

Productivity differences in Nordic Hospitals: Can we learn from Finland?

By Clas Rehnberg

Comment by Thorvaldur Gylfason, Professor of Economics, University of Iceland

This paper constitutes a useful exercise in benchmarking, asking a simple, basic question: Can we learn from those who seem to produce better results than we do and, if so, what?

Consider this example. In an international examination of reading, mathematics, and science given every three years since 2000 to about 5,000 15-year-olds around the world, Finnish students have consistently achieved stellar results. The examinations are held under the auspices of the Program for International Student Assessment (PISA), a worldwide study by the Organization for Economic Co-operation and Development (OECD).

Why do the Finns do so well? There is no shortage of possible explanations. Some observers attribute their success to broader curricula, smaller classes, and better training, pay, and treatment of teachers than in other countries. Others are not so sure. The advantage of the PISA tests is that they are designed to measure the quality of education by output rather than by input such as school enrollment rates, years at school, and expenditure on education.

By the same token, Clas Rehnberg's paper is triggered by the rather striking empirical finding that average hospital efficiency in Finland appears markedly higher than in Denmark, Norway, and Sweden. The paper goes on to explore possible reasons for the observed differences, suggesting a number of conceivable explanations for further research. It is interesting and, to some, no doubt also surprising that the findings apparently cannot be traced to differences in the use of market mechanisms and reimbursement systems. It might seem tempting to suspect that a decentralized health care sector would produce efficiency gains that could help explain the superior efficiency of Finnish hospitals, but that particular explanation appears doubtful because Denmark and Norway have centralized their hospital

sector, whereas Finland and Sweden have kept their decentralized structure and yet, as Rehnberg shows, Norway seems more efficient than Sweden. Rehnberg argues for a closer analysis of the impact of fund-holding, contractual relations, and incentives between public governments as well as including quality indicators in the efficiency measure.

As the public sector grows larger and larger to meet the demands of the people for more and better public services, the need for efficiency in public expenditure as well as in tax collection becomes all the more urgent. This need is particularly urgent in the fields of education and health care because that is where most of the money is. The Nordic countries spend around ten percent of their GDP on health care provision, a figure that could easily double in view of developments in the United States where public and private expenditures on health care approach twenty percent of GDP (Chart 1). Rehnberg's paper shows the way by suggesting how taxpayer money as well as private funds can be used more efficiently by producing more and better hospital services at lower cost.

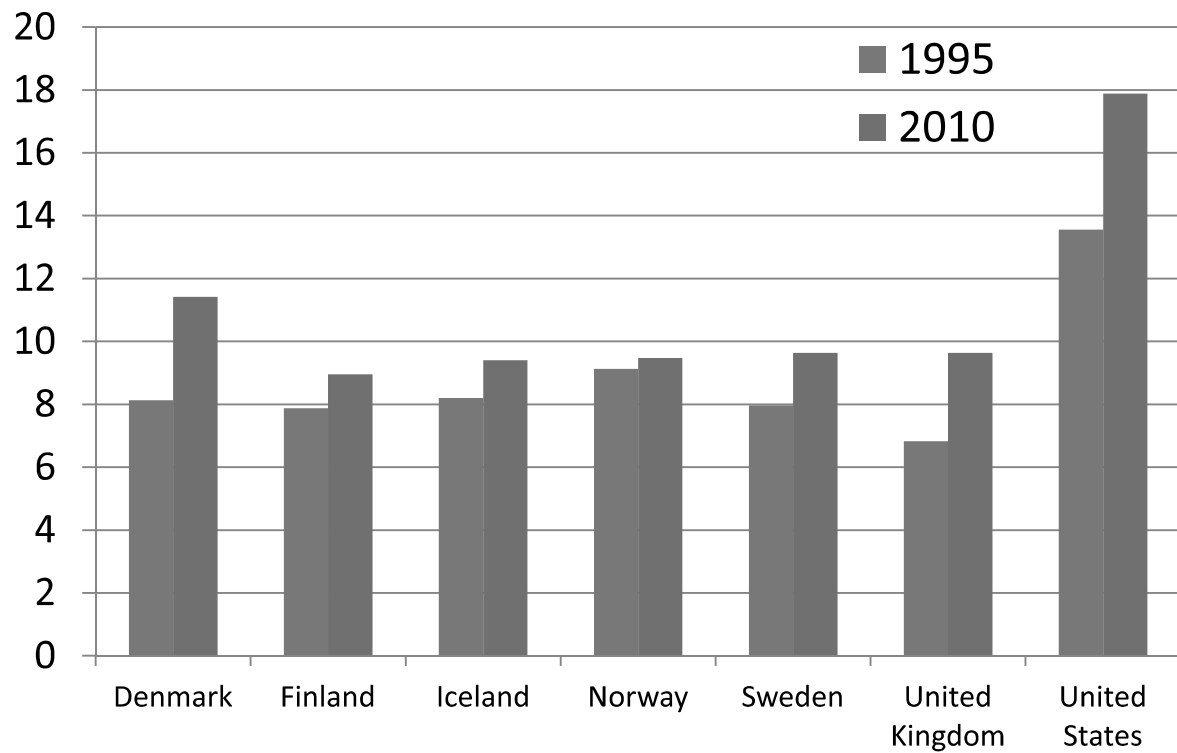
Even so, a seminal Norwegian study (Norman et al., 1991) suggests that the efficiency gains to be expected from benchmarking in the Norwegian hospital system are rather small compared with the education system or with the public sector as a whole (Chart 2). Using essentially the same method as Rehnberg, the study by Victor Norman and his associates concluded that a frontal attack against inefficiency throughout the public sector could produce economic gains on the order of twenty-five percent of GDP. In the education system, for example, incentives could be put in place to encourage university students to graduate as young as they were when they graduated from university twenty years earlier, saving university resources and enabling the graduates to enter the labor market earlier. This recommendation was based on the fact that in 1990 it took a university student in Norway a year and a half longer on average to finish his or her studies than in 1970. More importantly, Norman and his associates also advocated advancing the start of compulsory education from the age of seven to the age of six to add a year to the working life of each Norwegian. The study reported that the potential efficiency gains in education, all things considered, were five times as large as the potential efficiency gains in the health care sector, including the gains from inefficient hospitals emulating the methods applied by the most efficient hospitals as in Rehnberg's analysis.

This result does not, however, diminish the importance of benchmarking in the hospital sector. Economists constantly need to look for ways to increase efficiency and lift the standard of life. This, simply put, is what economics is all about. There seems to be significant scope for intensive economic growth in the Nordic countries with their large public sectors and in Europe, driven by more efficient use of existing capital and other resources in contradistinction to extensive growth driven by the buildup of capital. Chinese school children now study English from the age of six.

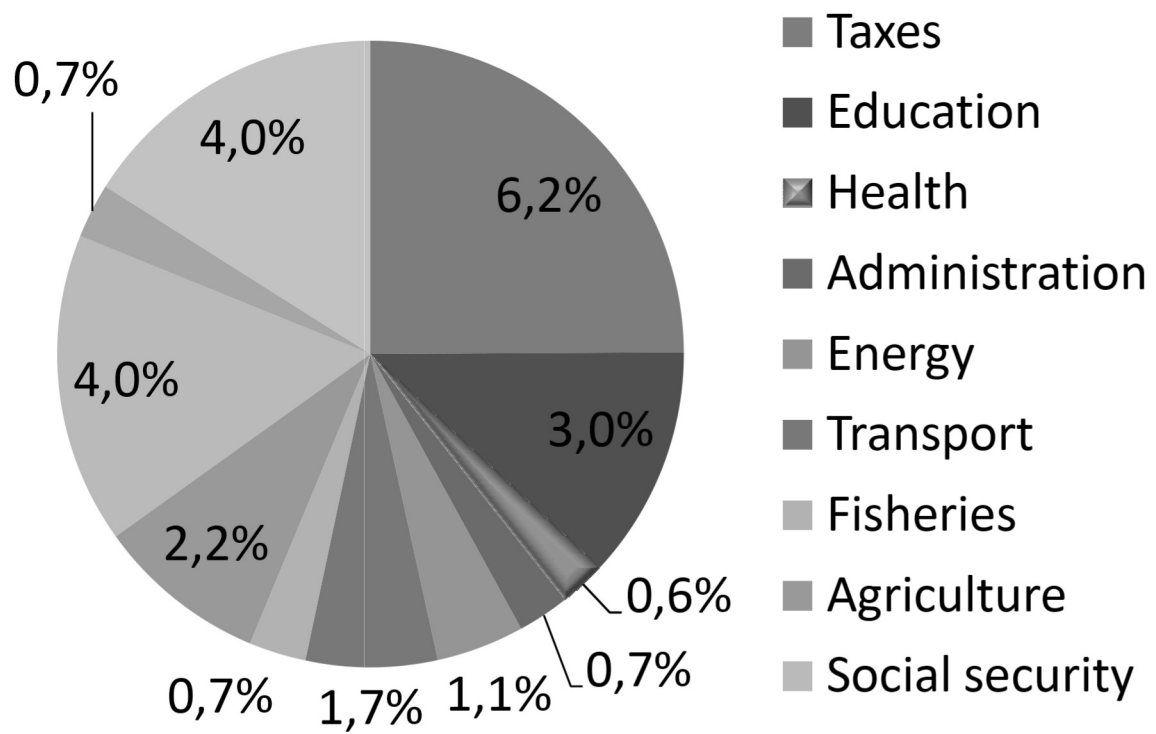
References

Norman, Victor, *et al.* (1991), *Mot bedre vitende? Effektiviseringsmuligheter i offentlig virksomhet*, Bergen.

World Bank (2011), *World Development Indicators*, Washington, DC.

Chart 1. Health expenditure 1995 and 2010 (public and private, % of GDP)

Source: World Bank, *World Development Indicators* (2011).

Chart 2. Benchmarking in Norway 1991: How to increase GDP by 25%

Source: Norman *et al.* (1991).