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SOLVING THE WORLD'S PROBLEMS, ONE POST AT A TIME

BY STEVE CHAPMAN

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### Myths about health insurance profits

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My recent column criticizing the president's proposal to put federal controls on health insurance rates got me lots of complaints from readers who insist the industry is not competitive, allowing big companies to gouge customers. But all the evidence says that's just not so.

It's true that in many states, a handful of providers get most of the business. But if health insurance were dominated by oligopolists who can charge excessive premiums, you'd expect rates and profits to be high and rising. In fact, Cato Institute economist Alan Reynolds notes that according to the government's own data, "the average consumer cost of health insurance premiums fell by 3.5 percent in 2008 and fell by another 3.2 percent in 2009."

Last year, U.S. News and World Report pointed out that the health insurance industry ranked 87th out of 215 sectors, with an average profit of 3.4 percent. In other words, more than 96 percent of the cost of health insurance consisted of things that have nothing to do with profits.

It's also a myth that a sector dominated by a few companies must be uncompetitive. In fact, the Concise Encyclopedia of Economics says that modern research finds "little unequivocal evidence that industrial concentration is worrisome. Just the reverse seems to be true."

There are many things wrong with our health insurance system. Lack of competition isn't one of them.

Posted at 05:02:53 PM in Economics, Health care

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