

Abstract:

Many government programs do not mandate participation, but instead are based on voluntary enrollment. From an economic perspective, the effectiveness of a voluntary program depends on whether it induces selection of those who would change their behavior most under the program (selection on “slopes”) or selection of those who would benefit from the program holding their behavior fixed (selection on “levels”). We study these forces using a payment reform in Medicare that paid hospitals a fixed payment for hip and knee replacement, instead of the status quo fee-for-service reimbursement system. The payment reform was designed as a mandatory randomized trial, allowing us to recover heterogeneous treatment effects (slopes) of the program. Three years into the trial, participation was modified to be voluntary for a subset of the treated hospitals, allowing us to examine selection into the program. We specify and estimate a model that allows for both selection on slopes and selection on levels and use it to examine the effectiveness of voluntary versus mandatory program participation, as well as alternative payment systems