

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Individual and Social Responsibility: Child Care, Education, Medical Care, and Long-Term Care in America

Volume Author/Editor: Victor R. Fuchs, editor

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-26786-5

Volume URL: <http://www.nber.org/books/fuch96-1>

Conference Date: October 7-8, 1994

Publication Date: January 1996

Chapter Title: Introduction to "Individual and Social Responsibility: Child Care, Education, Medical Care, and Long-Term Care in America"

Chapter Author: Victor R. Fuchs

Chapter URL: <http://www.nber.org/chapters/c6556>

Chapter pages in book: (p. 1 - 12)

I

Introduction and Overview

This Page Intentionally Left Blank

Introduction

Victor R. Fuchs

The Great Health Care Debate of 1994 was like the uses of this world to Hamlet—“weary, stale, flat, and unprofitable.” Not only was the debate unproductive and inconclusive; it was extremely shallow. False premises were relied on by all sides, for example, “employers bear the cost of health insurance”; “firm size is relevant when setting payroll tax rates”; and “the high cost of health care makes the United States less competitive in international trade.” Economists readily understand that these assumptions are false, but virtually all the political participants framed the health care debate as if they were true. Thus, the huge expenditure of time and effort did not even serve to educate the public about the real issues of health policy (Fuchs 1994).

Is health care peculiar in this regard? Probably not. If Congress and the administration had devoted as much time to debating child care or education or long-term care, the results would probably have been equally unsatisfactory and the debate equally shallow. So why are these sectors in such deep trouble? Some analysts believe that the root problem is slow productivity growth in the economy as a whole. Greater gains in productivity, it is argued, would facilitate allocation of more resources to human services and relieve the most pressing concerns. There can be little doubt that rapid growth of real income makes it easier to fund new public programs or to expand private expenditures, but I doubt that the slowdown in productivity growth is the only, or even the primary, cause of our present difficulties. It is worth noting that many of the problems in the human services sectors intensified in the late 1960s, at a time when the economy was growing rapidly and there had been two decades of substantial gains in real income.

Victor R. Fuchs is the Henry J. Kaiser, Jr., Professor Emeritus at Stanford University and a research associate of the National Bureau of Economic Research.

The author gratefully acknowledges financial support from the Robert Wood Johnson Foundation and the Alfred P. Sloan Foundation.

Other analysts focus on perversion of the political process, which blocks the development of effective government policies. Special interests, it is said, dominate the general interest. The solution is sought in reform of campaign financing and tighter controls on lobbying. The political process does need improvement, but without wider agreement about what constitutes the general interest, it is unlikely that changes in process alone will overcome the impasse in public policy.

Despite widespread concern regarding the problems of human services in the United States, there is simply no consensus in government or among the public about how to deal with them. On the contrary, with respect to the four sectors discussed in this book there is intense disagreement over both *goals* and *means*. Are Americans spending too little or too much in each of these sectors? How could current spending be used more efficiently? Should the government's role increase or decrease? Why? What are the political, social, and economic forces that shape current policies affecting human services? Can the social sciences contribute to better policies in these sectors, and if so, how?

To address these and related questions, a National Bureau of Economic Research conference was held at Stanford, California, on October 7 and 8, 1994, with financial support provided by the Robert Wood Johnson Foundation and the Alfred P. Sloan Foundation. The invitation to the participants stated the following objectives:

1. To increase understanding of the trade-offs and complementarities among diverse goals of public policy: efficiency, justice, freedom, security
2. To increase understanding of how the pursuit of these goals involves diverse institutions: the market, government, and integrative systems such as families, religious communities, and professional organizations
3. To investigate the interactions between institutions and goals in four sectors: child care, education, medical care, and long-term care for the elderly, and to gain a deeper understanding of the relative efficacy of alternative institutions to achieve goals in specific contexts
4. To contribute to improved public policies affecting these four sectors
5. To begin to create an intellectual framework that highlights the importance of both individual and collective responsibility in the provision of human services

The twenty-three conference participants provided a wide range of expertise: applied economists with deep knowledge of each of the sectors, economic theorists, two lawyers, one physician, and three social scientists who are not economists. A Swedish economist, Assar Lindbeck, served as a general discussant, providing valuable comparative perspectives about social policies in Europe. The rapporteur for the conference was Timothy Taylor; his overview of the papers and discussion follows this introduction.

I did not contribute a paper, but as organizer of the conference I will use this introduction to present my view of the problem and an agenda for future re-

search. In my judgment, the confused policies that plague human services, and the unproductive debates over these policies, have a systemic, generic explanation: our unwillingness and inability to discuss and resolve value issues that form the foundation of any society. What are these issues? For Raymond Aron, the French social scientist, the great unresolved problem of all modern societies is the conflict between a push for equality and the need “to produce as much as possible through the mastery of the forces of nature” (Aron 1968), a venture that requires differentiation and hierarchy. This trade-off between equality and efficiency, which is familiar to economists (see especially Okun 1975), appears with particular force in the human services sectors.

As the title of this volume suggests, the issue can also be formulated as the tension between individual responsibility and social responsibility. Both are necessary for a good society, but the current protagonists appear unwilling to acknowledge the legitimacy of their opponents’ concern. The medical care debate, for instance, is about more than medical care; the child care debate is about more than child care; and so on. At the root of most of our major social problems are choices about values. What kind of people are we? What kind of life do we want to lead? What is our vision of the good society? How much weight do we want to give to individual freedom? How much to equality? How much to security? How much to material progress? If we emphasize only individual responsibility, we come close to recreating the “jungle,” with all the freedom and all the insecurity and inequality that prevails in the jungle. On the other hand, if we ignore individual responsibility and rely entirely on social responsibility, the best we can hope for is the security of a well-run “zoo.”

The papers and comments in this volume do not, for the most part, explicitly engage the issue of responsibility. They do, however, provide empirical and theoretical background for such engagement. A paper for each of the four sectors discusses production, financing, and distribution and considers the implications for public policy. The authors are experts in their respective fields, but the papers were written for readers who are not specialists. In recent years there have been numerous conferences about child care, about education, about medical care, and about long-term care, but rarely if ever has there been an opportunity to discuss the four sectors at the same time. Similarities and differences in the problems identified in each sector provide valuable additional insights, as do the discussions of possible solutions. While each sector is distinctive, the four also share many common characteristics; thus analysis of their problems can benefit from approaches that are not sector-specific.

With that in mind, six cross-sector papers were also invited. The authors were encouraged to be idiosyncratic, to choose themes of special interest to them, and to relate those themes to the conference agenda. Their mission was to stimulate new ways of thinking about human services through the application of economic theory, institutional analysis, and the history of social policy.

The disparate backgrounds of the participants made this a high-risk confer-

ence; the intense interactions and lively discussions, however, showed that a meeting of scholars with different interests and methodologies can produce fruitful results. Timothy Taylor's overview focuses on the positive contributions of the participants. In addition, the conference revealed gaps in current understanding of the political economy of human services in the United States, gaps that highlight the importance of future research.

An Agenda for Research

Academic dissatisfaction with public policy debate is not a new phenomenon. In 1966 George Stigler wrote: "The controversy between conservatives and liberals in the United States is so ineffective that it is not serving the purposes of controversy. The quality of controversy is not only low, but in fact declining. And what was once a meaningful debate is becoming completely unjoined." Stigler's prescription for improvement was the collection and analysis of large amounts of information—in other words, research. He did not believe that research would eliminate all differences of opinion on public policy, but he hoped that "[a]n effective joining of the debate should put focus on our controversies and build progress into our policies" (13). It is in that spirit that I offer the following suggestions; some were derived from discussions at the conference, while others are mine alone.

Sector Studies

The most straightforward, traditional lines of research would attempt to improve understanding of demand and supply within each of the four sectors. For example, with respect to child care, how do changes in financing (e.g., subsidies) affect decisions about child care arrangements? What are the consequences of alternative arrangements for child development? What kind of child care do parents really want (see Leibowitz, chap. 2 in this volume)? What are the implications for public policy when the preferences of parents differ from those of child care experts? Are there significant externalities associated with child care? What is the impact of current government regulations on the availability of child care and the efficiency with which it is produced?

Similar questions arise with respect to education. The nature and extent of externalities seem to require particular attention: the case for tax-financed education is predicated partly on an assumption of externalities, but James Poterba's paper reminds us that the validity of this assumption has not been the object of systematic study. The organization of production of schooling is getting and deserves considerable attention (see Hanushek, chap. 3 in this volume). Regardless of the source of finance, what are the consequences of having schooling provided through publicly owned institutions, through nonprofit organizations, or through profit-seeking firms? Indeed, future work will have to attend to more complex organizational arrangements, such as the contracting out to private firms of the operations of publicly owned schools.

The study of input and output and the relationship between the two is a standard subject in economics and in economic studies of education. These concepts, however, have often been defined narrowly, with the input assumed to be measured by the expenditures of the schools and the output measured by educational achievement. If, as seems likely, the inputs to educational achievement include much more than schooling, for example, the time and effort of students, their parents, and community resources, and if the output of the schools that is demanded by families and the community includes more than educational achievement, current claims about the declining efficiency of schools will have to be reassessed.

With respect to all these questions about education, *disaggregation* will probably prove to be very important (see Jencks's comment on chap. 3). It is not difficult to imagine that kindergarten bears more resemblance to child care than it does to the work of the university. Public policies toward higher education seem particularly ripe for reexamination by economists (see Hansmann, chap. 9 in this volume). Most higher education is publicly financed, but the classic arguments for public financing—externalities or redistribution to families with low income—are supported more by assertion than by empirical research. Most of the benefits of higher education probably accrue to the individual student, and most of the students at public colleges and universities come from middle- or upper-income families. Furthermore, even if public *financing* of higher education could be justified on efficiency or equity criteria, it does not follow that the subsidies should be used to bias the *production* of higher education toward public institutions.

Disaggregation is also called for in future work on medical care. The price elasticity and income elasticity of demand, for example, may be quite low for some medical care services but quite high for others. Problems of consumer ignorance and asymmetrical information can vary greatly, depending upon the type of medical care under discussion. Correct specification of inputs and outputs of medical care is also critical. It is now widely accepted that health outcomes depend heavily on personal behavior, the physical environment, and psychosocial factors, as well as medical care. Furthermore, much of the effort of the medical sector is devoted to providing caring, validation, and other services that are valued by patients even if health outcomes are not improved.

The traditional disaggregation of medical care research into hospital care and outpatient physician services will have to be reconsidered in the light of changes in medical finance, organization, and technology. Each year an increasing proportion of medical care is delivered by integrated health systems that provide a package of hospital care, physician services, and prescription drugs that is reimbursed on a capitation basis. Furthermore, there has been a rapid growth of ambulatory surgery and home administration of high-tech medical care that was formerly available only in hospitals. Thus, new modes of analysis, perhaps based on episode-of-illness or annual utilization of care, will have to be developed to study the health care system of tomorrow.

Probably the most under-studied sector, given its economic importance and rapid growth, is long-term care. Definitive knowledge regarding the demand for such care and efficiency in its production is scarce. Studies of policies that might reduce the impact of adverse selection and moral hazard would be particularly valuable (see Garber, chap. 5 in this volume). The most promising approach to financing long-term care appears to be a blend of private savings, private insurance, and public financing. How to achieve such a blend and how to structure incentives to achieve equity and efficiency in long-term care appear to be at least as problematic as in child care, education, or medical care.

Interactions between Sectors

In addition to the individual sector studies discussed above, there are several promising research opportunities focusing on relationships between sectors. For example, we need to know much more about the relationship between child care and education. If, as some research suggests, the readiness of children to learn at kindergarten is a primary determinant of their educational achievement, there is clearly a need to understand what it is in the preschool experience that produces readiness to learn. The preschool years may also have significant implications for medical care. Poor child care can lead to health problems in adolescence and adulthood, such as a tendency toward obesity. It is possible that health habits and patterns of utilization of medical care are developed early in life.

The connection between education and health has been a subject of study for many decades, but much remains unclear regarding the underlying causal mechanisms. While some researchers believe that additional schooling contributes to better health through wiser use of medical care, that causal path has not been conclusively demonstrated. Similarly, it is not clear whether additional schooling causes individuals to have better health habits, or whether individuals who have better health habits are likely to get additional schooling.

There are also major opportunities for studying the interaction between medical care and long-term care. Are these services complements or substitutes? How does the answer to this question vary depending upon the type of medical care? Would it be more efficient to integrate the financing of medical care and long-term care or to keep them separate? The same question may be asked about the ownership and organization of production of these two services.

Studies across All Sectors

In addition to research on individual sectors or interactions between two sectors, there is a need for studies that cut across all the sectors. Consider, for example, the role of nonmarket production. The possibility of substitution between nonmarket and market production within each sector has been studied, but it would also be of interest to look at the possibility of substitution of one type of nonmarket activity for another. There are significant forces that

affect all nonmarket activity; thus much of the research on family and gender can and should be brought to bear on the problems of the four sectors covered in this volume. What determines the allocation of nonmarket work among the four types of services discussed in this volume and what determines its allocation among family members?

These sectors also need to be addressed from the perspective of investment in human capital. Such investment is a major factor for each of these sectors (except, perhaps, long-term care). One interesting question is how the rate of time preference of individuals and families affects their willingness to invest in each of these sectors. A related issue is the role of liquidity constraints in such investment decisions.

All of the human service sectors share the common characteristic that employment in them is predominantly female. In child care women account for over 95% of the work force; in nursing homes about 87%; in medical care there are at least three women employed for every man; and in education there are two women for every man. It would, therefore, be important to know how these sectors have been affected by the major changes in gender roles and relationships of the last thirty years. To what extent has the relative increase in women's wages and the opening up to women of occupations that were traditionally male affected the supply of labor and the costs of production in the human services sectors? To what extent has adjustment taken place in nominal wages or in the quality of the labor that is recruited? How will the inevitable retardation in the rate of growth of female labor supply affect these sectors?

Government plays a significant role in all four sectors, but the extent, locus, and form of government intervention varies greatly (see Poterba, chap. 10 in this volume). An approach to the optimal role for government that cuts across all sectors might reach different conclusions than those derived from the study of each sector in isolation. Special attention would have to be paid to the capacity of government at different levels to discharge its obligations honestly and efficiently. Such research should consider the quality of the civil service, including issues of recruitment, pay, and turnover.

It is overly simplistic to frame the question of government involvement in human services in terms of "more" or "less." At least as important are questions about the *kind* of involvement—tax credits, vouchers, direct subsidies, mandates, regulation, or direct production—and the appropriate *level* of government. To make wise policy choices, we need to know much more about economies of scale, problems of information, variability in preferences, externalities, productivity, and other economic characteristics of these sectors.

Comparative-Historical Studies

The enormous range of variation in human services across high-income, democratic nations suggests that comparative studies might provide much useful information about methods of financing and producing these services. In child care, for instance, the number of children per caregiver in France is three

to four times as large as in Sweden. Does it matter? And if so, how? In some European countries child care workers have college or graduate degrees, but in the United States the average child care worker has only about thirteen years of schooling. Why the difference? And what are the consequences?

International differences in government's role in child care are particularly striking. Not only does the United States provide much less direct payment for children in the form of child allowances or mandatory paid parental leave, but it also offers much less subsidization of child care outside the home. Moreover, in contrast with other high-income countries, child-related benefits in the United States are usually means tested. These differences in child care policy stand in stark contrast to education, where the United States has been the world leader in public support, and this support is usually provided without means testing.

International differences in education take a different form. For instance, many countries have early and pervasive tracking, while American education experts question the value of such a policy. In some European countries control of education is highly centralized, but in the United States control is in the hands of local school boards and state governments. Does decentralized control actually result in much greater diversity? If not, why not? If it does, what are the advantages and disadvantages of such diversity?

Comparative studies of medical care offer a rich opportunity to learn about the effects of alternative policies because modes of finance and delivery vary greatly, even for close neighbors such as the United States and Canada. For instance, the hospital admission rate in Canada for children (ages one to fifteen) is twice the rate for the United States. At ages over sixty-five the admission rates are about equal in the two countries. What explains this age-related disparity, and what are its implications for the health of the young and the old? Other large differences between medical care in the United States and abroad that are ripe for investigation include the high proportion of specialists and the much shorter average length of hospital stay in America. Comparative studies of long-term care are very scarce, but the growing importance of this sector in all modern societies will create a need for such information.

Historical studies can be thought of at one level as another form of comparative study. For instance, a comparison of education in the United States in the 1950s with education in the 1990s, or a similar comparison for medical care, can help illuminate current problems. As with any comparative study, attempts should be made to identify the differences, to explain their origins, and to discuss their consequences. Historical studies can also be approached in another spirit, namely, that of understanding the historical development of social policy itself (see Skocpol, chap. 11 in this volume). The rising interest in "path dependency" in economics generally could be applied to the study of how current policy options are constrained by earlier decisions. For instance, starting *de novo*, few experts would recommend separate health insurance systems for persons under or over age sixty-five. The history of three decades of Medicare,

however, makes it much more difficult to achieve a sensible, uniform policy that applies to all ages (see Aaron, chap. 4 in this volume).

Studies of Dynamic Processes

Path-dependent views of historical developments lead naturally to studies of both private behaviors and public policy making as dynamic processes. If we are to understand human services and the policies that affect them, we must consider the possibility that preferences for these services change as a result of incentive-induced changes in behavior. In this volume, for instance, Robert Frank asks us to consider how the demand for education or for medical care by the bulk of the population may “ratchet up” as consumption increases at the top. Also in this volume, Paul Romer suggests that the framing of public policies, such as Social Security, and the promises implicit in that framing, may help us understand behaviors that do not fit neatly into the narrow preference model that characterizes most economic analyses.

In the medical sector we need to understand the dynamics of a technology-insurance cycle (Weisbrod 1991) where the development of new, expensive medical technologies increases the coverage (and cost) of health insurance, and increases in insurance coverage induce further development of expensive new technologies. In education, Hirschman (1970) has called attention to a process whereby some deterioration in public education leads to the withdrawal of parents and children most concerned about school quality; their exit from public education then leads to further deterioration, further withdrawals by others, and so on.

Most sweeping of all in its implications is the idea that the habits, social norms, and ethical beliefs that constrain economic behavior in the short- and medium-term may themselves be changed in the long run by economic policies (Aaron 1994; Lindbeck 1994). Lindbeck focuses on the possible long-run effects of the welfare state on work, saving, asset choice, and entrepreneurship. The central idea, however, of the dynamic interaction among policies, incentives, behavior, and social norms could be fruitfully applied to the human service sectors.

Concluding Thoughts

The human service sectors discussed in this volume account for roughly one-fifth of the U.S. gross domestic product. That is more than the total of agriculture, mining, construction, transportation, and public utilities; it is more than wholesale and retail trade combined; and even slightly more than all manufacturing. Thus, judged purely in dollar terms, there is a clear case for extensive attention to these sectors by economists. Moreover, careful study of how we socialize the young, train the next generation, treat the sick, and care for the old goes to the very heart of understanding American society.

The problems of research on human services, however, are formidable. Data

are scarce, and, when available, uneven in quality and coverage. This can be remedied if governmental resources for data collection were reallocated to bring them into conformity with the reality of today's service economy. More troublesome is the difficulty of defining inputs and outputs in human services, concepts that are central to most economic analysis. Here a combination of theoretical and empirical work is needed to make research results more relevant for policy making. Information about the need for and quality of services is very important (see Arrow, chap. 8 in this volume), but finding the proper balance between collective provision of information and individual responsibility for acquiring it is a daunting task.

Most difficult of all is the question of values. Economic analysis usually takes values as given and discusses from both positive and normative perspectives how to maximize values given constraints of resources. In long-term analysis, however, and especially with a view to affecting public policy, it will often be necessary for economists to recognize that policies and institutions help to shape values.

Economists are understandably reluctant to prescribe values or to make normative judgments about preferences. But when economic policies affect values and preferences, and these in turn affect behavior, it is incumbent on economists to analyze the links between policies and values, and to examine the economic and social consequences of alternative value systems. In particular, this conference reinforced my belief that more explicit consideration of the tension between individual and social responsibility will contribute to a fuller understanding of private behaviors and public policies in the human service sectors.

References

- Aaron, Henry J. 1994. Public policy, values, and consciousness. *Journal of Economic Perspectives* 8 (spring): 3–21.
- Aron, Raymond. 1968. *Progress and disillusion*. New York: Praeger.
- Fuchs, Victor R. 1994. The Clinton plan: A researcher examines reform. *Health Affairs* 13 (spring): 102–14.
- Hirschman, Albert O. 1970. *Exit, voice, and loyalty: Responses to decline in firms, organizations, and states*. Cambridge: Harvard University Press.
- Lindbeck, Assar. 1994. Hazardous welfare state dynamics: Endogenous habits and norms. Mimeo.
- Okun, Arthur M. 1975. *Equality and efficiency: The big tradeoff*. Washington, DC: Brookings Institution.
- Stigler, George J. 1966. The unjoined debate. *Chicago Today* (University of Chicago) (winter). Reprinted in George J. Stigler, *The citizen and the state*. Chicago: University of Chicago Press, 1975.
- Weisbrod, Burton A. 1991. The health care quadrilemma: An essay on technological change, insurance, quality of care, and cost containment. *Journal of Economic Literature* 29:523–52.