



BRIEF ANALYSIS

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Sweden Edges toward Free-Market Medicine

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For decades, advocates of socialized medicine in the United States and Canada have maintained that health care systems financed by taxes and under government control are more efficient than private sector models in their ability to control costs and maintain quality of health care. Central to this argument is the belief that user fees and the profit motive, both salient features of a private health system, favor the wealthy and are unfair to the poor. Advocates of national health care have frequently cited perceived successes in Western Europe's social welfare states. But recently, policy-makers in Stockholm, the capital of Europe's most heavily socialized Scandinavian state, began implementing market-style reforms that may deprive national health care proponents of their favorite example.

Goals of Reform. Between 1992 and 1994, even as the advocates of "Hillarycare" in the United States were calling for wider government control of health care resources, the Health Services Council in Stockholm began contracting health services to private companies as part of an experiment to determine whether the private sector could perform better than the city's public health institutions. The result was an "internal market" — a system of private health care providers within the larger public-financed system.

Much of the pressure to experiment with privatization came from European Union regulations that forced reduced public taxation in Sweden. To function in a lower tax environment, Stockholm turned to the private sector with three goals in mind:

- To remove the public monopoly on the delivery of health care services.

- To control the spiraling costs of public sector services by introducing market forces and competition.
 - To set new performance benchmarks (i.e., shorter waiting lists) for other Swedish hospitals to emulate.
- In every category, the experiment has been a success.

Removing the Public Monopoly on Service. For decades, Stockholm relied on an underperforming civic health service monopoly characterized by long waiting lists, chronic overspending and flagging quality. Since the experiment began, virtually every sector of Stockholm's health system has undergone some form of privatization:

- Initially, the experiment included 150 private providers who were licensed to compete for health service contracts.

■ The contractors were originally allowed to compete for contracts in the non-medical services, technical services, ambulatory services, small hospital, home care and nursing home sectors.

■ In 1998 the Council began the gradual privatization of all primary care.

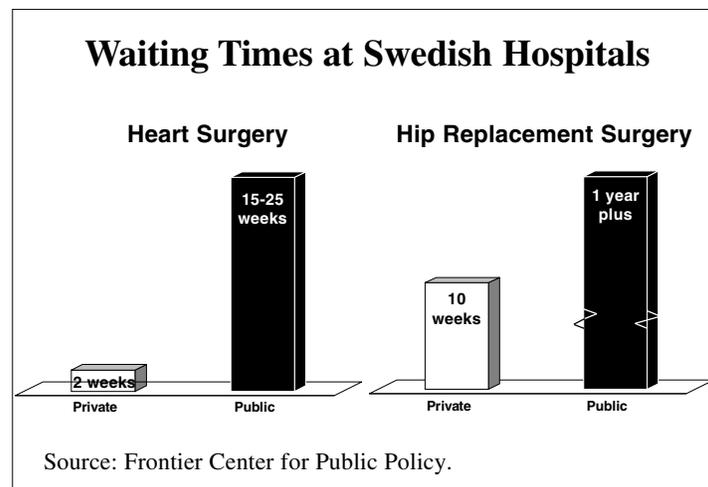
■ In 1999 St. Göran's, one of Sweden's largest

hospitals, was sold to the private company Capio AB.

By the end of the experiment's first five years, all but one of the original 150 private contractors had survived and were flourishing. Likewise, by the end of the first year of its privatization, St. Göran's had shown significant improvements over its performance as a public facility.

Controlling Costs with Markets. A study conducted for the Stockholm government compared the costs of services in six medical specialties between physicians in 40 private practices and 20 public hospital outpatient clinics, and found the cost per consultation to be lower in private practice. For example:

- In ophthalmology, costs in the public sector were 28 percent higher.



- Among ear, nose and throat specialists, costs were 17 percent higher.
- In general surgery, internal medicine and dermatology, costs averaged 13 percent higher.

In addition, private nursing home costs have fallen 30 percent, and the costs of care among private specialists have been cut by 40 percent. Savings have been even more dramatic in the hospital sector. At St. Göran's, costs for lab and X-ray services, for example, have fallen by 50 percent, and overall costs are down 30 percent. For many types of treatment, doctors in the private sector have reduced expenses to levels 15 percent lower than the same procedures would cost in the public sector.

Setting New Performance Benchmarks. One result of decentralizing and divorcing health care providers from bureaucratic control in Stockholm has been that private sector companies have been able to introduce simple, professional management structures that enable doctors to spend less time on paperwork and more time with patients. This change has, in turn, increased productivity in several key areas. Most importantly, it has drastically reduced waiting times for treatment by increasing the number of patients being served. For example, as the figure shows, at St. Göran's:

- The average wait for heart surgery is two weeks, compared to 15 – 25 weeks in Sweden's average public sector hospital.
- The average wait for hip replacement surgery is 10 weeks, compared to more than a year in the average public hospital.

No longer hampered by public system restraints, St. Göran's is now treating an average of 100,000 more patients each year than it did as a public hospital — but using fewer resources. As a result of St. Göran's success, the Council now has formal plans to sell all seven remaining public emergency hospitals in Stockholm to private investors.

The Future: Markets and Patient Vouchers. Today in Stockholm, the trend toward privatization of all health services is accelerating. Emboldened by the experiment's success, in 2000 the Council licensed 150

additional health care contractors to leave public ownership. By that same year, over 60 percent of the Council's planned privatization of primary care had been completed. Altogether, when the second wave of privatization is complete, private general practitioners and other contractors will provide more than 40 percent of all health care services and 100 percent of primary care.

Nonetheless, wholesale privatization of health care is still in the distant future. Although the system in Stockholm, which covers about two million of Sweden's 8.8 million people, is funded in part by user fees, most of the funding still comes from the government. However, the successful use of private contractors as health care providers may encourage the replacement of government financing with private funding. According to Johan Hjertqvist, health policy adviser to the Greater Stockholm Council, the die is cast for a system that, within the next decade, will rely more heavily on user fees and private insurance and may turn to the use of patient vouchers. If these changes occur, patients in Stockholm would be given vouchers that would allow them to choose among competing health care providers. Although the vouchers would be publicly funded, they would be an important step toward empowering the city's patients as consumers.

Conclusion. While opponents of the privatization reforms had predicted that the private sector, by seeking to make a profit for shareholders, would drive costs up and efficiency standards down, the opposite has in fact been true.

Across the board, private contractors in Stockholm are operating with less staff on smaller budgets, while providing the same treatments to more patients than their public counterparts. As a pilot program for testing the potential effects of competitive market mechanisms on public health care systems, Stockholm's internal market has proven the ability of the private sector to dramatically outperform state-administered facilities by reducing costs, improving care and saving lives.

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