

Privatization of a local public hospital: budget surplus, service quality, and social welfare

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Abstract

In Japan, many rural public hospitals suffer from budget deficit. Privatization of public hospitals would be expected to reduce budget deficit. We, using mixed duopoly model with Hotelling-type spatial competition, show the effect on budget surplus, medical service quality, and social welfare by privatization of public hospitals. The major results are as following: (1) A rural public hospital provides excess quality of medical service as compare to an urban public hospital. Since excess quality needs a large expenditure, profits of a rural public hospital is less than that of an urban public hospital. (2) Partial privatization of a rural public hospital reduces not only quality of it but also quality of an urban public hospital, but improves social welfare because partial privatization of a rural public hospital offsets excess quality of medical service. (3) Full privatization of a rural public hospital leads to insufficient quality and might make social welfare worse than former privatization (that is, no privatization might be better).

Keywords: Privatization of public hospitals, Mixed duopoly model with Hotelling-type spatial competition

JEL classification: L32, L33, I11

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