3. Competition in the hospital sector

I'm Carol Propper, a professor of economics at Imperial College London and I specialize in health care economics. Competition in health care generally means competition between suppliers of health care. Those suppliers might be doctors, family doctors, or generally hospitals or any other kind of suppliers of health care you can think about. Competition between those groups means competition just as it does in the rest of the economy – that those suppliers compete for the business of patients. So they are interested in changing either their quality or their price in order to attract more patients to them. Competition in health care can arise because hospitals are located in markets in which they compete with other hospitals and that's the way the health system is organized. An example of that would be the American system in which hospitals are competing with the private sector or non-profits that operate in markets and compete for patients. An important thing about hospital competition is – because people need to travel to get to their hospitals and to get their care – that part of hospital competition is known as geographical competition, so hospitals compete in geographical markets. For example, most people do not travel to another country to get their care – they get their care close to home. That means that unlike, for example, electronics, or products that are sold over the internet, hospital competition takes place in a given geographical area. In some settings hospitals are actually controlled by the State, so they are publicly financed and often they are also organized by the State, so there's a certain number of providers per population. In those systems competition historically has not been important: you simply go to your local hospital. However, in the search for greater productivity in health care many governments have experimented with increasing competition and promoting competition between hospitals. So in those settings competition tends to occur when there has been some kind of policy change that is accompanied by changes in incentives, making it desirable for hospitals to compete for patients. In that kind of setting you tend to see governments promoting competition by changing the way that hospitals are reimbursed. For example, they often move to a reimbursement mechanism which is essentially one in which money follows the patients rather than hospitals being given guaranteed budgets. In a system where hospitals are given guaranteed budgets there's not much incentive for hospitals to compete. On the other hand if money follows the patient then there is some incentive for hospitals to try to compete to attract patients. Competition in health care has been around in systems like the US for a long time. And in fact, it is not always clear that introducing competition in health care is a good thing. Politicians tend to like it as a reform model because it has a very simple appeal. Economies which have more competition tend to have higher productivity. Companies which operate in more competitive environments tend to be more innovative and more dynamic. So there is a political appeal to having more competition introduced in health care systems in which productivity tends to be pretty slow in growing. On the other hand a lot of the work on competition in health care shows that it does not necessarily mean – that if you introduce competition – you will have better outcomes for patients or indeed better outcomes at a system level. What is clear is that, if you want to introduce competition, you often need certain preconditions. First of all, you need hospitals or suppliers to gain by competing. You cannot, for example, simply pay them budgets up front for delivering care because there is no gain in attracting patients if they are paid all their money ex ante.

Secondly you need some kind of measure of the output of hospitals because otherwise the danger is that hospitals will compete not by raising quality which is what you want them to do but compete by lowering quality. Perhaps not deliberately, but inadvertently, in trying to gain more patients, they will shave quality at the margins. In order for competition to work in health care you need the regulator on behalf of patients or the patients themselves to be able to tell a good-quality hospital from a bad-quality hospital. That's pretty easy if you think about something like restaurant meals. It's pretty easy to tell whether a meal was good or bad, given your tastes. Obviously some people like some foods and some people do not like those kinds of food. But someone who likes a certain food can tell whether the food is better at restaurant A than restaurant B. It is much harder in hospital care to tell whether the quality of care is good partly because there are so many dimensions to care. There are things like nursing care or how the reception dealt with you or how clean the ward is. All of those things, patients can observe relatively easily. But they may not be able to observe whether medical mistakes were made in their case. Or for people who die, it's not always clear whether that death was inevitable or not. So in hospitals it is much more difficult to establish what the true quality of care is or the true qualities of care are, because there are many dimensions. In order to get competition to work if you want quality to rise, you have to put in some kind of system of monitoring and measuring that quality of care and making the quality of care publicly available so that people can choose between hospitals, or providers. A nice example of that is in the US where they try to promote competition between nursing homes. They have a federally mandated website called Nursing Home Compare where all nursing homes have to put up their quality standards according to probably about 70 key criteria that they have to meet. That is federally controlled and every nursing care home has to report in exactly the same way. Those data are easy to consult and easy to access for the general population by the use of things like star ratings and headline figures so that people can figure out which home is better for their aged relative than another one. The empirical studies on competition in health care are a bit mixed. Very early studies suggested that competition in health care led to increases in quality. Later studies showed more mixed evidence on the impact of competition on quality and the reason why is that the studies were conducted in different settings and those settings varied in several important dimensions, one of which was whether prices were set outside of hospitals or prices were set by the hospitals. If prices are set by the hospitals the impact of competition on quality of care can be very mixed. It might rise or it might fall it depends really how important competition is, in terms of price, to the buyers and sellers. If most of the negotiation is in terms of price if that is the most salient thing for both the buyers and the sellers then, competition will often drive down quality. On the other hand if prices are regulated as in a DRG-type system that's used in many countries then generally competition tends to increase measured quality because that's what hospitals are being compared in terms of. On the other hand the impact on unmeasured quality may be that the unmeasured quality falls. The implications of introducing competition can be quite subtle. We also do not really know very much about how companies actually do respond to competition. Do they do this by, for example cutting out unproductive services? Or do they do this by business stealing – by stealing business from other competitors? Cutting out inefficient production is a good thing.

On the other hand, business stealing can bring very little gain to a system it may simply be that you take business from one party and give it another. So we do not know very much about the mechanisms of how companies in this space respond to competition. That is what we need to be doing as we take the research forward. So I think the issue is that most of the work that has been done before or done to date shows that competition can bring beneficial effects. On the other hand there has been much less work asking whether this holds at a system level. This is done theoretically because in economics we have a nice framework called “social welfare” and you can work out in a theoretical model whether the impact of a change – like the increase in competition – brings about a gain or a loss in social welfare. Empirical studies, on the other hand tend to be one step behind this and simply look at the impact of introducing competition or in some cases reducing competition with things like mergers. They look at that impact on one or two outcomes rather than making an evaluation of the impact at the societal level. I think the next step for research studies is to move towards making an assessment of the total impact of introducing a change like competition in your hospital markets.