ORANGE COUNTY REGISTER

Forget price controls, treat health care like any other product

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May 18, 2018

To address the high price of health care, California is considering price controls. Assembly Bill 3087 would create a nine-member board to “set prices for everything from a physical exam to an allergy test to heart bypass surgery.” The proposal enjoys the support of labor unions, but many health care providers are dead set against it. Unfortunately, this proposal mistakes the symptom — high prices — for the disease. Health care is not inherently expensive. It costs too much because we pay for it in the wrong way.

Instead of using market-based arrangements that pressure providers to deliver more while charging less, our insurance-dominated, politically controlled payment system does the exact opposite: it rewards providers for delivering less while charging more. A thicket of government regulations then makes things even worse, stifling competition from new entrants that might seek to attract customers by offering better terms.

Price controls may seem like an appealing solution but the history of price controls, dating back more than 4,000 years, provides abundant evidence that they do not work — and often make things worse. As the economist Thomas J. DiLorenzo writes, price controls cause “shortages, sometimes of catastrophic consequence; deterioration of product quality; the proliferation of black markets on which prices are actually higher and bribery is rampant . . . and a dangerous concentration of political power in the hands of the price controllers.” Do Californians really want to try and approach that has failed every time it has been tried?

A better solution is to use competition to incentivize providers to reduce their prices and improve quality of care. California should give consumers control over their health care dollars and let them buy medical treatments directly — the same way they purchase almost everything else.

Skeptics will argue that “health care is different,” but there is already a sizeable retail health care market in which everything is reasonably priced. Californians who spend their own dollars can get Groupon deals on many medical treatments. Cash-paying customers can purchase in vitro fertilization services for $7,000 at Fertility Partnership in St. Louis. They can have their knees and hips replaced inexpensively at the Surgery Center of Oklahoma, where transparent, all-inclusive cash prices are readily available on-line. They can obtain high-quality LASIK surgery from reputable eye doctors at bargain prices — as low as $220 per eye for people with mildly impaired vision at the LASIK Vision Institute. At CVS's Minute Clinics they can obtain vaccinations, medical examinations, tests, and treatments for routine problems at prices in the $50 to $250 range, with free parking and no waiting.

When consumers buy health care the same way they buy everything else — at retail with money they control — market forces push prices down and quality up. The mystery is why we rely on third-party payment arrangements as often as we do.

Homeowners insurance kicks in when a house burns down, not when it needs a fresh coat of paint. When Californians start treating health care like an ordinary product, prices will drop dramatically and the demand for price controls will disappear.

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