

Why the NHS cannot be replaced by the market

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There is much discussion on my Twitter feed this morning on the NHS. My argument on why we cannot afford competition in the supply of healthcare in the UK - and why the NHS must as a result remain not just under state control but have the sham market within it abandoned as it is an extremely expensive charade is made in [The Courageous State](#) where in Chapter 6 I argue as follows:

It is a simple fact that when a service such as healthcare has to be provided to everyone, the costs of competition just explored cannot be afforded by society as a whole.

So, for example, we already know that it is incredibly expensive to maintain a network of hospitals within reasonable distance of most people in the UK, particularly outside the major conurbations. If, however, genuine competition were to now be part of the supply mechanism for healthcare, it would be necessary to have alternative suppliers of medical services available for all to choose from. But that would, by necessity, require duplication of resources since there is no competition to prevent market abuse when a person cannot choose between two hospitals within reasonable distance of where they live. If, however, two (at least) reasonable alternative hospitals are to be made available, each hospital must first have excess capacity so that this choice can be exercised, and second each must maintain that excess capacity indefinitely. As a result, they must always run at less than full capacity and doctors and nurses will have to wait around in them in the hope that patients might arrive even if they do not, but must be paid nonetheless.

Perhaps worse still, those competing hospitals would very soon be spending a great deal of the cash previously directed at healthcare in promoting their services through advertising. Any supposed efficiency benefits arising from the pressures of competition (none of which have materialised as yet after more than twenty years of pension privatisation) would be more than eroded by that spending. In the meantime any prospect of informed decision-making by many patients would disappear entirely if general practitioners, who make most referrals to hospitals, began touting for business, undoubtedly backed by advertising suggesting the supposed perception of added value

that they might supply (“we promise you’ll never leave without a prescription” is a horrible marketing scenario that comes to mind that would, however, please many patients). This process would in turn in all likelihood be backed by a pharmaceutical industry that has the capacity to make monopolistic profits because of the patents system on its products which guarantees them above-average returns on a successful product for a considerable period after its introduction to the market, and which they could then use to drive up demand for their products by manipulating this system of private medical supply to their advantage.

The cost we would incur if we created such competition is obvious: the outcome of all that excess capacity would be a considerable increase in the cost of supplying healthcare in the UK, or any other country where such choice might be made available. The evidence of this can already be seen when the cost of healthcare in the UK is compared to that of the US. The cost of healthcare in the US is approximately US\$7,290 a year, according to a recent report by the Commonwealth Foundation, a US-based research body. The comparative cost in the UK is \$2,992 a year, with the US being considered by this organisation to supply much worse healthcare despite the price differential.^[ii] In terms of total costs as a proportion of GDP, the UK spends approximately 8% of its national income on healthcare, which is lower than any of the other seven major countries to which the Commonwealth Foundation compared it, whereas the US spent 16% of its GDP on healthcare. Also, because of the substantial variation in the quality of healthcare provision in the US, where about a quarter of the population are dependent upon very basic services from the state, with the remainder being covered by an insurance-based system that is extremely expensive to operate with between 30% and 50% of all spending (the estimate depending upon the report noted) being absorbed by administration costs, outcomes are no better and may be worse despite the greater spend. This is clear indication of the inefficiency of the market when choice is provided.

^[ii]Mirror Mirror on the Wall: How the performance of the US healthcare system compares internationally, 2010, Commonwealth Foundation
http://www.commonwealthfund.org/~media/Files/Publications/Fund%20Report/2010/Jun/1400_Davis_Mirror_Mirror_on_the_wall_2010.pdf