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Socialism and Medicine, Part 4

by William L. Anderson

Obviously, the first fundamental of a free-market system in medical and health care would be the absence of coercion. This precept extends far beyond the question of whether or not people should be forced to purchase government “health insurance.” Indeed, the idea of free markets should extend to *all facets* of medical care.

The first principle here should be the absence of government licensing of medical-care professionals and practitioners. No doubt, the very mention of doing away with licensing conjures up tales of doctors who are careless, physicians who misdiagnose illnesses and medical conditions, surgeons who leave sponges in patients, and the administration of lethal doses of medicines.

Oops. Those things already happen in a system that is heavily regulated. To say, then, that government regulation *prevents* medical mishaps is to make a very sad joke. Such incidents are much too commonplace today.

The medical research organization HealthGrades recently conducted a study in which it found that “an average of 195,000 hospital deaths in each of the years 2000, 2001 and 2002 in the U.S. were due to potentially preventable medical errors.” A 2003 study in the *Journal of the American Medical Association* estimated that 98,000 deaths a year occurred because of medical malpractice or misdiagnosis, and it is doubtful that more regulation would make those numbers any better.

Ending government regulation of medical care and also ending the state certification of medical practitioners would not mean that the medical industry would be taken over by quacks and charlatans. For one, *private certification* would become much more important and would be a much more effective means of identifying high-quality practitioners than the current state-run system, which is done not so much for quality-control purposes as to reduce the supply of medical practitioners, thus keeping the prices for their services higher than they would be in a free market. (Economists have done many studies regarding state licensing of many professions

and lines of work and the conclusion is almost unanimous that despite the rhetoric one hears from advocates of licensing, the real reason for the practice is to raise labor costs.)

The end of government constraints against the suppliers of health-care services is only one step toward free-market medical care. The second is even more fundamental to free-market care: permit the price system to work in the health-care arena.

Benjamin Anderson, one of the great U.S. economists of the first half of the 20th century, once wrote, “Prices need to be permitted to tell the truth.” The “truth” of which he speaks refers both to the relative scarcity of a particular good and to the demand for it. Without free-market prices, there is no good way to make informed decisions regarding a good’s availability and who should receive it.

Government at present has distorted the price system in many ways. First, through the “third-payer” system, patients are disconnected from the real costs of medical care. For example, when doctors discovered more than three years ago that I had three blocked arteries, they quickly put in stents. When another blockage was found five months later, doctors put in another stent. The entire bill for these procedures was \$31,000, but I did not pay a dime, at least directly; everything was covered by my insurance company. I was the patient, but at the same time I was disconnected financially from what was happening.

Critics of free markets would quickly point out that if I suddenly had a \$31,000 bill facing me, I most likely would not have received the stents at all. Thus, in their minds, a free-market system ultimately would mean that “only the rich” would be able to afford care.

However, one must keep in mind that the prices charged for this operation were high *precisely because of the third-party paying system*. Had a free-market system in medical care been in existence when I became ill, the following would more likely have been the case: Prices for such operations would have been substantially lower in a free market than they are under the third-payer system; and I would have been presented with more choices than I was, given that my doctors were operating under the constraints laid down by my insurance company and by the state mandates in existence.

For all of the rhetoric used against the free market, one should remember that most of the people who have earned great wealth in capitalistic systems have done so *by making goods available to a large number of consumers, most of whom are not high-income people*. (I say “most” because some *political entrepreneurs* have managed to make fortunes by convincing politicians to restrict competition in the markets where they operate.)

Free markets versus intervention

The same principle applies to medical care, just as to all other goods and services. Doctors and other medical practitioners could not make a living for very long if they constantly priced themselves out of the market. While it is true that medical prices are very high right now, they are

not high because of free markets but rather because of third-party payers who are part of the giant disconnect between the services patients receive and the method used to pay for them.

Even today, despite all of the government interference in medical affairs, U.S. companies are among the most innovative in the world when it comes to developing medical devices that either are used directly for patient care (such as pacemakers) or are devices such as CAT scans and MRIs that permit doctors to make diagnoses quickly and accurately without invasive procedures. One can be assured that if government were to completely take over all medical procedures, as Paul Krugman and others have advocated, we also would see an end to medical innovation, because a socialist system would see medical devices as being pure cost.

(As I pointed out earlier, there is a logical reason that Montreal with more than three million people in its metropolitan area has as many MRIs as has Allegany County, Maryland, where 80,000 people reside. Under socialism, capital becomes a liability, not an income-producing asset.)

A price system not only serves to allocate resources to their highest-valued uses but also connects buyers and sellers, who make decisions about whether or not to trade on the basis of their respective opportunity costs. In a third-party payer system, as exists today, that connection between costs and benefits is damaged or destroyed. Yes, I paid for *part* of the health insurance that paid for my surgeries three years ago, but there was no direct link between the service and its payment.

The very nature of such a system means that people are unlikely to look for alternatives, so they find themselves with all-or-nothing choices. For example, would drug therapy have worked for me? Were there alternative therapies that are not invasive at all?

In a free-market system, I would have had some responsibility in determining what was best for me in my situation. In the third-party payer system, I had to decide either to have stents or to do nothing.

Fed up with this system, a number of other doctors are going to cash-only care in which patients pay directly instead of going through insurance plans. As one doctor tells me, a visit to a physician who operates under such rules costs “about the same price as an oil change for your car.” (I remember I used to see a doctor about 30 years ago who charged everyone \$5 per visit. I don’t remember the care’s being of lower quality than what I receive today.)

One area of medical care that has operated on a cash basis for years has been dentistry. (More and more dentists are using basic insurance plans, but nothing as complicated as what we see in regular medical practices.) It is interesting to note that we do not hear of a “dentistry crisis” in the United States. Yet American dental care is second to none in the world.

Dental offices in this country are noted for having up-to-date equipment and strategies, which goes against the grain of what people such as Krugman are claiming. Indeed, modern American dentistry proves that a free-market system (or at least *mostly* free-market) can work for

medical care. For that matter, veterinary care operates on a free-market basis (until recently there have been few insurance plans for pets), and we do not hear of a “crisis” in animal care.

The Medicare-Medicaid mess

The upsurge in medical costs can be traced to the introduction of Medicare in 1965, as the government suddenly threw a lot of new money into medicine, with the resulting increase in demand that drove up prices. It was classic supply and demand, and the addition of Medicaid did not make things better, either.

First, and most important, when one is in a deep hole, one does *not* grab a shovel and continue to dig. It is Medicare that has helped to dig the deep health-care hole, so expanding Medicare is analogous to digging a deeper hole.

Second, the assumption is that were it not for Medicare and Medicaid, medical care would not be available to poor and elderly people. That simply is not true; it was not true before those programs were created, and certainly is not true today. In fact, if governments permitted more medical practitioners to enter the business, and especially permitted nurse practitioners to operate more freely, one can assume that there would be plenty of opportunities for the poor and elderly to receive quality care.

Third, abolition of those programs would drastically lower the government budget deficit and allow at least a hope that future generations will not drown in federal-government debt. Contra Krugman, government involvement in medical care not only lessens the supply of available practitioners and medical capital, but it also makes the existing medical care substantially more expensive.

The free market in medical care was mostly abandoned four decades ago, as government muscled into the picture with Medicare and other “single-payer” plans, thus changing the face of how people paid for their care. The results are obvious, and often tragic.

However, the so-called universal-care solution is no solution at all. Over time, it will bring real deterioration in care, and once it is established, it will be very difficult to make the system work.

There is an alternative called a free-market system or, as some might put it, a separation of health care and the state. Because medical care is a scarce good, and because markets alleviate scarcity better than any other mechanism, it makes sense to trust health care to free markets. Indeed, to restore both freedom and health, there is no other way.

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