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1 Overview

Timothy Taylor

The structure of this volume is straightforward. The first four papers each focus on a high-profile service industry: child care, education, health care, and long-term care for the elderly. The remaining six papers focus in various ways on how social science, and economic methodology in particular, might grapple with the sorts of issues raised by these four service industries. Each paper is followed by a discussant's comment.

This overview has three objectives. I present an overall orientation toward the volume, with brief summaries of the papers. I spend somewhat more space offering a description of the roundtable discussions that took place at the conference. This description is not exhaustive: it is one person's perspective on what it was like to attend the conference. Finally, I offer a few thoughts of my own about why the child care, education, health, and long-term care services discussed here pose special difficulties for economists and for public policy.

1.1 Child Care

Child care is often viewed as custodial: a service provided so that mothers can earn money in the paid labor market. This issue is important, of course; it's tied up with efforts of middle-class mothers to build economic security for their families, and it's tied up with helping poor mothers get off welfare and into work. In fact, Arleen Leibowitz makes the interesting point that welfare can be viewed as a child care program, in which the government pays many of the mothers who are most economically vulnerable to stay home and look after children.

But in her paper in this volume, Leibowitz focuses instead on the notion of

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child care as an investment in the human capital of tomorrow's adults. Her paper discusses various types of child care, issues surrounding the quality and financing of such care, and the possible role for government involvement. Leibowitz points out that the gains may be especially large for children starting off on the bottom rungs of America's socioeconomic ladder. Good-quality child care may provide a start in life that makes success in school more likely, and thus offers a start toward a middle-class economic future. Moreover, although there is less evidence on this point, child care may serve as an early intervention that helps to counteract neighborhood pathologies of crime, abuse, and children giving birth to other children. As one conference participant put it, in discussing the life of many children who grow up in poor inner-city areas, "[t]he harm is so great right now, one might choose something else just in desperation."

But if there is a general sense that improved access to child care might greatly benefit at least some children and mothers, society must develop a greater consensus on a number of issues before any substantial policy change is likely to be adopted. Some of the issues raised in the discussion at the conference went to the heart of child care policy.

For example, any public subsidy to child care is necessarily an encouragement to mothers to put their children into such programs. But how strongly should society encourage mothers to put their children into child care? Perhaps the tax credit for child care should be expanded, although this affects mainly working mothers. Perhaps a portion of Aid to Families with Dependent Children (AFDC) or child-support payments might be earmarked for child care; this would affect mainly single mothers. Perhaps, given the evidence on how child care provides relatively greater benefits to socioeconomically disadvantaged children, one might require as a condition of receiving welfare that mothers put their children into a registered child care program.

When society offers a subsidy, whether for child care or anything else, it usually comes with strings attached. At the extreme, one might envision direct federal provision of day care. However, no one at this conference spoke out in favor of such an extreme step. Some opposed anything resembling such a step with particular vehemence, arguing that a federally provided system would come loaded down with costly regulations: about types of toys; curriculum for the preschoolers; details about buildings where child care would be provided, including plumbing, electricity, entry and exit, and construction; specifications for advanced education, experience, and training for child care workers and administrators; and so on and so on.

The conference discussion among economists (many of whom are also parents) illustrated that parents have strong and differing feelings about the provision of child care. Some would prefer a well-run institution, with regular hours, professional staff, and lots of flexibility for those days when the parents are running a bit early or late. Others would prefer the proverbial middle-aged

woman who loves kids and sets up a small day care establishment in her home. Still others would prefer a live-in nanny or au pair. Along with different preferences for how child care should be provided, those at the conference expressed varying preferences for how their two-year-old should best spend a day. Some would emphasize more structured and particular learning: making sure that two- and three-year-olds learn colors and shapes and counting to ten. Others prefer that their preschoolers learn to play with others and to have good associations with attending school. Social science studies have offered little guidance on the "best" sort of child care, if such care exists.

As Leibowitz points out in her paper, and the conference discussion acknowledged, families will play the key role in determining the type of care their children receive. But this raises the potential problem of segregating children at an early age, whether by income, ethnicity, type of curriculum, or some other standard. On the other side, one participant in the discussion pointed out that any segregation in day care will probably be no worse than the de facto segregation that already exists both between school districts and within schools. Given that adults are probably more integrated in their work arrangements than in their housing patterns, child care that was provided close to the workplace might end up more socioeconomically and ethnically integrated than many school districts.

1.2 Education

Eric Hanushek has led the way in pointing out some uncomfortable facts about the lack of any significant correlation between educational inputs and outputs. For example, U.S. education spending over the last century has increased at triple the growth rate of the gross domestic product. Real per-student expenditures quintupled from 1890 to 1940—and then quintupled again from 1940 to 1990. Yet even as the commitment of resources was rising, the performance of the U.S. educational system, as measured by a variety of standardized tests and international comparisons, has been declining.

Hanushek's paper in this volume discusses why the debate over improving the schools seems to emphasize increasing expenditures, rather than improvements in the quality of schooling. For example, many policy discussions come close to defining school quality or concerns over equity as a matter of the level or equality of spending, rather than focusing on the efficiency of that spending. Although claims are often made that education has positive externalities that justify greater spending, Hanushek points out that, when one presses for a definition and magnitude of the externalities that would result from increases in education spending above present levels, they often become vague and difficult to grasp.

Most of the discussion at the conference focused on evidence that increasing inputs to education have not bought much in the way of measurable outputs. It

was noted that opponents of higher funding for education have seized on the lack of a statistical correlation, while supporters of higher funding for schools have been outraged by a conclusion that, to them, sounds like a cover-up for hard-heartedness. Such controversies often seem to surround empirical work. It's been said that a person with one watch knows what time it is, while a person with two watches can never be sure. In a similar spirit, it might be asserted that a social scientist with one regression study always knows the correct answer, but a social scientist with many regression studies can never be sure. Yet in the discussion of Hanushek's paper at the conference, the distinctions over more or less dollars seemed less black and white than they are typically presented.

If society were to contemplate a massive infusion of resources into the existing, unreformed public school system, there's no particular reason to believe that the output of schools would improve. (Of course, in these days of budgetary stringency, not many public schools are contemplating a mass infusion of resources.) However, there are certainly cases in particular school districts where more money was spent in combination with certain reforms in a way that led to improvement in test scores, dropout rates, or other measures of educational achievement. Thus, one might restate Hanushek's point to be that money alone won't save the schools. But reorganization, perhaps in combination with targeted additional money, might offer educational benefits. Even if money itself is not what improves the system, perhaps additional money can buy a willingness to change that would otherwise be absent.

Thus, rather than arguing over the level of resources, a useful discussion of educational reform might focus instead on what actual changes should take place, either with or without additional money. Among the ideas floated at the conference:

Increase the Quantity of Education. Hanushek points out that, in terms of years of school completed, America's level of educational attainment leveled off about two decades ago. One might increase the raw quantity of education either by providing greater encouragement for students to proceed with higher education, or increase the quantity of K–12 education with steps like longer school days, more homework, or longer school years. Of course, most of these ideas cost resources, including the time of teachers, staff, or parents.

Improve the Quality of Teachers. Everyone remembers the dynamic impact of a good teacher, and the frustration of trying to learn with a poor one. The present system tends to reward teachers by seniority or paper qualifications, however, rather than by the job they do in the classroom. Many proposed changes for the education system are best thought of as mechanisms for rewarding good teachers. For example, the hope behind a voucher system is that students won't be trapped with worse teachers, and can seek out better ones.

Other common proposals are to allow teachers to start their own charter schools, to encourage principals or "master teachers" to evaluate teaching directly. One powerful way to evaluate any proposal for education is to ask about the ways in which it rewards good teachers and penalizes poor ones.

Focus the Curriculum on Modern Job Skills. One role for education is to create a pathway into the workforce. Even without raising test scores, it may be possible to teach information and skills that will help students make this transition more smoothly. At a simple level, this could mean teaching word-processing literacy rather than typing, and spreadsheet literacy along with high school math. But at a deeper level, it may mean building ties between industry and schools—perhaps through apprenticeships—so that a high school degree once again begins to certify readiness for at least certain jobs, instead of merely proving that the student reached the age of consent without acting badly enough to be kicked out.

Separate the Education and Social Service Budgets. Several discussants noted that schools have taken on more and more tasks that are socially important but are not basic skills of education: security screening for safe halls and classrooms; free breakfasts and lunches; driver's education; conflict resolution; counselling; sex and drug information; after-school programs that may be best understood as day care for busy parents; and so on. Many of these programs are important and productive. As one conference participant said, education should be multidimensional, "not just aimed at buying a better car when you're forty." But there is nonetheless a danger that the tail of extra services, each one arguably useful in its own way, could end up wagging the dog of education. To clarify the trade-offs, it might be useful to budget separately for certain social functions of the schools. At worst, this would provide an additional dimension of data for social scientists to exploit; at best, it might lead to a more productive public debate over how the resources available to schools should be allocated.

Remember the Complements to Education. How children perform in school depends heavily on factors outside the control of the school, like parental time and involvement, decent meals, whether the child arrived in kindergarten or first grade ready to learn, whether parents are in the labor market, and whether the neighborhood is safe. Health care economists accept, almost as commonplace, the insight that reforming exercise and diet patterns would have a far greater impact on American health than any conceivable change in how the country finances medical care. Similarly, focusing on these complements to education may provide a greater boost to learning than most changes proposed for the educational system itself. In fact, Victor Fuchs has entertained the thought experiment that transferring money out of K–12 education to certain of these complements to education might increase overall learning.

1.3 Health Care Financing

For supporters of far-reaching reform of America's system of health care finance, 1993 and 1994 were dispiriting years. It seemed widely agreed that a system that gobbles 15% of GDP, while failing to provide health insurance for millions of Americans and threatening millions of others with lost coverage, should have some room for improvement. But after a year of intense discussion following the introduction of President Clinton's health care plan, nothing happened. Not a major reform, not a minor reform, just nothing. In fact, by the time everything was said and left undone, it wasn't even clear that health care's eighteen months in the public spotlight had enhanced America's understanding of the issues, or laid the framework for a better reform.

Henry Aaron's paper can be read as an exploration of why health care reform proved such an intractable problem. Politics played a role, of course. But Aaron argues that the key problems are central to the nature of the health care industry and the inherited patterns of how the United States provides health care. For example, new technology is driving up the cost of health care. Because of tax breaks and limited information, households have a distorted perspective on how much health insurance they need. The U.S. "system of health care" is a misnomer, Aaron argues, because of the vast number of overlapping policies and institutions, public and private, which determine how health care is provided. And yet some group has a personal stake in every one of these institutions, and thus is loath to see it changed.

Given the collapse of grand attempts at health care reform, the present agenda seems to involve thinking of smaller reforms that would be useful in themselves, and would lead toward an improved system. Aaron's paper, for example, advocates "the creation of some form of regionally based, politically legitimated, administratively capable entity (or entities) [able] to enforce order in the financing of health care." Such entities appeared in many reform proposals, both legislative and academic. In his comment, Martin Feldstein raises some other possibilities, like changing the tax exclusion for employer-provided health insurance, or medical savings plans. Other possible steps to consider included guaranteed renewal of policies, a prohibition against considering preexisting conditions, helping to build capitated health care plans (which operate with a preset annual budget), and so on.

During the discussion at the conference, however, doubts were expressed about each of these incremental steps, as well. Even if successful, it's not clear how steps like these would help the working poor who aren't presently covered and would have a hard time paying for insurance. Even if certain of the incremental reforms would work in a technical sense, it's not clear they are politically acceptable in the present poisoned atmosphere.

This conference, in October 1994, was not a cheerful time to discuss prospects for health care reform. But as Aaron points out, the problems that led to

pressure for reform, like rising costs and fears of losing health insurance coverage, are not going away. In one form or another, the issues will surface again.

1.4 Long-Term Care

The post–World War II baby boom hit the school system in the 1950s and 1960s, and washed into the labor market in the 1970s and 1980s. Ten or twenty years into the twenty-first century, this group will start receiving Social Security. Not too many years after that, they will enter the age bracket that makes heavy use of long-term care, a broad category that covers everything from a little in-home help with meals or cleaning to institutional care in a nursing home or hospice.

Alan Garber's paper lays out the dimensions of this issue: what is actually involved in long-term care; what proportion of the population is likely to make use of such care; how Medicare and Medicaid presently cover such care; and what the options are for providing such care to the baby boom generation. Garber argues that planning for a future transfer program, from the working-age population to the elderly, is not likely to be economically or politically sustainable. Thus, the solution must be to find ways where the baby boom generation taken as a group saves the money to pay for its future long-term care needs.

Private insurance is one way in which this sort of saving might occur, but neither Garber, nor his discussant, John Shoven, nor the discussion that followed seemed very sanguine about the future of greatly expanding private insurance for long-term care. After all, why purchase insurance for catastrophic expenditures on long-term care, since Medicaid pays for such care already after an elderly person's resources are depleted? Why purchase insurance for long-term care several decades away, given the possibility that the government will create a program to finance such care? Drawing up a contract for long-term care that defines what assistance will be provided several decades in the future, under what terms, seems extraordinarily difficult. As Shoven documents, existing private contracts don't seem to offer an especially good deal to a forward-looking consumer; presumably, myopic consumers not worried about what happens a few decades in the future won't be all that interested in long-term care insurance, either.

Perhaps the most severe problem with depending on people to purchase private insurance for long-term care is that, while such care may end up as a necessity for many people, it is not a necessity that it is cheerful to contemplate. The whole notion of needing nursing home care is deeply unattractive. To many potential customers, buying insurance for long-term care sounds like a way of making sure that when you are old and withered, having difficulties dressing or feeding yourself, perhaps incontinent or senile, that you will have well-mannered, well-trained, well-dressed attendants looking after you. As one

participant in the discussion put it, "I'd prefer a vial of sleeping pills and a plastic bag." I find it more pleasant to contemplate the fruits of my life insurance policy—that is, in which loved ones have a windfall income after my death—than to contemplate using a long-term care insurance policy.

But even if private insurance doesn't provide it, the need for long-term care won't go away. Without some social intervention, much of the burden seems likely to fall on the middle-aged children of the elderly who need care, and particularly on the daughters. This could have powerful implications for the labor supply of midcareer women.

The conference discussion recognized that any serious effort to deal with the coming need for long-term care must look at both benefit levels and finance. On the benefits side, a program for long-term care needs to recognize that such care forms a spectrum, ranging from providing a few meals to a person living at home to full and intensive nursing home care. Presumably, one wants to build a system where people are encouraged to be as independent as possible, to stay in the home and with their natural support system as long as possible. This framework argues for not insuring people against the milder or shorter forms of home care, like assistance in preparing meals or a one-week stay in a nursing home. (If people have insurance for receiving help around the house, the size of the program could easily overwhelm public budgets.) For those unlucky enough to have severe and ongoing long-term care needs, however, an insurance program may be useful. The challenge on the benefits side is to draw the line.

On the finance side, a program for long-term care needs to recognize that, even if one accepts the need for a system of required contributions (in the belief that private markets aren't going to meet the need), this system can still be structured in many ways. For example, it could be a general tax revenue program, a Social Security extension, a special version of medical savings plans, or some other method. These different sources of funding can easily have very different consequences for whether the program is sustainable in the long-term, or whether it has built-in momentum to overexpand, as is discussed in the papers by Paul Romer and Robert Frank in this volume.

1.5 Preferences, Promises, and Entitlement

Promises don't have any place in standard models of political behavior, Paul Romer points out. In such models, decisions are based on present considerations, not on words spoken in the past. Romer writes, "Promises, in the language of game theory, are just cheap talk." But clearly, in the real world, promises create in people a sense of entitlement that affects voting and the formation of policy more broadly. In turn, policy makers know that their promises do matter to some extent, and act accordingly. Romer takes on the task of explaining why rational people may have preferences that depend on the promises made by others.

Romer tackles this question by examining evidence from biology and pointing out that, in many situations, it will be useful for people to have mechanisms that help to enforce cooperative behavior. However, calling for retaliation every time someone doesn't cooperate would be an overreaction, potentially leading to a cycle of retaliation that destroys the very cooperation one is trying to build. Limiting retaliation to situations where a promise has been made can assist in building cooperation, while reducing the danger of a cycle of retaliation.

With this framework, Romer's paper uses these insights about why promises matter to reopen a set of long-standing arguments over why people vote, why negative campaigning works, why commitments and promises matter in politics, and more. In particular, he uses his argument to explain why the phrasing of promises about Social Security has been taken to be so important, both by those in favor of expanding the program and by those in favor of reining it back. His argument implies that the design of social programs and the promises surrounding their passage will influence the life expectancy of such programs, and whether they expand or contract with time.

To many economists, Romer's use of biology as evidence about rational preferences is sure to be controversial. Moreover, the idea of expanded preferences always raises a fear among economists that we are no longer testing hypotheses, but instead are making up ad hoc explanations. Of course, motivations derived from biology need to be treated with care, considered against a background of other possible motivations, and tested against a variety of empirical implications. But social scientists are not so omniscient about human motivations that they can afford to rule out any evidence that comes to hand.

1.6 Consumption Externalities

People judge their well-being in relation to those around them. Sometimes the effects of such relative valuations may be trivial, like envy that the neighbor's house has a nicer view. In other cases, as when one heart is available for transplant and three patients are waiting, the relative values can be life and death. In his work over the last few years, Robert Frank has illuminated these "consumption externalities"—that is, how the consumption of one person affects the utility of others. In this paper, he applies this framework to the design of programs for child care, education, health, and long-term care.

In many of these basic services, Frank argues, it is plausible that consumption externalities are significant. People want to make sure that their child's education is relatively good compared to that of other children, and that the care they receive in case of illness is as good as what most other people would receive. Consider a case where the government provides a basic level service to everyone who qualifies, like a K–12 education. What if a family, driven by the imperative for its children to be relatively a bit more educated, wants to purchase more than the basic service? Under the present system, the family

can put its children into private schools, but it must then pay for 100% of their education. On the other hand, if the government provided a voucher for the value of a basic education, then a family could put its children in alternate, pricier schools and only pay the additional amount.

Frank argues that the second alternative is subject to upward drift in the quantity of service provided. People will compete to ensure that their child receives somewhat more education, and political pressure will arise for the basic amount provided to keep increasing, so that those who can spend extra do not gain a relative advantage. Moreover, courts may require a certain amount of equality in the provision of basic services like education. In this way, the design of a program and the conditions under which people are allowed either to opt out or to augment the basic package create powerful incentives for the future evolution of that program.

As was pointed out in the discussion that followed, Frank's paper can be viewed as a contribution to a set of questions that come up every time the government decides to guarantee that people receive a basic level of a particular service. If the government pays for provision of the service to everyone, without a means test, then the program looms large in public budgets, and imposes a burden on taxpayers. When the government provides the service only to a defined group—say, those up to a certain income level—then there is a "notch" problem, where a small gain in income means that one is no longer eligible for the benefit. As a result, potential recipients will try to avoid exceeding that level of income. If the government tries to circumvent the notch problem by phasing out the program gradually over a range of income levels, then the phaseout creates incentives similar to a tax. For example, if the amount of public service is reduced by 50 cents every time the recipient earns an extra dollar of income, then the recipient only gains 50 cents in income by earning a dollar, which is a fairly high marginal tax rate, especially when added to the other taxes workers pay.

Frank's argument effectively says that, even if a notch problem causes counterproductive incentives, designing a program with a notch may also act as a brake on rising public expenditures on certain services. In situations where the nation is already committing a sufficient level of resources—Hanushek and Aaron would argue that education and health care fall into this category—the notch may be a useful tool. On the other side, for industries where the resource commitment probably needs to increase—Leibowitz and Garber would argue that child care and long-term care fall into this category—then allowing people to augment a basic package may make more sense.

1.7 Information

Services are hard to measure. Of course, one can count the amount of time a service provider spends on certain tasks, or the amount of money spent on services, but that's not the same thing, although we sometimes pretend that it

is. Two teachers or doctors may spend exactly the same time with students or patients, and yet offer an enormously different quality of service. In principle, at least, if information on the quality of service were describable and measurable, then people and suppliers could make more rational choices, and markets for services would work much better. Kenneth Arrow's paper focuses on the economics of information, and reinforces how markets will have difficulty dealing with a valuable, costly, intangible, nondepletable good like information.

On the surface, a call for better information may seem as bland as lukewarm milk-toast made with white bread. But the discussion following the paper brought out some interesting distinctions.

Society may not want to collect some forms of information, or allow that information to be used. For example, as it becomes possible to use the emerging knowledge of genetic codes to predict the likelihood of certain diseases, no one really wants to force those with an unlucky genetic profile to pay more for health insurance. Even though women live longer than men, most of the policies that sell long-term care insurance make no distinction in price between the sexes. Recently, there has been considerable press coverage of the hypothesis that racial differences are correlated with measures of intelligence; even if this were true (and the case is very far from proven), it is not clear that this information assists the functioning of society. In all of these cases, there is a conflict between treating people fairly as individuals and information about group tendencies or differences. In this context, just providing information may have results that few would welcome.

Information about the quality of services can spread in many ways: through newspaper and magazine reviews, guidebooks, professional rankings, and so on. Businesses may offer recommendations to employees, perhaps about day care options. Word of mouth from friends and neighbors can spread quickly. In some cases, individuals may be able to gather the information themselves; even if I can't put into precise and quantifiable terms whether I like my child's day care arrangement, I may still be capable of evaluating in ordinal terms whether I like it better than the alternatives. Care provided to one's children and to one's elderly parents are both somewhat visible to the naked eye. On the other hand, the quality of education being received in a school is perhaps more difficult to judge, at least in a visit of reasonable length. Moreover, it's harder for most people to change their child's school than it is to change a day care center. For most people, it is extremely difficult to judge the quality of medical care as it is provided, particularly the quality (or necessity) of costly high-tech medicine.

Although markets for information do not always develop readily, a firm's reputation can be thought of as a way of providing information about the quality of service provided. When you go to a McDonald's, you know with some accuracy the quality of the meal you'll receive. By contrast, a random burger joint involves higher variance. Even many nonprofits and public institutions,

like colleges and universities, see themselves as competing for students in a way that encourages them to develop a reputation.

An alternative suggestion is that even if a consumer or society can't judge the actual quality of a service as it is provided, we can often measure some outcome of the service. For example, we might try to encourage public or private mechanisms to reward surgeons with the highest success rates, or teachers whose students make the greatest gain on standardized tests, even if we don't know exactly how these results were achieved. Of course, rewarding workers without understanding how they achieved their results is not fully satisfactory, either intellectually or practically. Whenever a particular metric is used for evaluating services, there is potential for gaming the system. For example, if teachers were rewarded according to student's test scores, they might sacrifice other forms of learning to add expertise on multiple-choice exams, or at an extreme, even encourage cheating on the exams. If long-term care providers were rewarded, say, according to a survey handed out to patients or relatives, then they might spend time lobbying patients to give them high marks, or "helping" to fill out the surveys, rather than actually providing care.

These issues are real and difficult. A single accurate measure of the quality of service provided is a will-o'-the-wisp. But even partial, incomplete, occasionally unreliable information may create incentives for service providers to try harder.

1.8 Organization of Production

Different institutional forms organize the incentives and flows of information in different ways. Henry Hansmann lays out how the advantages and disadvantages of public, nonprofit, and for-profit institutions determine how they are used differently in child care, education, health, and long-term care. He finds a strong expansion of for-profit provision and predicts that, just as a wave of for-profit providers has revolutionized health care in the last twenty-five years, for-profits may dramatically alter education in the next twenty-five.

The discussion that followed, led by Joseph Grundfest's comments, focused heavily on the fluidity of these organizational forms. Public organizations may function rather differently at the local, state, and federal levels. Nonprofits may either live on donations or by selling a good or service. For-profit institutions may either compete against other firms for sales to the private sector, or bid for the right to run public services like garbage collection. Of course, public-sector or nonprofit providers behave differently in the presence of competition, and differently depending on whether that competition comes from their own kind or from for-profit institutions. Moreover, as Grundfest's comment explores in detail, organizational forms can shift. Public providers can be privatized, nonprofits can take on for-profit status, or the public sector can decide to subsidize or provide directly in competition with other providers.

Amid all this turmoil, some directions seem clear. For-profit institutions are

spreading. While economists are rarely surprised by the success of the profit motive, there is reason for mild surprise in the case of the four service industries on which this volume focuses. After all, when one is searching for, say, health care, a cost-cutting for-profit institution may seem more threatening than attractive. Some would argue that making a profit from providing services like health care, education, or care for the elderly will necessarily force providers to skimp on the quality of service in the name of making a buck.

Of course, this criticism of the for-profit organizational form is not obviously true. A forward-looking for-profit firm may recognize that a reputation for skimping on services will reduce profits in the long run, and put it out of business, so it will try to build a reputation for high-quality service and innovation. By contrast, a government agency may feel that, without competition, there is little need to provide the most cost-effective and high-quality service. Apparently, at least for the present and for the sectors on which this volume focuses, the advantages of the for-profit organizational form in promoting efficiency and holding down costs are overbalancing the potential disadvantage of cut-rate service.

Even when service providers are not officially for-profit, more of them seem to be taking on a mentality of providing value for money. Even among nonprofits and public-sector providers, many discussants at the conference reported hearing talk of reinventing government, customer focus, and treating separable parts of an institution (like a university's law school) as separate cost centers. All of these are very much the sort of thinking that suffuses the for-profit sector.

1.9 Government in Health and Education

Economists have a neat scheme for figuring out when the government should intervene in markets. They have developed a list of market failures: cases where because of externalities, public goods, distributional concerns, information problems, or other reasons, markets either won't exist, or won't clear, or won't set prices that accurately balance social costs and benefits. This framework has proven extraordinarily useful for making judgments about the costs and benefits of policies. In his paper, James Poterba tackles the difficult question of whether market failures can also provide a framework for discussing how policies are actually chosen and implemented.

His results are frustrating, but perhaps not surprising. Principles of public finance (like taxing to offset externalities) and redistribution do not seem to be driving what services are actually provided in the areas of health care and education. Jurisdictions that appear similar have followed very different paths in providing such services, depending on what seem nothing more than quirks of history, or the interests of groups that deliver the services.

These findings are troubling to economists on several levels. If market forces are not operating, then there is little reason to believe that the choice of policies

or their mix has any particular support from economic logic. It implies that when economists talk, no one is particularly listening. It implies that economic principles are largely unconnected to what has actually happened.

The conference discussion that followed raised two fronts on which these grim conclusions might be addressed. On one side, it might be possible to discover what sorts of ideas and appeals do carry weight in the public debate, and then to find ways of linking them to economic insights. Economics is a powerful tool for pointing out costs, benefits, and trade-offs; it would be surprising if this information could not be marshalled to better effect. In addition, economists should remember that market failure is not the only justification for government programs, and moderate their rhetoric accordingly. For example, market failures and measurable externalities may well be involved in policies that affect public values like patriotism, thrift, working hard, and honesty. But if economists would recognize that these values also have an independent importance of their own, they might end up doing a better job of explaining the world around them.

Either way, building a closer connection from the arguments of economists to the policies that are enacted seems a worthy goal.

1.10 The Politics of Social Policy

Most of the contributors to this volume are economists. Theda Skocpol is a sociologist. As she explained at the conference one evening after dinner, this doesn't mean that she thinks economists are powerless. Instead, she believes they have great power—just not in the directions that they think.

Her analysis in this paper focuses on four great waves of social reform: one involving Civil War veterans in the late nineteenth century; one involving mothers and children in the 1910s and 1920s; the New Deal of the 1930s; and the Great Society changes of the 1960s. She argues that a full understanding of these changes involves understanding how a nation comes to feel a particular sense of obligation to different groups at different times, and how existing programs grow and evolve in response to what society finds to be the especially salient arguments.

These arguments don't come in neat bunches. For example, some programs succeeded by providing a feeling that any government benefits were somehow earned by the recipients, as in veterans' benefits or Social Security. Local control of institutions, like schools and hospitals, has often helped foster their spread. The conference discussion that followed focused on a variety of public appeals that have been either successful in promoting programs—or in blocking them. For example, it is often powerful in the U.S. political system to appeal to the need for a unified society; to ask for tolerance of diversity; to rage against big bureaucracy; to draw analogies to programs that are perceived as successes (like Social Security); to point to personal health and safety (as

in recent environmentalist and anticrime movements); and to appeal to "don't tread on me" individualism. As one participant noted at the conference, with only a little defensiveness, being hostile to economists, cost effectiveness, and efficiency concerns is usually a powerful way of appealing to the broad American public, too.

Skocpol's paper illuminates certain themes raised by earlier papers in the volume. For example, Romer discusses why promises might be important, while Skocpol discusses which sorts of arguments have been especially powerful in national discourse. Poterba points out that the common market failure language of economists doesn't seem descriptive of what is actually happening. Skocpol focuses on what has actually happened, and what elements of social programs appealed to the public in ways that affected the evolution of the program. What remains to be done is to discover or create links between the structured terms of art for economics and the broader terms of persuasive public discourse.

1.11 Thinking about Service Industries

The four industries discussed in this volume—child care, education, health care, and long-term care—are all service industries. When economists discuss such service industries, I believe that they often run into problems by focusing almost immediately on the "industry" aspects, rather than the idea of "service." Economists talk about the growth of service industries in terms of sales and employees; whether service industry jobs will all be low-paid hamburger flippers or high-paid investment bankers; how to measure productivity growth in service industries; or how the output of services affects the balance of trade and national competitiveness.

These subjects deserve considerable attention. But as economists hasten to plant their feet firmly on the hard analysis of service industries, their discussions usually overlook the softer, more humanistic idea of service. This is surprising in a way, because the ideal of service comes up often enough in academic life. Decisions about tenure for professors usually have a service component. Some colleges and universities have a service requirement for students. Every now and again, the adults in Congress propose a national service requirement for teenagers. More generally, the notion of service to others exerts a strong ethical and moral attraction in every great world religion and culture.

Of course, the tug of that moral feeling varies considerably across service industries: the ethical issues involved in giving someone a good manicure are not comparable to those of educating a child or looking after a dying cancer patient. But when the full-fledged ideal of service mixes with a capitalist economy and a democratic policy, passions are often ignited. Bloodless terms like "demand" and "supply" seem somehow too meek to convey the arguments.

Instead, the discussion begins to talk about "basic human needs" for health care or long-term care of the elderly. Providers of services like education or child care are somehow expected to do their jobs in some part because of a love for children, not in the assembly-line spirit presumed to exist in nonservice industries. Indeed, as one conference participant put it, one challenge of financing child care is to make it possible for those who really would be wonderful at looking after children to be able to make a good living doing so. The same might be said of education, or long-term care for the elderly.

The service industries on which this volume focuses touch on looking after children, and helping the sick and elderly. In all of these cases, the idea of service touches a moral chord, and leaves a resonance behind. In such a setting, where terms like "need," "love," "duty," and "justice" are hurled about, the allocation of scarce resources becomes especially contentious. Government inevitably becomes involved. But while government has considerable power to redistribute resources and to set the ground rules that organize markets, it has no magic wand to make scarcity disappear, or to make love and caring appear. Instead, it must struggle to perceive how such services are provided outside the government sector, by a combination of family, voluntary associations, and the market, and then decide upon the role that government should play. That role can range from laissez-faire, to mandating characteristics of the service without government finance, to offering government money along with mandates about service characteristics, all the way to direct government provision of certain services.

Economics often has the useful effect of taking some of the steam out of public policy debates. Arguments about environmental destruction, for example, may start out as the earth despoilers versus the tree huggers, but in the hands of economists, the argument focuses on what price accurately captures the negative externalities of certain activities. By focusing on the margin, rather than on the absolutes of unquantifiable moral judgments, economists have often been able to suggest technocratic middle-of-the-road solutions.

But for the service industries discussed in this volume, my suspicion is that economists have been too technocratic, too eager to fit the public disputes into their preset mental categories of market failure and redistribution. With service industries that touch our common humanity as closely as care for young children, teaching and education, looking after the sick and injured, and care for the elderly, this level of detachment is only a useful starting point. In the end, it will not suffice. If economists want to be relevant to the broader social debate on the evolution of these service industries, they will have to venture out on some creakier limbs. They will have to leaven their professional concern about efficiency with judgments about the justice of entitlements, the fairness of consumption externalities and who should pay, and insights about long-term political dynamics.

Of course, there is always concern that a few steps down such slippery slopes will strip the science from economics. But the papers in this volume

demonstrate that such thinking can proceed with academic precision and understatement, while still capturing many of the undertones of what is touching and personal in these service industries. Moreover, an unwillingness to enter this arena will leave economists as perpetual outsiders, carping about how the world does not fit their models. In this case, the danger is that economics could lose the fundamentally social nature of its science.

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