THE COMMERCIAL APPEAL
Memphis, Tennessee
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Free-market health care not pretty

By Cyril F. Chang, Special to The Commercial Appeal

Sunday, October 13, 2013

The federal government shutdown and the debt ceiling debate reflect a fundamental belief of conservatives that the Affordable Care Act is a mistake and that a free market can offer a better solution to Americans' health care problems. Let's explore what life would be like if health care was provided in a free market.

At its purest form, a free market works on the basis of supply and demand with little or no government involvement. This form of health care suggests an unregulated market in which consumers with higher incomes could choose the health services they want when they want them. Consumers with lower incomes would need to find assistance to get health care services, or simply go without them.

Another defining characteristic of free-market health care is that health insurance would be sold competitively much like other types of casualty insurance, such as auto and household insurance. Since the tax authorities would not favor employers' provision of fringe benefits over wages and salaries, few businesses would provide health insurance to their employees.

In a free-market economy, insurance companies would charge each individual a premium based on the buyer's age, health and other cost-determining factors. They could also adjust premiums, or even refuse to renew an existing policy, on a case-by-case basis.

Because most small and routine medical services, such as office visits and preventive services, are not worth buying insurance to cover (for the same reasons people do not buy auto insurance that covers oil changes), high-deductible, catastrophic-coverage policies would be the norm. And many people would not buy insurance at all, either because they could not afford it or because the benefits would not be worth the cost.

Would you like to live in a world with such a free market?

Most of us would probably say no for two reasons. We would not want to lose health care coverage because of pre-existing medical conditions or pay a prohibitively high premium to maintain coverage. Most of us also care about the poor who cannot afford health insurance.

Many conservative thinkers have instead suggested a market-based alternative that follows the basic principles of supply and demand, but also mitigates many flaws of free-market health care. Here is how it would work.

To deal with the problem of pre-existing conditions, many conservatives would accept a "government fix" based on personal responsibility as a condition. Consumers would have to prove that they have maintained coverage continuously with no gap to receive guaranteed coverage. Another market-based fix would allow consumers to pay extra for a health insurance policy that would secure their right to buy health insurance in the future at a set price without the fear of being denied coverage.

To control the costs of publicly funded programs such as Medicare and Medicaid, conservative health care reform would make consumers more cost-conscious by converting the current "defined benefits" plans to "defined contribution" plans. Unlike the defined benefits plans, which promise to provide a specific and predetermined basket of health services, the defined contribution plans would offer beneficiaries and their eligible dependents a fixed financial contribution, called "premium support," toward the purchase of private health insurance.

This conservative plan would also mandate that any future increases in public spending must be matched by cuts somewhere else in the government budget. There would not be any government-led cost-control measures, such as Obamacare's creation of the Independent Payment Advisory Board (aka "the death panels"). Similarly, innovations in the system would also be led and paid for by the private sector and not by the government.

How do you like this alternative for market-based health care reform?

Before you answer, consider this: The market-based approach would not insure as many of the uninsured as Obamacare does. Moreover, shopping for health care would not be easy. Many health economists have long questioned whether the unregulated free market is the best mechanism for delivering health care.

Health and sickness are complicated matters. Even physicians do not always agree on the causes of a patient's illness and they cannot predict the outcomes of available treatments. But they know far more about health care than their patients do. These uncertainties in the causes of diseases and in treatment outcomes, together with the lopsided information asymmetry, have over the years given rise to a number of social and market arrangements that have made the real-world health care market very different from the competitive market described in Econ 101.

These special features of health care include the role of nonprofit institutions that do not always seek to minimize costs, physicians who may deliver more or less quality and quantity of health care than expected by their patients, and professional licensing and many forms of government regulation of health care.

In short, shopping for health care is difficult even for informed consumers. The market is brutally efficient in delivering care to those willing and able to pay. Just as the airline industry offers a wide range of high- and low-quality accommodations to suit every budget, market-based health care would also be tiered and segregated. It is one thing to sit in the economy class of a packed airplane watching the first-class passengers getting the full attention of the flight attendants; it is quite another to be treated as second-class patients in a crowded hospital.

Yes, the market can indeed deliver health care of various qualities to those willing to pay. Market-based health care would also have the advantage of less government intrusion and a lower tax burden. However, it may leave many of America's poor or working poor with inadequate insurance coverage or no coverage at all. It would also shift much of the shopping and planning decisions to individual consumers and their families, with some of them maneuvering the complex health care system better than others.

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