This is a repository copy of *Determining the parameters in a social welfare function using stated preference data: an application to health*.

White Rose Research Online URL for this paper:
http://eprints.whiterose.ac.uk/10950/

Monograph:
Dolan, P., Tsuchiya, A., Smith, P. et al. (2 more authors) (2002) Determining the parameters in a social welfare function using stated preference data: an application to health. Discussion Paper. ScHARR HEDS Discussion Papers . School of Health and Related Research , University of Sheffield.

eprints@whiterose.ac.uk
https://eprints.whiterose.ac.uk/

HEDS Discussion Paper 02/02

Determining the parameters in a social welfare function using stated

preference data: an application to health

Professor Paul Dolan*
Department of Economics and Sheffield Health Economics Group, University of
Sheffield and Department of Economics, University of Oslo.

Dr. Aki Tsuchiya
Sheffield Health Economics Group, University of Sheffield.

Professor Peter Smith
Centre for Health Economics, University of York.

Ms. Rebecca Shaw
Centre for Health Economics, University of York.

Professor Alan Williams
Centre for Health Economics, University of York

Corresponding author: ScHARR, University of Sheffield, 30 Regent Street,
Sheffield S1 4DA. Tel: +44 114 222 0670; Fax: +44 114 272 4095; email:
P.Dolan@shef.ac.uk

Determining the parameters in a social welfare function using stated preference data: an application to health

ABSTRACT

One way in which economists might determine how best to balance the competing objectives of efficiency and equity is to specify a social welfare function (SWF). This paper looks at how the stated preferences of a sample of the general public can be used to estimate the shape of the SWF in the domain of health benefits. The results suggest that it is possible to determine the parameters in a social welfare function from stated preference data, but show that people are sensitive to what inequalities exist and to the groups across which those inequalities exist.

Key words: social welfare function, preference elicitation, equity-efficiency trade-off

JEL Classification: I10

I. INTRODUCTION

Fundamental to most resource allocation decisions in the public sector is the need to compare the benefits generated by alternative courses of action. An important consideration when establishing priorities in the public sector is the amount of benefit generated by alternative allocations. As a result, there has been considerable research effort devoted to developing technologies that allow the benefits from a range of public services to be measured and subsequently valued. If benefits were the only consideration, then the objectives of public policy could be defined in terms of the maximisation of these benefits. However, policy-makers, as well as the general public, are also likely to be concerned with how benefits are distributed.

The economic notion of the social welfare function (SWF) is, in principle, a powerful device for determining how best to balance these competing objectives of efficiency and equity. However, in practice, there has hitherto been only limited success in developing a SWF that is operationally useful. There have been some attempts to estimate the parameters of SWFs from the stated preferences of individuals. For example, in an extensive programme of research over many years, Amiel and Cowell have, in various ways, asked respondents to choose between one society with a high mean income but also a high variance in income and another society with a lower mean and lower variance in income (Amiel and Cowell 1999).

Similar attempts have been made to estimate the SWF for health, using relatively small samples of students (Dolan 1998, Dolan and Robinson 2001). In this context, a policy that maximises population health might be one that is of relatively less benefit to less

healthy groups, or a policy that reduces inequalities might do so by foregoing the opportunity to improve the health of the relatively healthy. This paper demonstrates how the stated preferences of a sample of the general public can be used to estimate the parameters of a SWF in the domain of health benefits.

The issues addressed in this paper are of central policy concern in many countries that have put into place policies that seek to improve overall population health *and* reduce health inequalities. For example, the UK Government now has a policy of "improving the health of everyone, especially the worst off" (Department of Health 1999), which raises questions about what proportion of the health care budget should be earmarked for reducing inequalities, as distinct from improving health generally. Similar questions are being addressed in such countries as Australia and New Zealand, which are seeking to improve the relative health status of indigenous populations (Rice and Smith 2001).

In order for the SWF approach to be of any use to decision-makers, two main questions need to be answered: 1) what type of SWF is to be employed; and 2) how is the shape of the SWF to be determined? Sections 2 and 3 deals with each of these questions in turn and show how we can determine the relative weight given to the benefits of the worse-group vis-à-vis the better-off group. Section 4 presents the results from an empirical study that elicited the public's preferences over two health programmes, one that maximises health and one that reduces inequalities in health between particular population subgroups. Section 5 shows how these data can be used to derive a set of relative weights to be given to a unit health gain to people from different population subgroups and hence to estimate the shape of the SWF. Section 6 discusses the implications of the results.

II. DEFINING THE SWF

Most economic models and resulting SWFs are welfarist in the sense that they rely on an individual's subjective assessment of her own well-being and, as such, they are concerned with the distribution of *individual utility*. The crucial distributional issue is how much utility each individual is capable of generating from the consumption of an additional unit of a good, irrespective of the *reasons* why one individual may obtain more utility than another (see Scanlon 1975). However, ignoring the source of differences in individual utility may have damaging limitations in the context of interpersonal comparisons of well-being (Sen 1992). The utility that an individual gets from a given input is largely determined by her past investment – a better educated person may be more productive in generating utility – and by her expectations – a socially disadvantaged person may adapt not to expect much. Therefore, it might well happen that a deprived poor person generates less utility from a given health improvement, say, than a richer person does. So, if health care were to be distributed so as to maximise utility, then the rich person should be given the treatment.

This is a solution that would contradict many people's concepts of fairness and has led to alternative conceptions of welfare that, in various ways, use 'objective' criteria to define well-being. For example, Sen (1992) has argued that attention should be focused on an individual's *basic capabilities*, which looks at what certain goods (such as health care) can do for her, rather than at the utility she derives from them. Sen's work has been influential in the debate about why health care is considered to be more important than many other commodities. For example, Culyer (1989) has argued that health care, through its impact on health, enables an individual to 'flourish'. Thus, in the case of

distributing health care, what matters is *not* an individual's subjective assessment of her own utility from health care but rather an 'objective' assessment of the improved health that health care may produce.

This suggests that it may be appropriate to cast aside utility and instead define a *health-related* SWF in terms of the different levels of health experienced by different groups (Dolan 1998). In this paper, differences in health are represented as differences in average life expectancy and as differences in the proportion of people reporting a limiting long-term illness. When the analytical objective is that of searching for a more equal distribution of health (rather than utility or health-related utility), a SWF in terms of health is potentially more useful in a policy context since life expectancy and long-term illness are more readily interpersonally comparable than utilities (see Olsen 1997).

In this study, we assume that health–related social welfare is a function of: a) the average levels of health of different groups within a given population; and b) the inequalities in health that exist between those groups. Of course, differences in health exist *within* any population sub-group, as well as *between* groups. In principle, the SWF could be estimated across groups of any size, including across individuals, but in practice it would be impossible to get reliable health data at such a micro level.

There are a number of functional forms that this SWF can take, although an additive SWF with concavity to allow for inequality aversion has been widely used in the general economics literature (Atkinson 1970, Layard and Walters 1994, Little and Mirrlees 1974). Here, a SWF with a constant elasticity of substitution (CES) is

6

assumed (for a study comparing different types of specifications, see Amiel *et al* 1999).
This means that:

$$W = \left[\alpha H_a^{-r} + \beta H_b^{-r}\right]^{\frac{1}{r}}, \qquad H_a, H_b \geq 0, \quad \alpha + \beta = 1, \quad r \geq -1, \quad r \neq 0, \qquad [1]$$

where W is the level of overall population health and H_a and H_b are the levels of health
of groups of equal size. (This function is, of course, generalisable to more than two
groups, and to groups of different sizes). The nature of the SWF, and the resulting iso-
welfare curves, is determined by r and α.

The objective of this study is to derive the implied weights to be given to a unit health
gain to one group relative to another. This is represented as the marginal rate of
substitution (MRS) along the relevant iso-welfare curve. As such, reference is made
only to *contours* of the SWF, and not to the *level* of social welfare implied by these
contours. In this respect, the CES SWF is equivalent to the Atkinson SWF (Atkinson
1970) that was first proposed to address income distributions and has recently been used
in the health context (see Dolan 1998, Dolan and Robinson 2001).

The parameters α and β determine the rate at which the welfare of subgroups *a* and *b*
enter the social welfare calculus, which, for example, may be used to represent different
degrees by which different parties are held responsible for their own health. In this
paper, it is assumed throughout that $\alpha = \beta = 0.5$. This is a common assumption in the
literature and is based on 'anonymity' which assumes that both individuals or groups
are equally deserving of any given gain in well-being (Musgrave 1959, Boadway and

Bruce 1984, Harsanyi 1982). The assumption also requires that both groups are of equal size.

The parameter r measures the degree of aversion to inequality, as represented by the convexity of the iso-welfare curves. If $r = -1$, social welfare is equal to the sum of individual health and there is no aversion to inequality. This utilitarian-type SWF results in iso-welfare contours that are parallel straight lines with a gradient of -1, as shown by curve (a) in Figure 1. If $r > -1$, there is aversion to inequality, as represented by a diminishing MRS between the health of the two groups; that is, along a given iso-welfare curve, the greater the inequalities in health between the two groups, the greater is the weight given to the worse-off group relative to the better-off group. This results in iso-welfare curves that are convex to the origin, as shown by curve (b) in Figure 1. In the extreme, r approaches ∞ and all that matters is the health of the worse-off group. This results in a Rawlsian-type SWF with right-angled iso-welfare curves, as shown by curve (c) in Figure 1.

III. ESTIMATING THE SHAPE OF THE SWF

The question now is how do we measure the value of r? One approach would be to retrospectively collect information on existing public polices and, on the assumption that government decision-making is rational, regress the data to estimate values for the parameters. An alternative approach, which is the one adopted here, is to elicit the preferences of the general public over stylised questions specifically designed to allow us to estimate the values of r (see Amiel and Cowell 1999 for more discussion of the different approaches).

Williams (1997) suggests that respondents could be presented with the current unequal distribution of health and then asked to think about an equal distribution of health that makes them indifferent between the two distributions. In this way, the general format of the questions would be similar to those used by Amiel and Cowell (1999), and by Amiel *et al* (1999) in their "leaky-bucket experiments". However, whilst it is possible to take income from one person and transfer it to another, it is not possible to redistribute health in the same way. Moreover, if individuals evaluate outcomes as gains or losses relative to some perceived reference point, and if losses are weighted more heavily than gains (see Kahneman and Tversky 1984), then this will confound the calculation of the implied equity-efficiency trade-off. Therefore, it seems more appropriate to calculate the value of *r* by considering the distribution of *gains* in health from an initial position.

Figure 2 shows the basic format of the questions in relation to the SWF. The initial situation (I) is presented to respondents together with a programme (A) that will benefit both groups by the same amount. They are then presented with an alternative programme (B) that targets the benefit on the worse-off group. The aim then is to determine, in an iterative way, how much programme B would have to benefit the worse-off group in order to be considered equally as valuable as programme A. Once indifference between programmes A and B has been established, the value of *r* can be calculated. From this, the weight given to a unit health gain to the worse-off group vis-à-vis the better-off group can be calculated.

More formally, if $H_a(B)$ stands for the value of health of subgroup a (who are assumed to be less advantaged at the initial point) at point B, then the corresponding gradient at the midpoint of A and B is:

$$\frac{dH_b}{dH_a} = -\left(\frac{H_b}{H_a}\right)^{(1+r)} = -\left(\frac{(H_b(A)+H_b(B))/2}{(H_a(A)+H_a(B))/2}\right)^{(1+r)}. \qquad [2]$$

Furthermore, by definition, the same gradient can be approximated as:

$$\frac{dH_b}{dH_a} \approx \frac{H_b(B)-H_b(A)}{H_a(B)-H_a(A)}. \qquad [3]$$

Therefore, by taking the logarithms of these and by solving this, a unique value of r (which is independent of the initial point) can be obtained:

$$r \approx \frac{\log\big((H_b(A)-H_b(B))/(H_a(B)-H_a(A))\big)}{\log\big((H_b(A)+H_b(B))/(H_a(A)+H_a(B))\big)} - 1. \qquad [4]$$

The weight implied to the less advantaged group a relative to group b is calculated from the marginal rate of substitution:

$$-\frac{dH_b}{dH_a} = \left[\frac{H_b}{H_a}\right]^{(1+r)}. \qquad [5]$$

Notice that the value of r increases exponentially with the extent of the equity-efficiency trade-off (since the iso-welfare contour in Figure 2 is convex), and so the

mean of any group of values would give greater relative weight to the preferences of those most concerned about equity. This makes it difficult to account for the strength of each individual's preferences in the overall preferences of a group. For this reason, we will concentrate our analysis and interpretation on the median. Use of the median is also consistent with the median voter rule, which has been used to model public policy choices (Mueller 1979).

Any one respondent could be asked to adopt a number of different *perspectives* when answering questions of the kind shown in Figure 2. For example, she could be asked to think of herself as: 1) a member of the better off or worse off group; 2) facing a known or unknown probability of being in each of those groups; or 3) not being in either group. Some economists would argue that the first, personal perspective does not adequately detach individuals from their own self-interest (Harsanyi 1982) and others would argue that the third, citizen-type perspective is unsuitable since it ignores self-interest completely (Johannesson 1999). This would leave the second perspective as the only appropriate one. According to this view, the operational device of a veil of ignorance should be used since it detaches the individual from her own vested interest by concealing her position in society, but still asks her to consider allocation decisions on the basis that she herself will ultimately be affected by them (Rawls 1972).

However, the use of the veil of ignorance to determine a just distribution is hotly contested. Dworkin (1977) is highly critical of the hypothetical nature of the contract that people are asked to enter into. Barry (1989) questions the link that is made between individual preferences from behind the veil with a just society once the veil has been lifted. Broome (1991) suggests that, although a veil of ignorance establishes

11

impartiality, it is not enough to explain why people's preferences about gambles should provide any reason to favour one social situation rather than another (but see also Harsanyi (1982) for an opposing view).

For these reasons, it was decided not to use the veil of ignorance in this study. Instead, we asked respondents to adopt a citizen's perspective, rather like the one adopted by Amiel and Cowell (1999) in their empirical studies on income inequalities. To us, and as famously emphasised by Rousseau (1762), there is legitimate distinction between a person's self-regarding preferences based on her own self-interest and her society-regarding preferences which reflect her views about what society should look like. The distinction has more recently received attention – and support – from a number of economists and political scientists, including Harsanyi (1955) and Etzioni (1986). We therefore collected information on a range of background characteristics in order to examine the extent to which self-interest might be playing a part in responses.

IV. THE EMPIRICAL STUDY

Differences in health in this study, as noted in section 2, have been defined in terms of average life expectancy and rates of limiting long-term illness. People are familiar with these representations of health and they provide us with the opportunity to test whether the SWF has a different shape depending on how health is represented. The question that remains is which groups are these differences to be defined across? The most obvious differences in health in the UK exist between the social classes (Acheson 1998). Of the six social classes often used in British surveys, we employ data concerning the top and the bottom classes. Using differences between the highest and

lowest social classes highlights the extent of the prevailing inequalities and has the advantage that the fraction of the population in each of these classes is roughly the same (about 7% in each case).

One of the questions we asked concerns difference in life expectancy at birth. On average, people in the highest social class (such as doctors and other professionals) live five years longer than those in the lowest social class (unskilled manual workers such as cleaners). Another question is about prevalence of limiting long-term illnesses. For males aged 45-64, 12% of those in the highest social class report limiting long-term illness compared to 40% of those in the lowest social class.

Furthermore, population subgroups other than social class were also used. Differences of the same magnitude (5 years) in average life expectancy exist between women and men. This means that by presenting other respondents with identical questions regarding life expectancy, but relating them to differences by sex instead of by social class, it is possible to test whether the value of r is a function of the groups across which the inequalities exist. To further test the sensitivity of r, other respondents were presented with the same life expectancy and long-term illness differences across groups that were simply defined as the 'healthiest 20%' and the 'unhealthiest 20%' of the population.

The questionnaire was administered during a face-to-face interview, which gave the interviewer the opportunity to assess the respondent's understanding of the task and provided the respondent with the opportunity to ask any clarificatory questions. The interview began with a brief description of the task and an explanation of the population

sub-groups used. The questionnaire was developed through in-depth interviews and extensive piloting, during which time it emerged that the clearest way in which to represent the health of the two groups was in the form of graphical representations, as shown in the appendix. For each of the life expectancy and long-term illness questions, respondents were first asked to make a discrete choice between Programme A (that benefits both groups by the same amount) and Programme B (that targets the same amount of overall benefit on the worse-off group). They were told that the two groups were of approximately equal size and that the two programmes would cost the same.

For those respondents who chose programme A, it was assumed that, since they were unwilling to target the worse off group when overall benefits were the same, they would also be unwilling to target the worse off group when overall benefits were reduced, and so no further sub-questions were asked. Those respondents who chose programme B were presented with a series of pairwise choices in which the benefits from choosing B were gradually reduced. This order was chosen to make the trade-off between efficiency and equity as transparent as possible and because it was felt that it would be cognitively less demanding for respondents than a random order that would have required them to 'jump around' between different trade-offs. Note that respondents were not provided with the opportunity to state that they were indifferent between the two programmes. This option was in the pilot interviews but was never chosen and in fact caused confusion.

The interviews were carried out in two rounds. The response categories presented in the two rounds are shown in Tables 1 and 2. Differences in health by sex were used in the first round and differences by the healthiest and unhealthiest quintiles were used in the

second round. Social class differences were also used in both rounds to allow for direct comparisons across the two rounds. Respondents in the first round who initially chose programme B were presented with six additional pairwise choices. The response categories in the second round of interviews were revised in the light of the distribution of responses from the first round, resulting in only four additional pairwise choices in the second round. In addition to some of the response categories in the first round being largely redundant, this allowed us to test whether respondents were following a particular pattern of responses e.g. choosing the middle option.

In order to interview a broadly representative sample of the general population, every 8th person on the electoral register in three wards in York was contacted and invited to participate, for which they would receive £15. Out of a total of 1,500 letters of invitation, 467 people (31%) agreed to take part. To ensure representativeness, 140 respondents were selected for interview based on information on a broad range of characteristics obtained from their reply slips. In total, 130 individuals were interviewed by one of the authors and two other researchers. The interviews took place at the University of York and lasted for about an hour, of which the first fifteen minutes were spent on the questions analysed in this paper. Table 3 shows the characteristics of the sample, and confirms that the characteristics of those who attended the interviews were similar to those of the population of the Yorkshire and Humberside region.

V. CALCULATING THE SWF

The results from the empirical study are summarised in Tables 4 and 5. For those respondents who initially chose to target on programme B but then switched at some

point to programme A, their point of indifference has been taken to be half-way between the last point at which they chose B and the first point at which they chose A. The precise trade-offs made by those who choose not to target and by those who always choose to target are indeterminate, and so, strictly speaking, r can only be calculated for those respondents who switch from programme B to programme A at some point. For those who chose A in the initial pairwise comparison, we have assumed that $r = -1$ although we cannot rule out the possibility that some respondents may have favoured increased inequality. For those who always chose B, we have assumed that they are concerned only with equality and hence r approaches ∞, but again we cannot be sure.

Columns 2-4 in Table 4 present the distribution of responses in the context of average life expectancy. Since the implied trade-offs that respondents made between the social classes did not differ across the rounds (Mann Whitney U Test, p>0.05), the responses from both rounds have been pooled. The median respondent is indifferent between people in the highest and lowest social classes living on average to be 80 and 75, respectively, and these groups living to be 78 and 75.5, respectively. This is also the median response when the sub-groups are defined in terms of the healthiest and unhealthiest quintiles of the population. However, when identical data are presented but the sub-groups are defined by sex, the median preference is to favour no targeting of men at all.

Columns 2 and 3 in Table 5 show the results from the long-term illness question. The median respondent is indifferent between a decrease in the rate of long-term illness of 7% for both groups and a 2% and 8% reduction when the groups are defined by social class, and a 2% and 10% reduction when they are defined according to the healthiest

and unhealthiest quintiles. These responses are not statistically significantly different from one another (Mann Whitney U Test, p>0.05). The responses in Tables 4 and 5 were not related to any of the personal characteristics shown in Table 3 (using the χ^2 test, p>0.05).

The 5th column in Table 4 and the 4th column in Table 5 represent the implied value of the r parameter for all question options. Notice that the value of r is independent of the level of health at the initial point (see equation [4]). The implied weights at the initial point for each of the question options are given in the 6th and 5th columns of Tables 4 and 5, respectively. For example, at the initial point, a given gain in life expectancy to the lowest social class is, according to the median respondent, weighted about seven times as highly as an equivalent gain to the highest social class, whereas a given reduction in long-term illness is weighted about four times as highly.

The final columns of both tables show the implied equity-efficiency trade-offs in terms of health at the initial point. The concept is borrowed from the literature on income inequalities and is calculated here as the difference between average health and the "equally-distributed equivalent health". The latter represents the level of overall population health that, if distributed equally across the population, is as good as a given unequal distribution. The negative values in these columns indicate the losses in efficiency people are willing to forego for equality between the two groups. So, in the case of average life expectancy by social class in Table 4, the median respondent would be indifferent between the initial point (where the highest and lowest social classes live to be 78 and 73, respectively) and the point where both groups live to be 74.5; that is,

they would be willing to trade-off up to one year of the average health of these two

groups if total health were distributed equally between them.

VI. DISCUSSION

This study has sought to determine the shape of a health-related SWF from people's stated preferences over various equity-efficiency trade-offs. It indicates that it is possible to ask people to make meaningful quantitative trade-offs between efficiency and equity. The results are consistent and plausible, and suggest that preferences are sensitive to the type of health inequalities that exist and to the groups across which the inequalities exist. We are able to conclude that in this domain it is possible to specify a SWF that is useful for very concrete policy purposes.

The study nevertheless raises a number of issues that warrant further discussion. The questions were designed to present respondents with equity-efficiency trade-offs in policy-relevant and unambiguous terms, and in a manner that makes measurement possible. In the first part of each question, the information regarding the size of the health gains of the two programmes was easy to understand and, in the second part of each question, the implications of choices were made clear through changes in the size of the bars on the graph. However, to facilitate this visual representation, the scales on the graphs in the life expectancy question did not start at zero (see the appendix), and this could have led some respondents to perceive that the relative difference between the two groups was larger than it really was.

In general, it has been shown that very subtle changes in the framing of a question can sometimes have a dramatic effect on responses (for an excellent review, see Rabin 1998). This study was designed to minimise the effects of certain framing effects but it is impossible to remove every potential bias. For example, we were aware of the

19

evidence from other studies that suggests that respondents might be reluctant to give all the benefit to one individual or group (see, for example, Cuadras-Morato *et al* 2001). And so in our question about life expectancy (in which the targeted programme gives no benefit to the better-off group), it is encouraging that more people wish to target the lowest social class in this question than in the question about long-term illness (in which the targeted programme *is* of some benefit to the better-off group). We went further, though, and asked respondents who chose not to target in the life expectancy question if they would have targeted if there had instead been a one-year benefit to the better-off group (and hence a three-year benefit to the worse-off group). None of these respondents chose to revise their answers.

There are also reasons for supposing that respondents might have been more inclined to choose programme A in *both* questions. It is now well established that respondents may give greater weight to the losses of one group as compared to an equivalent gain to the other group (Schweitzer 1995). Therefore, the questions were designed so that neither programme in the two questions involved any losses, and so that neither programme was presented as representing the status quo. It is possible that loss aversion may also be present when considering *potential* as well as actual losses from a particular reference point (Dolan and Robinson 2001). Therefore, if some respondents adopted the potential gains available to both groups in programme A as their reference point, then programme B would involve a 'loss' to the better-off group. It would be interesting, and policy relevant, to test with further research how sensitive the degree of inequality aversion is to variation in the initial situation.

There is a status quo bias of a different kind that might have made respondents more inclined to stick with programme B if they chose it initially. This relates to the fact that respondents were always presented with response categories in the same order; that is, programmes A and B start out being equally effective and then B becomes incrementally less effective. This ordering was chosen to make the equity-efficiency trade-off as transparent as possible and was informed by the results from the pilot interviews which suggested that the trade-off questions would have been cognitively too difficult if the ordering of the response categories was randomised. However, there is the possibility of a status quo bias whereby some respondents get 'locked into' choosing B throughout (see Samuelsen and Zeckhauser 1988). Whilst we cannot rule out the fact that this ordering might have induced some respondents to choose programme B more often, many did eventually switch to programme A, suggesting that they became aware at some point of the loss in efficiency from continuing to choose B.

There are also general questions relating to the reliability of stated preference data, particularly of the kind gathered in this study, which asked respondents to consider their preferences over benefits to other people. As with other studies that have sought to elicit citizen-type preferences over different public policies, it is not possible to test our results against the preferences that respondents reveal in their private consumer-type behaviour. Economists are certainly brought up to believe that preferences that are not motivated by any degree of self-interest cannot be trusted, but this scepticism follows from the assumption that social welfare is primarily a function of the utility levels of self-interested individuals. This is certainly contestable since, although self-interest exists, it does not necessarily follow that it must be the basis for social welfare calculations since society may adopt any objective or set of objectives that it desires (see Menzel 1999).

A related criticism of studies of this kind, which use face-to-face interviews, is that some respondents may have given what Miller (1992) refers to as 'Sunday Best' responses; that is, "the views that people think they ought to hold according to some imbibed theory as opposed to the operational beliefs that would guide them in a practical situation." We certainly cannot dismiss this possibility but many people did not wish to target (including over one-third of respondents in the life expectancy by social class question), so evidence of it is weak. In any event, there is an argument that only those preferences and social values that people are prepared to air publicly should be used to inform social policies which are designed to incorporate the public's views on social justice (Gauthier 1986).

Despite concerns such as these, we believe that this study represents a distinct advance in terms of both the methodology used and usefulness for policy purposes. It suggests that differences in average life expectancy could be more important to people than differences in rates of long-term illness. Another particularly striking result is that differences in the average life expectancies of men and women did not seem to matter much at all, with the median respondent unwilling to sacrifice any overall gains in life expectancy in order to target men. Future research might try to get behind some of the reasons for the very different attitudes towards health inequalities by sex as compared to those by social class.

In conclusion, this study has demonstrated that, using carefully designed questionnaire instruments, the SWF can develop from being a theoretical construct to becoming a powerful practical policy tool. A survey instrument can be designed that elicits

meaningful trade-off responses from the general population that can then be used to determine the shape of the SWF. We therefore believe that the study indicates a promising new avenue of economic enquiry that is highly relevant to important public policy questions.

ACKNOWLEDGEMENTS

REFERENCES

AMIEL, Y. and COWELL, F.A. (1999). *Thinking about Inequality*. Cambridge: Cambridge University Press.

AMIEL, Y., CREEDY, J. and HURN, S. (1999). Measuring attitudes towards inequality. *Scandinavian Journal of Economics*, 101(1), 83-96.

ATKINSON, A.B. (1970). On the measurement of inequality. *Journal of Economic Theory*, 2, 244-263.

BARRY, B.M. (1989) A treatise on social justice, vol I: *Theories of justice*. University of California Press.

BOADWAY, R. and BRUCE, N. (1984). *Welfare Economics*. Basil Blackwell

BROOME, J. (1991). *Weighing Goods*. Basil Blackwell.

CUADRAS-MORATO, X., PINTO-PRADES, J.L. and ABELLAN-PERPINAN, J.M. (2001).'Equity considerations in health care: the relevance of claims, *Health Economics*, 10(3),187-205.

CULYER, A J. (1989). The normative economics of health care finance and provision. *Oxford Review of Economic Policy*, 5:34-58.

DOLAN, P. (1998). The measurement of individual utility and social welfare. *Journal of Health Economics*, 17, 39-52.

DOLAN, P. and ROBINSON, A. (2001). The measurement of preferences over the distribution of benefits: the importance of reference points. *European Economic Review*, 45(9), 1697-1709.

DWORKIN, R. (1977). *Taking rights seriously*, Duckworth

ETZIONI, A. (1986). The case for a multiple utility conception, *Economics and Philosophy*, 159-183.

GAUTHIER, D. (1986). *Morals by agreement*. Oxford: Oxford University Press.

HARSANYI, J. (1955). Cardinal welfare, individualistic ethics and interpersonal comparisons of utility, *Journal of Political Economy*, 63, 309-321.

HARSANYI, J.C. (1982). Morality and the theory of rational behaviour. In Sen, A. and Williams, B. (eds.) *Utilitarianism and Beyond*, Cambridge University Press.

Independent Inquiry into Inequalities in Health. (1998). *Independent Inquiry into Inequalities in Health Report (The Acheson Report)*. London: The Stationary Office.

JOHANNESSON, M. (1999). On aggregating QALYs: a comment on Dolan. *Journal of Health Economics*, 18, 381-386.

KAHNEMANN, D. and TVERSKY, A. (1984). Choices values and frames, *American Psychologist*, 39, 341-350.

LAYARD, R. and WALTERS, A.A. (1994). Allowing for income distribution. In Laylard, R. and Glasiter, S. (eds.), *Cost-Benefit Analysis* (2nd ed.,): Cambridge University Press (reprinted from Layard, R. and Walters, A. A. 1978. Microeconomic Theory, McGraw-Hill)

LITTLE, I.M.D. and MIRRLEES, J.A. (1974). *Project appraisal and planning for developing countries*: Heinemann Educational Books.

MUELLER, D. (1979). *Public Choice*, Cambridge University Press.

MUSGRAVE, R.A. (1959). *The Theory of Public Finance*, McGraw Hill.

MENZEL, P. (1999). How should what economists call 'social values' be measured? *The Journal of Ethics*, 3, 249-273.

MILLER, D. (1992). Distributive justice: what do people think? *Ethics*, 102, 555-593.

OLSEN, J A. (1997). Theories of justice and their implications for priority setting in health care. *Journal of Health Economics*, 16, 625-639.

RABIN, M. (1998). Psychology and economics. *Journal of Economic Literature*, 36, 11-46.

RAWLS, J. (1971). *A Theory of Justice*, Oxford University Press.

ROUSSEAU, J.J. (1762).*The Social Contract*, (1998 translation) London:Wordsworth

SAMUELSON, W. and ZECKHAUSER, R. (1988). Status quo bias in decision-making, *Journal of Risk and Uncertainty*, 1: 7-59

SCANLON, T.M. (1975), Preference and urgency, *Journal of Philosophy*, 72, 655-669

SEN, A. (1992). *Inequality reexamined*. Oxford University Press.

SCHWEITZER, M. (1995). Multiple reference points, framing, and the status-quo bias in health-care financing decisions, *Organizational Behavior and Human Decision Processes*, 63, 69-72.

WILLIAMS, A. (1997). Intergenerational equity: an exploration of the 'fair innings' argument. *Health Economics*, 6, 117-132.

Figure 1: The effect of changes in the value of *r*
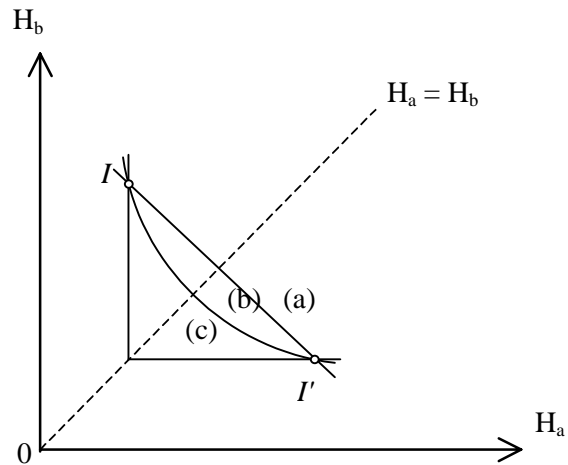
H_a, H_b: health of sub-populations *a* and *b*
I: the initial state
I': the point where the health levels of the two groups are exchanged
It is assumed that $\alpha = \beta$

Three different types of social welfare contours:
(a): $r = -1$ … cf. the classical utilitarian
(b): $-1 < r < \infty$ … cf. equity-efficiency trade-off
(c) $r = \infty$ … cf. the Rawlsian

Figure 2: The SWF and the life expectancy questions
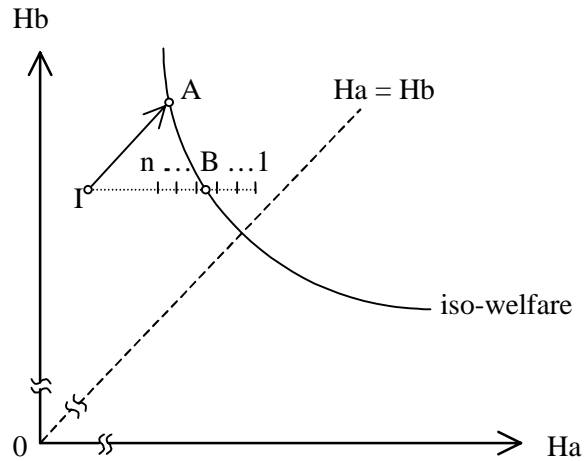
H_a: health of the less advantaged group
H_b: health of the more advantaged group
I: initial point
It is assumed that $\alpha = \beta$

A: outcome offered by programme A
the horizontal broken line: the set of options (1 to n) offered by the alternative programme B
B: the point at which the median respondent is indifferent between the two programmes, and thus the point through which the iso-welfare curve crosses the broken line

Table 1: Life expectancy response options

The initial situation is one in which group a (the worst-off group) live to be 73 and
group b (the best-off group) live to be 78. The numbers in the table show average
increases in life expectancy per group for each of the pairwise choices.

1st round				2nd round			
Programme A		Programme B		Programme A		Programme B	
Group a	Group b	Group a	Group b	Group a	Group b	Group a	Group b
2	2	4	0	2	2	4	0
2	2	3.5	0	-	-	-	-
2	2	3	0	2	2	3	0
2	2	2.5	0	-	-	-	-
2	2	2	0	2	2	2	0
2	2	1.5	0	-	-	1.5	0
2	2	1	0	2	2	1	0

"-" indicates where a response category was not offered to respondents

Table 2: Long-term illness response options

The initial situation is one in which group a (the worst-off group) have a rate of limiting long-term illness of 40% and group b (the best-off group) have a corresponding rate of 12%. The numbers in the table show percentage reductions in the absolute rate per group depending on the programme chosen for each of the pairwise choices.

1st round				2nd round			
Programme A		Programme B		Programme A		Programme B	
Group a	Group b	Group a	Group b	Group a	Group b	Group a	Group b
7	7	12	2	7	7	12	2
7	7	11.5	2	-	-	-	-
7	7	11	2	-	-	-	-
7	7	10	2	-	-	-	-
7	7	9	2	7	7	9	2
7	7	8	2	-	-	-	-
7	7	7	2	7	7	7	2
-	-	-	-	7	7	5	2

"-" indicates where a response category was not offered to respondents

Table 3: Respondent characteristics

	Sample	Yorkshire and Humberside*
Sex:		
Male	48%	47%
Female	52%	53%
Age:		
<44 years	50%	49%
>45 years	50%	51%
Mean age	49	
Dependants:		
Children	67%	66%
No children	33%	34%
Economic status:		
Employed	54%	56%
Other	46%	44%
School leaving age:		
Minimum	60%	61%
Stayed on	40%	39%
N	130	4014

* The Annual Survey of English Housing 1998/1999 and The British Household Panel Survey 1998.

Table 4: Average life expectancy questions

Life exp. of group a	Social class	Sex	Quintiles	Implied r	Implied weight at initial point	Implied trade-off
77 or more	24	**20**	12	-1.0	1.0	0.0
76.75	0	1	-	2.3	1.2	-0.1
76.50	5	-	2	5.8	1.6	-0.3
76.25	0	0	-	9.8	2.0	-0.4
75.75	2	1	-	19.9	4.0	-0.8
75.50	**11**	-	**14**	27.5	6.6	-1.0
75.25	11	5	-	40.3	15.5	-1.4
75 or less	13	4	5	Infinity	Infinity	

Median respondent in bold

 "-" indicates where a response category was not offered to respondents

Table 5: Limiting long-term illness questions

Percent without illness in group a	Social class	Quintiles	Implied r	Implied weight at initial point	Implied trade-off
72 or more	14	9	-1.0	1.0	0.0
71.75	1	-	-0.8	1.1	-0.2
71.5	3	1	-0.6	1.1	-0.5
71.25	0	-	-0.4	1.2	-0.7
70.5	1	-	0.2	1.6	-1.6
70.0	5	**9**	0.7	1.9	-2.3
69.5	6	-	1.3	2.4	-3.0
68.5	**7**	-	2.9	4.4	-4.9
68.0	13	14	4.1	7.1	-6.2
67.5	5	-	6.2	15.9	-7.9
67 or less	11	0	Infinity	Infinity	

Median respondent in bold

"-" indicates where a response category was not offered to respondents

Appendix: Example of the questions – average life expectancy by social class

As you might know, average life expectancy differs by social class.

Whilst actual life expectancy varies between individuals, on average, people in social class 1 live to be 78 and in social class 5 they live to be 73.

Imagine that you are asked to choose between two programmes which will increase average life expectancy. Both programmes cost the same.

In the two graphs below the light grey part shows average life expectancy, and the dark grey part shows the increase in life expectancy. There is a separate graph for each of the programmes.

As you can see, Programme A is aimed at both social classes equally and Programme B is aimed more at social class 5.

Please indicate whether you would choose A or B by ticking one box.
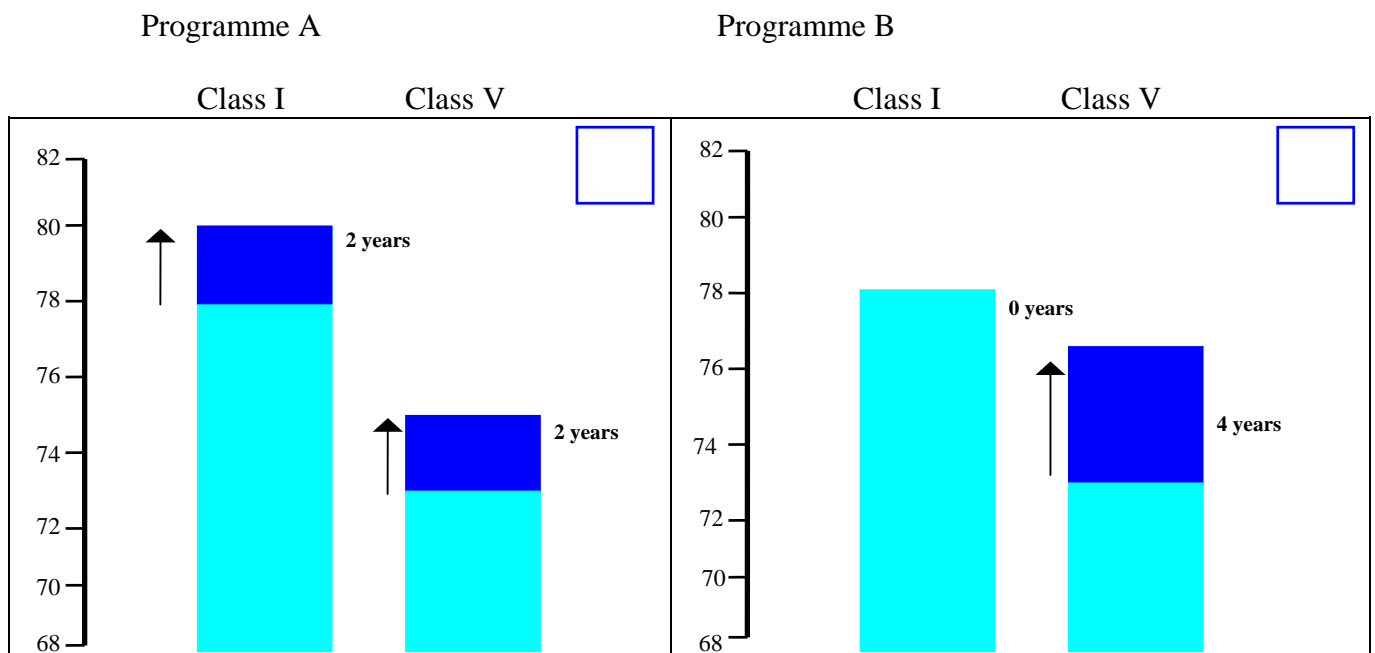
If the respondent chose A, that was the end of the question. If the respondent chose B, she was told:

"Choosing Programme B might mean that the increase in life expectancy is less overall. For each of the six [or four, depending on the round] choices below, please tick one box to indicate whether you would still choose B, or whether you would now choose A."

The presentation of the choices was of the same kind as that illustrated above