Things to Keep in Mind During the Health Care Debate

As the debate proceeds over what should succeed the Affordable Care Act (Obamacare), here are a few basic ideas to keep in mind.

We live in a world of scarcity, which is to say that at any moment our ends surpass the available means to achieve them. We can't have everything now. Thus we have to choose among alternatives. It is obvious that the human race has pushed back the limits of scarcity, but that is the result of human ingenuity sufficiently free to solve problems, or what Julian Simon called "the ultimate resource." Nevertheless, right now we cannot have all we want, so we have to make choices. A quantity of a resource or a unit of labor services cannot be put to more than one purpose at a time. Making choices entails opportunity costs — the benefit we forgo by choosing alternative A over alternative B instead.

Despite the popular misconception, health care is not beyond economic law; it is not a free good that falls like manna from heaven. It has to be produced, which means people must mix their scarce labor with scarce resources to produce the things used to perform the medical services we want. It would be foolish to expect them to donate their labor and resources because other people need them. They have their own lives to live and livelihoods to earn. It would be wrong to compel them. They are not slaves.

In other words, no one can have a right to medical care or insurance, that is, to the labor services and resources of other people — including the taxpayers. We hear a great deal about the need to respect all people; well, respecting people must include respecting their liberty and justly acquired possessions. Without that, "respect" is hollow.

Politicians, of course, can *declare* a right to medical care, but those are mere words. What counts is what happens after the declaration. Since a system in which everyone could have, on demand, all the medical care they wanted at no cost would be unsustainable, the so-called right to medical care necessarily translates into the power of politicians and bureaucrats to set the terms under which medical services and products may be provided and received. This is crucial: a government-declared "right" (that does not reflect natural rights) is no right at all; it is rather a declared government power to allocate goods and services. Natural rights — which boil down to the single right not to be aggressed against — require only that one *abstain* from aggression. Thus all can exercise their rights at once without conflict. On the other hand, government-invented "rights" — such as the right to medical care — cannot be exercised at the same time; the potential for conflict is built in. For example, a person cannot use his own money as he wishes if the government health care system takes it by force through taxation to pay for other people's services.

Since we live in a condition of scarcity we need a way to determine what gets produced in what quantities and how. We obviously want the most value (in the eyes of consumers) for the least cost. That way, we have resources left over for other things we want. How can we achieve that?

Two ways exist for determining how resources and labor are to be used; an apparent third way is simply a mixture of the other two. The first is for the government — fallible, corruptible politicians and bureaucrats operating a monopoly — to decide for everyone. The other way is the decentralized, competitive marketplace. The so-called third way is for politicians and bureaucrats to interfere with, but not completely incapacitate, the marketplace.

Only one is sure to produce the most of what people want for less, that is, to raise living standards as high as people wish.

Let's talk about the other way first.

The government solution has a fatal practical flaw: politicians and bureaucrats will not be able to arrange resources and labor services in such a way as to best serve the welfare of everyone — assuming that's what they sincerely want to do. (If they only want to serve themselves we have a different problem.) Why won't they be able to do this? Because, as Ludwig von Mises and F. A. Hayek showed, the people running the system won't know what they would need to know; the critical information about the supply of resources and the subjective preferences for goods and services is simply unavailable: it does not exist as data in any one place in complete form, and much of it is not articulable at all. The rulers would have to make guesses, and their errors would be society-wide and potentially catastrophic. Attempts at central economic planning have always ended in disaster and misery.

The market method of deciding what is produced solves this complex problem. How? Through the price system. When people are free to trade goods and services in the market, they generate prices that inform others (even if anyone is aware of this) about the relative supply of and demand for things. Those prices then guide producers and consumers. While their objective is not to create a grand and complex process that encourages the coordination countless plans, economizes on resources and labor, and enables people to achieve their well-being in an unrivaled manner, that is in effect what they do. This is what Adam Smith meant with his "invisible hand" trope. Prices guide people to do "the right thing."

While rulers have never restrained themselves from interfering with people's peaceful transactions, history demonstrates rather clearly that to the extent they do so, the people without political power tend to prosper. The link between consensual market activity and general prosperity stands out starkly.

Note that for markets to work fully, all people must be free to control their lives, their labor, and their justly acquired possessions, that is, their property. This brings us to a key point in favor of markets: the moral advantage. Control of economic activity by bureaucrats necessarily treats people like property. Planning an economy means nothing less than planning other people's lives. There is no "economy"; there are only people who exchange their money, goods, and labor with one another for mutual benefit. The economy is typically spoken of as though it were a machine that needs tending. It is not. *We* are the economy our rulers wish to regulate, regiment, and plan.

A keystone of markets, when politicians and bureaucrats leave them alone, is competition. Competition is much-lauded but regularly undermined by alliances of government officials and businesspeople seeking higher profits than purely voluntary transactions would bestow. Virtually all government interference with market activity has the effect of stifling competition. Big companies, for example, can more easily carry the burdens of high taxes and bureaucratic rules than can small or yet-to-be-founded businesses. Government is the source of the much-despised economic concentration.

Stifling competition by force harms society because through competition we learn things we would not otherwise learn. Hayek called it a "discovery procedure." I think of it as the *universal solvent* because it dissolves problems by dispelling ignorance. At any time there are things we don't know that we'd be better off knowing. We can't hope to learn those things through the decision making of a small group of bureaucrats, even if they try in good faith to puzzle things out. But when people are free to buy and sell freely in the market — confronting real-world alternatives — they hit on solutions to their problems. It's trial and error, but there is no better way because virtually all people participate and through their actions contribute their bits of knowledge, any one of which might lead to just the solution people are looking for. Competition and cooperation are two sides of the same coin, and the cooperative nature of markets ought to make them attractive to folks who are now hostile to them.

This is where the entrepreneur comes in. While in a real sense everyone is an entrepreneur (acting creatively in an uncertain, open-ended world), professional entrepreneurs earn their livelihoods by taking risks in offering novel goods and services to improve people's lives. If their offerings are valued by others, they profit. If not, they lose. The quest for profit and the aversion to loss create unparalleled incentives to serve others effectively. Those who consistently misread consumer preferences and thereby waste resources (from the consumers' viewpoint) will lose so often they will have to find other work, leaving the field to those who are more attuned to consumers' subjective preferences. The only thing that can scuttle this process is the government (plus the privilege-seeking businesspeople it gives rise to), which is able to bail out producers who ill-serve consumers and waste resources.

Competition, it is important to realize, does not simply mean that several companies offer the same product or service. It is a creative function driven by entrepreneurs who take risks in an uncertain world to provide things we'll find valuable. If we are to reap the benefits of market competition, people must be free to improvise without having to obtain permission from a bureaucracy. Note the application to the health care industry: contrary to what politicians and bureaucrats would have you believe, a few insurance companies selling identical policies designed by a government agency is not market competition.

This brings us to an important question in the health care context: what is insurance? Outside the medical sector most people understand that insurance is a way to grapple with uncertainty. Specifically, insurance allows the pooling of resources of many people in order to deal with the small risk of a large financial misfortune for any particular individual in the group. Think of life, homeowner, or auto insurance. For some reason health insurance is thought of differently. Most people expect health insurance to cover every medical expenditure no matter how small, predictable services (like annual physical exams), and illnesses contracted before the coverage began ("preexisting illnesses"). Much of the reason for this goes back to World War II, when the government imposed wage and price controls but let employers offer medical insurance as noncash compensation not subject to income taxation. One of the problems with American health care is that most people get their insurance through their employers, anesthetizing consumers to the true costs of coverage and services. Medical transactions are largely between large institutions (including the government), not cost-conscious buyers and customer-oriented practitioners.

Much of what we call health insurance is not really insurance. No one expects their auto policy to cover windshield-wiper blades, tires, and oil changes (such a policy wouldn't be worth the price), and no expects to be able to buy a homeowners policy to cover a house fire already in progress or a life-insurance policy for someone who is already dead. Logically, you cannot insure against a certainty. Someone who has a serious illness before obtaining health coverage represents medical expenses sure to be incurred. Call the coverage what you will, but it is not insurance. The government can force others — even insurance companies — to pay for those things, but that doesn't make it insurance. It's welfare, with the companies playing the role of tax collectors. In the process, the insurance market is distorted and the true costs of the implicit transfer of resources are hidden. (I explore this point here.)

Violating economic laws has consequences — even in the health care industry. If the government requires insurance companies to cover already-sick people, they must get the money somewhere. The natural place to look is to younger healthier people, that is, people who will pay more than they collect. But here come the problems. If insurers charge those people too much, they won't buy policies (knowing that they can buy them when they get sick) and insurers will have to charge older sicker people enough to cover the costs of their medical care. (That would expose the fact that it is not insurance, but merely a pre-payment plan.) If politicians prohibit insurers from charging older sicker people more (or much more) than younger healthier people, the higher level of premiums would drive more of the latter out of the market, making things worse. The ACA attempted to solve this problem by forcing everyone to buy a policy — that is, by violating their liberty. However, many young people preferred to pay the tax penalty for not having coverage rather than buy a policy. That is one reason insurers are fleeing the market and the ACA is sinking.

The lesson is that tampering with the price system always comes to grief. Medical care and insurance are not exceptions. If prices are to do their job, they must be true — that is, undistorted by government controls and mandates. If the government passes rules to expand insurance in order to minimize or eliminate out-pocket-expenses for routine medical services, it makes those services to appear free or near-free to consumers; those misleading price signals then lead to problems that politicians will then act to solve. By overconsuming "free" services — say, by undergoing unnecessary elective tests because "my insurance covers it" — people quite innocently impose costs on insurers (that will have to be recouped from customers) and other people: premiums and waiting times for services will rise. It's supply and demand.

Politicians may believe they can help by giving tax-financed subsidies to policyholders and insurers, but that policy brings its own problems. For one thing, regulations will follow to keep the subsidies (now an "entitlement") from exploding out of control. People may not like the conditions, but as the Supreme Court said in the 1941 *Wickard v. Filburn* case, "It is hardly lack of due process for the Government to regulate that which it subsidizes."

This raises an important matter: if the government assumes responsibility, directly and indirectly, for the cost of medical care to society, inevitably it will find it necessary to restrict or ration services. That is, it won't allow us to make our own choices because it will have a political and fiscal stake in "bending the cost curve down." As Mises noted long ago, intervention begets intervention. (In this article I debunk the proposition that markets are just another way to *ration* goods and services.)

Advocates of a government-directed medical system may have the best intentions, but intentions can't override market forces, which are generated by purposeful human action. Moreover, we have no reason for confidence that politicians and bureaucrats will sufficiently distinguish the public's interest (if that can be defined beyond peoples' individual interests) from their own interests. Government officials are no less devoted to their careers and prestige than people outside the government; indeed, power is what may have attracted many to government "service." We must not compare the real-world market to the idealized state, because in reality, state operatives lack both the information and incentives needed to deliver the goods.

Summing up: Health care is a collection of important services, but that does not mean the laws of economics can be flouted without bad consequences. We know that competition works, even in the health care industry: in recent years LASIK eye surgery and cosmetic surgery, which are typically elective procedures not covered by insurance, have gone down in price and up in quality. This demonstrates what happens with consumers are cost-conscious (even when competition is hampered). Governments at all levels have created the problems that politicians and their consultants tell us only they can solve by force. Intervention stimulates demand by distorting prices and restricts supply by, among other ways, limiting the number of insurers and practitioners through occupational licensing and permitting, capping the number of hospitals and medical schools through accreditation, and making drugs and devices more expensive through the FDA's bureaucratic rules and, importantly, patents. The system is riddled with government-sponsored cartels. (For more on this see Kevin Carson's "Health Care and Radical Monopoly.")

Moreover, governments limit access to health care in the myriad ways it impedes people's general pursuit of financial success: state intervention lowers incomes compared to a freed economy and raises the prices of many goods by increasing scarcity and distorting production — that is, it stymies growth in living standards.

If universal access to medical care is the goal, the government is the goalie. It should get out of the way.