



ELSEVIER

Contents lists available at ScienceDirect

Journal of Health Economics

journal homepage: www.elsevier.com/locate/econbasePrivatization and quality: Evidence from elderly care in Sweden [☆]Mats A. Bergman ^a, Per Johansson ^b, Sofia Lundberg ^{c,*}, Giancarlo Spagnolo ^d^a Södertörn University, Stockholm, Sweden^b Department of Statistics, IFAU – Institute for Labour Market and Education Policy Evaluation, Institute for the Study of Labor (IZA), Uppsala University, Sweden^c Department of Economics, Umeå School of Business and Economics, Umeå University, Sweden^d Stockholm School of Economics (SITE), EIEF, Centre for Economic Policy Research (CEPR), University of Rome 'Tor Vergata', Italy

ARTICLE INFO

Article history:

Received 5 August 2015

Received in revised form 4 June 2016

Accepted 22 June 2016

Available online 29 June 2016

JEL classification:

H57

I18

L33

Keywords:

Competition

Incomplete contracts

Mortality

Outsourcing

Public procurement

ABSTRACT

Non-contractible quality dimensions are at risk of degradation when the provision of public services is privatized. However, privatization may increase quality by fostering performance-improving innovation, particularly if combined with increased competition. We assemble a large data set on elderly care services in Sweden between 1990 and 2009 and estimate how opening to private provision affected mortality rates – an important and not easily contractible quality dimension – using a difference-in-difference approach. The results indicate that privatization and the associated increase in competition significantly improved non-contractible quality as measured by mortality rates.

© 2016 The Authors. Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

1. Introduction

Governments around the world increasingly rely on private contractors for the provision of goods and services.¹ One factor behind this trend is tighter budget constraints, and the hope of enjoying cost savings from the stronger incentives linked to private ownership and competition. However, precisely because of these stronger incentives, maintaining an appropriate quality level after opening to private providers may be a concern. For quality dimensions that

can be verified at reasonable cost, degradation can be avoided by properly written and managed contracts. The risk of degradation is much higher for quality dimensions that are hard to verify, and hence not easily contractible. However, it is difficult to study the latter effect empirically: quality dimensions that are not contractible because they cannot be verified by third parties, i.e., courts, are also hard to measure for researchers.

In this paper we estimate the effect of opening to private provision a common service with important quality dimensions that are hard to contract upon: nursing-home care for the elderly.² As an outcome measure of quality we consider mortality rates, a performance indicator commonly used in the healthcare literature. Mortality was not included as an outcome measure in any of the several hundred contracts we have observed, most likely because it is too noisy at the contract level and to avoid inducing screening of residents. By studying the effects on mortality at the aggregate level we overcome the noise problem present at the contract level. By making the municipality the unit of analysis, rather than the individual home, we can also address the obvious selection effects that would otherwise risk biasing our results.

[☆] Financial support from the Swedish Research Council (grant no. 2008-22664-58604-33), the Swedish Competition Authority (grant no. 111/2008) and the Swedish Research Council for Health, Working Life and Welfare (grant no. 2013-2482) is gratefully acknowledged. We would also like to thank seminar participants at Karlstad University, Norway University of Science and Technology, the Swedish Competition Authority, Södertörn University, Uppsala University, Umeå University, the 4th IPPC in Seoul, EARIE in Istanbul, 29th Arne Ryde Symposium in Lund, 12th Journées Louis-André Gérard-Varet, Southern Economic Association's 83rd Annual Meeting, the EEA 2013 Annual Conference and The Research Institute of Industrial Economics.

* Corresponding author. Department of Economics, Umeå University, SE-901 87 Sweden. Fax: +46 90 786 77 64.

E-mail address: sofia.lundberg@umu.se (S. Lundberg).

¹ Public procurement from private contractors makes up 15–20% of GDP of developed countries and is on the rise (see, for example, http://ec.europa.eu/growth/single-market/public-procurement/index_en.htm).

² In Sweden, public sector procurement – including publicly held corporations that must adhere to the Procurement Act – is estimated at about SEK500 billion (€50 billion) per year, corresponding to 16 to 18% of GDP (Bergman, 2008).