Quasi-market and Reforms of Health Care System:
”Trust, Mistrust, Voice and Choice: Models for Health Care Reform.”

Julian Le Grand
London School of Economics

Tokyo, Japan
IPSS Seminar, August 2008
Presentation Structure

- Question: what is the best way to deliver health care in a publicly funded system?
- Models of health care delivery: their advantages and disadvantages.
- The politics of health care reform: a ‘case study’ of the UK.
Ways to run a (publicly funded) health care system

Four models:

- Trust.
- Voice.
- Choice and Competition. Quasi-markets.
Types of trust-based system:

- Government sets budget. Professionals (doctors, nurses, managers) determine how budget is spent.
- Fee-for-service system without payer controls

Advantages:

- No monitoring costs
- Professionals like it. High morale.
But:

• Makes crucial assumption about the motivation of professionals (doctors, nurses, hospital managers. Assumes they are motivated by altruists. They are public-spirited professionals and are not self-interested.
Problems of relying upon altruistic motivations

• Altruists have weak incentives for efficiency (maximising benefit from given resources). ‘Doing some good’ sufficient motivation.

• Perception of wider needs limited. When faced with individual distress, altruists find it difficult to recognise limits to others’ resources.

• Altruists prefer passive patients

• What if motivations are in fact (partly or wholly) self-interested? Incentives not aligned. Leads either to under-provided and unresponsive services (government) or over-provided and wasteful services (fee-for-service).
TARGETS AND PERFORMANCE MANAGEMENT

• Set targets and monitor performance
• Provide rewards to staff for achieving the target and penalties for failing to achieve the target. Promotion /demotion/losing job

Advantage: can work, at least in short-term.
% patients waiting for hospital admission > 12 months

% patients waiting for hospital admission > 12 months


Copy-right J Le Grand LSE (IPSS Seminar)
% patients waiting for hospital admission > 12 months

% Patients spending less than 4 hours in major A+E Departments

Source: Chief Executive's Report on the NHS - Statistical Supplement (December 2005)

+ 24% increase in A+E admittances

Source: Chief Executive's Report on the NHS - Statistical Supplement (December 2005)

Copy-right J Le Grand LSE (IPSS Seminar)
Problems with targets

• Distortion: hospitals concentrate on the target but ignore other important (non-targeted) areas. But is this true?
• Demotivation and demoralisation - especially for professionals
• Stifles initiative and innovation.
VOICE

Mechanisms:
• Informal face to face talks with professionals and managers
• Board membership
• Consultative fora
• Complaints procedures
• Petitions
• Elected representatives
Voice: Advantages/Disadvantages

Advantages:
• Rich range of information about users find good and bad about service. Bottom-up
• Personal interaction

Disadvantages:
• Sometimes difficult to mobilise
• Lack of incentives without adding in other models
• Inequity
Inequity Problem with Voice

Favours better off:

• Through their greater confidence and ability to manipulate system.

• Choice of residence
Inequity and the British National Health Service

• Unemployed, and individuals with low income and poor educational qualifications use health services less relative to need than the employed, the rich and the better educated

• Intervention rates of coronary artery bypass grafts or angiography following heart attack were 30% lower in lowest group than the highest.

• Hip replacements 20% lower among lower income groups despite 30% higher need.

• A one point move down a seven point deprivation scale resulted in GPs spending 3.4% less time per consultation
Types of Choice

• Choice of Insurer (who pays?)
• Choice of Provider (where?)
  – Hospital, Primary care facilities
• Choice of Treatment (what?)
  – Treatment, procedures
• Choice of Time (when?)
  – Appointment time, opening hours
• Choice of Access Channel (how?)
  – Face to face, phone, web
Choice of Provider

• Providers are independent. Non-profit or for-profit. Keep any surplus they make on their budget

• Users choose provider. Money follows the choice. So hospitals get more resources through the number of patients they attract.
Choice and competition: advantages

• Provides strong incentives for responsiveness and efficiency. Evidence (chiefly from US) suggests that fixed price systems lower costs and increase quality.

• Promotes equity through diminishing the power of voice. But depends on payment system

• Can appeal to both the altruist and the self-interested.
But:

- Alternatives must exist, so that competition is possible.
- Users must be properly informed, or have an informed agent. Problems for less well off
- Transactions costs low
- Payer control on referrals and utilisation. Need monopoly insurer; no choice of insurer.
Ways of dealing with cream-skimming

• Stop-loss insurance

• No discretion over admissions

• Incentives. Larger amounts of money associated with high risk patients. Risk-adjusted funding formulae. But complex.
Overall

• All health care systems use some combination of all four models: trust, mistrust, voice and choice
• Reforms usually involve shifting the balance between the four models.
• Some countries shifting balance to more choice and competition between providers (UK), some between insurers (Netherlands) some to less choice and competition (Germany, US?).
The politics of reform: a case study of introducing choice and competition in the UK

• People don’t want choice; they want a good local service

• The better off will make good choices; the poor will be left with the ‘sink’ hospitals

• Choice and competition in public services – especially from the private sector- will undermine the public service ethos. More generally, choice threatens the public realm
Political Interests

• Social Democrats/Socialists
• Conservatives/Neo-liberals
• Providers (Medical professionals, ancillary workers)
• Users
Model Preferences: Social Democrats

• Default: trust.
  – Many social democrats are professionals
  – Professionals are knights

• Back-up (1): voice
  – Collectivist tradition. Belief in effectiveness (and knightliness) of political processes.
  – Distrust of market, especially generation of inequalities
  – Dislike of commercialisation
Model Preferences: Social Democrats

• Default: trust.
  – Many social democrats are professionals
  – Professionals are knights

• Back-up (1): voice
  – Collectivist tradition. Belief in effectiveness (and knightliness) of political processes.
  – Distrust of market, especially generation of inequalities
  – Dislike of commercialisation

• Back-up (2): command and control.
  – Belief in planning and in effectiveness and benevolence of government.
Who wants choice: Gender

Who wants choice: Social Class

Managerial and professional: 59%
Intermediate occupations: 64%
Self-employed: 64%
Lower supervisory & technical: 62%
Semi-routine and routine: 67%


% saying people should have a great deal or quite a lot of say over which hospital to go to if they need treatment.
Who wants choice: Income


Copy-right J Le Grand LSE (IPSS Seminar)
Who wants choice: Educational Achievement

Highest educational qualification

- None: 69%
- GCSE/O Level: 67%
- A Level: 59%
- Higher education: 56%

% saying people should have a great deal or quite a lot of say over which hospital to go to if they need treatment.

Minorities and Choice in the US

- 52 per cent of parents, and 59 per cent of public school parents, supported school choice.

- 60 per cent of minorities supported vouchers.

- 87 per cent of black parents aged 26-35 and 66.4 per cent of blacks aged 18-25 supported vouchers.
Parental Choice in New Zealand

• 96% of parents indicated they would like to select the school their child goes to.
• 80% of parents agreed that education should be funded such that parents can afford to send their children to the school of their choice.
• A higher proportion of parents with annual income of $30,000 or less strongly agreed with the statement than parents with an annual income of over $30,000.
• Source: Steven Thomas and Ruth Oates *The Parent Factor Report Four: Access to Education*. Auckland: the Maxim Institute, 2005
Social democratic challenges

• People don’t want choice; they want a good local service.

Response. False dichotomy: they do want a good local service: and choice is the way to get it.

• Inequity. The better off will make good choices; the poor will be left with the ‘sink’ hospitals
London Choice Pilot: % opting for an alternative hospital

Source: Evaluation of the London Patient Choice Scheme, Picker Institute (July 2005)

Copy-right J Le Grand LSE (IPSS Seminar)
Social democratic challenges

- People don’t want choice; they want a good local service

- Inequity. The better off will make good choices; the poor will be left with poor facilities.
  
  Response. Choice gives power to poor and lessens power of middle class voice

- Choice and competition in public services – especially from the private sector- will undermine the public service ethos. More generally, choice threatens the public realm
Which words do you think apply to public services in Britain these days?

- Bureaucratic: 46%
- Infuriating: 34%
- Faceless: 32%
- Hardworking: 27%
- Unresponsive: 25%
- Unaccountable: 24%
- Friendly: 21%
- Efficient: 15%
- Honest: 11%
- Open: 7%

Source: MORI (2005) survey of 2000 GB aged 18+
Who is best at...

- **Running services cost effectively**: 55% (private company), 39% (government)
- **Providing a good quality service**: 51% (private company), 41% (government)
- **Making sure that services go to people who need them most**: 21% (private company), 73% (government)

**Source**: Public Responses to NHS Reform, John Appleby + Arturo Alvarez, British Social Attitudes Survey 22nd Report (2005)
The NHS will now pay for patients to have their operations in private hospitals - how do you feel about this?

- Happy: 71%
- No preference: 16%
- Unhappy: 11%
- Don't know: 2%

Source: MORI survey (April 2005) of 1,201 Birmingham and the Black Country residents 16+
Social democratic challenges

• People don’t want choice; they want a good local service

• Inequity. The better off will make good choices; the poor will be left with poor facilities.

• Choice and competition in public services – especially from the private sector- will undermine the public service ethos. More generally, choice threatens the public realm.

Response: The public do not mind about the public realm. They want a good service.