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Diagnosing Health Care

By William C. Short

Despite its failings, the health care industry in the United States is the best health care delivery system in the world. However, in recent years, health care has crept in as an undisputed right for all. This notion of universal health care has become the foundation of popular rhetoric for a number of today's politicians. Their proposals inherently fail to address a number of fundamental economic factors, and as a result would not only hold our national budget hostage but in the end would reduce the overall quality of care, access to care, and stunt the development of new life-saving pharmaceutical drugs.

This growing interest in universal care arises perhaps out of a flawed system that too often shields the true cost of care from the consumer. The consumer, whether in an employer sponsored plan, an individual plan, or a government sponsored plan, typically pays a set co-payment and receives little information regarding for underlying costs that are involved in administrating care.

For example, individuals that purchase a traditional health plan are paying a premium for a third party (i.e. an insurance company) to manage their health care exposure or health risk. There is little incentive to manage health risk, which means that the individual policy holder may be inclined to be a heavy utilizer not out of necessity but rather because there is no reward, financial or otherwise, to do otherwise.

Further, even if a well-intentioned consumer were to try and determine the true cost of care, the task would be virtually impossible. This is because prices for medical care are generally determined by reference to those set at the federal level by Medicare. These prices are based on a complicated formulary that bears no resemblance to prices set by the interaction of supply and demand in the marketplace.

Flu shots provide an excellent example of this process in action. Medicare may artificially set the price of a flu vaccination $5 to $10 below the cost of administrating that flu shot in a misguided effort to increase the availability of the vaccine. Government agencies cannot truly set prices, only the market can. So, the false price distorts market signals and creates a loss for the health care provider that may affect future availability. Next, an individual that relies on a traditional health plan to gain access to the same flu vaccination may only be required to pay a small co-pay that would be a fraction of the true cost of administration at the point of service. The provider is then required to file a claim, incurring overhead expense, and wait for payment from the insurance company incurring an account receivable on the overall service.

This hoop-jumping creates glaring inefficiencies. In addition, it fosters inequity. An artificial

inflation of medical services develops for those that are either uninsured or paying cash. Those that pay cash or are uninsured at the point of service for medical care are usually quoted at a higher rate then those that are either on a government sponsored plan or are privately insured.

Policymakers should not be surprised, then, when universal coverage plans fail to meet expectations. Indeed, advocates in Kansas of such proposals should look to other states experimenting with similar concepts to judge their outcome. Commonwealth Care, a new Massachusetts plan along these lines is one such example worth investigating. A recent article in The Wall Street Journal notes that the average wait time to see a primary care physician in Massachusetts is now more then seven weeks -- a 57 percent increase from the previous year. The article also reports that 49 percent of the state's internists no longer accept new patients.

Worse, this trend is likely to continue as the negative incentives built into the system lead fewer individuals to attend medical school and even fewer residents to select primary care as their specialty. Longer hours, below market reimbursements for medical services rendered under government sponsored medical plans and less take home income for the primary care physician when compared to other specialties are to blame. The results of the state's miscalculation will prove with time to not only fail to resolve the problems the proposal sought to address, but will actually exacerbate those very problems. Thus, the outcome will be a program that provides little if any additional benefit at a tremendous financial cost.

Especially in light of ongoing budget difficulties, Kansas policymakers should take heed of this reality and seek out health care solutions centered on consumer empowerment rather than government expansion. Reliance on basic market tools and incentives will prove far more successful in meeting the needs of Kansans than any effort to centrally plan the delivery of health care.

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