



World Bank – Health Systems Development — March 2006

Economic Viewpoint



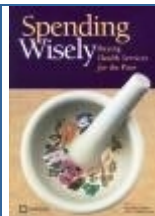
“Health Care and the Marketplace,” by **John C. Langenbrunner**, Senior Economist, The World Bank.

Editorial

An Active and Intelligent Purchaser or a Passive Cashier?

Does universal coverage at low income levels mean fewer resources allocated to programs and care for the poor?

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Spending Wisely: Buying Health Services for the Poor, by Alexander S. Preker and John C. Langenbrunner, WB, June 2005.

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CSIS Conference on Health Care Modernization in Central and Eastern Europe, March 22 – 23, 2006.

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Health Care and the Marketplace



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In a perfect market, patients seeking health care services express their willingness/ability to pay through consumer demand. Suppliers compete in a full market, and prices are the equilibrium point between the expressed demand and supply. In the health care sector, we might first hope that direct payment by the patient could send a clearer signal to the consumer about the price of the service used. It also makes the service provider, most often a physician -- aware of demands.

But, the relationship with the perfect market ends here; the health sector does not always resemble a working market (Arrow, 1963). Poor patients, or patients receiving expensive care for major illnesses, may not have the disposable income needed to bridge the period between paying for the service and receiving a full or partial reimbursement.

The Role of Purchasing

The high cost and uncertain demand for care leads to the need for a so-called “third party” – public or private -- which pools funds. Payment to health providers is then typically mediated through a pooling arrangement. Once funds are pooled, funds then must be allocated in some fashion. The form of allocation is the purchasing arrangement. The equilibrium point may be considerably altered by subsidies and co-payments/informal charges in the case of demand, and restrictions in production and monopolies on the supply side. The net effect of these distortions on market prices will also depend on the provider reimbursement or reward mechanism used. The mechanism used rather than prices and demand often creates the incentive environment for suppliers of services.

A final issue is the lack of information and information asymmetry. Neither consumers nor producers have full information about preferences, prices or the market in which they operate. The level, mix, and quality of care for consumers can be ascertained only ex-post and good health depends on factors other than the health services consumed. Although physicians act as agents for their patients (Arrow, 1963), even they often do not know the full impact of the interventions they are recommending. Both consumer and provider behavior is therefore important.

So-called “strategic” purchasing connotes an active approach to addressing these various market failures that affect consumers, providers, and social citizenry generally. Strategic purchasing involves a continuous search for the best ways to maximize health system performance by deciding which interventions should be purchased, how, and from whom. The approach is especially important in protecting the poor and medically vulnerable.

Strategic Purchasing: Value for Services

The use of purchasing as a tool to enhance public and private sector performance is well documented in the literature on institutional economics and industrial organizations (Williamson 1985; Milgrom and Roberts 1992). The extension to the health sector has recently been the focus of increased attention among policymakers (Oevretveit 1995; Chalkley and Malcomson 2000). Lessons learned from this experience are now being successfully applied to developing countries (Bennett, McPake et al. 1997; Preker and Harding 2003; Figueras, Robinson et al. 2005).

A recent book from the World Bank, *Spending Wisely: Buying Health Services for the Poor*, Edited by Alexander S. Preker and John C. Langenbrunner documents the progress and distills the lessons learned in recent years in securing better access and financial protection against the cost of illness through collective financing and purchasing of health care. A series of policy tools, organizational issues, and institutional arrangements are discussed chapter by chapter. This publication is part of a series of World Bank books on getting better value for public money spent on health care, and the use of policy tools for reaching the poor.

Efficiency, Equity, and Responsiveness

Promoting health and confronting disease challenges requires action across a range of activities in the health system. This includes improvements in the policymaking and stewardship role of governments, better access to human resources, drugs, medical equipment, and consumables, and a greater engagement of both public and private providers of services. Managing scarce resources and health care effectively and efficiently is an important part of this story. Experience has shown that without clear allocation and spending policies and effective payment mechanisms the poor and other ordinary people often get left out.

A sub-theme of the book explores the shift from hiring staff in the public sector and producing services “in house” to strategic purchasing of non governmental providers – outsourcing – which has been at the center of a lively debate on collective financing of health care during recent years. Its underlying premise is that it is necessary to separate the functions of financing from the production services to improve public sector performance and accountability.

A second lively debate in the volume is the right balance between social responsibility and patient choice. Does collective purchasing assure patient responsiveness? Will the so-called “single payer” model now emergent in many countries in Eastern Europe and former Soviet Union effectively respond to patient choice of benefits and providers? To what extent is consumer choice of purchasers important so that patients have both a say and participate in their own care. Do competitive models from Chile and Columbia provide a better balance?

The experience of strategic purchasing is now being extended effectively to the health sector in many developing countries in every region of the globe. The work demonstrates how the interest of the poor would often be better served through a fundamental shift in the way public money is spent on the health services – notably by moving from passive budgeting within the public sector to strategic purchasing or contracting of services whether public or from non-governmental providers.

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An Active and Intelligent Purchaser or a Passive Cashier?

During the 1990s, introducing purchaser provider splits has been a central mantra of health care reform in many developing countries. The underlying principle is that central governments that both own and produce their own health services are inefficient and often waste scarce public money. Such services are often captured by the interests of bureaucrats who are motivated more by political patronage and their own gains than by ensuring that the population has access to efficient and equitable health services.

Separating control over resource allocation or purchasing from control over the production of services can have two quite different outcomes. Ideally new and autonomous purchasing agencies will act as intelligent purchasers of health care. Often they end up as passive cashiers merely disbursing money according to decisions taken elsewhere.

What are the reasons for this negative outcome in strategic purchasing and what can be done to prevent it?

The one who “pays the piper calls the tune”. Purchasers therefore can become powerful agents that do not always follow the rules set by the Ministry of Health. In a single payer system where there are no competitive or consumer pressures to keep the purchasing agency accountable, this can sometimes lead to unpopular policies and corruption. The reputation of everyone can be affected by the behavior of a few.

Sometimes, such abuses lead to a backlash against the purchasing agency. When this happens, it often leads to a recentralization of the decision making process with the Ministry of Health once again in the driver seat of the budget process. At other times, it may lead to the purchasing agency being forced to become a passive administrator of decisions taken elsewhere – nothing more than a passive cashier.

Many of the purchasing agencies that were established during the 1990s have fallen prey to such problems. The solution is to establish clear rules of the game at the onset of the reform process. Who controls the decisions and keeping an appropriate balance of power among the various actors are critical. There are many ways that such power can be shared.

Ministries of Health are more effective if they concentrate on overall sectoral governance and stewardship oversight. They are less effective when they get bogged down in the day to day operations of the health services. Purchasing agencies are more effective if they concentrate on purchasing value for money and ensuring that providers deliver high quality care. They are less effective when they get involved in power struggles with the Ministry of Health, second guessing the clinical decision making of providers or telling patients about their health care priorities. Health care providers are more effective when they focus on the clinical care of their patients rather than getting involved in the politics and economics of health. All need to listen to the needs and expectation of patients. When they ignore the client, they usually fail.

An active strategic purchasing agency has much to offer in terms of improving performance of the health care system. A passive cashier is little better than the former integrated financing and service delivery systems of most National Health Services. Many countries that have introduced a purchaser provider split are now re-examining how to achieve such an outcome for their health reform process.

