

RESEARCH SUMMARY

How to Improve the US Healthcare System: More Government or More Market?

Most Americans agree that their country's system of healthcare should be better, more convenient, and less expensive. But they disagree about how to fix it. Should policymakers try more government intervention through regulation and higher taxes? Or should they move toward more reliance on market competition among hospitals, physicians, insurers, and drug companies to attract consumers? Mark V. Pauly addresses these issues in "[Giving Competition in Medical Care and Health Insurance a Chance.](#)"

THE POWER AND LIMITS OF COMPETITION

- *Modest gains can come from modest changes.* Federal and state governments could take immediate steps toward more competition in settings that currently are strongly prevented from being competitive. For instance, in certain situations, trained nurses could provide some of the services (like writing prescriptions) that many states permit only physicians to provide. Voucher programs also offer potential. Medicare Advantage allows program beneficiaries to choose among a number of private plans armed with a voucher equal to an estimate of what they would have cost traditional Medicare. The United Kingdom's National Health Service has offered a voucher program that allows people to choose doctor-hospital combinations, and it has increased quality and satisfaction without increasing costs.
- *The gains that increased competition has achieved are encouraging.* However, there is still a profound skepticism of competition in care and insurance markets among public health experts, providers, government bureaucrats, and health policy advocates. They are inclined to give government at some level a presumption of unselfishness in performing major tasks and to distrust markets and competition.
- *There are several ways to increase competition and its desired effect of better care at a lower cost.* Reducing legal monopolies caused by patents and FDA regulation can result in greater competition in healthcare. Eliminating open-ended government subsidies to private insurance companies that lead to overly generous coverage can help lower prices and discourage the use of cost-ineffective care.

MAKING IMPROVEMENTS IN AN IMPERFECT WORLD

Market competition helps create incentives for testing and selecting ideas to transform an economy while discarding those ideas that don't work as well. Many informed buyers choose to obtain goods and services (at differing quality levels) from many profit-maximizing and equally informed sellers. But actual markets are imperfect—always less than ideal and sure to be unpredictable. Reducing those imperfections can bring greater gains than the alternatives of a confused status quo or an additional dose of government intervention that might make things worse. Perhaps the greatest benefit from free and vigorous competition in healthcare and insurance markets is that it can encourage sorely needed innovation while helping to select those innovations that produce the best results.