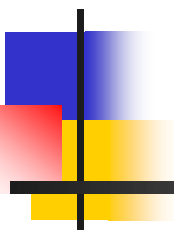


Why and How to Change Incentives for Better Health Outcomes



John Freebairn
ACERH Policy Forum
February 26, 2010



Problem Context

- Goals
 - Better health at lower costs
- Individual decision choices to better meet goals include:
 - Balanced diets
 - Exercise
 - Preventive treatment
 - Environmental safety
 - Avoid dangerous work and leisure activities
- Why and how might government policy interventions help?



Market Failures and Necessary Conditions for Government Intervention

- Under supply of information on links between choice options and short and long term health outcomes
- External costs not recognised by individual
 - Health care
 - Loss of employment, income and tax revenue
 - Family carer duties
- Time inconsistent preferences
- Asymmetric information and loss of quality markets



Government Interventions to Counter Market Failures

- Provision of information
 - Research
 - Dissemination
 - Direct to households
 - Via health professionals
- Taxes to internalise external costs, e.g.
 - Alcohol and fatty foods
 - Unsafe work and leisure activities
- Subsidise preventive health care, e.g.,
 - Regular check-ups
 - immunization
- Regulations, e.g.
 - OHS
 - Advertising of fatty foods
 - Drinking age
 - Food safety



But, Government Failures as Well as Market Failures

- Politicians and bureaucrats often have objectives that are not society objectives
- Individuals have more information than governments
- Unavailability of good intervention instruments to correct market failure
 - e.g. reduction of obesity