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in brief...

Competition in the public sector: good for the goose, good for the gander?

If competition is good for the private sector, as the previous article suggests, is it also good for the public sector? Zack Cooper outlines the evidence from CEP research on competition in healthcare – and the implications for the coalition government's NHS reform plans.

Can allowing hospitals to compete prompt them to improve their clinical performance? Do hospitals facing more competition really take steps to become more efficient? These were the central questions that my colleagues and I set out to answer empirically by looking at recent NHS reforms that aimed to expand patient choice and encourage hospital competition.

It is almost universally accepted that in the private sector, competition is a good thing. But in public services such as healthcare and education, introducing competition has always been controversial. Indeed, some of the most raucous political debates in the United States have centred on increasing school choice, and debates over hospital competition in the UK get equally fierce.

In our research, the goal was simple. We wanted to sidestep the rhetoric, ignore the politics and examine whether introducing patient choice and provider competition into the NHS led to positive change. After looking at millions of patient outcomes over a span of eight years, we did indeed find that competition between hospitals prompted the providers to raise their game.

Our first study examined whether hospitals facing more competition lowered their heart attack death rates more quickly than hospitals located in monopoly markets

(Cooper et al, 2010a). We found that after competition was introduced into the NHS in 2006, hospitals facing greater competition decreased mortality rates about a third of a percentage point more quickly than monopoly providers. Considering that average mortality rates at hospitals are about 12%, that's a non-trivial difference – the equivalent of approximately 300 fewer lives lost a year from heart attacks alone.

In a second study, we examined whether competition in the NHS prompted hospitals to become more efficient (Cooper et al, 2010b). We measured patients' length of stay in hospital for an elective hip replacement in terms of two key components: the time from a patient's admission until their surgery; and the time from surgery to discharge. While the latter component is heavily influenced by patients' characteristics, the former is a direct function of a hospital's efficiency. Our analysis showed that hospitals facing greater competition lowered their pre-surgery length of stay relative to monopoly providers, but they were not significantly different on the post-surgery length of stay. We therefore concluded that in the face of greater competition, hospitals improved their efficiency without discharging patients 'sicker and quicker'.

Other CEP research illustrates the possible mechanism through which competition may be prompting hospitals to improve (Bloom et al, 2010). This study found that better managed hospitals in England had better outcomes for patients and were more cost-effective. What's more, greater competition actually prompted hospitals to improve their management performance.

What does all this mean for the future provision of public services? As in the private sector, competition in the public sector can create meaningful incentives for providers and better results for patients. So policy-makers should take steps to encourage hospitals to compete and lift the protections that have historically been afforded to under-performing providers, which, all too often, have allowed them to continue to prosper.

Competition between hospitals has raised efficiency and improved patient outcomes



The government's proposal for GP consortia is likely to reduce competition rather than increase it

But increasing competition does not necessarily mean reducing regulation. Particularly in healthcare markets, where quality is difficult to measure and the asymmetry of information between patients and professionals is pervasive, the government still needs to play an active role ensuring that these markets operate effectively. This means regulating minimum standards, only allowing price competition in certain sectors and working tirelessly to publish and promote measures of provider performance.

How does this evidence fit with the coalition government's proposals for NHS reform? I firmly believe that while giving GPs a larger role in purchasing decisions in the NHS certainly makes sense, the government's proposal for GP consortia is likely to reduce competition rather than increase it.

Strong markets require strong purchasers that have the skills and inclination to promote competition, differentiate between providers and seek the most productive care for their patients, rather than simply the least expensive. Unfortunately, this is a combination of skills that I do not believe GPs in England have at present, and it is one that will take the nascent GP consortia a significant amount of time to develop.

Zack Cooper is a research economist in CEP's productivity and innovation programme.

Further reading

Nick Bloom, Carol Propper, Stephan Seiler and John Van Reenen (2010) 'The Impact of Competition on Management Quality: Evidence from Public Hospitals', CEP Discussion Paper No. 0983 (<http://cep.lse.ac.uk/pubs/download/dp0983.pdf>).

Zack Cooper, Stephen Gibbons, Simon Jones and Alistair McGuire (2010a) 'Does Hospital Competition Save Lives? Evidence from the English NHS Patient Choice Reforms', LSE Health Working Paper No. 16/2020 (<http://www2.lse.ac.uk/LSEHealthAndSocialCare/LSEHealth/pdf/Workingpapers/WP16.pdf>).

Zack Cooper, Stephen Gibbons, Simon Jones and Alistair McGuire (2010b) 'Does Hospital Competition Improve Efficiency? An Analysis of the Recent Market-Based Reforms to the English NHS', CEP Discussion Paper No. 0988 (<http://cep.lse.ac.uk/pubs/download/dp0988.pdf>).