

Health Care and the Free Market

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“With millions unemployed, and health care costs rising through the roof, and the only answer ever given to unemployment is ‘go back to school’, why are there still so few medical schools that 1/3 of our doctors are imported and Americans who want to be doctors frequently have to resort to joining the military in order to be trained? We should have a doctor on every corner, competing with each other.” [1]

The above quotation is an excerpt from a recent article regarding the economics of health care reform. My aim here is not to dispute those views but to expand upon them. The article cited above makes some key points regarding what economists call “perfect competition”, specifically “many buyers and sellers” and “freedom of entry and exit”. In addition to all the screaming and yelling about moral and ethical issues, if the American people would approach the health care debate from a truly “free-market” economic perspective, there probably wouldn’t be anything left to “debate”. According to the Office of Health Economics in London:

“An efficient free market requires producers to be operating under conditions of perfect competition. This requires a stringent set of conditions – perfect information, many buyers and sellers, a uniform product and freedom of entry and exit – which ensure that firms are price takers, producing for the lowest possible cost in the long run and only earning normal profits.” [2]

In health care, not only is the number of sellers deliberately and artificially restricted (manipulated), but the number of buyers is uncontrolled and virtually infinite. Moreover, the ever-increasing number of buyers have no “freedom of exit” from health care, as everyone is forced to engage at some point in their lives: “You can check out anytime you like, but you can never leave”, (Hotel California, The Eagles). These factors along with extreme asymmetry of information, the monopoly power of hospitals, and the inherently non-uniform (customized, personalized) nature of health care are clear violations of the “perfect competition” requirements of any “free market”.

In a free market economy, price is supposedly established through daily interactions between buyers and sellers. That is, neither buyers nor sellers have absolute control of price. But the market forces of supply and demand fail to establish either price or quantity for health care because demand is price-inelastic. In other words, sellers control the price absolutely and buyers have little or no choice but to engage.

Thus, health care professionals draw greater incomes by forcing more and more consumers out of the market while charging higher prices to those who are able and willing to pay. This is what economists refer to as “market failure”, because the market itself fails to establish

price and quantity. Health care providers become price-makers, not price-takers, and health care consumers have little or no choice or voice in the matter.

These conditions characterize the inherently non-market nature of health care, and cannot be corrected through any sort of “market” reform. In fact, ‘market failure’ is the ‘pre-existing condition’ of the health care industry before insurance companies ever get involved. The inherent function of insurance corporations is merely to exploit the market failure of health care and to exacerbate it as much as possible in order to maximize shareholder value. By direct contrast, the function of government intervention could (and should) be to regulate price and to provide a guaranteed quantity of supply — primarily by flooding the health care industry with increased competition, i.e. a continuous supply of new doctors and other health care professionals.

However, since the Demand curve for health care is essentially vertical, it can never intersect with the Price axis at Quantity demanded = zero. Therefore, I think it’s a serious mistake to assume the measures outlined above could ever possibly convert health care to a free market commodity. Rather than implementing a mere “reform” agenda, it seems government intervention must eventually “replace” the existing dysfunction by 1) regulating the price of US health care 2) providing the greatest possible access to US health care education, and 3) providing guaranteed health care services to every US citizen. While single-payer doesn’t address all of these issues, it would certainly be the most genuine start in the right direction, especially in terms of removing the corruptive influence of insurance corporations.

In the meantime, the current health care reform debate doesn’t address any of these issues — and as usual, most of the American people are passive spectators, not active participants, in their own democratic system. More and more viable solutions keep getting swept “off the table” of discussion, as general interests and “special interests” are directly opposed. The American geniuses who understand this general principle find themselves at odds with the American boneheads who don’t. So instead of engaging in adult-level discussions about health care, we, the people, find ourselves standing in the streets with picket signs and automatic weapons, shouting obscenities at each other, like a bunch of developmentally disabled social rejects, trying to drown out any possibility of reason.

I certainly feel your pain, “America”. Thanks for calling. I do apologize for the inconvenience. May I place you on hold for a couple of centuries while I review your file?

Notes

[1] wagelaborer. (08/15/2009). “Free Market Medicine – Forbidden Thoughts”. OpEd News. <http://www.opednews.com/populum/page.php?a=95482&show=votes>

[2] Green, Martin. (2009). “The Economics of Health Care”. Office of Health Economics. London. <http://www.ohe.org/lib/liDownload/288/ohe.pdf?CFID=1052597&CFTOKEN=12170765>

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