

Free-Market Health Care

Currently I am doing my PhD study in health policy and management at Ilia State University in Tbilisi, Georgia. My intention is to conduct the research about the free-market healthcare economics. Though it may be difficult for me now to envision in details my future work, I hope to create experimental models of different fields of free-market healthcare economics and then try to define how these models may be functioning. The major purpose of creating such models is to compare them with the current government-run healthcare economics in order to understand what exactly may be the advantage of completely private healthcare economics. This can be done on the different size scales of population, as well as on populations with different backgrounds, e.g. with different socio-economic level, different age constituency, and so on. In addition, these models can be created for different types of free-market healthcare delivery systems: these may be private insurance companies, voluntary health saving accounts, employer-associated voluntary funds, out-of-pocket payments, or – any combination of them. Of course, this study will be heavily influenced by the interpretation of historical examples, and by the interpolation of currently existing models of healthcare worldwide, some of them closely approaching the free-market healthcare model.

1. General features of health care

Historically, free market was always the major way for delivering healthcare. As in the other aspects of human life, formation and expansion of the state has radically changed this situation. The state has begun to replace free market as a mean to deliver healthcare. Even though the most pronounced example of that we could find in the former Soviet Union with its single-payer system, many of the modern welfare states, e.g. the UK, still have almost the same system of delivering healthcare, and others, like the US, are gradually moving toward that direction.

It is obvious that because the private sector creates the wealth which is then spent by the government in order to deliver the healthcare and other goods and services, more wealthy and economically developed countries are more prone to switch from free-market healthcare to the state-run healthcare system – and this is exactly the factor which then may hamper their economic growth. Economically underdeveloped countries do not have enough resources to afford the wasteful and expensive single-payer system of the state-run healthcare.

When the state begins to consider healthcare as a right and because of that notion begins to deliver it in an unrestricted manner, consumers are beginning to demand more and more of it, as expensive as possible. This demand for the increased amount of resources consumed by the state-run healthcare is met by the increased taxes and it is a heavy burden on private sector.

Furthermore, the state may begin to accumulate the national debt as it steals the wealth from the future generations.

Consumers do not have the information regarding the price of the healthcare which they consume and do not directly feel the weight of this consumption on their own budget; hence, they do not have incentives to decrease the demand for healthcare. This situation also promotes unhealthy lifestyle and creates the decreased sense of personal responsibility for being healthy and socially active.

The major problem which arises as soon as the state begins to provide healthcare instead of leaving this function to free-market is the lack competition. This should not surprise anyone because the state itself is the monopoly of force, and all the services which it tries to deliver, are also monopolistic. As far as it is understood that competition creates high quality, low price, innovation, and progress, it should be obvious that the healthcare provided by the state monopoly will suffer from the negative consequences of decreased competition. This problem becomes most pronounced when the state becomes the single payer of the healthcare expenses. Modern models of state-provided healthcare are trying to mitigate this problem by inserting contrived elements of competition with the variable success, but all of these models still suffer from the grievous consequences of vanished competition.

2. Five major steps leading to free-market health care

The future economic development of any given country directly depends on the possibility of cutting healthcare costs if this is already too high and expanding, and keeping it low or to decrease it even further, if it is close to the optimal level. What is the optimal level of healthcare spending by the state? To answer this question we should ask why the public sector, i.e. the state sector, needs to get financed by the taxes taken from the private sector, i.e. from the voluntary sector, and why the public sector is unable to create the wealth itself. The answer to that question may be found in the lack of competition once again. Considering this premise it should be clear that the optimal level of the spending on health care by the state approaches zero. Achieving this objective is the major goal of healthcare reform leading to free-market health care.

Based on the complexity of healthcare, it is recommended to consider its major components separately, and then put forward the reforms leading to free-market healthcare for each of them.

1. Medical and nurse education. The state imposed licensing laws restrict entry into the medical and nurse profession. Decreased supply of physicians and nurses is reflected in the increased demand for the members of these professions, at the same time making medical and nurse service more expensive and less affordable for the consumers. Professional organizations for medical doctors and nurses act like cartels which make deals with the state in orders to restrict entry into the given profession and, as a result,

increase the salary of the practicing members. The state also imposes the national standards of healthcare, which creates the possibility for ever-increasing malpractice lawsuits, making healthcare even more expensive. The free-market approach to this component implies abolishment of all the requirements for the licensure of physicians and nurses, as well as for the medical schools, residency programs, and hospitals. As a result, the supply of healthcare services will increase dramatically, and its price will fall. Increased supply will create increased competition, and this will be reflected in increased quality of healthcare.

2. Healthcare infrastructure, facilities, and medical services. Only free-market can define correctly which services and what amount do consumers really need, and which services should disappear or get replaced. The state-owned wasteful hospitals, ambulances, screening centers, and so on, are creating a heavy burden on taxpayers. The free-market approach to this component proposes complete privatization of all infrastructure, facilities, and medical services, without the demand to maintain their profile. This will be reflected in increased competition between healthcare providers with all the benefits associated with it.
3. Pharmaceutical companies and producers of medical devices. The state-backed or the state-owned drug agencies, such as FDA, are restricting the availability of medications and medical devices, and are increasing their price, by demanding the prolonged and expensive trials in order to establish their harmful effects, as well as efficacy. The harm done by these agencies to the customers outweighs their benefits on the colossal scale. The state imposes the laws of intellectual property and copyright, and allows these laws to be applied to the newly invented medications and medical devices. In this way the state actually decreases the competition between pharmaceutical companies and producers of medical devices, and this contributes to the increased price and decreased quality of healthcare. The free-market approach to this component implies discontinuation of all restrictions and regulations imposed on the production and sale of the medications and medical devices. Free-market will force the consumers to assess the risks, expenses, and benefits of these products by their own judgment and to achieve the optimal solution for their problem. IP and copyright laws also should be abolished in order to achieve unrestricted competition. Once again, increased competition between the pharmaceutical companies and producers of medical devices will result in the lower price and higher quality of their products.
4. Healthcare providers. Healthcare may be provided in different ways, be it, for example, insurance companies or health saving accounts. The state-imposed regulations may be interfering with the obvious desire of health insurers to discriminate between different risk groups. In other words, the state forces health insurers to insure different risk groups

with the same deductibles and benefits. The state may also demand the “insurance” of the pre-existing conditions, i.e. it may demand from the insurance companies to cover the cost of treatment of the previously uninsured patients. As a result, health insurance may become very expensive, i.e. unaffordable for many consumers, and the health insurance companies may go bankrupt, unless they are bailed out by the government. In order to make healthcare insurance more affordable, the state may begin to cover its expenses for some segments of consumers. This will increase the burden on taxpayers and may finally lead to the single-payer healthcare system. In any case, when the taxpayers are forced to pay for healthcare costs, the wealth-redistribution system is created which benefits irresponsible and high-risk groups at the expense of responsible and low-risk groups. This encourages unhealthy lifestyle and irresponsible behavior, as well as continuously increasing consumption of healthcare, and the decreased competition between health insurers. The state may also be forcing citizens to accumulate future benefits in health saving accounts, artificially increasing consumption healthcare.

The free-market approach to this component proposes complete deregulation healthcare providers. Health insurers will begin to discriminate between different risk-groups and to refuse the coverage of pre-existing conditions. Health insurance costs will drop, its quality will increase, and the individual responsibility for the one’s own healthcare will be restored.

5. Healthcare for the poor and unhealthy. Subsidies promote more of whatever is being subsidized. Subsidies for the poor create more poor people, by promoting dependency and inertness, and subsidies for unhealthiness create more illness, by promoting irresponsibility, carelessness, and unhealthy behavior. This results in the vicious cycle, when the state spends more and more on the subsidies for healthcare of the poor and unhealthy, creating more and more poor and unhealthy citizens, which demand more and more subsidies for their healthcare, and so on. The previous four steps toward implementation of free-market healthcare will make healthcare much cheaper, i.e. affordable for most of the poor patients. Those who still could not afford it will get help from the charitable organizations and persons, and from the voluntary mutual-aid societies. Because resources will not be wasted on free-loaders and on the government bureaucracy, poverty level will be continuously and quickly decreasing. As a result, more and more people will be able to afford healthcare for themselves, as well as be able to help those who need healthcare but can not afford it, and the size of the later group will be continuously decreasing.

"Real charity doesn't mean giving away someone else's money." - Doug Bandow

References:

1. The future of free-market healthcare
<http://blogs.reuters.com/great-debate/2013/02/20/the-future-of-free-market-healthcare/>
2. After Repeal of Obamacare: Moving to Patient-Centered, Market-Based Health Care
<http://www.heritage.org/research/reports/2013/10/after-repeal-of-obamacare-moving-to-patient-centered-market-based-health-care>
3. Health Care: A Future Free-Market Alternative
http://www.fee.org/the_freeman/detail/health-care-a-future-free-market-alternative#axzz2XQyM5UQo
4. National Health Insurance: A Medical Disaster
http://www.fee.org/the_freeman/detail/national-health-insurance-a-medical-disaster#axzz2XQyM5UQo
5. Medical Markets Can't Work?
http://www.fee.org/the_freeman/detail/medical-markets-cant-work#axzz2XQyM5UQo
6. Health Care and Radical Monopoly
http://www.fee.org/the_freeman/detail/health-care-and-radical-monopoly#axzz2XQyM5UQo
7. Yes, Mr. President: A Free Market Can Fix Health Care
<http://www.cato.org/publications/policy-analysis/yes-mr-president-free-market-can-fix-health-care>
8. 5 Ways to Solve Health Care
<http://www.cato.org/publications/commentary/5-ways-solve-health-care>
9. Obamacare to Come: Seven Bad Ideas for Health Care Reform
<http://www.cato.org/publications/policy-analysis/obamacare-come-seven-bad-ideas-health-care-reform>
10. Bailing Out Health Insurers and Helping Obamacare
http://www.weeklystandard.com/blogs/bailing-out-health-insurers-and-helping-obamacare_774167.html
11. Why ObamaCare Will Fail: A Reading List
<http://mises.org/daily/3737>
12. A Four-Step Healthcare Solution
<http://mises.org/daily/3643>
13. Government Medical "Insurance"
<http://mises.org/daily/6099/>
14. Private-Sector Health Care Leads the Way
<http://mises.org/daily/3233>

15. Universal Coverage Means Suppressing Human Choice
<http://mises.org/daily/3666>
16. Playing God at the FDA
<http://mises.org/daily/1805/Playing-God-at-the-FDA>
17. Not Every Health Condition Is Insurable
<http://mises.org/daily/6620/Not-Every-Health-Condition-Is-Insurable>
18. Advancing Pharmaceutical and Medical Technology Does Not Depend on Patents
<http://mises.org/daily/6625/Advancing-Pharmaceutical-and-Medical-Technology-Does-Not-Depend-on-Patents>
19. Welfare before the Welfare State
<http://mises.org/daily/5388/>
20. 100 Years of Medical Robbery –
<http://mises.org/daily/1547>
21. Real Medical Freedom –
<http://mises.org/daily/1588/>
22. 100 Years of US Medical Fascism –
<http://mises.org/daily/4276/>
23. Bring Back the Guild System? –
<http://mises.org/daily/1252>