

Is there a future for state health monopolies?

Sustainable economic creativity and growth are a result of trial and error by independent economic agents, coordinated by the pricing mechanism. In a health monopoly, the absence of independent health entrepreneurs causes costly erroneous decisions to accumulate over time, leading to increasingly ineffective and costly health services.

For many years, there has been a broad consensus that the state should be responsible for health services. This will ensure that everybody has equal access to health services, irrespective of where they live and the state of their personal finances. Most of us will agree that this has been a success so far, but can it continue into the future? I believe that a state health monopoly will face increasing difficulties in fulfilling its role satisfactorily.

In an open and sufficiently free market independent economic agents are free to buy and sell goods and services. The market activities are coordinated by the pricing mechanism, ensuring that means of production and raw materials are channelled in a way that satisfies consumer demand. These coordinating mechanisms have been well known for years, and are the basis of modern economic equilibrium theory. For the pricing mechanism to work, there must be a sufficient number of independent economic agents available.

The reason why the Communist countries collapsed was because the means of production were not distributed among independent agents. During the initial years, the bureaucrats in Communist countries could use historic prices and refer to the prices in capitalist countries, but gradually the gap between economic realities and the historic and capitalist countries' prices became excessive, and a major economic collapse was inevitable. Without any independent agents, there was no pricing mechanism that could be used to channel the means of production in a sustainable manner. The great economic calculation debate in the 1930s focused on this issue (1).

Independent entrepreneurs and creativity

Modern economic equilibrium theory assumes that market information is available to all agents, or as a minimum that the agents know where to find or purchase the necessary information. However, some knowledge remains unknown («unknown unknowns») (2). The rampant economic growth over the last 200 years was largely caused by discoveries and mobilisation of knowledge that previously was completely unknown. New creative information and growth are brought into the market by independent entrepreneurs. It is impossible to know in advance whether a new product will be a success or failure. There are many

more ways to be wrong than to be proven right (3). Again, the pricing mechanism comes to the rescue. Profitable products satisfy customers, are copied by other manufacturers and help create growth. Losses cause products to disappear from the market. In this way, the pricing mechanism coordinates the trial and error of entrepreneurs through profit and loss.

Coordination of both new and established knowledge leads to economic development with a highly creative potential. Total economic development is internationally sustainable as long as independent agents are subject to the pricing mechanisms. I believe that concepts such as competition and incentives are misleading as descriptions of the core of the free market. This core consists in trial and error by independent actors, coordinated by the pricing mechanism.

A key point of the theory is that in all areas, creativity is based on trial and error undertaken by independent agents (4). One precondition is the existence of mechanisms that can pick winners and weed out errors (5). But what about a state health monopoly? By definition, a monopoly does not consist of independent agents. Thus, a health monopoly is unable to be creative in an economically viable manner in the area in which it is a monopoly, i.e. treatment of illness, since it includes no interaction between independent health entrepreneurs.

The assertion that a state health monopoly is not creative appears inconsistent with the undoubtedly impressive development seen within the health services over recent decades. I believe, however, that this development has been based on the fact that the health monopoly has been surrounded by a market of numerous independent agents in fields other than health. This has provided opportunities to copy from the market (and from health services in other countries), but a health monopoly is unable to be creative in an economically sustainable manner, since it has no health agents to measure itself against. A monopoly is barred from using the coordinating function of the pricing mechanism for purposes of viable innovation and growth.

It can be claimed that medical research is creative and has contributed to the considerable development of new therapies. This is undoubtedly true, although research involves creativity measured by another

standard than the pricing mechanism – empirical trial and error in an academic community. For results from medical research to be incorporated in an economically sustainable health sector, independent health entrepreneurs are required.

Time is running out

The reason why we still have a good-quality state health monopoly is that it is based on public transfers that pay for new services or reorganisations. However, the longer a health monopoly remains dependent on public transfers, the more the treatment options will diverge from those provided by a healthcare system based on independent agents. Funding changes that are not the result of the coordinating and creative function of the pricing mechanism will become increasingly costly. I therefore believe that the healthcare system will face increasing difficulties in solving new problems. Monopolies offer no other solutions than more public transfers, reorganisation, «cost-cutting» and rationing. These solutions will fail in line with the increasing gap that divides the health monopoly from the economic realities outside. Soon, we are likely to reach the ceiling in terms of public transfers. On the other hand, a healthcare system with independent health entrepreneurs will face no limits to its further sustainable development.

The economic problems of health monopolies are the same as those faced by Communist states. The difference is that a health monopoly is surrounded by independent economic agents in other areas, while such independent actors were totally absent from the Communist states. Therefore, the health monopolies have been able to function for a longer period than was possible for the Communist states, but the argumentation above indicates that time is running out for the health monopolies as well – and certainly so if the rest of society continues towards sustainable economic growth. In a health monopoly, the absence of independent health entrepreneurs will over time lead to an accumulation of costly erroneous decisions.

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