Balancing market and government failures in service delivery

Jeff Hammer
Princeton University
Lahore School of Economics
21 March 2013

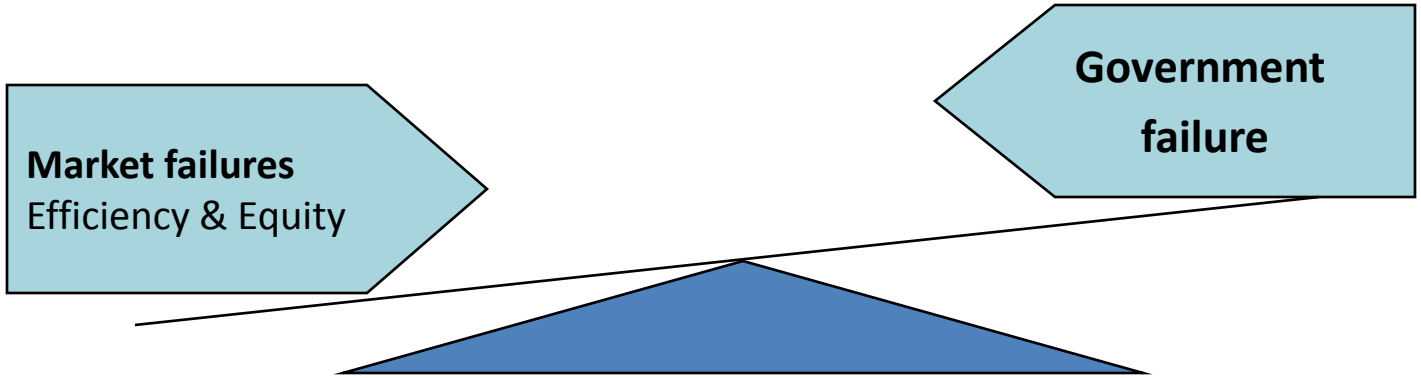
How does standard economics approach policy?

- You list the market failures in any particular sector
- You assume there is an efficient and objective government to oversee, analyze, design and implement policy in that sector
- It decides what to do, including directly providing services (sometimes goods)

But sometimes governments mess up, too, you know

Main principles from public finance

(with a little reality added)



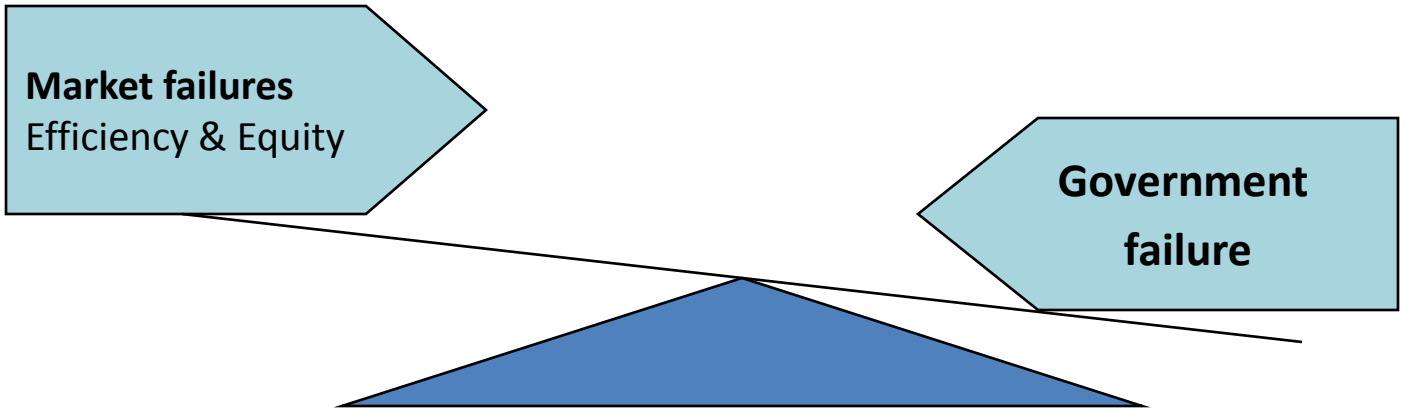
This is quantitative (even if it's a judgment call):

Size of the market failures vs. Ability to fix them

'It is not sufficient to contrast the imperfect adjustments of unfettered private enterprise with the best adjustment that economists in their studies can imagine. For we cannot expect that any public authority will attain, or will even whole heartedly seek that ideal. Such authorities are liable alike to ignorance, to sectional pressure and to personal corruption by private interest'. A.C. Pigou, 1920

Main principles from public finance

(with a little reality added)

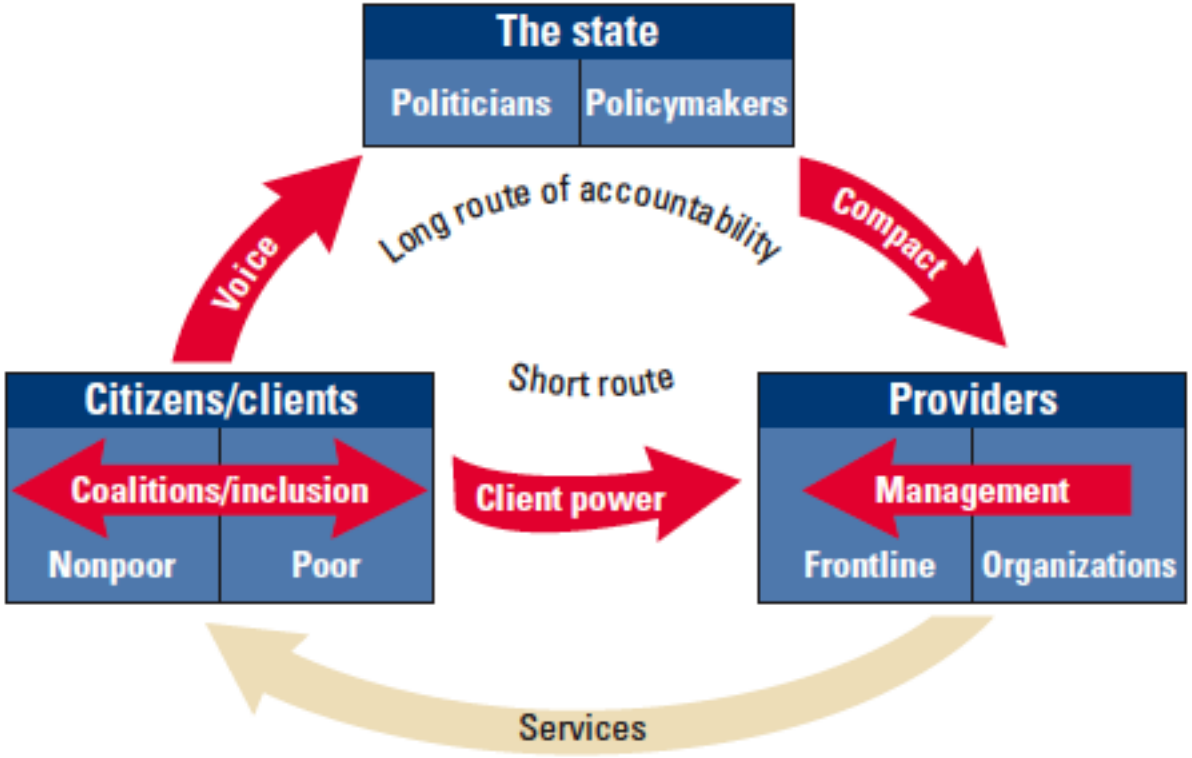


This is quantitative (even if it's a judgment call):

Size of the market failures vs. Ability to fix them

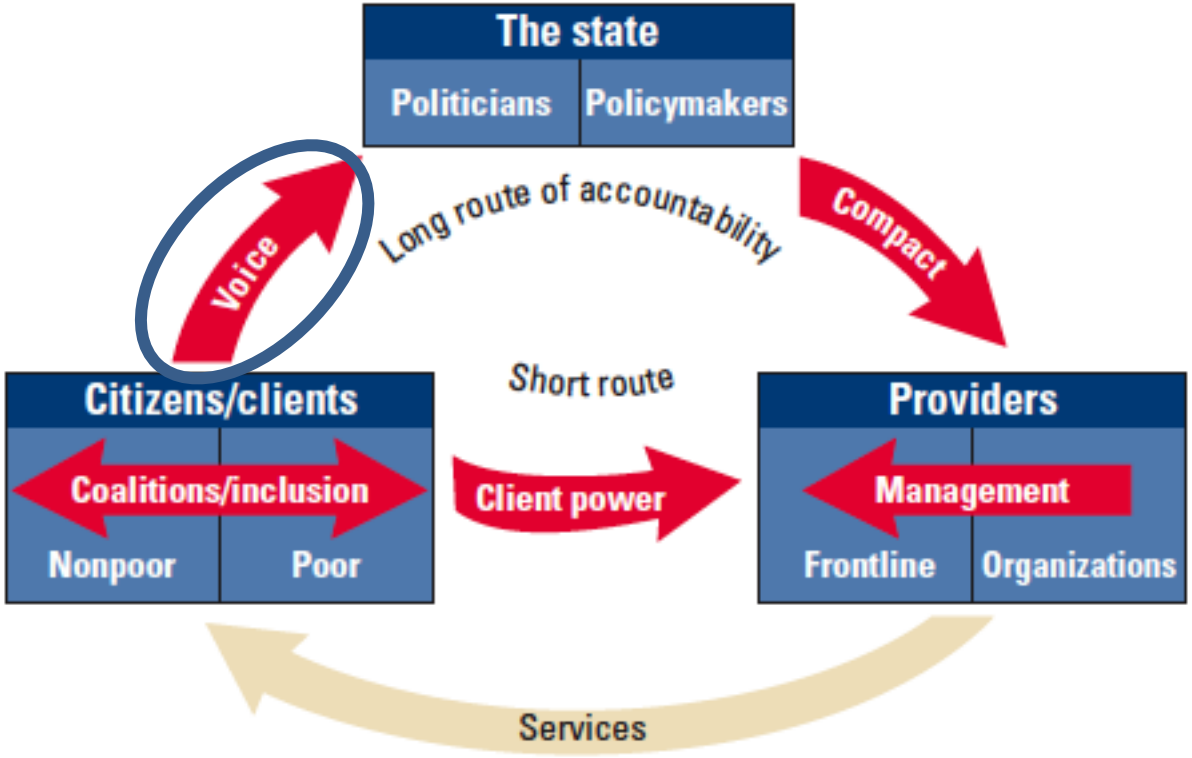
'It is not sufficient to contrast the imperfect adjustments of unfettered private enterprise with the best adjustment that economists in their studies can imagine. For we cannot expect that any public authority will attain, or will even whole heartedly seek that ideal. Such authorities are liable alike to ignorance, to sectional pressure and to personal corruption by private interest'. A.C. Pigou, 1920

Government failure: Accountability



WDR 2004 “Making Services Work for Poor People”

Government failure: Accountability

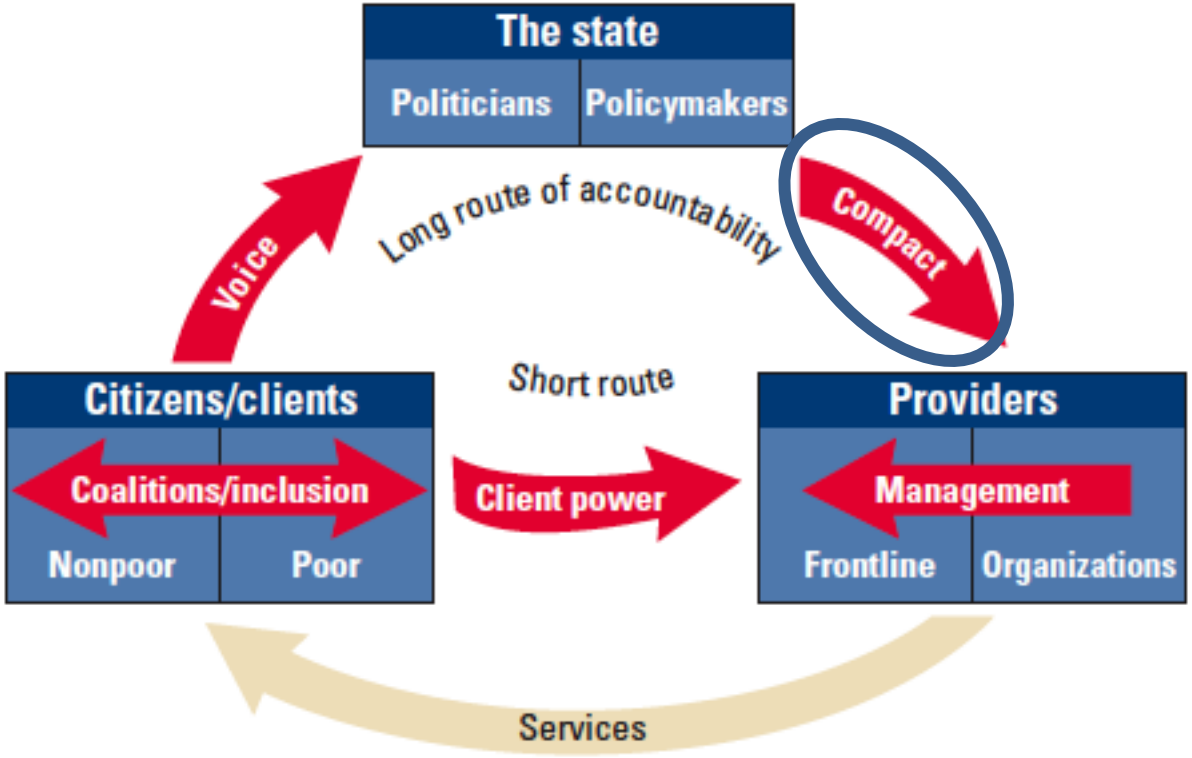


WDR 2004 “Making Services Work for Poor People”

Government failure: Accountability

- Are policy-makers accountable to the public and committed to the real goals of public services?
  - Pigou's ignorance:
    - Do policy makers know what people want? (Do we, that is, high minded people? Maybe we should ask.)
    - Do they know how many children are dying? How much they are learning? Really? How often do they get this information?
    - Do they care?
  - Pigou's sectional pressure:
    - Teachers and doctors unions, U.S. private prisons
    - The goal of health and education is not to employ doctors and teachers

Government failure: Accountability



WDR 2004 “Making Services Work for Poor People”

Government failure: Accountability… and then some

- Are providers accountable to policy makers (and, through them, to people) for providing good service?
  - Pigou's ignorance (and pressure?):
    - Do policy makers know what their staff is really doing?
    - Does the staff want them to know?
    - Serious principal/agent problem
  - Pigou's corruption or, less extreme, conscientious service
  - Klitgaard on corruption: Monopoly, discretion (plus transaction intensiveness) THEN accountability

Problems differ on discretion and transaction intensiveness

"We can solve famine, but we can't solve hunger"

- Supervising teachers so they teach: every day, every child – many transactions, different ways of getting each child to learn
- Supervising doctors so they cure: every day, every patient, each with their own symptoms
- Supervising transfer programs: identifying every eligible person (with updates?); distributing cash, food or anything re-sellable
- Absolutely the hardest: the police
  - Have to allow discretion. Police deal with hardened criminals and lost children in the same day.
  - "Transaction intensity" means you can't watch them all the time – doubles the cost of police (assuming no collusion with supervisors)
  - They have guns (or, have the right to use the state's "monopoly on violence")
  - "It's not a good idea to carry around cash --- too many policemen"

How to strike the balance

- How to decide which market failures to tackle?
  - There is no such thing as a perfect market
  - There is no such thing as a perfect government, either
  - Should compare governments that are the "best you're likely to get" not the "best you can imagine" with markets
  - Some things need government no matter how bad it is
  - Some market failures are less extreme and may just be too hard to fix
    - There is a reason we're the "dismal science" – no one wants to hear this
- How to decide which government failures to tackle?
  - Don't give up (we're not that dismal)
  - "Best you're likely to get" may be better than what you've got
  - Ask: which government actions can be fixed? (but be honest)

Choices are rarely “all public” or “all private”

- “Which parts of market failures to tackle?”
  - Electricity distribution or generation?
  - Primary health care or public health (water, etc.) or hospitals (or insurance)?
  - Setting curriculum? Running schools: hiring (and firing) teachers or just funding? Make or buy?
- “Which part of government failure to tackle?”
  - Some policies can be fixed with a stroke of the pen
  - Some policies are incredibly information intensive (too clever for their own good)
  - Some reforms are political non-starters – evade, not confront

Quick (I hope) application - health

Market failures and standard policies

Problems characterizing markets related to health

- "Public" goods
- Externalities
- Information "asymmetries"
- No insurance

- And running through it all: improve life of the poorest first

Standard policy options of government

- Population based (19th century) public health – water, sanitation, vector control, surveillance
- Promotive and preventive interventions
- Primary Health Care (cheap care)
- Hospitals (expensive care)

Market failures and standard policies

Problems characterizing markets related to health

- "Public" goods
- Externalities
- Information "asymmetries"
- No insurance

- And running through it all: improve life of the poorest first

Standard policy options of government

- Population based (19th century) public health – water, sanitation, vector control, surveillance
- Promotive and preventive interventions
- Primary Health Care (cheap care)
- Hospitals (expensive care)

Complementarity/ conflict among efficiency; equity and implementability

- Traditional public health - strong complementarity
  - Large scale, population based
  - Person-to-person preventive/promotive
- Primary health care - modest efficiency effects (varies), potentially high equity effects, difficult management
- Hospitals – high efficiency, high potential but low actual equity effects, easier management(?)

Efficiency of traditional public health

Theory

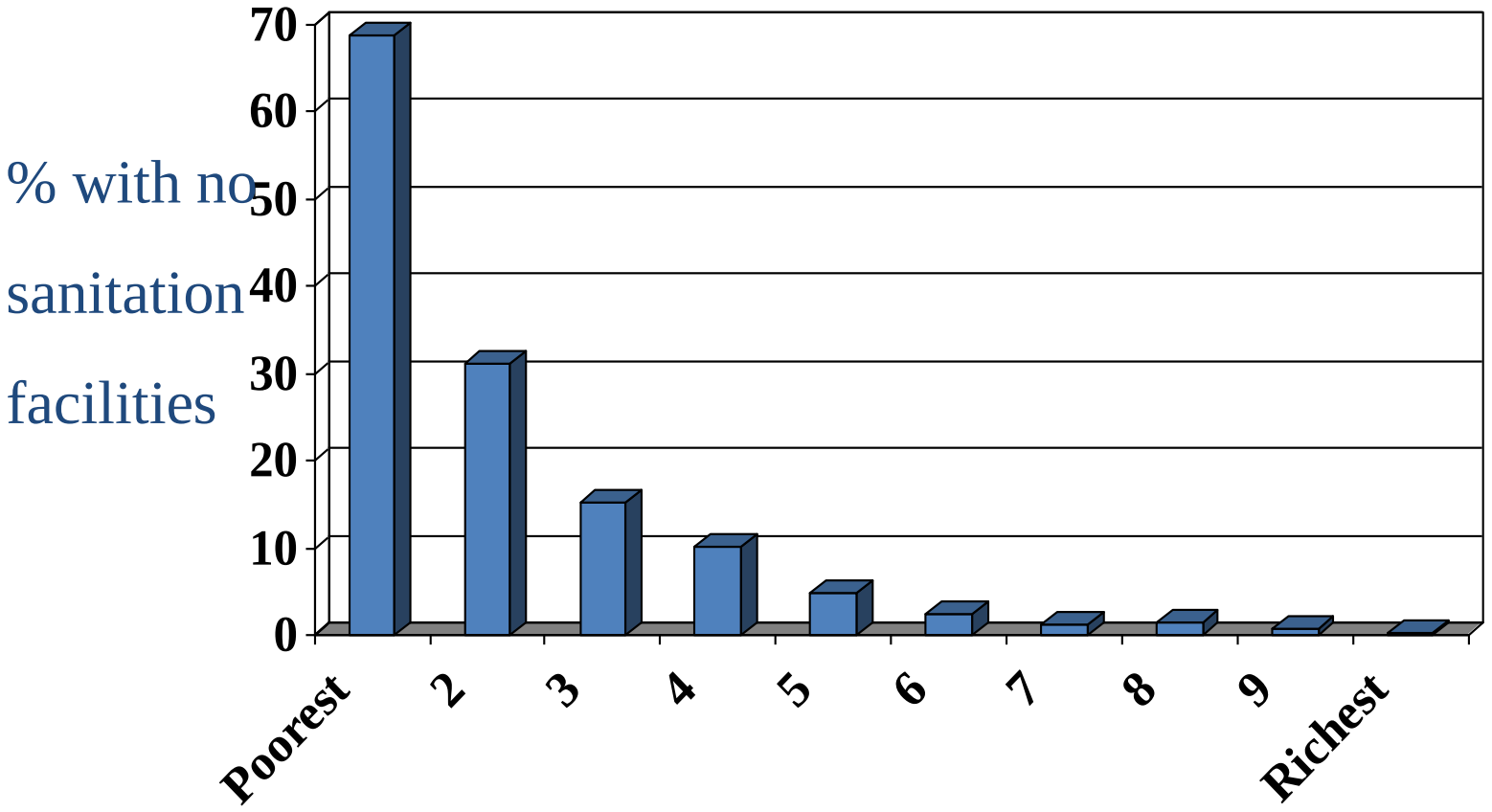
- High externality activities
- Pure public goods (i.e. there **can't** be a private sector **even in principle** because you can't get beneficiaries to pay - not just that you don't want them to)

Practice

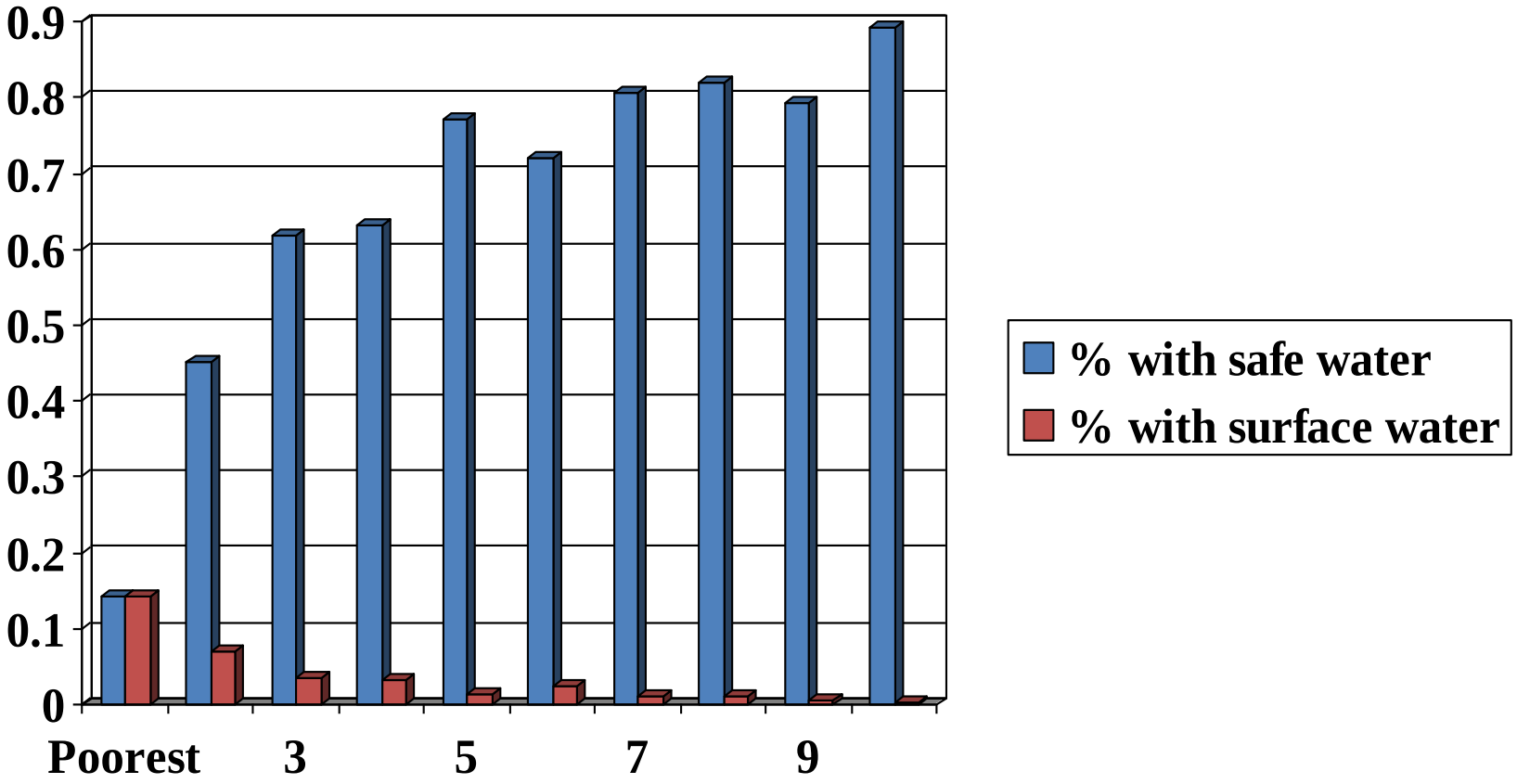
- Large effects on health outcomes

(which we figure people would want to improve if they could)

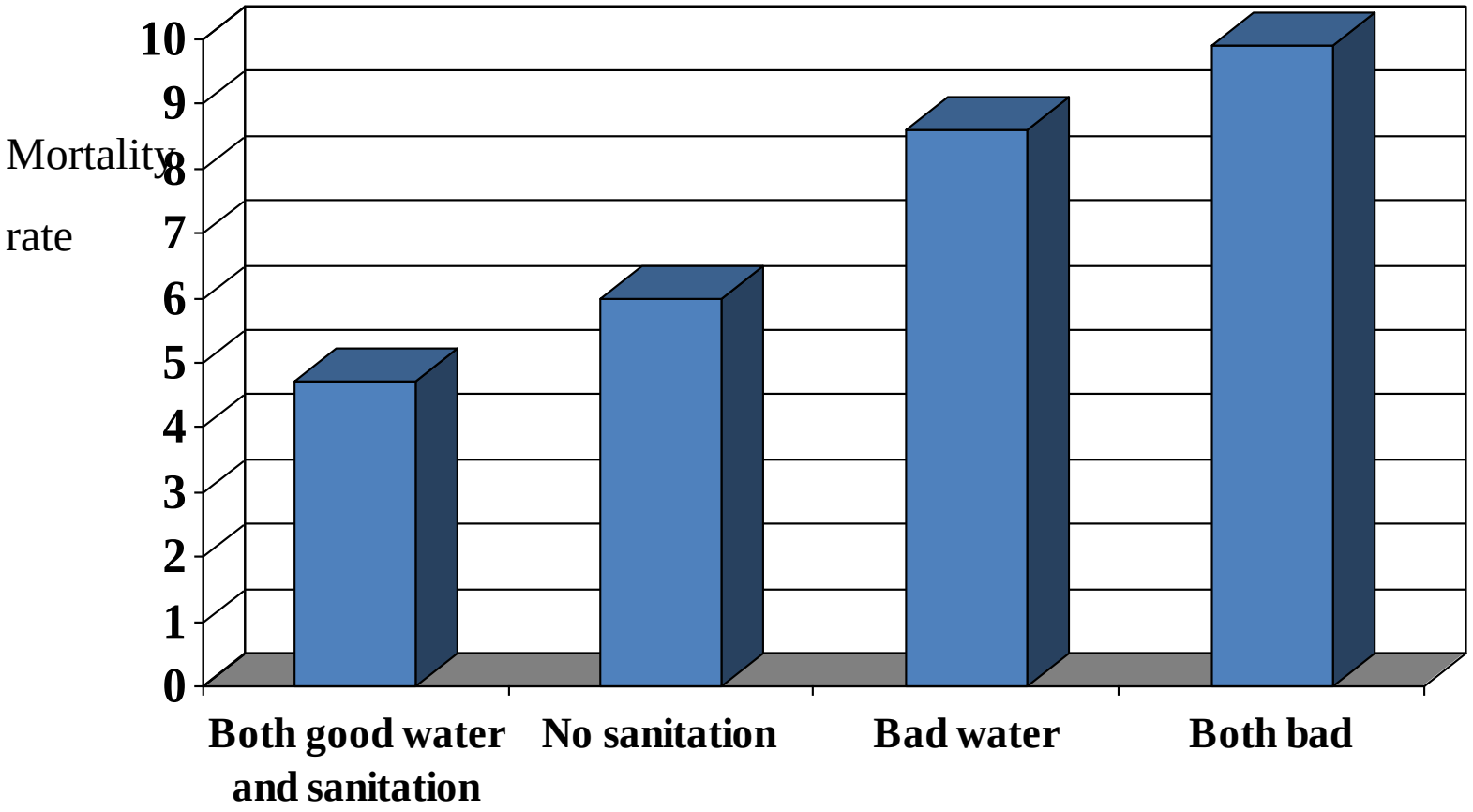
In Brazil: the poor have worse sanitation facilities...



…they have less access to safe water…



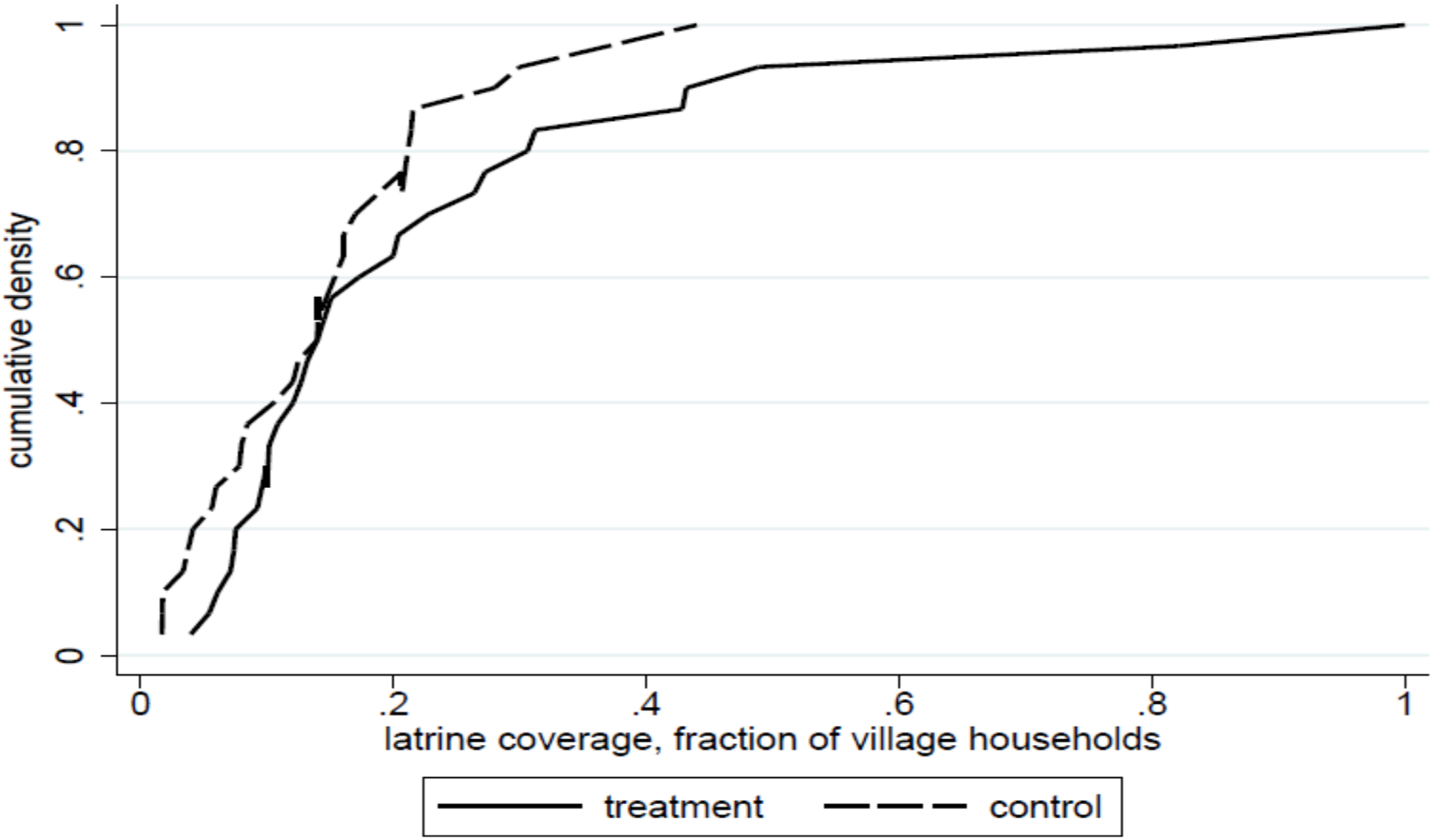
…and this costs the lives of their children



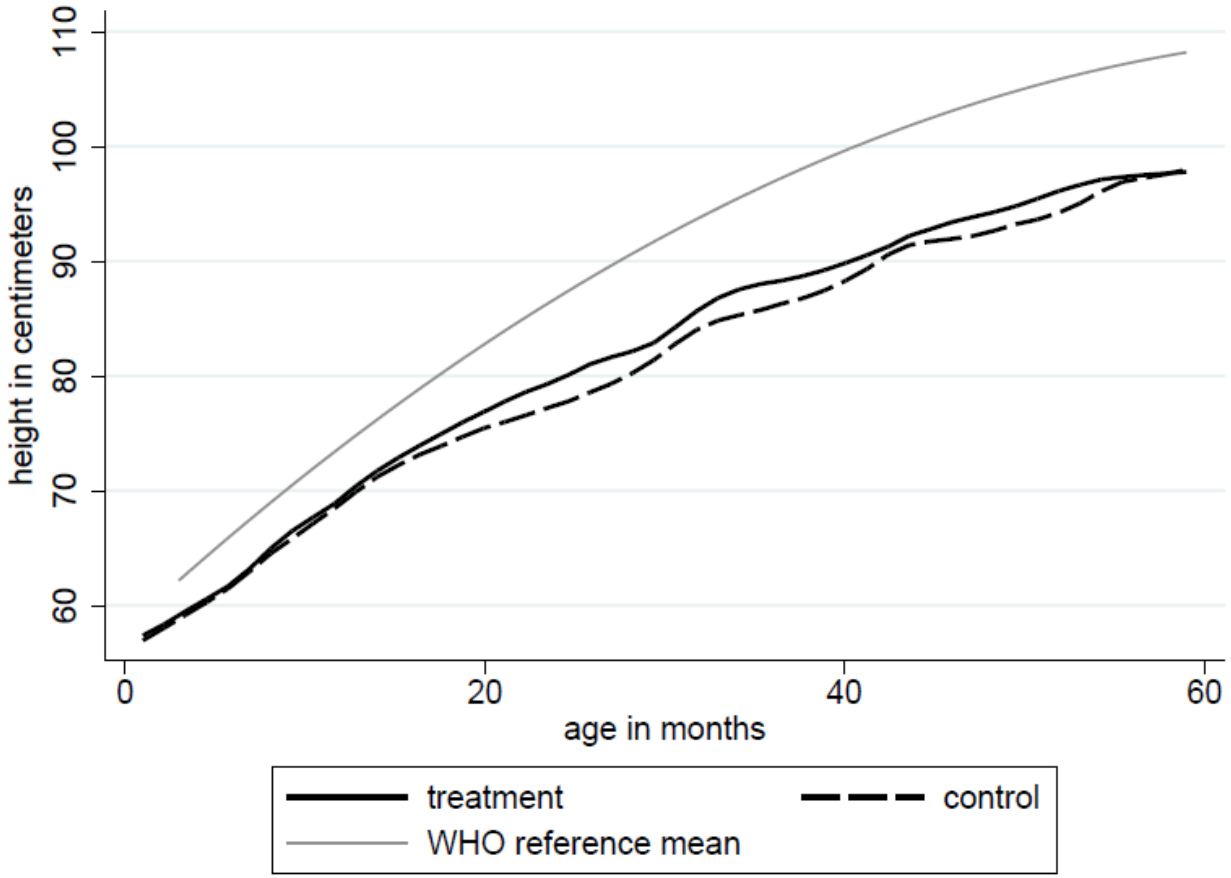
And on government capacity?

- Less research than we need
- Campaign style interventions often work
- Infrastructure, while necessary to maintain, work for a while anyway

Things can work: Total Sanitation Campaign (NOT just construction)



And it matters…



Fixing sanitation is hard . THIS did not work the first few times it was tried – and didn't work everywhere

Complementarity/ conflict among efficiency; equity and implementability

- Traditional public health - strong complementarity
  - Large scale, population based
  - Person-to-person preventive/promotive
- Primary health care - modest efficiency effects (varies), potentially high equity effects, difficult management
- Hospitals – high efficiency, high potential but low actual equity effects, easier management(?)

What reduces infant/child mortality?

- Safe water/ sanitation
- Educated parents (probably mothers)
- Income (nutrition? better purchased care?)
- Immunization (highly correlated with income and education)
- Vector (pest) control – probably but matching programs to outcomes is hard due to data

What *doesn't* appear to reduce infant/child mortality?

Publicly provided primary health care

Doesn’t matter what data or method

- NFHS 1992 and 1998 (India) – no regression effect or matched
- Reproductive and Child Health survey (India) 1998, 2001 – ditto
- Bangladesh Demographic and Health Survey - nothing
- Brazil IPEA study of municipios: zilch
- Malaysia: nada
- Chad: zip
- Philippines: a partial exception
- Pakistan DHS doesn’t even allow the question

- Torture the data as much as you like and it still won’t talk (in contrast: education, income proxies, water source, sanitation habits, good roads, etc., etc. all squeal at the slightest provocation – some have really big samples)

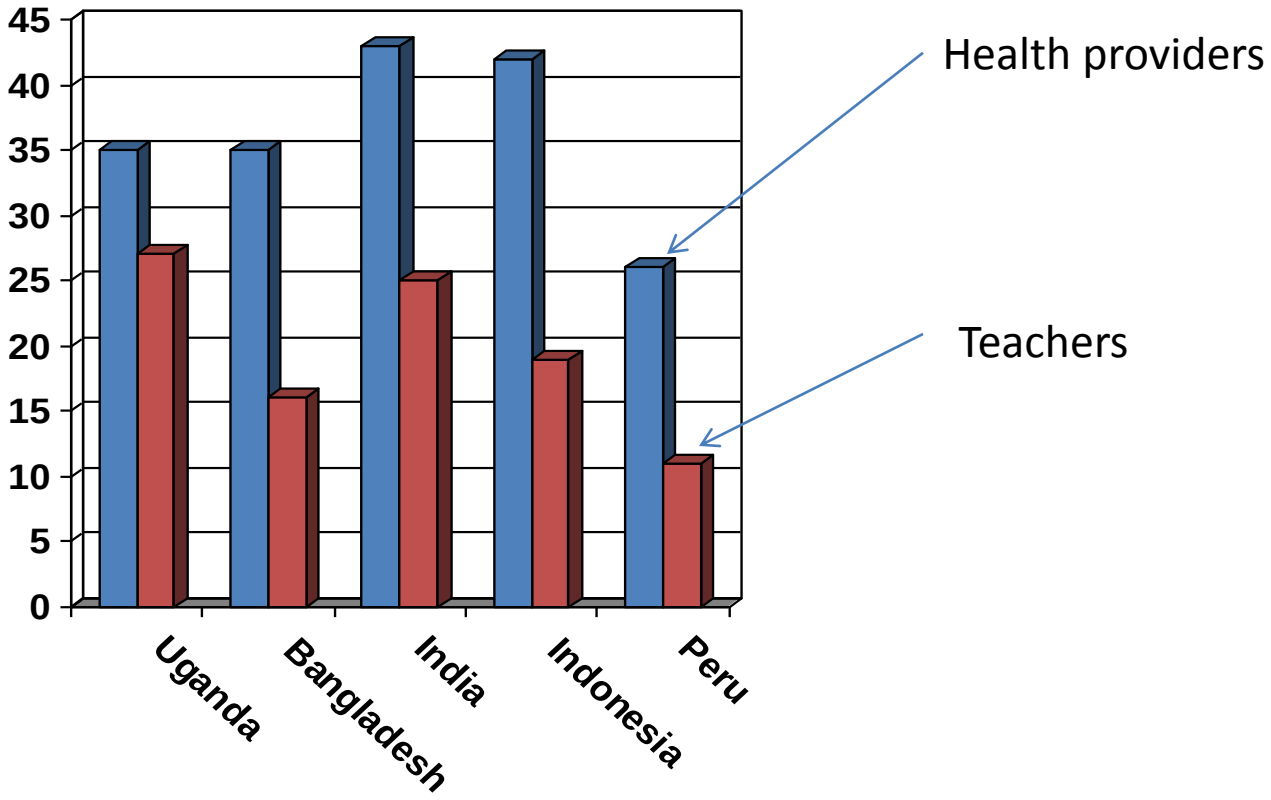
And people know this

- Most health care in most poor countries is heavily private even when the public sector is free and nearby
- The reality of this is even more striking than surveys show
- (And is this just health?) (LEAPS?)

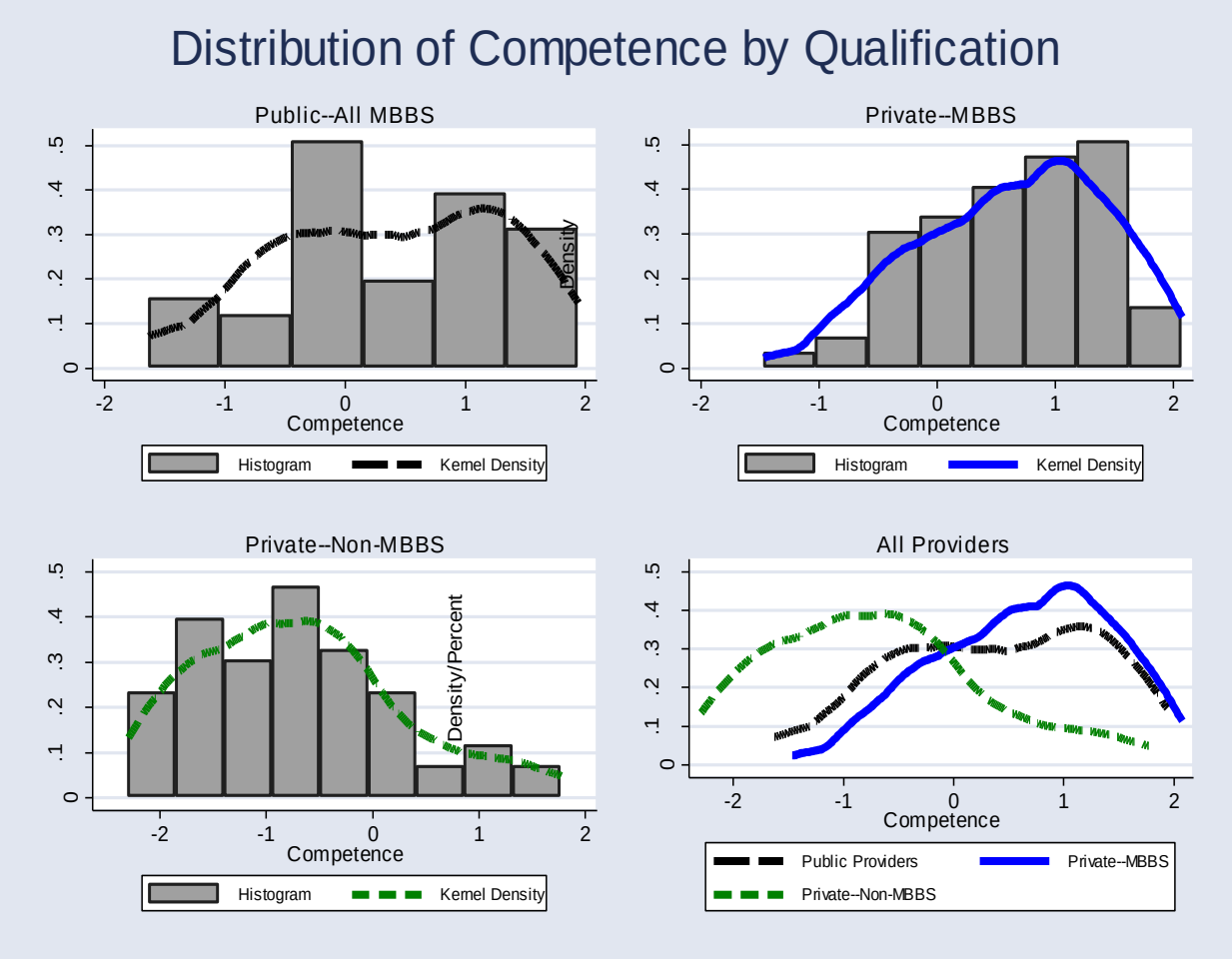
Why can’t we even give this stuff away?

- Lots of reasons
- Focus on just three
  - Absenteeism
  - Competence of care
  - Effort of care

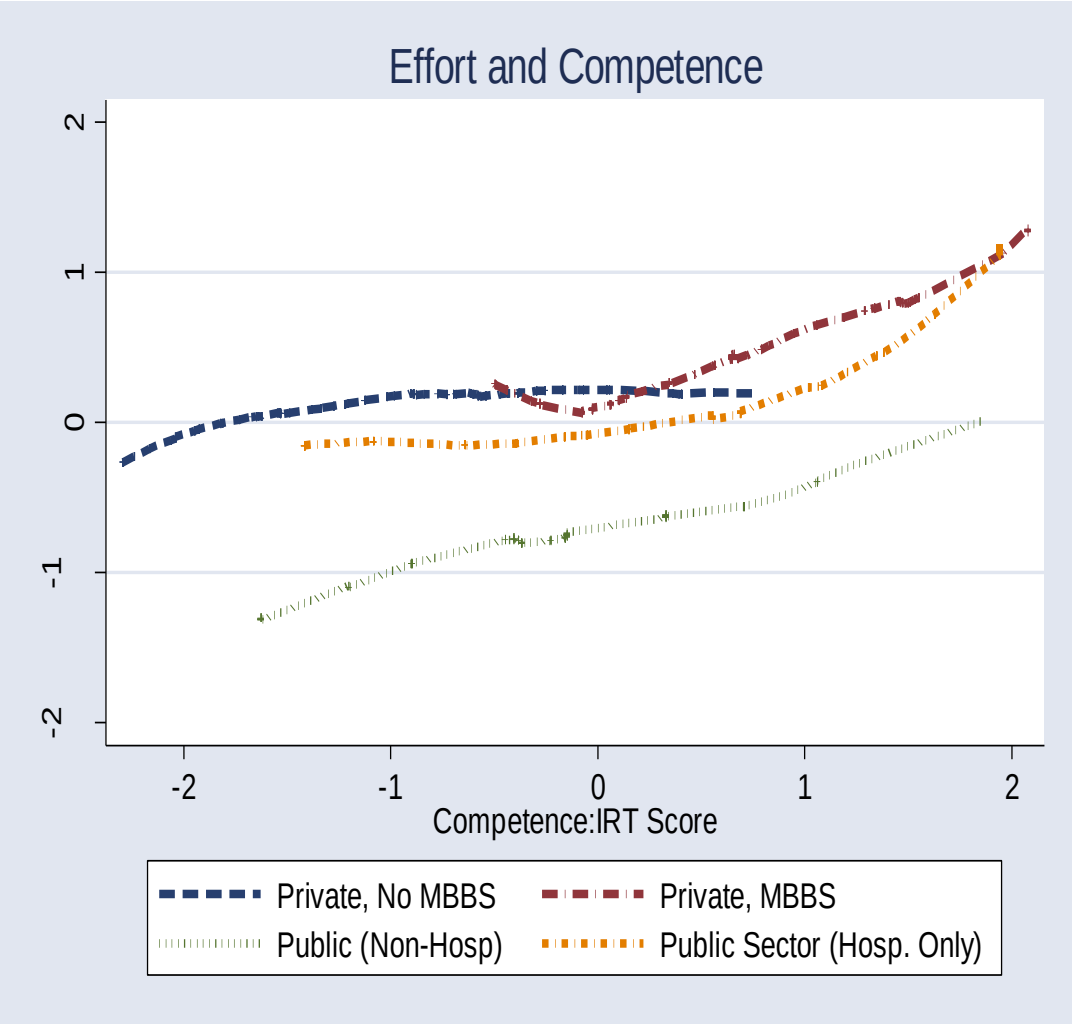
Implementation problems: Absenteeism in public facilities



The competence of providers in Delhi is very low- in public and private sectors

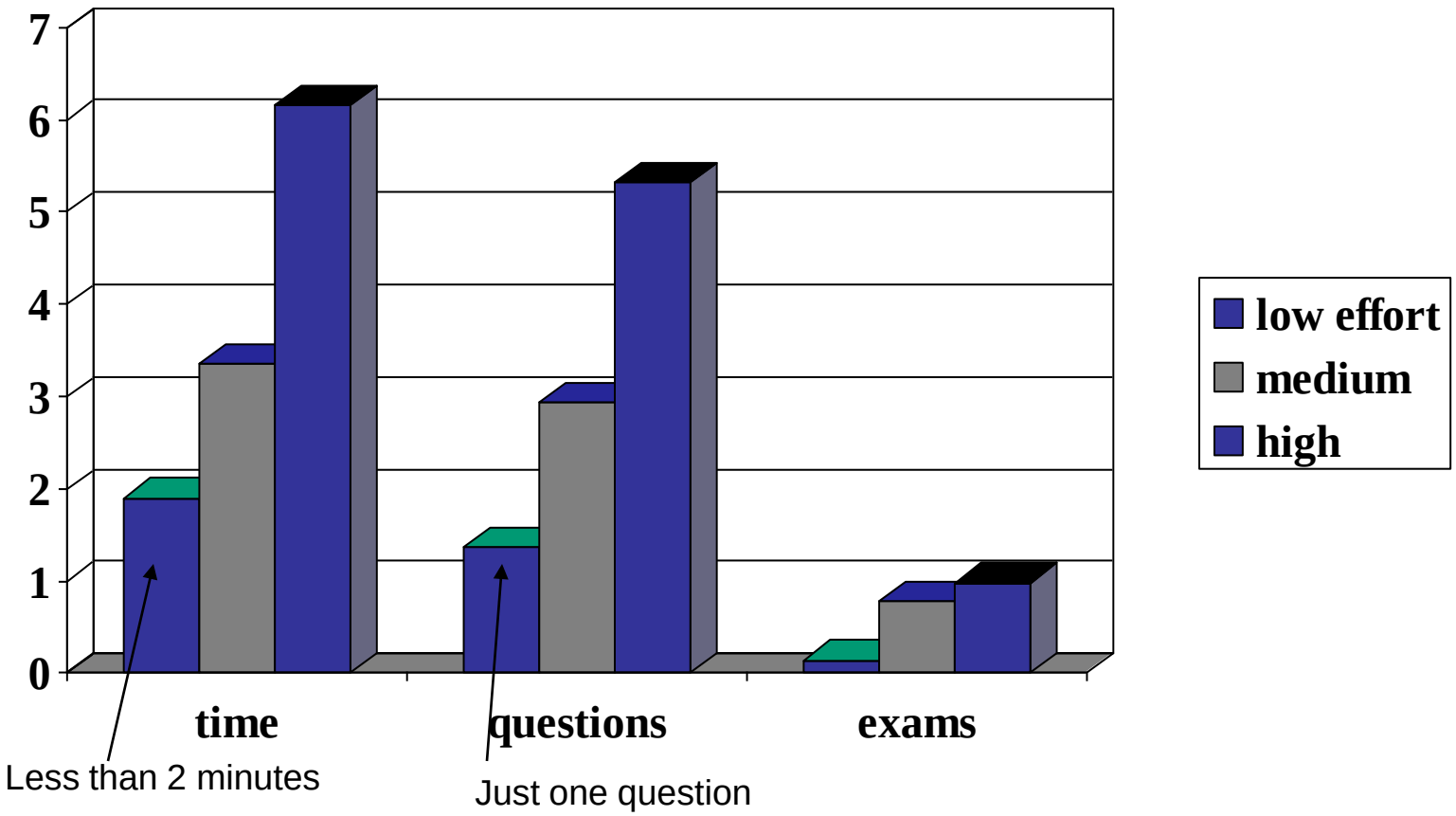


Other side of quality: effort

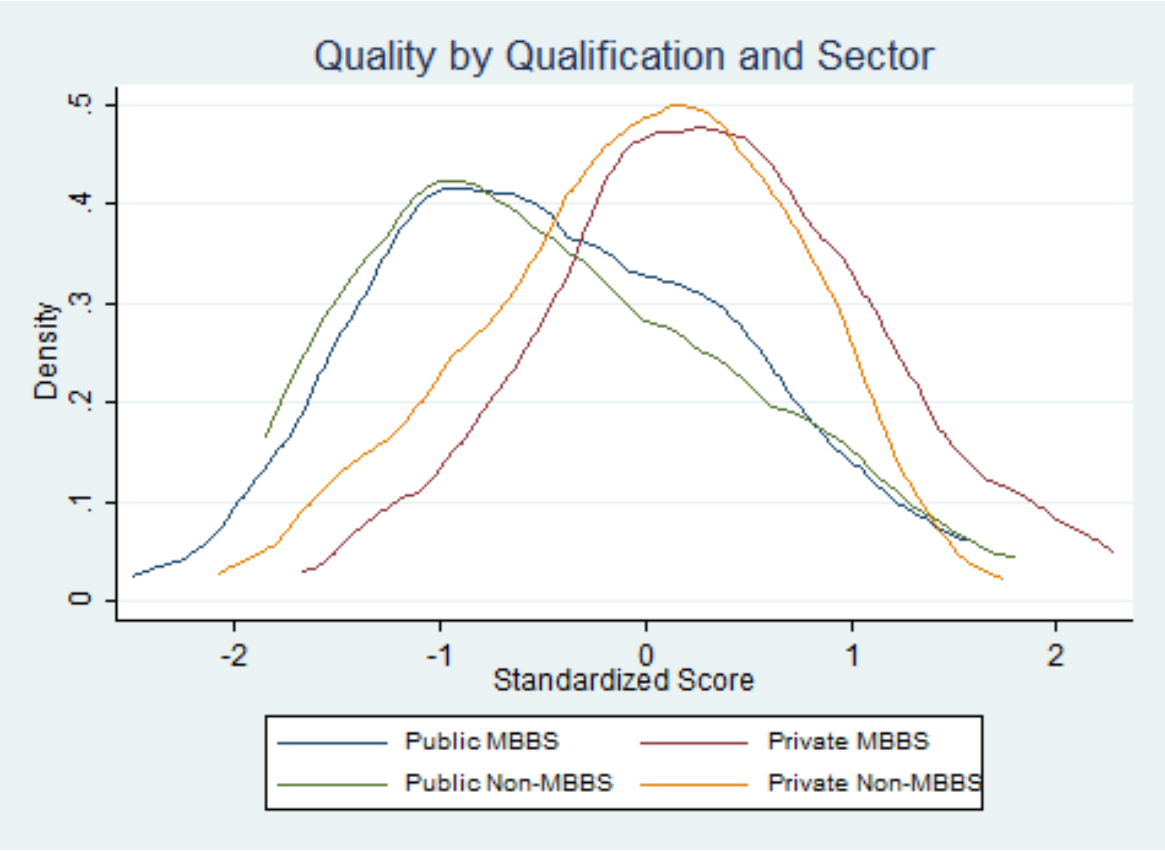


What does “very little effort” mean?

(India)



Quality in MP



Public MBBS doctors, although most competent, they did the least and so are of the lowest quality in the entire sample.

Rhetorical question: what kind of "training" is going to fix this? Or courtesy?

Why is this? Let's look at incentives

- You are paid by salary
- You are not monitored by supervisors
- You will not be fired or have pay reduced under virtually any circumstances
- You are of much higher social status and have much greater political power than your clients – complaints don't touch you
- You have lucrative alternative work in the private sector

What would *you* do?

Just health?

- I don’t think so

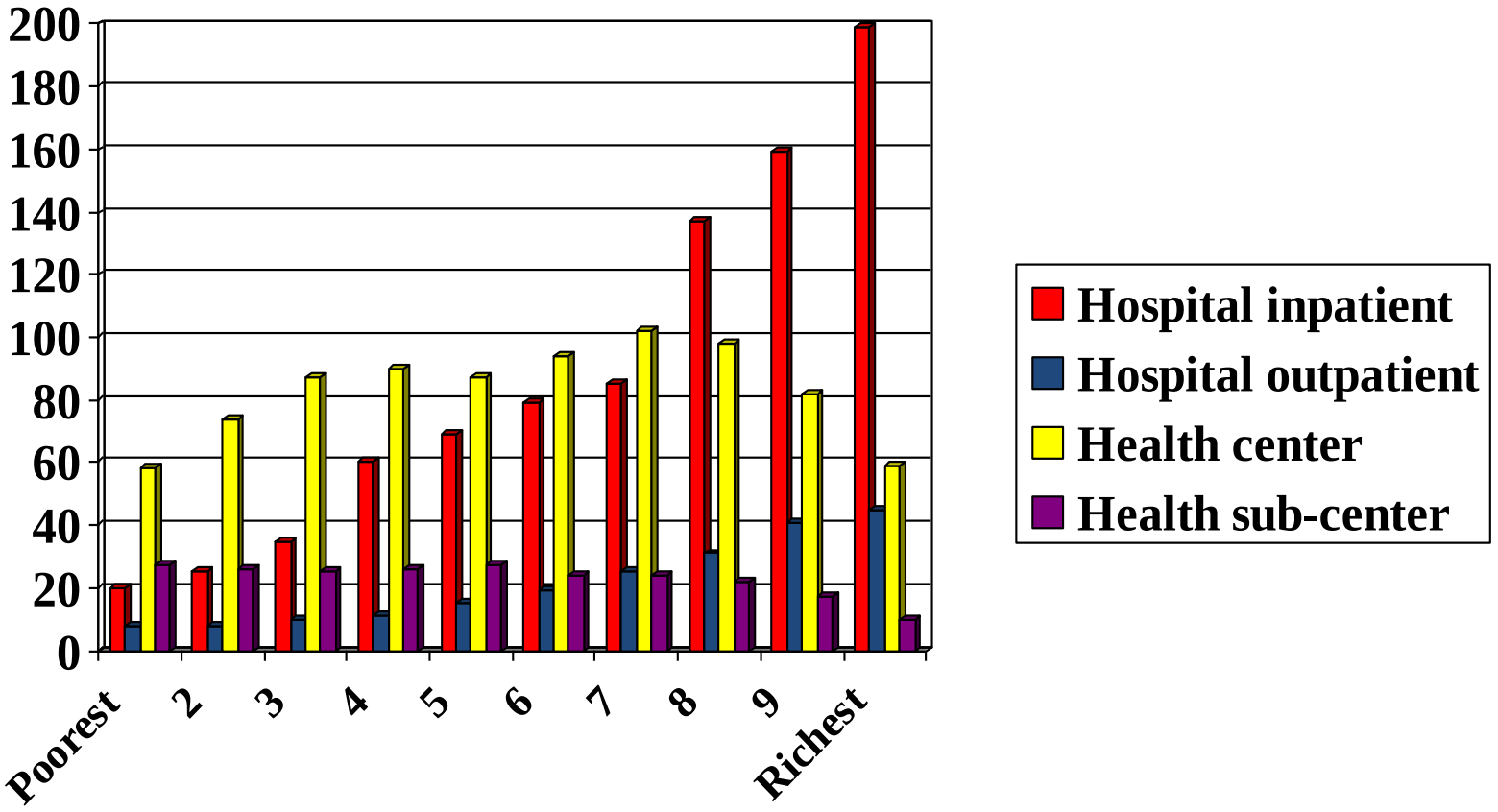
Complementarity/ conflict among efficiency; equity and implementability

- Traditional public health - strong complementarity
  - Large scale, population based
  - Person-to-person preventive/promotive
- Primary health care - modest efficiency effects (varies), potentially high equity effects, difficult management
- Hospitals – high efficiency, high potential but low actual equity effects, easier management(?)

Hospital care - fixing market failures

- Insurance markets always fail
- Avoiding catastrophic financial loss a problem for everyone
- Great fear of falling into debt and inescapable poverty from the poor and nearly poor (Problems curable at PHC level won't do this)

Big dilemma: distribution of health care subsidies, Indonesia



Running a hospital is easier than running a network of PHC's (making a choice between services)

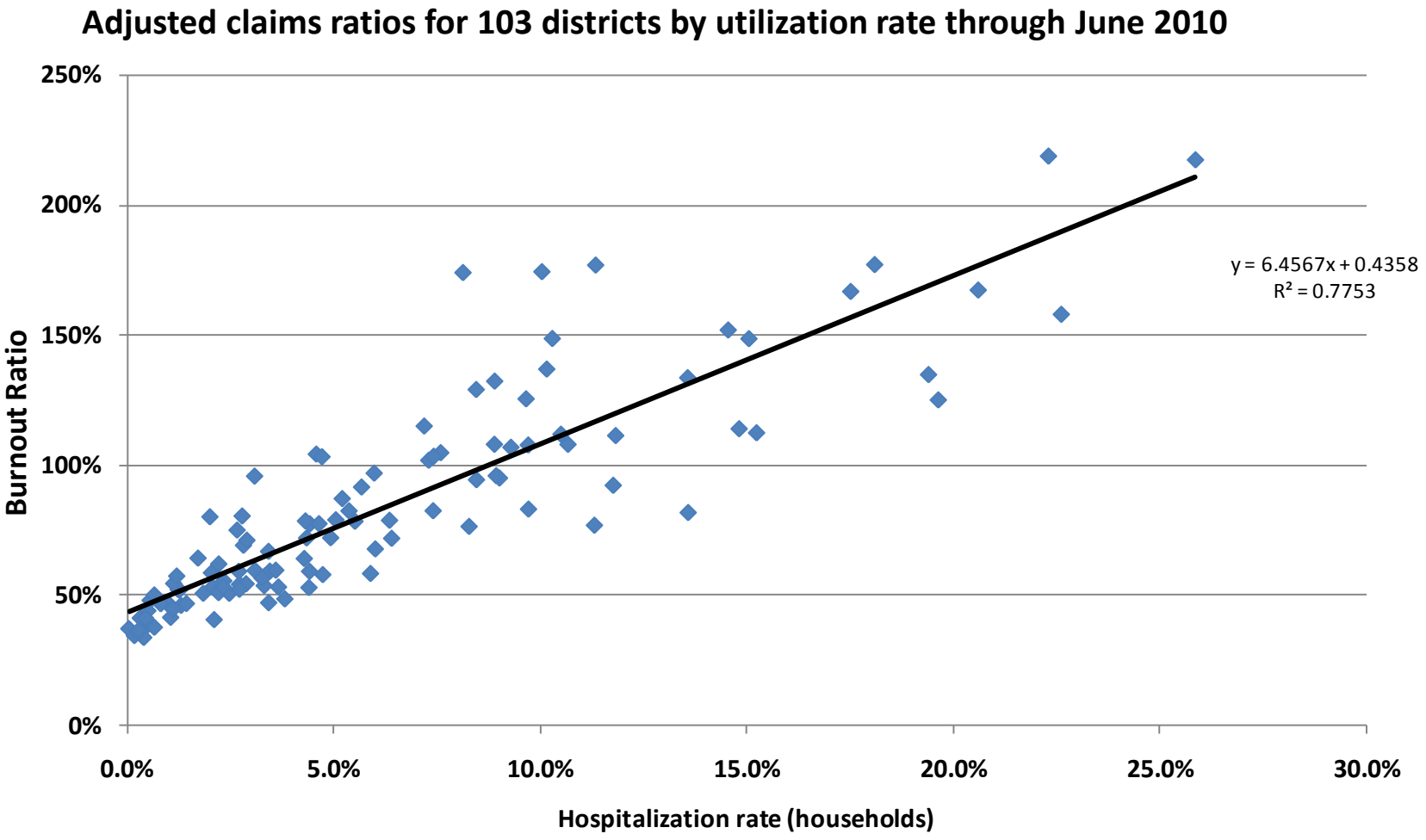
Major incentive problem the same but…

- A much less dispersed network to manage
- Staff satisfaction higher (and performance easier to ensure) in hospitals than in smaller facilities (AP study)

The failure of insurance markets is too big to ignore (making a choice between interventions)

- Which is easier to do: running a hospital or providing insurance?
- Running a hospital is complicated
- Running a health insurance program is complicated
  - Overuse
  - Overbilling
  - Actuarial information almost non-existent at start

Incentives to over-treat?



Source: Ministry of Labour and Employment RSBY database as reported in Palacios (2011)

How do we fix government?

- I don’t know
- Tools to help government capacity
  - Reduce discretion/ transaction intensiveness
    - E-governance?
      - I’m usually skeptical of tech fixes but things are changing fast
      - Point is to reduce number of places an official takes a decision

Tools, continued

- Reduce monopoly power of provider
  - Sometimes the service is a natural monopoly and the state either has to run it or has to be a close and careful regulator
    - Water in Argentina
    - Electricity in Johannesburg
  - Sometimes the service is a natural monopoly but only locally so there can be benchmark competition
  - Sometimes the service isn't a natural monopoly at all, in fact, sometimes it is excludable and rival

- Health care and Education are excludable and rival
- Competition can often work
  - Though, civil service employment rules limit this
  - Competition needn't mean private.
    - Local governments (or even villages' informal associations) can pay doctors (public or private) for each day they appear (Basic Health Units?)
  - Competition will meet with political opposition

Tools: Information*

- If maternal mortality is so important, how come we only know what it is (and not very accurately) during census years? And only at national or provincial levels?
- Why can't people know how well or how badly they are doing compared to neighboring areas and ask questions like: "they are just as poor as we are, how come our children aren't learning as much as theirs?"
- Data on funding and on outcomes collected made public in a timely fashion for a geographic area so that an official can actually be held responsible is a no-brainer. (Though never done, either).

*This is the only one I'm sure of

Information

- What gets measured is what counts
- Measure something important