posed a mutual 50 percent cut in nuclear weapons, my first reaction was that he had lost touch with reality. Yet less than a decade later, thanks to Gorbachev, that goal is close. This offers hope that Tinbergen's appeal for significantly higher development assistance and a juster global order is also achievable.

Today's paradigm of "homo economicus" as totally selfish is, in my view, a caricature of true human nature. Income transfers of the magnitude Tinbergen advocates are common within families, and empathy can be extended to others, if nurtured by culture, not suppressed.

Those who call themselves realists often dismiss advocates of fundamental change a "hopeless utopians." Yet, paraphrasing Richard Falk, the greatest utopians are those who believe that we can survive the nuclear age with politics as usual. True realists recognize the need for new thinking.

DIETRICH FISCHER

Pace University

REFERENCES

PLATT, JOHN. "What We Must Do." *Science*, 1969, *166*, pp. 1115–21.

SCHWARTZ, JACOB T., "Mathematics as a Tool for Economic Understanding," in *Mathematics today*. Ed.: STEEN, LYNN ARTHUR. NY: Springer-Verlag, 1978, pp. 269–95.

KENNAN, GEORGE. *The nuclear delusion*. Updated edition. NY: Pantheon Books, 1983.

I Health, Education, and Welfare

Serious and unstable condition: Financing America's health care. By HENRY J. AARON. Washington, D.C.: Brookings Institution, 1991. Pp. xiii, 158. $22.95, cloth; $8.95, paper. ISBN 0–8157–0051–2. *JEL 92–0196*

This well-written and accessible book covers several issues in health policy. Its primary focus is the argument for national health insurance funnelled through a single, governmental or governmentally approved payor. This idea is currently popular in health policy circles. Disappointingly, much of the analysis is incomplete and one-sided. Reporting of research findings is surprisingly limited and selective. The full range of research on health care and health insurance markets is not brought to bear on the matter.

Aaron argues that a single payor has more monopsony power and that this power is necessary to control high and rising health care costs. But, having a single payor eliminates or sharply limits consumer choice. Aaron downplays the welfare cost of this, arguing that because ex post regret of insurance choice implies that tastes depend on circumstances, the economic analysis of consumer choice does not apply. There is some confusion here.

Consumers generally regret their insurance decisions after the fact. Far from being at odds with standard analysis, this regret is logically required by it. Consumers' values, no doubt, are different when sick. But, this creates no problem for economic analysis. (For example, expected utility analysis holds when tastes differ across states of nature.)

Further, Aaron states that private markets are inefficient because of moral hazard. But economic research has shown that such markets are constrained Pareto Optimal (Kihlstrom and Pauly 1971). Moral hazard is properly reflected in the costs and types of insurance offered.

Aaron dowmplays recent progress in private health insurance, especially the recent focus on cost control via higher deductibles and coinsurance and Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs) and other types of managed care.

Aaron argues for community rating—ignoring Mark Pauly's work making the opposite case (1984). Interestingly, there exists a type of community rating with many firms—young workers pay the same premiums as older ones. Far from being helpful, this type of internal community rating induces low-risk young workers to reject insurance.

Aaron claims that alternative health plans such as HMOs, PPOs, and managed care plans have not controlled health care costs. A large body of research contradicts this claim.

Hal Luft (1981), reports that staff and group model HMOs, within which cost control is easiest and strongest, reduce costs about 20 to 25 percent, compared to the average third-party plan. This is much better than the 5 to 10 percent cost savings reported by Aaron. Other research (Hosek, Marquis, and Wells 1990) has shown large savings from PPOs. Even the loos-

est and newest form of managed care, hospital utilization control, has been found to save about 6 percent (Khandker and Manning 1992).

Aaron says that managed care cannot slow the rate of cost-increasing innovation. But a recent article by Burton Weisbrod (1991, pp. 538, 539) cites innovations and research that have been abandoned because most health insurers will not pay for them.

This is the crux of the matter. In principle, there are only a few possible policies to control costs: cost sharing, utilization controls, and refusal to cover certain procedures. All of them are being used increasingly aggressively by private, competing HMOs, PPOs, and other insurers. The old argument that a single payor was necessary to use these instruments has been falsified by these developments.

On other topics, the book is better and more even-handed. For example, Aaron notes that private health insurance is overly complete (too little copayment and utilization controls that are too passive). Aaron blames this partly on the tax deductibility of health insurance payments for employers. Almost all health economists would agree and favor elimination of the tax subsidy. Indeed, the Reagan Administration and the Congressional Budget Office have suggested such a reform.

The chapter on international comparisons is good, though I would have liked to see more on Japan. Following William Baumol, Aaron notes that health care is more expensive in rich countries partly because it is labor intensive. Aaron beautifully demolishes the Chrysler Corporation's argument that high health care cost make U.S. manufacturers uncompetitive.

Aaron notes that mandating health insurance would effectively raise wages, causing temporary unemployment and falling or slower rising money wages. He makes the important point that money wages cannot fall for minimum wage workers, so mandating benefits would cause permanent unemployment for them.

This book argues for a single-payor type of national health insurance. Unfortunately, in support of this policy, it gives a misleading and one-sided picture of research on health insurance and health care markets. For issues less closely tied to this central argument, the book is more reliable and more informative. Further, the book probably reflects the beliefs of many policy makers. If so, it reveals a gap between the policy and research communities.

H. E. Frech III
University of California, Santa Barbara

References

Hosek, Susan D.; Marquis, M. Susan and Wells, Kenneth B. "Health Care Utilization in Employer Plans with Preferred Provider Organization Options." R-3800-HHS/NIMH. Santa Monica: Rand Corp., 1990.

Khandker, Rezaul K. and Manning, Willard G. "The Impact of Utilization Review on Costs and Utilization," in *Health economics worldwide*. Eds.: Peter Zweifel and H. E. Frech III. Dordrecht: Kluwer, 1992, pp. 47–62.

Kihlstrom, Richard E. and Pauly, Mark V. "The Role of Insurance in the Allocation of Risk," *Amer. Econ. Rev.*, May 1971, *61*(2), pp. 371–79.

Luft, Harold S. *Health maintenance organizations: Dimensions of performance*. NY: Wiley, 1981.

Pauly, Mark V. "Taxation, Health Insurance, and Market Failure in the Medical Economy," *J. Econ. Lit.*, June 1986, *24*(2), pp. 629–75.

Weisbrod, Burton A. "The Health Care Quadrilemma: An Essay on Technological Change, Insurance, Quality of Care, and Cost Containment," *J. Econ. Lit.*, June 1991, *29*(2), pp. 523–52.

J Labor and Demographic Economics

Faculty retirement in the arts and sciences. By Albert Rees and Sharon P. Smith. Princeton, N.J.: Princeton University Press, 1991, Pp. xii, 107. $25.00. ISBN 0–691–04287–X.
JEL 92–0642

On January 1, 1994, mandatory retirement for tenured faculty members—currently age 70 in most institutions—will be abolished, the result of 1986 amendments to the Age Discrimination in Employment Act (ADEA). At the time of the 1986 amendments, Congress enacted an extension for tenured faculty until 1994 in response to several concerns expressed by university administrators: delayed retirement will result in a shortage of job opportunities for new entrants to college and university faculties; it will harm affirmative action efforts; it will have an adverse impact on college and university budgets; and, in the absence of mandatory retirement, some faculty members will continue to teach longer than they are competent to do so (p. 4).

The 1986 amendments also called upon the National Academy of Sciences to conduct a