

## **How to finance, organize and deliver public services?**

*On June 9–10, a group of researchers from Sweden, the United States and the United Kingdom attended IFN's annual academic conference in Vaxholm, Sweden. This year's topic was "Efficient Provision of Public Services", and was administered within the framework of the IFN research project "Public Services in the Future". The subjects ranged from educational reforms to for-profit corporations in the welfare sector and the use of antibiotics.*

In recent years, the number of private actors in markets that were previously administered by public authorities has increased substantially. The markets for healthcare and education are two examples. Whether or not the introduction of market power and autonomy has made the provision of these services more efficient is being debated. Leading researchers within these fields presented their research on how the introduction of a market has affected the efficiency in public service provision.

A total of 11 studies were presented and discussed:

### **Market incentives in the educational system**

First up was the study "Market Forces in England's Schools". It was presented by Simon Burgess, University of Bristol and Centre for Analysis of Social Exclusion. Burgess discussed how market forces and autonomy could raise school standards by means of efficiency in providing high quality education. However, statistical evidence suggests that academies (independent state-funded schools) do not expand more than traditional local schools. Burgess argued that this constitutes a market failure, and attributed the declining growth rates to poor incentives for market actors. For example, even though schools are incentivized to improve, first-rate schools have no incentive to increase their capacity, and thereby meet the demand. Consequently, there is no added pressure on low performing schools to improve.

Sandra McNally, London School of Economics and University of Surrey presented her paper "Unexpected School Reform: Academisation of Primary Schools in England" and discussed the effects of English schools turning into academies. Since 2010, the educational landscape has changed in the sense that more schools are becoming academies. Academies act like companies and entail more freedom in deciding on teacher salaries, hiring procedures and more. McNally's study evaluates the performance of schools that chose to become academies after 2010 and found that academisation has no effect on school performance. She attributed the zero-effect to the fact that many of the schools that became academies were already of high quality before changing their organizational structure.

Gabriel Heller Sahlgren, London School of Economics and IFN, presented his paper "Smart but Unhappy: Independent-school Competition and the Wellbeing-efficiency Trade-off in Education". Heller Sahlgren raised the question of whether the introduction of market incentives in schools also could have negative side effects on pupils in terms of their wellbeing. Using data from the 2012 PISA study, Heller Sahlgren explained that independent school competition is positive for academic achievement, but negative for pupils' wellbeing. This is a feature which previously has been overlooked in the debate concerning the advantages of school competition, said Heller Sahlgren.

Olmo Silva, London School of Economics, presented the paper “The Demand for Autonomous Schools”. Silva has studied parental demand for autonomous schooling using English administrative data about school applications. He has focused on parental preferences for public schools converting to academies. The findings suggest that parents’ demand for autonomous schools is high, but very heterogeneous. Parents of high achieving pupils and better-off households show much stronger preferences for autonomous schools compared to families with more disadvantageous backgrounds. This result suggests that there may be undesirable segregation effects when autonomy is introduced in secondary education.

Another study on this topic was “The Effect of Independent Upper Secondary Schools – Evidence from Sweden”, presented by Karin Edmark, SOFI and IFN. The researchers explain the effects of attending privately administered Swedish upper secondary schools on pupil outcomes. In addition, the researchers investigated how performance on the labor market is associated with education from such a school. The results indicate a positive correlation between attending a private school and finishing an educational program on time, as well as attaining higher grades. However, there is also suggestive evidence that these effects do not translate into better labor market performance. Individuals attending private upper secondary schools had a higher probability of being inactive at ages 21–22. In other words: they were more likely to be neither working nor attending university studies, after attending private secondary schools.

The topic of education markets was also discussed in the American setting. Susan Dynarski, University of Michigan and National Bureau of Economic Research (NBER), presented the study “Stand and Deliver: Effects of Boston’s Charter High Schools on College Preparation, Entry and Choice”. Dynarski and co-authors exploit the random assignment of students into charter schools to estimate the long-term, causal effects of being educated in charter schools in Boston. The authors found that winning the lottery, and thus being assigned to a charter school, increases the students’ test scores in high school. The paper also documents a positive relationship between charter school attendance and attending a four-year college education, rather than a two-year program. The effects on high school graduation and overall college attendance were however found to be negligible.

Sarah Cohodes, Columbia University, took a different stance and presented the meta-analysis “What Can We Learn from Charter School Lotteries? A School-focused Investigation”. Cohodes has combined several influential papers that exploited random assignment of pupils into charter schools to provide a broader perspective on what the evidence suggests. In general, she found that the lottery-based studies tended to present large positive effects on pupil outcomes, particularly in underprivileged areas. When considering a more aggregate context, the improvement in academic achievement seems to shrink, suggesting that a widespread policy program involving lotteries is not necessarily an efficient way of improving overall academic performance in the US.

### **Affirmative action policies in education**

Dennis Epple, Tepper School of Business and Carnegie Mellon University, presented the study “Does Affirmative Action Work? Caste, Gender, College Quality and Academic Success in India”. His analysis revolves around an Indian affirmative action program intended to reduce inequality stemming from the Indian caste system and history of disparate treatment by gender. The program constitutes an admission policy that fixes percentage quotas across more than 200 engineering colleges. Epple and his co-authors have evaluated the effects of the program and found that the intended goals were reached. Attendance rates among the

disadvantaged individuals rose, and there was no evidence that these individuals would be less prepared for a high quality engineering education.

### **Private actors in healthcare and insurance**

Can pay-for-performance stimulate appropriate use of antibiotics, was the question asked by Lina Maria Ellegård, Lund University. She has studied instituted incentives, in primary care in eight counties, to prescribe narrow-spectrum antibiotics, instead of broad-spectrum antibiotics. She found that pay-for-performance made no change in the overall level of prescription of antibiotics. However, pay-for-performance significantly increased the share of narrow-spectrum antibiotics. Some of the non-Swedish researchers pointed out that this is in a country where half of the prescribed antibiotics are narrow-spectrum. In the US the equivalent number is 7% and in the EU it is 9%.

In the afternoon of the first day Marika Cabral, University of Texas at Austin, presented a study about disability insurance: "Estimating the Value of Public Insurance Using Complementary Private Insurance". Cabral introduced her topic by stating: "I am trying to quantify the advantage of having social insurance. And the willingness to supplement the public insurance with private insurance". The research applies to disability insurance which covers more than 8 million Americans. The analysis by Cabral suggests that "public disability insurance generates substantial surplus for this population, and there may be gains to increasing the generosity of coverage in this context". Though, measured from the government's point of view, the researchers argue that it would not be worthwhile to expand the public insurance as there is a viable market for private insurance.

### **Public opinions about administration of welfare services**

Henrik Jordahl, IFN, presented a paper titled "Profit in Public Services: An Experimental Opinion Survey". "Public opinion is not always formed rationally. In Sweden we have a strong opinion against profit making in the welfare system, which is partly driven by misperceptions" Jordahl explained. The operating margin in for-profit-companies in the welfare sector is 5%. "Many believe it is over 40%!" said Jordahl adding that the higher the overestimation, the more positive is the respondent towards a political proposal to put a legal limit to dividends in the tax-financed service sector. "Informing people about the actual average operating margin in the sector reduces their support for limiting dividends considerably."

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