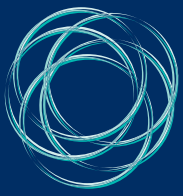

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HOW DO WE PAY?

Funding public services in Europe

PETER ROBINSON

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How do we pay?

The funding of public services in the EU

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Introduction

The reform of public services is high on the political agenda in every EU country. Political debate and electoral outcomes are heavily influenced by questions relating to the responsiveness of public services to the needs of users, the role of the private sector in providing services and how fairly distributed the benefits of those services are. Central to these debates is the issue of the ***funding*** of the public services, its adequacy, who bears the costs and whether new forms of funding can be found.

This pamphlet is a contribution to that debate. It focuses on the question of how we pay for public services in the EU and specifically the balance to be struck between collective funding through ***taxation*** and individual funding through the contribution made by ***user charges***.

The aim of the pamphlet is to bring together some basic information about the charges that those using particular public services pay across a number of services in some EU countries. It is not meant to be an exhaustive survey of the incidence of user charges in the EU. The information presented is designed to help illustrate the issues that need to be considered when assessing the role that could be played by user charges. Most importantly it tries to apply one key principle in deciding when charges might be used, namely that their use should help advance the attainment of key public policy outcomes.

A key word of warning is in order. Comparative public policy analysis can be done well and can be done badly. There are two key constraints to bear in mind. Firstly, it is a hard task to find comparable data across a range of countries that really allows one to compare like with like. Even with the activities of agencies such as the OECD, a great deal of national data is not directly comparable, at least not without appropriate health warnings. Secondly, in order to understand how a public service is configured in a particular country you need to understand something of the history of how that service evolved. Without that context it is easy to draw false conclusions, especially about the applicability of one country's way of doing things in another country.

The pamphlet discusses the role of user charging in five key public services:

- Transport and specifically the use of charges for road use
- Higher education and the issue of tuition fees
- Health care and the use of fees for particular services
- User charges for long-term care services for the elderly
- Childcare and the relative contributions of parents and the state.

In all these public services heated debates are taking place in one or more countries of the European Union. In the UK at the beginning of 2004, the issue of tuition fees in higher education in England was at the top of the political agenda, with the Prime Minister having to put his authority on the line. The issue was hardly less controversial in other countries such as Germany. Finding the right balance between the role of the state and of the individual in funding care for pre-school children and for the elderly is a perennial issue in many countries and charging for health care is a controversial topic in some. The issue of whether and how to charge people for their use of road space to deal with congestion and the environmental costs of road traffic will be one of the most difficult of the early 21st century for policy makers to deal with.

A crisis in the funding of public services?

At the back of the minds of many people who are interested in the role of user charges in key public services lies a concern that there is a crisis in the funding of public services as a result of two observed trends. On the one hand there appears to be a range of factors - people's rising expectations, technological advances, the rising costs of providing labour intensive services, the ageing of the population - that is putting upward pressure on public spending. On the other hand it is argued that the electorate is less willing to shoulder an apparently ever-higher tax burden to fund the public services. User charges are seen both as a means of raising additional funding for public services and potentially as one method of reducing or at least tempering the growth in the demand for particular services. Both of these arguments for user charges are addressed in the pamphlet.

This pamphlet is not the place to try and settle the complex empirical questions concerning the observed trends in relation to public spending and taxation. However, it is worth noting that in relation to health spending there does appear to be a clear trend for both public and private spending on health to rise as a proportion of GDP. Total health spending in OECD countries rose by about one percentage point of GDP between 1990 and 2001, equally divided between public and private spending (OECD 2003a). On the other hand there does *not* appear to be a trend for public and private spending on education to rise as a proportion of GDP (OECD 2003b). This shows the importance of looking at the trends in specific sectors rather than just looking at headline totals of public spending, though these headline totals would not back the assertion that public spending totals are rising everywhere.

It is important, however, to emphasise that taxation and user charges are indeed the only two options for funding public services - there is no third way. It is sometimes argued that the accessing by the public sector of private finance through such schemes as the Private Finance Initiative (PFI) and other forms of Public Private Partnerships (PPPs) offers another way of getting more resources into the public sector. However, in the end the entire cost of building a hospital or school using a mechanism such as the PFI will fall on the taxpayer as the private consortium that has built and is running the asset is paid through a stream of annual payments. If the PFI has been used

to build a bridge or a toll road then the user charges will generate the stream of payments used to fund the infrastructure. The PFI/PPPs do not in themselves provide one extra penny or cent of new resources for public services (IPPR, 2001).

There is another key issue to clarify from the outset. Both taxes and user charges for public services can be formally paid by either individuals or in some cases by third parties such as employers (or insurance companies). In a reasonably competitive labour market the actual incidence of employer contributions to social security schemes or to direct charges for health, childcare or other services will ultimately fall on employees in the form of lower gross wages. There is plenty of evidence that this prediction from any economics textbook is close to what happens in reality.

So whether it is user charges or taxation, in the end it is individuals who have to bear the cost of funding public services, one way or the other. This immediately leads to the first and politically perhaps the most important question, to which we will return at the end of the pamphlet: what is the more politically acceptable means for individuals to fund public services - through taxation or user charges?

The nature and scale of user charging

EU countries differ significantly in the way that they configure their public services, in part due to the way that their welfare states have evolved. In some countries, services such as public health care are largely funded out of general taxation and largely provided by public bodies too (the UK or Sweden). In other countries social insurance schemes provide most of the funding for health care and there may be a more mixed economy in terms of both private (and voluntary) and public providers. In all countries individuals may pay for some of their health care - or education, or childcare, or elder care - out of their own pockets or through private insurance schemes.

However, we need a tight definition of what we mean by user charges for public services. When a public service is commissioned on the part of individuals by a public body, that body can either fund those services through taxes (or social insurance) or through levying charges on individuals as they use those services. These user charges for publicly commissioned services are not the same as the payments that individuals can make directly themselves for private (health, education, childcare) services, funded out of their own pockets or through the use of private insurance. **Such payments for private services are not the same as user charges for public services.**

It is hard, however, to draw watertight distinctions. If individuals know that a publicly commissioned service involves some user charges, they could take out private insurance to cover this alongside the private insurance they may have to pay for non-publicly commissioned services. Such private insurance to meet some public health care costs is common in France, for example.

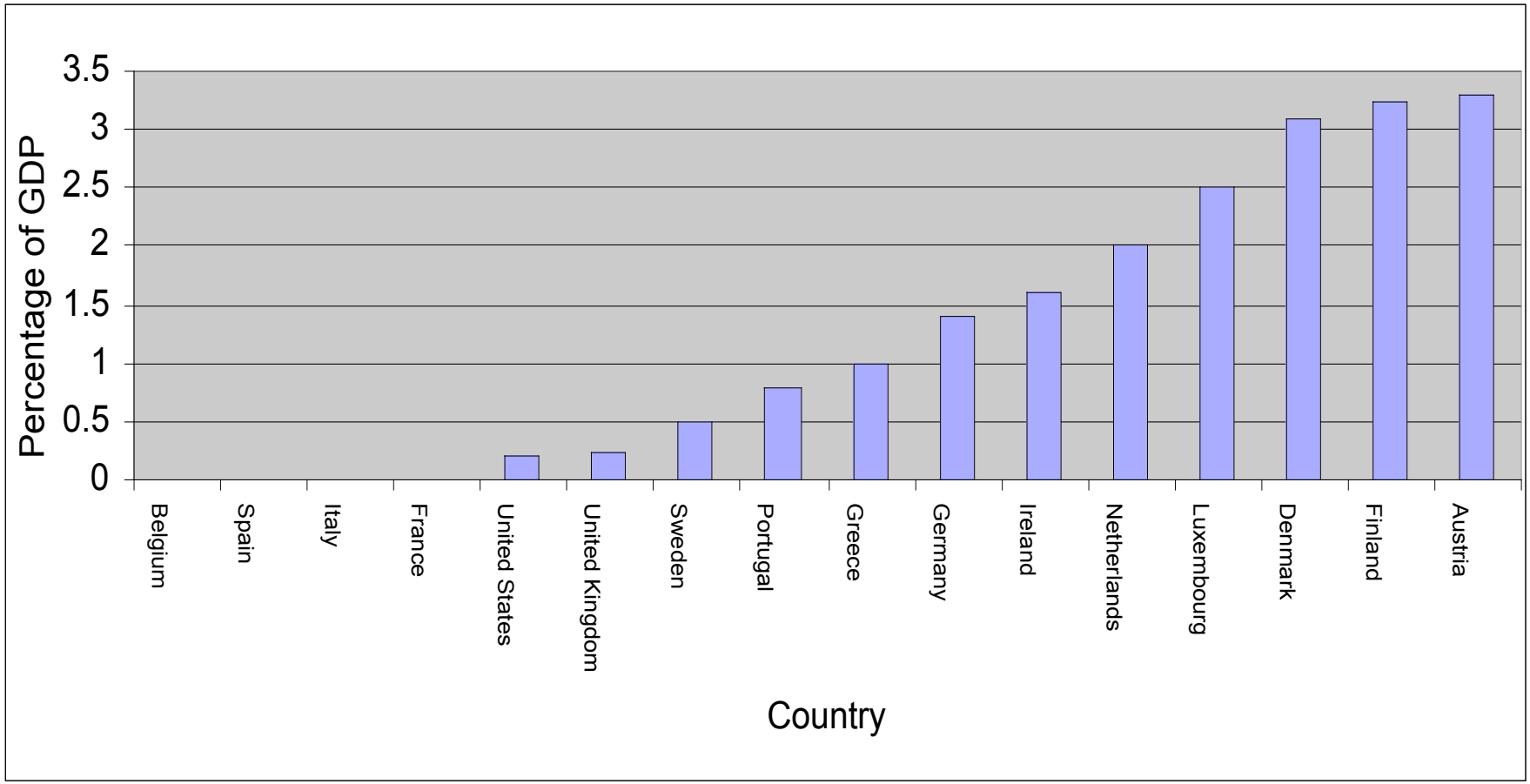
Moreover, the state can through regulation mandate that individuals take out private insurance to meet the user charges levied by private providers of services. In some services such as childcare there is a strong inter-play between the services and the subsidies that the state may provide and the regulatory framework that the state also constructs in relation to various forms of parental leave.

With all these complications in mind, it is clear that the scale of user charging does vary significantly across industrialised countries. Figure 1 is drawn from OECD data and shows government income drawn from charges, fees and sales as a proportion of GDP at the turn of the decade in the EU member states (and the US). This proportion apparently ranged from zero in Belgium, Spain, Italy and France to around three per cent of GDP in Denmark, Finland and Austria. Now the caveats raised earlier about exercising some caution about comparative data are worth re-emphasising at this point. It is highly unlikely that there are no user charges in France, for example - indeed later in the pamphlet we will quote evidence to the contrary. Rather these user charges do not appear to show up in the OECD's revenue statistics. Nevertheless there is enough variation in the data reported in Figure 1 to suggest that there are indeed significant differences across the EU in the scale of user charging. To understand why this might be the case we need to look at a range of specific sectors and the experience of different countries.

One further feature of Figure 1 is worth highlighting: the incidence of user charging shows no obvious political pattern, neither does it fit closely any stylised descriptions of different types of welfare states. Some Scandanavian countries appear to utilise user charges more than others. Some southern European countries appear to use user charges and some do not. **The Anglo-Saxons (with the US presented for comparison along with the UK) do not appear to be particularly heavy users of user charging, despite the possible free-market connotations of such a direct method of funding public services.**

However, Figure 1 does suggest that a greater utilisation of user charges could raise considerable additional funding for those countries that currently make little use of this method of raising resources. Indeed the potential revenue raising potential of user charges is one of the key arguments put forward for exploring their greater use.

Figure 1: Government income from charges, fees and sales in EU countries, % of GDP, 1999



Source: OECD Revenue Statistics 1960-2001.
Notes: all data is for 1999, except: 1998 – Finland, Greece, Portugal and Belgium; 1997 – Ireland, France, Luxembourg, Spain.

A key principle for user charging

It is, however, a key argument of this pamphlet that the raising of additional revenue should *not* be the primary justification for a greater use of user charging. By definition, if you charge for something people will, other things being equal, demand less of it. This is indeed the primary justification for charging to use road space, for example, as a means of curbing the rate of growth of traffic, as we discuss below. However, one would need to be careful to ensure that charges did not deter use of public services that we do want people to utilise. This would suggest some caution at least in relation to charges associated with health care, for example.

These two examples raise the most important issue to be aware of in relation to user charging. Charges should enable one to better secure the underlying economic, social and/or environmental objectives that the delivery of public services is ultimately geared towards. Public services exist to make people healthier, safer and more prosperous, to safeguard the environment, to enhance the wellbeing of individuals. User charges should help in delivering those objectives and should not get in the way of them.

This leads then to a key principle to bear in mind in considering whether and in what ways to utilise user charges:

"Where user charges are used in place of or as a supplement to taxation, they should help advance and should not prejudice the attainment of key public policy outcomes (economic, social or environmental), rather than just being about raising revenue"

With this key principle in mind we can now try and bring together some evidence and some analysis on the possible role of user charging across five key areas of public policy. We intend to start with two areas where the debate is particularly difficult because the public policy agenda involves charging people for services that previously were, for the most part, free at point of use, a shift that is always going to be politically difficult.

Congestion/road user charging

Stabilising the trends that are leading to global climate change with all the potentially damaging consequences that might flow, is one of the most difficult challenges facing the international community in the 21st century. At the same time all countries are facing a similar set of domestic challenges in terms of the impact of growing prosperity on traffic flows and the attendant congestion and the local environmental problems caused by traffic pollution.

These are especially difficult challenges because they involve trying to persuade people to accept potentially quite significant changes in their lifestyles. **In terms of the debates over user charging these environmental issues raise difficult challenges because they imply charging people for something that by and large they have never been charged for before, namely their marginal use of road space.**

Individuals have of course long paid taxes in relation to their purchase or ownership of vehicles and taxes on their use of fuel. These taxes have been modified to help secure environmental objectives, by levying lower taxes on more fuel efficient and less polluting vehicle fuels and technologies. However, given that road traffic tends to grow at least in line with and often faster than the growth in real incomes, these taxes have not been able to slow the growth in traffic sufficiently to prevent growing problems with congestion.

There have of course long been tolls associated with major highways in many countries or with the use of strategically important infrastructure such as bridges and tunnels. The revenue from such tolls has been an important source of revenue funding to service the costs of building new infrastructure. Such tolling is commonplace in Italy and France, though less so in the UK. The UK opened its first privately financed toll motorway (the M6 toll) at the end of 2003. However, the government appeared to go out of its way to signal that this was a one-off and did not set a precedent, which does not necessarily bode well for the future development of policy.

Some towns and cities in the UK - and most notably London - have begun to experiment with congestion charging in the form of access charges to a defined geographical area at particular times of the day. These charges are designed to reduce flows of traffic at peak times and to raise revenue for public transport, to which some travellers are likely to be displaced. The London experiment, launched in February 2003 with a £5 (c. EUR 7.40) charge has been eagerly watched in other cities. The UK has thus gone from being something of a laggard to a leader in this particular field. There are proposals for a congestion charge trial in Stockholm to start in spring 2005, with the public being allowed to decide in a referendum in autumn 2006 whether to make the scheme permanent. However, legislation would be required to permit this type of road charging in Sweden.

A time-based road-user charge - the eurovignette - has existed for some time in Germany, Belgium, the Netherlands, Luxembourg, Denmark and Sweden, with operators of lorries over twelve tonnes required to buy a paper disc, the

cost of which varies according to the lorries' emission levels. These discs are bought at certain prices for fixed periods and therefore do not charge users according to their marginal use of road space.

However, Germany in 2003 left this scheme to introduce a distance based charge for lorries over 12 tonnes on German motorways, using Global Pre-Positioning (GPS) technology. GPS technology allows a vehicle's location to be tracked on any road at any time of day. Motorists can then be charged varying rates depending on what roads they are using and if they are travelling at peak times or not. Travelling on a congested urban motorway or commuter route at rush hour would cost significantly more than using a rural road at a weekend. **The key difference with tolls or congestion charging is not just the technology but this potential for charging all road users in a way that maximises the chances of tackling congestion and other air pollution problems.**

The UK government has committed to a distance based charge for lorries to come into effect in 2006. In 2001 the Netherlands also committed to doing the same, with the charge being introduced gradually from 2004 and completely in 2006. There has been an ongoing debate on road user charging in the Netherlands for some considerable time, with some discussion about introducing a distance based charge for cars which would replace existing taxes on new cars and car ownership (Ubbels et al 2002). However, there was significant opposition from various sources and the election of a new centre-right government in 2003 lead to a significant cooling off in support for road user charges and the debate is now stalled in the Netherlands.

In the UK, the ippr has put forward proposals for introducing a nation-wide system of congestion charging by 2010 using GPS technology (Foley and Fergusson, 2003). The background to this was official forecasts suggesting that traffic would increase by an unsustainable 20-25 per cent by 2010 reflecting growth in real incomes and continuing falls in the real cost of fuel. The original intention was, as in the Netherlands, to offset the road user charges by reductions in other taxes on car ownership and fuel so that the overall package would be revenue neutral. However, modelling of the options suggested that a revenue neutral charge would actually increase traffic levels and carbon dioxide emissions by making the average costs of rural motoring even cheaper. The only way to achieve the desired environmental objectives would be through a revenue raising charge which if introduced in 2010 could reduce road traffic in England by nearly 7 per cent and reduce carbon dioxide emissions by just over 8 per cent. Such a charge could potentially raise an additional £16 billion (23.6 billion Euros) in 2010. However, to reiterate, the **reason for having a revenue-raising scheme was not primarily to raise revenue, but because this was the only way to achieve the environmental objectives which were the primary reason for introducing a comprehensive system of congestion charging.**

This proposal thus clearly illustrates the logic that should be followed when thinking about the rationale for user charges. Does it advance (or at least not

prejudice) the attainment of key public policy outcomes, in this case a reduction in road traffic congestion and in the emissions that are associated with global climate change? If the user charges also raise more revenue that could be used, for example, to fund better public transport, that is an important bonus, but in this case a secondary objective. However, signalling clearly how the revenue is to be used from user charges is one of the most important ways for securing political support for any scheme.

Although there are several important issues in relation to the technology and administration that need to be carefully thought through, the obvious barrier to such a nation-wide scheme of road user charging for all vehicles is fundamentally a political one. **Would the public accept such a scheme or would any political party mooting its introduction be effectively committing electoral suicide?** The introduction of the congestion charge in London could be regarded in an optimistic light, in that despite much scepticism and continued opposition particularly from sections of the business community that feel their businesses have suffered, the charge looks to have been broadly accepted. It would be ironic for the Labour government in the UK and governments elsewhere if the trail has been blaized by a left-wing Mayor who introduced the London charge when estranged from the Labour party.

Local councils in the UK have recently been given relatively wide powers to introduce their own schemes for congestion charging. This is of course likely to insulate national government from some of the political risks of such schemes. However, the introduction of a nationwide system of road user charging represents a whole different order of political challenge and it would be wise not to over-estimate the desire of policy makers to rise to that challenge. Certainly in the UK, the Labour government's travails over tuition charges in higher education might persuade them to be cautious on other fronts.

Tuition fees in higher education

Higher education is another public service where traditionally there have been few or no direct charges levied in many EU countries and therefore the introduction or extension of such charges raises significant political opposition. In the UK, in Germany and elsewhere it is one of the most contentious of political issues.

There are two starting points for this debate. When only a small proportion of each age cohort entered higher education, heavy subsidies to participation in the form of no or low tuition fees plus financial assistance to cover the living or maintenance costs of students and some of the indirect costs of learning (such as books and equipment) was not too difficult for governments to fund. However, the arrival of mass higher education with a high proportion of each cohort expected to participate, has lead all governments to question the funding of higher education. There is another point to emphasise, however. Fees have long been charged in many countries for individuals other than young people entering higher education full-time. Fees for part-timers and for mature students in higher education and for all types of students taking various education and training courses outside of higher education have long been a feature of the education and training system in the UK, for example.

There are in fact a number of both efficiency and equity arguments for introducing or extending fees for young people studying full-time in higher education. It is a well documented finding that on average graduates earn a very significant wage premium over non-graduates, suggesting that they, by whatever mechanism, should bear some of the costs of the education that leads to that privileged position in the labour market. Tuition fees emphasise that higher education is not a 'free good' and might lead individuals to make more careful choices in relation to their higher education. In some countries, particularly Germany as we will see below, fees are seen as a way of discouraging individuals from dragging out their experience in higher education by charging fees for time spent at university beyond the time usually taken to get a degree. Finally, there is widespread concern about inequity in access to higher education, with individuals from lower income or lower social class backgrounds significantly less likely to participate. However, the barriers to participation are erected early, with lack of progression through schooling a key reason why less advantaged students are less likely to make it into higher education. There is thus a powerful argument for redistribution lying behind the advocacy of tuition fees for young people in higher education - that it allows scarce public resources to be targeted elsewhere in the education and training system to tackle long-standing inequalities in access.

As with road user charging then, the core arguments for tuition fees relate to their contribution to securing important economic and social outcomes. They are not just - or even mainly - about raising more revenue.

At the end of the 1990s there was still wide variation in the use of tuition fees in higher education in key EU countries. Table 1 has been put together using information gathered through the International Comparative Higher Education Finance and Accessibility Project (see references). This project has tried to collate information on the costs facing students in different circumstances studying at 'public' institutions. This definition of a public university is not unproblematic. Higher education institutions have differing formal legal statuses in different countries, though a public institution can be defined as one that draws its funding primarily from the public purse, with the elements of public regulation that always follow such funding.

In France at the beginning of the 21st century the public universities charged only nominal fees, often referred to as enrolment or registration fees (along with a mandatory health insurance fee). In 1999-00 the tuition fees ranged from FFr. 824 (c. EUR 125) to FFr 3,700 (c. EUR 560) for an academic year according to individual circumstances (Table 1). There was, however, an increasingly charged debate that was gathering pace about the introduction of more substantial tuition fees echoing the debates taking place in other countries.

In Sweden, higher education remained free of charge for all students except for a small fee paid to the student union for social services. In addition a fairly generous system of student grants and loans remained in place to cover living or maintenance costs. This financial assistance may be reduced if the student's own income is substantial, but takes no account of the financial circumstances of the student's parents or spouse, thus enshrining the principle of student financial independence from their parents. One might think that the absence of tuition fees reflected a general antipathy to user charges in the public services in Sweden, but given the existence of user charges in health in Sweden this would be wrong. One hypothesis could be that attainment at the end of compulsory schooling in Sweden is much less unequal than in the UK or Germany for example, so that the equity argument for a redistribution of resources away from higher education is not so strong.

Table 1: Tuition fees in EU countries, 1999-2000, EUR

	Low Public[1]	**Moderate Public**[2]	**High Public**[3]
Germany[4]	0	0	0
France	125	560	560
Sweden	0	0	0
United Kingdom	0	740	1480

Source: Drawn from The International Comparative Higher Education Finance and Accessibility Project

Notes.

1) *Low Public*: Germany – living at home with parents; France – universities and state grand écoles, living at home with parents; Sweden – living at home with parents, low-cost programmes; United Kingdom – living at home or with parents, residual family income below £17,370.
2) *Moderate Public*: Germany – living in dormitory or shared apartment; France – universities and state grandes écoles, living in public university residence halls, meals at the university canteen and school restaurants; Sweden – living in dormitory, moderate of high-cost programmes; United Kingdom – living in dormitory or shared apartment, residual family income between £17,370 and £28,000.
3) *High Public*: Germany – living as an independent adult; France – this is a figure for Paris-based students living in public university residence halls, single room; meals at university restaurants; Sweden – living as 'independent adult' (married and/or single parent with children); United Kingdom – living in dormitory or shared apartment, residual family income above £28,000.
4) Figures for Germany are 1998-1999 and refer to Federally mandated fees only.

In Germany the introduction of tuition fees for university courses has been a divisive political issue for several years. At the end of the 1990s, tuition fees were not a widespread feature in German higher education. Parents had a legally-enforceable obligation to help fund their children's living and indirect costs on a means tested basis, in complete contrast to Sweden, emphasising just how diverse higher education systems remain in the EU.

In the 1998 federal election the winning Social Democrats promised to forbid tuition fees in Germany by a change in the federal Framework Act for Higher Education. They failed due to the opposition of several Laender. In the 2002 Framework Act the Federal Government stated its opposition to tuition fees for a first degree, a law that several Laender have challenged in the Federal Constitutional Court. Meanwhile a few of the Laender had introduced some form of limited tuition fees setting a precedent that seemed likely to be followed by others.

Baden-Wurttemberg introduced a tuition fee of DM 1,000 (c. EUR 510) per semester for students who had been on their courses for longer than the normal duration plus 4 semesters. This was clearly designed to improve efficiency in a higher education system notorious for students graduating late or not at all. In Bavaria and Saxony students with a first degree on a second study programme had to pay DM 1,000 (Bavaria) and DM 600 (Saxony) in tuition fees per semester. All students in Berlin, Lower Saxony and Brandenburg had to pay DM 100 (c. EUR 51) per semester as an enrolment fee to cover administrative costs.

This creeping introduction of tuition fees has not tempered some of the political opposition to the more widespread introduction of fees for all students, even at the modest levels mooted. There appear to be several reasons for this. The agenda is perceived to be driven primarily by 'cost-cutting' in the context of rising budget deficits. The wider economic and social arguments for tuition fees in higher education seem poorly articulated. When introducing any system of tuition fees it is important to get the repayment mechanism right not least to ensure that less advantaged students are protected, but in the Laender that have introduced them there has been no grant or loan scheme to accompany them. However, the essential features of an acceptable system - the possibility of paying fees after graduation, of being able to take out a loan to pay back only when earning above a certain level, and with exemptions for young people from low income families - were being discussed more thoroughly in 2003. However, perhaps the most important barrier was easy to discern. Having fought an election in 1998 promising to outlaw tuition fees, the German Social Democrats lack the political legitimacy to argue for their introduction.

This later point represents the closest parallel to the debate in the UK in 2003-04. Having won the 2001 election with a manifesto that promised not to introduce differential tuition fees (that is fees that vary by course and institution) the Labour Government was by 2003 trying to argue for that very course of action. Flat rate tuition fees (undifferentiated by course or institution) had been introduced in 1998-99 in England, but on a heavily means-tested basis with only about one-third eligible to pay the whole fee and a similar proportion exempt entirely. **A key mistake was to ask students or their parents to pay these fees up-front rather than deferring them until after graduation, again emphasising that the repayment mechanism has to be carefully thought through.** Although the UK is not a federal country, Scotland post-devolution went a different way in having a repayment mechanism that emphasises payment after graduation. The Labour government has in England belatedly recognised this as an important feature of any reform, while also recognising that it had made a mistake in simultaneously ending all means-tested grant support for disadvantaged students to help with their living expenses.

The debate in England (and Scotland) in 2003-04 was not in fact primarily a debate about principles. Most participants had accepted the economic and social arguments for asking graduates to make some contribution to the costs of their higher education. There was even some agreement on the key features of any repayment mechanism, emphasising that fees would be paid after graduation by those above a certain income level. There was much argument over detail, but a more fundamental argument remained over the principle of differential fees. Having said at the 2001 election that they would not be introduced, the Labour government was perceived to lack the political legitimacy to argue for their introduction.

The lesson for policy makers seems clear: people can spot inconsistency in their politicians from a long distance. You cannot promise one thing at an election, then change course and expect an easy

ride. The arguments for any form of user charges have to be consistently and carefully rehearsed over a reasonable time scale if political and public opinion is to be won over. The broader economic, social or environmental outcomes that user charges are meant to help secure have to be clearly articulated, rather than the emphasis being solely on budgetary concerns.

User charges in health care

In many countries the quality, accessibility and cost of health care is one of the most consistently important political issues. However, in possibly no other area of public policy is it more important to understand the way that a particular country's health care system has evolved if the lessons from that country are to be properly interpreted.

It is also the area of public policy where it is most important to be clear about the objectives for introducing or extending user charges. In health two objectives have been put forward:

- **to raise additional funding in the context of significant upwards pressures on health spending in most OECD countries**
- **to reduce the demand for services by deterring what is sometimes referred to as 'frivolous' use of health care resources.**

However, this second objective also raises one of the key potential problems with charging, that you may also deter people from seeking necessary health care. Given that it is those on the lowest incomes that may be deterred most, badly designed charges could deter the most disadvantaged, compromising the principle of equity of access to health care which is such a strongly held principle in many EU countries.

Table 2 outlines the main user charges that were in place in the public health care systems of the UK, the Netherlands, the Sweden, Denmark, France and Germany in 2001. It is clear both that charges are commonplace in EU countries, but also that there is considerable variation in those charges. Most interestingly it appears at first sight to be in the 'liberal' UK and the Netherlands where charges seem least commonplace, while 'social democratic' Sweden and Denmark have the most widespread charges. As with the overall picture for the use of user charges outlined in Figure 1, there is no obvious pattern that would reflect a clear ideological split.

User charges for different health care services in selected countries, 2001 unless specified

	General Practitioner	Specialist	Inpatient	Pharmaceutical	Exemptions or annual out of pocket maximum
Denmark	None for most people, although balance billing applies to about 2% of the population who choose to have direct access to general practitioners and specialist	Same as general practitioner services	None	Co-insurance rates vary depending on the individual annual out-of-pocket expenditure: 100% up to DKK 500 per year, 50% for DKK 501-1200 25% for DKK 1201-2800 and 15% over DKK 2800	For chronically ill patients who spend over DKK 3600 on drugs per year, the co-insurance rate is 0% Pensioners may apply to municipality for financial assistance. Exemption from drug co-payments for low income patients case by case
France	Co-insurance rate of 30% plus balance billing by GPs in Sector 2 (15% of GPs)	Co-insurance rate of 30% plus balance billing by specialists in Sector 2 (38% of specialists)	Co-insurance rate of 20% (up to 31 days in acute care) plus per diem (EUR 10.67)	Co-insurance rates of 0%, 35% and 65% depending on category of drugs. No reimbursement for products not included on national list	Majority of citizens have complementary VHI to cover co-payments. Since 2000, low income can receive state subsidy for complementary insurance Exemption from co-payments for all types of care for people with one of 31 defined serious illnesses and for disabled people. Exemption from co-payments for hospital care for stays over 31 days and/or costly procedures (over EUR 200) for everyone
Germany	None	None for physician care. 15% co-insurance rate for non-physician care	EUR 9 per day up to a maximum of 14 days per year. Ambulance transport EUR 13 per trip	Charges of EUR 4-5 depending on pack size plus 100% of cost above the reference price	Full or partial exemptions for children (under 18 years), unemployed people, those on income support and students receiving grants. Annual out of pocket limit equal to 2% of gross income (or less for those with dependants) for drug, transport and non-physician care co-payments. Chronically ill who have paid at least 1% of gross income for drug, transport and non-physician care co-payments are exempt for duration of illness

Netherlands	None	None	None	Gap between reference price and actual price	
Sweden	Co-payments of between EUR 11-15. Rates determined by municipalities	Co-payments of EUR 16-27 for outpatient visits to hospital specialists. Rates determined by municipalities At least 50% of fee for contracted ambulatory specialist	Per diem charge of EUR 8.6. Ambulance transport EUR 5.5-6.5 per trip	Deductible of SEK 900 (EUR 99) and thereafter tapered co-insurance of 50% (SEK 901-1700), 25% (SEK 1701-3300), 10% (SEK 3301-4300) and 0% (over SEK 4300)	Maximum liability EUR 198 in any 12-month period for outpatient prescribed drugs A 12-month ceiling of EUR 99 on direct patients fees for medical services not including inpatient care
United Kingdom	None	None	None	Co-payment of GBP 6.20 (England) and GBP 6.00 (Wales) per item (2002)	Exemptions from drug co-payments for children (under 16 or 19 if in full-time education [England], under 25 [Wales]), people over 60, on certain benefits, pregnant women, housebound, listed medical conditions

Source: Source: Health care systems in eight countries: trends and challenges, European Observatory on Health Care Systems, April 2002.

It is this observation that has prompted much commentary in the UK that an extension of user charging should be rightly on the political agenda, though the current Labour government is very cautious. However, the detail of the extent and purpose of user charging in other countries needs to be carefully analysed before the wrong lessons are drawn out.

Sweden offers an excellent case study. The health care system is highly decentralised with County Councils having responsibility for the commissioning and much of the provision of health care, but with a growing role for private providers. Patients pay flat rate fees for most health services at rates determined by the Councils, but within statutory ceilings on the total that any individual can pay in one year set nationally.

In Stockholm in 2003 these fees varied from SEK 60 (c. EUR 6) for a visit to a dental hygienist, to SEK 240 (c. EUR 23) for a visit to a casualty department (Stockholm County Council 2003). Occupying a hospital bed cost SEK 80 (c. EUR 8) per day (about enough one would think to pay for breakfast, lunch and dinner). There was a ceiling to ensure that no-one paid more than SEK 900 (c. EUR 87) over 12 months for these kinds of services. If patients need to travel for health care they pay a statutory rate of SEK 60 per trip, but with a ceiling of SEK 1200 (c. EUR 117) over 12 months. The co-payments for prescribed drugs are administered nationally through a separate system with a uniform ceiling across the country set by national government. The amounts paid by patients for drugs gradually fall as overall costs rise, with an average of 25-30% of the cost covered by the patient, but with a ceiling of SEK 1800 (c. EUR 175) over a 12 month period. There are significant exemptions for certain demographic groups, including children and young people aged up to 18 (and 20 for dental care).

However, the most important fact about patient fees in Stockholm is that they raise just over 1 per cent of total funding, with the rest coming from taxation.

In fact the Stockholm/Swedish example illustrates some key features of the role of user charges in health care systems where they appear to play a significant role:

- **they raise only very modest amounts of revenue, leaving taxation to cover most of the costs of publicly commissioned health care**
- **they are set at relatively modest levels which may indeed make people think twice about seeking certain forms of care but hardly act as a significant deterrent for a broadly very affluent population**
- **there are extensive exemptions for key groups such as children and the elderly and with ceilings on total spending, in part so as to make sure that key groups are not deterred from seeking necessary health care.**

Once one factors in the administrative costs involved in levying such charges, their exact rationale becomes harder to discern, though they may play a

modest role in informing patients of the opportunity costs of health care and probably reduce the marginal demand for some services (Hjertqvist, 2002). However, to understand why they exist in a country like Sweden it is necessary to look at the history of the Swedish health care system, which was only socialised in 1970. The Social Democratic Government that set up the modest co-payment system did so in the context of patients having previously had to meet quite significant out-of-pocket expenses. It was feared that completely eliminating up-front costs might lead to a sharp increase in demand, so the use of user fees to limit demand was an explicit objective from the start. However, a key reason for retaining modest user fees was to help overcome the strong opposition of the medical profession to the creation of the new health system. There is a neat parallel here with the compromise that was hammered out when the National Health Service was created in the UK in the late 1940s. In this case the exclusion of local government from health care was the price demanded by the medical profession. **So the reason that health care in Sweden is organised by the County Councils with extensive use of very modest user charging is the same as the reason why the NHS in the UK does not involve local government but has more limited user charges. Charges do not appear to be a contentious topic in Swedish politics in the way that they are in the UK.**

The health care system in Denmark also features some user charges in the form of co-payments set as a percentage of the total costs for services such as dental care and prescription drugs (European Observatory, 2002). As in Sweden, there are ceilings applied to the total costs borne by individuals in any one year, with the ceiling for expenditure on drugs set at DKK 3600 (c. 409 Euros) in 1999-2000. However, special rules for pensioners in relation to prescription charges have been abolished. Interestingly, user charges for GP visits and hospital stays have been extensively debated as one means of reducing unnecessary utilisation, but have been rejected because of fears that those on low incomes may be deterred. However, since 1973 individuals have been able to choose between two GP options, with one option allowing individuals to visit any GP and any specialist without a GP's referral but with significantly higher user charges accompanying the exercising of that choice. Less than 2 per cent of the population actually exercise that option, but it is an interesting example of the institutionalisation of a 'two-tier' health system that would probably cause uproar if mooted in the UK.

The French health care system also makes extensive use of user charges in the form of co-payments that are not eligible for reimbursement through the public health insurance system (European Observatory, 2002). In 2001 these included 30% of the EUR 18.50 cost of a visit to the GP and 20% of hospital costs for the first 31 days in hospital up to a ceiling of EUR 200. Individuals can take out voluntary health insurance to cover such costs, either themselves or through their employers. Average household expenditure on health care was EUR 253 per head in 2000, of which average expenditure on co-payments for doctor visits was EUR 10 (ref).

In Germany user charges included EUR 9 per day for the first 14 days in hospital or rehabilitation care per calendar year and EUR 13 per ambulance

trip. There were charges for dental treatment but not for preventive dental care. There are more or less complex measures to exempt people on very low incomes, children and young people up to the age of 18 and chronically ill patients for some of these charges.

In the UK or more accurately England, there are user charges for prescription drugs and ophthalmic and dental services. Prescription charges were first introduced in 1950, as it happens because of the budgetary problems caused by the outbreak of the Korean War. It is because their introduction came so soon after the launch of the NHS in 1948 that their existence has proved ever controversial.

In 2002 the prescription charge in England was a flat rate £6.20 (c. 9 Euros) but such extensive exemptions for whole demographic groups such as children and young people, all pensioners, pregnant women and those on low incomes means that approximately 85% of prescriptions are exempt from the charge. Interestingly, Wales has used the opportunity of devolution to move towards the phasing out of prescription charges. In England, charges are levied for eye tests, but again with pensioners and children exempt. Patients must pay 80% of the cost of NHS dental care up to a ceiling of £354. There are no charges for GP consultations or hospital visits though every now and then they are mooted as a way of raising some revenue and deterring 'unnecessary' utilisation.

This tour of the use of user charging in different health care systems reveals an important generic lesson about the use of user charges. **The existence or otherwise of certain user charges and their political acceptability is often a function of a how a particular public service has evolved in an individual country**. There is also a lot of inertia in the sense that people come to accept the features of a particular public service when those features have been in place for some period of time. The extensive but very modest charges in the Swedish health care system can only be understood in the context of how that health system was established after 1970. The controversial nature of user charges in the UK NHS can only be understood in the context of the establishment and evolution of that service. The ironies can be best understood in the context of UK pharmacy services. Prescription charges remain controversial, but what is not controversial is that most people get their prescriptions from private profit making pharmacies, when the involvement of the private sector anywhere else in the NHS raises charges of wanton privatisation. People accept the role of private pharmacies in the UK because that is how it is always been.

Of course the existence of such powerful forces of inertia make it even more difficult for policy makers to introduce user charges where they have not existed before.

Long-term care for the elderly

The funding and provision of long-term care for the elderly has risen up the political agenda in most EU countries. In part this reflects some obvious demographic pressures, including the ageing of the population and the growth of female labour force participation with possible consequences for the provision of informal care within the family. The health and social care systems of most countries make a distinction between the 'health care' provided through the health service and the 'social care' often provided through local authorities. For many recipients of care and their families, such distinctions and others such as the difference between 'nursing care' and 'personal care' are often hard to fathom. **It is one area where the prevailing use of user charges for services raises a great deal of popular disquiet over the 'equity' of the system.**

The UK is one country where the historic split between the health services provided through the NHS and the social care services commissioned by local government has created a series of difficult issues for policy makers. The health services provided under the NHS are free at point of use. The social care services commissioned by local authorities historically have attracted user charges dependent on a means test. However, this area of policy in the UK has taken an interesting turn following devolution of authority over health and social care to Scotland, Wales and Northern Ireland.

A Royal Commission was set up by the incoming Labour government to look at the funding and provision of long-term care in the UK. It recommended in its majority report that both nursing care provided in any setting and personal care should be available free of any user charges. The only charges that would apply to people being cared for in a residential setting would relate to food and accommodation or so-called 'hotel costs'. It was recognised that the same logic would suggest that such charges for 'hotel costs' should also apply within a hospital setting for all forms of health care. In practice this was not pursued as introducing charges where none had existed before - even if this was logical - would be too challenging politically. In Scotland, policy makers accepted the thrust of the Royal Commission's recommendations and abolished user charges for both nursing and personal care, though retaining them for 'hotel costs'. The UK government, which has responsibility for health and social care in England, decided that only nursing care would be offered free of means tested charges, which would still apply for personal care. The administrations in Wales and Northern Ireland followed the English example.

In many ways these contrasting decisions were no more than an illustration of the administrations taking a different view of their priorities in terms of the use of scarce resources. The UK government worried that making personal care free would lead to a substitution of formal for informal care with a consequent sharp increase in public expenditure. In Scotland the opportunity costs of the decision to make personal care free were not made explicit, though the historically higher levels of public spending in Scotland made this decision more feasible. Having looked at their budgets, the administrations in Wales and Northern Ireland felt they could not follow Scotland's example, even

though they probably wanted to, and decided resource constraints meant they had to follow England.

According to model estimates, in the year 2000, about 65% of long-term care expenditure in England was funded publicly through the NHS and local government and 35% by individuals and their families. Of this one-third financed by individuals about half was to pay the user fees for publicly commissioned services and half were direct private expenditures.

The social insurance based health care system in Germany was extended through an important reform in 1995 with the levying of an additional social insurance premium to cover the costs of long-term care provision. However, these insurance funds only provide capped benefits, which, in the case of nursing home care, are much lower than the overall fees (Comas-Herrera et al, 2003). This means that in 1998-99, long-term care insurance paid between 51 and 55 per cent of total nursing home fees, depending on the form of care being provided. Users had to pay the balance out of their own pockets. Those unable to meet these co-payments could access means-tested social assistance. The children of the care recipient can be asked to pay back the social assistance if their earnings are above a certain level and depending on their personal circumstances. In 1998, 26% of dependent persons in nursing homes were recipients of social assistance. The benefits for people needing home care were also estimated to cover about half the cost of services that people were assessed as requiring. It is estimated that about 70 per cent of long-term care expenditure in Germany was financed publicly in 1999.

It is striking that in the UK and Germany, with their very different ways of organising health and social care, the division in funding for long-term care between public and private expenditure is very similar. In each country about 65-70 per cent of long-term care costs are publicly funded and 30-35 per cent privately funded.

In Sweden, user charges in the form of co-payments for the fees levied in nursing homes and for other services, have long been a feature of long-term care in that country. The fees have been means tested against pension and other income, but with a proviso that the individual would be left with a minimum amount of their own income after all service and other costs have been met. The key issue in Sweden is how to put a tighter cap on the total costs that have to be borne by service users. There is no estimate of the division of overall funding between public and private expenditure that is directly comparable with the estimates presented for the UK and Germany, thought there is some indication that the share of public funding in Sweden is significantly higher.

It should be clear that the issues relating to the use of user charges in long-term care for the elderly are of a different nature to those in other areas of public policy. It is not a case of debating whether the introduction of user charges would serve important public policy goals. User charges have long been a feature of the funding and provision of long-term care services.

The difficult set of issues under debate in all EU countries relate in part to what is the most appropriate division of funding between the state and the individual and their family. All Governments have been approaching this issue in the context of wanting to limit the growth of public expenditure, with a particular concern that more generous public funding might lead to a displacement of private informal care. However, service users wonder why they do not have to pay directly for cancer care in a hospital setting, but do have to make a contribution from their own pockets to pay for care for debilitating conditions when they are being treated in a nursing home or indeed in their own home. **No country appears to have achieved either a rational or politically acceptable division of funding or tackled the fundamental issues of equity that lie at the centre of this debate.**

Childcare

The funding and provision of childcare illustrates two important issues in relation to comparing public policy across countries. Firstly, the approach of different countries to early years and childcare provision varies very significantly, reflecting both differences in objectives and in the means chosen to achieve those objectives. Secondly, reliable comparative data is wholly inadequate. In particular there is little reliable cross-national data on family day care, nanny services and out-of-school services and particularly the funding of these services (Candappa et al (2003). This restricts the analysis to organised care services and pre-school education. This is an important issue as of course informal and more formal childcare services are a possible substitute for one another, with an expansion of the latter likely to displace some of the former, but in ways that are hard to map across countries due to data deficiencies.

The issue of childcare also illustrates the importance of having clarity in terms of the public policy objectives that are being pursued. To put it in its most simple form: are we interested in expanding the opportunities for childcare and early years provision to:

a) **allow more parents, and specifically mothers, to go out to work in the formal economy or**

b) **improve the cognitive and emotional development and health of young children?**

It is often asserted that public policy in relation to childcare and early years services allows both objectives to be achieved simultaneously. However, the precise configuration of services and their funding can have an impact on which of these objectives are implicitly being given priority. There is a complex and controversial literature on whether mothers working full-time or part-time when their children are very young, does or does not have an impact on their development, dependent in turn on the form of childcare being provided. There is also a debate about the kind of experiences that pre-school provision should emphasise and how early or late an emphasis on skills such as literacy or numeracy should be introduced. One study has been especially influential in persuading British policy makers to give greater emphasis to early years provision, but interestingly it revealed that the benefits for children were the same regardless of whether provision was full-time or part-time (Sylva et al 2003). On the other hand full-time childcare might be most likely to boost the labour force participation of women.

The point is that in order to most effectively configure early years and childcare services, **the important starting point is to clarify which of the two broad objectives - the development of children and/or female labour force participation - policy makers wish to prioritise.** In an ideal world, this distinction could also be used to decide how the costs of provision should be divided between the state and the individual. As with education and health services more generally for children, the costs of those early years

services clearly configured to secure the development of children should be borne collectively, recognising the broader social benefits of such provision. However, the cost of childcare provision that is designed to help parents to go out to work could be shared between the individual and the state, recognising the clear private benefits of work and income for the individual. Of course making this distinction in practice is far from easy, but one can observe that most early years school provision is funded by the state.

Whether more generous subsidies for childcare do in fact lead to greater (female) labour force participation is also a matter of some empirical controversy (see Emmerson and Reed, 2003). This is because any subsidy to a household will generate two effects. By reducing the costs of work, a childcare subsidy will increase the effective wage rate for somebody currently not in work, leading to a *substitution effect* in favour of work. However, it will also increase household income which may lead the household to chose more leisure - an *income effect* that may lower labour force participation or at least alter the distribution of working time within two-parent families. The overall impact of childcare subsidies on the volume of hours worked in the economy is thus theoretically ambiguous. This is especially the case when subsidies are introduced or expanded when parents have already been paying for childcare, thus leading to a potentially large *deadweight* effect as the state pays for provision that already existed but had been funded privately. Some research suggests that childcare subsidies may help parents to purchase slightly higher quality care (discussed in OECD 2001).

Some other points need to be clarified. In some countries employers are required to fund some elements of public childcare provision. However, in a reasonably competitive labour market the actual incidence of any employer contributions will be borne by employees in the form of lower gross wages. It is best to see any employer providing a package of pay and other benefits such as a pension or childcare, with more generous benefits being funded through less generous gross pay. **To say that there are three sources of funding for childcare - the state, parents and employers - is therefore a little misleading.** In practice, with the exception of France and the Netherlands employer contributions are small (see Table 3 and Candappa et al 2003).

Countries also differ significantly in terms of the generosity of their leave entitlements for parents, which in turn will impact on the need for childcare. For example, in Sweden, generous universal paid leave means most parents will not need to use childcare services during the first year, though it is interesting that after the first year, childcare is Sweden is also heavily subsidised. The point is that a full analysis would need to look at both provision for early years and childcare services and leave entitlements for parents.

Table 3: Public and private shares in financing of publicly supported childcare (middle 1990s)

	Public	**Employers**	**Parents (co-pays)**
Denmark	70-80		20-30[1]
Finland	81		15
Sweden	87		13-18[1]
Belgium	85		15
France	70	[25[2]]	23-28[1]
Germany[3]	54-83		16-20[1]
Italy	87	1	12
Netherlands	53	20	27-56[1]
United Kingdom	94		6

Source: Meyers and Gornick (2001: 160) in Candappa *et al.* (2003)

Notes:

1) Varies by type of care
2) Employers pay estimated 25% of costs of social welfare services through mandatory contributions to Family Allowance Funds (CAFs)
3) This data is for former West Germany only

Countries also differ significantly in the way in which the state subsidises childcare (Candappa et al 2003). Some countries subsidise the *supply side,* directly funding childcare places provided either publicly or privately, with the funding following the *place*. Other countries favour *demand-side* mechanisms such as tax credits to help individuals (or employers) purchase their own provision, again from either public or private providers, with the funding following the *child.* Some countries have a mix of both supply-side and demand side subsidies. Places secured through supply side subsidies will often require some form of co-payment from the parents. Demand subsidies often only pay for part of the costs of any provision, thus again requiring a parental contribution.

Having made all these distinctions, there are in fact no reliable comparative data on total expenditure on early years and childcare services and how this expenditure is split between the state and individuals (and employers) (Candappa et al 2003). Tables 3 and 4 try to map out the extent of *publicly funded* childcare and pre-primary services across a number of EU countries. To reiterate, we cannot compare privately funded services because the data do not exist. However, as our focus is on user charges for publicly commissioned services, this is less of a problem.

It should be clear from table 4 that the starting point for any analysis is the observation that the age of compulsory schooling differs across countries. In Sweden and Denmark, where schooling starts at age 7, the vast majority of childcare up to this age is publicly funded, so for these countries we can get a good indication of the division of costs.

Table 4: Inclusion in publicly supported early childhood education and care (middle 1990s)

	Share of children served in publicly-financed care, ages 0,1,2	**Share of children served in publicly-financed care, ages 3,4,5**	**Typical schedule, primary form of care for children, ages 3,4,5**	**Share of 5 year olds served (in education-oriented care) when compulsory schooling begins at 6**	**Age of compulsory schooling**	**Share of 6 year olds served (in education-oriented care) when compulsory schooling begins at 7**
Denmark	48%	82%	Full day		7	93%
Finland	21%	53%	Full day		7	57%
Sweden	33%	72%	Full day		7	93%
Belgium	30%[1]	95%[1]	Full day	99%	6	
France	23%	99%	Full day	100%	6	
Germany[2]	2%	78%	Part day	79%	6	
Italy	6%	91%	Full day	99%	6	
Netherlands	8%	71%	Mixed[3]		5	
United Kingdom	2%	60%	Mixed[3]		5	

Source: adapted from Meyers and Gornick (2001: 167) in Candappa *et al.* (2003)

Notes:

1) Averaged across French, Flemish and German communities
2) This data is for former West Germany only
3) In the Netherlands, this varies by age group; in the United Kingdom, nursery education is usually part-day, reception class usually full-day

Table 3 shows that in Sweden parents paid between 13-18 per cent of the costs of childcare and pre-primary provision (in 1999), with the balance paid for by the state. In 2001, a maximum level for parental contributions was set, bringing down the average cost to parents, an interesting example of the extension of an already very generous system of support. In Denmark, parents pay 20-30 per cent of the costs for early childcare, but pre-primary provision is wholly publicly funded. Provision is also almost universal in the years immediately preceding compulsory schooling.

The costs of this near-universal childcare provision are very large. In the 1990s public spending on early childhood education and care came to 2.4 per cent of GDP in Denmark and 2 per cent of GDP in Sweden. To put this in perspective, 2.4 per cent of GDP is equal to half the entire public education budget in the UK over the same period. Clearly, it is widely believed that such **a large public investment is warranted, though Denmark and Sweden have developed their services in response to particular conditions and values, rather than as a result of sophisticated analyses of their cost-effectiveness in achieving particular outcomes (Candappa et al 2003). They represent essentially an article of faith.**

In France, publicly funded provision for children under 3 years is not so extensive. Parents using this provision pay about a quarter of the cost. The rest is publicly funded, including the quarter funded out of taxes or contributions paid by employers for this purpose. France is also one country where these supply side subsidies are complemented by various demand side subsidies, including tax relief. Nearly all children from 3-6 attend wholly publicly funded nursery school.

In the Netherlands in 1997, parents paid on average 44 per cent of the costs of childcare, with the proportion varying according to the extent of subsidy from the state or the employer. The proportion of children attending was much lower than in Sweden, Denmark or France. The Netherlands has also shifted extensively between demand side and supply side subsidies, switching from the former to the latter at the beginning of the 1990s, but moving to a total reliance on demand side subsides from 2004.

In the UK, demand side subsidies are much more extensively used, with means-tested tax credits for households and tax incentives for employers too. This makes it very difficult to estimate the proportion of total costs borne by parents - there is no data on what proportion of childcare users receive tax credits or the proportion of costs covered by parents in receipt of tax credits. Table 3 apparently shows that parents only pay 6 per cent of the cost of childcare, with the state funding the rest; but Table 4 shows only 2 per cent of children under 3 benefit from such generous provision. Other parents will have to pay for all or a significant proportion of the costs of childcare, depending on their eligibility for tax credits. However, since 1998 all four year olds have an entitlement to publicly funded free part-time nursery education and all three year olds will be entitled by to a free early education place by September 2004. Parents have to find their own childcare for the rest of the day if they chose to work full-time. Whether this is in fact represents a

reasonable division of responsibilities given that the benefits in terms of child development might be secured through high quality part-time provision, is a moot point.

The UK also illustrates the difficulties of making choices between the best use of public funds. The UK had in the late 1990s one of the highest rates of child poverty in the EU and the government set a target to reduce child poverty by one-quarter by 2004, by one-half by 2010 and to eliminate it by 2020. Good progress had been made with the first target looking in reach for 2004 as a result of higher levels of employment and a significant redistribution of income to families with children through the tax and benefits system. At the same time the government was rolling out its entitlements to part-time nursery education and a range of other innovative early years services. By 2004 the fiscal arithmetic was going to force a series of difficult choices between the further development of early years services and further redistribution through the tax and benefits system to families with children. The fact that most policy makers shared as articles of faith both the aspiration to tackle child poverty and the desire to further develop early years services did not make these choices any easier.

Conclusion

This brief overview has shown that the use of user charges for different public services varies significantly across the EU and that there are a series of complex issues that underlie that pattern.

The pamphlet has suggested that the key principle that should determine the use of user charges is that they should help advance and should not prejudice the attainme nt of key public policy outcomes rather than just being about raising revenue. This means being very clear about the objectives that are being pursued: for example, are subsidies for early years services and childcare designed primarily to boost labour force participation or to foster the better development of children? As with all public policy, getting your objectives clear is the best starting point.

The experience of health care, for example, illustrates that the existence or otherwise of certain user charges and their political acceptability is often a function of a how a particular public service has evolved in an individual country. This is one reason why the 'borrowing' of other countries' experiences is so problematic.

There is also a lot of inertia in the sense that people come to accept the features of a particular public service when those features have been in place for some period of time. However, this makes the introduction of user charges where none have existed previously very difficult. In this context it helps if policy makers are consistent. **The arguments for any form of user charges have to be carefully rehearsed over a reasonable time scale if public opinion is to be won over, a lesson to be learned from the debates over tuition fees in higher education in Germany and the UK, for example.**

Although the raising of revenue should not be the primary justification for user charges, signalling clearly how the revenue is to be used is one of the most important ways for securing political support for any scheme. This is true, for example, in relation to the use of the revenue generated through charges for road use.

The pamphlet has also emphasised the limitations in the data on the use of user charges across various services in different countries. The evidence on the impact of user charges on service use is also often unclear. For example, in relation to childcare, comparative data is very inadequate and the impact of childcare subsidies on labour force participation is ambiguous theoretically and uncertain empirically. **Given that there are no clear ideological patterns in the incidence of user charging across the EU, this would seem an obvious area where the importance of evidence based policy making should be emphasised.**

It is worth coming back to the question posed right at the beginning of the pamphlet: what is the more politically acceptable means for individuals to fund public services - through taxation or user charges? 2003 in the UK offered an

interesting test of this question. The government explicitly raised social security contributions to fund extra public spending on health care. At the same time it was embroiled in a heated debate about the extension of tuition fees in higher education. It was this latter debate that remained a political headache early in 2004, not the specific increase in taxation.

It is fortunate then that the analysis presented here suggests that the raising of revenue should *not* be the main rationale for user charges, as **it is not at all clear that user charges are any more acceptable than taxation as a means of funding public services.** This makes it all the more important that policy makers have a clear and consistent story to tell about how user charges will help achieve important economic, social and environmental outcomes.

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