

CCRP Competition Round Table

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Chair Opening Comments

Jon Stern

CCRP, Department of Economics
City University

Public Service Markets

PSMs and UK Economy

- Services account for around 75% of UK output
- Within services, public services have become progressively more important
- Employment growth 1978 – 2014 has been fastest in healthcare followed by education.
 - Social work and residential care also in Top 10 (See ONS as reported in Financial Times 16 January 2015)

Public Service Markets: Paradoxes

- **There are many paradoxes about PSM Markets**
 - i. The products are usually multi-dimensional in characteristics – quality aspects typically very important
 - ii. Some have retail payments (post-school education), some are tax-financed (compulsory schooling, NHS), some have both (pre-school care/education)
 - iii. Some PSMs are compulsory for ‘consumers’ (schooling, probation, programmes for long-term unemployed)
 - iv. Many operate in local markets with very limited number of suppliers (care homes, education and pre-school care/education)

Public Service Markets: Paradoxes II

- Paradoxes (continued)
 - iv. Often very difficult to obtain good information on providers and quality either before or (sometimes) during consumption.
 - v. Quality often difficult to establish – sometimes even after consumption (health & social care)
 - vi. Transaction and (especially) switching costs often very high so that it is sometimes difficult to distinguish between competition *in* market from competition *for* market (Care homes for elderly).

Public Service Markets and Institutional Context

- The PSM market paradoxes raise key questions about the nature of public service 'markets' and the type(s) of competition within them
 - They are often partially or wholly privately financed. The only universal public element is that they almost always include public policy objectives.
 - Information gaps are sufficiently pervasive as to make some very strange markets – if markets at all.
- There are major policy and regulatory concerns within which PSMs and competition policy must operate.
 - Hence, they are heavily constrained markets and this has to be recognised in competition policy
- BUT, although strange markets, UK provision in the health, education and social care areas has clearly evolved very considerably from the standard use of near zero-choice allocation methods which were pervasive until at least the 1970s.
 - Whatever the criticisms of current PSMs, there is no clamour to return to allocation models.