

Privatization of healthcare in Europe

The pro-market approach

- “Nothing differentiates health from other commodities ... we should leave health to market forces and free competition” (Lees D. 1960)
- It is also argued that a perfect competition market is both allocatively and productively efficient:
 - Markets reflect consumer demand and are responsive to changes in consumer preferences (allocative efficiency)
 - Markets provide the incentive for providers to be as cost-effective as possible in order to undercut competitors (operational efficiency)

The critique of state intervention

- Public sector is **technically inefficient**, bloated, overstaffed, performs poorly and costly, and provides inadequate services
- Public administration is distant, undemocratic, **unresponsive, and unaccountable to users**, causing widespread dissatisfaction
- Public sector provides patronage instead of service, employment rather than goods and services
- Public sector is **corrupt** and used to secure political support

Healthcare Privatization and International Funding Organizations

Table 7.1 The relevance of policy changes for three country groups

Government objectives and policies	Low-income countries	Middle-income countries	Formerly socialist countries
<i>Foster an enabling environment for households to improve health</i>			
Pursue economic growth policies that benefit the poor	Relevant	Somewhat relevant	Somewhat relevant
Expand investment in education, particularly for females	Very relevant	Relevant	Not relevant
Promote the rights and status of women through political and economic empowerment and legal protection against abuse	Relevant	Somewhat relevant	Somewhat relevant
<i>Improve government investments in health</i>			
Reduce government expenditures for tertiary care facilities, specialist training, and discretionary services	Relevant	Very relevant	Relevant
Finance and ensure delivery of a public health package, including AIDS prevention	Very relevant	Relevant	Relevant
Finance and ensure delivery of essential clinical services, at least to the poor	Relevant	Relevant	Somewhat relevant
Improve the management of public health services	Somewhat relevant	Relevant	Very relevant
<i>Facilitate involvement by the private sector</i>			
Encourage private finance and provision of insurance (with incentives to contain costs) for all discretionary clinical services	Somewhat relevant	Very relevant	Very relevant
Encourage private sector delivery of clinical services, including those that are publicly financed	Relevant	Somewhat relevant	Relevant
Provide information on performance and cost	Somewhat relevant	Relevant	Relevant

Very relevant
 Relevant
 Somewhat relevant
 Not relevant



Healthcare Privatization and International Funding Organizations

- “In systems where both financing and delivery of care is a public responsibility, efforts to distinguish the roles of health-care payers and providers, so as to allow markets to function and generate efficiencies from competition, have proved generally effective”

OECD. Towards high-performing health systems. 2004

- “Among micro-level reforms, strengthening market mechanisms—increasing patient choice of insurers, allowing greater competition between insurers, relying on a greater degree of private provision, and allowing more competition between providers—is particularly important to contain costs. Management and contracting reforms, such as extending the use of managed care or shifting toward case-based payments, are central to improving the efficiency of spending”

IMF. Macro-fiscal implications of healthcare reform in advanced and emerging economies. 2010

Defining Healthcare Privatization

- “Privatization is the **turning of public assets over to private ownership**”

Saltman R. 2003

- “Privatization is the **transfer of ownership AND government functions from public to private bodies**”

Albrecht T. 2009

- “In a broader sense privatization can be described as a **process in which non-government actors become increasingly involved in the financing and/or provision of health care services** (...) internal market policies do not fit the precise definition of privatization”

WHO task force on health economics 1995

Defining Healthcare Privatization

POSSIBLE COMBINATIONS OF PUBLIC AND PRIVATE SECTOR FINANCING AND PROVISION			
FINANCING / PROVISION	PUBLIC	PRIVATE NOT-FOR-PROFIT	PRIVATE FOR-PROFIT
PUBLIC	A) General tax revenues used for direct public provision	B) Public insurance contributions used to purchase the services of NFP providers	C) General revenues used to purchase the services of PFP providers
PRIVATE	D) User fees paid for private use of public facilities	E) User fees paid of NFP facilities	F) Private insurance payments paid to providers in private practice

Types of Healthcare Privatization

- “Its too simple to conceptualize privatization as a simple dichotomy between public and private. Such a conceptualization would not only ignore the gray area between public and private but also disregard the evolutionary character of privatization”
 - “It is therefore useful to introduce the notion of continuum ranging from precursors of privatization to moderate or radical forms of privatization”
 - **Decentralization** (de-concentration / delegation / devolution)
 - **Autonomization** / Corporatization
 - **Regulated competition** (or internal market policies or liberalization) / Managed competition
 - **Liquidation** (or termination)
 - **Contracting out** (or outsourcing)
 - **Public-private partnerships** (privatization of investment and management)
 - **Privatization of healthcare financing**
- Precursors of privatization (healthcare commersalisation, marketisation)
- Direct forms of healthcare privatization

Types of Healthcare Privatization I

- **Termination (or liquidation):** means that the State divests itself of public assets (like hospitals) to private owners.
- The primary objective of liquidation is to reduce the scope of public intervention and as a result reduce the burden of public sector financing.

Liquidation of public and private not-for-profit hospitals, Germany 2001-11	
2001	“Helios” bought the clinic of the city of Erfurt
2003	“Helios” took over 94.9% of the hospital of the city of Wuppertal
2004	“Asklepios” bought the main hospital group of the federal state of Hamburg
2006	“Rhon Klinikum AG” acquired the university clinics of Mamburg and Gieben
2011	The county of Rottweil sold two municipal hospitals for €44m
2011	The city of Wiesbaden in Hesse issued a tender for the acquisition of a 49% share of its municipal hospital

Types of Healthcare Privatization II

- **Contracting out (or outsourcing):** involves shifting partial or complete responsibility for the provision of clinical or non-clinical services to the private sector, while the responsibility of financing remains with the public sector
- Contracting does not reduce the scope of public intervention. Governments retain their political responsibility over the contracted services

Contracted out clinical and non-clinical services, NHS UK 1983-2010	
1983	Hospital non-clinical support services (catering, cleaning, laundry etc)
2000	Diagnostic services (CT and MRI scanning)
2000	Elective surgery (through ISTCs - "Independent Sector Treatment Centres")
2002	Out-of-hours (OOH) GP services
2005	Regular primary care services (through APMS – "Alternative Providers of Medical Services")
2006	Community health services
2010	Blood transfusion service (storage, collection and delivery of blood supplies)

Types of Healthcare Privatization III

- **Decentralization:** refers to the transfer of powers and responsibilities from the national to the local level
- **De-concentration:** refers to the transfer of administrative rather than decision-making power to a lower level
- **Delegation:** is the transfer of administrative or policy initiation power to a lower organizational level
- **Devolution:** refers to the transfer of full political power from national to regional or local level

Health system decentralization in Spain

Political power in Spain was devolved in 1978 to **17 regions (Comunidades Autonomas-CAs)**

Central government provides a common basic framework for health and healthcare

Each CA has a **regional health department and health minister** responsible for health policy within the region

Health policy responses to the current Eurozone crisis in Catalonia

10% reduction of healthcare budget in 2011

Introduction of new user fees

Firing 1,500 temporary healthcare workers, cutting salaries of 40,000 public health professionals

Closure of 33% of hospital beds and 40% of operating rooms

Types of Healthcare Privatization IV

- **Autonomization**: refers to the establishment of local healthcare providers as autonomous, free-standing corporate bodies
- Autonomization shifts decision-making control and often revenue rights and responsibilities from central government agencies to the provider level

Main features of autonomized hospitals
Day-to-day decision making is shifted from public hierarchies to hospital managers
Autonomized hospitals are able to generate their own revenues
Autonomized hospitals become partial residual claimants on certain savings generated through cost saving or other improvements
Hospital managers remain accountable to the government but usually a bilateral agreement maybe concluded with monitorable targets regarding performance
Social functions of the hospital are specified in the agreement
Autonomized hospitals usually do not have any control over recruitment, salaries or staff-mix , their employees remain in the civil service

Types of Healthcare Privatization V

- **Regulated competition** (or “quasi” or “internal” market policies): is the competition on the supply side only, with maintenance of a single source of public finance
- **Managed competition** (or “managed care”): is the competition on both the supply and funding (demand) sides of the market

“Quasi” market reform of the Swedish healthcare system

Separation of “purchase” from “provision” within public services: by late 1980s Swedish counties established committees and took up a new role as purchasers of healthcare services

Establishment of more independent public providers: (a) most public hospitals were converted to publicly owned companies with enhanced managerial autonomy (b) few public hospitals were sold to private operators (c) primary care practitioners formed cooperatives

Greater competition between providers driven by “giving users more choice”: in 2009 under a new reform (referred as “choice of care”) patients’ choice of a primary care centre generated a capitation payment to the chosen unit

Types of Healthcare Privatization VI

- **Public-Private Partnerships:**
“the term refers to forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure”

Public-private hospital partnerships	
UK	By April 2009, 101 of the 133 new hospitals built between 1997 and 2008, were privately financed
Europe	\$4 billion in hospital PPP deals were announced during the first half of 2010
North America	Between 2005 and 2010 British Columbia, Ontario, and Quebec had completed \$10 billion in healthcare PPP projects
Africa	In South Africa the government was planning to refurbish the giant 2,964-bed Chris Hani Baragwanath Hospital through PPP

Types of Healthcare Privatization VII

- Privatization of healthcare financing:** is the shifting of the responsibility of healthcare financing from governments or social health insurance schemes to individuals, mainly through the introduction of **user fees (or co-payments)** and/or the increased reliance on **private health insurance** coverage (either as principal or supplementary/complementary type of coverage)

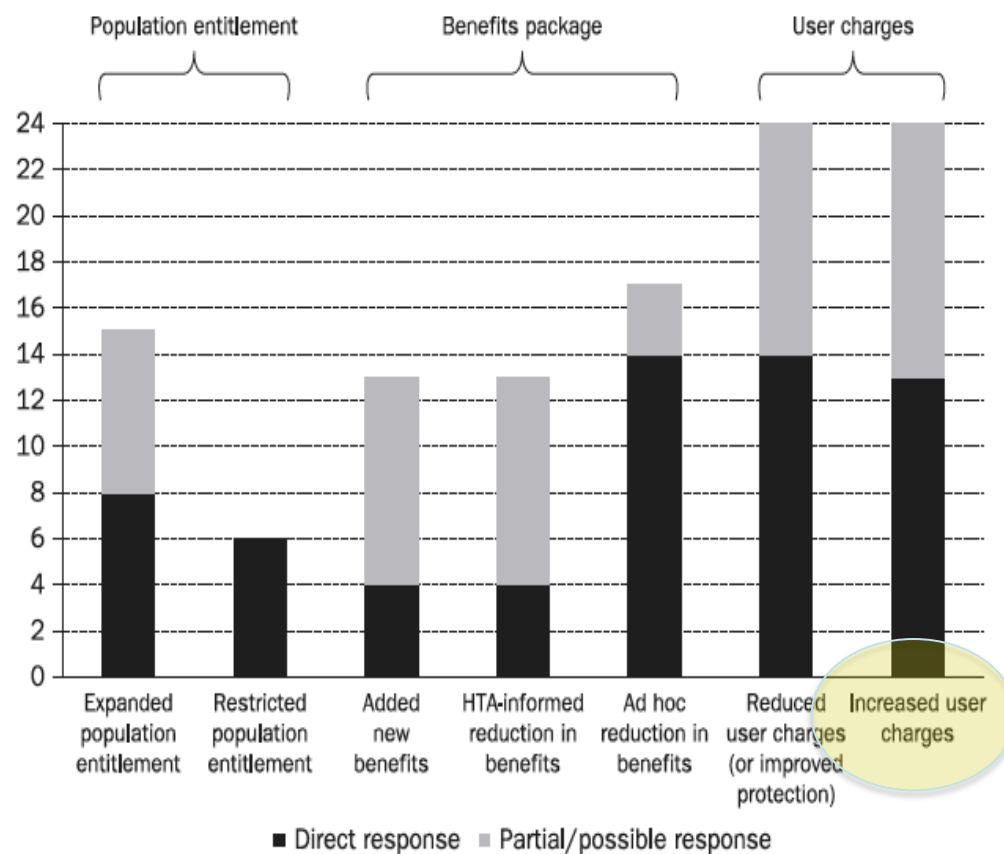


Figure 4.2 Number of countries reporting changes to health coverage in direct or partial/possible response to the crisis (out of 40 countries), 2008–13

Types of Healthcare Privatization VII

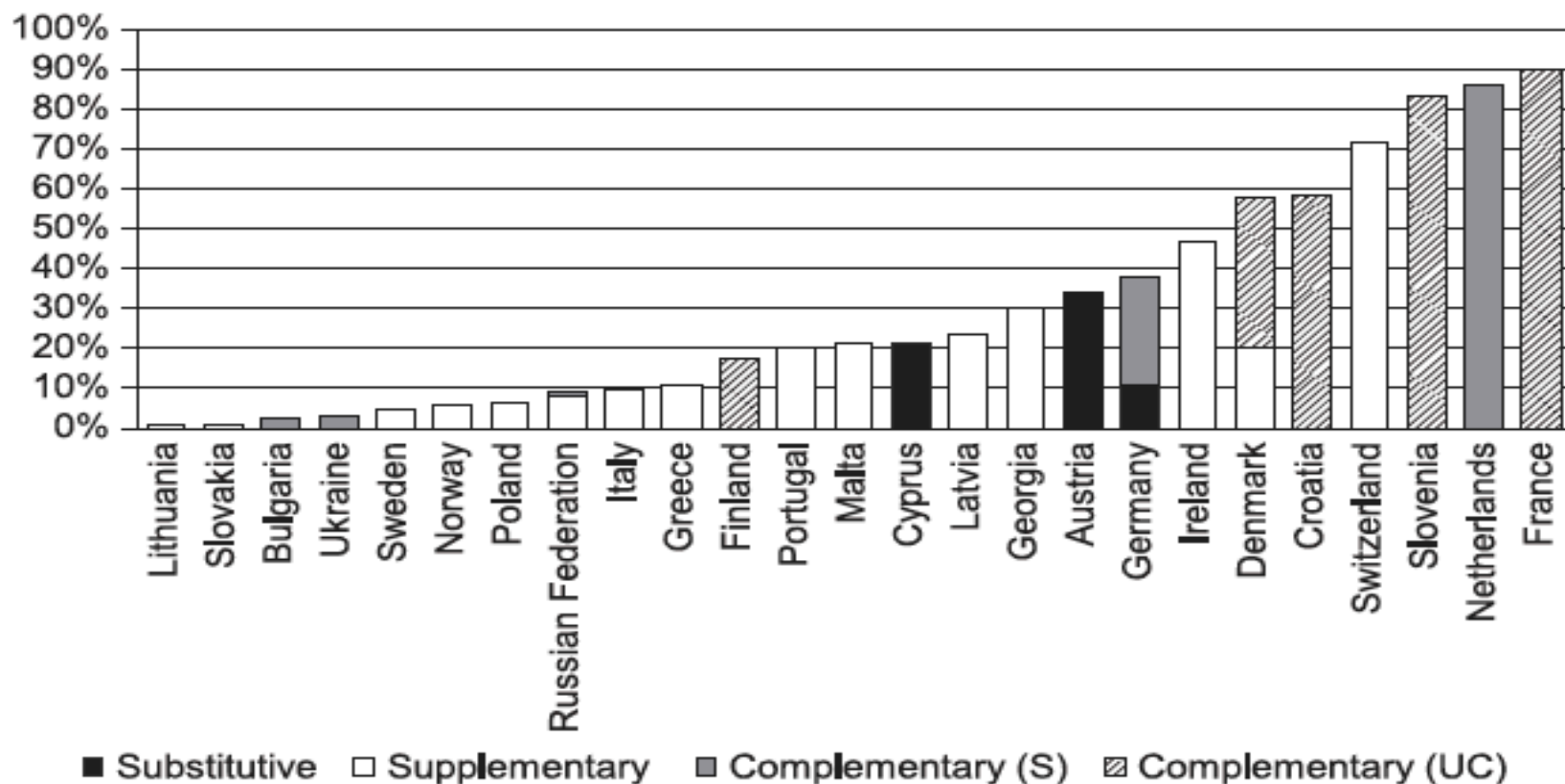


Figure 4.3 Share (%) of the population covered by VHI, latest available year, selected European countries