

How to spend money

Jeff Hammer
Princeton University

NIPFP Conference: “New Thinking on Health Policy”
26 October 2017

How to spend money (on health)

Jeff Hammer
Princeton University

NIPFP Conference: “New Thinking on Health Policy”
26 October 2017

How to spend (public) money (on health)

Jeff Hammer
Princeton University

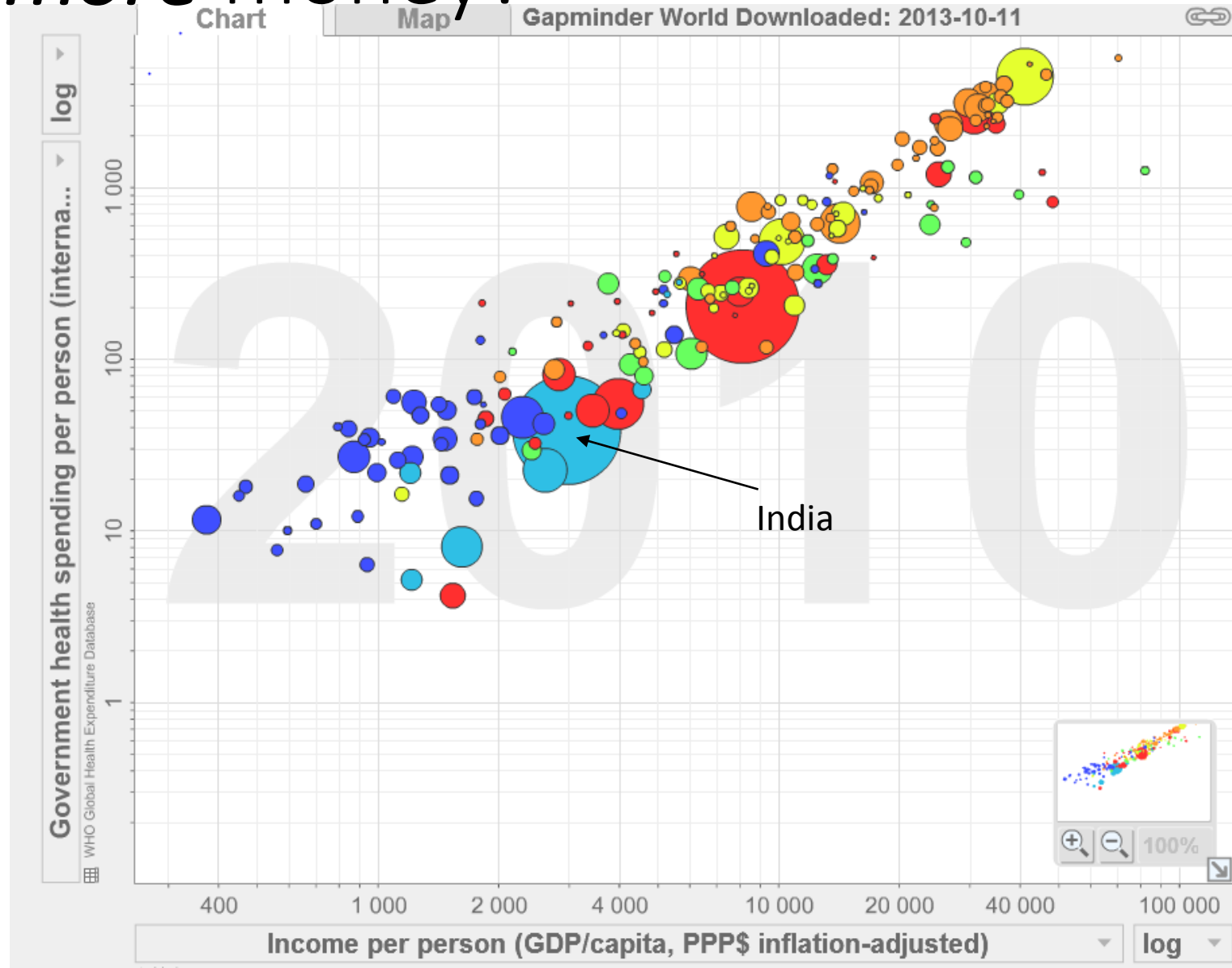
NIPFP Conference: “New Thinking on Health Policy”
26 October 2017

How to spend (more) (public) money (on health)

Jeff Hammer
Princeton University

NIPFP Conference: “New Thinking on Health Policy”
26 October 2017

Spend *more* money?



Spend *public* money ... *how*?

“The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all”

J.M.Keynes, The End of Laissez-Faire, 1926

In other words

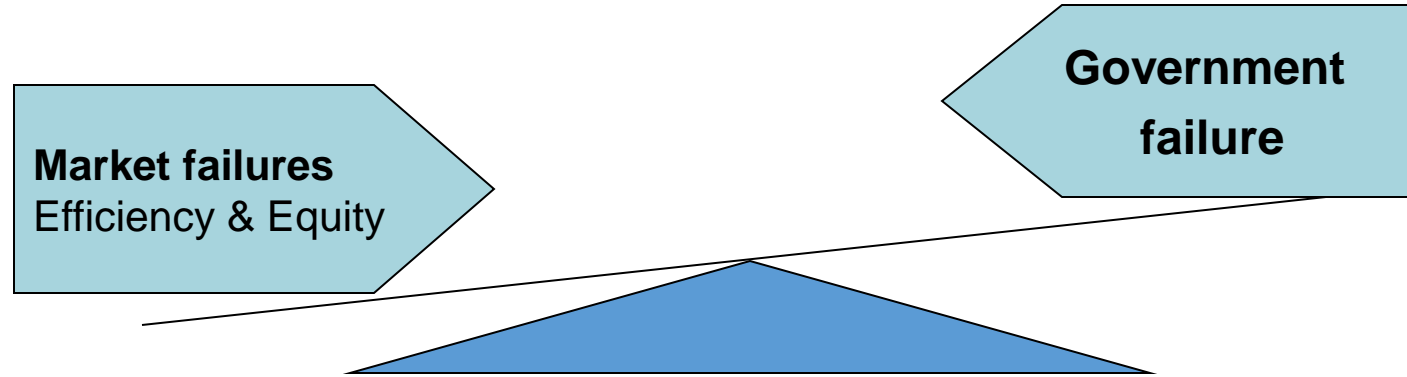
- ***First*** spend on public goods
 - (and I mean ***real*** public goods – where there can't be a private market)
- Or... work on the worst market failures (from the standard list) first
- This is as conventional a recommendation as is possible

- To that, let me note...

Governments can mess up, too

Main principles from public finance

(including public capacity)

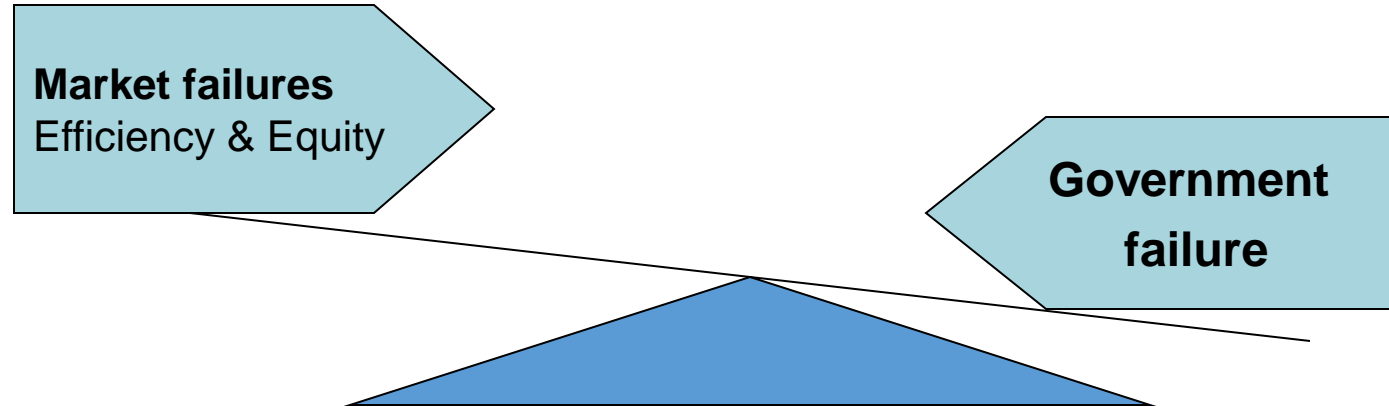


This is quantitative (even if it's a judgment call):
Size of the market failures vs. Ability to fix them

'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

(including public capacity)



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

I only have two things to say about policy
(Any policy. Ever.)

- Provide public goods before private goods. (Or: fix really bad market failures first.)
- Do things you can do before trying those you can't. (Or: take constraints on government capabilities seriously.)

What are the characteristic market failures in *health*?

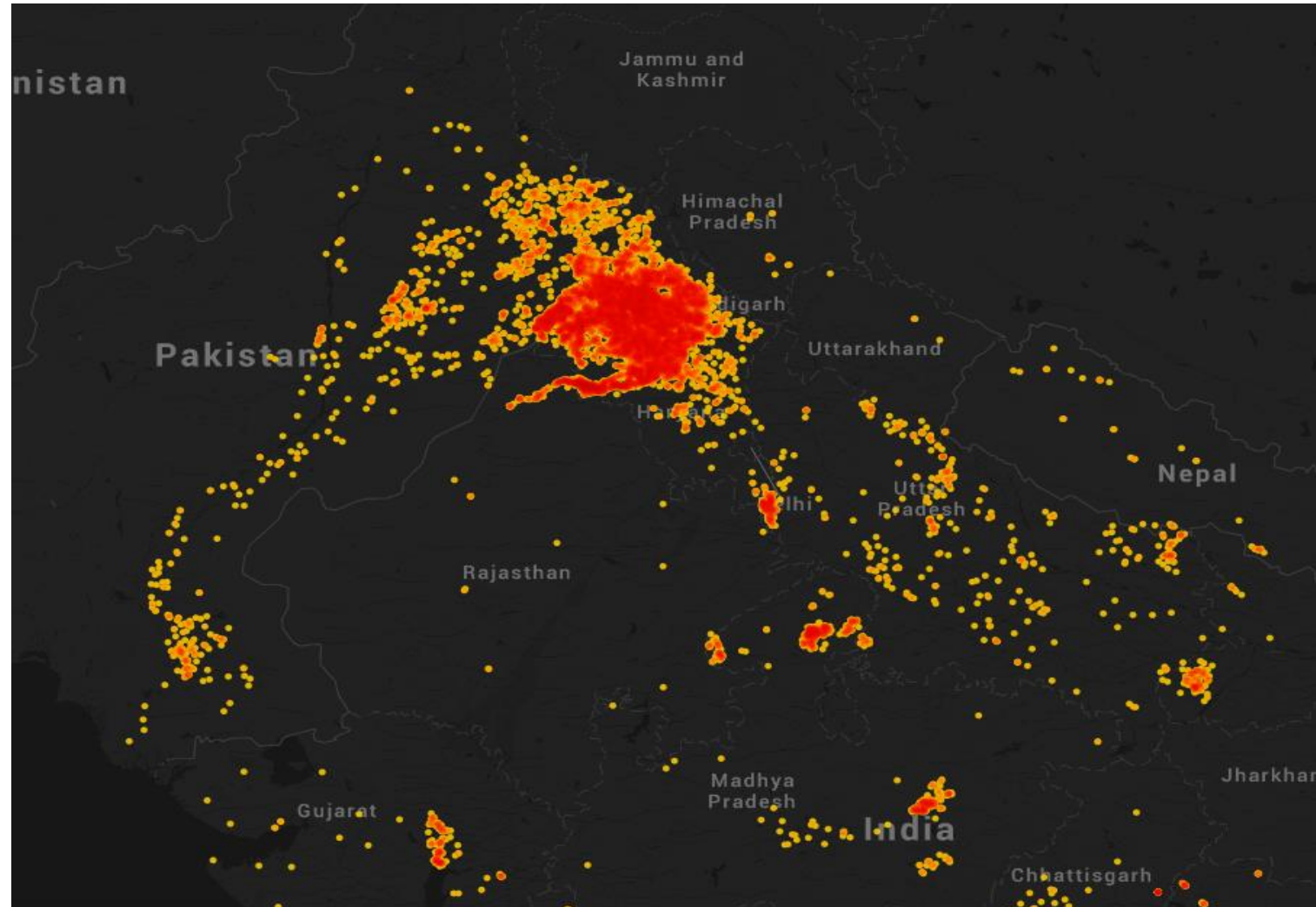
- Public goods (and other big externality items)
- Insurance market failures
- Asymmetric Information (other than complicating insurance -- ??)

Public Goods (and big externalities)

- The environment broadly conceived
 - Air quality
 - Biological pollution

Fires in November 2013

Guess which state has much better health outcomes in every dimension *except* respiratory illnesses (NSS 2014)?

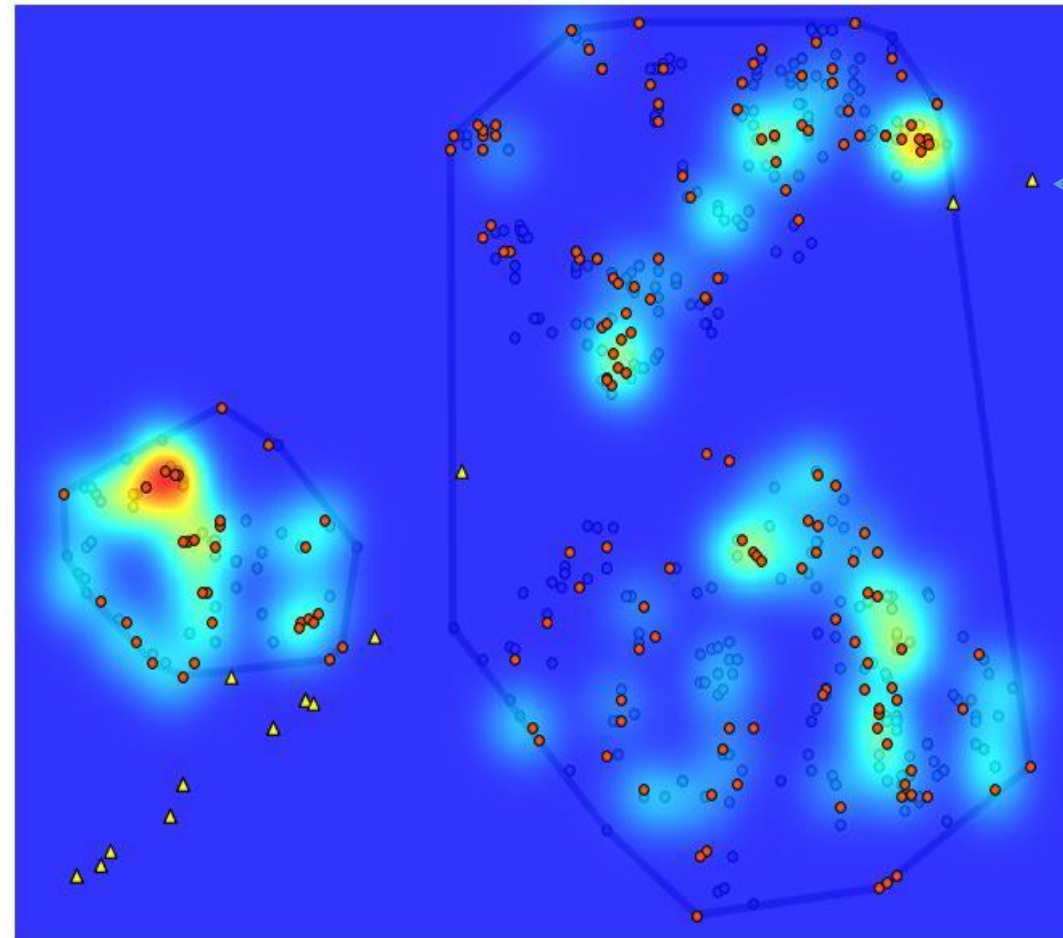


ps with [CartoDB](#)

Open defecation and cases of diarrhea, Noida 8

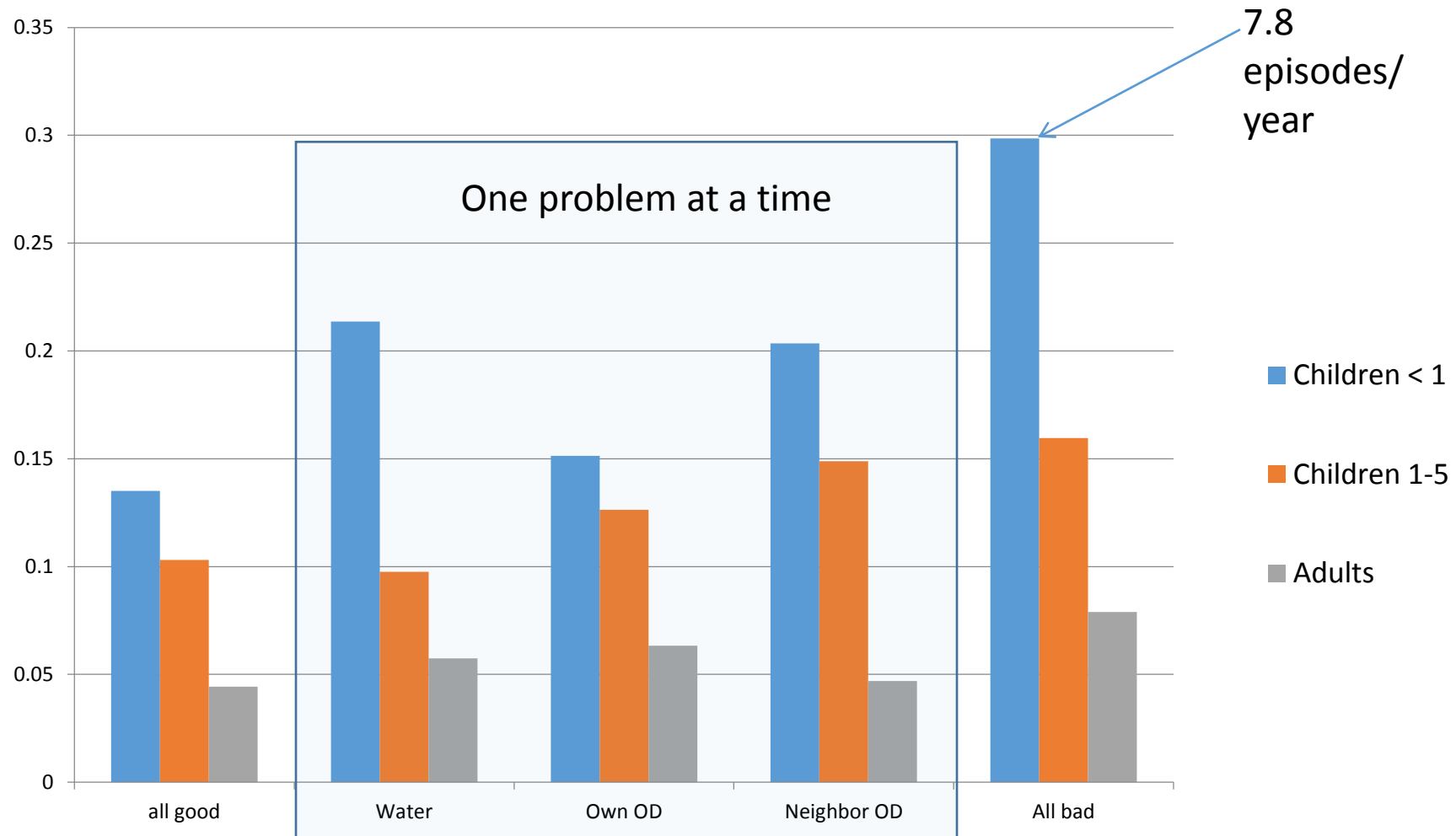
“Heat” map –
background
color is derived
from weighted
average of
people who
openly defecate

Red dots are
households
with cases of
diarrhea,
Open dots are
households
without



These
slipped in
from a
different
diagram

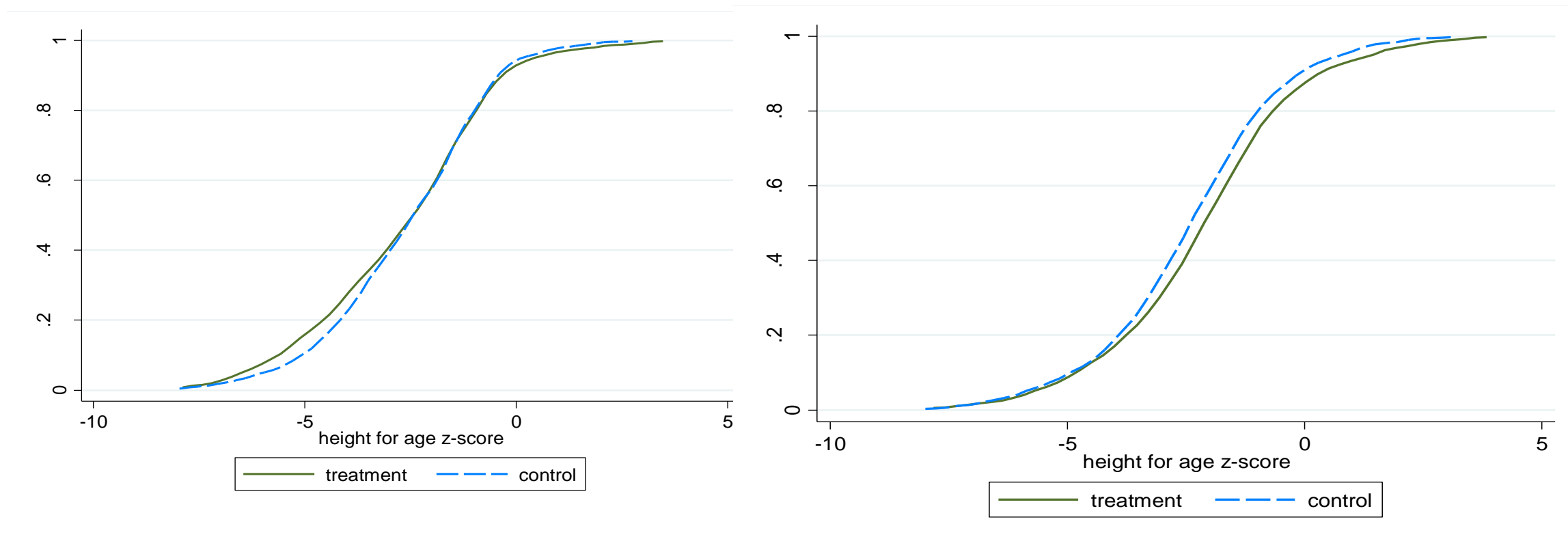
Results in pictures: Diarrhea in two week period



Conclusions

- If water enters your home from the street during the year, people in your house, especially infants, will get sick a lot.
- If your neighbors defecate in the open, you and your children will get sick a lot.

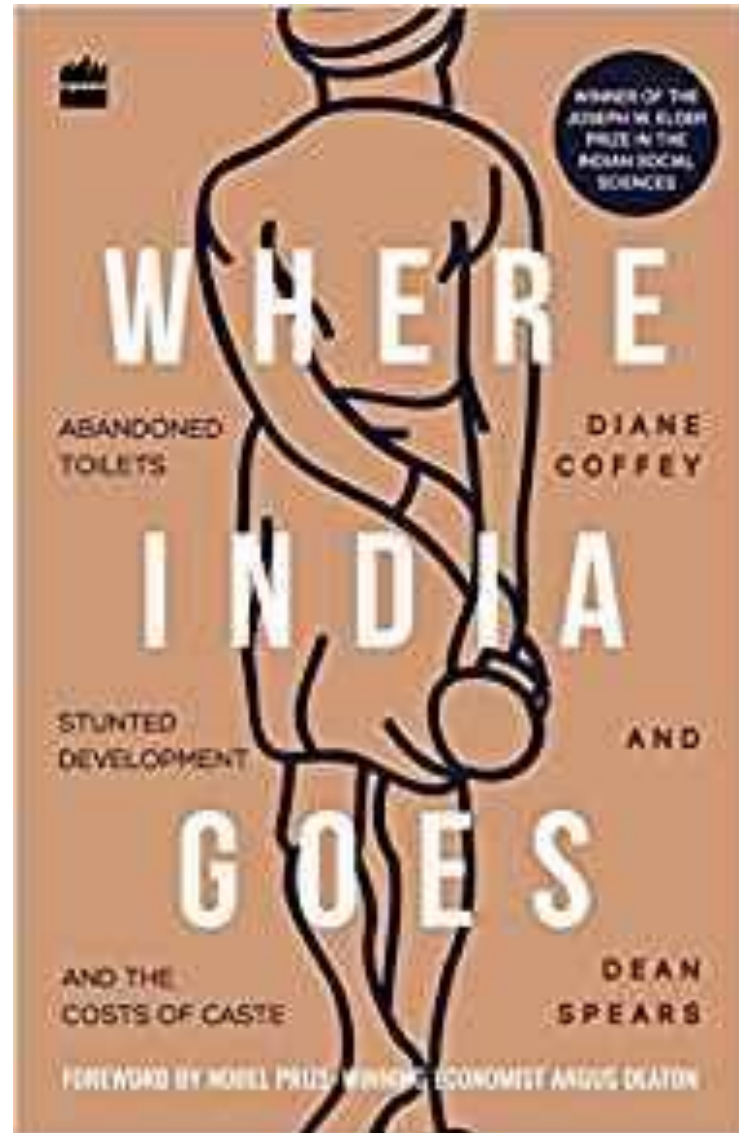
The Total Sanitation Campaign in Maharashtra



And government capacity?

- I don't know
- Hypothesis: technical fixes are easier to implement than either
 - continuously supplied services (medical care)
 - large changes in peoples' behavior
- So build sewers? Convert to CNG?

Recommended reading on sanitation



What are the characteristic market failures in health?

- Public goods (and other big externality items)
- ***Insurance market failures***

How to deal with catastrophic health costs?

- Provide insurance
- Regulate hospitals (probably essential if insurance is provided)
- Improve performance of public hospitals (as competition)

All of these are really hard

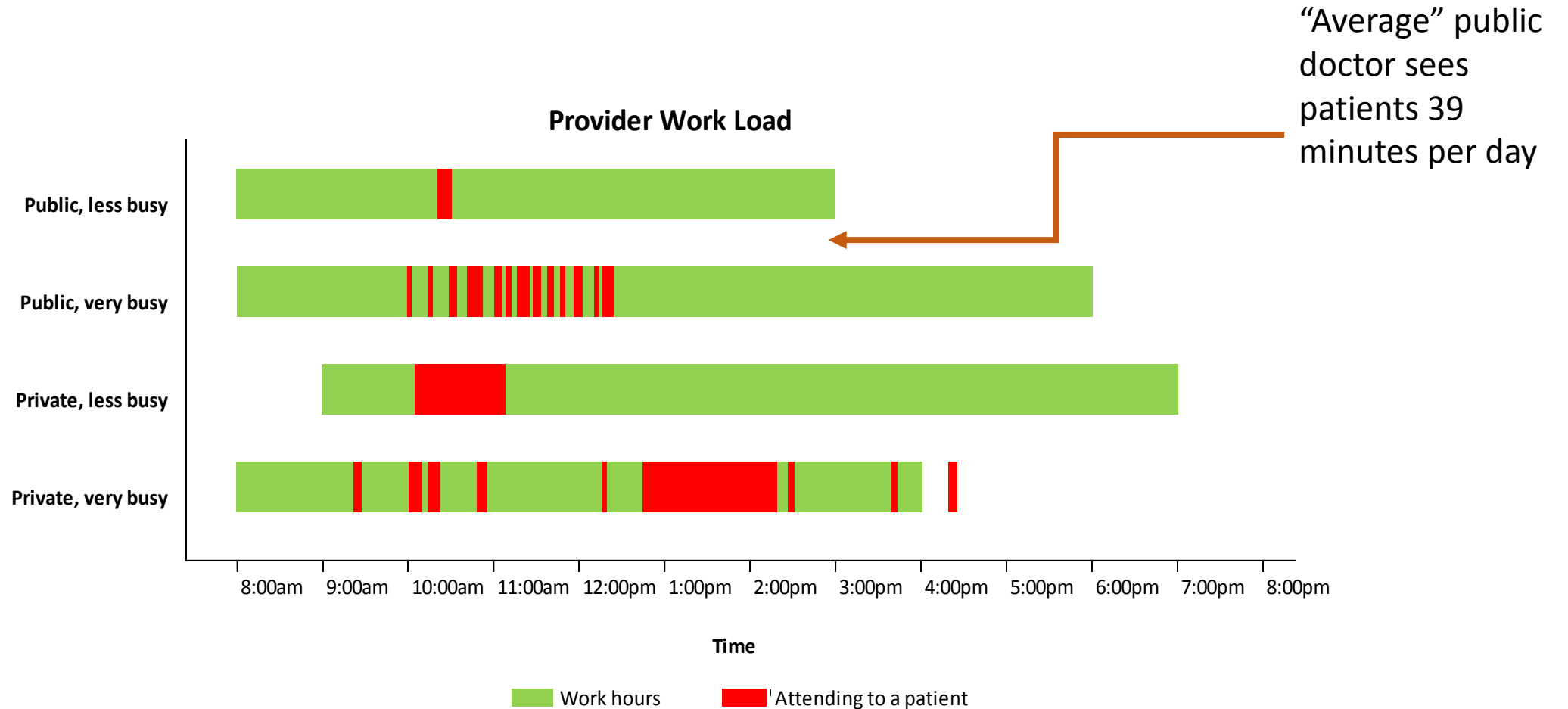
A plea for public hospitals

- Revealed demand for services
- Neglect in public discourse
- Virtual absence of information – at least study them

Revealed preferences

- Crowded public hospitals (mostly anecdotal)
- Empty public primary health clinics (mostly measured)

Demand for rural primary care



Competition from public hospitals

- Preliminary results (my students, NSS data 2014)
 - States with a better, larger **public** hospital presence have lower average costs of **private** hospital stays than other states
 - Yeah, I'm not convinced by this either but
 - Logic demands some investigation
 - Virtual absence of any relevant data
 - Data can only come from concerted public effort to collect it

What about publicly provided primary health care?

- Doesn't seem to “work” at all (anywhere in NFHS years)
- “Evidence” seems to be on inputs, not outcomes (NRHM)
- Why?
 - Vacancies
 - Absenteeism
 - Low capability of medical providers
 - Abysmal effort of medical providers
 - **Many** substitute providers of comparable quality care in private sector (even if they are quacks)

quality {

Whatever the problem is, it isn't "access"

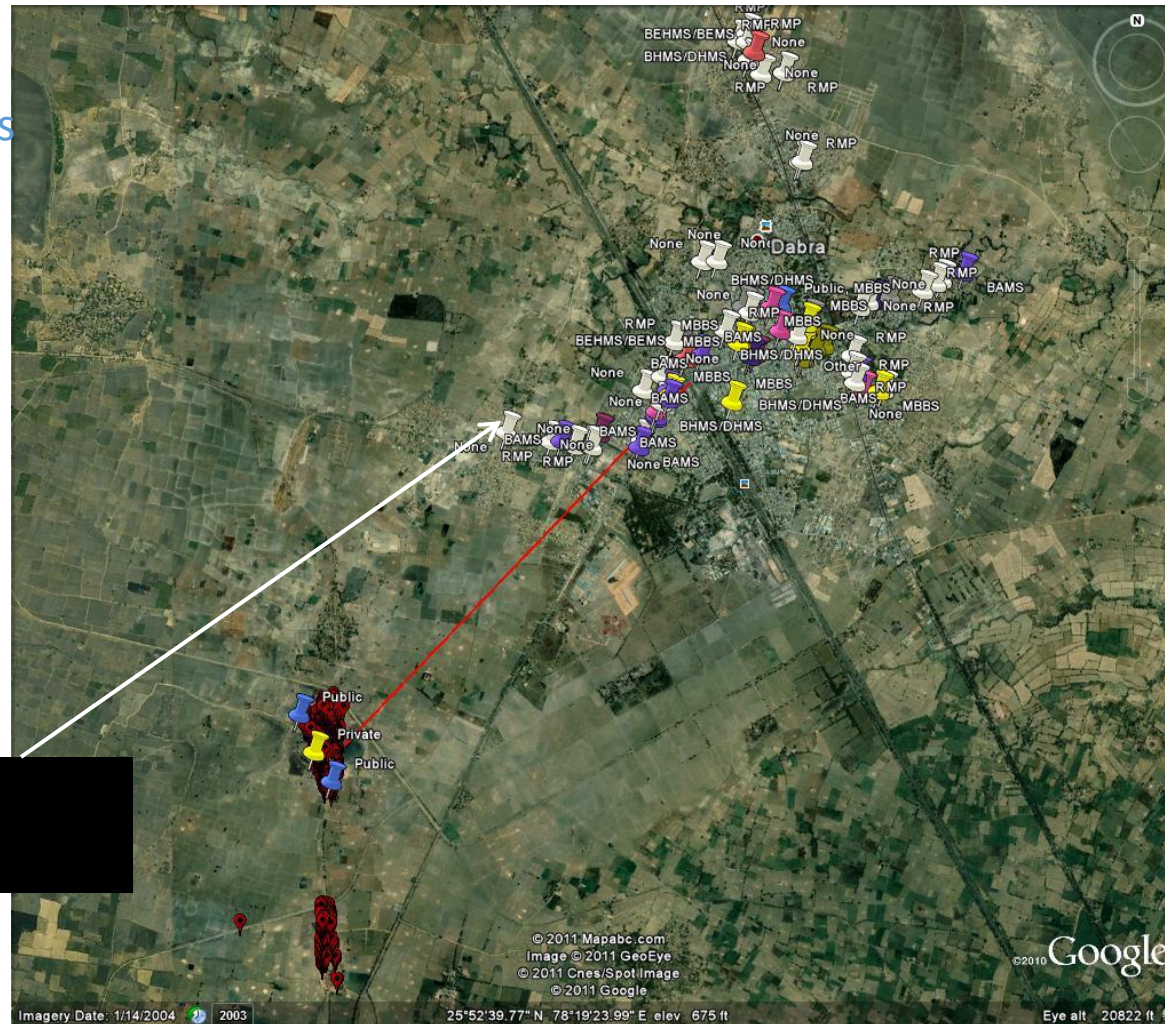
Public providers

Private MBBS

Homeopaths

Ayurvedic / Unani

No degree or
qualification at all

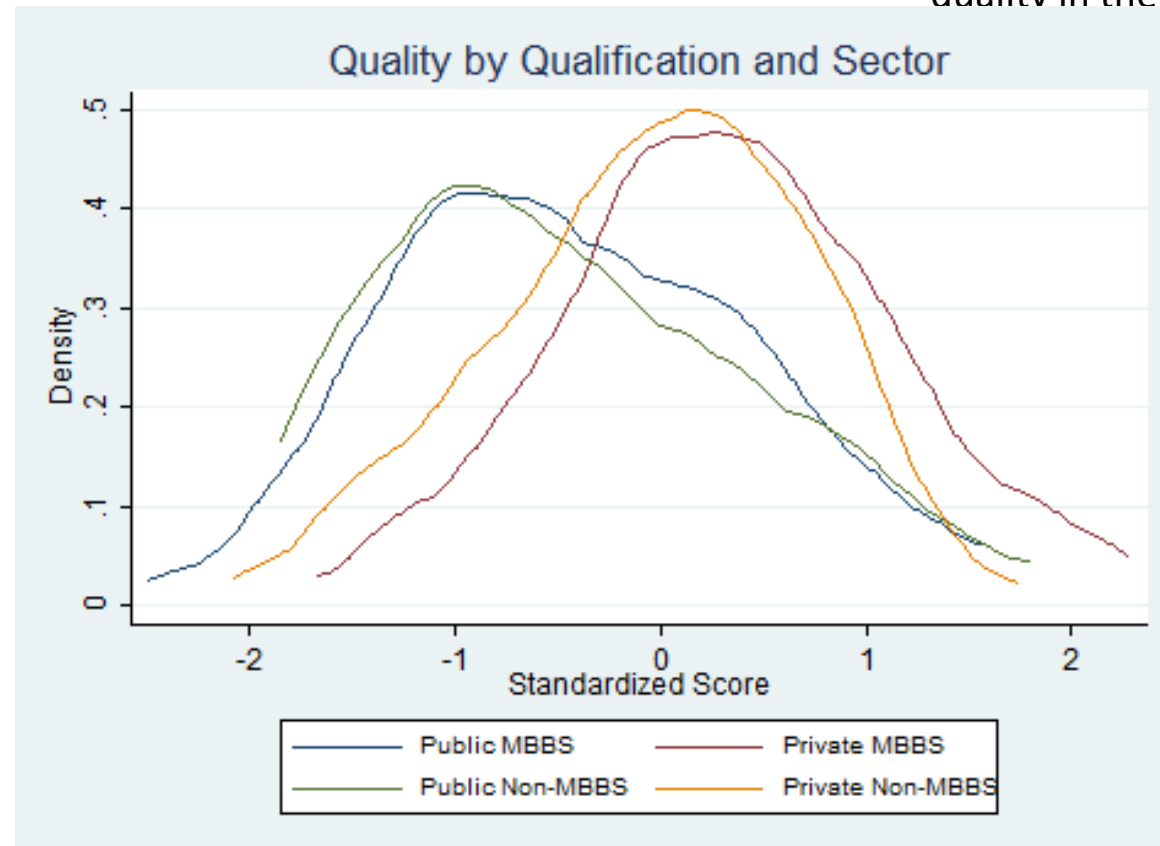


“Aha!” You say.

- You just told us a lot of these people are quacks
- Surely there is a problem of “access” to high quality “real” doctors in the public sector
- OK, let’s measure that

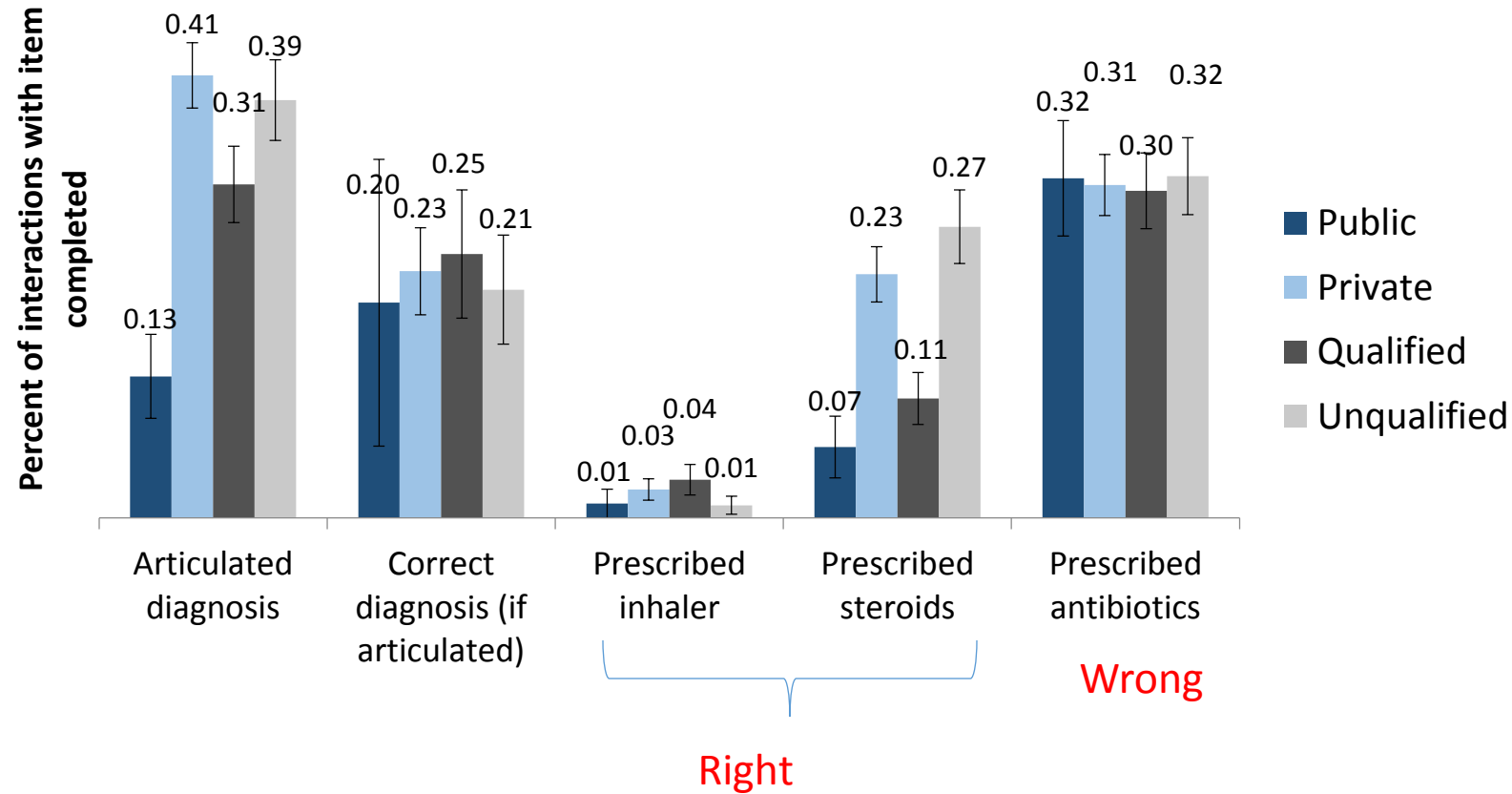
Quality in Madhya Pradesh (measured by standardized patient reports)

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



Diagnosis and treatment

Asthma In Madhya Pradesh



Weighing market and government failures

- Right comparison is with the way policy is actually implemented OR the way it can practically be improved (with explicit, concrete steps for correction)
- Wrong comparison is with policies as we wish they could be implemented

Policy recommendations (for the next rupee) all things considered

- Do public goods before private
- Do things you can do before things you can't
- Sanitation (and other environmental protections)
 - Clear market failure
 - Policies can and have worked
- Catastrophic care
 - Massive loss of welfare from insurance market failures
 - Public hospitals' role relative to insurance needs much more attention
- Primary Health Care
 - Ambiguous market failure
 - Incredibly hard to do

Why worry about sending doctors into the middle of nowhere and expect them to perform before you finish (or barely start) cleaning up the place?