



A Healthcare Prescription for Iowa

By Jonathan J. Miltimore

In my April Brief I discussed why more of the same state sponsored healthcare “solutions” — mandating healthcare coverage, expanding Medicaid and Medicare, etc. — would not improve healthcare quality and access for the vast majority of Iowans. If, as most experts agree, the problem plaguing healthcare markets is exorbitant costs, simply expanding coverage is not a real solution.

This is not a controversial premise. Most people electing to forego healthcare coverage are doing so not because they do not want coverage, but because they cannot afford coverage. When I ask families what the greatest problem in our healthcare system is, the near unanimous response is, “The premiums are too high.” Premiums are high for a reason: Americans are over-consuming healthcare.

The United States currently spends 16 percent of its Gross Domestic Product (GDP) on healthcare; this figure is expected to reach nearly 20 percent by 2017. As a means of comparison, the United States spent 5.2 percent of its GDP on healthcare in 1962.¹

This is an astonishing figure. Improved healthcare technology and diagnostics can explain part of this phenomenon, as can the increase in disposable incomes of Americans. But a three hundred percent increase in the percentage of resources dedicated to healthcare cannot be attributed to these factors alone, and it does not correspond to the increases experienced by other developed nations.²

As Americans spend higher and higher percentages of their paychecks on healthcare they have less income to spend on other things. It is not as if Americans enjoy spending nearly two dimes of every dollar they make at the hospital. Most (I will assume) would rather be able to spend more of their income on any number of other things: home improvements, their child’s education, a nicer car, fancy dinners, concerts, etc.

So if high healthcare costs are the problem, and healthcare costs are high because Americans are over-consuming healthcare, the question remains: Why are Americans over-consuming healthcare? The answer is surprisingly simple: Americans are over-consuming healthcare because they are not paying for it directly.

When the doctor tells us we need a particular procedure or treatment most of us don’t ask how bad we need it or how much it will cost. We ask if our insurance will cover it. Indeed, it is entirely sensible that individuals are far more inclined to demand expensive treatments or care they may not need if they are not footing the bill.

Do you order what you normally would if you’re eating out on the company credit card? I don’t. That’s right, I confess that I’ve gone a notch or two further up on the wine list when out to dinner on the company’s dollar.

The idea is similar for healthcare, just on a much larger scale. John Doe is going to get whatever care his doctor tells him because John Doe’s health is important to him; other people’s money is not. The fact that John Doe may be driving up the cost of healthcare premiums is not of real concern to him.

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For many of us it is difficult to imagine healthcare being administered any other way; we have never known any other system. So what would the alternative look like? For starters it would mean allowing a pricing system to operate. When patients are paying for healthcare costs directly, they are more sensitive to what those costs are.

Second, it means giving more control to individuals. This rejects the conventional (if unspoken) wisdom that 21st century healthcare is far too complex and serious an issue to be left up to the masses, who are likely to make uninformed decisions or get cheated by unscrupulous profiteers. But one need not be a disciple of Adam Smith to appreciate that individuals tend to make sound and informed decisions when their own welfare (and money) is on the line.

Some of the most salient problems in healthcare cannot be addressed effectively at the state level. For example, states can do little to address the federal policy that discriminates against individual healthcare consumers compared to those who have insurance via his or her employer.

Why can I buy a car from Detroit and steaks from Omaha, but am stuck with whatever health plans my state happens to offer? The short answer is that Congress inhibits interstate commerce in healthcare by allowing states to run fifty different highly regulated and protected “markets.” Essentially, states make it illegal for residents to buy health insurance outside of their own markets.

However, there is nothing that would prevent the Iowa Department of Human Resources from allowing its residents to purchase health plans across state lines, in a sort of unilateral disarmament. And while Iowa insurance companies may not benefit from the increased competition, Iowa consumers certainly would. If individuals are allowed to spend tax-free dollars in a competitive marketplace they will become more incisive consumers; they will purchase affordable, high-deductible plans tailored to their particular needs and become cost-conscious consumers. This will lower the cost of both care and premiums.

Matching subsidies can and should be provided to the disadvantaged and less affluent individuals to help them purchase plans. Allowing prices to operate and giving people more control over their healthcare dollars does not mean a laissez-faire healthcare system free of government regulation and assistance. Rather, it means allowing a healthcare market to operate similarly to other markets.

People will always over-consume something if they believe it is free; however, if given a stake in and responsibility for something, you’ll find that “the needy” are not helpless vagabonds, but shrewd consumers.

Endnotes

¹United States Department of Health and Human Services, Center for Medicaid and Medicare Services, Fact Sheet, <http://www.cms.hhs.gov/NationalHealthExpendData/25_NHE_Fact_Sheet.asp#TopOfPage> (May 2, 2008).

²Jon Miltimore, “Confronting Healthcare Costs,” INSTITUTE BRIEF, Vol. 13, No 37, Public Interest Institute, Mt. Pleasant, IA, December, 2006.

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