

ISF Report 2013:15

# Price competition in Swedish dental care

Swedish Social Insurance Inspectorate

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# Summary

The Swedish Social Insurance Inspectorate (Inspektionen för socialförsäkringen, ISF) is an independent supervisory agency for the Swedish social insurance system. The objectives of the agency are to strengthen compliance with legislation and other statutes, and to improve the efficiency of the social insurance system through system supervision and efficiency analysis and evaluation.

The ISF's work is mainly conducted on a project basis and is commissioned by the Government or initiated autonomously by the agency. This report has been initiated autonomously by the agency.

This report analyzes the effect of competition on prices on the market for dental care in Sweden. It is a short version of the working paper *Price competition in health care: An empirical analysis of the Swedish dental care* (Chirico 2013).

Dental care in Sweden is provided through both private clinics and the Swedish Public Dental Service, which is the county councils' dental care organization. The majority (60–80%) of dental care for individuals aged 20 and above is supplied by private clinics. Patients can freely choose either public or private clinics and price setting is free.

This report adds to the understanding of the Swedish market for dental care by being the first to empirically analyze the effect of competition on prices. It also adds to the existing literature on competition in health care more generally, by suggesting an empirical framework to assess the causal effect of competition on prices.

The empirical strategy exploits that competition – theoretically – has different effects across service types due to differences in consumers' price sensitivity. More precisely, competition has greater effects on

informative services, such as examinations and diagnostics, compared to more complicated, therapeutic services. By exploiting this difference, a relative effect of competition on prices is estimated.

The results suggest small but statistically significant negative effects of competition on prices for informative services compared to therapeutic services. Competition is measured as the number of clinics within a fixed distance from each clinic. A 1% increase in competition is followed by an increase in the price difference in the range 0.0089% to 0.017%. This implies that one more clinic within a radius of one kilometer lowers prices for informative services relative to therapeutic services by up to 0.102%. The analysis exploits changes in competition from one year to the next. The results should therefore be interpreted as the short-term effects of increased competition.

A possible concern with the result above is that clinics, in response to increased competition, lower prices for informative services while increasing prices for therapeutic services. To investigate whether this is the case, the absolute effect of competition is assessed through simulations, based on the estimates of the relative effect. The simulations suggest that the absolute effect of competition on prices is negative for both informative and therapeutic services. Hence, the results suggest that there is room for price decreases in the Swedish market for dental care and that increased competition would imply a redistribution of welfare from sellers to buyers by lowering prices.

The conclusion from this study is that increased competition is followed by an increased price difference between informative and therapeutic services. The results therefore provide evidence of strategic behavior of clinics. The effects are small, but should be interpreted as short-term effects of increased competition. Consequently, substantial effects of competition on prices over time cannot be ruled out. The assessment of the absolute effects suggests that increased competition lowers prices for both types of services. Furthermore, the simulations do not suggest that clinics compensate price decreases for examinations and diagnostics with price increases for more complicated and uncommon services. This implies that competition increases welfare for consumers in the short run. However, the increase is moderate. All results are statistically significant and robust for sensitivity analyses.