

The Private Sector within a Public Health Care System: The German Example

by Frederik Cyrus Roeder



The Canadian health care system is an oddity among developed countries in that the public sector is not only responsible for most of the financing of the health care system, but also has a near complete monopoly on the delivery of hospital care. In Europe, where public financing is as prevalent as in Canada, if not more so, the private for-profit sector has an extensive role to play in delivering service.¹ The German experience shows that private sector involvement and the search for profit, contrary to widespread fears, are correlated with better quality care and can improve the efficiency of low-performance establishments.

Germany has a universal multi-payer health care system, where roughly 90% of the population is covered by statutory health insurances (SHI). SHI budgets are mostly raised through income-based contributions.² Other citizens are insured by private health insurance (PHI),³ as higher income or self-employed people can choose to opt out of SHIs. PHIs use actuarial calculations to determine risk-equivalent premiums for each of their clients.

In 2009, 77% of Germany's health care funding came from the government, while 23% came from private sources (both insurance and direct payments). By comparison, the respective numbers were 71% and 29% in Canada for the same year, according to OECD data. Health care spending as a percentage of GDP in Germany is about the same as in Canada,⁴ even though the former has a greater percentage of its population 65 years and older, which usually means higher health costs.

The German hospital landscape

In 2010, the German hospital sector consisted of 2,064 acute care hospitals roughly divided in three between the categories of private for-profit (usually owned

by municipalities), private not-for-profit (often owned by religious organizations) and public ownership.⁵ The term "private hospital" is used in Germany to describe hospitals which are not owned by any level of government (municipal, state, federal) or any other public bodies. They usually operate within the public health system and treat all patients, not just privately insured ones.

Unlike most Canadian hospitals,⁶ German hospitals do not have global budgets, but are instead reimbursed for each case they treat.⁷ Historically, the compensation system was based on per diem charges. Hospitals actually had an incentive to keep patients as long as possible in order to maximize revenues and utilization rates. However, the introduction of a new reimbursement system in 2004 (in the form of flat sums reimbursed to hospitals depending on the complexity of each case) created different incentives that increased hospital efficiency.⁸

Hospitals compete for patients, who are free to choose to be treated in any of the hospitals that operate in the public health system. This system leads to a much more patient-oriented provision of health care and prevents the emergence of rationing, prioritization of treatments or waiting lists. Thus the length



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of waiting times for medical procedures is much lower than in Canada.⁹ Long wait times in emergency rooms, extremely common in Canadian hospitals, are also unknown in Germany.

The diverse German hospital system (in terms of ownership) has much lower malpractice and accident rates than Canada's predominantly public hospital system. According to OECD data, a foreign body (e.g. an instrument) is left inside a patient's body during a procedure more than twice as often in Canadian hospitals as in German hospitals. The chances of an accidental puncture or laceration while being treated in a Canadian hospital are 223% higher than in a German hospital. The chance of acquiring a post-operative sepsis in a hospital is 42% higher in Canada than in Germany.

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The German landscape is still undergoing a gradual transformation in terms of the ownership structure of hospitals. Private for-profit hospital chains have continuously increased their market share in the last two decades.¹⁰ The negative development of public finances (especially at the municipal level¹¹) has pushed more and more municipal councils to opt for privatizing (or at least partially privatizing) their hospitals. The number of private for-profit hospitals grew by about 90% between 1991 and 2010, whereas the number of public hospitals decreased by about 43% over the same period.¹²

The performance of private for-profit hospitals

The management's mission to realize profits seems to be one of the main advantages of private for-profit hospitals in Germany. Since the investors of private for-profit hospitals anticipate a market-yield for their investment, the pressure on hospital management to perform well is much higher. Therefore, necessary reorganizations of processes within the hospital are executed faster and restructuring plans are carried out more quickly.

The access to additional capital puts private for-profit hospitals at an advantage when it comes to the realization of necessary investments, especially those which decrease operating costs¹³ such as investments aimed at increasing energy efficiency. Private for-profit hospitals have the highest investment per case (about 64% higher than public hospitals), which leads to more state-of-the-art treatment and newer medical equipment. This

Table 1
Comparative data on health care

Indicators	Germany	Canada	Quebec
Percentage of the population 65 years and older (2010)	20.4%	14.1%	15.4%
Total expenditure on health care as a percentage of GDP (2009)	11.6%	11.4%	12.6%
Curative acute care beds per 1,000 population (2008)	5.7	1.8	1.9
MRI in hospitals per million population (2009)	9.5	6.3	6.8
CT scanners in hospitals per million population (2009)	17.2	13.2	13.6

Sources: OECD; Eco-santé Québec.

is in sharp contrast to public hospitals in Canada, which are not allowed to borrow independently on financial markets.¹⁴

Private for-profit hospitals are more focussed on their core business: curing patients. As a result, a lot of secondary processes such as catering, procurement or facility management are usually provided by external service providers (i.e., the services have been outsourced).¹⁵ Public hospitals tend to keep many services that are not part of their primary task, which leads to additional costs.

German hospitals are subject to very strict transparency and quality assurance mechanisms.¹⁶ Any citizen can review any hospital's annual quality reports (which have to include malpractice cases and infection rates) online. The local media tends to serve as an additional watchdog, scrutinizing the level of quality at a given hospital. Private for-profit hospitals therefore have an incentive not to reduce the quality of their medical provision or care in an effort to maximize short-term profits. Such a step would heavily affect the hospital's reputation, sufficiently damaging its popularity and, thus, its competitiveness in terms of attracting

Table 2
Comparison of German hospitals according
to type of ownership

Indicators	Private For-Profit	Private Not-For-Profit	Public
Hospitals in Germany (2010)	679	755	630
Hospitals in Germany in % (2010)	32.9%	36.6%	30.5%
Hospital Beds in Germany (2010)	74,735	164,337	223,385
Average Hospital Size in Beds (2010)	110	218	355
Average Length of Stay in Days (2010)	7.5	7.3	7.3
Investments per Case in Euro (2006)	457	372	278
Cases per Medical FTE (2006)	155.3	164.8	152.3
Cases per Nursing FTE (2006)	61.4	62.6	60.9
Stillbirth rate in % (2006)	0.26%	0.26%	0.29%

Sources: Statistisches Bundesamt, *Grunddaten der Krankenhäuser*, Fachserie 12 Reihe 6.1.1, 2011; Boris Augurzky, Andreas Beivers, Günter Neubauer et Christoph Schwierz, *Bedeutung der Krankenhäuser in privater Trägerschaft*, RWI, 2009.

patients. According to quality audits, per 100 hospitals, the number of quality issues concerning public hospitals was 9% higher than for private for-profit hospitals.¹⁷

Comparatively good results

Private for-profit hospitals in Germany provide better quality care, as compared to public and private not-for-profit hospitals (see Table 2).¹⁸

When it comes to getting treatment after an appointment with a specialist, private for-profit hospitals in Germany have the shortest waiting times. They admit patients 16.4% faster

than private not-for profit hospitals and 3.1% faster than public hospitals.¹⁹ Private for-profit hospitals also have the highest average length of stay, even though flat sums are paid for patients. This means that they do not discharge patients before they are healthy enough to return home in order to cut costs.

Private for-profit hospitals in Germany provide better quality care, as compared to public and private not-for-profit hospitals.

There is no difference between private for-profit and public hospitals in terms of the quality or availability of emergency services.²⁰ They have a 10% lower stillbirth rate than public hospitals.²¹

The number of cases per medical doctor (full-time equivalent) across all hospitals in Germany decreased by about 13% between 1996 and 2006. This means that medical doctors can devote more time to each patient. Private for-profit hospitals reduced the number of cases per medical doctor five times more than public hospitals. Therefore, in 2006 medical doctors had 25% more time to spend on their patients than in 1996.²²

Empirical studies have shown that the medical quality of former public hospitals has significantly increased after their privatization. An additional result of hospital privatizations in Germany has been an increase in the number of medical doctors per hospital bed. But improvements in medical quality are not the only benefits of the privatization process. An analysis of all privatized hospitals in Germany between 1997 and 2007 showed that within the first four years there was an increase in efficiency of between 3.2% and 5.4% above those hospitals that had not been privatized. This leads to the conclusion that privatized hospitals provide better care for less money.²³

A frequent stereotype plaguing private companies which operate in publicly funded systems is the allegation of cherry picking. Applied to private for-profit hospitals, this would mean that they would only operate in urban areas with high population densities and above-average purchasing power. The data clearly indicate that this isn't the case. Private for-profit hospitals treat older patients and more complex cases than the other types of hospitals. Thus private for-profit operators in Germany seem to have developed the most suitable solutions for rural areas, where only small hospitals (less than 200 beds) are feasible and the efficient

operation and allocation of resources is crucial in providing the population with the care it needs.²⁴

The efficiency of the German hospital system will most likely continue to grow in the future since the privatization process is ongoing. Most of the already privatized hospitals were in bad shape when they were sold and therefore started from behind in terms of competitiveness compared to the better-run public hospitals.

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Conclusion

The evidence from Germany suggests that hospital systems with more competitive elements and where private ownership is allowed provide higher quality care, investment levels and technological standards compared to an exclusively public health care system. Policy makers interested in using resources more efficiently while improving quality should take note of the German experience, which shows that privatization can bring efficiency gains to low-performance public hospitals.

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