

Universal Healthcare Fallacies

The Problem

Forty-seven million uninsured! How could that happen? It was easy. Government health care policy has promoted poor economic incentives and created this train wreck.

How did we get here?

The core of our health care problem is cost shifting. The cost of care for those that cannot pay is not totally borne by various government entities. Instead, a significant part of these costs are shifted to those that buy private health insurance.

Mostly this is accomplished through the hospital system. By law, hospitals cannot refuse service to those that cannot pay. Over time, this humane policy has evolved into a political "Catch 22." Cost pressures have severely squeezed medical providers and Government insurers. Government entities have both actively and passively allowed more and more of these uncovered costs into hospital overhead. This overhead, in turn, causes private health insurance costs to soar.

When the buyer of private health insurance arrives at the hospital, his/her cost includes some of the cost of care for those that do not pay. An inspection of inflation, health care inflation and the inflation of health insurance costs proves the point (<http://www.kff.org/insurance/upload/7692.pdf>). Health insurance cost increases consistently outpace both inflation and the inflation of health care costs.

A vicious cycle is the result. Each year another group of marginal health insurance buyers is forced out of the market. More costs are shifted into hospital overhead. The next year, another group is forced to leave the private health insurance market and become dependent on government provided care. There is additional collateral damage from this cycle. Cost controls are weak, and the price signals that might control costs are deflected by a variety of ancillary regulations. Innovative ideas such as Health Savings Accounts have no economic chance to succeed. Individuals seeking "cash" health care bear the full brunt of hidden overhead costs.

Very powerful political and economic interests support the existing system. Charitable groups, supporters of single payer systems, health insurance companies, drug companies, medical device companies and others all profit in some way from our health care system. But a small projection of current trends easily leads to the conclusion that our system of health care is headed for economic collapse.

Can universal health care save us?

The first effect of universal health care will be to substantially reduce the purchase of private health insurance. Government subsidized health insurance will be cheaper...in the beginning. The obvious second effect is the acceleration of the vicious cycle of rising private health insurance costs. Private health insurance would be quickly obliterated by subsidized government health insurance. Worse, all of

the proposed plans shun any market mechanisms to control cost and instead rely on more stringent regulation.

What is the Fallacy of Universal Healthcare?

The fallacy of universal health care costs is as follows. While 47 million are uninsured, 250 million are insured. Currently, the “free” healthcare that government provides is funded in large part by these private insured. As the private insured flee the market, there is no one to absorb shifted costs.

Advocates of universal health care assume that the low costs of Medicare and Medicaid will be available to universal healthcare. One presidential candidate insists that health costs can be reduced by more than 30% if universal health care is adopted. It is pretty clear that many hospitals, doctors and other medical providers will be forced out of business if they have to rely solely on current Medicare/Medicaid reimbursement rates. At the same time, the demand for medical services will expand because it is “free.” In practice, universal health care will cost much more per person than current government insured programs.

Probable Initial Success of Universal Healthcare is an Illusion

Our current healthcare system has a lot of accumulated capital. Hospitals, Cat Scan equipment, MRIs, highly trained specialists, etc. are present in abundance. Universal health care will take full advantage of this abundance. In the early years, universal health care will appear to be economically sound, because it will feed on this accumulated capital. As cost pressures mount, health care bureaucrats will cut reimbursements for the parts of the health system that require capital or years of extra training. Equipment investments and specialists are weak politically and will be a primary target. It will take a few years to dissipate this capital, and accelerate the retirement of specialists. But if the investment returns are low, capital will flee from the medical system. Health care will be universal; the quality will go down; costs will go up; and there will be an ongoing battle with a bureaucracy over accessibility and cost.

Revitalize Private Healthcare

There is a simple solution. Allow some doctors and hospitals to provide medical services that are free of cost regulation and requirements for indigent service. They can serve (or refuse to serve) anyone at any price or terms. Service at these hospitals would cost 30-40% less overnight, because they avoid the cost of supporting the current medical insurance bureaucracy. Aggressive cost competition is a likely outcome...a benefit for everybody. Of course, this will eventually cause the cost of “free” health care to be fully recognized. This will be painful, but it is also likely that many more “indigents” can afford their own health care.

Change the Terms of Health Insurance

Health insurance companies are a primary beneficiary of current regulations, so they (oddly) would vigorously resist such a scheme (including blackballing “cash” hospitals) even though it dramatically reduces costs. Maybe it isn’t odd. Many more people would opt for catastrophic health insurance for

very low premiums...and finance their own regular minor care. Health insurance companies could lose a lot of insurance premiums. A good addition to the simple solution would be a de-regulated health insurance market at the federal level. A relatively free market in health insurance would accelerate favorable health care cost trends.

How to Initiate New Healthcare Policy

These solutions have very little traction with the political establishment. There are no big funding requirements. No new big dollops of taxpayer money to disburse. There are no powerful interests in the health care establishment that would provide the customary campaign contributions. But these ideas would catch like wildfire at the grassroots level. How can we start the fire?

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