

Equilibrium Effects of Incentivizing Public Services^{*}

Utkarsh Kumar[†] Parijat Lal[‡]
Job Market Paper

September 20, 2023

[Updated frequently. Click here for the latest version](#)

Abstract

We study the equilibrium effects of subsidizing public services in the presence of public and private suppliers. We evaluate one of India's largest welfare schemes *Janani Suraksha Yojana* (JSY), which subsidized childbirth at public health institutions. We find that JSY did not improve health outcomes despite a substantial increase in take-up of institutional care. We document three equilibrium responses that likely explain this policy failure. First, JSY led to a sub-optimal distribution of risk across health facilities - high risk and poor mothers sorted out of highest quality care at private facilities. Second, in line with the literature, public sector quality deteriorated as a result of congestion. This resulted in lower quality care for both marginal as well as infra-marginal patients at public hospitals. Third, despite increased competition, private hospitals increased prices without improvements in healthcare quality, further crowding out riskier and poorer mothers. These findings emphasise the need for complementary public policies in addition to JSY - capacity improvements at public facilities and targeted vouchers to poorer mothers to access healthcare at private facilities.

^{*}First draft: September 2023. We would like to thank Eric Verhoogen, Gautam Gowrisankaran, Jack Willis and Michael Best for their invaluable mentorship, support and guidance. We also thank Christian Pop-Eleches, Miguel Urquiola, Bentley MacLeod, Ashley Swanson, Ashley Langer, Laura Boudreau, Tomasso Porzio, Pietro Tebaldi, Doug Almond, Suresh Naidu, Aprajit Mahajan, Edward Miguel, Sebastian Otero, Nano Barahona, Andrew Olenski, Szymon Sacher, Shreya Chandra, Florian Grosset, Palaash Bhargava, Patrick Farell for valuable comments and suggestions. Kumar gratefully acknowledges financial support from Program for Economic Research, Columbia University. All remaining errors are our own.

[†]Department of Economics, Columbia University. Email: uk2154@columbia.edu

[‡]Department of Economics, Columbia University. Email: pl2700@columbia.edu