

# For-Profit Health Care

## Dispelling the Myths

### Myth #3

## For-Profit Health Care Would Lower Costs

Those who argue for the contracting out of clinical services to for-profit corporations maintain that increasing free markets and competition in the health care system would bring market benefits – most notably, lower costs.

This is the position presented by David Gratzer in his book *Code Blue*. “Gratzer and other advocates of private, for-profit health care argue that competitive markets have produced an abundance of inexpensive, high-quality, and widely available food, shelter, and clothing, and that competitive markets would do the same for Canada’s health care system, if only the constraints of medicare were lifted.”<sup>1</sup>

But, what evidence is there that this is the case? Is private, for-profit health care cheaper and more efficient than public health care? Does for-profit health care serve more people better at a lower cost? All the evidence says no.

The presumption that there are significant savings to be gained by promoting for-profit health care is

“No peer-reviewed study has found that for-profit hospitals are less expensive.

For-profit hospitals cost more to operate, charge higher prices, spend far more on administration, and often provide poorer services than non-profit and public hospitals.”

“When Money is the Mission:  
The High Cost of Investor-Owned Care”  
*New England Journal of Medicine*  
341:6 (1999)

evident in Alberta’s recent decision to increase the role of for-profit health care providers in the province. After analyzing the evidence from the American experience, Robert Evans says: “In effect, the Alberta government’s hopes for increased efficiency through increased for-profit provision of health care have no empirical support, and face extensive counter-evidence.”<sup>2</sup>

## In Fact...

There is strong evidence that the growth of for-profit health care will *increase* – not decrease – costs. More than 20 studies have compared for-profit with not-for-profit acute care. Almost all showed higher costs with for-profit care. Michael Rachlis highlights the fact that the four most recent studies, which he says are methodically very strong, all favour not-for-profit delivery.

- In a 1997 article in the *New England Journal of Medicine*, Harvard physicians Woolhandler and Himmelstein analyzed 1994 data from all 5,201 acute care hospitals in the U.S. They found that for-profit hospitals were 25 per cent more expensive per case than public facilities. Fifty-three per cent of the difference in cost between public and for-profit hospital care was due to higher administrative charges in commercial facilities.
- A 1999 study by Dartmouth University researchers published in the *New England Journal of Medicine* concluded that introducing for-profit hospitals increased community health costs. Using data from the entire American Medicare program, the authors found that health spending was higher and increased faster in communities where all beds were for-profit compared to communities where all beds were not-for-profit.<sup>3</sup>

## Why for-profit health care is more expensive:

- Investors expect profits of 15% annually.
- Significant time and money must be devoted to investor relations, take-over strategies and defences, marketing, insurance administration, and bill collections — all of which drive up costs.
- The necessity to compete with every other hospital and clinic results in costly duplication of equipment and facilities in for-profit hospitals.
- The prevalence of fraud among for-profit providers in the U.S. has become a major cost factor. The cost of monitoring, suppressing and prosecuting such behaviour has become part of the administrative overhead associated with for-profit provision.

## References

1. K. Taft and G. Steward, *Clear Answers: The Economics and Politics of For-Profit Medicine*, Edmonton: Duval House Publishing, 2000, pg. 7.
2. Robert Evans, in a keynote address titled “The Role of Private and Public Health Care Delivery in Alberta”, Health Forum sponsored by The Alberta Congress Board, Edmonton, Alberta, Feb. 5, 2000.
3. M. Rachlis, “A Review of the Alberta Private Hospital Proposal”, The Caledon Institute of Social Policy, March 2000, pg. 5.

## What lab tests cost:

### Public Labs Versus For-Profit Labs

Source: Sask. Department of Health

