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Nationalized Health Care Will Cut Costs?

It Just Ain't So!

A group called Physicians for a National Health Program (PNHP) is promoting a government insurance plan to cover all Americans. In an August 13, 2003, *Los Angeles Times* report, the group claimed that their "single payer" plan would eliminate $200 billion a year in "administrative, marketing and other private-industry expenses." This would save enough "to provide health care to the 41 million Americans who now lack coverage."

Why then, we wonder, wouldn't similar plans be in order for other consumer goods? Why shouldn't Americans have a nationalized, single-payer plan for, say, food? If we could save $200 billion a year in health care, couldn't we save billions in "private-industry expenses" for victuals? After all, if we visit the PNHP's website (www.pnhp.org/facts/key_features_of_singlepayer.php), we learn that "[p]rofit seeking inevitably distorts care and diverts resources from patients to investors." This argument should be just as applicable to other industries, for example: "profit seeking inevitably distorts feeding and diverts resources from diners to investors." The logical conclusion of the idea is to nationalize the entire economy, saving trillions! We all know how well such ideas worked out in the Soviet Union, Mongolia, Albania, and North Korea.

As with most fallacious arguments in economics, the physicians' concern with one particular magnitude—total health-care expenditures—ignores the *true* criterion of success: the health of Americans. If researchers discovered a very expensive drug that would guarantee an active, 150-year life, it is possible that total health-care expenditures would increase. But such an outcome would hardly be a sign of disaster.

The reasonable person might still conclude that lowering health-care "costs" is an important goal. But we must be careful: one can reduce the satisfaction derived from health care faster than the costs. For instance, the government might reduce expenses by severely restricting consumer choice. By cracking down on "frivolous" product variety, it might indeed be cheaper to provide the basics. But such reasoning fails to appreciate the *function* of advertising and other measures taken to differentiate products. Whether it's health care or computers, the professionals in an industry need the freedom to experiment with new products and techniques, to see which best satisfy consumers. Of course, this freedom goes hand in hand with certain expenditures on "redundant" systems and "counterproductive" advertising, but the only way to encourage innovation is to allow the pioneers to benefit from their discoveries.

In any case, we are confident that we would never see the cost savings these doctors predict. Do they think the Pentagon's single-payer system has kept down the costs of military hardware? The *Times* notes, "The system envisioned . . . would be built on the foundation of the current Medicare program." But the costs of Medicare at the turn of the millennium were running about 700 percent above original estimates.

Plans that lower prices of a good will logically prompt consumers to demand more of it. Those of us who have been caught between insurance plans know that certain "indispensable" visits to the doctor or dentist can often wait until our coverage is restored and somebody *else* has to pay for them. But the PNHP attempts to deny basic economics: "Co-payments and deductibles are . . . unnecessary for cost containment," its website states.

PNHP also denies its plan would restrict

the freedom of consumers: "Compare [our plan] to today's system, where doctors routinely have to ask an insurance company permission to perform procedures, prescribe certain medications, or run . . . tests."

This, of course, is nonsense: a doctor does not have to ask an insurance company for "permission" to deliver any treatment he recommends. He may have to ask an insurance company if it will *pay* for it. The insurance company could decline, but that in no way prevents the doctor from delivering the treatment.

Do the PNHP doctors really think that all potential treatments will be allowed under their socialized plan? That's impossible: scarcity cannot be repealed by legislative whim; even in health care, tradeoffs are inevitable. Whether they realize it or not, under the physicians' plan doctors will have to ask a *government official* for permission to perform procedures, prescribe medications, or run tests. And under the PNHP plan, it will be a criminal offense to pay for the treatment oneself if coverage is denied. How is that supposed to help patients?

Canadian Waiting Lists

The *Times* cites an associate professor of medicine at Harvard University, Dr. David Himmelstein, who "conceded that Canada's single-payer system has waiting lists for some medical services." He makes it seem as if these are minor matters, only for inconsequential services. But waiting times have been increasing—growing from an average of nine to an average of 16 weeks during the 1990s alone[1]—and people have died while awaiting vital procedures.[2]

Himmelstein goes on to assert, "A single-payer system also would address the mounting billing and paperwork frustrations experienced by physicians." We wonder if he can name any other activity where increased government involvement has *reduced* paperwork?

It is true that under current arrangements, the health-care situation of those who are not insured at work but who do not qualify for Medicare or Medicaid is quite difficult. Those with less wealth have more difficulty acquiring *any* good or service than those with more. But their particularly dire circumstances with regard to health care are almost entirely due to previous government interventions. The government-backed AMA severely restricts the supply of physicians and thus drives up the cost of doctors' services. The special tax status granted to employers' expenses for insurance further increases prices, as do Medicare and Medicaid subsidies.

Our preferred solution is a true free market in health care, one where anyone is permitted to provide any service he wishes, with consumers free to evaluate providers. But, indoctrinated with the notion that it is only government licensing that protects us from quacks, many Americans consider it absurd to argue that everyone should be legally allowed to practice medicine.

However, consumers are fairly adept at assessing suppliers of other products. A butcher who regularly makes his customers ill with food poisoning will soon go bankrupt. Similarly, in a free market an incompetent doctor will soon lose his patients. Undoubtedly, private certification and rating organizations would abound.

Curiously, interventionists believe consumers are (a) too ignorant to identify bad doctors on a free market, but (b) capable of voting for good politicians to improve health care. As PNHP declares, "The public has an *absolute* right to democratically set overall health policies and priorities." (Emphasis added.) Wouldn't it be easier to pick a good doctor?

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1. Sally C. Pipes, "Lessons from the North: Bus Travelers Bring the Reality of Rationed Health Care and Price-Controlled Drugs over the Border," Pacific Research Institute Briefing, October 2002, pp. 2–3.

2. Pacific Research Institute, "False Promise of Single-Payer Health-Care: A Close Look Inside the 'California Health Security Act,'" /www.pacificresearch.org/pub/sab/health/single_prayer/sphealth.html.