Distribution costs in home-care production: what are the effects of local regulations on productive efficiency and spatial equity?

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To cite this version:
Quitterie Roquebert. Distribution costs in home-care production: what are the effects of local regulations on productive efficiency and spatial equity?. Rencontres d’Aussois, Dec 2015, Aussios, France. <hal-01294742>
Distribution costs in home-care production: what are the effects of local regulations on productive efficiency and spatial equity?

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Introduction
In France, public policies encourage home care for the elderly.

→ Development of a specific sector: home-care structures (HCS).

Particularities of HCS:
- Going to the customer’s home: implies distribution costs
- Regulation of HCS by local districts:
  1) Pricing: they price the regulated HCS according to their average production cost
  2) Distribution area: they define the area that HCS will serve within the district
- Demand is subsidized by the APA policy on the basis of the market price

→ Distribution area affects production costs, market price and consumer price

Key words
Supply of home-care services
Disabled elderly (in the community)
Decentralization of public action

Literature
- French public reports: mostly from interviews with HCS managers, show that production costs are affected by the geographical location of customers.
- Academic analysis of pricing process and APA policy but few elements on production costs in HCS
- Up to now, as far as I know, no empirical work on the effect of spatial location of costumers on production costs for this kind of structures
- Theoretical contributions on spatial equity and cost sharing in networks and distribution services (Fleurybaey & Trannoy, 1998; Crampes & Laffont, 2014)

Figures on distribution costs
Travel cost: from 1.03% (HCS serving only urban areas) to 5.20% of total production costs (HCS serving in all the district)

Travel time: 5% of paid work (cost analysis of five HCS).
Source: Aube-Martine et al., 2010.

Research questions
In home-care production, how do production costs vary with the geographical location of users?
What are the effects of local public regulation in terms of productive efficiency and spatial equity?

Empirical preliminary work
- Aim: testing the statistical link between the size of the distribution area (city, district, region) and the average production cost.
- Data: sample of HCS from the national survey Associations (INSEE, 2013)
- Method: econometric analysis, controlling for HCS characteristics (years of service, diversification of activities, human resources, affiliation to networks…)

Empirical contribution
- Aim: testing H1 by measuring the impact of distribution cost on the average production cost in subdivisions of distribution area and concluding on the effect of local public regulation.
- Data: from a federation of HCS with a large distribution area in a French district. Approximately 15 000 users living in all the district.
- Method: computation of the average production cost (analytically, cf. pricing process):
  - At the whole distribution area level: overall average production cost (1)
  - In subdivisions of the distribution area: local average production cost (2)

→ Comparison of (1) and (2) to market price and consumer price
→ Comparison of (1) to (2) in order to characterize transfers between users
→ Simulation of several options of pricing and geographical division on the basis of the previous results.

Potential extensions
- Robustness check: reproducing the analysis on the data of HCS in another French district to compare the results with two different local regulations
- Using these results for nursing-home services (differently regulated)

Theoretical framework
- Hypothesis 1: average distribution costs to serve a given area increase if:
  - Accessibility costs are high (time and/or distance);
  - Density of users is low in the area.

We can thus differentiate between several types of areas.

<table>
<thead>
<tr>
<th>Highly populated</th>
<th>Sparserly populated</th>
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</thead>
<tbody>
<tr>
<td>Area 1 (ex: urban area)</td>
<td>Area 2 (ex: suburbs)</td>
</tr>
<tr>
<td>Area 3 (ex: rural towns)</td>
<td>Area 4 (ex: mountains)</td>
</tr>
</tbody>
</table>

→ Different types of users: “non-costly users”, “middle-cost users” and “costly users”.

Effect of pricing at the average production costs:
- Transfers among users: distributive issue?
- Higher price for HCS serving costly areas than HCS serving only non-costly areas: equity issue?

Effect of the definition of distribution areas:
We consider a local district authority having the choice between two policy options in terms of distribution area of HCS. These two options have different implications for productive efficiency and spatial equity.

Option 1:
District divided between HCS
- Minimises the distribution costs
- But increases the variance of prices within the district, with higher prices in costly areas

Option 2:
One HCS in the district
- Increases the distribution costs
- But guarantees an spatial equalization through transfers between costly and non costly customers

Scientific collaborative
This work is part of the DITAPA project studying the link between decentralization of public action and the spatial inequalities in home-care services for the elderly. This project is financed by the DREES (call for projects 2015 on local social policies.)

It is also part of a collective work with the MODAPA Project (ANR / IRES). The MODAPA project brings together economists specialized in the field of long-term care to study demand for home care of the disabled elderly.

References