



MARKET-TESTING HEALTHCARE

Policy challenges and corporate responses

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With one third of the OECD's GDP projected to be spent on healthcare by 2030, current healthcare reforms in the US and the UK are attempting to "market-test" healthcare demand and supply. In the process, each system has introduced 'managed care' – largely based on fixed price, prospective contracting – and is trying to sort out numerous policy and strategy concerns.

History has shown, however, that there is a pendulum-effect where countries sway back and forth between free-market and centralized planning systems. This may be due to the fact that a health care system is not really a market because there is no input/output balance and because the final consumer has limited or no knowledge.

USA: limited improvements despite increased investment

In his 2006 State of the Union speech, President Bush spoke about the transformation of US Managed Care to what he called "consumer-driven healthcare". Since mid-1995, US health care reforms and market evolutions, from early cost-containment, through the re-introduction of increased patient choice, to the current focus on employee/customer driven healthcare, has done little to improve the situation of the average US healthcare recipient.

As before, about 15% of Americans lack health insurance and that number has stayed constant. Health care spending has grown from 13.8% of GDP in 1995 to 16% in 2004. It is projected to reach 20% by 2015. Competition has become more intense but its focus is on increasing service volume rather than its quality and efficient use. Today health plans and regulators are surprisingly passive; providers are consolidating and drive supply. Will consumers be able to withstand that drive?

Fierce opposition to healthcare reforms in UK Battling chronic capacity problems and below OECD average performance, Tony Blair's attempted transformation of the National Health Service (NHS) has been met with staunch criticism even from within his own party. The use of profit and efficiency incentives to buy capacity, control and improved performance – considered by some to amount to "privatization by stealth" – has certainly helped to substantially cut waiting lists. But otherwise the new system has failed to demonstrate significant productivity improvements.

In the absence of any clear evidence, public debate focusing on NHS deficits and sterile ideological clichés, misses the point. The current loss of cost control results from the “overreaction” of providers to policy incentives and the stimulation of supplier-induced services and fee-for-service contracts. In fact, the UK reforms have unwittingly generated a situation similar to the one encountered by the US just prior to the beginning of its “managed care” journey.

Although, in the final analysis, the US & UK health care reforms have not lived up to expectations, their respective starting points still constitute the reference for other systems to consider.

No third-way option

Given that “third way” options do not seem to make the market test, there is a need to reconsider two fundamental options and make one of them work. Decentralized market coordination, healthcare standards and vigorous enforcement of antitrust principles are linked to the notion of consumer sovereignty. But can we trust patients’ judgment in healthcare matters? Conversely, single-buyer arrangements need to be based on scientific evidence and evolving standards of clinical best practice. But do we trust centralized decision-making to drive efficiency and innovation?

Current inefficiencies will not be sustainable in the future. It is unlikely that financial constraints can be relaxed by increasing healthcare funding or asking private sector actors to deliver more for less. Accepting constraints focuses the mind on how to best ration health care.

Professor Boscheck is the Lundin Family Professor of Economics and Business Policy. His areas of special interest are industry and market analysis, regulation and competition policy. He teaches on several IMD programs including Managing Corporate Resources, Mastering Technology Enterprise, Orchestrating Winning Performance, and the Program for Executive Development.

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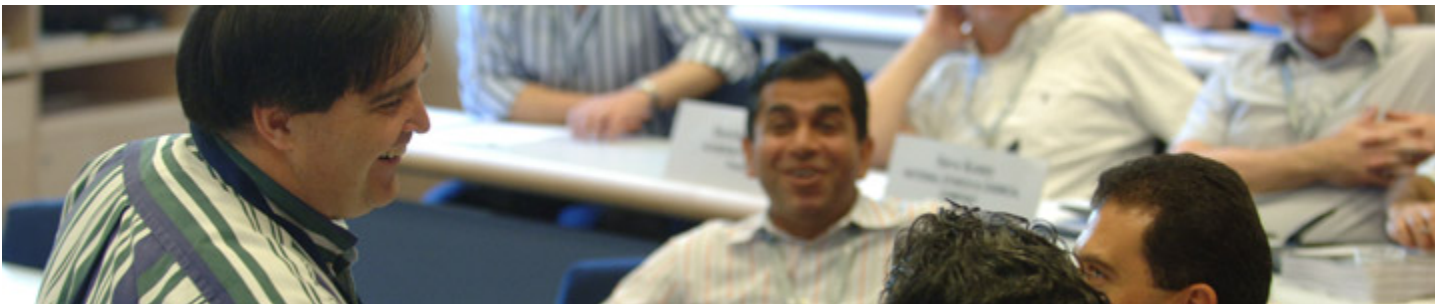


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