Paying for performance with altruistic or motivated providers

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Abstract

We present a model of optimal contracting for health services with adverse selection and altruistic providers. We assume that: a) hospitals differ in efficiency; b) providers are partially altruistic or intrinsically motivated; c) providers have limited liability. We show that four types of separating equilibrium can emerge depending on the size of the altruism (which for convenience we refer to as very low, low, high and very high). i) For very low levels of altruism the quantity of the efficient and inefficient types are respectively distorted upwards and downwards; the efficient type makes a positive profit. ii) For low levels of altruism the activity of the efficient and inefficient types are also distorted respectively upwards and downwards but profits are zero for both types. iii) For high levels of altruism the first best is attained (no distortions in activity and zero profits). iv) For very high level of altruism (if equilibrium exists) the activity of the inefficient type is distorted upwards, while the activity of the efficient type is distorted either upwards or downwards. Profits are zero. A pooling equilibrium never arises.

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