ous cost-based reimbursement method with a Prospective Payment System, under which reimbursement depends only on the diagnosis of the patient. Hospitals thus lost the marginal reimbursement they formerly received for providing additional treatments. In addition, the average price each hospital received for patients with different diagnoses changed. This paper relates each of these changes to adverse outcomes with two conclusions. First, there is a change in the timing of deaths associated with changes in average prices. In hospitals with price declines, a greater share of deaths occur in the hospital or shortly after discharge, but by one year post-discharge, mortality is no higher. Second, there is a trend increase in readmission rates caused by the elimination of marginal reimbursement. This appears to be due to accounting changes on the part of the hospitals, however, rather than true changes in morbidity. *Econometrica,* January 1995, 63(1): 29-50. (Reprinted with permission of *Econometrica.*)

Medical Care for Children: Public Insurance, Private Insurance, and Racial Differences in Utilization, by Janet Currie (University of California, Los Angeles, and National Bureau of Economic Research) and Duncan Thomas (RAND Corporation and University of California, Los Angeles)

Data from two waves of the Child-Mother module of the National Longitudinal Surveys are used to examine the medical care received by children. We compare those covered by Medicaid, by private health insurance, and those with no insurance coverage at all. We find there are substantial differences in the impact of public and private health insurance, and these effects also differ between blacks and whites. White children on Medicaid tend to have more doctor checkups than any other children, and white children on Medicaid or a private insurance plan have a higher number of doctor visits for illness. In contrast, for black children, neither Medicaid nor private insurance coverage is associated with any advantage in terms of the number of doctor visits for illness. Furthermore, black children with private coverage are no more likely than those with no coverage to have doctor checkups; black Medicaid children are more likely than either group to have checkups, although the gap is not precisely estimated. We exploit the longitudinal dimension of the data in order to take account of potential selection and thus include child specific fixed effects in the models. The results are robust to the inclusion of these controls for unobserved heterogeneity. They suggest that private and public health insurance mean different things to different children, and that national insurance coverage will not equalize utilization of care. *The Journal of Human Resources,* Winter 1995, 30(1): 135-162. (Reprinted with permission of *The Journal of Human Resources.*)

Social Insurance

The Welfare State as Provider of Accident Insurance in the Workplace: Efficiency and Distribution in Equilibrium, by Alf Erling Risa (Universität Mannheim, Germany)

The welfare state provides universal insurance for workers against accidents in the workplace. In equilibrium, this insurance does not generate adverse safety incentives to firms. Non-internalised insurance makes workers sort themselves nonoptimally to firms, and to choose higher individual effort levels to prevent accidents as compared to insurance schemes that are internalised in the rating, not lower. An optimal income taxation scheme in the welfare state implies progressive taxation. The optimal tax level increases with the extent of the welfare state. *The Economic Journal,* January 1995, 105: 129-144. (Reprinted with permission of Blackwell Publishers.)

Employee Benefit Issues

The Cash Flow and Informational Effects of Employee Stock Ownership Plans, by Anne Beatty (University of Pennsylvania)

The tax, employee benefit, capital structure, and corporate control effects of ESOPs are examined by estimating the stock market reaction to ESOP announcements. This is the first empirical examination of the relationship between computed firm-specific tax savings and firm value, and therefore provides evidence that helps resolve the theoretical dispute over ESOP tax savings. The results show that investors expect ESOPs to increase cash flows through tax savings, and to reduce the likelihood of takeover for companies subject to takeover attempts when ESOPs are announced. *Journal of Financial Economics,* June 1995, 38(2): 211-240. (Reprinted with permission of North-Holland Publishing Company.)

Safety and Loss Control

Driver Accident Risk in Relation to the Penalty Point System in British Columbia, by Wenjun Chen, Peter Cooper, and Mario Pinili

Driver adjudication systems that assign penalty points to various traffic law infractions, and establish a level of point accumulation at which action to suspend drivers' licenses is taken, are a feature of the activities of virtually all motor vehicle authorities. However, in many cases the number of penalty points assigned to each infraction type is simply a qualitative assessment without any empirical foundation. The ordering of infractions by "severity" is often a very subjective process that tends to result in a linear scale of relatively narrow range. The purpose of the research reported in this paper was to assess the relative impact on future crash-involvement risk of a number of different infractions and also of accident history.

A total of 1,998,347 B.C. drivers' records was examined. Logistic regression analysis was employed to identify drivers who were most likely to have one or more at-fault accident involvements in a postperiod on the basis of their preperiod records of at-fault accident involvements and convictions. The results showed a consistent increase in postperiod accidents per driver with increasing