

## **Will Competition in Health Care Work Without Budget Constraints?**

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In a recent [column](#) I asked how the health sector might respond to an increased demand for health care if it were subject to normal competitive pressures. I particularly took issue with whether there was a doctor shortage or a broader misallocation of resources and noted that the lack of competition in the health care market is a major reason prices are so high.

Given the comments I received, I need to clarify one point: while I think we will see more competition in the future, it won't arrive *deus ex machina*. It can and should accompany real reform that slows the growth of health costs.

These competitive forces aren't ever going to come into play without budget constraints in government health programs. Interestingly, a budget constraint is an important component of almost all major reforms, whether it involves premium support or Medicare for all.

I reached a similar conclusion after reading a [CBO report](#) a few months ago. CBO examined 10 major Medicare demonstrations aimed at enhancing the quality of health care and improving the efficiency of health care delivery and found that most of these programs have not reduced Medicare spending. It wasn't that the incentives in those experiments were bad ideas as much as they often weren't designed in any way to prevent savings leaking out somewhere else. More services or higher prices elsewhere can easily offset some particular efficiency improvement.

Consider also why CBO wouldn't give the Obama administration the saving it wanted to be scored for experiments authorized in 2010 health reform. In his [new book](#) on the budget, *Wall Street Journal* editor David Wessel notes this disagreement between OMB director Peter Orszag and CBO director Douglas Elmendorf. The administration's experiments had no real budget constraints that would lead health providers to respond to the incentives to provide more for less.

But don't misunderstand. With budget constraints, some experimental efforts are much more likely to succeed; indeed, that's the nature of competition. Successes are also imitated. Then we move from win-lose to win-win, with potentially large compounding effects on reducing the rate of growth of health costs.

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**The Government We Deserve** is a periodic column on public policy by Eugene Steuerle, an Institute fellow and the Richard B. Fisher Chair at the nonpartisan Urban Institute. Steuerle is also a former deputy assistant secretary of the Treasury. The opinions are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.

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