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## **The Fatal Conceit of Health-Care Reformers**

**by Sheldon Richman**

It's easy to get distracted by the details and crushing cost estimates of "health-care reform" while losing sight of the key question: Can a handful of congressmen, most of whom probably have never even run a small business, design an entire market for medical services and insurance?

A few moments' thought should be enough to see the answer. Markets are unbelievably complex, and the details are beyond the grasp any individual. They consist of hundreds of millions of people making countless judgment calls, tradeoffs, and transactions with respect to a huge array of services and products. Each person makes these choices within his personal situation, which no one can know as well as that particular person can. Providers of medical services, insurance, and products undertake those activities after calculating that such work is their best opportunity for income and other forms of satisfaction.

Given this complexity, only someone lusting for power or incredibly conceited would presume to design a market. An appalling ignorance of economics is also a prerequisite for such a conceit.

As a way to coordinate supply and demand, economize resources, and create wealth, markets are simply unmatched. They do so well precisely because they use the critical knowledge scattered among all the participants. This is one reason central planning never works. No planning board could possibly know what everyone put together knows. Individuals contribute their partial knowledge to the market process through their decisions about what to buy, how much to buy, and what not to buy. Those decisions, based on subjective often unarticulated information, send signals through the price system, guiding entrepreneurs who buy resources and turn them into usable products and services according to consumer demand.

The process constantly rewards those who serve consumers well and penalizes those who don't. That is the economic function of profit and loss.

When politicians arrogantly attempt to design a market — specifying services, setting terms, controlling prices — they undermine precisely those features that make markets perform effectively. Planning a market is a contradiction in terms. When it's the medical market that's

being designed, the politicians are playing with people's lives. The philosopher and economist F.A. Hayek called the belief that institutions such as markets can be consciously planned "the fatal conceit." In the case of the medical market, the term is highly appropriate because those who vote to overhaul the medical industry rather than let the market work spontaneously will be responsible for the death and suffering of a great many people.

But, the advocates of "reform" say, people are dying and otherwise suffering now because of the deficiencies of today's medical system. That is no doubt true, but it is not the free market that is doing it. There is no free market in medical care. On the supply side government controls the production of medical services and insurance through licensing and comprehensive regulation. On the demand side, more than 80 cents of every dollar spent on care is paid for by government — Medicare and Medicaid — or employer-based insurance, which most people neither choose nor pay for directly. The upshot is that most people's medical care, even routine services, seems to be paid for by someone else. As a result, they do not act like cost-conscious consumers, which is key to efficient markets. (Unlike other medical services, the price of elective services not covered by insurance, such as cosmetic surgery, has been falling.)

In contrast, people in a free market would typically buy high-deductible catastrophic insurance to protect themselves financially in case of serious illness, while paying for cheaper routine services out of savings. The analogy with homeowner's insurance is obvious.

Competition and innovation, unmolested by bureaucrats, would bring down the price of medicines and medical devices, as they have brought down the price of cell phones and computers.

What about low-income people? This question dissolves when one understands that it's government that inflates prices by stifling competition and stimulating demand.

In a free market and an ever more prosperous and generous society, no one need go without medical care.

If the egotistical medical czars on Capitol Hill get their way, lots of people will go without. I predict the politicians won't be among them.

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