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NH-MESS?

KRISTIAN NIEMIETZ ON THE NHS WINTER CRISIS

The NHS entered yet another winter crisis in December 2017.

On social media, a consensus on the causes of the crisis was reached quickly: it is all just because of underfunding. Fund the NHS adequately, and it will be second to none.

At first sight, this seems to contain a grain of truth.

We spend just under 10% of GDP on healthcare (mostly on the NHS, plus a bit of private spending). This is roughly in line with the OECD average and the EU average, but compared to our neighbours – most of which do not have comparable winter crises – it is not a lot.

Most countries in north-western Europe spend between 10.4% and 12.4% of GDP on healthcare.

Thus, there is scope for extra healthcare spending in the UK, and it would almost certainly lead to some improvements.

But overall healthcare spending is a huge aggregate. It includes primary care, pharmaceuticals, diagnostic tests, medical implants, medical devices, convalescent homes, a vast range of specialties, a vast range of hospital procedures, and so on.

To say that cross-country differences in this massive aggregate are to blame for cross-country differences in one quite specific outcome is a bit of a leap of faith.

Once we break this aggregate down just a little bit, we get a rather different impression.

Spending on the hospital sector (and the 'winter crisis' is really a hospital crisis) amounts to 4.1% of UK GDP. That is a completely normal figure by north-western European standards.

In contrast, France and Germany spend over 2% of GDP on medical goods, compared to around 1% in the UK. Maybe we would be better off if we increased spending in that category to their levels. But that would not solve the winter crisis in the NHS.

People who blame the winter crisis on a lack of money seem to assume that if healthcare spending were increased by, say, 10%, this increase would be distributed evenly across all the different subsectors of the health sector.

We would spend 10% more on nurses, 10% more on doctors, 10% more on syringes, 10% more on prescription drugs, 10% more on hospital beds, and so on.

This is not true. Healthcare spending is allocated according to clinical priorities.

Crudely put, you spend the first few pounds on conditions that are matters of life or death. If you then still have money left, you spend it on conditions that are not matters of life or death, but still seriously debilitating.

If you then still have money left, you spend it on conditions that are not seriously debilitating, but still very unpleasant. And so on. The last few pounds are spent on the conditions with the lowest clinical priority.

Put differently, if a reasonably well-off person made an extra £100 per year, they might spend it on dining out or on wine. But it would probably not buy them better bread, better butter or better eggs.

Similarly, by and large, an increase in funding makes a health system more generous, but it does not automatically make it better at dealing with its core function.

The winter crisis is a bread-and-butter crisis. The problem is not that the system is not generous enough, but that it is not fulfilling its core functions well.

Which suggests that the system is suffering from problems that money alone could not cure●

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FAT 'CRATS

JAMIE WHYTE SETS HIS SIGHTS ON OVERBEARING BUREAUCRATS

The EU's second Markets in Financial Instruments Directive (MiFID II) came into force in January.

According to the European Securities and Markets Authority (ESMA), its 1.7 million paragraphs will make financial markets more efficient, resilient and transparent.

But will they? Is MiFID II well-designed?

As with any major new regulation, the effects of MiFID II will not be observable for many years, if ever.

Nevertheless, it's a safe bet that MiFID II is poorly designed, for a simple reason: the bureaucrats who made it need not compete for customers.

Cars, clothes, medical services and everything else tend to be shoddy when made by people who face no competition. Why should regulations be an exception?

Consider a stock exchange making its own rules, such as reporting requirements for companies listed on it and membership criteria for brokers.

If the rules are too lax, the exchange will be a perilous place for investors and it will lose business to exchanges with stricter rules.

Equally, if the rules are too onerous, companies will not list on the exchange and it will lose business to competitors with less onerous rules.

Competition makes stock exchanges offer rules that find a good trade-off between the interests of issuers and of investors. Those that don't will go out of business.

Stock exchanges are not unusual in imposing rules on their customers. It is unavoidable for many private enterprises – banks, insurers, universities and tennis clubs, among others.

And, as with stock exchanges, if they do a bad job of designing their rules, they will lose business to competitors who do better.

Contrast such private sector rule-making with governmental rule-making.

If MiFID II is a poor set of regulations, ESMA will not go out of business. It is funded from taxation, not from willing customers. And, short of giving up trading in European securities, the firms it regulates cannot "vote with their feet".

The bureaucrats of ESMA have no financial incentive to improve their regulatory product. Yet I am confident that they will do much work to revise it over the coming years. How else can they justify their ongoing employment?

Regulators funded from taxation benefit not from the quality of their rules but from the quantity of them. Rules that require revision are even better than rules that don't.

If you doubt it, ask yourself why the quantity of regulation grows every year along with the number of people employed in regulatory agencies.

Why were the last regulations never quite enough? Why was the first MiFID, which came into force in 2007, 1.7 million paragraphs short of the proper total?

For governmental regulators, failure is success●

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Oxfam's 2018 report on inequality was recently released to much fanfare.

And, just like those before it, rather than discussing actual poverty, it focuses on how the current wealth of the world is split between the top one per cent and the rest.

To solve this supposed crisis, their report also lays out solutions that call for the effective abolition of the modern capitalist economy.

It seems odd to me that a charity supposedly created to feed people shows so little interest in wealth creation.

Instead, Oxfam seems obsessed with pursuing policies that would slow down economic growth and leave us with a smaller pie than we all might otherwise have had.

Capitalism has been the greatest and most effective driver of prosperity and opportunity for the poor in our entire history.

As the Industrial Revolution got going in 1820, at least 84 per cent of the population of the entire world was below the modern definition of the poverty line (in real terms).

Even in 1990, more than a third of the world's population subsisted on less than $1.90 a day.

Today, that number is estimated to be below 10%, and more than 1.2 billion people have been taken out of extreme poverty in just the past 30 years.

The biggest gains have come in China and India, which together account for close to a third of humanity.

MARK LITTLEWOOD TAKES OXFAM TO TASK

In the 1980s, half of all Indians lived in absolute poverty. That figure is now down to about 20 per cent. In China, the absolute poverty rate has fallen from 88 per cent to just two per cent.

Both countries succeeded after they embraced pro-capitalist reform policies, including reducing tariffs, deregulation, privatising state assets, and welcoming foreign direct investment.

While neither China nor India are truly liberal, free market economies in quite the way we would understand the term, they have taken enormous strides in this direction – with impressive results.

Across the centuries since the Industrial Revolution, governments all over the world which cut barriers to businesses, protected private property, and abolished tariffs on international trade succeeded, while those which got in the way failed.

In the success stories, freeing trade and business broke apart an old economic model which had seen slow or non-existent economic growth, and replaced it with a vibrant economy where, today, we consider the economy growing at "only" two per cent an annum as a poor result.

This does not mean, however, that we should rest on our laurels. Millions remain in grinding poverty, and for them two per cent growth is unacceptably unambitious.

More needs to be done to break down trade barriers and to encourage more countries to replicate the policies that led countries like South Korea, Japan, and more recently China from grinding poverty to great wealth in a single generation.

This means advancing property rights and ending corruption in countries like Zimbabwe, privatising state monopolies in Venezuela, and working to abolish trade barriers such as the EU's Common Agricultural Policy.

Charities like Oxfam should be out leading the charge on these issues.

But instead of focusing on those who have too little, this report again relentlessly targets those the charity believes have too much●

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