HOW TO GET HIGH QUALITY PUBLIC HEALTH SERVICES AT REASONABLE COST

By rewarding hospitals that consistently attract more patients, even when capacity limitations mean that not all those patients can be treated, health authorities should be able to get better quality health services delivered at a lower overall cost. That is the conclusion of Professors **Martin Chalkley** and **James Malcomson** of the University of Southampton, writing in the latest issue of the Economic Journal. At the same time, they find that however carefully purchaser-provider contracts are specified, health purchasers need effective monitoring of providers if quality of service is not to suffer.

Chalkley and Malcomson note that public sector health agencies, like the NHS in Britain and Medicare in the US, are concerned to keep costs down. Simply reimbursing the suppliers of services for the costs they incur in treating patients presents a problem - there is no incentive for the supplier to keep costs under control. As a result, there has been growing interest in the use of fixed price agreements, where a supplier receives payment according to the number of patients with a specified medical condition treated and not for the costs of the actual treatments delivered.

One problem with such agreements is that they do little to encourage high quality work unless high quality suppliers can be sure of treating more patients. That in turn requires that potential patients are well-informed regarding where high quality services are available and that they will receive treatment where they choose. But with a publicly funded service, there is often a limit on how many patients can be treated due to limitations of capacity or because of lack of funds.

Chalkley and Malcomson’s research considers how fixed price agreements can be fine-tuned to work better when, as in the NHS, there is limited capacity to treat patients and a limited budget to be spent.

One key finding of the research is that simple fixed price agreements can be improved by making payment depend not only on the number of patients treated but also on the number who demand treatment from a particular supplier. This implies that expression of choice by patients can be used by health authorities to improve their purchasing. By rewarding hospitals that consistently attract more patients, even when capacity limitations mean that not all those patients can be treated, health authorities should be able to get better quality health services delivered at a lower overall cost.

But even well-informed patients cannot be expected to know everything about the quality of health services that are on offer from different suppliers. At best, patients learn about some aspects of a service - perhaps the reputation of a surgeon - but remain ignorant about others - such as the quality of nursing care.

So a second key aspect of the research is to consider how well fixed price agreements perform

when patients are imperfectly informed. The central finding is that even a carefully constructed fixed price agreement will need to be augmented by effective monitoring on the part of health purchasers, if quality of service is not to suffer.

Note: 'Contracting for Health Services with Unmonitored Quality' by Martin Chalkley and James M. Malcomson is published in the July 1998 issue of the Economic Journal. The authors are Professors of Economics at the University of Southampton. Their research was supported by the Economic and Social Research Council (ESRC) as part of its Contracts and Competition research programme.

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