

The Myth of Free-Market Healthcare

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[The Case for Legalizing Capitalism (2010).]

The AMA Monopoly

While most people believe that our healthcare industry is one comprised of free markets, it is anything but. The industry is completely distorted by government manipulation.^[1]



To start with, the American Medical Association (AMA) has had a government-granted monopoly on the healthcare system for over 100 years. It has intentionally restricted the number of doctors allowed to practice medicine so as to raise physician incomes artificially. The primary way it does this is by using the coercive power of the state to restrict the number of approved medical schools in operation. After the AMA created its Council on Medical Education in 1904, state medical boards complied with the AMA's recommendation to close down medical schools.

Within three years, 25 schools had been shut down, and the number of students at remaining schools was reduced by 50 percent. After three more years, 10 more schools were closed. Since that time, the US population has increased by 284 percent, while the number of medical schools has declined by 26 percent to 123.^[2] In 1996, the peak year for applications, only 16,500 candidates were accepted out of 47,000. While high rejection rates can be common in many schools, applicants to medical schools are usually among the brightest and highest-quality students and have put themselves through a very costly admissions process.

High rejection rates are why so many aspiring doctors attend medical schools in the Caribbean, where they are prepared to be American doctors. The medical monopoly also marginalizes or outlaws alternative or slightly alternative (i.e., competing) medical practices, along with nurses and midwives, who could perform many of the tasks doctors do today.

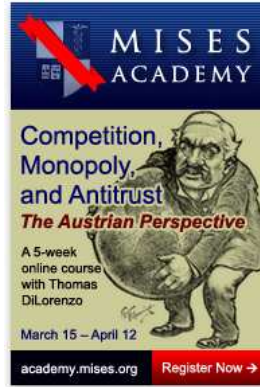
The AMA also has monopoly power over the state boards, which issue licenses. A physician can practice only by having a state license (licenses in general exist primarily to prevent competition). Each state has licensing boards consisting of AMA members who decide which applicants, according to them, are competent and morally fit. The boards also have police and enforcement powers to monitor their own kind and keep as many nasty incidents as possible out of the public eye.

The state medical boards masquerade as consumer-protection agencies. Instead of revealing competition to the public as something that lowers doctors' incomes, the AMA and medical boards present it as something that must be stopped in the name of keeping patients safe.

As a further understanding of the intertwining of government and our healthcare system, consider the following summary by Henry E. Jones, MD:

Most members of the state medical boards are appointed by the governor. State and county medical associations, medical specialty societies, large medical group practices, HMO's, health insurance companies, chain and wholesale pharmacies, and large hospital chains contribute heavily to the campaigns of candidates for governor and attorney general. Thus, the governor appoints to the state medical board those desired by the medical monopoly. Doctors selected by the medical monopoly for appointment to the state medical board can be counted on to cooperate. And it works the same way with the State Board of Pharmacy. The medical monopoly contributes heavily to congressmen and maintains one of the best-financed and most effective lobbying

programs in Washington, D.C. It is important that the AMA, the state medical board, and the state attorney general in each state work hand-in-glove to further the interest of the medical monopoly.



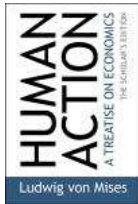
Do We Need to Be Protected?

One might retort that restricting the supply of doctors is good, because only the smartest, most knowledgeable, and safest people should be responsible for our very lives. But under this argument, we could ask, "why stop at the doctor-limiting threshold at which we currently operate?" Why not restrict the supply further so that we have only the top thousand or even the top ten doctors in the nation to take care of us? In that case, having only the most qualified doctors, even more people would die each year for lack of affordability as well as lack of opportunity to actually get in to see the doctor.

Look at it another way: what if we limited the number of automobiles in the same way? What if we were only allowed to produce cars with the quality and safety of the top Mercedes, BMWs, and Rolls Royces?

In terms of assigning grades to the quality and capability of the doctors, what if we *should* restrict the number of doctors to those who are grade B and above, but we have already placed restrictions at a higher level, such that we only accept A+ doctors? Just as a Saturn Astra or a used Ford Escort delivers a valuable service to many, so would a B or even a C doctor, particularly for non-life-threatening issues. There are many of us who would pay, say, \$30 to visit a C-grade doctor for a cold, versus \$100 to visit an A-grade doctor.

In a free market, *any* doctor could practice medicine. But would we then have any and every shingle-hanger calling himself a doctor only to kill someone due to misdiagnosis or by removing the heart instead of the spleen? No, we wouldn't, as I explain shortly.



But even if that did happen on a rare occasion, the number of deaths resulting from such an event would likely be much less than the number who die currently from current doctors' mistakes (see below), or from the number of those who die from a lack of affordable healthcare (I know of one person who, because he couldn't afford treatment for his Parkinson's disease, committed suicide last year). Besides, in those terrible rare cases, individuals would have at least had the opportunity to choose what they thought was best for them.

In reality, the doctors who would practice would be those educated to do so. Besides, any unqualified doctor who did bad work would lose clients and go out of business as word got around. Above all, there would be private ratings agencies comparable to other consumer-reports services telling us how various doctors rank, and which doctors have high accident or casualty rates.

At the least, why not allow *competing* medical associations? We could have four or five other associations with the same criteria of competency as the AMA. We could allow an absolute rather than a rank-ordered threshold to be met in order to practice medicine. Or, why not permit many fewer qualified people to practice medicine, and then let individuals choose between higher-priced AMA-certified and lower-priced non-AMA-certified doctors?

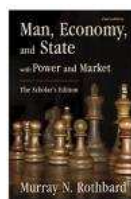
Healthcare "Insurance"

The other major problem with our healthcare system is our third-party payer system, where we rely on someone else to pay most of our bills, i.e., we use "insurance" that is funded mostly by corporations and the government. Though this system originated with the Blue Cross and Blue

Shield entities early last century (which obtained government-supported advantages over competing private systems), the third-party payer system really took hold with the advent of government regulation during WWII. Because economy-wide prices were rising due to the government's printing of money that paid for the war, politicians imposed universal price and wage controls. Because businesses could not compete for labor by bidding up wages, they began to compete by offering special benefits, including paying employees' healthcare costs (which socialists now see as something incumbent on large companies).

When something is free or mostly free, people demand more of it. With someone else paying their bills, people make more trips to the doctor, they don't negotiate against increasing prices they face, and they don't balk at more and more superfluous tests and more specialist visits being required of them. This constitutes more demand for healthcare services and equipment, the owners of which raise prices in response, not only to take advantage of their increased pricing power, but to try to reduce their workload, because more people start to demand healthcare than providers have the time and resources to address. Prices are used to equate supply with demand. With the supply of doctors restricted by the AMA, and increasing demand for relatively free healthcare on the part of consumers, prices began to rise rapidly, and waiting times to see doctors became longer.

Because healthcare then became unaffordable to many (whereas previously it was not), politicians, in the name of helping people in order to get votes, set up government agencies to offer Medicare and Medicaid to pay for the healthcare costs of those who could not afford it. With the government spending additional billions of dollars to compete for the limited amount of healthcare services, prices began to increase all the more. With every new instance of government payment for citizens' healthcare, such as the Medicare Part D program enacted in 2003 to pay for prescription drugs, healthcare costs rise still further.



Had the companies facing price controls in the 1940s chosen to pay for employees' food instead of their healthcare, we would likely have grocery prices rising at phenomenal rates today, causing a "foodcare" crisis supposedly brought about by free-market failures. It is very important to understand that, because the government funds one of every two healthcare dollars spent, and because much of the government's spending comes from the printing press, a substantial portion of the demand for healthcare consists of money being printed – much of the credit creation by the central bank goes directly into raising healthcare costs.

Each year, as costs rise due to increased spending on healthcare, private insurance companies simply raise the costs of premiums so as to cover these increased expenditures they pay on our behalf. The more we spend, the higher are our premiums. But as prices rise, fewer people can afford premiums, and those paying premiums for others, such as employers, cannot afford to cover as many treatments.^[3] Just to prove that insurance companies are not simply raising their profits at our expense, as both individuals and politicians alike claim, consider in this figure their profits, which are lower than the average company. Profits – and costs – in the industry would be lower still if government did not restrict competition among insurance companies.

Figure 1

Insurance and Managed Care Industry Profits, 2007

United Health Group	5.8 percent
Wellpoint	5.4 percent
Aetna	6.7 percent
Humana	2.3 percent
Cigna	7.0 percent
Health Net	2.5 percent
Coventry Health Care	7.2 percent
WellCare Health Plans	3.7 percent
Amerigroup	3.8 percent
Centene	-1.9 percent
Medical Mutual of Ohio	4.9 percent
Molina Healthcare	2.3 percent
Sierra Health Services	8.1 percent
Median Profits	4.9 percent
Fortune 500 Median Profits	7.6 percent

Source: Fortune Magazine, 2007: http://money.cnn.com/magazines/fortune/fortune500/2006/industries/Health_Care_Insurance_Managed_Care1.html

The Quality and Cost of Our Regulated Healthcare

With all this regulation and expensive healthcare, Americans receive only a mediocre quality of care. The United States is far from achieving the lowest world infant mortality and death rates. Fatalities from incorrect healthcare treatment are the third-leading cause of death in the United States after heart disease and cancer. Over 225,000 people die each year from doctors' mistakes: 12,000 deaths occur each year due to unnecessary surgery; 7,000 deaths are due to medication errors in hospitals; 20,000 deaths are due to other hospital errors; 80,000 are due to infections in hospitals; and 106,000 due to the negative effects of drugs.^[4]

And for this level of quality, we pay about \$6,000 per person each year. How is it that we are unaware that we are paying this much? We don't see that amount subtracted from our checking accounts because individuals, on average, fund only about 20 percent of their annual healthcare costs, with employers and governments paying the rest. But in truth, we all still pay the remaining amount, because all money eventually comes from individuals (or at least those who work and produce). The dollar amount of healthcare that employers pay on our behalf is in fact subtracted directly from our paychecks.

Obviously, if companies did not have to pay healthcare costs, those monies would instead be paid to workers, or to machines that would increase the productivity and thus the paycheck of workers. The dollar amount of healthcare that *government* pays for on our behalf is taken directly from our paychecks in the form of taxes and indirectly through inflation. Additionally, the Cato Institute estimates that the cost per household of medical providers' compliance with health-services regulation was \$1,546 in 2002. It also estimated that roughly one out of every six uninsured persons was uninsured because of the cost of regulations.^[5]

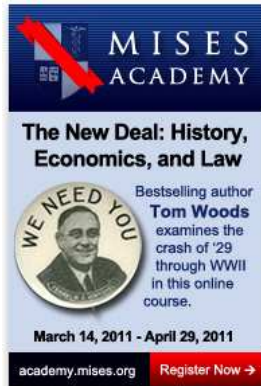
All of this regulation exists, yet most people still believe we have a free market in healthcare and that that is the root of our problems. On top of the two primary issues discussed above, doctors and hospitals are subjected to unbelievable amounts of burdensome oversight and enforcement agencies, bureaus, and commissions. As Jones states,

Rules, regulations, and laws are duplicated, redundant, multiplied, magnified, and contradictory. Laws and regulations covering doctors and hospitals plus all the other parts of our healthcare system now account for over half of all the words, sentences, and paragraphs in our entire body of law.

Socialized Medicine

Socialists want us to turn to nationalized healthcare, where the state will pay for our healthcare (as though we will not still be paying for it). But this will not work either.^[6] When medical care is free, people consume more of it. The costs would continually rise, as they currently do in the

United States. Because national governments have limited budgets, governments with socialized medicine impose cost controls and limit spending to a particular amount. But because nothing limits individuals from going to the doctor, waiting lines grow longer and longer.



At this point governments limit doctor visits or limit the types of procedures that can be done. For example, a particular treatment might only be authorized given the existence of a particular set of other symptoms. Or surgery might be restricted to patients who are under a given age. After getting sick, famed British record-label owner, radio and TV presenter, nightclub owner, and journalist Tony Wilson (about whom the film *24 Hour Party People* was made) faced death due to the fact that Britain's National Health Service (NHS) refused to fund an expensive cancer drug he needed to stay alive. He stated, "I've never paid for private health care because I'm a socialist. Now I find you can get tummy tucks and cosmetic surgery on the NHS but not the drugs I need to stay alive. It is a scandal." Wilson died not long after in 2007.^[7]

In England's state-run system, the waiting list is nearly 800,000 people. This is in addition to those denied medical attention: 7,000 for hip replacements; between 4,000 and 20,000 for coronary bypass surgery; 10,000 to 15,000 for cancer chemotherapy. Even with our current, screwed-up system one can get treatment if they, or their friends or charities, can pay the price. Under socialized medicine, where many are prevented by the government from getting care, the socialist's "right" to healthcare certainly goes out the window.

Additionally, in countries with socialized medicine, physicians' and researchers' incomes are limited, thus taking away their incentive to compete or to be innovative with new forms of technology or treatments. Such is inherently the case under a government bureaucracy.^[8] For these very reasons, Canada's healthcare system has taken the first step towards privatization, due to Quebec's lifting a ban on private health insurance. As the *New York Times* stated,

The Supreme Court decision ruled that long waits for various medical procedures in the province had violated patients' "life and personal security, inviolability and freedom," and that prohibition of private health insurance was unconstitutional when the public health system did not deliver "reasonable services."^[9]

The quality of service also diminishes with reduced incentives. Soviet hospitals were characterized by widespread apathy and disregard for lives: AIDS was contracted in Russia primarily through dirty needles at state hospitals; patients had to pay bribes in order to receive minimal attention (anesthesia was often withheld until bribes were paid); patients were routinely taken from their deathbed and shoved out the door in order to improve success-rate statistics; X-rays were denied in order to save the expensive film.

Socialists believe we have a "right" to healthcare. They simultaneously refuse to believe that having the right to something that is necessarily taken from others against their will constitutes theft; they believe that to associate "theft" with taxes is nutty, no matter how accurate it is in reality.

"If we all believe we have a right to have as much as we want of the limited amount of healthcare available, from whom will we take it?"

Suppose that you were one of the first settlers of this country – at Plymouth Rock, for example – where a majority of the settlers starved to death because the leaders had implemented communism.^[10] When the settlers were spending their day working the land with the few tools they had, exactly what healthcare did they have a right to? Did they have a *right* to take their neighbors bandages? Did they have a *right* to take their neighbor's alcohol to pour on their wounds? Real healthcare did not exist then and there. It was later *created and produced* in this

country.

If we all believe we have a right to have as much as we want of the limited amount of healthcare available, from whom will we take it? And do we also have a *right* to food? The first settlers at Plymouth Rock indeed relied on each other to produce food for them, thus producing little themselves. The food was put into a common pile where everyone came to take what they wanted. Soon, the food was gone and the settlers were starving. A system based on positive "rights" leads to poverty.

Only Free Markets Can Solve the Healthcare Crisis

Every election cycle, we hear politicians talk only of cost controls, electronic medical records, and preventing lawsuits in order to solve our medical crisis. We do not hear from them discussions of the real problems of government-paid insurance, the third-party-payer system, and medical boards.

Some pundits argue that technology increases medical costs. Though technology lowers costs in other industries, people think that it somehow increases costs in the healthcare industry. Indeed, Paul Krugman claims that healthcare costs rise simply "because of medical progress."^[1] With these kinds of backward notions, our "leaders" set out to implement yet more regulation and price controls, which will only exacerbate the problem.

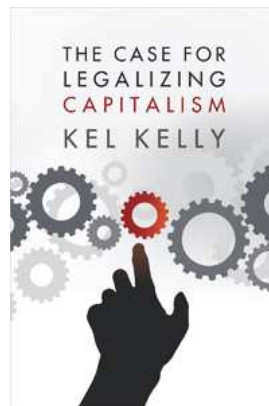
What we need are truly free markets in healthcare, which would bring about an increased supply of doctors and healthcare facilities, and drastically lower costs. By bringing free-market profits to the industry, the quality of care would improve due to the competition of providers to make the most money by trying to please the most consumers.

Healthcare costs used to represent 5 percent of national income, and now it is 17 percent.^[2] Each year, due to increased demand paid for by companies and the government, a greater proportion of our incomes is funneled into healthcare expenditures and a smaller proportion into other goods. Under free markets, healthcare prices would fall in real terms (if not also nominal terms), and the cost of staying in a hospital would approximate the costs of staying in a hotel plus the additional marginal costs of the labor services of nurses and doctors, and the costs of the use of the tools and technology.

If we all paid for our own healthcare, instead of having others pay, it would be mathematically impossible for costs to be at a level above what each of us could afford; doctors and hospitals could not make as much money if they charged more than people could afford to pay. This is why we can afford things in other industries — because goods are priced at a level commensurate with our incomes. The key is to pay for our own healthcare as needed. Costs of healthcare would be affordable to everyone in the same way that food, televisions, and tools at Home Depot are; they would be just another average cost that we pay.

For those who still doubt such an argument, think seriously about whether the supposed high costs that would occur in a free market would really outweigh the costs we incur today where healthcare costs rise at two to three times the rate of inflation. And consider whether the supposed physical harm that would occur would outweigh the deaths and physical suffering that occur today due to the fact that millions cannot afford access to healthcare.

Additionally, if licensing is so important in order to guarantee competent and qualified service providers, shouldn't we, in the same vein, require all politicians to go through years of training in the areas of philosophy, history, economics (including free-market economics), industrial production, accounting, and management before they are permitted to pass laws that



affect the economy and our lives? Shouldn't *they* be licensed?

Kel Kelly has spent over 13 years as a Wall Street trader, a corporate finance analyst, and a research director for a Fortune 500 management consulting firm. Results of his financial analyses have been presented on CNBC Europe and in the online editions of CNN, *Forbes*, *BusinessWeek*, and the *Wall Street Journal*. Kel holds a degree in economics from the University of Tennessee, an MBA from the University of Hartford, and an MS in economics from Florida State University. He lives in Atlanta. Send him mail. See Kel Kelly's article archives.

This article is excerpted from *The Case for Legalizing Capitalism* (2010).

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Notes

[1] The introductory paragraphs that follow, and most historical facts and figures are taken from the following authors and papers: Dale Steinreich, "100 Years of Medical Robbery," and "Real Medical Freedom"; Henry E. Jones, "How Medical Boards Nationalized Health Care"

[2] This actually understates continual declines. Paul Starr, *The Social Transformation of American Medicine* (1982), p. 421, reports that in 1965 only 88 schools existed, meaning that the council almost reached its goal of a more than 50 percent closure of schools.

[3] People can't afford the premiums and smaller businesses can't afford to cover their employees. And because government does not cover everyone, and does not always cover all the costs incurred for those who need healthcare insurance, many are left out in the cold.

[4] Barbara Starfield, "Is U.S. Health Really the Best in the World?" *The Journal of the American Medical Association* 284 (July 26, 2000).

[5] Robert Longley, "Cato Claims FDA Denies Health Coverage to Over 7 Million."

[6] The explanations in this section on nationalized healthcare are patterned after the explanation given by Professor George Reisman, "Papiere, Bitte (Papers, Please)."

[7] James McIntyre, "Tony Wilson, founder of 'Madchester', dies after battle with kidney cancer," *The Independent UK* (August 11, 2007).

[8] For an excellent exposition of this fact, see Ludwig von Mises, *Bureaucracy* (1944).

[9] Clifford Krauss, "Ruling Has Canada Planting Seeds of Private Health Care," *The New York Times* (February 20, 2006).

[10] On this, see: Richard J. Maybury, "The Great Thanksgiving Hoax," and Gary Galles, "Property and the First Thanksgiving."

[11] Paul Krugman, "Bad Medicine," *The New York Times* (March 19, 2002).

[12] As an aside, those same statistics are even more dramatic for the financial services industry.