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Mr. Market Chokes on Obama-Style Health Care: Caroline Baum

Commentary by Caroline Baum

Aug. 24 (Bloomberg) -- Health care is different. It's ill- suited to market mechanisms because it deals with matters of life and death.

I've heard this so often from so many quarters that I was starting to believe it. Then I asked myself, why?

The market does a fine job when it comes to basic necessities, such as food and shelter (at least under normal credit expansion). Why is it that prices, the mechanism for allocating goods and services in a free-market economy, aren't up to the task when it comes to medical care?

For starters, there aren't many observable prices, at least to the end-user. Consumers have no idea what a procedure costs, and no incentive to look beyond their co-payment.

A market can't function without prices. The only way to contain costs, or the growth in costs, is to make sure consumers of health care have access to prices and some skin in the game.

"But this is life and death we're talking about," I can hear you say. (It's only about death one time per individual.) "How can I worry about what a procedure or surgery costs when I'm critically ill?"

No one is suggesting individuals comparison-price shop via BlackBerry from a supine position in an ambulance en route to the emergency room.

We can, however, with proper information, make those choices when we're healthy.

Those who prefer their health-care reform the free-market way envision an on-line mart where individuals can shop for an insurance plan, across state lines, offering the same tax advantage as employer-based coverage.

Pricing Life

A healthy man in his 20s might choose a low-premium, high- deductible plan, opting to pay for an annual physical out of his own pocket while secure in the knowledge he has a safety net in the event of a catastrophic accident or illness.

He could then purchase a health savings account, allowing him to set aside pretax dollars to pay for current and future qualified medical expenses. With an **HSA**, it's your money to spend or to save. Those who can't afford to buy insurance would receive some form of government subsidy.

What about the idea that we can't put a price tag on life?

"We do it all the time," says **Michael Tanner**, a senior fellow at the Cato Institute, a libertarian Washington think tank. "If we outlawed cars, we could save 38,000 **fatalities** a year."

We make decisions about risks and rewards every day. When it comes to choosing a plan or a provider, we should think about our options before we're in pain, sedated or frightened.

Then there's the claim that we can't research and choose a doctor or surgeon in the same way as a household appliance.

Just Ask Dave

Why not? When I wanted to buy a paper **shredder**, I went to Amazon.com, looked at the options, compared the prices, read the reviews, asked Dave, who sits next to me ("The really cheap ones don't last"), and made my

selection. I'm very happy with the shredder I bought, but if I wasn't, I could return it.

Granted, it's harder with a doctor, where personal chemistry is a consideration. A physician may look good on paper (nice smile, good education and training), excel as a diagnostician and be a total dud when it comes to communicating with the patient. You may opt for smarts over bedside manner in some cases, in others not.

Nowadays there are **guides** to the best doctors, nationwide, in major cities and at specific hospitals; statistics on risk- adjusted mortality rates for surgeons; incidents of complaints against doctors.

More information widely available will lead to better, more informed, more cost-effective choices.

Pay for Performance

On the provider side, "the issue is how to reduce supplier-induced demand," says **Paul Feldstein**, professor of health-care management at the Paul Merage School of Business, University of California, Irvine. "The goal should be to structure incentives to get a better outcome."

Medicare, for example, has used a fee-for-service model since its inception in 1965. It encourages volume (more tests, procedures, surgery) over results, rewarding "incompetent doctors and bad hospitals," according to **Irwin Savodnik**, a psychiatrist and philosopher on the faculty at the University of California at Los Angeles.

Poor diagnosis and treatment may mean more tests and additional surgeries. "The worst rise to the top," Savodnik says.

And Medicare-for-all is President **Barack Obama's** model for health-care reform?

Health care is an overwhelmingly complicated issue, which is probably the best reason the task of reform should be assigned to Mr. Market rather than politicians. The market would "respond and develop tools to make price and value decisions," Cato's Tanner says.

Less Than Perfect

Such a system would be far from perfect. One of the obvious problems is what Tanner calls "steeply sloping elasticity," which is another way of saying that younger, healthier people are more responsive to cost incentives than those who are elderly and ill.

Demand is also inelastic when you've been hit by a car and are being rushed to the hospital.

"We can't organize a system around that," Feldstein says.

What we have to do -- what every system has to do -- is deal with the problem of moral hazard, he says. Once you have insurance, there's no incentive to use less care.

Obama would have us believe a low-cost public option will solve the problem. No wonder Mr. Market is shaking his head.

(**Caroline Baum**, author of "Just What I Said," is a Bloomberg News columnist. The opinions expressed are her own.)

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