

# Forbes

## The Health Insurance Trap

By **Jeffrey Singer**, M.D.—*Dr. Singer is a general surgeon in Arizona, and an adjunct scholar at the Cato Institute*

5/09/2014

Health care costs are too damn high—and they're [only getting worse](#). [Last week, researchers at Harvard and Dartmouth released a report estimating that health care costs will continue to grow faster than the economy for at least the next two decades](#). This is a tremendous burden on average Americans, who already spend nearly a fifth of their [average annual pre-tax income](#) on health care.

Why can't Obamacare stop this trend? Because the law doubles down on one of the biggest contributing factors to the high price of medical care: Health insurance.

Health insurance is a complicated system that serves patients' needs last. It introduces a third party into the doctor-patient relationship. This can be a private company—such as modern insurance companies—or the government—such as in Medicare and Medicaid.

Third party entities don't spend money like you and I do. We care about two things when we buy a product: quality and affordability. Insurance providers aren't overly concerned about either. Affordability isn't their biggest concern because they're spending someone else's money—their members' premiums. They're also not concerned as much about quality because they're spending that money on someone other than themselves—the patients receiving treatment.

This is a basic reflection of human nature. It's also the single worst way to spend money, according to the late Nobel Prize-winning economist Milton Friedman. The best arrangement, as he demonstrated through his economic work, occurs when individuals spend their own money on themselves.

That's not what happens with health insurance. When insurers—whether a private insurer or the government, as happens under Obamacare—set prices, they negotiate compensation schedules with providers and facilities. But they don't have to bargain hard enough to reach the best price possible. They just have to reach a price that is good enough—one that allows them to charge premiums that compete well with rival insurers. They pass on the difference to us, their premium-paying customers.

This only further drives up the cost of health care. Once insured, patients like you and me, along with the health care providers that contract with insurers, continue to spend money in inefficient

and wasteful ways. The system encourages us to do just this: Health insurance gives us the illusion that we're spending other people's money when we get medical treatment.

I don't know about you, but I'm not exactly frugal when I have someone else's checkbook. Because of this basic human impulse, Friedman labeled this the second worst way to spend money.

In other words, health insurance perversely relies upon the two worst ways to spend money.

So why not cut out the middle man entirely, along the lines of most European countries? Their "single payer" health care system eliminates private health insurance companies altogether. In their place, the government acts as the sole health insurance provider.

This doesn't fix a thing. When the government becomes the insurance company monopoly, such as in Europe or Canada, we see long wait times and rationed care. In America, a single-payer system would require putting the entire country on a system similar to Medicaid. But Medicaid consistently struggles with high costs, poor health outcomes, and decreased access to care. In both Europe and America, limiting patient choice and restricting treatment options are the only ways to keep costs down.

Obamacare bears this out. Plans currently offered on health care exchanges frequently include smaller doctor and hospital networks. Many patients must now decide whether they want relative affordability or more options.

Compare this to a health care system without third party insurance companies, whether public or private. It already exists—and it's working. In the fields of cosmetic surgery, Lasik eye surgery, alternative medicine, and dentistry, the absence—or minimal presence—of third party entities has driven prices down and quality and service up.

There's also a growing market of health care providers who refuse to accept third party insurance or Medicaid precisely because both they and their patients can save money. For instance, I had a patient who saved \$17,000 on a single treatment. He paid me and the hospital directly rather than going through his insurance company.

Every patient and every doctor should demand a similar arrangement. Instead, Obamacare's architects expanded a health insurance system that artificially increases costs and decreases choice. That's not what the doctor—or the patient—ordered.