Commentary

State-Of-The-Art Health Care For Everyone?

William Poole, 07.28.09, 2:48 PM ET

A basic fact is being ignored amid all the spilt ink in the healthcare debate: A nation cannot afford state-of-the-art health care for everyone. The current effort to expand health care insurance is designed to make the same health care available to both those with extensive insurance and to those currently uninsured. This effort ignores the fact that resources to make such care available to everyone do not exist.

For every major category of goods, higher income families spend more than lower-income families. Health care is not an exception. Consider the BLS Consumer Expenditure Survey for 2007, the latest year available; for all respondents together, the survey reports average annual income after taxes per consumer unit of $60,858 and average annual health care expenditures of $2,853.

For the highest income group tabulated, consumer units had average income after taxes of $230,849 and health care expenses of $4,836. The highest income group, therefore, had health care expenses 70% higher than for all groups. Of course, total national expenditures are much higher, with many costs borne by government, companies and private charities.

Let's assume that the highest income group can afford state-of-the-art health care, which we would like to make available to everyone. Based on these data, that would increase national health care outlays by 70%. To achieve this outcome, the nation would need many more physicians, nurses, medical technicians, hospitals, medical schools, MRI machines, drugs and so forth. It would be easier for the space program to send astronauts to Mars than to increase the scale of the medical establishment by 70%.

Providing today's state-of-the-art health care for everyone is simply impossible. Moreover, relentless and highly desirable technical improvements keep pushing the health care frontier outward. An ambitious goal, like sending astronauts to the moon, may be desirable, depending on a calculation of benefits and costs. An impossible goal, like state-of-the-art health care for everyone, is foolish.

Advocates of reform will object that they are not proposing state-of-the-art health care for everyone. But in practice, that is exactly what they are doing. A government-operated plan will have no satisfactory way of saying "no" to certain expensive treatments, especially when such treatments are known to be effective. We need to face the moral dilemma of saying no.

There are only two ways to say no. One is through bureaucratic processes that approve some insurance claims and deny others. The second is for society to put the decision in the hands of families and their physicians. Their decisions will necessarily be based in part on what families can afford. Higher income families can afford insurance policies that cover a wider range of ailments and treatments. From their own resources, they can pay expenses not covered by insurance. In some cases, families and their physicians may choose not to incur certain expenses the family could otherwise afford, choosing instead to leave larger bequests to children and grandchildren.

It is surely true that there are ways to improve the efficiency of existing health care resources. However, it is a pipe dream to believe that the nation can get 70% more health care from existing resources.

Many will accept economists' hard logic when it comes to expenditure categories other than health care--foreign travel, size of house, number of cars and so forth. In these examples, higher income families can spend more. It's troubling when this logic is applied to health care, but there is no escape from the principles of economics. An economy has finite resources; health care resources are not sufficient and never will be to permit state-of-the-art health care for everyone. Scarcity of finite resources is taught in economics 101. Strangely, this scarcity of resources is ignored in the debate over health care reform.

If health care reform is not based on accepting the fact of scarcity, we will increase the level of tragedy in the years ahead. Government will make promises it cannot keep. In the process of trying to keep impossible promises, we will add bureaucratic

costs. We will use bureaucratic denials and queues to ration care. We will extend the use of price controls in a futile effort to stretch government resources, with the result that we will reduce supply and suppress innovation.

The health care debate needs to be rebooted, starting from recognizing scarcity and only then going on to discuss how to improve the efficiency with which we use our existing resources. We need to discuss whether and how to expand health care resources. We need policies that encourage innovation. Resources will always be scarce, but innovation will make available in the future treatments that have the effect of expanding the amount and quality of health care to levels we cannot comprehend today.

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