

Equilibrium Effects of Incentivizing Public Services^{*}

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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.

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