Regulating and Enabling the Private Sector

1. Background to policy change

New Public Management protagonists argue that the private sector can play an important role in service delivery. A variety of theoretical arguments have been used to support such an approach. For example, some economic theorists argue that few health services have characteristics which mean that they cannot be provided by the market. Indeed, for most personal, curative, health services, markets are likely to exist; however, they are likely to function imperfectly due to problems of asymmetric information.

New Institutional Economics also provides arguments supporting the importance of a vibrant private sector. Government provision of services is commonly monopolistic, hence, it is argued, there are few incentives for efficient behaviour, high quality care or responsiveness to consumers amongst public health providers. If private sector provision is promoted, then by ensuring that there are alternative sources of health care this gives people greater opportunity to vote with their feet. Furthermore, in contrast to public sector providers, private providers (due to their profit motive) have a very direct incentive to be responsive to consumers and maintain efficient services. This set of arguments has been used not only in the health sector but throughout many other sectors of the economy (Roth 1988).

A variety of pragmatic arguments have also been made to support private sector development in health care. For example, a key World Bank paper suggested that private sector development may expand access, reduce the administrative and financial burdens upon government, and possibly increase overall sectoral efficiency (World Bank 1987).
These arguments in favour of expanding private sector development do not ignore the likely problems which private sector expansion might bring. For example, analysts often note the significant informational failures within the health sector for services (such as curative personal care) which are otherwise much like many goods normally traded in the market. The proposed solution to such market failure is expansion of the government role in information provision (Musgrove 1996). Problems associated with a tendency amongst private for-profit providers to underprovide services they cannot readily charge for, or to focus on those aspects of care which consumers may readily measure, or to concentrate in urban areas, have all been noted. Effective health sector regulation is seen as the key to resolving these problems (World Bank 1993), however concrete proposals on how best to strengthen regulation are largely absent.

The possible reasons for promoting the private sector (as discussed above) are diverse. Accordingly, the measures which government have adopted in this reform area are also diverse: some are explicitly targeted at expanding private sector provision; some are targeted at regulating (generally to improve quality of) existing private sector provision; and some measures (such as social health insurance development) are pursued for an entirely separate purpose but can have far-reaching and often unanticipated effects upon the private sector. Table 7.1 categorises broadly the types of measures governments have taken in this area.

These measures may be targeted at all private providers, but it is common for interventions to distinguish between (i) non-profit and for-profit private providers and (ii) traditional and modern providers. The focus of this chapter is primarily upon the modern, for-profit sector, as it is this sector which is most often discussed in relation to a New Public Management strategy to encourage diversity and competition in provision of health care. Where the discussion refers to a different part of the health sector this is explicitly stated. Most of the measures examined focus upon the regulation and enabling of private health services (i.e. provision) not financing. Although in India and Zimbabwe, regulation and liberalisation of private health insurance was an important policy area, this was not the focus of the field research. It is commonly said that regulation may address the prices, quantity or quality of health services (Maynard 1982). Quite which of these variables government is interested in addressing will influence the type of measures adopted. In practice, very few of the regulatory or enabling measures encountered in study countries focused upon price: most were concerned with the quantity and quality of private health services.