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Political vs. Market Health Care

By Gregory Schneider

Burton Folsom, a historian of modern American history at Hillsdale College in Michigan, wrote a very useful little book which should be assigned reading in a wide variety of history courses at both the high school and college level.

Entitled *The Myth of the Robber Barons* (1996), Folsom eviscerates the idea that capitalists exploited the people during the industrial revolution. Such a view developed as a result of the Great Depression of the 1930s, a time when businessmen were not held in high esteem, and as a direct result of Matthew Josephson's book *The Robber Barons* (1934) which first applied the old medieval term to individuals like John D. Rockefeller, Jay Gould and Andrew Carnegie.

Folsom shows how problematic the term is for a description of *all* businessmen during the industrial era. Some deservedly exploited the public good, bilking stockowners, the American Treasury and exploiting labor to make huge profits which were not subject to taxation or their firms to regulation. They were political entrepreneurs and they produced a shoddy product at a higher price than the true market entrepreneurs Folsom profiles in the book.

The market entrepreneurs produced a product at less cost and delivered superior service to their customers. They were innovators and they legitimately benefitted from the rewards of doing business right. They did not look for political favors nor did they seek the help of government to build their firms and market their products. They include, in Folsom's interpretation, Great Northern railroad builder James J. Hill (the only western railroad built without government land grants and the only major railroad never to go into bankruptcy); Andrew Carnegie; and Rockefeller of Standard Oil, who produced kerosene so cheaply that "only the rich could afford to use candles."

I was thinking of how much our current health care system bears resemblance to Folsom's apt distinction between political and market entrepreneurship. On the one hand we have a health insurance system which rests on public and private insurance with the pricing mechanism determined by the Medicare system. In other words, there is no true market for health care because the price is not set by market forces, but rather by third parties who control the market and do so, as much as anything else, because of a system politicized by government entry into health care in the 1960s with the creation of Medicare and Medicaid.

What needs to be done instead is to create an actual health care market, a pricing mechanism that is transparent and depends on consumer demand for services and the institutionalization of reforms which would empower individuals to take control over their own health care and health care spending rather than leaving it to the political entrepreneurs in insurance companies and government.

It is possible to have a market in health care. Plastic surgeons charge a price for their procedures (some also take insurance and Medicaid patients); Lasik eye surgery pricing is known up front as well.

Wouldn't it be nice to know what the price of a procedure is when you receive it? If insurance truly acted as insurance—subsidizing risk and paying for catastrophe such as extended medical needs, surgery, hospitalization and other expensive items.

It could work. As Folsom's book shows, there were innovative market entrepreneurs who took risks, profited, plowed the profits back into their firms and developed even better and more efficient services and products. If it worked for steel, oil and railroads (among other things); there is no reason why such a market can't work for health care as well.

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