

'But who is going to pay for all of this?'

All of us, if it doesn't happen: the financial truth about the 'market myth' in a nutshell.

A common question we get asked about the NHS Bill, is 'How are you going to pay for all of this?'. The answer is simple, but there's complexity behind it: all of us will end up paying more, and a lot of us will end up staying sick for longer, if the changes we propose don't happen. Here, in a nutshell, is why.

First, the level of funding is a political decision, as is how to run, organise and fund health services. But the Bill would save much more money than it would cost because it would

replace a very expensive market bureaucracy with a much cheaper public bureaucracy. Putting specific figures on these components is not straightforward but the evidence is compelling.

The evidence is there

- All the evidence from across the World shows that **funding from taxation is the fairest and most progressive way**. The World Bank and the World Health Organisation agree that introducing health insurance and user charges increases the overall costs of health care as a percentage of GDP and punishes the poor, the old, and the sick.
- US health care costs 17.2% GDP compared with 9.2% UK. User charges are punitive and they act as barriers to care. So people present late, too late or not at all. This system costs lives. 1 in 5 Americans have trouble paying their health care bills and the bills are the cause of two thirds of personal bankruptcies.
- Initial estimates of the costs of Lansley's Act were around £1.4-£1.7 billion, whilst Paton (2014, para 20)¹ says it's likely to be at least £3 billion – the same cost he cites for Labour's 2001 reforms.
- As for the costs of a market bureaucracy v. public administration, again care needs to be taken with specific figures but it is clear that there's a big difference, and it seems there is more certainty about the costs of public administration – 5% before the 1980s – whilst "no government wished or dared"¹ to work out the costs of the market.
- But all the evidence shows that public provision and government control is the most efficient way of containing costs and delivering services. Transaction costs in market systems such as the US are in excess of 30% compared with 6% in the NHS pre 1990. In the US, in health care the IoM has estimated that in 2012, 750 billion dollars was wasted on the market and overtreatment, and denial of care and transaction costs – around 6% of their GDP.
- Before the introduction of the internal market the NHS contained costs at around 3-5% GDP (ie from 1948 to 1990). Thatcher introduced the internal market and Blair accelerated the switch to the external market and injected large sums of money to enable this to happen.
- **Markets are expensive**. Markets and the use of multiple providers fragment care, result in denial of care and are very inefficient.
- For example, this what the Commons Select Committee said in 2010²: "Whatever the benefits of the purchaser/provider split, it has led to an increase in transaction costs, notably management and administration costs. Research commissioned by the DH but not published by it estimated these to be as high as 14% of total NHS costs. We are dismayed that the Department has not provided us with clear and consistent data on transaction costs; the suspicion must remain that the DH does not want the full story to be revealed. We were appalled that four of the most senior civil servants in the Department of Health were unable to give us accurate figures for staffing levels and costs dedicated to commissioning and billing in PCTs and provider NHS trusts."

¹ Campaign for the NHS (Reinstatement) Bill 2015: Fact Sheet

- Paton¹ estimates at least £5 billion extra as the cost of the market annually.
- A report from the Centre for Health and the Public Interest in March 2015³ said: “Expenditure by CCGs on contracts with the private sector amounted to £9.3bn in 2013-14, 16% of their £65bn budget.”

‘The market’ is not the answer

Reinstating the NHS and abolishing the market will restore fairness of funding, increase efficiency and take out market transaction costs, not to mention profits and costs of employing lawyers, management consultants and firms of accountants. It will save money which can be reinvested.

The government does not provide data on transaction costs of profits made by companies but every contract tendered currently will cost more than £0.5 million to tender alone.

On this basis from UK and US experience of transaction costs in the market we are very likely talking about saving anything from £9 to £25 billion in market costs alone each year, not to mention costs to patients.

The market, when it comes to healthcare, is not the fairest or cheapest way.

The overall thrust is clear – **the market costs more, so the Bill would save billions.**

References

- ¹ Paton, C. (2014) ‘At What Cost? Paying the Price for the Market in the English NHS’. Available at: <http://chpi.org.uk/wp-content/uploads/2014/02/At-what-cost-paying-the-price-for-the-market-in-the-English-NHS-by-Calum-Paton.pdf>
- ² Houses of Parliament (2010) ‘House of Commons Select Committee on Health. Summary’. Available at: <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmhealth/268/26803.htm>
- ³ Centre for Health and the Public Interest (2015) ‘The Contracting NHS – Can the NHS handle the outsourcing of clinical services?’ Available at: <http://chpi.org.uk/wp-content/uploads/2015/04/CHPI-ContractingNHS-Mar-final.pdf>