

The Political Economy of Diagnosis-Related Groups*

Paola Bertoli

University of Economics, Prague
CERGE-EI Affiliate Fellow[†]

Veronica Grembi

Mediterranean University of Reggio Calabria
CEIS Tor Vergata, VSE

Abstract

We provide a political economy interpretation of the variations in the prices of 6 obstetric diagnosis-related groups (DRGs) using Italy as a case study. Italy provides a unique institutional setting since its 21 regional governments can decide to adopt the national DRG system or to adjust/waive it. Using a panel fixed effects model, we exploit the results of 66 electoral ballots between 2000 and 2013 to estimate how obstetric DRGs are affected by the composition and characteristics of regional governments. We find that the incidence of physicians among regional politicians explains variations in DRGs with low technological intensity, such as normal newborns, but not of those with high technological intensity, as severely premature newborns. We further investigate these results by exploiting the implementation of a budget constraint policy. Applying a difference-in-difference strategy, we observe a decrease in the average levels of DRGs after the implementation of the policy, but the magnitude of this decrease depends on the presence of physicians among politicians and the political alignment between the regional and the national government. Finally, we rely on patient data (6,500,000 infant deliveries) to assess whether any of the political economy variables have a positive impact on the quality of regional obstetric systems. We find no effect.

JEL Classification: H51, H70, I1

Keywords: Diagnosis-related Groups, Regional Governments, Difference in Differences

*We would like to thank Vincenzo Atella, Tommaso Nannicini, Oleg Sidorkin, Jan Zapal, the participants to the Czech Economic Society conference, two anonymous referees for their comments, and Igor Cerasa for his excellent work as our research assistant.

[†]CERGE-EI, a joint workplace of Charles University in Prague and the Economics Institute of the Czech Academy of Sciences, Politických veznu 7, P.O. Box 882, 111 21 Prague 1, Czech Republic.