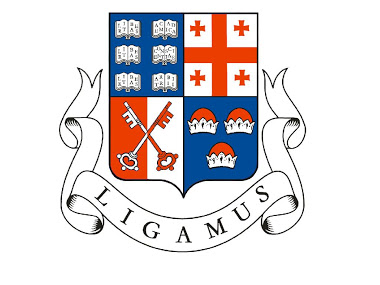
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**An Austrian view on the economics of healthcare**

**Abstract:**

The main purpose of this research paper is the praxeological understanding of the economics of healthcare according to the fundamental principles of the Austrian economics. From this perspective basic features of healthcare are analyzed and explained. Free-market healthcare economics is compared to the situation when the state intervenes and distorts the voluntary interactions between the healthcare consumers and its providers.

This research paper is based on the praxeological analysis of healthcare economics. The fundamental premise of this analysis is the existence of the human action, which, according to the human action axiom, is a purposeful behavior. The rest of the praxeology is the continuous logical implication based on the concept of action. According to the praxeological analysis, healthcare is a service (an intangible commodity - a marketable item produced to satisfy human wants or needs) and, as such, it follows the law of diminishing marginal utility of goods and services: the first unit of consumption of a good or service yields more utility, i.e. the perceived ability to satisfy needs and wants, than the second and subsequent units. Healthcare, as a service, is scarce, and has two main features – price and quality. Healthcare is usually provided by the healthcare providers which are the healthcare professionals and the agents who facilitate interaction between the healthcare professionals and the consumers of healthcare. At the same time, the healthcare provider and the healthcare consumer may be the same person, and it is not necessary for healthcare to be provided by the healthcare professionals only. Any good or service may have two types value: direct value and exchange value. More specialized healthcare professionals are less direct value their service for them has. In case of the voluntary interaction between healthcare providers and healthcare consumers, when the supply of this service is increased with the same level of demand, the price of healthcare goes down, and when the demand of this service increases with the same level of supply, the price of healthcare goes up.

When healthcare is not considered as a marketable item anymore and is exempted by the state from the voluntary exchange between healthcare providers and healthcare consumers, correct mechanism of price creation is lost and the price of healthcare is defined arbitrarily. This creates problems, because the healthcare providers (producers) are unable to understand how much healthcare is demanded by the consumers, and consumers, which at the same time may or may not be taxpayers, do not need to understand what is the real cost of healthcare, as far as its price is shared between taxpayers. When voluntary interaction between healthcare providers and healthcare consumers is lost, the law of diminishing marginal utility of goods and services also loses its relevance and the healthcare consumers are beginning to demand more and more of it, with the higher and higher quality. When healthcare is still provided by the private agents, increased supply of the subsidized healthcare is causing more consumption, which by itself pulls the demand of healthcare up, and the healthcare providers are responding by increasing the price of healthcare. At the same time, the state may become the single payer of healthcare, in which case this service becomes fully monopolized, and as a result its price goes up, and/or its quality – down. The state may impose healthcare rationing, in order to diminish its consumption.

One aspect of healthcare which needs further discussion is education of healthcare professionals. In this case the service is healthcare education and the consumers are the future healthcare providers. Once again, the correct mechanism of the price creation for this service can be provided by the voluntary interaction between consumers and providers. The state removes this mechanism and as such, all the calculations about the price and amount of medical education are made arbitrarily. Furthermore, the demand of the healthcare professionals for each medical and nursing subspecialty is also defined arbitrarily. It is important to understand that the organized unions of healthcare professionals are acting as cartels, and with help of the state are restricting entry into the medical profession. As a result, the number of physicians and nurses decreases, competition between them also goes down, their income increases, and, at the same time, with the same level of demand, the price of healthcare goes up. Even though the declared goal for the restriction of the entry into the medical and nursing profession is always the increased quality, in reality quality of healthcare decreases because of the diminished competition between healthcare professionals, and because many patients simple cannot afford such an expensive healthcare – unless the state intervenes and begins to subsidize it for them.

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