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The Merit of Private Provision of Merit Goods: Econometric Evidence from the Indian Healthcare Sector

Priyanka Yadav¹, Amit Ray¹¹Jawaharlal Nehru University, India

ABSTRACT

Merit goods may have characteristics of private goods (rivalry and excludability) but unlike private goods, the market mechanism may prove to be inefficient for their provision as it is based on “flawed” preferences of individuals, who are unable to correctly assess the relevance of consuming such goods. Here the government steps in as a provider of such goods, although not necessarily replacing or weeding out the private providers. An immediate question that arises, pertains to the extent of private sector participation in the provision of merit goods. While private sector supplementing public provisioning would perhaps be desirable, but predominance of private providers in the merit goods sector may defeat the very purpose of public provisioning to tackle the problem of “flawed” preferences resulting in under consumption. In this paper, we attempt to contribute to this debate by looking at the Indian healthcare sector that has always been served by both private and public sectors. We measure the extent of private presence in healthcare at the district level by constructing an index of private sector penetration (PSP) and use this measure to address our research hypothesis that private sector presence in Indian healthcare is likely to improve health outcomes.

KEYWORDS Merit Goods; Private Provision; Indian Healthcare Sector

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