Equal Pay for Unequal Medicine

Martin Schonger*

15th November 2009

Abstract

Equal Pay for Unequal Medicine refers to the puzzle of patients receiving different qualities of a medical service even when, due to health coverage, paying the same amount. The two proximate causes are: across providers quality varies even when prices do not (i), and, at any given provider patients receive different quality even when paying the same price (ii). Moreover it has been observed that patients who receive worse care are more likely to be poor or black. This empirical distribution of quality holds in other, standard markets without third party payment as well: poorer consumers tend to buy lower quality, unsurprising insofar as price varies with quality. Conditional on price though we usually expect the poor to receive quality equal to or higher than (due to price discrimination) the rich do.

Previous explanations of the disparities resort to additional assumptions like provider dislike of the poor or racism, exogenous geography, cultural misunderstandings or a conveniently signed correlation between race and patient preference for quality. This paper explains the fact pattern without such assumptions. Naturally, the theory doesn’t refute any of these assumptions, but shows that even in their absence the observed patterns are to be expected, and should thus stimulate further empirical research using their observationally distinguishable predictions.