

**Breaking the NHS monopoly:  
Introducing free-market competition  
alongside national provision of  
healthcare**

The Richard Koch Breakthrough Prize

Entry number 10940

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## Executive summary

The NHS is a state-sponsored monopoly that is both inefficient and poorly managed. This essay describes some of the various problems encountered by the NHS that is a directly a result of its nature as a monopoly and its management by the government. It is then followed with a set of operational and economic proposals that seeks to redress these issues, by breaking the monopoly and introducing competition into the system. It describes the benefits of putting such proposals into action: 1) reducing wasted time, 2) improving working conditions, 3) increasing supply of health services. The conclusion finishes up with an example of just such an economic system working well and sustainably.

(112 words)

## Part 1: Introducing the monopoly

The National Health Service (NHS) is amazing. It is wonderful. It is full of hard-working and knowledgeable staff, all the way from the trainee nurses to senior consultants. It has some of the most advanced medical equipment in the world. And it manages to provide all this for free.

Like all things, if it sounds too good to be true, it likely means it is not true. Like any service, the NHS cannot provide services for free. Someone has to pay for it. However, the NHS is founded on the principle that it has to be free at the point of delivery.<sup>1</sup> Thus the NHS is operated at the taxpayer's expense. In 2016, this cost of the NHS to the taxpayer is in the region of £140 billion, or just under 20% of the annual budget.<sup>2</sup>

As such a significant cost to the Treasury, any issues of cost will directly affect the public purse. Improvements in savings will allow the Treasury to either reduce the burden on the taxpayer or reallocate public funds to other public services, or a mixture of both.

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<sup>1</sup> <http://www.nhs.uk/NHSEngland/thenhs/about/Pages/nhscoreprinciples.aspx>  
(accessed 08-01-2017)

<sup>2</sup> <https://www.gov.uk/government/publications/budget-2016-documents/budget-2016>  
(accessed 08-01-2017)

## Part 2: Describing the problems of the NHS

### 2a: The operational weaknesses of a monopoly

The NHS is the UK's largest employer. It represents a monopoly of the UK health industry. Any economist will tell you that monopolies are bad, for both the consumer and for the industry. Non-competition reduces the motivation for efficiency and innovation. This alone has numerous and unquantifiable effects on the system. In a competitive market, incompetent management will not survive because of the inability to compete. It also means doctors are unable to compete for better salaries and working conditions. Consumers (patients) are also greatly limited in their ability to choose a better service provider. Costs will not go down in line with technological and operational developments, because the lack of competition removes the primary motivation for efficiency improvements. And because the NHS is publicly funded, the service is essentially managed by the government - accountable to neither the consumer nor the employee, nor even the taxpayer.

#### Multiplying incompetence

In a monopoly, the impact of incompetent management and systematic failings are multiplied many times over because they often get replicated throughout the service - a problem which can be enormously costly and damaging, due to the nationwide scale of operations. When the government recently decided to change the terms of employment for junior doctors, literally thousands of doctors, and even more patients were affected. This problem arose because there was no competition in the employment of health professionals. In a free market of independent health providers, medical staff need not go on strike if the conditions of employment were unfavourable - they could instead simply choose to work for an employer who provided better terms of employment. Not only would doctors find better pay and working conditions; patients would also be able to choose to go to a hospital who are better staffed.

## Political abuse

As a government arm, the NHS is closely tied to politics, making it very vulnerable to being abused for political gains. At every general election, the issue of the NHS usually becomes a massive political football, a problem greatly exacerbated by tribal politics, the cost of which is often borne by those who actually need the health service the most. Limited funding by the Treasury has meant that not only are medical staff often underpaid, they are also put under increasing pressure to deliver services with fewer staff. This leads to highly stressful employment conditions which often drive staff out of the industry or out of the country altogether, as they pursue better working conditions.

## Operational momentum

This is not meant as an attack on the Conservative government; many problems also arose under the Labour government. For example, when the NHS IT infrastructure was overhauled under the Labour government, costs spiralled out of control as the contractors were unable to implement the solution on time, nor even deliver the promised benefits of its functional aspects. Even as costs and problems continue to rise, the NHS is unable to extricate itself from this system without the further enormous cost of finding a replacement solution. The government was already committed to the project contractually and operationally. In a free market of independent health providers, the scale of any IT overhaul would be limited to the arena of operation/ownership. More importantly, the risks of such an overhaul would be borne by private investors. If the risk pays off, the hospitals who benefit from the improved infrastructure would become more efficient, improving the competitiveness and profitability of the health provider. If the risk fails to pay, or if costs spiral out of control, the damage is limited to only the hospitals involved. It will not become a problem that affects the entire country's provision of health services.

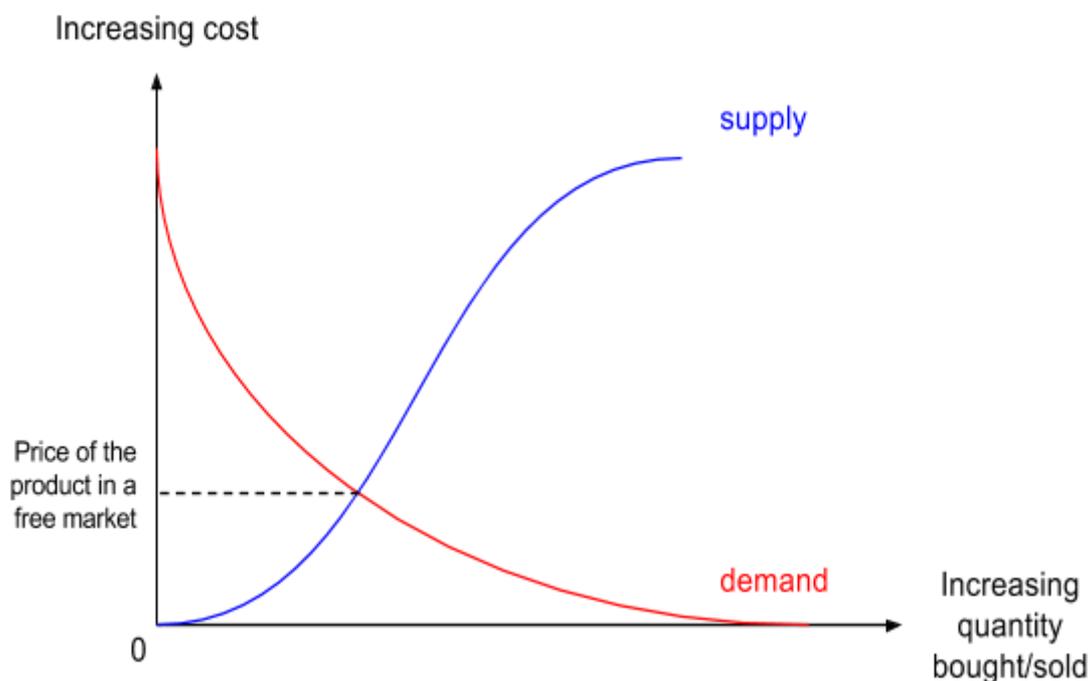
A single point of weakness.

A monopoly also represents a single point of weakness, which facilitates abuse of the industry. Consider the hypothetical example of a medical equipment manufacturer who is in competition with other players in the industry. It is not inconceivable that this manufacturer might leverage connections to win certain contracts. In the NHS monopoly, this event only needs to happen once for this medical equipment manufacturer gain a nationwide monopoly, potentially squeezing all other domestic competitors out of business. This is not to say that this has happened for definite, but we do not actually know if it has not happened. However, this certainly presents a significant weakness in the system. In a free market system where there are many players in the provision of the nation's health sector, a single event of market abuse will be limited to a single health provider. If such an instance market abuse renders this provider uncompetitive, it will be outcompeted on the marketplace, placing a huge incentive on health providers to be actively preventing such an occurrence.

## 2b: The economic problems of the NHS

Proponents of the existing NHS system of operation often argue that it is economically the most cost-effective system due to economies of scale. Granted, the economies of scale is indeed a benefit, but effect of this advantage has to be weighed against the costs incurred, due to the problems described previously. In addition, the set up specific to the NHS gives rise to further economic problems

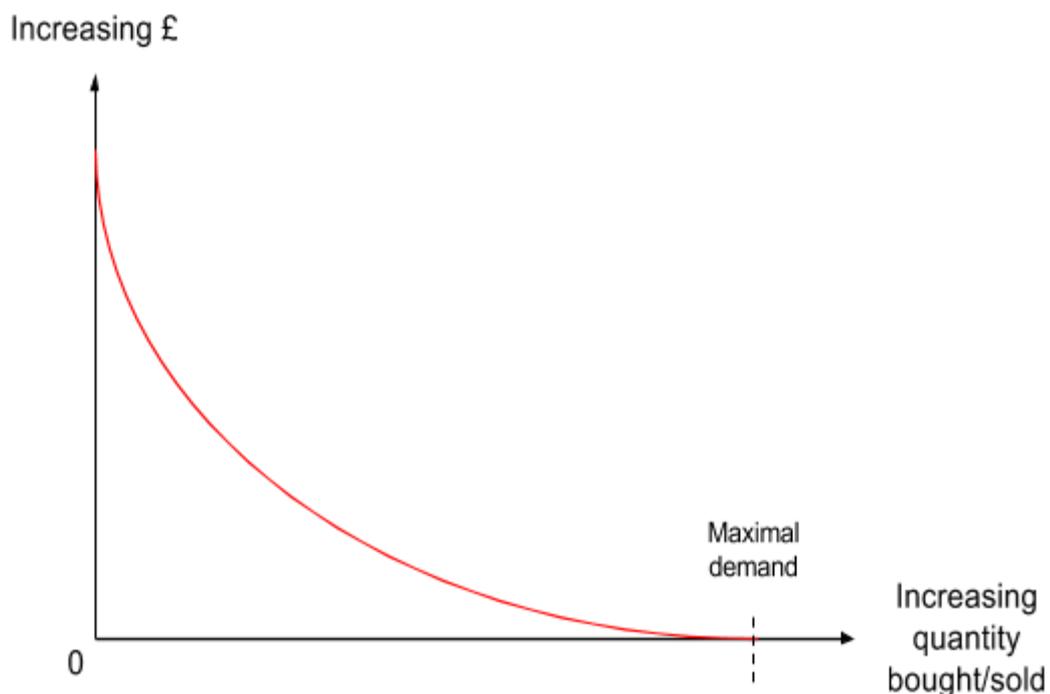
First consider the law of supply and demand. It is one of the first concepts taught in economics, being the foundation of most economic principles: The more expensive something sells for, the more producers want to sell it. Conversely, the less available something becomes, the more buyers have to pay to obtain it. But inversely, the more expensive a product sells for, the less people want it. This can be described as such: As price goes up, demand goes down; as supply goes up, price goes down. In a free market, price is determined by the interaction of supply and demand, so that the price of a product is the point where supply meets demand.



The natural interaction of supply and demand in a free market

The first problem: zero cost = maximal demand

NHS services are free at the point of delivery. There is an interesting phenomenon known as the Zero Price Effect, where demand for a particular product or service presented at zero cost is significantly greater than when priced even slightly above zero.<sup>3</sup> This can be described behaviorally as people taking something for granted. The practical outworking is this: People don't take care of their health, partake in dangerous activities, and get drunk frequently, and expect the NHS to cover them for any related health issues. And there are even reports of people going to their GPs for all manner of unnecessary issues.<sup>4</sup> This means demand for NHS services will be as high as conceivable.



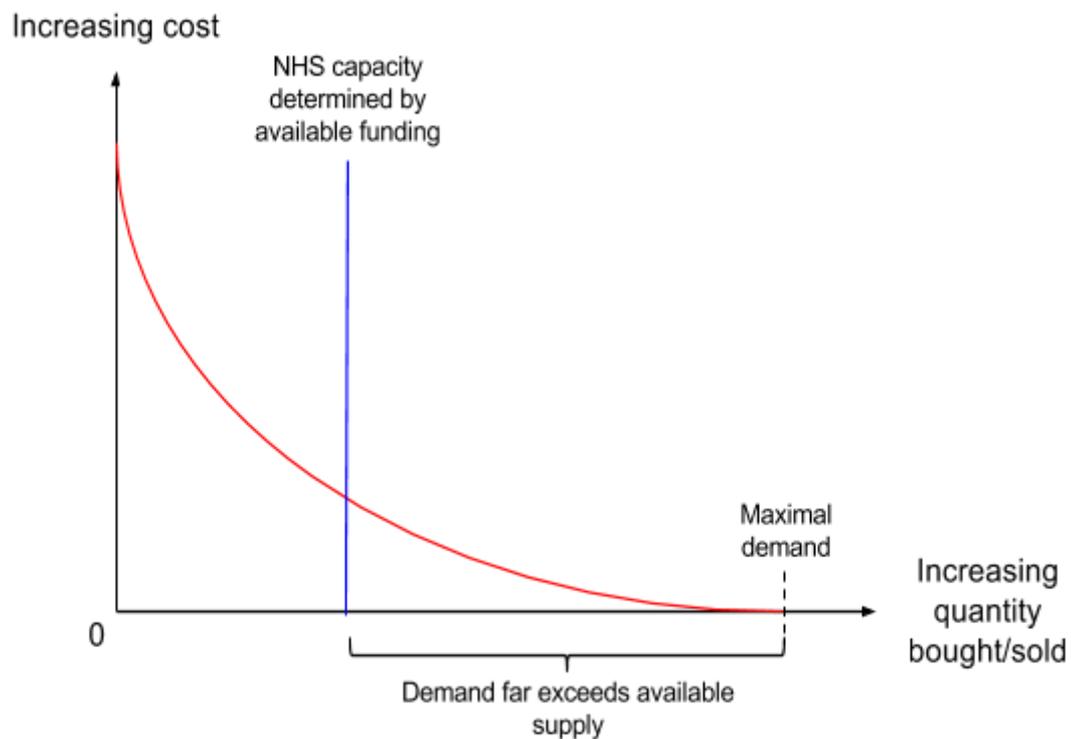
The level of demand when price is at zero

<sup>3</sup>[https://market.subwiki.org/wiki/Zero\\_price\\_effect](https://market.subwiki.org/wiki/Zero_price_effect) (accessed 08-01-2017)

<sup>4</sup><https://www.theguardian.com/healthcare-network/views-from-the-nhs-frontline/2015/jul/13/wasting-gps-time-no-i-cant-prescribe-you-new-shoes> (accessed 08-01-2017)

## The second problem: limited supply

However, we have because the UK Treasury is not a bottomless pot of gold, the NHS is limited in terms of supply. In fact, the supply of services provided by the NHS is completely inflexible to the market, because funding for NHS is determined by politics and not market forces. But demand doesn't care about supply, it just cares about the price it has to pay, which in the case of the NHS, is zero. So we have extremely high demand and limited supply. In the meantime, the supply of NHS health services is strained far beyond intended capacity.



### The strain on the NHS: the disparity between supply and demand

In a free market, this would normally mean suppliers would take advantage of this market condition to crank up capacity to meet demand and reap the profits from it. But the NHS is a non-profit monopoly on a public service. It has a stranglehold on health services in the UK, meaning the free market is not able to step in and increase supply capacity. If the NHS was a private for-profit business it would be able to reap huge profits from this monopoly. But thankfully, it is not for profit, it is publicly owned.

## Part 3: Breaking open the monopoly

### Decreasing demand

As described previously, the policy of being “free at the point of use” means that demand for NHS services is excessively high due to the Zero Price Effect. A simple way of decreasing this demand substantially is to introduce a very small nominal charge. The price I propose to charge for all NHS access is the grand sum of: £1.

There is no need to charge an amount that is high enough to cover the cost of providing the service; for that defeats the point of having a NHS. Nor is there a need to fine people for failing to turn up for appointments. This charge is not intended to cover the actual cost of the service; indeed, it is designed to only deter repeated abuse of the service. The simple act of having to wait and pay for services will deter time-wasters, whether they are either short of cash or short of time.

### Breaking the monopoly of private GP practices

The way funding for GP practices are set up makes it ripe for abuse. Funding for a GP practice is allocated according to how many “patients” are registered to that practice. This funding is provided regardless of whether or not the “patients” actually make use of that practice for its services. It is incredibly difficult to take a patient off your register because it is not easy to determine whether someone who has not used your GP services for many years is just someone in good health, or someone who has simply moved to a different country, or even someone who passed away unknowingly. Furthermore, it is against the GP’s interests to deregister a patient who no longer turns up, because this patient provides a zero-cost source of income to the practice.

To discourage this abuse of the system, the solution is to provide funding based on the actual services provided, such as number of people who received an appointment and subsequent treatment each year. Given that the NHS IT infrastructure keeps a record of every appointment, this method of funding would not be difficult to implement and audit.

## Increasing supply through fostering competition

Instead of retaining the NHS stranglehold on health provision, the government and the NHS really ought to be encouraging competition from the private sector. This could be achieved by allowing private healthcare providers to access NHS infrastructure such as its records or IT system for a licence fee. If the NHS took advantage of its size to obtain supplies and equipment at a good price and subsequently sold the excess on to private UK health providers, the entire health sector might even benefit from the NHS' economy of scale.

If the supply of NHS services is no longer free at the point of use, the private sector would more be more able to compete against the NHS. It might not be able to compete on cost alone, but it would be able to compete in terms of quality of service. For example, if an appointment with an NHS GP costs £1 but has a waiting time of one week, an unwell patient might be willing to pay £10 to see a GP straight away.

Furthermore, there appears to be a culture of "NHS is best" in the country, and politicians and doctors certainly try their best to maintain this mindset. A possible way to overcome this cultural allegiance to the NHS is for private health providers and the NHS to publicly and visibly partner up, for example providing an "NHS-approved" label of confidence on private hospitals who meet NHS requirements.

## Liberating junior medical staff

Another mechanism by which the NHS retains its monopoly over the United Kingdom's health sector is in the sourcing of staff. All medical staff in the UK have to

go through the NHS system in order to gain their qualifications. There is currently no competition against this system. To address this, the government should allow private sector hospitals to employ junior medical staff on a training capacity, providing that these private hospitals undergo a training regiment that meets or even exceeds NHS requirements. Content of training and qualification requirements should be decided by an independent body comprised of medical professionals.

If private hospitals are able to provide the equivalent training, junior doctors unhappy with their current conditions of employment would then have the choice to seek employment elsewhere that also provides them with the training for career progression.

In addition to this, there can be further liberalising policies to empower junior medical staff even within NHS hospitals - by allowing hospitals to determine staff pay and employment conditions instead of having it centrally determined by government. This would allow individual hospitals to act in competition against one another to attract the best staff for their hospital, and to provide pay that more accurately reflects the cost of living in their particular area, rather than the strict salary guidelines that take into little account the cost of living or the available level of staffing in that particular area. In short, hospital management will start behaving as if they were competing in a free market.

Allowing hospitals to determine the employment conditions also minimises the effect of employment disputes, particularly the involvement of union action. A trade union who chooses to go on strike will only need to affect one hospital, allowing other hospitals to provide the service. This would overcome the widespread political conflict that currently affects the entire nation.<sup>5</sup>

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<sup>5</sup> <http://www.bbc.co.uk/news/health-37229680> (accessed 08-01-2017)

## Conclusion

If the NHS monopoly can be opened up to compare fairly against the free market, not only would the availability of health services increase; even the cost of these services would decrease. Such a result would primarily be most beneficial to the ones who make use of the NHS the most: those who cannot afford private healthcare. It would also be advantageous to the general tax-paying public as their funds are more effectively utilised to give taxpayers better value for their money.

As the saying goes, the proof of the pudding is in the eating of it: In Malaysia, waiting times for public GP services are a matter of hours rather than days as we have in the UK. If you decide to pay for a private GP, it is actually in the order of minutes - waiting over an hour is unheard of. For more serious treatments such as surgical operations or x-rays, the wait time is only a matter of days. In comparison, patients in the UK suffer wait times of many months.

Provision of public healthcare in Malaysia is not free either. Unlike the NHS, it is not "free at the point of use". Patients who require treatment pay a nominal sum of 1 Ringgit for every consultation and treatment, regardless of the nature of the treatment. That is Malaysia's equivalent of £1 (actual monetary value: 20p). It is far from sufficient to cover the cost of the treatment, but it is a sufficient amount to deter time-wasters, yet priced at a level that even the poorest can afford this treatment.

This is because alongside publicly funded provision of health services, there is also the thriving market of private health providers. Because private health providers are operated on a for-profit basis, there is competition in the marketplace to provide the best health service at the most competitive rates to the customer. The costs are correspondingly higher of course, but this at least represents a choice for the patient-consumer. If they wish to skip the queues at a public health centre, and choose to pay for optional extras, the option is there. And in fact, a great many people do indeed decide to pay for faster and better service. Because of this, the

burden on the public health service is greatly alleviated in terms of operational costs and volume of service. Those who are willing and able to pay for their own treatments can choose to do so. Consequently, public funds end up being directed at those in need of it the most - those who are unable to afford private healthcare. And in a free market, supply rises to meet demand, ensuring the sustainable growth of capacity. As the economy improves, and more people are able to pay for their own private healthcare, the health industry improves, and overall national healthcare improves.

There are many things not right in Malaysia and even more things that the populace like to complain about, but the healthcare system is not one of them.

Final word count: 2940