

# Both economic theory and evidence from the UK shows that state-funded healthcare which incorporates market-type incentives will save more lives and reduce more suffering

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*Commentary by Allyson Pollock et al misrepresents the findings of economic analyses of quasi-markets says **Julian Le Grand**. Looking at the evidence (and recognizing the defects of state agencies' administration of healthcare) shows that quasi-markets with fixed prices perform better. Competitive mechanisms in the NHS were also supported by previous Labour reforms.*



In their [recent blog](#) on this website, Allyson Pollock, Alison Macfarlane and Ian Greener are highly critical of the research of my LSE colleagues, Zack Cooper, Alistair McGuire and Stephen Gibbons on the impact of competition in the NHS quasi-market. As Henry Overman has [noted](#), most of these criticisms are either misdirected, or are already answered in the papers themselves, or have been carefully [rebutted](#) already. I was not an author of the papers concerned; but elsewhere in the Pollock and colleagues blog, there are specific references to me that Overman does not deal with, and that do require attention.

Of these the most significant is that I (with Cooper) 'sweep aside decades of careful economic theory and evidence that which shows why markets do not work in health services and distract the reader from the facts that their work is ungrounded and far from empirical'.

The theoretical and empirical literature on market failure in health care is indeed large. However, most of it relates to what we might think of as 'full' markets with private finance and private provision. There is much less on 'quasi'-markets: these are competitive markets, but where the state in some form provides the finance and there is competition between a diversity of providers, private, public, non-profit, etc. Such quasi-markets are common in health care, including many social insurance schemes in continental Europe, Medicare in the United States – and, since 1991, the English NHS.

Now there are theoretical problems with quasi-markets – mostly involving patient information. But there are theoretical problems with state systems as well – mostly involving the absence of market incentives. The question then becomes an empirical one: which performs best – or least worst – in practice. And here, contrary to Pollock et al's assertions, most of the evidence tends to support the quasi-market, especially when prices are fixed. Simon Burgess and Carol Propper from the University of Bristol's Centre for Markets and Public Organisation [surveyed](#) the evidence for the United States and other countries on hospital competition, finding that competition with fixed prices both reduced costs and increased quality. There were other, more specific, findings, including one that the effect of competition was to give more appropriate treatments, with sick patients in less competitive markets receiving less intensive treatment and having worse health outcomes than those in more competitive ones.

Closer to home, these results tie in, not only with the results of Cooper and colleagues, but with those from the comprehensive set of evaluations of the Blair Government's market-oriented health reforms reported in the Kings Fund publication [Understanding New Labour's Reforms to the English NHS](#). They concluded (on p. 131) that 'the market-related changes introduced by New Labour tended to have the effects predicted by proponents and that most of the feared undesirable impacts had not materialised to any extent'.

I was an adviser to that New Labour government and helped develop and implement those reforms. The reforms were not as pervasive as I would have liked and, perhaps in consequence, the gains from the reforms were not as large as I would have liked. But, as the evaluations showed, there were gains and these were positive. Even more significantly, the apocalyptic consequences predicted by the reforms' critics – critics who were almost as hysterical as those currently criticising Andrew Lansley's reforms – were not realised.

So both theory and evidence, both past and present, indicate that a state-funded healthcare system that incorporates market-type incentives will save more lives and reduce more suffering than one that does not. And that is why I support competition within the NHS.

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