

## INSURANCE

W. Kip Viscusi

*Workers' Compensation Benefits: Adequacy, Equity, and Efficiency*, John D. Worrall and David Appel, Editors. Ithaca, NY: ILR Press, 1985, 198pp. Price: \$26.00 cloth.

This book summarizes the outcome of the Second Annual Seminar on Economic Issues in Workers' Compensation sponsored by the National Council on Compensation Insurance. This conference volume, which is the second publication in the Workers' Compensation Conference Series, provides a useful focal point for the collection of research in the area of workers' compensation in 1982. In addition, it includes some papers that deal only peripherally with workers' compensation, but are nevertheless related to the more general issue of job safety.

Perhaps the greatest benefit of detailed economic analysis of workers' compensation issues is that it highlights the diversity of policy objectives at stake. In their excellent introductory chapter, John Worrall and David Appel indicate that workers' compensation benefits serve a number of functions, including adequate replacement of income, equity, and efficiency. From an economic standpoint, it is desirable for workers' compensation to provide efficient levels of insurance to accident victims. This program should also result in benefits that are perceived as fair, so that workers who are similarly situated (in terms of the severity of the injury and preinjury income) will receive equal benefits.

This equity objective is not as broad as for many income transfer schemes. The authors stress that workers' compensation has never had the same kind of redistributive emphasis as has the Social Security program. For Social Security, they claim that income maintenance is a more prominent objective, whereas workers' compensation does not suffer from this "insurance-welfare schizophrenia" (p. 11). It should be noted, however, that even Social Security has very limited redistributive objectives since the elderly poor receive benefits under the Supplemental Security Income program.

In addition to outlining the major functions of workers' compensation, Worrall and Appel provide the best available recent summary of the operation of the workers' compensation system, the determination of benefit levels, and the general economic issues raised by workers' compensation. They do a particularly good job in summarizing the research relating workers' compensation benefits to injury rates. A number of studies have indicated that higher levels of workers' compensation boost worker injury rates, which is an unintended but potentially important side effect of the program.

The original research papers in this volume touch on a number of aspects of workers' compensation. In their analysis of claims for low back injuries in the state of Illinois, Worrall and Butler show that the duration of disability is sensitive to the benefit structure. In particular, they find that employees may prolong their total disability spells by up to 9% as a result of more generous benefits. This moral hazard problem seems to be particularly difficult for this type of injury, where monitoring of the extent of the injury and of its implication for the individual's earning ability is limited.

The volume also includes a number of studies addressing very narrow aspects of the design of the workers' compensation system. Richard Victor develops a simulation model in which he analyzes the role of experience rating. He obtains the reassuring economic result that experience rating can create an effective incentive for safety. C. Arthur Williams addresses the role of minimum weekly benefit floors in different states. He discusses two theories behind these benefit floors—the desire to provide a subsistence level of income and the desire to provide a minimum amount of compensation since the presence of a workers' compensation system prevents the worker from suing the employer for his

injury. Another possibility not raised by Williams is that the benefit floors serve to guard against the risk of a person being injured in a period when his income was temporarily below his permanent income level. In my current research with Michael Moore, we have found that the benefit floor is seldom binding except for workers who are temporarily working on a part-time basis. Provision of a benefit floor consequently leads to income insurance that will be more likely to maintain the worker's lifestyle than if it had been pegged to his current earnings.

Lloyd Larson and John Burton consider the use of special funds in workers' compensation. For example, workers' compensation systems have occupational disease funds to provide for the injuries of workers disabled by chronic diseases. Use of a special fund for such ailments may be preferable to pooling diseases with other claims for which the cause can be more readily ascertained. The chapter by Edward Berkowitz and Monroe Berkowitz also deals with the role of occupational disease compensation, although it does so more generally within the context of policy reform issues for workers' compensation. They note that the emerging problem of occupational disease poses a fundamental problem for workers' compensation and a possible diminishing of its role if the Congress sets up a separate compensation program to handle such cases.

The volume also has two contributions tangentially related to workers' compensation. William Dickens provides a summary of the psychological literature on behavior under uncertainty and applies it to the labor market. Although he notes that several labor market phenomena could be consistent with non-optimizing behavior, models that explicitly posit irrational behavior on the part of workers have yet to be subjected to any specific empirical tests using labor market data. The limitations of workers' cognitive processes clearly may be of consequence, but empirical research is needed to ascertain which factors matter and to what extent.

Finally, Ann Bartel and Lacy Thomas offer an empirical analysis of the effect of OSHA inspections on employers' investments in safety. Unlike my earlier work on this topic, they find that OSHA inspections significantly boosted enterprise investments in safety.<sup>1</sup> It is not clear whether this apparent increased effectiveness is due to the more recent years of data added to their sample or to a change in specifications. In my analysis, I had included a lagged safety investment variable within the context of a fairly conventional partial adjustment model of investment behavior. By omitting the lagged safety investment variable from their analysis, Bartel and Thomas may be creating a spurious OSHA effect because risky industries with traditionally high safety investments also tend to be those that are inspected more frequently by OSHA.

If we take their results at face value, the net effect is that OSHA has had a small effect on safety. Bartel and Thomas derive the striking conclusion that the cost of investments induced by OSHA exceed the benefits by a factor of 99. These calculations, however, only recognize the wage loss associated with an injury. Consideration of the health impacts and in some cases the loss of life would put OSHA policies in a somewhat more favorable light, as would any productivity-enhancing benefits of the safety investment. In the case of the OSHA cotton dust standard, for example, firms' OSHA compliance expenditures provided the added bonus of bringing a more efficient technology to the textile mills.

Overall, this volume suggests that a wide range of issues involving workers' compensation and job safety remain fertile areas for policy research. The continued interest of policy-oriented economists in the workers' compensation program also should make policy-makers sensitive to a wider range of impacts than would otherwise be considered.

## NOTES

1. W. Kip Viscusi, "The Impact of Occupational Safety and Health Regulation," *Bell Journal of Economics*, (10)1(1979): 117–140.

## INFORMATION

## Walter Williams

*The Press and the Decline of Democracy: The Democratic Socialist Response in Public Policy*, by Robert G. Picard. Westport, CN: Greenwood Press, 1985, 173pp. Price: \$27.95 cloth.

*Sources Close to the Prime Minister: Inside the Hidden World of the News Manipulators*, by Michael Cockerell, Peter Hennessy, and David Walker. London: Macmillan Papermac, 1985, 261pp.

*The Right to Know: The Inside Story of the Belgrano Affair*, by Clive Ponting. London: Sphere Books, 1985, 214pp.

These three volumes concern, broadly speaking, the flow of information and democracy, using flow to connote movement in multiple directions. Do citizens and their representatives *receive* timely information and are there channels to *send* their ideas to policymakers before decisions affecting them are made? Are the information and analyses of policymakers and their staffs subjected to hard scrutiny and challenge by political and policy people?

The Picard book is by far the broadest of the three books—a democratic socialist's critique of press freedom that, in the author's words, is "utopian." The author decries the decline of newspapers in America and claims that the freedom of ideas is stifled because capitalist enterprises have cornered the market. Picard supports a strong government role including subsidies, arguing that the Scandinavian experience belies the claim that such subsidies restrict press freedom (a questionable comparison for the U.S.). Picard's main concern is not the top of the central government (as is the case with the other two books), but how to encourage a wide diversity of ideas in the press and to increase citizen access to the press. "The struggle to democratize the press is a microcosm of the struggle to democratize society" (Picard, p. 150). The book is long on normative statements at a high level of generality and short on implementation ideas.

*Sources Close to the Prime Minister* and the Ponting book complement each other nicely in treating secrecy in Britain. *Sources*, by three media people, centers on the "Lobby" correspondents who are physically based in the Palace of Westminster and who write about the prime minister, the House of Commons, and more generally, British politics. They charge that the Lobby accepts spoon feedings quite willingly through mass, non-attributable briefings by "sources close to the prime minister" rather than engaging in sound investigative reporting. The Lobby is part of the secrecy syndrome that reigns at the center of British central government. The Ponting book is an almost too perfect case example of this secrecy problem. At question is the Thatcher government effort to cover up the May 1982 sinking of the Argentinian cruiser General Belgrano. In this affair Ponting, a career civil servant in the Ministry of Defense (MOD), ends up being charged under the highly restrictive Official Secrets Act of 1911 with a criminal leaking of information.

A strength of *Sources* is that it is so readable and quotable. Cockerell, Hennessy, and Walker, like Picard, are concerned fundamentally with democracy. "Facts are the raw material of democracy. . . . [British democracy] is a sham because the British people are