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Debate

The case against outsourcing from healthcare services

El caso contra la subcontratación de los servicios de salud

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Introduction

The privatization of healthcare, via the outsourcing of publicly funded services to private providers, runs the risk of creating worse health outcomes, on average, for patients and service-users.

Outsourcing healthcare provision to private firms has become increasingly common in publicly financed services as there has been increased pressure on government finances. Declining support for higher taxes combined with an aging population has created the perception that governments cannot invest more in healthcare systems, and this has pushed governments to seek efficiency gains in order to provide the same care but for less money.[i] The basic intuition here is that introducing market mechanisms into publicly-financed healthcare provision will create competition between providers and that this will incentivize providers to offer high-quality services at the same price.

In practice, introducing such mechanisms has rarely produced the expected outcomes. When outsourcing has been implemented, it has usually been pursued in incremental ways, with siloed services transferred to the private sector and the displacement of public bodies with mixed markets. This piecemeal approach has created natural policy experiments that allow researchers to exploit the variation in levels of outsourcing in order to identify the impact of these reforms. The results are concerning. Studies of this kind typically find that increases in for-profit outsourcing correspond with increases in mortality rates from treatable causes.[1,2] These studies attempt to measure the total impact of outsourcing across the system. There are some limitations of these studies, of course. They cannot, for example, claim to have identified a causal relationship given that randomization of patients between outsourced and public services, across all healthcare, would be impossible in this situation. This means we should be cautious about attributing the harms to private providers per se. But the findings from these studies are indicative of wider concerns with healthcare outsourcing. In fact, despite the hopes for privatization as a root to discover efficiency gains, it turns out that outsourcing is actually damaging for population health.

Why, then, given the expectation that privatization will improve efficiency, is outsourcing creating worse health outcomes in the population and among service users? There are two broad explanations, and we address both in turn.

Quality difference between private and state-owned providers of healthcare

The first explanation concerns differential quality between providers. In short, outsourcing may worsen the quality of care simply because for-profit providers deliver worse quality care than state-owned providers. Counterintuitively, there are reasons for expecting that the incentives driving private healthcare companies are actually antithetical to providing high quality care in part because they seek weaker regulation when compared to state-owned providers. Put simply, for-profit providers may prioritize profits and cost-savings over the quality of care as shareholders have different demands than public sector regulators.

The evidence here is mixed. For example, when researchers look at whether there are performance gaps between public and for-profit hospitals it does not seem as though there are substantial differences.[3] But this does not mean that outsourcing is benign. Indeed, when we look at whether outcomes vary according to who owns health and care services outside of the hospital setting there is a far more worrying pattern. Publicly owned providers in areas as diverse as nursing homes, ambulance services, children's care services, hospital cleaning services and psychiatric care all provide better quality care than privately owned firms providing the same service.[4–6] It is important to be clear here that this is not "smoking gun" evidence. There are always differences in how patients are allocated to public or private services which could alter these differences and therefore makes it difficult to draw strong causal conclusions.

Notwithstanding this lingering limitation of existing research, studies in this area have been able to show that these for-profit providers are engaging in practices that we might expect to lead to worse care. For example, for-profit providers are more likely to engage in cost-cutting, mostly through reducing staffing

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[i] The perception of policymakers that they cannot invest more in healthcare systems is not rooted in evidence has been perpetuated by academic and media sources, which could be challenged with considered efforts.[14,15]

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levels. More concretely, both private ambulance services in Sweden and hospital cleaning services in England have more stringent working practices than their public counterparts.[4,6] Less training, poorer working conditions and fewer staff are one way in which for-profit providers can be evidenced to have different behaviors to public providers -nd it is precisely these kinds of approaches to service provision that are likely underpinning worse outcomes among these for-profit providers. Meanwhile, private providers being introduced into a nationalized health service will also have a learning curve to reach the same levels of quality and efficiency of scaled public provision.

System-wide impacts of privatization and mixed-markets

A second concern with the private sector delivering public healthcare services is that mixed-markets have "knock-on effects" on the ability for state-owned providers to deliver healthcare services.

One common criticism of mixed-market systems is that private providers "cherry-pick" patients with fewer complications, thereby artificially inflating the efficiency of for-profit providers.[7] Cherry-picking occurs because it is impossible to force private providers to deliver care for all and the selective provision of services is inevitable in a system with some patients and some services more profitable than others. This process may differ according to the location of decision-making. Patients may sort themselves into different sectors according to preferences and trust, public sector doctors may want to treat the patients most in need of their help, whereas those working under performance or financial incentive may want to the treat the patients with least severities.

Outsourcing's negative effects on health is not merely a matter of actual healthcare provision, it can also show up when for-profit firms are brought in to provide financial or managerial services. The problems with using private financing to fund infrastructure are now so widely known that it has become an archetypal case of how the state has shifted its de-risking activities from citizens to firms. These public-private partnerships are commonly recognized as a form of corporate welfare that has provided very little benefit to the patients. In addition to this, although less widely known, the impact of management consultancy services on public hospital performance are largely negative too.[8,9]

One response to these concerns is that outsourcing provides "competition" which improves standards across the spectrum. The problem is that while this might be theoretically plausible, we are yet to see the evidence of this in practice, particularly after taking into account the ownership status of hospitals alongside hospital competition.

Implications and significance

Increased for-profit provision of services can result in healthcare providers cutting costs, prioritizing profits, and having worse impacts on the health of patients. Outsourcing can also impact the ability for public hospitals to deliver the best quality care possible. In our view, then, outsourcing is, on average, likely doing more harm than good in most healthcare contexts where the evidence is available.[ii] This means that the considerable €8,240 million spent by Spain in 2019 on private sector healthcare outsourcing may concern policymakers and patients alike[10].

[ii] The evidence used in this essay almost entirely comes from high-income countries in Europe and North America.

Why there might not be such a thing as "good outsourcing"?

Isn't there a risk here that we are describing outsourcing in an overly simplistic way? Some forms of outsourcing may be good for health or at least the cost savings may be worth the small reductions in quality of care that come with it. It is also possible that we are yet to see the real benefits of outsourcing because these mixed-markets are simply unable to function in the way other "purer" markets are intended to function Some may argue that with the correct regulatory framework, favourable market conditions and the correct contracting arrangements – benefits are possible from outsourcing, perhaps for certain kinds of simple-to-deliver services. Indeed, perhaps if we allow public hospitals to fail, or give patients more choice, or relax planning/ licensing permissions then eventually outsourcing models of privatization will pay off.[11] However, these arguments are not supported by evidence which has yet to identify a consistent form of "good outsourcing".

The problem with this argument is that it is exactly the same argument that was made by those who wanted to bring outsourcing to their current levels. They have not worked thus far, the evidence on the cost-effectiveness of outsourcing is either weak or points in the opposite direction, and it is not clear that "more of the same" will bring different results.[12] Indeed, there is a real risk that pursuing deepening these reforms could have disastrous consequences for those who rely on healthcare services.

Should governments re-nationalise?

Outsourcing has been a dominant policy "solution" posed by governments of different political convictions for over 40 years. If we take the position that it hasn't delivered as promised, and, perhaps worse, has resulted in worse health outcomes, then what options does that leave politicians and practitioners hoping to reform services for the better?

Progressive governments should work to reclaim the narrative that a modern-thinking, reformist agenda can, in line with policy objectives across the spectrum, aim to decommodify healthcare. While this will involve a considered effort to revoke the legal and economic conditions underpinning privatization, an agenda based on decommodifying care would aim to reduce the service's reliance on the market.[13] And, in doing so, protect it from the potential negative outcomes outlined in this essay.

Authorship contributions

B. Goodair and A. Reeves conceived the manuscript. B. Goodair conducted the literature review and wrote the first draft. A. Reeves edited the manuscript and supervised the work.

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Conflicts of interest

None.

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