
SOCIAL POLICY EVALUATION

An
Economic
Perspective

Edited by
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Social Policy Evaluation

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Preface

Since World War II many countries have devoted a growing fraction of government budgets to welfare, health, education, and social insurance programs. Assessment of the experience accumulated over the years, however, is mixed: There are doubts about the extent to which services are improved and social inequality is lessened; and there are doubts about the burden imposed on society by these welfare programs.

The 1980 Pinhas Sapir Conference on Development, the second in a series of biannual international conferences,¹ was initiated with the idea of giving an opportunity to economists, political scientists, sociologists, and public administrators to reexamine the aforementioned issues. The topic of the conference was "Social Policy Evaluation: Health, Education, and Welfare." It was held on December 28–30, 1980, at the Pinhas Sapir Center for Development, Tel Aviv University.

The conference was divided into three parts: economics, political science, and sociology. This volume covers selected proceedings of the economics section of the conference. A companion volume edited by Shimon Spiro and Ephraim Yuchtman-Yaar covers the proceedings of the other two sections.

The book contains four parts: health, education, social security, and redistribution. The chapters in each part are preceded by an editor's introduction.

¹ The first conference, held in June 1979, was: "Development in an Inflationary World." The proceedings were published in M. June Flanders and Assaf Razin (eds.), *Development in an Inflationary World*, Academic Press, New York, 1981.

We conclude here with the pleasant task of thanking the many people whose assistance has made the conference and the book possible. Israel Pollack and all members of the Executive Committee of the Sapir Center were particularly strong in their support and helpful in the arrangement of the conference. Mali Nudel, Deborah Kestenbaum, and Rina Elman ran the office and coordinated the conference activities efficiently. We also wish to thank Tamar Berkowitz and Connie Wilsack for their competent editing. Because of space limitations we did not include transcripts of the discussions at the conference. Nevertheless, the contribution of the discussants was very helpful in the selection of the papers for this volume and in improving their quality. We thank them heartily. They are

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Part I

Health

This part is composed of studies dealing with a cost–benefit analysis of health projects, regulation of workplace safety, and a theoretical investigation of health insurance. Weisbrod reports on the first cost–benefit analysis of a controlled experiment in the mental health field. He compared a traditional hospital-based approach to treating the mentally ill with a nontraditional community-based approach. Presenting an innovation in the cost–benefit analysis of social welfare programs, he uses a randomized experimental design for identifying differential effects of policy alternatives.

As awareness of mental illness and its treatability grow, the real resource implications of the choice of treatment mode are of increasing importance. The debate over national health insurance has given scant attention to mental illness, and even less to the choice among alternative types of delivery systems. The research reported by Weisbrod supports the hypothesis that hospitalization of the mentally ill is, except for emergency situations, less effective than community-based treatment of approximately equal cost. The research also confirms the hypothesis that the forms taken by the social costs of alternative programs can be so different that it is easy to mistake a change in the form of costs for a change in their level. Finally, it highlights the fact that cost–benefit analysis, despite advances at both the conceptual and empirical levels, remains a mixture of science and art.

Governments may provide a wide variety of programs that include benefits in kind to their citizens; programs such as housing, food, education, and medical care. Often, these services are produced by private bodies which are not under direct public control but are reimbursed by government for

services provided. It is important to question what incentives are incorporated in the way suppliers of inputs are reimbursed.

Held and Pauly evaluate a policy of reimbursement to an end-stage renal disease program in the United States. The purpose of the study is to estimate the impact of alternative reimbursement structures on the cost paid by the public insurance and on the benefits provided to patients. Their production function estimates show that there are some amenities that affect productivity and cost: self-care dialysis, home dialysis, and the size of facility (as a proxy for travel time).

Their results show that in the program studied there are several identifiable qualitative aspects of care—such as the ability of the facility to handle peak loads—which are sensitive to the degree of competition in the local markets for dialysis services. They also discuss how regulation for changing the way in which the providers of services are reimbursed affects some important qualitative aspects of care.

Oi analyzes public policies toward workplace safety and health. These policies should strive to minimize the sum of accident costs plus accident avoidance costs. Two broad policies have been adopted in the United States: (a) compensation of accident victims under Worker Compensation Laws; and (b) prevention under the Occupational Safety and Health Administration. Compensation may raise the full social costs of accidents by distorting the incentives to incur accident avoidance costs. In this case, the use of mandated standards to reduce the frequency and the severity of industrial accidents may be inefficient for two reasons. First, compliance costs that must be incurred by firms may not always represent the least cost means of avoiding accidents. Second, the costs of the regulatory agency's enforcing compliance with the promulgated standards are part of the accident prevention costs.

Oi develops a theory of enforcement which shows an optimal strategy for targeting enforcement activities. Further, the evidence examined indicates that the prevailing standards place differential taxes which penalize smaller establishments. This finding suggests a self-interest explanation for the strong support of safety legislation by organized labor, which is mainly employed in the largest establishments—those that suffer the smallest relative costs of safety regulation.

Oi critically analyzes the existing policies of the Occupational Safety and Health Administration as being ineffective. He proposes that the standards path of specific deterrants be replaced by a structure of more general deterrants which give firms a strong financial incentive to prevent risks of seriously disabling injuries and illnesses.

Karni extends the theory of the relation between risk aversion and optimal health insurance coverage. He defines a new measure of absolute risk aversion in the situation where the utility function is state dependent. Using

that measure, he compares the optimal health insurance coverage of two decision makers that differ in their degree of risk aversion. He proves that although both decision makers choose policies specifying deductible limits that vary across the insured's state of health, the deductible limits of the more risk averse will be equal to or exceed those of the less risk averse, in each and every state of health.