

# Healthcare Solutions

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Created 1/30/11

The cost of health care in this country is stifling. I've made my arguments against the healthcare bill, and I believe it does need to be repealed in its entirety. Regardless, that is not the point of this essay, as I want to address ways to improve our current system. Our health care system needs to be improved with cost control, accessibility, innovation, and quality all in mind.

The number one factor for the ever increasing costs of health care in this country is the third party payer system; which has been greatly expanded because of employer provided health insurance. Wages in this country have not increased compared to inflation since the 1960's. Wages plus benefits, however, have shown a steady increase in that same time period. [1] What are these increased benefits? They are worker's compensation insurance, unemployment insurance, and they are health insurance. For some crazy reason, we've married health insurance to employment. This is the first problem with our health care system.

Employment sponsored health insurance is the first barrier between the health care consumer and the health care provider. The increasing costs of health insurance premiums, as coverage has become more expansive and expensive, have been born by the employee as a reduction in the rate of growth in their wages. As a business owner, you see these premium increases directly increase your cost of employment, but these cost increases are less visible to the employee (the consumer). From the business standpoint you look at cost of employment; from an employee standpoint you look at wages. Therefore, the general public does not see the added health insurance coverage and added premium increases directly. The employee just wonders why they can't get a 'stinking raise'.

The general public does see when they go to the doctor, or worse yet the hospital, that the costs are astronomical, but their co-pays and deductibles are manageable. They see what the bill would have been had they not been insured, but luckily they are insured and a \$10 co-pay on a \$250 visit seems like a pretty good deal. When they hear politicians talk about insurance companies having to insure more procedures and drugs, they think, "hell yes. I can't afford the cost of any of those procedures or drugs if I have to pay for them". Ironically, employees *are* paying for their health care with unbelievably high premiums for coverage through lost wages. If you've ever lost your job and had to go purchase your own family health insurance policy you'll see exactly how much in premiums you have been spending.

The federal government has encouraged this process. If your business pays your health insurance premium, that is deductible, if you pay for your own health insurance policy, that is not deductible, yet the recent Healthcare bill did nothing to stop this.

State governments, meanwhile, have been busy little bees regulating and dictating to insurance companies that more and more health procedures and drugs must be covered in their policies. Of course this drives up premiums, but "who cares"; the end consumer is insulated from that. The more health care that is covered, the less reason the consumer has to restrict healthcare consumption. "If I get this blood work done, this MRI, or this

EKG test it is going to cost me the same either way, why not consume, I'm not paying for it"?

Government regulations on insurance have eliminated 'insurance' as we know it and created a third party payer system. Insurance is protection against unforeseen events. When you have insurance, the insurance company calculates the statistical odds of the unforeseen events, pools you and others, and charges premiums that are greater than what they will have to pay out based on their calculations. Total cost of the unforeseen event with insurance involved is thus higher as it is the same cost of the unforeseen event, plus the cost of the overhead of the insurance company, plus the profits of the insurance company. The direct transaction between consumer and provider is always the most cost effective situation.

Because of government regulations, insurance is required to cover almost all health care procedures and drugs. That means the cost of all these procedures and drugs are increased by the overhead and profit of the insurance company (Not to mention the cost of the government regulators). Worse, the consumer doesn't shop their care, why should they, "they aren't paying for it"? This creates inelastic demand, which means prices go up and sales stay the same. It's a bad model, caused by the third party system and encouraged and fermented by the government. Unfortunately, the new healthcare bill multiplies third party payer involvement.

What can be done on the demand side of health care? Simple, stop the tax breaks for employer paid coverage. Second, quit regulating and mandating what health insurance companies provide as coverage. These regulations are exacerbating the third party payer system! The bottom line, whether at the state or federal level, the government must stop mandating and regulating what insurance companies offer, and thus limiting consumers' choices.

What hasn't even been broached upon in the recent health care debates is the supply side of health care. When I have the flu or a cold, why do I have to go to a doctor to get the drugs I know I need? The nurse knows what I need when I call up and make the appointment. The pharmacist knows what I need before I hand him or her a prescription. Why does the government require that I see a doctor even if I'd be fine with a lesser substitute?

The supply of doctors in this country is inadequate. Why? Because the American Medical Association and the government restrict the amount of doctors available. And the regulations limiting the services by health professionals, *other than doctors*, heavily contributes to the overall high costs and lack of availability of health care. Why do we have so many damn lawyers and so few doctors? Why are lawyers, not doctors the ones chasing down ambulances?

In economics there are products called inferior goods. Wal-mart has a history of selling inferior goods. Wal-mart sells jeans, tires, batteries, bikes, you name it, and they sell these products as cheap as possible. Wal-mart sells on price. However, in our health care industry, we outlaw inferior goods and demand that everyone shop on Rodeo Drive. If you break your arm today, yesterday's x-ray machine just won't do (although it worked fine yesterday), you need an MRI. While it would be wonderful if everyone could drive a new Rolls Royce, it isn't economically feasible.

Think about the cost of a computer that used floppy discs, was the size of a refrigerator, and had less than 1 gigabyte of hard drive space in 1985. The PC you are

reading this on right now has a hundred times that capability at a tenth the cost. When you allow private enterprise to innovate, and God forbid, profit from that innovation, the expensive high tech procedures of today, quickly become cheap and available to everyone tomorrow. If we eliminate the profits and the rewards of innovation, we will stop innovation, and we will be stuck with the MRI and eliminate the possibility of making it an inferior good and affordable to anybody and everybody out of pocket.

We must address Medicare and Medicaid. They are broke and a heavy burden on the American taxpayer. They are driving up the costs of healthcare enormously as they continue to subsidize a third party payer system for the elderly and the poor. We must restructure these programs away from the third party solution. These two programs were the seeds for socialized medicine, and the recent health care bill is the sprout.

The solutions to improving our health care system are available. We must rid ourselves of employer based coverage (unfortunately that is probably the only good that will come from the recent health care bill). We must eliminate the regulations that encourage a third party payer system, lower the restrictions on the supply of health care- from medical schools to doctors to drugs (I didn't even go into the FDA), - and consider the use of inferior goods to increase availability without increasing the costs. These are free market solutions; they work because they put the consumer in charge of their own healthcare. These solutions allow the consumers the freedom to choose and the suppliers the freedom to creatively address the cost, availability, innovation, and quality concerns of the consumers. Or we can put our faith in Kathleen Sebelius and her bureaucratic army to solve all of our health care problems. I'm going with the free market!

[1] [http://macroblog.typepad.com/macroblog/2005/12/are\\_workers\\_los.html](http://macroblog.typepad.com/macroblog/2005/12/are_workers_los.html)