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Nursing Home Competition, Prices and Quality: A Review and Some Lessons for Australia*

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Abstract

In recent years, with the aim of containing cost pressure and improving efficiency, many countries have begun to introduce market mechanisms into the aged care sector. Under the right conditions, competition can spur providers to compete by cutting costs, offering better prices and higher quality of services. However, in aged care, market failures can be severe. Information about prices and quality may not be readily available and search costs can be high. This study undertakes a scoping review of the literature on competition in the nursing home sector, with an emphasis on research examining how competition affects prices and quality of care. Online databases were used to identify studies in English language published between 1988–2020. A total of 44 publications covering nine countries are included in this review. On the relationship between competition and quality, the literature offers conflicting evidence. Some studies find greater competition leading to higher quality, while others find the opposite effect. Institutional features such as the presence of binding supply restrictions on nursing homes and public release of information on quality appear to be important considerations. On the price effect of competition, most studies find that greater competition tends to result in lower prices, although the effect is small. The literature offers several lessons for Australia, including whether increasing subsidies can result in higher quality and the role of public reporting of quality ratings in fostering competition.

JEL classification: I11, I18, L80.

Keywords: Competition; Quality; Prices; Residential aged care; Nursing homes.

