

HÄLSO- OCH SJUKVÅRDSTJÄNSTER –
VARFÖR KÖPS DE INTE DIRECT FRÅN DE
FRIA MARKNADERNA

Health and social services – why not purchase
directly from the free market

Kimmo Leppo

MKD, docent (folkhälsovetenskap, UH)

23.10.2009

”FUNDAMENTAL ECONOMIC PRINCIPLES ...
PUT EFFICIENT, COMPETITIVE HEALTH
CARE MARKETS IN THE SAME CLASS AS
POWDERED UNICORN HORN”

*Robert Evans, Professor of Economics,
University of Vancouver, 1997*

REASONS FOR THIS, IF IT IS TRUE (it is):

1. There is no (well-functioning) market in health services. That would require a number of suppliers/providers, which do not exist, for instance among hospitals which "natural monopolies" in their regions. What exists, is small enterprises with a limited supply of services, and some big chains owned by international investors, who offer selected (profitable) items, and practise "cream-skimming" paid to a large extent from public funds.

2. HEALTH CARE IS WELL-KNOWN IF NOT A CLASSIC EXAMPLE OF A "MARKET FAILURE" AREA IN ANY TEXTBOOK OF ECONOMICS – WHY? (aggravated here by the local conditions, therefore adapted slightly below from a standard treatment of the topic)

1. Asymmetry of information (between the patient and the provider(s) in the system)
2. No free entry to the market (must be regulated heavily, everywhere)
3. Not even a potential for a multitude of providers under our conditions (a large, sparsely populated country)
4. Incompetent purchasers under (Nordic and particularly) Finnish circumstances (small municipalities)
5. Difficulties in anticipating the future needs and demands for the entrepreneurs (particularly for the small providers, may change drastically)

2. HEALTH CARE IS WELL-KNOWN IF NOT A CLASSIC EXAMPLE OF A "MARKET FAILURE" AREA IN ANY TEXTBOOK OF ECONOMICS – WHY? (aggravated here by the local conditions, therefore adapted slightly below from a standard treatment of the topic)

6. Poor information about prices and *quality* in many if not most cases)

7. Externalities

8. Many other reasons (conflicts of interest, in double roles; high transaction costs; tendency to fragmentation of services into small pieces that are "markeatable", leading to diminished integration of the system, which is harmful to everybody, patients in particular)

3. THERE ARE EXCEPTIONS TO THESE RULES, BUT THOSE ARE FEW AND FAR BETWEEN

(in areas, where it is a question more of good and commodities and not services – purchasing drugs in bulk by big hospitals with great negotiation power and good expertise; the same applies in buying equipment or capital investment; some services of a very limited scope, like certain specified surgical operations with very good knowledge of price and some indicators of quality; and many similar very small items)

4. PRINCIPLES OF HEALTH CARE FINANCING

- FAIRNESS, SOLIDARITY, EQUITY IN TERMS OF ABILITY TO PAY
- ONLY TWO SOLUTIONS WORK IN PRACTISE THROUGH THESE PRINCIPLES
 - BISMARCKIAN SOCIAL INSURANCE SCHEMES (OBLIGATORY, STATUTORY)
 - BEVERIDGE MODELS (UK, NORDIC COUNTRY VARIANTS)

WHY IS THIS?

BECAUSE ONLY THEY HAVE BIG ENOUGH *RISK POOLS* TO GUARANTEE *RISK-SHARING* ACCORDING TO THE PRINCIPLES SET ABOVE. SHARING THE RISKS BETWEEN RICH AND POOR, HEALTHY AND SICK PERSONS/HOUSEHOLDS, IS THE CRUX OF THE MATTER

SEPARATION OF FUNDING AND PROVISION IN A FOUR-FOLD TABLE

PROVISION

PUBLIC

PRIVATE

PUBLIC Beveridge models

Bismarc models

Current

"fashion"

PPP, PFI

FUNDING

PRIVATE

Non-existent

Wild West (US)

FINAL ADVISE BASED ON KNOWLEDGE, VALUES AND WISDOM

"There is, some might say, no alternative. But of course there is. It is possible to society that taxes itself heavily in order to provide advanced medical care to everyone, and rations that care not by wealth but by other criteria.Such an outcome sounds unthinkable in the current political climate, which is dominated by low-tax, antigovernment ideology. But history is not over; the future may belong to a medical welfare state, a staqte whose slogan might be, 'from each accoring to his ability, to each accortding to his needs'".

Paul Krugman

Nobel Prize Laureate in Economics, 2008

*Excerpt from "A Medical Dilemma", in
the "Accidental theorist - and other
dispatches from the dismal science", 1998*

FINAL ADVISE BASED ON KNOWLEDGE, VALUES AND WISDOM

“Health care services are free-of-charge at the point of delivery. For our everyday bread we have to pay. This is how it is, and it should be. Why? All means of scientific, intellectual, political or ideological arguments are permitted”. After two hours of an intensive debate, the conclusion: “Everyday bread and other ordinary commodities for consumption are predictable, recurrent expenses, and we can choose between optional items and we understand the price and the quality. Needs in health care are very unpredictable, the illness strikes at any time, and the consequences in terms of cost may be totally unbearable for an individual of the household. Therefore the Costs must be shared, and this can take place only through an obligatory insurance scheme or taxation. In order that the ability-to-pay for an individual would not be a barrier to seek care for perceived need, the entrance to the system must be free. Once the person is in the system, what happens, completely determined by the doctors and not the patient”.

Brian Abel-Smith, Professor of Social and Health Policy, London School of Economics”, 1976, in his Seminar on Introduction to Health Economics

FINAL ADVISE BASED ON KNOWLEDGE, VALUES AND WISDOM

"I am sick and tired of these economists who advise me. They always say: one the hand..., but on the other hand... What I need is a one-handed economist"

*Lord Neville Chamberlain,
Former Prime Minister of Great Britain 1937-41*

"It is important to avoid quick solutions that will not work"

*Theodor Marmor,
Professor at the University of Yale,
Political Science and Management Studies, 1994*

WHY DO WE NEED TO STATE THE OBVIOUS?

BECAUSE SO MANY PEOPLE DON'T UNDERSTAND,
OR PEOPLE WHO ARE BOTH IGNORANT AND
ARROGANT ENOUGH TO TALK BULLSHIT
(ECONOMISTS IN WB, IMF AND OTHER IFI IN
PARTICULAR), WHO BASE THEIR POLICY ADVICE AND
LOAN CONDITIONS ON UTTER NON-SENSE

LAST WORD

"PLAUDITE AMICI, COMEDIA FINITA EST"

Ludvig van Beethoven's Last words on his death bed