

Do Some Private Hospitals Cost More?

By Nadeem Esmail
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Dr. P.J. Devereaux and colleagues have published yet another article on the perils of for-profit hospital care. In this case, they have concluded that changing the structure of hospital ownership in Canada would lead to an increase in health expenditures because for-profit care providers are more costly. Relying on this article as the sole piece of evidence in the debate over private provision of hospital care in Canada ignores the evidence found in broader reviews of the literature and serves to confuse the debate on the delivery of hospital services in Canada.

What the Media Say:

In a new report, appearing in the June 8 edition of the Canadian Medical Association Journal, Dr. P.J. Devereaux and colleagues concluded that for-profit hospitals cost 19% more than private not-for-profit hospitals, and by extension Canadian hospitals.¹ Their estimates show that switching to for-profit hospitals in Canada would increase health costs by approximately \$7.2 billion. The analysis is based on a review of 8 large studies, encompassing more than 350,000 patients in total and examining a median of 324 hospitals each. 5 of the 8 studies supported their conclusion.

What the Media Did Not Say:

The study by Devereaux and colleagues examined only 8 studies of 788 studies identified as potentially eligible. A conclusion from an analysis supported by only 5 of 8 studies, from a possible literature of 788, is not an indictment of for-profit care providers.

The statistical methodology employed in this report is the same methodology used in an earlier report by the same core group of authors.² Commentators on the previous article, such as Dr. C. David Naylor, Dean of the University of Toronto's Faculty of Medicine, observed that there were so many discrete variables affecting the results in any one of the studies that a meta-analysis of all the studies was "flawed methodologically." The disparate data and criteria, Naylor observed, created a "tossed salad of patients, institutions, variables and outcomes."³ There is little reason for the new (2004) article to not be subject to the same methodological concerns.

Less selective reviews of the literature comparing for-profit with private not-for-profit hospitals do not support Devereaux et al.'s findings. A review of 34 studies, which

examined mortality rates as well as other hospital characteristics, by Gillian Currie, Cam Donaldson, and Mingshan Lu found that the majority of the literature supports the conclusion that there is no difference in relative costs, quality, or efficiency between for-profit and not-for-profit hospitals.⁴ A conclusion that is entirely consistent with economic theory regarding the ownership of hospitals.⁵

Beyond the unsupported conclusion and methodological concerns about the paper lies the most critical error in the study: the grouping of Canadian hospitals with US private not-for-profit hospitals like the Mayo Clinic. The Mayo Clinic is a not-for-profit institution but is strictly private and independent of government. Though it is technically true that Canadian hospitals are registered as private charities and that they are governed by independent boards, they are really only private in name.

Canadian hospitals are capitalized by the state (hospitals in Canada cannot borrow funds through the bond market), compelled to employ union workers often at state-determined wages (private not-for-profit hospitals in the US determine their own employment agreements), overseen by regional authorities appointed by government, and forcibly merged or closed by provincial governments. Canadian hospitals are government hospitals.

Conclusion:

When considered correctly, with Canadian hospitals more appropriately grouped with their governmentally owned US counterparts, the literature provides clear direction on what ownership structure is the most favourable from the patient's perspective. In the literature comparing hospital quality, the broader literature finds that government hospitals have higher mortality rates than their private counterparts, both for-profit and not-for-profit.⁶

The literature on cost performance is equally clear on the benefits of private health service provision. For example, Mark Duggan found that government hospitals in the U.S. do not respond to financial incentives with improved medical care for the poor.⁷ His conclusion is consistent with experience with government-operated monopolies in all sectors of the economy, including hospital care, in many countries.

The literature on comparisons of hospital ownership and international experience both give the same message to Canadians: competitive private health care provision (either for-profit or not-for-profit) is superior to government health care provision both in terms of cost and quality. With regard to the difference between for-profit and not-for-profit private hospitals, the literature provides no clear evidence to support the exclusion of either in a well functioning health care system. Using selective comparisons of small numbers of studies confuses rather than informs Canadians on what the evidence really says about how best to deliver health services in Canada.

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Footnotes:

1 Devereaux, P.J., et al. (2004). "Payments for care at private for-profit and private not-for-profit hospitals: a systematic review and meta-analysis." *CMAJ*, 170(12): 1817-1824.

2 Devereaux, P.J., et al. (2002). "A systematic review and meta-analysis of studies comparing mortality rates of private for-profit and private not-for-profit hospitals." *CMAJ*, 166(11): 1399-1406.

3 Naylor, C. David (2002). "Your money and/or your life?" *CMAJ*, 166(11): 1416-1417.

4 Currie, Gillian, Cam Donaldson, and Mingshan Lu (2003). "What Does Canada Profit from the For-Profit Debate on Health Care?" *Canadian Public Policy*, 29(2): 227-235.

5 Esmail, Nadeem, and Michael Walker (2004). "How Good is Canadian Health Care?" *Critical Issues Bulletin*. Vancouver: The Fraser Institute.

6 Zelder, Martin (2000). "How Private Hospital Competition Can Improve Canadian Health Care." *Public Policy Sources* 35. Vancouver: The Fraser Institute.

7 Duggan, Mark G. (2000). "Hospital Ownership and Public Medical Spending." *NBER Working Paper Series*, 7789. Cambridge: National Bureau of Economic Research.