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Ronald Bailey on competition and health care

To follow up on my last post a bit, <u>here's some words of wisdom</u> on markets and competition from Reason's Ronald Bailey:

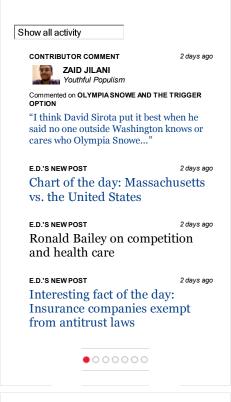
This cost-reducing dynamic works in most other areas of our economy, so why not in health care?

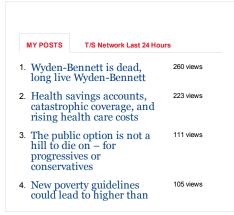
One of the chief problems is that consumers haven't a clue about what their insurance and medical services cost. Hospital chargemasters (essentially comprehensive lists of all charges) typically contain prices for over 20,000 items and services. Sorting through those lists for the best prices would be impossible for consumers. But why should they have to? In markets, the proper dictum is that "nobody has to know everything." Markets are superb at gathering widely dispersed information and resources from millions of people and firms and then distilling that information into prices.

When someone buys a car, they are not confronted with a bill listing separate prices for pistons, radiators, assembly line screw tightening, seats, gas tanks, windows, and so forth. Nor when they buy a hamburger are the prices for the beef, bun, wrapping paper, and special sauce listed and charged for individually. The market has bundled those separate items together into a single price. Competition sparked by consumer demand could unleash a similar simplifying dynamic in which prices for health insurance and medical services become bundled and more transparent.

So what kind of real reforms could increase health care competition? Congress should aim to break up the system of local monopolies into which our health care sector has devolved. In his Saturday attack on health insurers, President Obama noted that the industry enjoys "a privileged exception from our anti-trust laws, a matter that Congress is rightfully reviewing." What he is talking about is the McCarran-Ferguson Act of 1945 that allows state governments to regulate the business of insurance without federal government interference. The Act is, in part, responsible for the evolution toward state insurance markets dominated by just a few large insurers. Consumers cannot purchase insurance policies that are not licensed by their state insurance commissions and which do not incorporate all the mandates imposed by those commissions. Congress and the states should open up competition between insurance companies by enabling "regulatory federalism" that would allow individuals and employers to purchase health insurance from other states. As a report from the







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free-market Cato Institute notes, regulatory federalism would force state insurance commissions to compete among themselves. The result would be that "states that impose unwanted regulatory costs on insurance purchasers would see their residents' business-and their premium tax revenue-go elsewhere."

One of the most dismaying aspects of the current health care debate has been the lack of focus on competition in the market. Lots of talk follows the thinking that a strong public option will increase competition, but the underlying problem – that the system as it stands is simply anti-competitive at a structural level – is rarely addressed. Without that structural problem being fixed, a public option will likely suffer the same restraints and shortcomings – as well as difficulty controlling costs – that insurers in the private market do today.

So it's good to know that this is on the President's agenda.

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I am a free-lance writer and blogger. I write at The League of Ordinary Gentlemen and at David Frum's site, New Majority.

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Why American Tory?

The conservative movement in America has been careening toward the deep-end for some time now One thing it lacks is a strong set of policy-shapers. I want to be part of the project that fills that void. The other thing it lacks is sensible direction. David Cameron's Conservative Party in the UK can be a model for the conservative movement here as well.

If you have any tips on policy reports, smart analysis, or other items of interest please feel free to email me.

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