



Written by on April 29, 2010

Promising Path for Healthcare Reform

When French economist and legislator Frederic Bastiat accused “disseminators of subversive doctrines” of “concocting the antidote and the poison in the same laboratory,” he might — were he alive to see the follies of our day — have American healthcare in mind.



For ObamaCare is but the latest in a long chain of bad political decisions that have effectively destroyed free-market medical care in the United States — decisions that have distorted the economics of healthcare, disrupting delivery of health services, and driving the cost of medicine and treatment to stratospheric levels. The crisis in healthcare affordability and availability, far from being a product of alleged free-market injustices, is in fact the consequence of decades of misguided federal attempts to micromanage healthcare, for which the Obama reforms will prove not a panacea but an additional burden.

Lifting the heavy hand of government interference from the healthcare sector, however, is not an option Washington politicians are willing to consider, since such would require a dramatic rollback in government agencies (like the FDA) and departments (Health and Human Services), a blow against self-interest that the political classes refuse to contemplate.

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Compelling Case

Even so, the case for free-market healthcare needs to be made. The free market can and has delivered healthcare of unrivaled quality, including affordable insurance and timely, world-class treatment. Not only does the federal government have no constitutionally legitimate power to be involved in healthcare, but a return to truly private, free-market healthcare would be both a medical and economic boon for every American.

First of all, let us set aside any notion that the pre-Obama American healthcare system was entirely or even primarily a market-based system. It was not. The government controlled and subsidized upwards of 70 percent of the entire healthcare sector before the Patient Protection and Affordable Care Act of 2010 was ever passed. Medicare and Medicaid have been with us since 1967, and represent the real starting point for the piecemeal socialization of American medicine. But beside them are the vast network of federally mandated and regulated HMOs (which were empowered by the HMO Act of 1973, as part of the Nixon administration’s love affair with wage and price controls), the Indian Health Service, the Department of Veterans Affairs (which provides health services to veterans), the Public



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Health Service, the Centers for Disease Control, and dozens of government institutes like the National Institutes of Health, the National Cancer Institute, and the National Heart Institute. The federal government pays healthcare costs for the poor and the elderly, subsidizes a huge array of medical research initiatives, runs hospitals and clinics, regulates minutely the activity of third-party payers (chiefly HMOs) who defray most of the costs of healthcare, and controls the production of new drugs.

We have, and have had, an American version of socialized medicine for several decades now, and the results have been predictable: immense cost overruns, inefficiency, and grossly misplaced incentives for physicians and patients alike.

Most of the problems stem directly from the bizarre insistence, since the time of Johnson's Great Society in the mid-1960s, that patients should somehow not be responsible for paying the cost of their own medical services, and that the costs even of routine treatments and medications should be defrayed by third parties — either the government or the quasi-private insurance collectives known as HMOs. The involvement of government in Medicare and Medicaid is self-evident, but the federal government's role in fueling the ascendancy of the HMO system of medical coverage cannot be overlooked. The aforementioned HMO Act, as Congressman Ron Paul (a practicing physician for decades) has pointed out, "requires all but the smallest employers to offer their employees HMO coverage, and the tax code allows businesses — but not individuals — to deduct the cost of health insurance premiums. The result is the illogical coupling of employment and health insurance, which often leaves the unemployed without needed catastrophic coverage."

The oft-overlooked consequence of this is the transformation of America from a nation of independent contractors and self-employed to a nation of employees, where the cardinal concern is not merely working productively in an occupation of one's choice, but "finding a job" — that is, securing employment with a corporation that will furnish what individuals generally are no longer able to furnish for themselves: affordable healthcare.

From this reconfiguration of American society has stemmed a host of subtle economic ills that no one ever thinks to associate with healthcare, such as the fanatical focus on "jobs" as a means of defining economic health. Millions of Americans who are today unemployed could easily become self-employed were it not for the prohibitive costs of healthcare; instead, they choose to collect unemployment and rely on publicly funded healthcare rather than go to work for themselves, knowing that a single medical calamity can lead to bankruptcy for the hard-working but uninsured. As a consequence, "jobs" (meaning, employment with some benefits-conferring organization, like a government agency or a large private corporation), rather than work, whether self-employed or otherwise, has become the goal, and the economy is deemed deficient as long as "jobs," so styled, are scarce.

Another consequence of government healthcare is powerful disincentives to engage in preventive behavior like regular exercise, abstention from sugar and tobacco, and healthy eating. America's newest epidemic, obesity (including child obesity), is in large part a consequence of the third-party payer system that has defined American healthcare for generations, and which has encouraged Americans to seek medication for, rather than prevention of, diseases stemming largely from lifestyle choices. Many cardiovascular diseases, Type 2 diabetes, STDs, various cancers, and many other ills correlate directly with lifestyle choices, and can often be remedied or at least mitigated by lifestyle changes. But, as Charles Armstrong, a California physician, observed in a 2005 column for LewRockwell.com:

Paying people (by a "third-party" system) to continue their bad health habits negates any potential



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motivation to live healthfully. When we physicians bring up the subject of making crucial changes in behavior, most patients ... look at us — or respond — with the thought, “If this guy doesn’t quit hassling me about the way I live, I’m going to switch to a real doctor who will cut out the prevention noise and give me my pills.” Why live healthfully when you get pre-paid care and can take free or subsidized medications?

With the government-mandated third-party payer system that we have had since the 1970s, healthcare providers have no incentive to hold down costs, and patients have every incentive to seek medical treatment as often as possible, even for minor scrapes, bruises, and illnesses. Taken together, these incentives have created a system in which doctors bill for even a casual glance at a bedridden patient, and insured Americans rush to the doctor as often as possible to get their money’s worth for the hefty mandatory medical insurance paycheck deductions.

For those within the system, everything works like clockwork. But, as with all socialist and command economics, shortages abound. In the case of American healthcare, where incentives are public but profits remain private, the shortages are manifest in the unavailability of healthcare for those who find themselves outside of this guild-like system. For the millions of Americans who have been priced out of healthcare services, the system works no better than for those in “purer” socialized healthcare systems, such as Great Britain, where both incentives and profits are public, and shortages of major medical treatments affect rich and poor alike.

Putting a Pin Into Ballooning Costs

But there is a solution to the healthcare crisis in America (and it is a crisis of healthcare cost, not of treatment quality): end federal government interference in healthcare altogether. For one thing, it’s blatantly unconstitutional, and for another, it’s completely unnecessary. Prior to the mid-1960s, the American healthcare system (if a truly free-market enterprise can even be called a “system”) was the best in the world, and was affordable to boot. Americans purchased health insurance primarily for catastrophic healthcare, while routine checkups, child immunizations, and the like were paid for out of pocket.

To those who argue that today’s medical care costs have been driven up by the high cost of technology, we answer: If advancing technology is fueling the rise in healthcare costs, why do the prices of high-tech goods elsewhere in the marketplace — PCs, DVDs, digital cameras, cellphones, and so forth — consistently decline? The answer is that none of these products are controlled by the government. This writer once paid out of pocket for a modern MRI in a poor Asian country — a procedure that cost all of 20 American dollars, because that was how much the market would bear in that country. Hospitals, physicians, lab technicians, drug manufacturers, and insurers will charge whatever they believe the patient/customer is willing to pay, and without third-party payers and the welter of government mandates and controls, prices would decline steeply — if people had to pay out of pocket.

There is nothing inherently costly about modern technology relative to the technology of 50 years ago. If free-market American healthcare were restored, Americans would quickly adjust to making better lifestyle choices and take responsibility for paying for routine medical care. The hospitals, wonder drugs, MRIs, and other marvels of modern medicine would not simply vanish without government controls. Instead, healthcare professionals would adjust their pricing, insurance companies would change their premiums and policy offerings, and employers would be able to offer employees more options — including higher salaries without paid benefits. All of these changes would conspire to restore affordability to a healthcare system that remains, in terms of quality of treatment, the best in



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the world. Not only that, the technological improvements that have been the hallmark of American medicine for more than a century would continue apace.

If Americans and their elected representatives can someday muster the wisdom to trust in free-market healthcare once more, we will truly have the best of all possible worlds, medically speaking.

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