legitimate mode even when the fiscal problems emerged. People are ready to finance high quality services by their tax burden.

All this applies also to the relative comprehensive child day care complex. Local municipalities are obliged to provide day care for all children under seven years of age in case the parents are in work, studying, etc. The labour force participation of women with minor children is high, i.e. about 80%. Hence well-organised day care is also the interest of production life. From the beginning of 1996 families got a clear law-based subjective right to get public day care for their children in case of need.

#### **About the context**

Two things are of special importance when trying to understand the relative meaning of the national experiment.

Firstly, attempts to introduce any market-related models into the welfare service sectors are quite controversial - and political in the Finnish attitude climate. Quasi-market arrangements like purchasing-providing models, service vouchers and other related solutions will very likely equated with more ideological neo-liberal shifts in the traditional system. In this context one has also recognise the strong potential interests of the vast public employment in the welfare sector. The slight increase in the public interest towards consumerism, new forms of managerialism and to any kind of public-private mixes took place during the previous conservative-agrarian government when the whole political left was in opposition.

Secondly, as to the explicit objectives of voucher experiments the aim to create more jobs into the private welfare sector (i.e. entrepreneurship) was not the central one. On the other hand any attempts

to create cheaper service provision and before all reduce the public costs were seen essential. Lower unit costs, better cost-quality ratio and more flexibility and responsiveness are seen as the most important merits of voucher-run production of traditional social services. The local government (municipalities) clearly needed new, flexible and rapid models in trying to respond to the rising legitimate need for additional day care places from the beginning of 1996.

### **The national experiment**

Ministry of social welfare and health initiated the nation-wide-3-year experiment of service vouchers in 1995. 33 of the total 460 municipalities announced their willingness to take part.

Municipalities are free to decide about the mode as well as about the monetary value of the voucher offered for families in need of the day care. The central norm in the experiment was however that the private caregivers/providers (private family day care and kindergartens) should meet the same qualification criteria<sup>16</sup> which applied to public providers. Local authorities are obliged to inspect and approve the private providers of care before giving the voucher. It is the duty of families to find the proper providers in the market before applying for the voucher.

Two thirds of municipalities chose income-related voucher model whereas one third (including also some biggest cities) adopted vouchers with equal value for all families, rich and poor. This fixed voucher model together with free (market) prices is closest to the “genuine” market model. Here the redistributive element is not any more present. This is important to see because a strong redistributive tendency in an inbuilt element not only in benefits but also in many universal services in Finland.

Indirectly the local governments control not only voucher values but also the prices remaining for families responsibility in the income-related voucher model, but not in the fixed model.

The value of voucher varied according to the type of day care provided (family day care, day homes) as well as according to the age of the child.

The evaluation of the experiment was commissioned from STAKES. Result and conclusions presented in this paper are from the interim report by authors, dated April 24, 1996.

### **Voucher theory and anticipated impacts**

According to the voucher theory (see e.g. Parker, M.D., 1989) **enhanced consumer’s choice** (demand support<sup>17</sup>) together with **increased competition** are apt to produce positive changes in the market. These positive changes are seen in the **price** of care (decreases), supply of care (increases) as well as in the **quality** of care (improves). Along the lines of this theory we focused our study on the following key issues:

- cost reductions (cost of the municipality, i.e. public expenditures plus family costs);
- responsiveness of new private provision;
- consumer choice; and

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<sup>16</sup> These norms concern mostly the formal training of staff and the staff/children number ratio by age of children.

<sup>17</sup> In the voucher model demand support means increased and fixed (by purpose) purchasing power given to families by local authorities.

- quality of care

To a more limited degree we examined also the job creative impact of the voucher system.

About the costs two requirements should basically be met.

The voucher system is advantageous to the local government if:

value of the voucher	<	gross unit cost in public day care	-	max. user fee in public care
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Respectively choosing a voucher instead of public day care option is advantageous for the family in case.

actual user fee in the public system	>	gross unit cost of private day care	-	value of voucher granted
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The quality of day care was measured by identical scales both in public day care and within the voucher-driven system. Research design was thus comparative adapting subjective user evaluation. The concept of quality was operationalised into five main components comprising altogether about ten items. In addition the “objective” quality was controlled by the number of children per qualified staff-ratio norm.

## On results

### 1. Change-over

Taking into account the assumptions about the cost reductions for families we were interested in seeing whether and to what degree families actually changed systems, i.e. moved out from the public system and preferred the voucher system.

The transition was 17% which probably is smaller than was anticipated. About one half of all families that had chosen the voucher remained in their existing, i.e. previous care arrangement. This implies that a big deal of families having being outside the public system now were able to benefit the voucher option in reducing their total care costs. Some 28% of all voucher children came into the system from home care.

What about the possibility to create new jobs/entrepreneurship by the voucher system? More than one fifth of all private day care entrepreneurs financed by the voucher experiment was given rise by the voucher. This share can be regarded as remarkable if also as relatively modest.

### 2. Reasons to choose a voucher

Families were asked about their explicit reasons to choose the private, voucher-run option instead of the public alternative.

Somehow surprinsigly 22.4% families reported a non-option, i.e.. the private care was the only choice. Traditional reasons to be derived from the market theory (better responsiveness, better quality, etc) were reported by 28% of the families.

In 22% of cases the pedagogical speciality of the private option was the first priority.

### 3. Quality

The traditional theory suggests an increase in quality of service provided if the real competition will be allowed. In the Finnish experimentation the public sector was in fact protected from the competition. In addition the study reported here was based on only one cross sectional survey. Hence we were not able to control any dynamic change. Bearing these restrictions in mind the following results were obtained about quality comparisons between public and private, voucher-run day care:

- in general the perceived (subjective) quality was better in the private than public sector;

- the strengths of the private voucher supported service were individual treatment of the child, children's positive experiences, stimulative action as well as good cooperation between home/family and the care giving unit; and
- the superiority in quality of private provision was most obvious in day homes (kindergartens); especially pedagogically specialised units were appreciated by parents.

It is still worth mentioning that better quality feed-back of private, voucher subsidised day care can not simply be explained as a consequence of the voucher as such. There are reasons to assume that the voucher as a new input to the market led to a kind of selection effect, i.e. the highest quality supply of the existing private day care pool came into the semi-public funding.

Anyhow, interesting is also the finding that almost all private providers also met the formal minimum norm of child/staff-criterium.

#### 4. Costs

As we mentioned earlier the local government makes savings in its extra service supply if the monetary value of voucher is fixed lower than the net expenditure of the public provision (unit cost). To meet this requirement is a quite simple and administrative procedure.

We as evaluators examined the running costs of public day care by the form of care (day homes plus family day care) in each municipality taking part in the voucher experiment. Thus simply by comparing the values of vouchers to the net unit costs (= gross minus user fees) in the public provision one can see the cost-saving merits of voucher model. And the result was clear, in all municipalities the value of voucher was lower than public net unit cost. Thus a clear conclusion is that local (public) cost savings will be reached.

What about private households? Are they then behaving as "rational consumers" as was supposed? The condition of rationality would be fulfilled if only those families had chosen the private, voucher supported option, whose fee in the public system was higher than the "free price", i.e. the fee after the voucher in the market. This assumption was not possible to be tested from the evaluation data. However an interesting observation was that almost one fifth (19%) of voucher families was in fact paying for their (private) day care more than the maximum fee (1 430 FIM / child / month) in the public sector. This was surprising. What do families do such choices? A partial response to this question was the pedagogical specialisation of the service they preferred. About one half of families paying after voucher more than the public maximum were users of specialised day home services (Montessori, language, music etc pedagogics).

### **Conclusions**

1. The Finnish voucher model in child care provision is a limited model in the sense that at least so far the public sector is protected from a real competition.
2. The employment, i.e. extra jobs-creating effect of the experiment has until now been moderate: some 22% of all private providers of care were new beginners due to the voucher system.
3. The movement from public to private, voucher-subsidised day care was some 17%. Most of the family preferences to change the system were dealing with better responsiveness and higher quality of private care.
4. The quality of the private, voucher supported day care was in general seen better than that of the public care. It was however not possible to demonstrate whether this was a consequence of the experiment as itself or of a selection process.

5. For the public sector (local municipalities) the voucher model is obviously a cheaper way to provide day care services than public provision. For families as clients the demand of cost-reduction is a more contradictory issue. What is clear is that the lower is the value of voucher the higher is the family price in the market.

## **SOURCES**

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### **II.2.1.2 The Finnish experiment of vouchers in informal home care of elderly, disabled and long term ill persons -**

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#### **Introduction**

In Finland, the local authorities, i.e. municipalities are obliged to provide the necessary social and health care services for their inhabitants. Provision of care has been heavily based on public action. Usually the primary health care is provided by joint councils of municipalities, and specialized health care by hospital districts. Until last few years the social services have been provided mainly by individual municipalities. Social and health care services are funded mainly by tax revenues, and user's co-payment has been of smaller importance. The allocation of care has been based on the principle of universalism.

Since the recession, which the country has been facing since 1991, the provision has become more pluralistic, and a shift from traditional Scandinavian welfare model seems to be going on. However, even in the "golden years" of the Scandinavian model with extensive public services, the informal care at home had an important role to play in the Finnish society. Especially important is the care of the elderly. According to some research, about 70 percent of external help needed by the elderly is given by relatives, friends or neighbours. Until recession the informal care had a neglected role, but during last few years lot of expectations has been put in this care sector. To encourage pluralisation of the care markets new incentives have been implemented, and various projects to find out practical strategies to promote the pluralism in service provision has been started. The experiment on vouchers in informal care of elderly, disabled and long term ill is one example of this type of projects.

Finland has a long tradition to support care at home in financial terms. However, only a minority of informal carers has got access to this social service. The major problem has been the unequal allocation of this form of home care support. This arises from the fact, that local authorities interpret the legislation differently, resulting to implementation of highly varying local policy for informal care. The nation-wide study in 1994 (Antikainen & Vaarama 1995) demonstrated the unequal treatment of informal carers clearly. This study was ordered by the Ministry of Social Affairs and Health.

Since 1993 a new legislation for comprehensive home care scheme was introduced in the country. The above mentioned follow-up study suggests, that the status of informal carers has been improved by implementation of new policy and rules. However, a clear problem can be specified: the lack of respite care rendering possible for the informal carers to have care-leave at least occasionally if not regularly. The problem arises on the one hand from lacking resources, but also from poor possibilities for carer to choose between different respite care forms for their caretakers on the other hand. These were among the reasons for Finnish Ministry of Social Affairs and Health to initiate an experiment on vouchers for organising respite care for elderly, disabled and long term ill persons cared at home by an informal carer.

The project seeks to:

1. catch information and experiments on
  - a) how usable vouchers are in organizing care-leave for relatives caring long term ill patients at home; and
  - b) which type of price mechanism are used in municipalities and organisations involved in the project



2. give more freedom of choice for the clients
3. support establishing of different local modes of function in using the vouchers
4. find out which would be the suitable level of supervision in this type of functioning.

Even if it is quite clear, that the experiment may contribute in encouragement of private service production or self-employment in the care sector, the starting point for the experiments with service vouchers is not related to employment policy. The main aims of the project are to promote the status of informal carers for ensuring the continuity of care, and to increase the clients' freedom of choice by creating market-based service systems besides the public services. A more diversified service market is also expected to result in cost savings for public economy.

### **From home care allowance to informal care allowance**

Since 1984 caring for the disabled, the elderly and patients needing long term care at home has been supported by law in Finland. In 1993 the law was revised. The new comprehensive informal care scheme is more extensive than previous home care allowance. The informal care allowance can be granted as money, services of both which are specified in a personal care and service plan.

The law sets the minimum of the allowance 1116 FIM a month (1.1.1996). The rate depends on the time and the extent of assistance required. The informal care allowance can be given if a person because of lowered capacity, sickness, disability or other similar reasons needs care that is possible to arrange at the care-taker's home by entering into an agreement with care-taker's relatives.

An informal carer is a person who takes care of an older, disabled or sick family member or other person close to him/her in that person's home. The carer does not have to be care-taker's relative. The informal carer is entitled to an allowance for home care from the municipality. The municipality should also arrange time off for the carer by providing care for the care-taker during the leave of the permanent carer. The purpose of the system is to prevent burn-out among informal carers. The carer's entitlement to the leave should be graded on the basis of how binding and/or demanding the care provided is.

### **The goals of the revised home care allowance are:**

1. To improve the position of the informal care and to combine it to the social and health care service system.
2. To improve the position of the informal carer:
  - the informal carer who is not in pension is covered by national pension plan.
  - to increase the level of the home care allowance (financial).
  - By recommending time off for the carer.

The informal care allowance is always based on a personal care and service plan. The care and service plan reinforces the care aspect in the allowance and combines it to the care-taker's service scheme.

The contract is always signed between the informal carer and municipality. The contract should include the following subjects:

1. The fee of the informal carer and how it is paid.
2. Agreements on how the fee is paid when home care is interrupted.
3. How to arrange the time off for the carer.

4. How to cancel the contract.
5. Other possible things (A 318/1993 1§).

### **Service voucher experiment to arrange free time for informal carers**

According to Antikainen & Vaarama (1995), the municipalities have not succeeded in arranging time off for the informal carers to a sufficient extent. The care experiment with service vouchers aims at new solutions in providing free time for carers. The goal of the experiment is to improve the conditions of informal care so that the continuity and quality of the service can be safeguarded; providing time off for those providing care of demanding character is seen as an important supportive measure.

Altogether twenty municipalities are participating in the experiment with service vouchers for informal care; both large towns and small municipalities. The experiment is carried out in cooperation between municipalities, non governmental organizations for welfare and health care in the Finnish Slot Machine Association so that the municipality grants the care-taker a service voucher by means of which he or she can buy the necessary service from a private service producer while the regular carer is off. Non-governmental social welfare and health care organizations produce the services of support arranging them.

The National Research and Development Centre for Welfare and Health performs a follow-up study concerning the experiment. The study aims to analyse and model different local strategies and modes of action, including the price mechanisms and model contracts between public and private sector. Also impacts on local service markets and on mixed economy of care will be evaluated, and prices of public and private provision compared. One important dimension in the study is quality of care. Special attention will be paid to this.

First measurement has been made, but not yet analysed. In this measurement, a unique data from all informal carers in the participating municipalities has been collected. Thus, also analysis of potential markets of service vouchers in this client group is possible to do. The draft report will be published next autumn.



### II.2.1.3 The INSERSO social tourism programme in Spain -

Jesús Norberto Fernández MUÑOZ,

Subdirector General del INSERSO (National Institute of Social Services (Madrid, Spain))

The programme of holidays for the elderly (PVTÂ) run by INSERSO (the National Institute for Social Services) is part of the Ministry of Labour and Social Affairs' move to promote more active participation by the elderly in a society in which medium-term demographic developments will mean an increase in the number of elderly people and in the responsibilities they will be called upon to assume.

#### *An expanding programme*

The programme is intended to improve the quality of life and generate wealth creation. PVTÂ was launched in 1985 with 16 000 participants, and has expanded to accommodate 360 000 places for the 1995/96 season.

The increase has been not only in the number of places available, but also in the number of hotels participating (rising from 19 to 183), the number of travel agencies involved (rising from 20 to 2 000) and the number of people travelling by air (rising from 11 000 to 245 000).

Since its commencement, over one and a half million people have been able to take advantage of holidays offered by INSERSO.

Beginning as a series of one-off holidays for the elderly around the Christmas period, the programme today has a considerable influence on the tourism sector (hotels, transport, travel agencies, etc.) and indirectly on other sectors, such as commerce in the tourist areas (due not only to the presence of the elderly holiday-makers but also to the fact that, thanks to the programme, employers and employees can continue their activities throughout the year).

#### *Social impact*

The programme enables retired people with little disposable income to spend one or two-week holidays in tourist areas with a temperate climate (Balearic Islands, Valencia, Andalusia, the Canaries and Murcia) in low season from October to May.

Sociological studies have enabled us to draw up a standard profile of PVTÂ beneficiaries, who are likely to be aged 65 to 70 travelling with a partner (household), from an urban area, and with a monthly income of between 55 000 and 100 000 pesetas. Year by year, however, the number of participants from rural areas with an income lower than 55 000 pesetas is increasing, prompted by the active role played by local councils in providing information and subsidies.

The general level of satisfaction according to INSERSO's sociological studies shows over 91% of the holiday-makers to be very or quite satisfied. This is consistent with the high proportion returning, 98% expressing an interest in using the programme again in subsequent seasons.

#### *Economic impact*

The programme has a strong impact on seasonal employment which, when combined with its impact on the target regions and the tax revenue it generates for the State, makes the PVTÂ highly profitable.

According to the special monitoring committees set up by INSERSO, the programme has been directly responsible for the creation of 4 100 jobs a year, and indirectly responsible for a further 21 000.

Furthermore, the Spanish government is able to recoup its total investment in the partial financing of the programme (Ptas 6 000 million for the 1993/94 season) through taxation (income tax, VAT, corporation tax, etc.), social security contributions, the saving on unemployment benefits and the provision of certain business services to public companies.

A study recently published by Price Waterhouse shows that the Ptas 6 000 million spent by INSERSO generate a market of Ptas 26 000 million, including around Ptas 7 000 million paid by the holiday-makers participating in the programme and Ptas 13 500 million spent by them on optional excursions, purchases, etc.

#### *Recent improvements to the programme*

Each year, as the number of places has increased, many improvements have been made to upgrade the quality of the system, some paid for by INSERSO and others by the companies selected for the programme:

- Over the past few seasons, the Social Affairs Ministry has opened the programme to elderly Spaniards residing in other European and Latin American countries. During the 1993/94 season, the PVTÂ enabled 7 000 elderly persons residing in Germany, Belgium, France, the United Kingdom, the Netherlands, Switzerland and Russia, and a further 3 400 from Argentina, Uruguay and Brazil, to participate.
- Cooperation by the local authorities in the form of grants for people with a low disposable income has enabled elderly people from all sectors of society to benefit from the programme.
- The number of sales outlets has increased, rising from a single agency in 1985 to 600 agencies in 1990-91 and 2 000 in 1993-94.
- A computerised management system has been set up for the sales outlets, enabling the travel agencies concerned to reserve places on-line, thereby guaranteeing immediate confirmation and automatic issue of tickets and providing a better service for the client.
- Load transfers have been eliminated on most road transport routes.
- Two new destinations – the Canary Islands and Minorca – have been added since 1994, including cultural tours.
- INSERSO tourism consultants carry out monitoring to check the quality of services, and a complaints system and suggestions box have been set up for the programme users.
- Sociological studies are carried out regularly to establish the degree of satisfaction.
- There is increasing cooperation with the Autonomous Communities in the configuration and development of this State-run programme.
- Special PVTÂ monitoring committees have been set up (comprising representatives of the administrative authorities, trade unions and employers, plus representatives of the holiday companies selected, who attend meetings but have no vote). They are responsible for:
  - monitoring existing jobs in the hotels participating in the programme;
  - inspecting any new recruitment;
  - making recommendations to INSERSO's Directorate-General for the suspension or removal from the programme of hotels which do not comply with the established requirements;

- monitoring employment conditions in the hotels participating in the programme, particularly in respect of their general operation; and presentation of the employment adjustment records for the period of their participation in the programme;
- checking compliance with objectives in respect of quality of service and job creation in the hotel and catering sector.

#### *Future prospects*

INSERSO is currently finalising its tendering procedure for the PVTÂ 1996/1997 season. The ceiling for maximum impact of the programme is based on seasonal tourism demand, low-season reduction in employment (the PVTÂ is taken to represent 40% of low-season tourism) and available hotel capacity. This ceiling is around 1.1 million places.

Further factors in the success of the programme are its interregional nature and its capacity to have a beneficial impact across the board (job creation, improvement of quality of life, etc.), and the linking of the selection of destinations to a more general policy. This illustrates the advantages for users of centralising management and coordination of the programme at national level.





#### II.2.1.4 Dependency insurance in Germany -

Dirk FINGER,

Berlin Centre of Sciences for the sociological research , Department of labour market and employment (Berlin, Germany)

The dependency insurance scheme was established on 1 January 1995 and brought into operation on 1 June 1995.

Substantial demand from households in Germany for home care services warranted the introduction of such a scheme. In 1995, it was estimated that 1.2 million households were involved. In addition, almost 4 million people would potentially be in need of home help. Those targeted by dependency insurance are not only the elderly but all physically dependent people, and more specifically the disabled.

##### **1. The scheme - the activities and the beneficiary targeted**

The dependency insurance scheme was brought into force under Volume II of the law on social problems and will be put into effect in two stages:

- The first stage, currently under way, relates to the financing of home care. Theoretically, 700 000 persons are concerned by this measure, which enables the number of existing services already provided under the Federal law on social aid to be increased. The amount of the allowance is also fixed on the basis of the type of accommodation. Thus dependent persons living in convalescent homes, retirement homes or establishments for the disabled are entitled to these services on condition that the treatment is given in the dwelling place itself (500 000 concerned). This is an entirely new scheme for Germany because it involves financing home care with a view to well-being.

Lastly, it is a measure to relieve some degree of unemployment, although the primary purpose of the scheme is to satisfy requirements linked to home medical care.

- A second stage is planned to come into effect in the summer of 1996; it relates to treatment prescribed by hospitals or other medical care establishments.

The level of services provided under this dependency insurance scheme will depend on the quantity of contributions paid into the scheme. Each citizen covered by social security in Germany automatically contributes to the dependency insurance scheme unless he is insured with a private fund (1% of total gross income). This compulsory contribution is co-financed by employee and employer.

• Entitlement to services under the dependency insurance scheme is on the basis of three categories of dependence:

- the first category covers care requirements which can be met in over one and a half hours once a day;
- the second category is for people who need home help three times a day;
- the third category is for those who need to be looked after 24 hours a day.

• The dependency insurance scheme makes provision for two types of services:

- services in kind provided by a body specializing in home care (the amount of help towards this kind of service varies from ECU 400 to ECU 1 000 per month);
- or a sum in cash (a money allowance) paid directly to the people who are themselves responsible for organizing and managing home care (the amount of help provided for this kind of service varies between ECU 250 and ECU 500 per month).

The amount of the dependency insurance is not very high: if it is considered that the hourly cost of home services in Berlin is almost DM 50 per hour, the new scheme provides enough to pay for approx.

75 minutes' help for a dependent person in the second category or almost two hours per day for the most heavily dependent cases.

- Institutional structure of the insurance

This insurance scheme is managed using the old institutional framework. Dependency insurance funds have been newly set up but they are attached to the traditional sickness insurance funds. The service providers are already existing bodies such as the large medical care associations or private service providers. The latter must be kept under constant supervision in this case. A dependent person must check that a contract has in fact been concluded between the body providing the care and the dependency insurance fund.

Under the scheme care provided at home by members of the family or others are monitored by doctors who work for the new institution and who are responsible for checking that the measures are applied.

## 2. Results

The dependency insurance scheme cannot be seen as a cheque for a local service since it is not compulsory to involve a third party. It is only a means of financing professional care and the results can only be understood in that context.

As a result of the new scheme, a real market has emerged in the medical care sector, notably through the advent of new private service providers (the number of which has reportedly doubled in certain regions) alongside the large medical care associations which are in a dominant position. In addition, it has allowed dependent families to purchase this type of care on a true market by enabling them to compare prices (giving them freedom of choice).

Dependency insurance is a subsidy. It does not set out to cover all existing requirements in the area of home care, but to provide a minimum level of help towards meeting part of those requirements.

However, practical experience of the scheme has proved disappointing, as it has been found that 80% of the recipients opt for the cash allowance, that is to say, dependent persons choose to manage their care themselves. As a result there is a danger that the grant will not necessarily go towards the consumption of medical care, which is what it was set up for.

This new scheme makes it more difficult for the least dependent category to gain access to care since it replaces a number of existing financial arrangements: to benefit fully from the grant, a person must need care for at least 90 minutes per day.

At present, there are no statistics on the number of jobs created by the scheme.

### II.2.1.5 Nursery Vouchers in the U.K. -

Professor Mike CAMPBELL,

Policy Research Institute, Leeds Metropolitan University (Leeds, United Kingdom)

#### **1. The Scheme**

- Vouchers worth £1.100 per year to fund a place (for 3 terms) for all 4 year olds whose parents wish it in the pre-school education.
- Experimentally launched in 4 areas from 1 April 1996 - Nationwide from 1 April 1997 - it is aimed to provide 150.000 additional places.
- Total cost £545 million “recycled” from LEA funding of 4 year olds.
- Emission of vouchers worth £5 million for 4500 additional places (total cost of £22 million for estimated 15.600 4 year olds - 4500 of which have no nursery place - most of remainder pays for existing 11.000 places). Estimates for Kensington/Chelsea suggest 55% take up for vouchers. Norfolk 92% overall around 80%.
- 5 vouchers are given (one for each day) each term.
- An inspection has to be realised (£20 million available) through OFSTED - adverts just out for new inspectors. All providers must meet minimum standards but may operate in advance of inspection.
- Currently (pre-voucher) - Overall 77% participation rate but very uneven provision eg. 27% in Oxfordshire, 95% in Knowsley.
- The jobs Effect, may be estimated very roughly at 18.000 jobs (inc. inspectors)

#### **2. Some Considerations**

- This scheme is aimed to stimulate demand (consumer subsidy) and supply (in response to increased demand), but:
  - there is no guarantee of place
  - it is likely that we will see the development of nursery “chains” eg. Kinder Care.
- The programme allows choice for parents between providers - nursery school/class: play group; reception class. Nevertheless the amount is sufficient for latter, need for “top up” in former (covers about half the cost) in private/voluntary sector (or use in “part-time”).
- Deadweight for employment which will be created anyway.
- Special needs are nor covered nor taken into account
- No means testing (more cost effective)
- Geographical inequality: the system does not take into account the cost variations accross country
- No funding for “set” up costs - £5 million in pilot scheme
- It is not out of question to see the creation of a secondary market in sale of vouchers
- Low professionalization: the training of the childminders is not to be funded (except in Scotland!)



## *II.2.2 Objective “Job creation”*

### **II.2.2.1 The Danish Home Service Scheme -**

**Henrik HOCHREUTER,**

**Danish Agency for Development of Trade and Industry (Copenhagen, Denmark)**

#### **Home Service Objectives**

The Home Service scheme is an experiment in order to establish a new market and a new trade for household services, and will so far be effective from 1th of January 1994 until 31st of December 1996. The scheme is granting direct public subsidy to all private households who acquire household services in their homes and gardens rendered by VAT-registered companies.

The purpose of the Home Service Scheme is:

- to create a new market for companies in the service sector
- to create permanent jobs to people with no or low education
- to reduce the amount of moonlighting
- to convert do-it-yourself-work to paid jobs in order to provide more spare time to the busy families and to assist senior citizens.

Examples of services which are subsidised by the Home Service scheme are cleaning, grocery shopping, window cleaning, cooking, laundry, ironing, gardening, snow removal and other similar chores. The subsidised services can only be carried out by companies which was VAT-registered, and a company can work up to 125 hours for a three month period in the same household.

All arrangements concerning what work is needed, the quality of the work, the price etc is made directly between the company and the consumer.

The scheme is laid down and financed by the Danish State, the scheme is administrated by the local authorities.

#### **A new trade**

The law concerning Home Service is meant to create the background for a whole new market with numerous new assignments in home and garden. The market is being serviced both by newly founded companies and by already existing companies in the service sectors.

Until the scheme came into effect, only very few private individuals could afford this kind of services from commercial companies. Home Service, therefore, is really a brand new trade with a whole new market in private households.

The subsidy makes it possible for companies to compete with moonlighting and do-it-yourself-work.

#### **What does Home Service not include?**

It is important to emphasise that Home Service is *not* the same as public home help. The scheme does not include personal care or nursing of the elderly, children or other family members.

### **Who can join the Home Service Scheme?**

Home Service is carried out by commercial companies offering to perform work in private households. It could be any already established company or any person interested in starting on her own in this new sector. Once the company has been registered under the Home Service scheme by the local municipality, it can perform Home Service chores in the local area as well as over the country of Denmark.

### **What are the conditions?**

Companies wanting to join the Home Service scheme must fulfil two conditions. First, the company must be VAT-registered, and secondly, the company must have a liability insurance covering damage made performing the work. If the company or the company owner will not be accepted under the Home Service scheme.

Home Service cannot be carried out by persons under the age of 18, if their work week is less than 30 hours, and Home Service cannot be performed by people receiving national pension or a public salary supplement.

### **What size of income are we talking about?**

The income will depend on how many hours the company is able to sell - and at which price. The only certainty is that the Home Service scheme releases a public subsidy of up to DKK 85 per work-hour. The subsidy is 1.5 times the amount paid by the customer price of DKK 50 release a subsidy of DKK 75. The price paid by the customer is usually around DKK 60.

Expenses for equipment, supplies, transportation etc. are not covered by the subsidy.

It is important to be aware that the company must pay VAT and tax of the subsidy as well as of the customer's part of the income.

### **How is the subsidy paid?**

The subsidy is released on the basis of a monthly specification submitted to the municipal authorities containing information about delivered Home Service work throughout the month. This specification must be submitted no later than 3 months after termination of the service rendered.

Copies of customer invoices must be enclosed with the specification, and each invoice must include a deduction of the public subsidy - with information about the customer's name and address, the type of work performed, number of working hours involved, and indication of when the tasks were carried out. The invoice must be signed by the customer.

The subsidy will then be transferred directly to the company's bank.

### **Information about Home Service**

HomeService was in the beginning of 1994 promoted through a broad information campaign on TV and local radio stations as well as advertising on buses, and in newspapers and magazines. The objective of the campaign was to make the customers aware of the new trade, and furthermore to make companies market themselves as Home Service companies in their area.

Every company under the Home Service scheme are private companies with responsibility for their own advertisement, for finding customers, and making agreements with them about the work, the price, etc.

### **How big is the Home Service sector?**

By April 1996 approx. 4.500 companies are providing Home Service, and approx. 2.500 people are working full time with the Home Service Scheme. An estimate of 200.000 Danish households have used the scheme. The direct expense for the Danish State (total of paid subsidy) was DKK 100 mio. in 1994 and DKK 270 mio. in 1995.

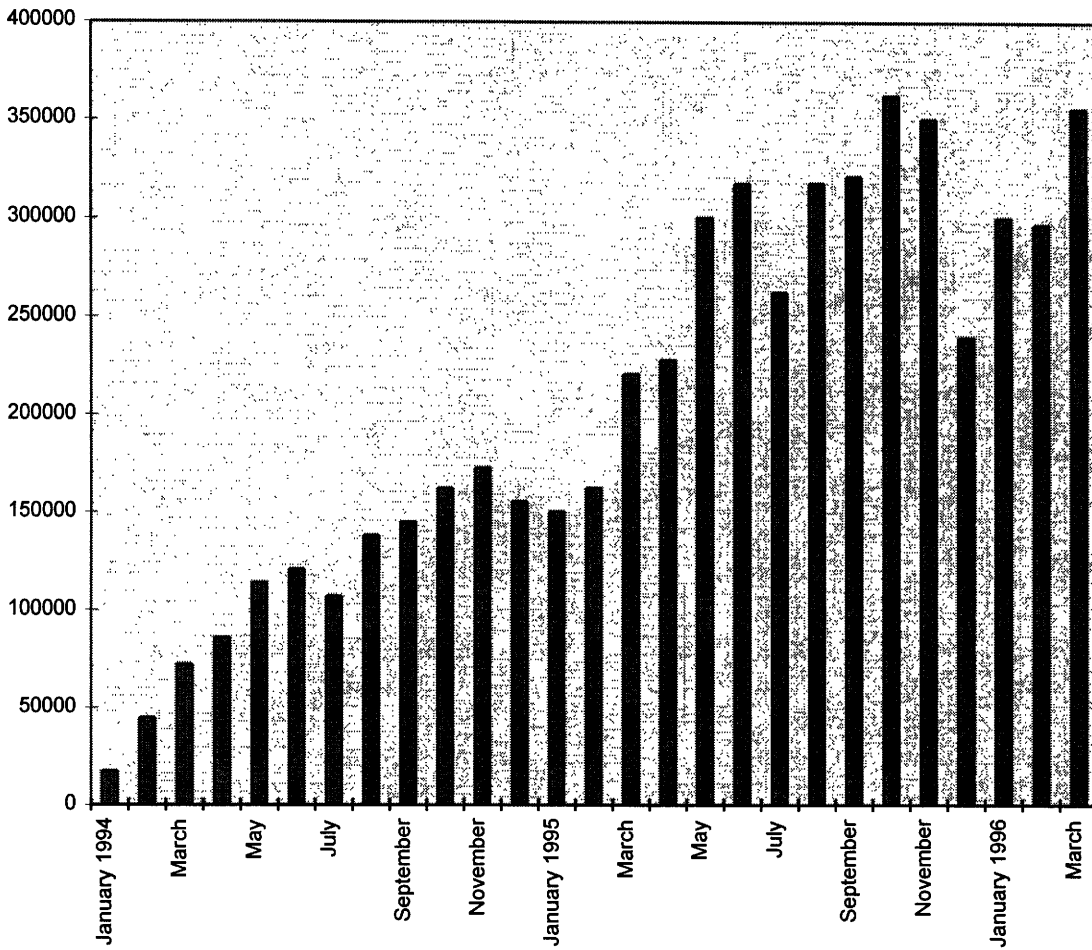
All segments of the Danish population are using Home Service. However the typical user is either double income families with senior posts and 2 or more children or senior citizens.

40% of the HomeService staff was previously unemployed.

### **Home Service in the future**

The Danish Parliament are presently debating a new law for HomeService which will make the scheme permanent. A new law will mean some change in the set up and the administration of the scheme. Among other things the new law will imply that the subsidy in the future amounts 50% of the total of the bill, and furthermore the new law will require order in the employment for people working in Home Service.

### The Use of Home Service in Hours







### II.2.2.2 Job-service vouchers in France

Mahrez OKBA,

Department of Labour - employment service (Paris, France)

The job-service voucher scheme was introduced on a trial basis for one year on 1 December 1996. Following the scheme's success in 1995, the French parliament decided to proceed with it. The law passed on 29 January 1996 concerning job-service vouchers, and on a more general level, the development of personal services, broadened the scope of the scheme and removed obstacles which had previously hampered job creation in this sector.

The voucher scheme was prompted by two macro-economic observations: sluggish job growth and unsatisfied needs for personal services. When the obstacles had been identified (purchasing power to match latent demand, need for a structure to organize supply and simplified administrative procedures) the scheme could be introduced.

At the end of the 1980's efforts were focusing on developing "local services". To this end, three separate developments occurred in succession.

- In 1987, the principle of exemption from social security charges was introduced for the over-70s employing home-helps,
- followed by direct cash benefits,
- and finally in 1992, tax exemption or tax reductions, the scope of which was gradually extended (consumers of "local" services are currently entitled to a reduction amounting to 50% of expenditure up to a maximum of ECU 14 000).

#### **1. The Voucher Scheme**

The job-service voucher scheme has three objectives: streamlining administrative procedures, developing employment activities and combating undeclared employment. Other branches of this scheme such as "first employee-vouchers", "culture-vouchers", "entertainment-vouchers", "sport-vouchers" should be regarded solely as a means of simplifying the administrative procedures involved in hiring employees.

The job-service voucher system has the following two features: firstly it is an optional scheme which is a supplement to traditional domestic jobs. What prompts private individuals to purchase vouchers is the benefit they derive from the simplified administrative procedures. Secondly it places the parties in a mutually agreed relationship in which the employee enjoys a number of guarantees.

- A work contract exists. The law of 29 January 1996 extended the job-service voucher scheme to include jobs of more than 8 hours per week with the employer required to draw up a work contract (the previous scheme was restricted to 8 hours and the service-voucher was regarded as replacing the work contract).
- Wage norms are imposed. They are the minimum base and the SMIC (guaranteed minimum wage - FF 37.72 gross hourly wage), plus 10% holiday pay for the employee.

In addition, a collective agreement for domestic employees introduced, with effect from 1 April 1996, a 0.15% employers contribution for vocational training. This contribution will serve to establish a training fund. Details concerning the use of the fund still have to be determined by the parties concerned. This contribution is part of government policy regarding development of services, the aims of which are quality of employment, quality of service and professionalisation.

- Social rights are conferred. In addition to social security benefits, employees are also covered by the collective agreement for domestic employees.

## 2. The results

The latest assessment of the job-service voucher scheme is as follows:

- Post offices and banks have received 431 000 requests for membership.
- Almost 2 942 000 vouchers have been received and some 523 000 books of vouchers have been sent out since December 1994.
- **The equivalent of 40 000 full-time jobs** have been created. On average, the work contracts in question are for 5 hours work per week, 87% of which are domestic jobs (mid-1995 figures). The gross budgetary cost of jobs created by the scheme has been estimated at FF 5 billion.
- 60% of the vouchers were used by new employers and the remaining 40% legalised undeclared employment, and in the same proportion traditional arrangements for domestic jobs were transferred to a simplified administrative form.
- 90% of employers are single-income households of which 2/3 are new users of the scheme.
- Finally, the average wage paid by employers of domestic staff is FF 41 (figures for first half of 1995).

## *II.2.3 Objective “Social Management of Unemployment”*

### **II.2.3.1 Local Employment Agency vouchers in Belgium -**

**Georges CARLENS -**

**Ministry of labour, Deputy Head of Cabinet (Brussels, Belgium)**

The Local Employment Agency (LEA) voucher scheme was launched at the beginning of 1995 and has been introduced gradually.

Several factors led to its introduction:

- low rate of growth of employment, but in particular the high number of unskilled long-term unemployed in Belgium. The numerous employment incentives such as reduced labour costs, sharing out of the available work and the integration of target groups were unsuccessful in providing work for all jobseekers in the short term. The Local Employment Agencies, whose aim is to integrate the long-term unemployed, therefore complement normal employment promotion measures;
- unsatisfied needs in the field of local services for natural and legal persons;
- the desire to combat undeclared employment by directing it towards the legal market.

#### **1- The scheme**

The aim of these agencies, which operate at communal level, is to put the unemployed into contact with private individuals and legal persons in order to carry out activities (housework, gardening, child minding) which are not part of normal employment circuits.

- It is a system which operates at communal level: the 589 Belgian communes have to set up a local employment agency (small communes may combine) in the form of a non-profit-making association, the management body of which comprises an equal number of municipal representatives and social partners (the three trade unions and the three employers' organisations).

The Board of this non-profit-making association is entrusted with the task of defining authorised activities at local level. There is also an official list of services which are not likely to generate competition with regular employment.

- Five categories of persons may take advantage of the local employment agencies: private individuals, local authorities (communes and public centres for social assistance), non-profit-making associations and other non-commercial associations, teaching establishments and, finally, businesses in the horticultural sector, which are an exception to the rule, the scheme not being open to commercial businesses.
- The activities offered are: for private individuals: housework, gardening, child minding, care of the elderly; local authorities: the work most often involves the upkeep and protection of the environment; non-profit-making associations: specific activities such as cultural or sporting events; schools: activities related to school; the horticultural sector: seasonal work, particularly the harvesting of fruit and vegetables.
- The target population of Local Employment Agencies: The aim is to integrate the long-term unemployed, i.e. jobseekers who have been receiving unemployment benefit for three years or more; people who receive such benefit even if they are no longer looking for work and, finally, those who earn the minimum wage.

Apart from the usual support measures given to the unemployed, training has not been given as a matter of course.

- However, almost 80% of these activities are in the field of home help, which requires practically no special training, and the number of potential service providers (almost 150 000 unemployed) makes it possible to select the most skilled jobseekers in relation to demand;

- finally, 20% of the value of the voucher in excess of ECU 3.8 (FB 150) may also go towards financing training measures.

- **Services:** The employer may employ one or more people and receives an authorisation from the Agency for one year. The unemployed person, however, is not allowed to work more than 45 hours per month but retains his/her status as a jobseeker.

The services are paid for in full by Local Employment Agency vouchers at a rate of between ECU 5 and 7.5 per hour (FB 200-300). The employer is offered a tax reduction. The maximum amount of expenditure is ECU 2 000 per year (FB 80 000) and the reduction is calculated on the basis of the average rate of taxation, at a minimum of 30% and a maximum of 40%.

The difference between the value of the voucher paid by the employer (ECU 5 - 7.5) and that received by the unemployed person (ECU 3.8, which is added to his/her unemployment benefit and enables him/her to remain fully covered under the social protection scheme) is used to pay for the cost of insuring the worker and the Local Employment Agency's administrative costs. The remainder is assimilated to a social contribution.

## **2- Results**

At the beginning of May 1996, 555 of the 589 communes had decided to create a Local Employment Agency. Altogether, 464 Local Employment Agencies are now in operation.

According to a survey carried out in January 1996, 42 129 people had made use of LEA vouchers, providing work for 24 224 long-term unemployed since the system was introduced.

For the month of January 1996, an average of 14 877 unemployed people were working almost 25 hours.

A total of 5 250 000 vouchers have been issued, of which 80% have been for private individuals, mainly for housework.

A qualitative and quantitative assessment is under way with a view to improving the scheme.

II.2.3.2 The project in the Netherlands: market expansion in the cleaning industry - Marjolein PETERS,  
EIM Small Business Research and Consultancy, (Zoetermeer, Netherland)

Since a few years, the government has been studying and discussing the possibilities to create employment in personal services. This new reflection was, among others, stimulated by the White Paper about Growth, Competitiveness and Employment.

In the Netherlands there are several local projects where long term unemployed people are put into personal service jobs. In addition, a system exists in the Health-care sector, which intends to restructure the supply of home care services. Patients that need caring for at home now are allotted a sum of money which they spend with any institution they like. Previously, such care was provided by the traditional institutions in this field.

Together with some other measures an experimental national scheme, aimed to stimulate the demand for personal services, has been introduced on 1st June 1996. However, it is not a voucher system.

This device is the result of the conclusions of several studies :

- there is a very high latent demand for domestic work
- almost 250 000 households which were until now employing people in the black or grey sector would be willing to legalise personal services (provided there is some sort of system that compensates for the higher cost).
- People would be interested in a system like the service vouchers for child care, domestic services, window cleaning and minor maintenance work in and around houses.

The Ministry of Social Affairs and Employment chose the cleaning industry for two reasons:

- the high demand of households for such services.
- the employers and the social partners in this sector who were looking for ways to increase the number of jobs in this sector. (Nowadays, cleaning firms are providing services for firms and companies but not so much for households because they find it too expensive to enter into this market).

**1-The experimental project in the cleaning industry:**

- Three cities have been chosen ( Rotterdam, Eindhoven, Arnhem) and the experimental project will be developed in co-operation with regional employment services, local social services and social partners (especially the employers federation in the cleaning industry).

The consumers concerned are only residents but the companies can come from any other city.

- The main aims of this project are:
  - to expand the market of cleaning firms by creating a market amongst private households
  - and secondly to create job opportunities for long-term unemployed.
- Design of the project:

It is called an experimental project at least for the first six months and only in the cleaning industry for the moment. What is typical and different about this project in the Netherlands is that the idea was to subsidise activities or services for private households.

However, instead of giving vouchers or money to the households, it has been decided to subsidise firms who are going to supply households with services. It is a wage cost subsidy enabling the companies to offer their services at a price comparable to the black market prices which in the Netherlands are about 7.5 ECU per hour. They are giving the same services to companies but they have to charge them the normal rate.

At the same time the cleaning companies have to stimulate a demand for these services. They have to go out to the households and make sure that they are hired. They have to provide a high quality service and ensure that people can trust the person who is going to clean their house.

The fact people hesitate to employ a company also came out of the study. There are going to be a number of initiatives in this branch of the industry to ensure that it is becoming more popular and more attractive to hire a company as a household. This also means that the role of the Employers Federation in this sector is going to be important and that they are going to inform companies about this new subsidy.

However, employers only receive a subsidy:

- if they provide these services to households and
- if they hire a long-term unemployed for at least one year and at least 32 hours per week (it has to be an official contract).

These employees receive wages no higher than 120 % of the national minimum wage level. This also means that the employers who join this project are going to receive two other wages cost subsidies. One is for hiring the long-term unemployed. Any employer will receive a subsidy for employing people at a low wage level which is another measure to reintegrate people with low skills.

Employers are qualified for the maximum amount of subsidy if they are on production of consumer contracts for 32 hours per week.

## **2- The evaluation**

As it is a new project, there is no evaluation of results but a monitoring and evaluation system with this project will be carried out very intensively.

One of the major questions is whether there is a permanent demand for this type of service or if it will be still necessary to subsidise it.

The second question is to know if long term unemployed are best re-integrated into the labour market by giving the subsidy to employers and by making very harsh conditions for them in this respect.

The final question concerns the whole organisation and this will be one of the more interesting points in the evaluation. Introducing a service voucher is seen as leading to an increase of administrative complications and costs in the Netherlands. The question is to know whether working through companies and stimulating the demand amongst households through these companies is more efficient.

## II.3 National projects and proposals for improvement of the existing schemes

### II.3.1 Job-service invoices in France -

Mahrez OKBA,

Department of Labour - employment service (Paris, France)

Coinciding with the implementation of the law of 29 January 1996, a whole series of initiatives regarding the introduction of service invoices have been announced as a follow-up to the BAILLY report presented to the Economic and Social Council on 11 January 1996 (the vouchers are similar to luncheon vouchers).

The job-service invoices is a means of payment, issued by a specialist organization (the issuer). It allows an individual (the user) to pay for a service provided by an authorized service provider (an association or company), with financial assistance from a local authority ("contributing third party").

The law of 29 January 1996 stipulates that assistance from joint consultative committees (*comités d'entreprise*), or in the absence of such a committee, assistance from companies themselves, will be exempt from both social security charges and tax on salaries up to a maximum of ECU 155 per month (FF 1 000). It qualifies for the "family help" tax reduction if it is included in the beneficiary's taxable income. These vouchers thus put effective purchasing power behind demand for such services.

Job-service invoices will be issued by organizations which must be authorized by interministerial order. Specifications setting out physical and security-related characteristics will be annexed to the order (appropriate accounting arrangements, specific bank or post office account, certain financial guarantees, etc.).

A job-service invoice board will be responsible for supervising the issuers in accordance with the specifications set out.

The job-service invoices must satisfy common technical standards regardless of the issuer. The vouchers include a logo (employment-service voucher) and a standard background colour (orange). Apart from the logo, each issuer may customize the remaining part of the voucher as he wishes.

Finally, invoices are at "face" value: The voucher's value will be agreed by contract between the issuer (the administering financial institution) and the payer (*comité d'entreprise* or company).

How the scheme operates: The invoice is issued by an authorized issuer to a payer. The payer distributes the invoices against all or part of the nominal invoice value as he wishes. The beneficiaries hand over the invoices to the authorized service providers in return for their services. The service providers may then redeem the invoices at authorized issuers within a minimum time limit of 21 days.

Once the trial being carried out in the thirteen participating *départements* has ended (probably the end of September 1996), the scheme will be evaluated. The objective of this is to put forward other changes prior to the implementation of the scheme nationwide.





### *II.3.2 The Proximus Experiment: Mass Stimulation Of Demand To Boost The Emergence Of The Local Services Sector in France -*

*Michèle DEBONNEUIL, Debonneuil,*

*Director of Economic and Financial Studies Service, Indosuez Bank (Paris, France)*

The "local services" sector is the only source of new jobs which has real potential. Under the auspices of the CNPF (French National Employers' Council), it has made a decisive breakthrough on the supply side with the creation of an association of companies within the sector. The association is there to ensure that supply is of a nature to guarantee the sector the long-term viability of which it is capable.

However, lack of liquidity on the demand side is still a stumbling block to the further development of the local services sector. For the moment, then, until it has become fully established, it needs to be stimulated artificially. The purpose of this note is to present a mechanism through which this can be achieved.

This mechanism has the further advantage of being financially neutral. Far from putting an additional burden on the State, it operates by reimbursing employees part of their unemployment insurance contributions, on condition that they are used to purchase local services. Obviously, such reimbursement is dependent on approval by Unedic, i.e. the social partners, trade unions and employers. The agreement of the two trade unions so far consulted (CFDT and CFTC, which represent the majority of the unions) has been obtained.

As from 1 January 1997, this project will be run on an experimental basis in two *départements* in the Paris area and probably in one provincial *département*. A dozen or so companies, which are or will be members of the new association of firms offering services to private households, will participate. All the companies involved will be of proven quality (Darty, subsidiaries of the CDC (Caisse des Dépôts et Consignations) and of Lyonnaise des Eaux, etc.).

Moving on to the mechanism proper, a concrete description of how the experiment will operate will be of far more value than a long treatise.

A dozen companies will offer a range of services in the *départements* concerned, for which they will need to take on  $x$  job-seekers. Prior to recruitment, these new employees will have been drawing Unedic unemployment benefit amounting to  $X$  francs per month<sup>18</sup>. As it will no longer be responsible for paying unemployment benefit to these persons, Unedic will be in a position to reimburse the sum  $X$  to the  $n$  households in the *département* involved in the experiment<sup>19</sup>. To this end, each household will receive a monthly payment of  $X/n$  ECU into a special "services account"<sup>20</sup>, which it will only be possible to withdraw in order to purchase services.

As for any other activity, each company must price the proposed services on the basis of cost, particularly wage costs. Pay will not necessarily correspond to the unemployment benefit received by

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<sup>18</sup>  $X$  is the total of the unemployment benefit  $X_i$  paid to the  $x$  new employees prior to their recruitment. No attempt is made here to go into the complexities of the mechanism created by the fact that the benefit paid by Unedic is on a sliding scale and is, after a certain time, superseded by the occupational integration minimum income paid by the State.

<sup>19</sup> Those concerned may be either employees or the whole of the working population, given that after a certain time the benefit paid to the unemployed becomes a welfare benefit (occupational integration minimum income) financed by the taxpayer. There would be little point in entering into any debate on this question at this stage.

<sup>20</sup> For the trial period, the "services account" will be managed by SOFINCO (financial institution).

the person concerned prior to recruitment, either because the benefit was lower than the minimum wage, or because the employer considers it necessary to pay more than the minimum wage, e.g. to ensure that the job-seeker accepts the post offered. Either way, only the amount equivalent to the unemployment benefit X is payable from the services account (which will have been credited with the same amount, as stated above). The remaining costs and profit are payable from the consumer's own pocket. Initial calculations based on Unedic information suggest that the proportion of the cost redeemable in this way will range from 50% to 100% depending on the service<sup>21</sup>.

This mechanism can be implemented until the jobs created have absorbed all those seeking work, apart from the long-term unemployed (the reintegration of whom would probably require specific arrangements which are no doubt already in existence and for whom the applicable benefit – the occupational integration minimum income – is too far removed from the minimum growth wage to allow the affordability criterion to be met) and those in "frictional" unemployment, who are essential for the labour market to function normally. As a result of the process, jobs would be found for a third of job-seekers, particularly those who would not have found work without this kind of help. Thus it will be possible to refund around a third of total unemployment insurance contributions to employees, i.e. the total of their contributions, while the other two-thirds continue to finance those in long-term and frictional unemployment.

The result should be increased growth, particularly in terms of jobs. The trend towards more consumption of local services set in motion through this mechanism should gather momentum as consumer awareness increases. Having seen the benefits available to them at low cost, consumers will realise that it is time to stop doing certain jobs for themselves when the same service is readily available on the market.

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<sup>21</sup> The range of services is segmented, certain products targeting the less well-off population groups being 100% redeemable (these groups will also be able to claim more on their services account than will the more affluent groups), and other, profit-making, products targeting the better-off groups.

### *II.3.3 New jobs in private households in Germany -*

*Outline plan devised by Dr. habil. Maria Böhmer, Member of the German Bundestag, presented by Claudia HASSENBACH (academic assistant), (Bonn, Germany)*

#### 1. Current situation

Only 36.000 out of a total of some 36 million households in Germany employ domestic staff subject to social-insurance contributions; this represents 1‰ of all households. The great majority of these domestic employees are either employed on a small scale (732 000), i.e. their earnings are below the threshold at which cover under health-, pension-, nursing-care and unemployment-insurance schemes is provided, or they work illicitly. (Most women in small-scale employment are nevertheless automatically covered by their husbands' health-insurance scheme without having to pay any contributions). There are no precise figures for the number of people working illicitly in households, but they are almost certainly very high.

In 1992 the total number of people engaged in small-scale employment in Germany was approximately 4.5 million. Those in employment but not subject to social-insurance contributions accounted for 9% of the total labour force. The scale of this type of employment, which was originally intended as a special arrangement introduced by the government in order to allow flexibility in responding to temporary peaks in demand for labour and cyclical or seasonal fluctuations in the volume of work, has now reached the critical point, and this is to the detriment of the social-insurance schemes and those paying contributions.

A breakdown of sectors of economic activity in the old federal states (i.e. what was formerly West Germany) reveals that private households are the main employers of those in small-scale employment, accounting for 28%. In the period from 1987 to 1992, the increase in the number of persons in employment not subject to social-insurance contributions who were working in private households was, at 28%, around twice the level for this type of employment as a whole (approx. 14.5%). Over 90% of all those working in private households are women.

Almost all employment in private households is therefore in a "grey area" covering illicit work and small-scale employment. Because of the principle of the inviolability of the home which is enshrined in the German Constitution, however, the means available to prevent abuse of employment law, such as the requirement that workers be in possession of a social-security card, are ineffective as regards employment in private households.

Domestic employment suffers from a poor image resulting from a combination of unfavourable employment conditions on the one hand and being decried as "working as a maid" on the other. Given that those working illicitly or in small-scale employment can undercut trained domestic employees as regards rates of pay, the latter have great difficulty in finding a job in which social-insurance contributions are payable. This makes the occupation unattractive to newcomers.

In view of the high level of unemployment affecting, among others, low-skilled workers and women wishing to rejoin the labour market after having started/brought up a family, jobs in private households, with normal conditions of employment, is an area which should be developed further.

At the same time, considerable demand for domestic services can, under appropriate conditions, be expected in Germany. In the field of services, Germany is still lagging behind other western industrialised countries.

#### 2. The need for action

Any attempt to increase the level of employment in private households and make it more attractive must take account of the special nature of this type of employment.

- The structure of employment in this area is unusual in that most domestic employees work only a small number of hours. Only if these hours are combined and job-pools created (in service centres, for example) will it be possible to bring about "normal" part-time and full-time employment (i.e. subject to social-insurance contributions) to any significant degree.
- It must be assumed that an extremely high proportion of illicit work and small-scale employment remains unaffected by measures to prevent abuse of statutory provisions because of the principle of inviolability of the home which is enshrined in the Constitution. Legal employment in private households, especially that in which social-insurance contributions are paid, will only gain wide acceptance if it is not substantially more expensive than other forms of employment.
- The obligations on employers, such as drawing up salary statements, registration with the social-insurance institutions and other insurance cover, often make too many demands on private individuals employing domestic staff. Older people in particular have problems. Procedures are needed which are as straightforward as possible.
- The poor image of domestic employment must be overcome. This would firstly improve the standing of domestic employees, and secondly would make it easier for private individuals to take on such staff. The many untrained workers could be given training opportunities. This would also result in the quality of work in private households being maintained and improved.
- Jobs in private households subject to social-insurance contributions can therefore only be created to any significant extent by means of tax incentives and unbureaucratic procedures. A new approach is therefore needed.

If attempts to turn private households into normal places of work are successful, it may be assumed that the increasing number of old people who are forced to rely on outside help, the increase in the number of households in which both partners work, and the large number of single parents would lead, under appropriate conditions, to greater demand for domestic staff.

The Institute for the German Economy (*Institut der deutschen Wirtschaft*) in Cologne believes that under favourable conditions, some 870 000 full- and part-time jobs in private households could be created. This would provide opportunities for low-skilled workers, who could be taught or trained to do this work.

### 3. Proposed solutions

In order to create jobs with social-insurance cover, the following "three-pronged" proposal should therefore be implemented:

1. Arrangements should be made which allow costs incurred in employing domestic staff to be fully tax-deductible. This must be made subject to social-insurance contributions being paid for the person employed.
2. The establishment of "service centres" must be promoted throughout Germany. This could enable "mini-jobs" with several employers to be combined to constitute full- or part-time jobs with social-insurance cover. The employees would enjoy social-security cover and the employers could benefit from tax breaks.
3. It should be examined whether the French service-voucher scheme could be transferred to Germany to provide a simplified procedure for furnishing proof of having worked.

#### 4. Progress in implementing the proposals

In its coalition agreement for the 13th legislative period, the German Government undertook to make employment in private households more a part of the normal jobs market and to provide for more tax breaks in this connection.

The German Government and the parties of the governing coalition (CDU/CSU and FDP) have now set out these aims in detail:

##### a. The German Government's action programme for investment and jobs of 31 January 1996

"In private households, there is a great need, which will increase in the future, for family- and household-related services. The potential for creating new jobs with social-insurance cover must be exploited. To this end, the Government will provide for opportunities to improve conditions and ease the burden of administrative requirements on private households as employers (e.g. by simplifying procedures for the payment of social-insurance contributions). Tax breaks will also be offered to increase the number of people in employment in private households. Detailed proposals will be submitted by the middle of 1996."

##### b. Programme for more growth and employment drawn up the CDU/CSU and FDP grouping in the Bundestag on 25 April 1996

"The tax arrangements as regards employment in private households will be improved. The scope of the tax allowance for special expenses will be broadened by doing away with the previously applicable conditions for their deductibility (i.e. two children, one child under ten years of age with a single parent, or a person in the household requiring constant attendance). Arrangements for the deduction of wage-tax and social-insurance contributions will be simplified. The previous ceiling of DM 12 000 will be doubled to DM 24 000."

These aims are currently being implemented under the 1997 Annual Tax Act (*Jahressteuergesetz 1997*). The introduction of a simplified procedure, based on the French service-voucher scheme, for furnishing proof of having worked is also being considered.

##### c. "Service centre" pilot project

On 1 April, 1996, the first "service centre" pilot project promoted by the Federal Ministry of Labour and Social Affairs was launched in Frankenthal (Rhineland-Palatinate). Funds totalling around DM 1 million are being made available for three years to provide start-up financing. The project is being run jointly by the German Housewives' Association (*Deutscher Hausfrauenbund*) and the Frankenthal Youth Workshop (*Jugendwerkstatt Frankenthal*). In addition to a manager, managing clerk and office worker, between five and ten people work in the centre for periods of between 18 and 38.5 hours a week. As well as offering help with matters concerning housekeeping and providing domestic staff, the range of services offered by the centre includes counselling and advice for families.

The general idea is that private households should be able to approach the centre with enquiries about domestic services. The centre vouches for the quality and reliability of the people it places in households. At the same time, private employers are relieved of the burden of having to deal with formalities such as salary statements, registration with social-insurance institutions, and accident and liability insurance. Replacement staff are provided on request for periods during which the employee is on holiday or sick-leave.

For the domestic employees themselves, the advantage of the service centre is that they have lasting employment with social-insurance cover. They enter into employment contracts providing for wages which they can live on and which allow them to make some provision for their old age. Women can thus build up their own social-security entitlements. The service centre ensures that statutory rights, such as entitlement to continued payment of wages during sick-leave or holidays, are in fact respected.

The employees are not penalised for any periods during which they have no work or any time spent travelling.

In addition to creating jobs, another employment-policy aim is being pursued, namely to reintegrate into the jobs market women who left it to start/bring up a family, and to place women in employment who have been unemployed for a long time or are difficult to place in jobs. Alongside placement in jobs, training opportunities are also offered: during periods when they are not on hire to private households, women can acquire additional qualifications on modular training courses. In addition, flexibility in working hours can be arranged with the employees so that they can also see to the needs of their families.

This scheme is in the nature of a pilot project. The experience gained is to be used to set up a network of service centres throughout Germany. The scheme also gives women in particular the chance to set up in business on their own.

*II.3.4 The creation of jobs in the personal services sector -  
Christophe SALMON -  
National Council of French Employers, CNPF (Paris, France)*

**1. Main obstacles to the development of personal services**

Following a report adopted by the CNPF in April 1994, the services liaison committee (an internal body of the CNPF which coordinates 40 federations in the services industry) identified the main obstacles to the development of jobs in personal services in France as:

- the attitude that unemployment should be dealt with by the social security system;
- the very wide range of demands made by households and overcompartmentalization in the supply of services.

Nowadays the requirements of families are based not on a specific demand for services (cleaning, child minding or help for the elderly, for example) but on the quest for a better quality of family life. Thus a response must be made to a set of concerns which must be addressed as a whole.

While the problem of unlocking demand remains the main obstacle to the development of these services, the difficulties related to more subjective factors, such as the behaviour of households, require the attention of the public authorities (guaranteeing the standard of service provided and removing the psychological reluctance of households to employ staff from outside their homes).

Market research done by Démoscopie and published at the end of May 1996 made it possible to analyse household demand for these new services in France:

- 50% of households who have requirements find a way of satisfying them.
- Over half of this 50% are dissatisfied with the supply of services but have no alternative.
- 25% of households have requirements which they cannot find a way of satisfying because of qualitative criteria such as qualifications.

What households tend to want is a guaranteed standard of service and the majority of them do not want any personal relationship with the service provider.

**2. Proposals by the CNPF**

The development of services to private individuals is not only part of the move towards a cohesive economy and the fostering of social relations. For the CNPF, it is a matter of creating a new economic sector like that which has been achieved with services to firms; twenty years ago these were looked on as a "sub-area" of activities (for example, collective catering and cleaning services).

- With regard to supply and demand, the 1994 report proposes unlocking demand by households rather than subsidizing supply by operators in the voluntary and non-profit sector.
- The services committee also proposed that "multi-services vouchers" modelled on the restaurant meal voucher system be introduced. This proposal was included in the law of January 1996 of which the implementing decrees have not yet been published.
- Another course of action to remove the obstacles to the development of personal services, and one which will probably be looked at in the next few years, would involve reducing the VAT rate.



### 3. Outlook

The trade association for personal services firms was set up in June 1995; it brings together the main service providers (including Lyonnaise des eaux, Générale des eaux, Accor and some insurance companies and supplementary pension funds) which work on what are called business plans.

The grounds for setting up the trade association are as follows:

- the fact that the market has so far mainly been the preserve of the voluntary and non-profit sector;
- the wish to have an effective representative in dealings with officialdom;
- the determination of businesses to overcome the cultural obstacles to the consumption of such services by households (anxiety about having their privacy intruded on, and the need for an organization to guarantee the standard of service).

The aim is to develop personal services substantially over the next three years by:

- conferring a seal of approval on the supply of services by introducing (in addition to the approval procedure brought in by the 1996 law) procedures for the certification and recognition of the professional qualifications of businesses, to be monitored by an independent body,
- drafting a system of references for occupations and training in conjunction with the social partners involved. If the market develops as planned, a special collective agreement covering new services could be drawn up.

The job-service invoice scheme which is going to be introduced in France is a fundamental aspect of the task of reactivating social dialogue by highlighting the rôle of the works councils and by providing more material for negotiations over pay.

It is therefore vital that the CNPD should give an impetus to the development of the scheme by raising awareness among works councils and Human Resources Directorates in the large and medium-sized companies.

## II.4 Conclusions and synthesis - Marjorie JOUEN, Forward Studies Unit, European Commission

This seminar on consumption subsidies and service vouchers was part of the follow up to the Commission Communication on a European strategy for encouraging local development and employment initiatives<sup>22</sup>.

The main aim of the day was to pool detailed information on existing or planned measures in EU Member States and to pinpoint the conditions needed to make such policies fully effective. Although the meeting was very short, there were very constructive exchanges of experience and discussions that shed further light on the financial engineering that can be used to create jobs in local services.

By way of summary, four lessons can be drawn from the papers and discussions:

- **The service voucher is a potentially sophisticated financial instrument but is under-exploited because adequate financial engineering is lacking.** The service voucher could be backed up by systems ensuring the quality of jobs and services (training, accreditation, etc.). Public financial assistance could also be modulated to meet the concern for equity (tax exemptions, progressive co-financing based on income or degree of disability, etc.).

In most cases, however, little has been made of this potential: back-up systems are very rudimentary and the service vouchers currently in circulation are no more than simple exchange vouchers. This can be seen, however, as a temporary situation which is likely to change, bearing in mind that such systems have been launched only recently in a number of countries. Were this not to be the case, we have to be aware of the risk of malfunction, i.e. the service voucher would be seen as further evidence of increased bureaucracy.

- **The service voucher (or other forms of consumption subsidy) seems at present to be the instrument most suited to ensuring the development of new markets and durable jobs,** as it is targeted directly at potential consumers. By targeting sectors in which the supply is low and/or artificially limited (public sector monopoly) and demand is yet to become focused (new needs connected with demographic, family and occupational changes) it is possible to reduce windfall effects (jobs created in any case), substitution effects (replacement of one type of recruitment by another) and competition effects (interference with the existing supply).

This analysis is borne out by the fact that many systems, whose main objective is to improve the quality of life and diversify households' choices, have met with rapid success among consumers and have recorded "spontaneous" net job creation in respect of 20 to 50% of the supply.

- **The service voucher is no more than a financial instrument and cannot claim to replace an employment policy.** There is a real risk that a second labour market will be created and local services permanently downgraded if the system is not backed up by a training and qualification policy for unemployed people and a guarantee of the quality of working conditions and the services provided (see, for instance, the current problems in the USA in the domestic work sector). For these reasons, many misgivings about the Belgian and British schemes were voiced during the discussions.

- **Service vouchers allow the public authorities to play a new social and economic role.** The conditions under which schemes are being implemented show that new supervisory methods are becoming more widespread. Most Member States have chosen to carry out one- or two-year trials in a

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<sup>22</sup> COM (95) 273 (OJ of 12.10.95 C/265/03).

limited area before placing schemes on a general footing. They have made provision for evaluations at an early stage (the Finnish and Danish systems are probably the most sophisticated).

In some cases the system is managed by public (national and local level) and private (participation by enterprises and consumers in financial and administrative management) partnerships.

The decision to launch these policies is more often the result of an attempt to stimulate and develop than to provide direct assistance.

Few Member States have, however, a clear vision of the issues connected with the "marketing" of domestic work and home help services. While the divide between what was supplied by the State and what came from the private sector remained more or less stable for 50 years, the boundary is becoming blurred and shifting, offering scope for the private sector and associations. The constant growth of expenditure on services compared with the relative stagnation of purchases of capital goods or foodstuffs is, moreover, attracting the private sector and making it more willing to start to diversify or redeploy activities. Possible arbitration by the public authorities to ensure that the most disadvantaged have access to high quality services is not at present very explicit.

In the light of recent changes affecting our social organisations and our welfare States, it is surely premature to claim that we can answer all the questions.

This seminar highlighted what can be gained from an informal European meeting of researchers and those responsible for social policy. But we have to acknowledge that in one day many topics were skimmed over. This initial contact needs to be continued and consolidated at future seminars.

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