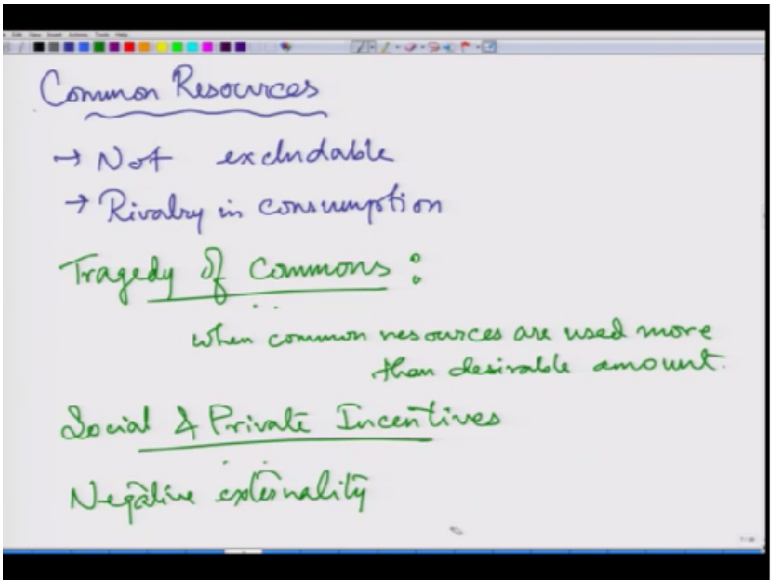
Economics of Health and Healthcare
Prof. Deep Mukherjee
Department of Economic Sciences
Indian Institute of Technology - Kanpur
Prof. Angan Sengupta
Department of Management, Amirtha Vishwa Vidyapeetham, Bangalore

Lecture – 42
Tragedy of Commons and Evaluation Framework

However, when we have common resources, they are neither excludable, I mean not neither excludable, they are not excludable but there is a rivalry in consumption. And because of these characteristics, there is a tragedy of commons.

(Refer Slide Time: 01:05)



Commons come from the common resources. What is this tragedy of commons? That when common resources disappear, when common resources are used more than desirable amount, say the park, right. So the park if there is no entry fee, so it is not excludable. At the same time the rivalry in consumption, in terms of the rivalry in consumption, there is rivalry in consumption because it is in high demand and a lot of people are entering the park to have their morning walk or a hospital, a government hospital.

So there is a serious rivalry in consumption. But then the tragedy of the commons occur. Because this tragedy of commons do not occur at the very first level when the commodity or the service is a public good because then there is no rivalry in consumption. But looking at that there is no

entry fee, there is no cost associated, no price associated, so people get interested and it gives a nice benefit, people get interested and then they start using it more and more and more and more and more and then it develops a rivalry in consumption.

The moment there is rivalry in consumption then the system is utilized more than it is desired and then the system cannot or may not work on the most efficient manner. That is what we see happening in the government hospitals that as there is a heavy footfall as compared to its, what it can generally take or it is supposed to take, naturally the number of, the people who do not have beds or do not get treatment for a longer period of time, increases, right and that is the tragedy of commons.

And however, what happens is some social and private incentives can work out that how the social and private incentives work out? This is because say now to decrease the load from that hospital, the government can decide to rope in some private hospitals, is the government, some tax benefit to them or some subsidies are offered but what happens this actually takes the load out of these government hospitals and many people under a particular scheme can also take benefits from some private hospitals.

And it has been found in these Yeshasvini scheme and also Vasvari Arogya scheme in Karnataka that there are several non-governmental organization or private organizations which have joined with the government and extends the benefit or the cashless benefit under that particular scheme which has been floated by the government as does the government hospitals or as do the government hospitals.

So this social and private benefits or incentives offered may help this tragedy of commons. Otherwise, it can result in to a negative externality. It started with a positive externality but it can result into a negative externality. Because if my, I do not have any cost as such but my benefit is decreasing and decreasing and then the park administrator or the hospital administrator decides to increase some user fee or entry fee, introduce some entry fee which increases the cost overall for the patients or the morning walkers but it does not really decrease the load.

So the cost increases and then the benefit really does not increase or does not change much. In fact, it can go down with, and because from a no excludability, the excludability cannot be suddenly brought in in a large extent. So it is a slow process. And it may not be possible in most of the cases, especially in terms of healthcare. Therefore, there is this negative externality, may be there in case of a common resource and then tragedy of commons with a negative externality in case of both the production and consumption.

However, when we talk about the negative externality, we are talking about mostly the opportunity cost because here nobody is paying a cost user fee, initially and the cost is in terms of if I do not get a bed but I, my patient or I personally deserve a bed and they are not having bed, I am not probably getting the best of the treatment.

And then this, the over utilization of the system is actually diminishing my satisfaction or it is my, what I must require or I must have and it is actually decreasing the efficient productivity or efficient health outcome or health services or improves my health status what it should have been. So naturally there is a negative externality. So the cost and the benefit in terms of the negative externality is not probably or not mostly the cost component estimated in terms of a direct cost but mostly in terms of an indirect cost as well as this opportunity cost or sound cost.

Anyways, and that is primarily because the common resources are extensively used and that is why they are different from this public goods. But however, government can certainly regulate this problem. How? That government can pitch in and then increase the taxes or say bring some regulation that okay, fine, during this to this period in a particular hospital, there will be free treatment and beyond that period, people have to pay charges or just it makes some, bring excludability for a certain section of the population that those who are under this category, they will only get this treatment, so that reduces the load for the, from that hospital.

The rest, they have to pay a general charge or just turn the common resources if it really does not improve, just slowly turn the common resources into a private good. But again, it is not really possible in case of the government hospitals or government health system in a poor country, that is not possible. So or even in a richer country when we talk about the universal health coverage,

when we talk about the universal acceptability, the affordability, the building blocks, it is not really possible.

So therefore, it is really a dicey situation for the government that how to increase the efficiency when there is a tragedy of commons. See the free rider problem can be mitigated and maybe government is not really bothered about the free rider problem. But the common resources or the tragedy of the commons can really have a negative impact on the service delivery in terms of the health sector.

Again, there is, in health insurance market, this private good and public good are really really 2 separate entities which coexist together, that is the private health insurance are those for which you have to make a voluntary payment and you can customize your benefits, you get your benefits, you choose based on your preferences and the private insurance players are very clear that you do not pay for these based on your preferences, based on your background.

You do not pay for these. We are sorry, we cannot give you the insurance. Whereas for the public health insurance which is a public good, there is no excludability because most of them is mandatory and then the contribution from the patient's part is very low. So there is no excludability or as it is mandatory, it can be, the contribution can be taken as for granted that okay, we do not mind paying for that and then the next one is, there is no rivalry in consumption.

Because everybody who is potentially under the same category, they are supposed to get that, those insurances, those social health insurances or government provided health insurances. So the private health insurances and the government provided health insurances, their objectives are very different and then in this developing countries where the health system is really turbulent and still finding its stability, there the private and public health systems are literally complement each other.

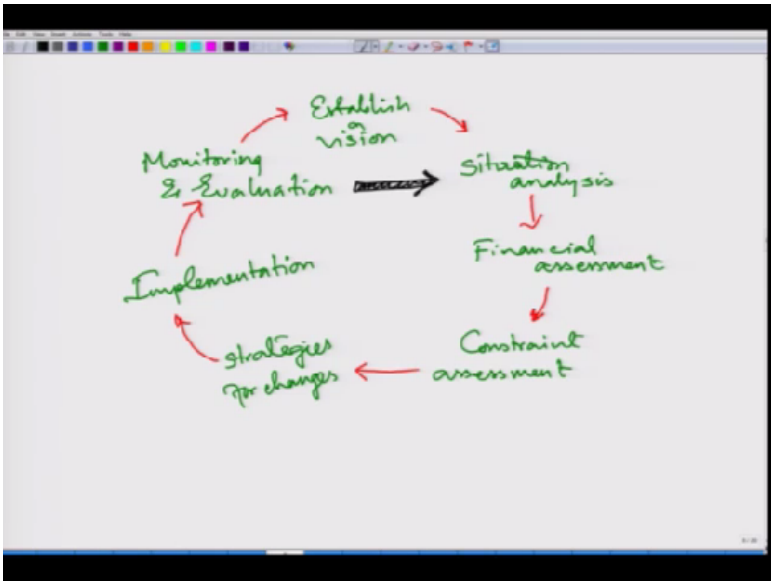
Otherwise, it is difficult for the government health system to continue or to achieve the complete or universal health coverage, that is because they do not have enough funds, they do not have enough coverage and once is trying to reach to the poorest people, they cannot actually ensure

that they are already spending so much that they cannot ensure, say the health insurance or the free services to the well off section and probably the well off section can get their insurances or services from the private players in the market.

So this is how it works. However, while floating a particular public good or while floating a particular scheme that whether the government will continue with that making them a public good or because after a public good, a particular commodity with the utilization or realization of the benefits, maybe once the public good becomes the common resources or maybe not having a lot of choices.

So the public good now faces a lot of rivalry in consumption, lot of patient fall. So if there is not many hospitals, so naturally in one hospital slowly people will start pouring in. So the government has to keep a track that whether they will, because they are paying for that and they have an objective, they have a goal, they have a target. So they have to understand that whether it is really the scheme, these policies, these plans are really working fine or not. So when they are launching a new public good, they have to keep a look on the vision.

(Refer Slide Time: 13:28)



So first thing they do is that establish a vision. The next is, do a situation analysis that who will require, who will not require, by how much it is required, for which purpose it is required, situation analysis, whether the children also require or just their mother's require, whether the

elderly require or only elderly women are requiring this benefits. So this is the situation analysis so that they can design the plan properly.

After situation analysis, they have an idea about the situation. So what they do after situation analysis, they will do a financial assessment because then they have to prepare the budget. So they do a financial assessment. After doing the financial assessment, then they will do a constraint assessment. So once they do a constraint assessment, that means that once they are providing the funds which are the constraint which may arise in the field when they are going for the implementation, so there is required, the constraint assessment.

So that they can, the next time they are, or they have an additional budget if there is a problem or the next time they are floating, they have a clear idea. So they will continuously do a constraint assessment while or either before or during or continuously they have to do this while, during the implementation and then they also need to figure out this constraint if they arise. Then there will be strategies which are the strategies for those changes.

So which are the strategies they have to bring for these changes if there are constraints. So they have to find out the alternatives, yes. So next after understanding these strategies for changes, now they are really confident about themselves that they can float this program and that can be successful and there comes the implementation of this public good and or the public scheme.

And finally, they have to do a bit of monitoring and evaluation, not a bit actually, a rigorous monitoring and evaluation so that they can understand that the scheme is moving towards the right target or goal based approach or they are actually going to attain the, what they have targeted. And then after monitoring and evaluation, they slowly establish, they complete the program and then the final one is establish a new vision, yes. After you achieve that or even if you fail that, then what you do?

You go back to do a situation analysis that why you have failed. You do a situation analysis and then you consider again that if we have failed, then again to manage that or to attain the gap, to bridge the gap, what kind of financial assessment is required, what kind of constraints we have

met across and what could be the possible solutions so that this time we can attain the goals and targets.

This is how government scheme or a public health scheme should work or generally works. So thank you very much. So this is all about the public and private good in terms of healthcare. So the debate remains that whether the healthcare is a public good or a private good and the answer often across the country is they are both. The public good cannot be all to attain the accessibility, affordability, quality in most the developing countries.

And similarly, they cannot be private good. They should not be; they must not be a private good completely. So they have to be a mix of both of them so that it works towards the universal health coverage. Thank you.