

A Four-Step Health-Care Solution

Guest post by Hans-Hermann Hoppe.

It's true that the U.S. health care system is a mess, but this demonstrates not market but government failure. To cure the problem requires not different or more government regulations and bureaucracies, as self-serving politicians want us to believe, but the elimination of all existing government controls.

It's time to get serious about health care reform. Tax credits, vouchers, and privatization will go a long way toward decentralizing the system and removing unnecessary burdens from business. But four additional steps must also be taken:

1. Eliminate all licensing requirements for medical schools, hospitals, pharmacies, and medical doctors and other health care personnel. Their supply would almost instantly increase, prices would fall, and a greater variety of health care services would appear on the market.

Competing voluntary accreditation agencies would take the place of compulsory government licensing—if health care providers believe that such accreditation would enhance their own reputation, and that their consumers care about reputation, and are willing to pay for it.

Because consumers would no longer be duped into believing that there is such a thing as a “national standard” of health care, they will increase their search costs and make more discriminating health care choices.

2. Eliminate all government restrictions on the production and sale of pharmaceutical products and medical devices. This means no more Food and Drug Administration, which presently hinders innovation and increases costs.

Costs and prices would fall, and a wider variety of better products would reach the market sooner. The market would force consumers to act in accordance with their own—rather than the government's—risk assessment. And competing drug and device manufacturers and sellers, to safeguard against product liability suits as much as to attract customers, would provide increasingly better product descriptions and guarantees.

3. Deregulate the health insurance industry. Private enterprise can offer insurance against events over whose outcome the insured possesses no control. One cannot insure oneself against suicide or bankruptcy, for example, because it is in one's own hands to bring these events about.

Because a person's health, or lack of it, lies increasingly within his own control, many, if not most health risks, are actually uninsurable. "Insurance" against risks whose likelihood an individual can systematically influence falls within that person's own responsibility.

All insurance, moreover, involves the pooling of individual risks. It implies that insurers pay more to some and less to others. But no one knows in advance, and with certainty, who the "winners" and "losers" will be. "Winners" and "losers" are distributed randomly, and the resulting income redistribution is unsystematic. If "winners" or "losers" could be systematically predicted, "losers" would not want to pool their risk with "winners," but with other "losers," because this would lower their insurance costs. I would not want to pool my personal accident risks with those of professional football players, for instance, but exclusively with those of people in circumstances similar to my own, at lower costs.

Because of legal restrictions on the health insurers' right of refusal-to exclude any individual risk as uninsurable-the present health-insurance system is only partly concerned with insurance. The industry cannot discriminate freely among different groups' risks.

As a result, health insurers cover a multitude of uninnsurable risks, alongside, and pooled with, genuine insurance risks. They do *not* discriminate among various groups of people which pose significantly *different* insurance risks. The industry thus runs a system of income redistribution-benefiting irresponsible actors and high-risk groups at the expense of responsible individuals and low risk groups. Accordingly the industry's prices are high and ballooning.

To deregulate the industry means to restore it to unrestricted freedom of contract: to allow a health insurer to offer any contract whatsoever, to include or exclude any risk, and to discriminate among any groups of individuals. Uninsurable risks would lose coverage, the variety of insurance policies for the remaining coverage would increase, and price differentials would reflect genuine insurance risks. On average, prices would drastically fall. And the reform would restore individual responsibility in health care.

4. Eliminate all subsidies to the sick or unhealthy. Subsidies create more of whatever is being subsidized. Subsidies for the ill and diseased breed illness and disease, and promote carelessness, indigence, and dependency. If we eliminate them, we would strengthen the will to live healthy lives and to work for a living. In the first instance, that means abolishing Medicare and Medicaid.

Only these four steps, although drastic, will restore a fully free market in medical provision. Until they are adopted, the industry will have serious problems, and so will we, its consumers.