

THE MORAL LIBERAL

Is the Faculty of Harvard University Irrational?

Michael Cannon

As an irony junkie, this *New York Times* [article](#) on the outrage among Harvard's faculty that they should face greater cost-sharing in their health benefits – and the incredulity of Harvard's health economists at their colleagues' reactions – is one of the most wonderful things I have read in the course of my career. And it reminded me of another Ivy League health economist: Princeton health economist Uwe Reinhardt.

It has long been one of Reinhardt's hobby horses that “[the American public's idea of 'common sense' in health care](#)” is fundamentally irrational:

To be responsive, then, to the “simple common sense” of the American people, any proposed health reform must not reduce the revenue of hospitals, lest some neighborhood hospital may have to close; or of doctors, lest some doctors might refuse to see patients; or of the manufacturers of health products, lest they are unable to innovate; or of anyone on the supply side of the health sector, lest they go out of business and have to lay off employees.

At the same time, the “simple common sense” of the American people dictates that any health reform that fails to bend down the growth curve of future health spending — the current jargon for controlling health spending better — is unacceptable, too.

At the time Reinhardt penned this particular expression of his exasperation (July 2009), I [noted](#) that the irrationality he decries is a direct result of policies he and other left-leaning health reformers have enacted into law:

The [explanation] is actually pretty simple: government has given us a health sector where everyone is spending someone else's money. In such an economy, individuals can make irrational demands (cut spending — but don't reduce my access to care!) because *they don't bear the cost of their irrationality*.

Emphasis added. People who pay for their own consumption don't have the luxury of being able to pretend that tradeoffs don't exist. Walk into a BMW dealership and announce, “I want a 7-series at Hyundai prices!”, and the dealer will laugh at you. When Medicare enrollees do the same thing – [Keep Your Government Hands Off My Medicare!](#) – the people who run Medicare praise and court them.

The seeds of such irrationality can also be seen in the case of Harvard University or any other employer-sponsored health plan, where the federal government imposes stiff tax penalties on anyone who does not (1) surrender \$5,000 or \$11,000 of their income to their employer and (2)

let their employer use that money to select their health plan. Since this government policy means that workers don't control that portion of their compensation, and don't perceive the direct and negative relationship that employer-provided health insurance has on their wages (partly because they can't get that money back by declining health benefits), workers end up demanding mutually incompatible things: comprehensive health-insurance coverage that doesn't cost them anything. If that seems irrational, it is because, as I put it in that 2009 blog post, "[Socialized Medicine Socializes the Cost of Irrationality, Too.](#)"

Now that the Smartest People In The Universe – the faculty at Harvard University, naturally – are displaying the same behavior as the supposedly irrational American public, would Reinhardt still describe that behavior as irrational? Or is it Reinhardt and like-minded health economists who are irrational for expecting the lab mice to behave some other way?

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