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Consumer choice and effective competition in publicly funded services

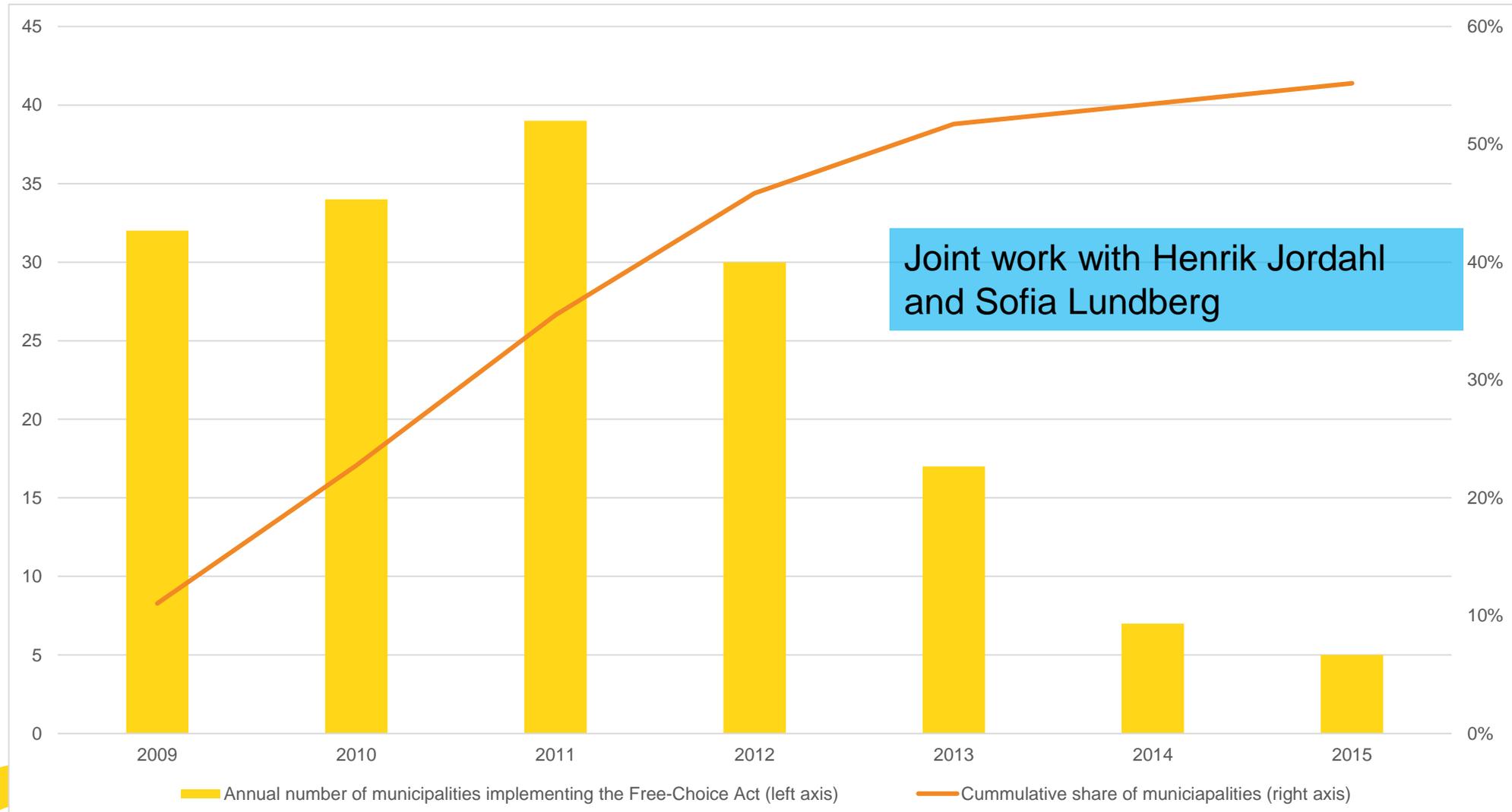
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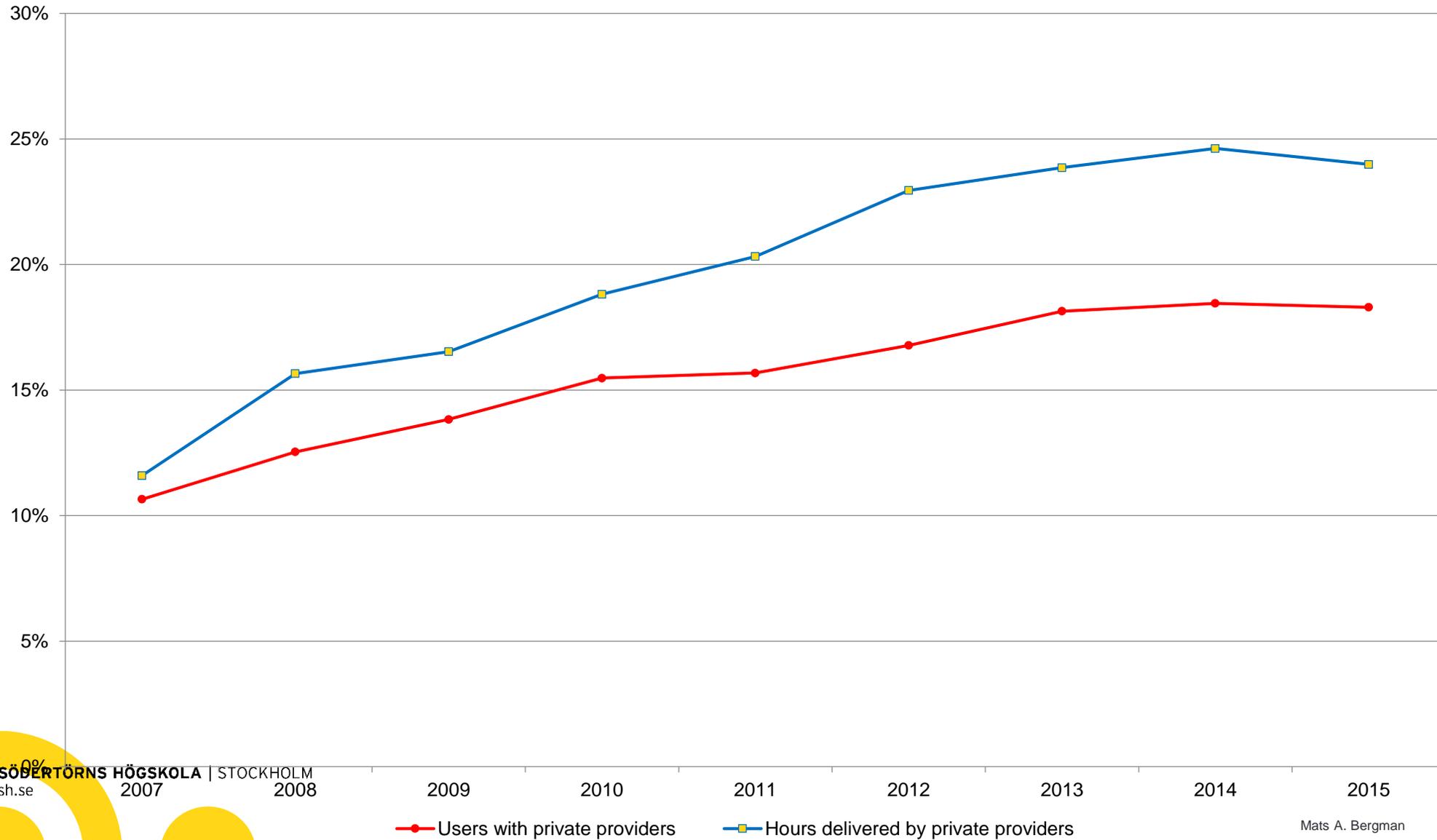
Based on the policy paper "How and when consumer choice drives efficient competition in publicly funded services"

Available at: [https://one.oecd.org/document/DAF/COMP\(2019\)8/en/pdf](https://one.oecd.org/document/DAF/COMP(2019)8/en/pdf)

Annual and cumulative implementation of free choice for home assistance in Sweden



Private market share for home assistance



Reform effect on private share

	1.
Free Choice Act	0.024** (0.006)
Controls	Yes
Municipality effects	Yes
Year effects	Yes
Observations	2,317
R-squared	0.32

Notes: Standard errors clustered at the municipality level within parentheses. ** denotes statistical significance at the 1% level.

Reform effect on user satisfaction

	1.	2.
Free Choice Act	0.233** (0.081)	0.224** (0.081)
Private share		0.310 (0.421)
Controls	Yes	Yes
Municipality effects	Yes	Yes
Year effects	Yes	Yes
Observations	2,004	2,002
R-squared	0.14	0.14

Notes: Standard errors clustered at the municipality level within parentheses. ** denotes statistical significance at the 1% level.

- **Why so good results?**

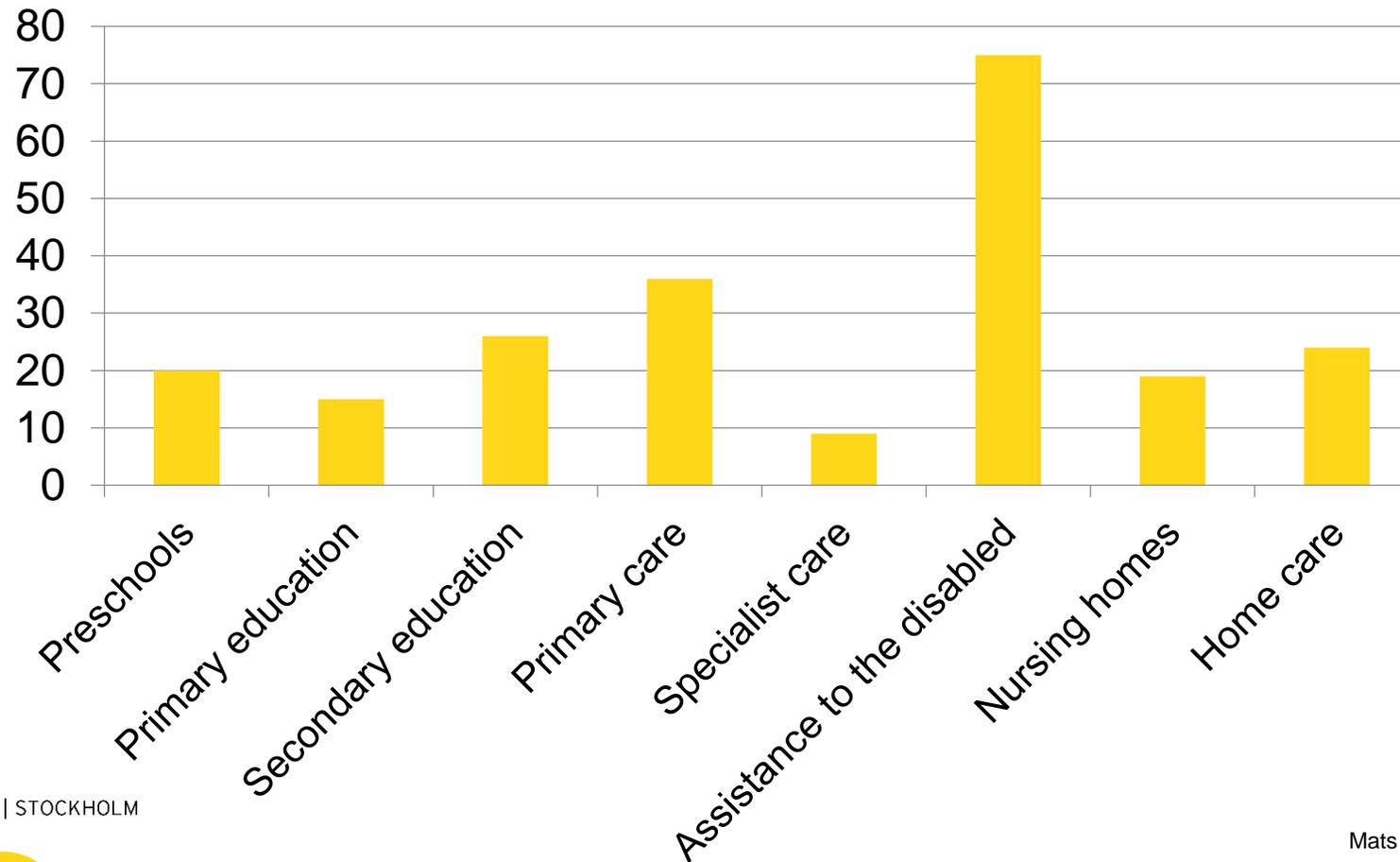
- Alignment of interests
- Easy to evaluate (for users)
- Easy to switch
- Users relatively strong

- **Problems?**

- Too much choice in large cities
- In some places, increasing costs
- De-professionalization
- Some entry by fraudulent companies

Private production of tax-financed services in Sweden

Percent of users, costs or hours



- **Point of departure:**
- Private providers are more efficient...
- ...but more prone to cut costs, also when this negatively affects quality

- **User choice is good when:**
- Interests are aligned
- Quality is easy to observe for users...
- ...but in important aspects non-verifiable
- Switching costs are low
- The cost of excess capacity is acceptable
- The service is used by many individuals with relatively homogenous needs

Non-verifiable (but observable?) quality

- E.g. food, films, technically advanced products, apparels, services (repairs, consultancies, ...)
- Schools: pedagogy, atmosphere, feeling of safety
- Physicians: trustworthiness, conduct and attitudes toward patients, (waiting time)
- Home care: caring, treating with respect, friendliness, on time, staff continuity
- Mechanisms in private markets:
 - Warrantees
 - Brand name
 - Reputation
 - Long-term relations
 - Ratings & reviews
 - Consumer-protection legislation

Non-verifiable quality in public procurement

- Emphasis on non-discrimination, equal treatment, transparency, proportionality, and mutual recognition
- In order to prevent corruption and local favouritism; to encourage trade
- Makes it difficult to safeguard non-verifiable quality
 - Brand names, reputation, and long-term relations cannot be used
- Emphasis on *verifiable* quality
 - More resources for verification than a private buyer
 - But less than an industrial buyer
- Rating schemes
- Expert panels
- References
- Penalties & bonuses

The role of user choice

- Users' choices not restricted to verifiable quality
- User choice makes quantities (and hence profit) responsive to non-verifiable quality
- The government must still safeguard many quality characteristics
- User choice perceived as a legitimate way to reward good performance
- Relatively robust to manipulation
 - May distort effort towards qualities appreciated by users, while less socially important. E.g., Ipads for pupils, nice entrances in nursing homes
- Requires some excess capacity to be effective
 - Capacity costs are relevant

Quality management – the role of the principal and the role of the users – a division of labour

The Government:

- Disciplines providers' provision of verifiable quality
 - Technical, measurable quality aspects
- Is held accountable, hence needs to be able to justify its actions
 - Non-discrimination, equal treatment, transparency, proportionality, mutual recognition

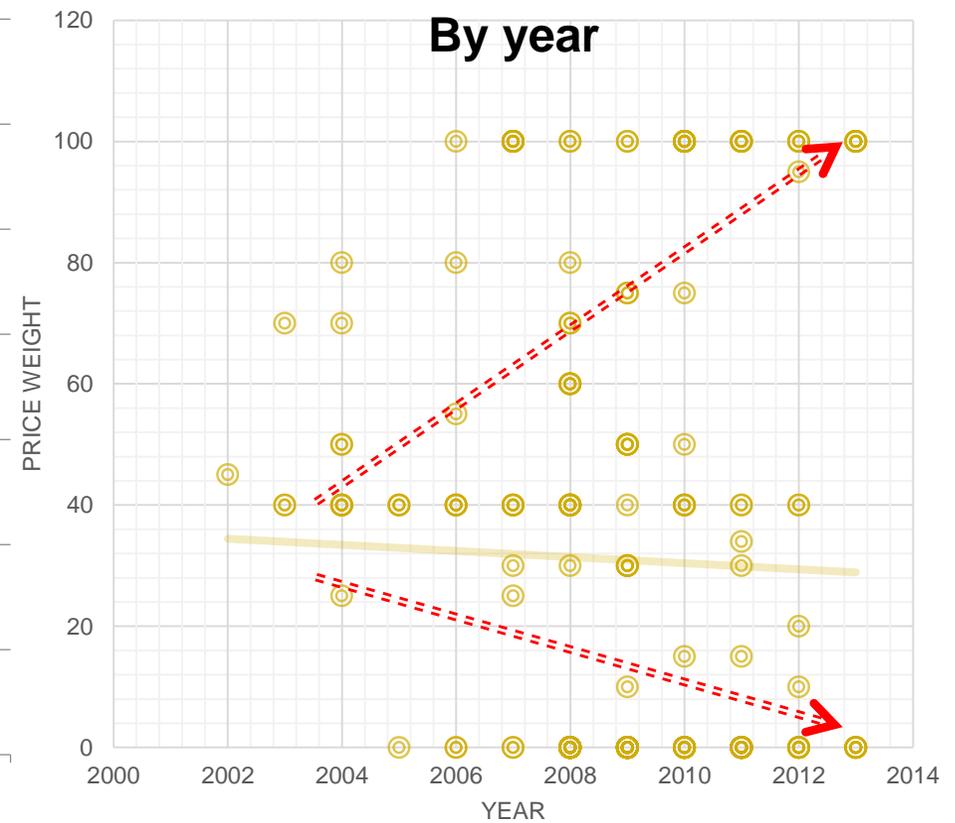
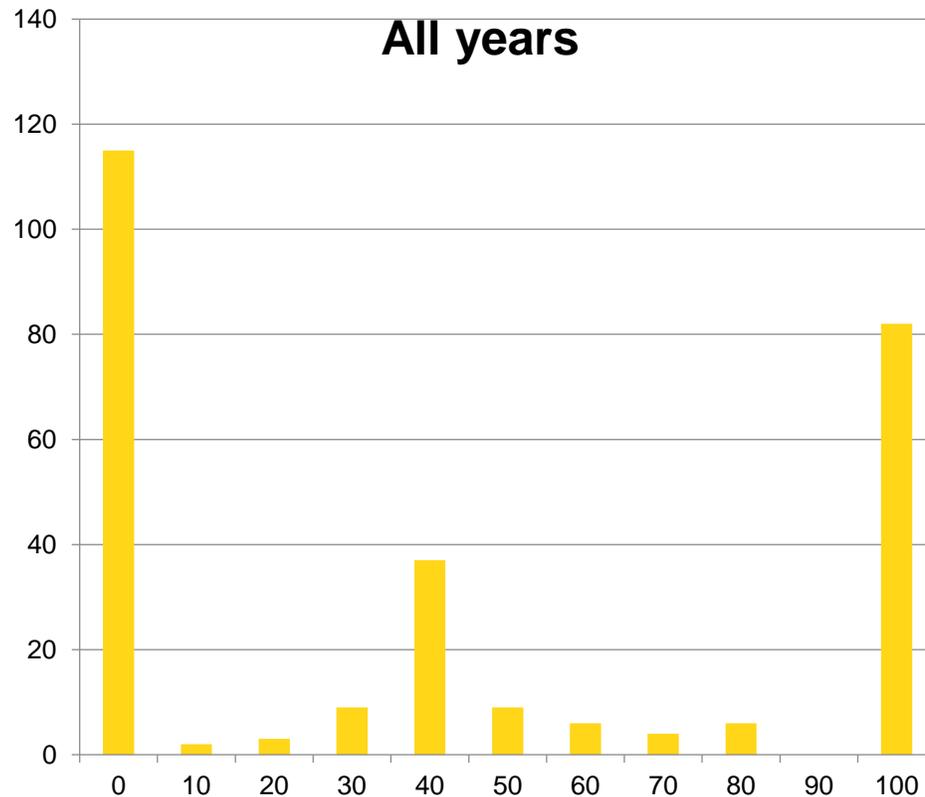
Users:

- Discipline providers' provision of non-verifiable quality
 - Through switching or reputational effects
- Can base their decision on “whatever”

Entry barriers in user-choice systems

- May be very low for services such as home care
- Should not be minimized but optimized, for two reasons:
 - To keep non-serious firms out
 - To allow serious firms to make a profit
- Extensive documentation requirements for new entrants likely a bigger hurdle for non-serious firms
- Under a procurement model, similar entry costs for home care and nursing homes
 - Mainly to prepare bids, including extensive documentation on routines
- Under a user-choice model, much higher entry costs for nursing homes
 - Build a facility or long-term rental contract
 - Large # of staff
 - Need to recruit customers

Price weight in bid evaluations, tenders for nursing-home management contract



Problems and risks

- Cream skimming
 - Divergent objectives and distortion of quality
 - Segregation
 - Choice complexity and cognitive limitations
 - Corruption
 - De-professionalization
- 
- Restrict use of some competitive actions
 - Provide carefully curated information in a graphically accessible way

may not necessarily represent the quality of care you will receive in the future. GM does not endorse or recommend any particular medical plan option. The medical plan you elect is your personal decision.

For a more complete description of the eight selected quality measures, see the *GM Medical Plan Guide*.

	NCCA Accredited?	Benchmark HMO?	Operational Performance	Preventive Care	Medical/Surgical Care	Women's Health	Access to Care	Patient Satisfaction
0001 Basic Medical Plan	Information Currently Not Available							
0002 Enhanced Medical Plan	Information Currently Not Available							
PPO 2190 Blue Preferred Plus	Information Currently Not Available							
HMO 2101 Care Choices HMO	Yes	No	▲▲	▲▲▲	▲▲	▲▲▲	▲▲	▲▲▲
HMO 2108 BCN G Lakes SW MI	Yes	No	▲▲	▲	▲	▲	▲	▲▲
HMO 2113 BCN Health Central	Yes	No	▲	▲▲▲	▲▲▲	▲▲▲	▲	▲▲
HMO 2116 Priority Health	Yes	No	▲▲	▲	▲	▲▲	▲▲▲	▲▲▲
HMO 2117 Care Choices HMO W MI	Yes	No	▲▲	▲▲▲	▲▲	▲▲▲	▲▲	▲▲▲
HMO 2118 BCN West Michigan	Yes	No	▲▲	▲	▲	▲	▲	▲▲

Key: ▲ = below expected performance ▲▲ = average performance ▲▲▲ = superior performance
 ND=no data was available from this plan

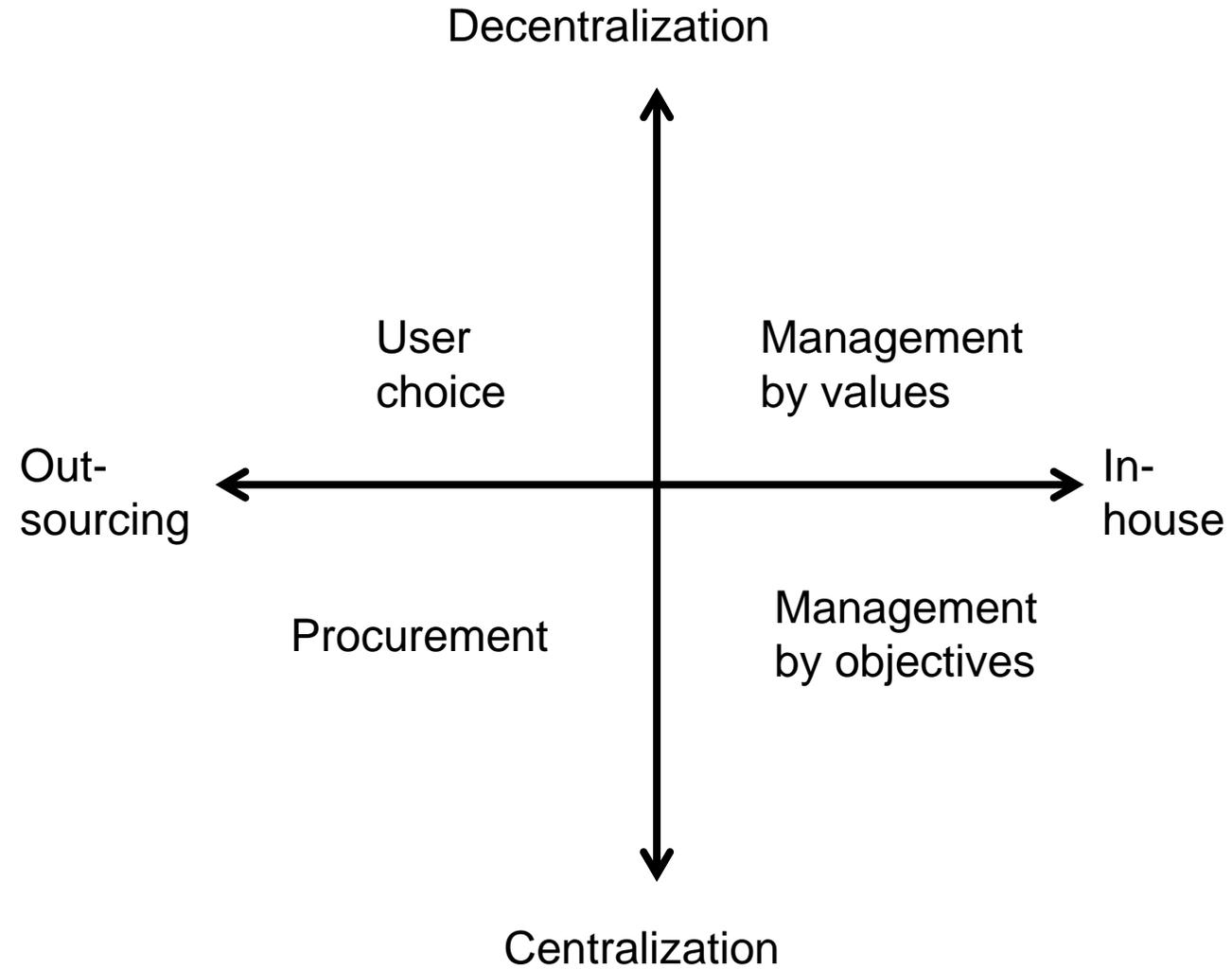
Penalties, bonuses; compensation scheme

- Private providers *will* react, often in unexpected ways
- Bonuses less disruptive to relations
- User choice + excess capacity will make total revenues responsive to quality
- Flat (per-user) compensation used in education and elderly care
 - Although often with revenue guarantees for nursing homes, cancelling the incentives
- In primary care, a balance between per-capita and per-visit compensation
- In specialized care, payment per categorized treatment

Summary

- User choice is good when:
- Interests are aligned
- Quality is easy to observe for users...
- ...but in important aspects non-verifiable
- Switching costs are low
- The cost of excess capacity is acceptable
- The service is used by many individuals with relatively homogenous needs
- Remember that:
- Government should retain overall quality responsibility and must safeguard some quality dimensions
- Problems may arise due to cream skimming, effort distortion, segregation, corruption – try to minimize these, using bespoke solutions
- Entry barriers should not be minimized, they should be optimized
- There must be some excess capacity

Extra



Soft budgets & quasi markets

- Soft budgets - associated with "management by values" and a strong role of the profession
- Quasi markets. Payment by a third party, that fixes the price. Competition in quality.