



Quality and efficiency of home help elderly care in Japan: Evidence from micro-level data [☆]

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With the introduction of public long-term care insurance in the spring of 2000, for-profit enterprises were allowed to enter the home help elderly care market in Japan for the first time. We take advantage of data from a unique, self-conducted survey to compare the efficiency and quality of service offered by providers with different types of ownership and different lengths of operation. We present two major findings. First, contrary to the prevailing perception, we find no significant difference in the quality of service between for-profit and nonprofit providers. Although the nonprofits are able to offer more qualified and experienced staff, the quality of services provided by nonprofits is worse in some aspects than that of their for-profit counterparts. Second, our estimates of a quality-adjusted cost function demonstrate that the management of newer providers is more efficient than that of older providers. Our results show that the competition mechanism works effectively in the home help care market, and that there is no reason to believe that the for-profit providers are behaving opportunistically. Thus, this study justifies the belief that free-market policy contributes significantly toward improving the quality and the efficiency of home help long-term care in Japan. *J. Japanese Int. Economies* 21 (2) (2007) 287–301. Institute of Economic Research, Hitotsubashi University, Tokyo, Japan; Tokyo Gakugei University, Tokyo, Japan.

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1. Introduction

Japan's long-term care market changed dramatically after public elderly care insurance was introduced in the spring of 2000 (Mitchell et al., 2004; Shimizutani and Noguchi, 2004). The new insurance system is more market-oriented on both the demand and supply sides. On the demand side, the range of individuals entitled to receive necessary care services has expanded. Care users are free to contract care services with any provider under the new "contract system," as opposed to the old "distribution system," which provided no choice other than the services offered by local governments.

On the supply side, the most notable change is that for-profits are now allowed to operate in a market formerly open to only nonprofit providers. This drastic reform aimed to stimulate the supply of care services in response to the expanding number of elderly people in Japan. This reform was also designed to improve service quality by introducing market competition and to optimize the efficiency of the overall market.¹

According to the Ministry of Health, Labor and Welfare (MHLW), the supply of care services expanded after the reform.² However, only a few studies have examined whether allowing for-profits into the market has actually improved the quality and efficiency of Japan's long-term care market. This is surprising because evaluating the effect of the change in competition policy is indispensable for designing Japan's long-term care market, as well as other markets where nonprofits are still dominant.

This paper takes advantage of a unique, self-conducted survey to compare the quality and efficiency of care services across different types of management in Japan. We obtain some interesting results. First, contrary to the prevailing perception, we find no significant difference in the quality of service between for-profit and nonprofit providers. Although the nonprofits are able to offer more qualified and experienced staff, the quality of services provided by nonprofits is worse in some aspects than that of their for-profit counterparts. Second, our estimates of a quality-adjusted cost function demonstrate that the management of newer providers is more efficient than that of older providers. Our results show that the competition mechanism works effectively in the home help care market, and that there is no reason to believe that the for-profit providers are behaving opportunistically. Thus, this study justifies the belief that free-market policy contributes significantly toward improving the quality and the efficiency of home help long-term care in Japan.

This paper proceeds as follows. Section 2 provides a literature review on quality and efficiency in nonprofits and for-profits. Section 3 describes the micro-level data used in this study. Section 4 proposes a set of indexes to measure the quality of services offered by nonprofit and for-profit providers and compares the two types of providers. Section 5 estimates a quality-adjusted cost function to address variations in efficiency among providers with different types of management. Section 6 concludes.

2. Literature review

In this section, we provide a brief literature review of previous studies examining the quality and efficiency of long-term care services. Though there have been only a few studies of this sort in Japan, dozens of studies in the US have addressed these issues.

¹ See detailed discussions in Mitchell et al. (2004).

² The number of providers registered in the WAM-NET increased from 9185 in April 2000 to 14,691 in February 2002.

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