

# Economic' Theory and. the Welfare State I

*Edited by*

*Reader-inEconomics*

*London School of Economics and Political Science, UK*

THE INTERNATIONAL LIBRARY OF CRITICAL WRITINGS IN ECONOMICS

Aii Elgar "Reference'Collection  
Cheltenham, UK « Northampton, MA, USA

# •Comtaiite

Acknowledgements

ix

Introduction Nicholas Barr

xiii

## PART I SETTING THE SCENE

1. Howard Glennerster (1995), 'The Life Cycle: Public or Private Concern?', in Jane Falkingham and John Hills (eds), *The Dynamic of Welfare: The Welfare State and the Life Cycle*, Chapter 1, Hemel Hempstead: Prentice Hall/Harvester Wheatsheaf, 6-20, references 3
2. Gosta Esping-Andersen (1996), excerpt from 'After the Golden Age? Welfare State Dilemmas in a Global Economy', in Gosta Esping-Andersen (ed.), *Welfare States in Transition: National Adaptations in Global Economies*, Chapter 1, London: Sage Publications, 6-10, notes, references 19
3. Nicholas Barr (1992), 'Economic Theory and the Welfare State: A Survey and Interpretation', *Journal of Economic Literature*, **XXX** (2), June, 741-803 24

## PART II POLITICAL AND ETHICAL PERSPECTIVES

4. Lionel Robbins (1938), 'Interpersonal Comparisons of Utility: A Comment', *Economic Journal*, **XLVIII** (192), December, 635-641 89
5. Amartya Sen (1970), 'The Impossibility of a Paretian Liberal', *Journal of Political Economy*, 78 (1), January/February, 152-7 96
6. Samuel Brittan (1995), 'Choice and Utility', in *Capitalism with a Human Face*, Chapter 3, Aldershot, UK and Brookfield, VT: Edward Elgar, 65-84 102
7. Samuel Gorovitz (1975), 'John Rawls: A Theory of Justice', in Anthony de Crespigny and Kenneth Minogue (eds), *Contemporary Political Philosophers*, New York: Dodd, Mead, 272-89 122
8. F.A. Hayek (1976), excerpt from '"Social" or Distributive Justice', in *Law, Legislation and Liberty*, Volume 2: The Mirage of Social Justice, Chapter 9, London: Routledge and Kegan Paul, 62-73, references 140
9. Julian Le Grand (1984), 'Equity as an Economic Objective', *Journal of Applied Philosophy*, 1 (1), 39-51 156
10. Amartya Sen (1984), 'Ethical Issues in Income Distribution: National and International', in *Resources, Values and Development*, Chapter 12, Oxford: Basil Blackwell, 277-306 169

PART III> ACHIEVING EFFICIENCY: THE ROLE OF MARKETS

**A Market Success**

11. Arthur M. Okun (1975), 'The Case for the Market', in *Equality and Efficiency: The Big Tradeoff*, Chapter Two, Washington, DC: Brookings Institution, 32-64 203

**B Market Failure**

12. Bruce C. Greenwald and Joseph E. Stiglitz (1986), 'Externalities in Economies with Imperfect Information and Incomplete Markets', *Quarterly Journal of Economics*, **CI** (2), May, 229-64 239
13. Kenneth J. Arrow (1963), 'Uncertainty and the Welfare Economics of Medical Care', *American Economic Review*, **LIII** (5), December, 941-73 275
14. George A. Akerlof (1970), 'The Market for "Lemons": Quality, Uncertainty and the Market Mechanism', *Quarterly Journal of Economics*, **LXXXIV** (3), August, 488-500 308
15. Mark V. Pauly (1974), 'Overinsurance and Public Provision of Insurance: The Roles of Moral Hazard and Adverse Selection', *Quarterly Journal of Economics*, **LXXXVIII** (1), February, 44-62 321
16. Michael Rothschild and Joseph Stiglitz (1976), 'Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information', *Quarterly Journal of Economics*, **XC** (4), November, 629-^9 340
17. Joseph E. Stiglitz (1983), 'Risk, Incentives and Insurance: The Pure Theory of Moral Hazard', *Geneva Papers on Risk and Insurance*, **8** (26), January, 4-33 361
18. Assar Lindbeck (1997), 'Incentives and Social Norms in Household Behavior', *American Economic Review*, **87** (2), May, 370-77 391

**C Public Choice and Government Failure**

19. Dennis C. Mueller (1997), 'Public Choice in Perspective', in Dennis C. Mueller (ed.), *Perspectives on Public Choice: A Handbook*, Chapter 1, Cambridge: Cambridge University Press, 1-17, references 401
20. James M. Buchanan (1962), 'The Relevance of Pareto Optimality', *Journal of Conflict Resolution*, **VI** (4), December, 341-54 419
21. Patrick Dunleavy (1985), 'Bureaucrats, Budgets and the Growth of the State: Reconstructing an Instrumental Model', *British Journal of Political Science*, **IS** (3), July, 299-328 433
22. Julian Le Grand (1991), 'The Theory of Government Failure', *British Journal of Political Science*, **21**, 423-42 463

PART IV POVERTY AND INEQUALITY: CONCEPTUAL ISSUES

A Poverty

23. A.B: Atkinson (1989), 'How Should We Measure Poverty? Some Conceptual Issues', in *Poverty and Social Security*, Chapter 1, Hemel Hempstead: Harvester Wheatsheaf, 7-24, references 487
24. Amartya Sen (1976), 'Poverty: An Ordinal Approach to Measurement', *Econometrica*, 44 (2), March, 219-31 506
25. Anthony F. Shorrocks (1995), 'Revisiting the Sen Poverty Index', *Econometrica*, 63 (5), September, 1225-30 519
26. A.B. Atkinson (1987), 'On the Measurement of Poverty', *Econometrica*, 55 (4), July, 749-64 525
27. Meghnad Desai (1984), 'A General Theory of Poverty? A Review Article', *Indian Economic Review*, XIX (2), July-December, 157-69 54.1

**B Income Inequality**

28. Jan Pen (1971), 'A Parade of Dwarfs (and a few Giants)', excerpt from 'Some Facts to be Explained' in *Income Distribution*, Chapter 3, Section 1, London: Penguin, 48-59 557
29. Peter Wiles (1974), excerpt from 'The Distribution of Wages per Earner and of Income per Head in the U.S.S.R.', in *Distribution of Income: East and West*, Lecture I, Sections 1 and 2, Amsterdam: North Holland, 1-12, references 569
30. Arthur M. Okun (.1975), 'The Leaky-Bucket Experiment' and 'Inspecting the Leakages', in *Equality and Efficiency: The Big Tradeoff*, Washington, DC: Brodckings Institution, 91-100 582
31. A.B. Atkinson (1980), 'On the Measurement of Inequality', in A.B. Atkinson (ed.), *Wealth, Income and Inequality*, Second Edition, Chapter 3, Oxford: Oxford University Press, 23-^3, references 592

**C Other Dimensions of Inequality**

32. Richard Vaughan (1988), 'Distributional Aspects of the Life Cycle Theory of Saving', in Denis Kessler and Andre Masson (eds), *Modelling the Accumulation and Distribution of Wealth*, Chapter 8, Oxford: Clarendon Press, 193-235 615
33. Edwin Carinan (1928), 'Inequality Between the Sexes', in *Wealth: A Brief Explanation of the Causes of Economic Welfare*, Third Edition, Chapter XII, Section 3, London: PS. King and Son, 210-16 658
34. P.F. Apps and R. Rees (1996), 'Labour Supply, Household Production and Intra-family Welfare Distribution', *Journal of Public Economics*, 60, 199-219 665

35. Jane Lewis (1992), 'Gender and the Development of Welfare Regimes', *Journal of European Social Policy*, 2 (3), 159-73 686

*Name Index*

701

# Economic Theory and the

Volume II •

Income Transfers

*Edited by*

*Reader in Economics*

*London School of Economics and Political Science, UK*

THE INTERNATIONAL LIBRARY OF CRITICAL WRITINGS IN ECONOMICS

Am Elgar Reference Collection ^—  
Cheltenham, UK • Northampton, MA, USA

An introduction by the editor to all three volumes appears in Volume I

**PART I. CONSUMPTION SMOOTHING AND INSURANCE**

**A Social Insurance**

1. A.B. Atkinson (1989), 'Social Insurance and Income Maintenance', in *Poverty and Social Security*, Chapter 7, Hemel Hempstead: Harvester Wheatsheaf, 104-24, references 5
2. Samuel Brittan (1995), 'Basic Income and the Welfare State', in *Capitalism with a Human Face*, Aldershot, UK and Brookfield, VT: Edward Elgar, 242-62 27
3. Jane Falkingham and John Hills (1995), 'Redistribution Between People' or 'Across the Life Cycle?', in Jane Falkingham and John Hills (eds), *The Dynamic of Welfare: The Welfare State and the Life Cycle*, Chapter 7, Hemel Hempstead: Prentice Hall/Harvester Wheatsheaf, 137-49 48

**B The Economics of Pensions**

4. Paul A. Samuelson (1958), 'An Exact Consumption-Loan Model of Interest With or Without the Social Contrivance of Money', *Journal of Political Economy*, **LXVI** (6), December, 467-82 63
5. Henry Aaron (1966), 'The Social Insurance Paradox', *Canadian Journal of Economics and Political Science*, **XXXII** (3), August, 371-4 79
6. Nicholas A. Barr (1979), 'Myths My Grandpa Taught Me', *Three Banks Review*, **124**, December, 27-55 83
7. Lawrence H. Thompson (1998), 'Overview and Summary', in *Older and Wiser: The Economics of Public Pensions*, Chapter One, Washington, DC: Urban Institute, 1-23 112
8. P.A. Diamond (1977), 'A Framework for Social Security Analysis', *Journal of Public Economics*, 8 (3), December, 275-98 135

### **C The Debate Over Pension Reform**

9. Jonathan Gruber and David Wise (1998), 'Social Security and Retirement: An International Comparison', *American Economic Review*, 88 (2), May, 158-63 161
10. Zvi Bodie, Alan J. Marcus and Robert C. Meiton (1988), 'Defined Benefit versus Defined Contribution Pension Plans: What Are the Real Trade-offs?', in Zvi Bodie, John B. Shoven and David A. Wise (eds), *Pensions in the US Economy*, Chapter 5, Chicago: University of Chicago Press, 139-60 167
11. Peter A. Diamond (1998), 'The Economics of Social Security Reform', in R. Douglas Arnold, Michael J. Graetz and Alicia H. Munnell (eds), *Framing the Social Security Debate: Values, Politics, and Economics*, Washington, DC: National Academy of Social Insurance, 38-64, references 189
12. Henry J. Aaron and Robert D. Reischauer (1998), 'The Case for Preserving Social Security: How Should It Be Done?', in *Countdown to Reform: The Great Social Security Debate*, Chapter 6, New York: Century Foundation, 91-116, notes 218
13. Martin Feldstein (1996), 'The Missing Piece in Policy Analysis: Social Security Reform', *American Economic Review*, 86 (2), May, 1-14 247
14. Peter A. Diamond (1996), 'An Economist's Perspective', excerpt from 'Social Security Reform in Chile: Two Views', in Peter A. Diamond, David C. Lindeman and Howard Young (eds), *Social Security: What Role for the Future?*, Washington, DC: National Academy of Social Insurance, 213-24 261

## **PART II POVERTY RELIEF, DISTRIBUTION AND REDISTRIBUTION**

### **A Targeting**

15. Burton A. Weisbrod (1969), 'Collective Action and the Distribution of Income: A Conceptual Approach', in *The Analysis and Evaluation of Public Expenditures: The PPB System; A Compendium of Papers Submitted to the Subcommittee on Economy in Government of the Joint Economic Committee, Congress of the United States*, Washington, DC: US Government Printing Office, 177-97 277
16. George A. Akerlof (1978), 'The Economics of "Tagging" as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning', *American Economic Review*, 68 (1), March, 8-19 298
17. Timothy Besley and Ravi Kanbur (1993), 'The Principles of Targeting', in Michael Lipton and Jacques van der Gaag (eds), *Including the Poor*, Chapter 3, Washington, DC: World Bank, 67-90, references 310

18. Nicholas Stern (1982), 'Optimum Taxation with Errors in Administration', *Journal of Public Economics*, **17** (2), March, 181-211 335
19. Albert L. Nichols and Richard J. Zeckhauser (1982), 'Targeting Transfers through Restrictions on Recipients', *American Economic Review*, **72** (2), May, 372-7 366

## **B Measuring Income Poverty**

20. Alan Gillie (1996), 'The Origin of the Poverty Line', *Economic History Review*, **XLIX** (4), November, 715-30 375
21. Martin Ravallion (1996), 'Issues in Measuring and Modelling Poverty', *Economic Journal*, **106**, September, 1328-13 391
22. Shubham Chaudhuri and Martin Ravallion (1994), 'How Well Do Static Indicators Identify the Chronically Poor?', *Journal of Public Economics*, **53**(3), 367-94 407
23. Peter Gottschalk (1997), 'Inequality, Income Growth and Mobility: The Basic Facts', *Journal of Economic Perspectives*, **11** (2), Spring, 21-40 435
24. W. Beckerman (1979), 'The Impact of Income Maintenance Payments on Poverty in Britain, 1975', *Economic Journal*, **89** (354), June, 261-79 455

## **C Measuring Inequality**

25. A.B. Atkinson (1997), 'Bringing Income Distribution, in from the Cold', *Economic Journal*, **107** (441), March, 297-321 477
26. A.B. Atkinson, Lee Rainwater and Tim Smeeding (1995), 'Income Distribution in European Countries', in A.B. Atkinson (ed.), *Incomes and the Welfare State: Essays on Britain and Europe*, Chapter 2, Cambridge: Cambridge University Press, 41—63, notes, references 502
27. Peter Gottschalk and Timothy M. Smeeding (1997), 'Cross-National Comparisons of Earnings and Income Inequality', *Journal of Economic Literature*, **XXXV** (2), June, 633-87 527
28. Edward N. Wolff (1996), 'International Comparisons of Wealth Inequality', *Review of Income and Wealth*, **42** (4), December, 433-51 582

## **D Charity**

29. Robert Sugden (1982), 'On the Economics of Philanthropy', *Economic Journal*, **92** (366), June, 341-50 603
30. James Andreorri (1990), 'Impure Altruism and Donations to Public Goods: A Theory of Warm-glow Giving', *Economic Journal*, **100** (401), June, 464-77 613

31. Richard M. Titmuss (1970), excerpt from 'Who is My Stranger?', in  
' *The Gift Relationship: From Human Blood to Social Policy*, Chapter  
13, Sections I-IV, London: George Allen and Unwin, 209-24 627
32. Julian Le Grand (1997), 'Afterword', in Richard M. Titmuss, Ann  
Oakley and John Ashton (eds), *The Gift Relationship: From Human  
Blood to Social Policy*, Chapter 19, London: LSE Books, 333-9,  
references 643

*Name Index*

651

# Economic Theory, and the Volume III

*Edited by*

*Reader in Economics*

*London School of Economics and Political Science, UK*

THE INTERNATIONAL LIBRARY OF CRITICAL WRITINGS IN ECONOMICS

Am Elgar Reference Collection  
Cheltenham, UK ° Northampton, MA, USA

An introduction by the editor to all three volumes appears in Volume I

**PART I HEALTH AND HEALTH CARE**

**A Health**

1. Robert G. Evans (1996), 'Health, Hierarchy and Hominids - Biological Correlates of the Socioeconomic Gradient in Health', in A.J. Culyer and Adam Wagstaff (eds), *Reforming Health Care Systems: Experiments with the NHS, Proceedings of Section F (Economics) of the British Association for the Advancement of Science, Loughborough 1994*, Chapter 3, Cheltenham, UK and Brookfield, VT: Edward Elgar, 35-64 5
2. Richard Wilkinson (1996), 'The Social Economy of Health', in *Unhealthy Societies: The Afflictions of Inequality*, Chapter 1, London and New York: Routledge, 1-9 35
3. Judith Shapiro (1995), 'The Russian Mortality Crisis and Its Causes', in Anders Aslund (ed.), *Russian Economic Reform at Risk*, Chapter 8, London and New York: Pinter, 149-78 44
4. Julian Le Grand (1987), 'Inequalities in Health: Some International Comparisons', *European Economic Review*, 31, 182-91 74
5. John Broome (1978), 'Trying to Value a Life', *Journal of Public Economics*, 9(1), February, 91-100 84
- James M. Buchanan and Roger L. Faith (1979), 'Trying Again to Value a Life', *Journal of Public Economics*, 12 (2), October, 245-8 94
- M.W. Jones-Lee (1979), 'Trying to Value a Life: Why Broome Does Not Sweep Clean', *Journal of Public Economics*, 12 (2), October, 249-56 98
- Alan Williams (1979), 'A Note on "Trying to Value a Life"', *Journal of Public Economics*, 12 (2), October, 257-8 106
- John Broome (1979), 'Trying to Value a Life: A Reply', *Journal of Public Economics*, 12 (2), October, 259-62 108

## B The Economics of Health Care

6. Henry Aaron (1981), 'Economic Aspects of the Role of Government in Health Care', in Jacques van der Gaag and Mark Perlman (eds), *Health, Economics, and Health Economics: Proceedings of the World Congress on Health Economics, Leiden, The Netherlands, September 1980*, Amsterdam: North Holland, 15-32 115
7. Julian Le Grand (1996), 'Equity, Efficiency and Rationing of Health Care' in A.J. Culyer and Adam Wagstaff (eds), *Reforming Health Care Systems: Experiments with the NHS, Proceedings of Section F (Economics) of the British Association for the Advancement of Science, Loughborough 1994*, Chapter 8, Cheltenham, UK and Brookfield, VT: Edward Elgar, 150-63 133
8. Robert G. Evans (1974), 'Supplier-Induced Demand: Some Empirical Evidence and Implications', in Mark Perlman (ed.), *The Economics of Health and Medical Care*, Chapter 10, London: Macmillan, 162-73 147

## C Allocating Health Care Resources Efficiently

9. Victor R. Fuchs (1996), 'Economics, Values, and Health Care Reform', *American Economic Review*, 86 (1), 1-24 161
10. Howard Glennerster and Julian Le Grand (1995), 'The Development of Quasi-Markets in Welfare Provision in the United Kingdom', *International Journal of Health Services*, 25 (2), 203-18 185
11. Alan Williams (1985), 'Economics of Coronary Artery Bypass Grafting', *British Medical Journal*, **291**, 3 August, 326-9 201
12. Bernie J. O'Brien, Martin J. Buxton and Brian A. Ferguson (1987), 'Measuring the Effectiveness of Heart Transplant Programmes: Quality of Life Data and Their Relationship to Survival Analysis', *Journal of Chronic Disease*, 40 (Suppl. 1), 137S-53S 205
13. Michael Parsonage and Henry Neuburger (1992), 'Discounting and Health Benefits', *Health Economics*, **1**, 71-6 222

## D The Distribution of Health Care

14. A.J. Culyer and Adam Wagstaff (1993), 'Equity and Equality in Health and Health Care', *Journal of Health Economics*, **12** (4), 431-57 231
15. Eddy van Doorslaer, Adam Wagstaff *et al.* (1992), 'Equity in the Delivery of Health Care: Some International Comparisons', *Journal of Health Economics*, **11** (4), December, 389-411 258
16. Adam Wagstaff, Eddy van Doorslaer *et al.* (1992), 'Equity in the Finance of Health Care: Some International Comparisons', *Journal of Health Economics*, **11** (4), December, 361-87 281

PART II EDUCATION

**A The Economics of Education**

17. Mark Blaug (1976), 'The Empirical Status of Human Capital Theory: A.Slightly Jaundiced Survey', *Journal of Economic Literature*, XIV (3), September, 827-55 313
18. Mark Blaug (1985), 'Where Are We Now uvthe Economics of Education?', *Economics of Education Review*, 4 (1), 17-28 342
19. Joseph E. Stiglitz (1975), 'The Theory of "Screening", Education, and the Distribution of Income', *American Economic Review*, 65 (3), June, 283-300 354

**B School Education ! '**

20. Mark Blaug (1984), 'Education Vouchers - It All Depends on What You Mean', in Julian Le Grand and Ray Robinson (eds), *Privatisation and the Welfare State*, Chapter 11, London: George Allen and Unwin, 160-76, references 375
21. Howard Glennerster (1991), 'Quasi-markets for Education?', *Economic Journal*, 101 (408), September, 1268-76 393
22. Dennis Epple and Richard E. Romano (1998), 'Competition Between Private and Public Schools, Vouchers, and Peer-Group Effects', *American Economic Review*, 88 (1), March, 33-62 402
23. Eric A. Hanushek (1986), "The Economics of Schooling: Production and Efficiency in Public Schools', *Journal of Economic Literature*, XXIV (3), September, 1141-77 432
24. Eric A. Hanushek (1996), 'Measuring Investment in Education', *Journal of Economic Perspectives*, 10 (4), Fall, 9-30 469
- > 25. Christopher Jencks and Meredith Phillips (1998), 'The Black-White Test Score Gap', *Brookings Review*, 16 (2), Spring, 24, 26-7 491
26. Claude S. Fischer, Michael Hout, Martin Sanchez Jankowski, Samuel R. Lucas, Ann Swidler and Kim Voss (1996), excerpts from 'Why Inequality?', and 'Race, Ethnicity, and Intelligence', in *Inequality by Design: Cracking the Bell Curve Myth*, Chapters 1 and 8, Princeton: Princeton University Press, 3-18, notes and references, 171-5, notes and references 494

**C Financing Higher Education**

27. Nicholas Barr (1998), 'Higher Education in Australia and Britain: What Lessons?', *Australian Economic Review*, 31 (2), June, 179-88 521
28. W. Lee Hansen and Burton A. Weisbrod (1969), 'The Distribution of Costs and Direct Benefits of Public Higher Education: The Case of California', *Journal of Human Resources*, IV (2), Spring, 176-91 531

*Economic Theory and the Welfare State III*

29. Milton Friedman (1962), 'The Role of Government in Education', in *Capitalism and Freedom*, Chapter VI, Chicago: University of Chicago Press, 85-107 547
30. Howard Glennerster, Stephen Merrett and Gail Wilson (1968), 'A Graduate Tax', *Higher Education Review*, 1 (1), Autumn, 26-38 570
31. Nicholas Barr (1991), 'Income-contingent Student Loans: An Idea Whose Time has Come', in G.K. Shaw (ed.), *Economics, Culture and Education: Essays in Honour of Mark Blaug*, Chapter 13, Aldershot, UK and Brookfield, VT: Edward Elgar, 155-70, references 583
32. Paul Grout (1983), 'Education Finance and Imperfections in Information', *Economic and Social Review*, 15 (1), October, 25-33 601
33. Bruce Chapman (1997), 'Conceptual Issues and the Australian Experience with Income Contingent Charges for Higher Education', *Economic Journal*, **107** (442), May, 738-51 610

*Name Index*

625