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The NHS is going to have a £30 billion a year funding gap apparently [1]

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Woes, woes unto us, eh [3]?

> The long-term crisis in NHS finances will be laid bare next week when the health service reveals it is facing a £30bn hole in its budget ? as a prominent Lib Dem peer suggests charging people to see their GPs. Tim Kelsey, NHS England's information director and a former Cabinet Office adviser on data, said the health service faced a £30bn funding gap by 2020. In an interview with Health Service Journal he said: "We are about to run out of cash in a very serious fashion." He said that next week NHS England would be "publishing a call to action". The document ? entitled The NHS Belongs to Us All ? is expected to make the case for significant changes to the way hospitals operate. "The financial context is, and our analysis will disclose, that by 2020 there will be a £30bn funding gap in the healthcare system." NHS England's predictions appear to be based on work by the Institute for Fiscal Studies. Last year it calculated that if NHS spending was left to continue to soak up resources at its long-term rate and other on-health public spending is kept at 1% a year, then the funding gap would be about £30bn. When contacted NHS England confirmed that it would be publishing a report next week. "We are not in a position to say more at this stage," it said.

I'm not sure that I can take this. It will mean more Polly Toynbee columns about how the NHS is The Wonder Of The World, so fabulous that absolutely no one has ever tried to copy it.

Now unpack what they've actually said there. NHS inflation has been and is higher than the general inflation rate. This is partly because it's a protected State organism and partly because of Baumol's Cost Disease [4]: services become more expensive relative to manufactures over time.

The solution to both of these problems is to introduce markets. Sure, they can be markets where the financing is still done by the State. But you need a variety of suppliers competing with each other for access to that cash stream in order to increase that productivity. This is obviously true of any organisation suffering from bureaucratitis: but it's also implicit in Baumol's writing on innovation. Yes, it's more difficult to increase productivity (and thus lower the inflation rate) in services but this is why services need to be subjected, even more than manufacturing, to the incentives of market competition.

That the NHS is going to suffer, as a result of its higher than general inflation rate, a £30 billion funding shortfall is why the NHS needs to be subjected to market competition. But do note that given that it is being subjected to market competition its higher inflation rate is going to be moderated: thus there won't be the £30 billion shortfall.

If you prefer, that identified shortfall is exactly why the current reforms must go through: because they're designed to beat that shortfall.

Now, if only we could get Polly to grasp this concept....

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