Contents

	Boxes Figures	xix xxi
	Tables	xxiii
Part 1	Concepts	
• • • • • •	***************************************	************
1	Introduction	3
2	Political theory: Social justice and the state	22
3	Economic theory 1: State intervention	41
4	Economic theory 2: Insurance	83
5	Problems of definition and measurement	102
	Cash Benefits	
6	Insurance: Unemployment, sickness, and disability	135
7	Consumption smoothing: Old-age pensions	152
8	Poverty relief	189
9	Strategies for reform	210
Part 3	Benefits in Kind	
10		~ * * * * * * * * * * * * * * * * * * *
10	Health and health care	231
11	School education	266
12	Tertiary education	299
	Epilogue	
13	Conclusion	336
Refere	ences	349
Glossa	ary	365
	or Index	371
Subjec	ct Index	375

Detailed Contents

List of Boxes List of Figures List of Tables		xix xxi xxiii	
Part 1	Cor	ncepts	
1	Inti	roduction	3
	1.1	The approach	3
	1.2	Defining the welfare state	7
	1.3	Objectives of the welfare state	10
	1.4	Finance	14
		1.4.1 Definitional issues	14
		1.4.2 Incidence considerations	15
	1.5	1.4.3 Redistribution: Preliminary discussion	16
	1.5	A changing world: Challenges and responses	18
2	Poli	itical theory: Social justice and the state	22
	2.1	Theories of society	22
	2.2	Libertarian views	23
	2.3	Liberal theories of society	25
		2.3.1 Utilitarianism	25
		2.3.2 Rawls on social justice	27
	2.4	Collectivist views	30
		2.4.1 Democratic socialism 2.4.2 Marxists	30
	2.5	Implications for the role of the state	31
	2.5	2.5.1 Theoretical issues	34 34
		2.5.2 Policy implications	35
		2.5.3 Attitudes towards the welfare state	36
		Appendix: Non-technical summary of Chapter 2	39
3	Eco	nomic theory 1: State intervention	41
	3.1	The formal structure of the problem	41
	3.2	Why economic efficiency is one of the aims of policy	43
		3.2.1 The concept of economic efficiency	43
		3.2.2 The relevance of efficiency to different theories of society	46

×iv

	3.3	Intervention for reasons of efficiency	49
		3.3.1 The Fundamental Theorems of welfare economics in a first-best economy	49
		3.3.2 Deviations from first best: Imperfect competition, public goods, externalities, and increasing returns to scale	51
		3.3.3 Deviations from first-best: The economics of information	53
		3.3.4 Deviations from first best: Behavioural economics	57
		3.3.5 Deviations from first best: Incomplete markets	59
		3.3.6 Deviations from first best: Distortionary taxation	61
		3.3.7 Conclusion: Why do we have a welfare state?	62
	3.4	Intervention for reasons of social justice	64
		3.4.1 Why does redistribution occur?	64
		3.4.2 Redistribution in cash or kind?	67
		3.4.3 Horizontal equity	69
		3.4.4 Is there enough redistribution?	70
	3.5	Public choice and government failure	70
	3.6	From theory towards policy: The issue of privatization	71
	3.7	Conclusion: Economic and political theory	75
		3.7.1 Drawing the borderlines between government and markets	75
		3.7.2 Achieving policy aims: A liberal view	76
		3.7.3 The debate with libertarians	77
		Appendix: Non-technical summary of Chapter 3	80
4	Eco	nomic theory 2: Insurance	83
	4.1	Introduction	83
	4.2	The demand for insurance	83
		4.2.1 Individual demand	83
		4.2.2 The nature of the product: Insurance as a mechanism for risk sharing	85
		4.2.3 An example: Annuities	86
	4.3	The supply side	88
		4.3.1 Incomplete markets: The supply of insurance	88
		4.3.2 Asymmetric information	90
	4.4	The insurance market as a whole: Private and social insurance	94
		4.4.1 The existence and efficiency of private insurance markets	94
		4.4.2 Social insurance	97
		Appendix: Non-technical summary of Chapter 4	100
5	Pro	blems of definition and measurement	102
	5.1	Measuring welfare	102
		5.1.1 Individual welfare	102
		5.1.2 Social welfare	106
	5.2	Poverty	108
		5.2.1 Defining poverty	108

		5.2.2 Poverty and inequality	111
		5.2.3 Measuring poverty	113
		Inequality 1: Individuals and families	115
	5.3	5.3.1 Defining equality and inequality	115
		5.3.2 Gender	117
		5.3.3 Measuring inequality between individuals	118
		5.3.4 Measuring inequality between families	119
	5.4	Inequality 2: Aggregate measures	120
	5.4	5.4.1 The descriptive approach	121
		5.4.2 Inequality measures based on a social-welfare function	124
		5.4.3 Inequality: Some empirical results	126
	5.5	Conclusion	128
	5.5	Appendix: Non-technical summary of Chapter 5	131
Part 7	Cas	sh Benefits	
*****		. * * * * * * * * * * * * * * * * * * *	135
6	Ins	urance: Unemployment, sickness, and disability	135
	6.1	Introduction	135
		6.1.1 The issues	137
		6.1.2 Institutional arrangements	138
	6.2	Theoretical arguments for state intervention	138
		6.2.1 Efficiency 1: Regulation	139
		6.2.2 Efficiency 2: Public provision6.2.3 A view to the future: Long-term-care insurance	142
		6.2.4 Social justice	143
			145
	6.3	Assessing the options 6.3.1 Background questions	145
		6.3.1 background questions 6.3.2 Incentive issues	147
		6.3.3 Equity issues	149
7	' Co	onsumption smoothing: Old-age pensions	152
	7.	Introduction	152
	7.2	2 Methods of organizing pensions	154
		7.2.1 Pay-As-You-Go (PAYG) and funding	154
		7.2.2 The relation between contributions and benefits	155
		7.2.3 Preliminary comparison	157 157
		7.2.4 Overview of institutions	
	7.	3 Efficiency arguments for state intervention	158
		7.3.1 The microeconomics of pensions	158
		7.3.2. The macroeconomics of pensions: Funding, saving, and growth	165

DETAILED CONTENTS

		7.3.3 Political economy aspects: Funding and property rights	170
	7.4	Social justice	171
		7.4.1 Public-versus-private provision	171
		7.4.2 The redistributive effects of pensions	172
	7.5	Assessing the options	175
		7.5.1 Background questions	175
		7.5.2 Incentive issues	176
		7.5.3 Addressing demographic change	177
		7.5.4 Pension design: What are the options?	180
		7.5.5 Conclusion	187
8	Pov	erty relief	189
	8.1	Introduction	189
	8.2	Theoretical arguments for state intervention	191
		8.2.1 Why state intervention	191
		8.2.2 What form of intervention: The simple analytics of targeting	192
	8.3	Assessing the options	195
		8.3.1 Income-tested benefits	195
		8.3.2 Working tax credits	198
		8.3.3 Family support	200
		8.3.4 The poverty and unemployment traps	201
		8.3.5 Empirical issues and evidence	203
		8.3.6 Conclusion	208
9	Stra	tegies for reform	210
	9.1	Approaches to income support	210
	9.2	Income-testing: The negative income-tax approach	211
		9.2.1 The idea	211
		9.2.2 An assessment of large-scale negative income-tax proposals	212
		9.2.3 The role of a small-scale negative income tax	219
	9.3	Indicator-targeting: The 'Back-to-Beveridge' approach	220
		9.3.1 The idea	220
		9.3.2 An example	222
	9.4	Mixed strategies	222
	9.5	Conclusion: Cash benefits	223
Part 3	Ben	efits in Kind	
10	Hea	lth and health care	231
	10.1	Introduction	231
	10.2	Aims	232

170

		10.2.1 Concepts	232
		10.2.2 Efficiency: Measuring costs and benefits	234
		10.2.3 Measuring the distribution of health and health care	235
	10.3	Methods	238
		10.3.1 Theoretical arguments for intervention 1: Efficiency	238
		10.3.2 Theoretical arguments for intervention 2: Equity	244
		10.3.3 Types of intervention	246
	10.4	Assessing the options	250
		10.4.1 Overview	250
		10.4.2 Containing medical spending: A pervasive problem	251
		10.4.3 Private finance plus private production: Archetype the USA	254
		10.4.4 Public finance plus public production: Archetype the UK	256
		10.4.5 Public finance plus private production: Archetype Canada	262
	10.5	Conclusion	263
11	Scho	ol education	266
	11.1	Introduction	266
	11.2	Aims	266
		11.2.1 Concepts	266
		11.2.2 Efficiency: Measuring costs and benefits	268
		11.2.3 Measuring the distribution of education	273
	11.3	Methods	276
		11.3.1 Theoretical arguments for intervention 1: Efficiency	276
		11.3.2 Theoretical arguments for intervention 2: Equity	278
		11.3.3 Types of intervention	279
	11.4	Assessing the options	281
		11.4.1 Overview	281
		11.4.2 Optimizing education spending	288
		11.4.3 Education vouchers: Introducing market mechanisms	289
		11.4.4 Systems with some competition	291
		11.4.5 Systems with more competition	293
	11.5	Conclusion	296
12	Terti	iary education	299
	12.1	Introduction	299
	12.2	Aims	300
		12.2.1 General aims	300
		12.2.2 Specific aims of higher education policy	300
	12.3	Methods	301
		12.3.1 Theoretical arguments for intervention 1: Efficiency	301
		12.3.2 Theoretical arguments for intervention 2: Equity	305
		12.3.3 Types of intervention	305

×viii

	12.4	Assessing the options	310
		12.4.1 Overview	310
		12.4.2 Strategy element 1: Variable fees	310
		12.4.3 Strategy element 2: A well-designed loan scheme	317
		12.4.4 Strategy element 3: Action to widen participation	320
		12.4.5 What role for government?	
			327
		12.4.6 Why not other options	330
	12.5	Conclusion	332
Part 4	Epilo	ogue	

13	Conc	clusion	336
	13.1	Arguments for a welfare state	336
		13.1.1 Theory	336
		13.1.2 Policy	337
		13.1.3 Why have a welfare state?	340
	13.2	A changing world: Debates	341
		13.2.1 Is the welfare state desirable?	341
		13.2.2 Is the welfare state sustainable?	343
Referer	nces		349
Glossa	ry		365
Author	,		371
Subject Index			375