

# Position Paper on Health Care

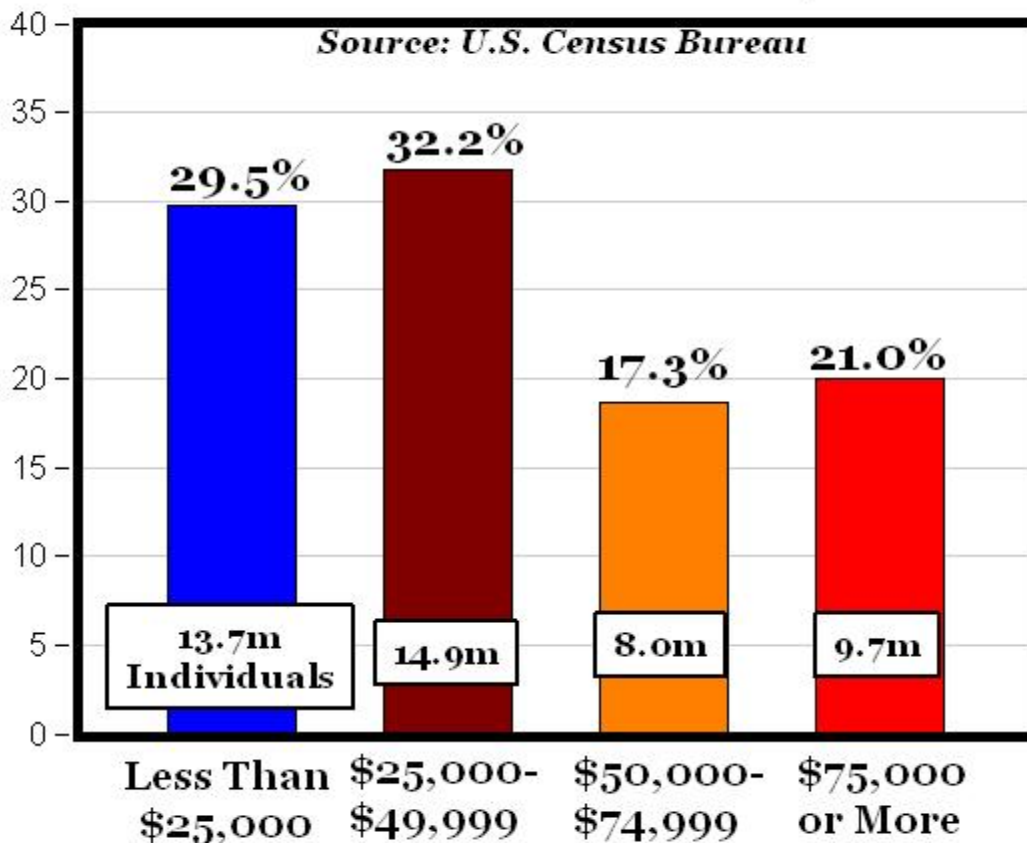
By Joe Eaton

*This is a compilation by Joe of data and analyses, with Joe's comments in dark red.)*

This is a government created problem and a government invented crisis. Is there room for improvement? Yes. Is this a crisis that must be solved by extraordinary measures of government right now? No. Any attempt to do so will make the problem worse, not better. Allowing current government proposals to proceed will not reduce cost and will reduce individual freedom, choice, and responsibility – the bedrocks of a free and dynamic society.

Many of the millions of uninsured are there by choice. I would never support any law that denies them this choice. This is still America, and we are still allowed to decide what is best for us.

## Uninsured Americans By Household Income, 2008



Think about this: If you could not be denied coverage for pre-existing conditions, why would you ever buy insurance until you have a major expense? As inviting as this sounds, it simply won't work. The answer – buy insurance early while you are healthy and it is cheap. For those who don't – choices have consequences.

## Obamacare: Suspending the Laws of Economics

*In exchange for some bitter tax pills, Obama has promised Americans would get eternal health care "security and stability." To deliver that, he would of course ban insurance companies from denying coverage to those with pre-existing conditions-- tantamount to forcing fire insurance companies to write coverage on a burning building. He would also prohibit insurers from putting any limits on the coverage they offer and would cap what they can require patients to pay out-of-pocket.*

*In other words, Obama would encourage unlimited health care consumption by patients while eliminating the last vestige of price consciousness. But the reason America is facing unsustainable health care cost increases is precisely because its third-party system of insurance doesn't encourage prudent consumption by patients. Indeed, if Obama really can tame health care costs by making patients even less cost-conscious, I have an even better idea for him: simply pass a law banning anyone from falling sick and mandate good health for all. If he can suspend the laws of economics, perhaps he can also transcend the laws of physiology.*

~[Shikha Dalmia in Forbes](#)

Insurance companies are not the root cause of rising health care costs. For the most part they are just the middle man passing on the costs.

If the insurance companies are so poorly run and so profitable, wouldn't that make them easy targets for any enterprising investors? There are several extremely rich Obama backers who have enough personal wealth to either buy or start an insurance company and show us how to do it right. If what they say is true, they would be very successful, take large amounts of customers away

from the current companies, and see a nice return on their investment. We should challenge them to put their money where their mouth is. Talk is cheap.

[Wall Street Journal](#) -- *Allow us to suggest a path to competition that will be a lot easier than erecting the impossible dream of a public option: Let insurance companies sell health-care policies across state lines. Interstate competition made the U.S. one of the world's most efficient, consumer driven markets. But health insurance is a glaring exception.*

*Affordability would improve if consumers could escape states where each policy is loaded with mandates. "If consumers do not want expensive 'Cadillac' health plans that pay for acupuncture, fertility treatments or hairpieces, they could buy from insurers in a state that does not mandate such benefits," Devon Herrick (senior fellow with the National Center for Policy Analysis) has written.*

**MP:** *The chart below is [based on this study from the America's Health Insurance Plans](#) (Table 3), and shows the huge variation in the average annual premium for single health insurance coverage by state (2006-2007). The average health insurance ranges from a low of \$1,254 in Wisconsin to a high of \$8,537 in Massachusetts, and the national average is \$2,613. That kind of variation couldn't exist in a competitive market for health insurance. Interstate competition for health insurance would go a long way towards bringing health insurance costs down.*

State	Avg. Premium/Yr. (2006-07)
Massachusetts	\$8,537
New Jersey	\$5,326
New York	\$4,734
Rhode Island	\$4,412
Pennsylvania	\$3,949
Maine	\$3,686
Louisiana	\$3,377
New Hampshire	\$3,368
New Mexico	\$3,362
Connecticut	\$3,326
Nevada	\$3,118
North Carolina	\$3,080
South Carolina	\$2,981
Florida	\$2,949
South Dakota	\$2,914
Montana	\$2,866
Texas	\$2,782
Wyoming	\$2,688
<b>National Avg.</b>	<b>\$2,613</b>
Arizona	\$2,591
California	\$2,565
West Virginia	\$2,540
Colorado	\$2,537
Kentucky	\$2,537
Missouri	\$2,518
Nebraska	\$2,505
Indiana	\$2,504
Illinois	\$2,499
Ohio	\$2,498
Mississippi	\$2,489
Oklahoma	\$2,435
Minnesota	\$2,424
Georgia	\$2,419
Kansas	\$2,363
Virginia	\$2,359
Delaware	\$2,346
North Dakota	\$2,316
Tennessee	\$2,221
Maryland	\$2,208
Alabama	\$2,208
Iowa	\$2,202
Arkansas	\$2,153
Washington	\$2,015
Idaho	\$2,006
Michigan	\$1,878
Utah	\$1,574
Oregon	\$1,297
Wisconsin	\$1,254

The increase in costs we are seeing is fundamentally a supply–demand issue. Too much demand chasing too little supply. Supply of providers, not competition among insurance companies, is the critical issue. Supply is artificially limited by over–regulation, mostly at the state level, and by fear of lawsuits. Why does a prospective health care provider have to spend \$100,000's and several years to learn how to treat strep throat or to pull out a splinter and give a tetanus shot? Why does a group of professionals have to present a certificate of need to the state of Florida before opening a hospital?

## It's Doctors and Politics, Not The Market, That Control the Supply of Doctors

*The marketplace doesn't determine how many doctors the nation has, as it does for engineers, pilots and other professions. The number of doctors is a political decision, heavily influenced by doctors themselves.*

*And Congress also controls the supply of physicians by how much federal funding it provides for medical residencies — the graduate training required of all doctors.*

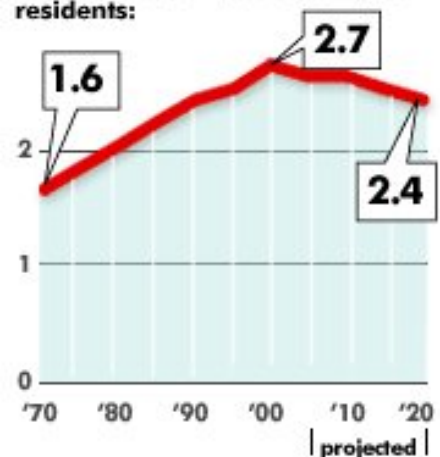
*To become a physician, students spend four years in medical school. Graduates then spend three to seven years training as residents, usually treating patients under supervision at a hospital. Residents work long hours for \$35,000 to \$50,000 a year.*

*Even doctors trained in other countries must serve medical residencies in the USA to practice here.*

*Medicare, which provides health care to the nation's seniors, also is the primary federal agency that controls the supply of doctors. It reimburses hospitals for the cost of training medical residents.*

### Fewer doctors for more people

The number of doctors practicing in the USA is not expected to keep pace with the population in the next 15 years. Doctors per 1,000 residents:

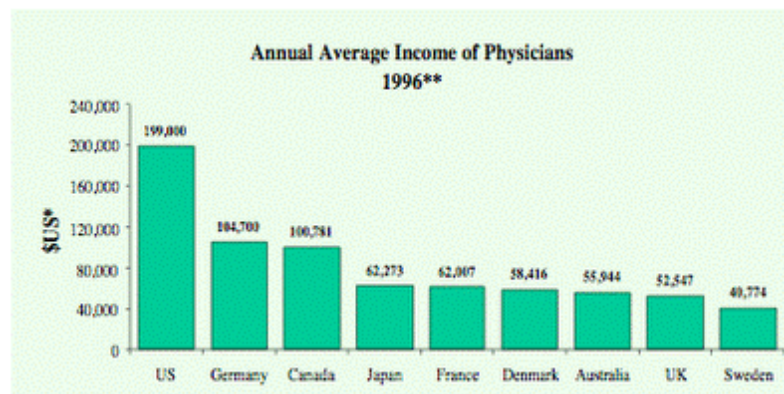


Sources: Health Affairs; Dr. Richard Cooper, Institute of Health Policy at Medical College of Wisconsin

*The United States stopped opening medical schools in the 1980s because of the predicted surplus of doctors. The Association of American Medical Colleges dropped this long-standing view in 2002 with the statement: "It now appears that those predictions may be in error." Last month, it recommended increasing the number of U.S. medical students by 15%. Florida State University's College of Medicine, the first new medical school since 1982, will graduate its first class this year.*

~"Medical Miscalculation Creates Doctor Shortage" in USA Today

## Why are MD Salaries So High? The Medical Cartel



*Greg Mankiw features the chart above on physicians' salaries in the U.S. vs. various European countries and Canada, showing that MDs in the U.S. make about \$200,000, which is between 2 and 5 times as much as doctors make in other countries. How do we explain the significantly higher physician salaries in the U.S.?*

*One explanation is the restriction on the number of medical schools, and the subsequent restriction on the number of medical students, and ultimately the number of physicians. Consider the difference between law schools and medical schools.*

*In 1963, there were only 135 law schools in the U.S. (data here), and now there are 200, which is almost a 50% increase over the last 45 years in the number of U.S. law schools. Unfortunately, we've witnessed exactly the opposite trend in the number of medical schools. There are 130 medical schools in the U.S. (data here), which is 22% fewer than the number of medical schools 100 years ago (166 medical schools, source), even though the U.S. population has increased by 300%. Consider also that the number*

of medical students in the U.S. has remained constant at 67,000 for at least the period between 1994 and 2005, according to this report, and perhaps much longer.

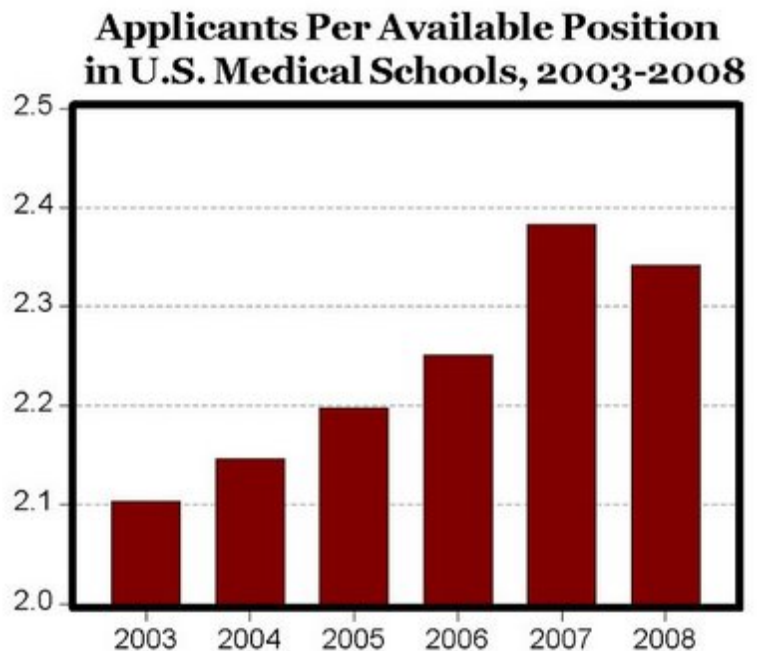
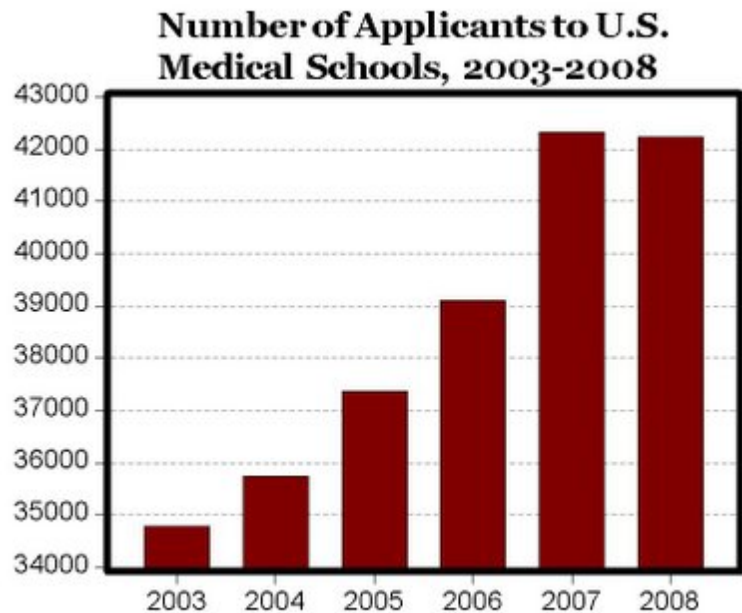
The charts below tell an interesting story ([data here](#)):

The number of applicants to medical school keeps going up, by more than 21% between 2003 (34,786) and 2008 (42,231), despite the fact that the number of students admitted has gone up by only about 9% (from 16,538 to 18,036) over that period.

Because of the 21% increase in applicants since 2003 for only 9% more openings available in U.S. medical schools, the number of medical school applicants per available opening in medical schools increased from 2.1 in 2003 to 2.34 in 2008 (see chart below).

Because of the significant increase in applicants for a much smaller increase in available openings in medical school, the percent of medical school applicants accepted has decreased from 47.5% in 2003 to 42% in 2007, before increasing to 42.7% in 2008, see chart below.

**Bottom Line:** One reason we might have a "health care crisis" due to rising medical costs, and the world's highest physician



salaries is that we turn away 57.3% of the applicants to medical schools. What we have is a form of a "medical cartel, which significantly restricts the supply of physicians, and thereby gives its members monopoly power to charge above-market prices for their services.

In his classic book Capitalism

and Freedom, Milton

Friedman describes the

American Medical

Association (AMA) as the

"strongest trade union in the

United States" and

documents the ways in which

the AMA vigorously restricts

competition. The Council on

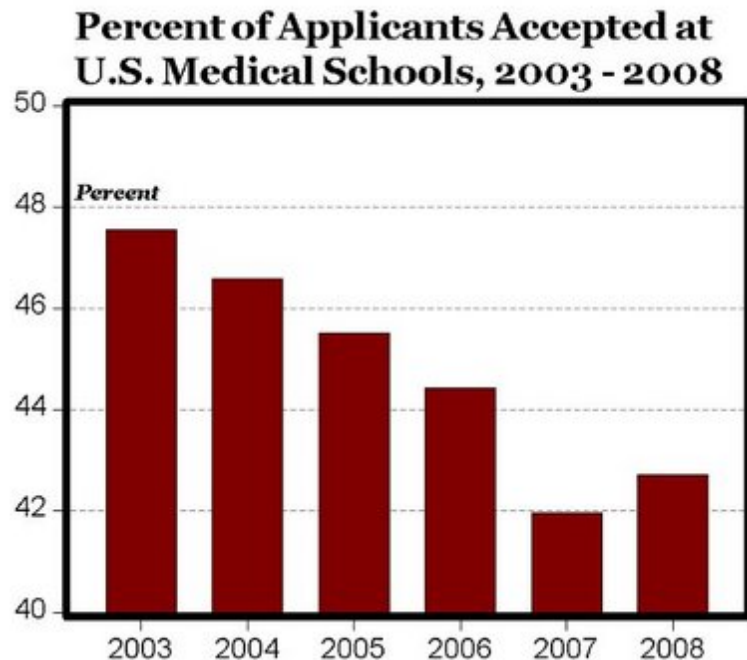
Medical Education and

Hospitals of the AMA

approves both medical

schools and hospitals. By

restricting the number of approved medical schools and the number of applicants to those schools, the AMA limits the supply of physicians. In the same way that OPEC was able to quadruple the price of oil in the 1970s by restricting output, the AMA has increased their fees by restricting the supply of physicians.

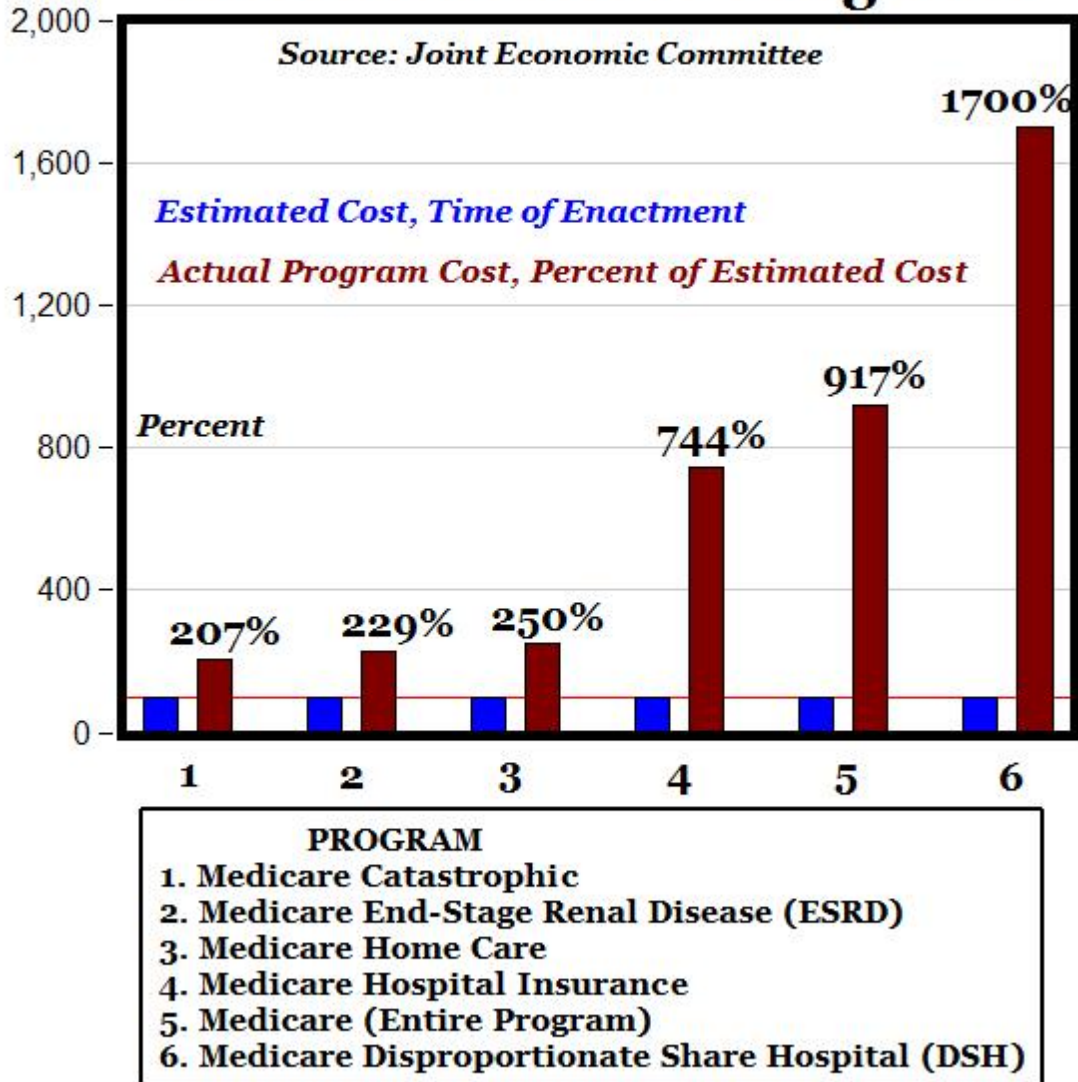


If we had 130 law schools (instead of 200) and 200 medical schools in the U.S. (instead of 130), it would probably go a long way to solving our "health care crisis." More MDs at much lower salaries along with fewer lawyers and lawsuits would be a good thing, wouldn't it? Can't breaking up the medical cartel, training more physicians, and lowering MD salaries be part of the discussion for health care reform?

Why do we say on the one hand that politicians can't be trusted and then say we need to turn over our health care to them? Does that make sense? What is their track record on past promises? Medicare is about to go bust. We've given billions away to fight poverty, yet nothing has changed. Maybe we should ask

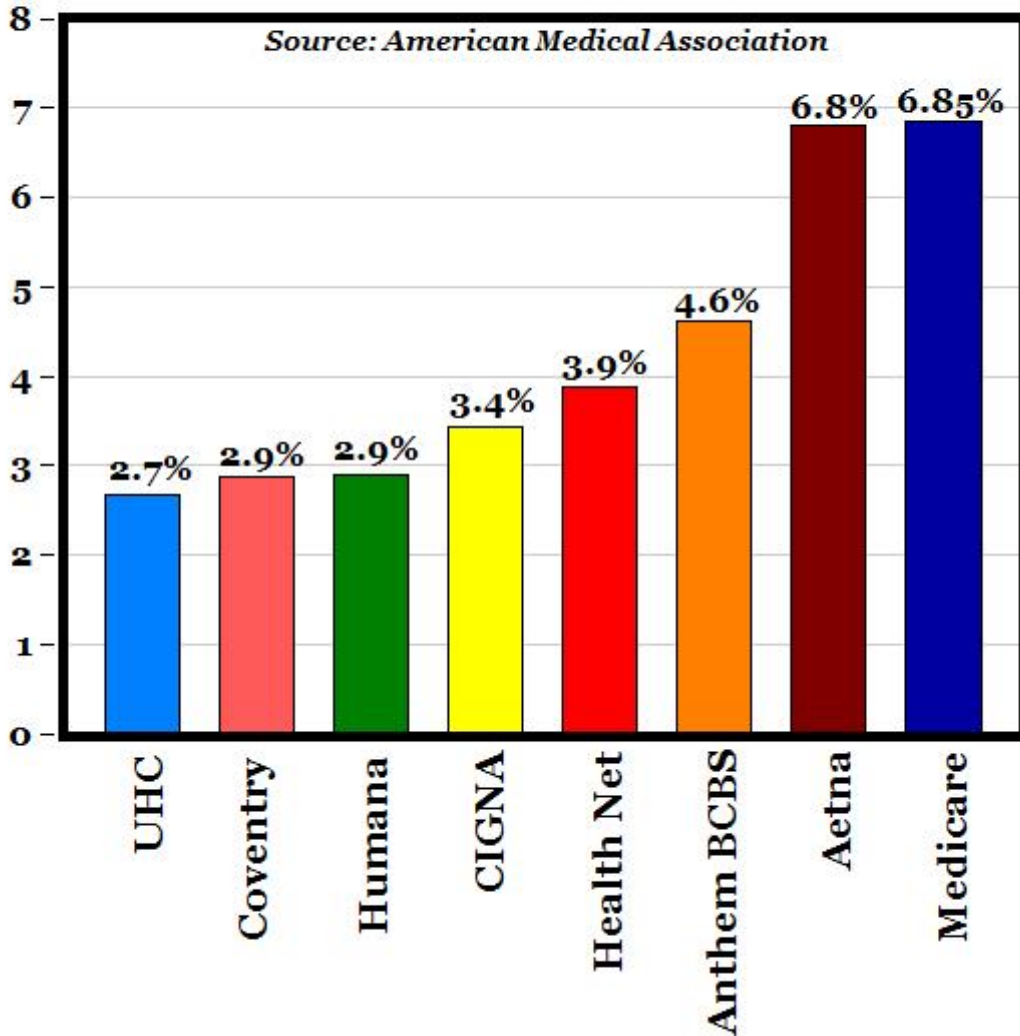
ourselves why before letting politicians take us for another ride. Check out this chart:

## Actual Costs vs. Estimated Costs Various Medicare Programs



Speaking of government vs. private insurance, who denies more claims?

## ***Percentage of Physician Claims Denied, 2008***



Just because I don't propose a government solution doesn't mean I don't have solutions. Solutions that will work:

- Allow insurance companies to compete across state lines.
- Relax rules, advocated by the AMA, that restrict the supply of doctors.
- Tort reform.
- Encourage policies that eliminate the middle man between payer and provider.

- Use insurance to cover major costs and pay out of pocket for everyday expenses. You don't have insurance for fixing your transmission do you?
- Do the above at the state level so we can have 50 chances to see what works.
- Keep the federal government out of it!!!

## Nurse-Run Health Centers: Real Healthcare Reform

[Philadelphia Business Journal](#) -- *Nurse-managed health centers are one solution to the growing shortage of family medical practitioners. They are community-based, nonprofit clinics run by advanced practice nurses capable of delivering primary and preventive care more affordably than a larger health system, especially for low-income and vulnerable populations.*

*"Their true potential remains untapped," said Tine Hansen-Turton, executive director of the Philadelphia-based [National Nursing Centers Consortium](#). "These centers can provide the foundation for real health-care reform that will work, serving tens of millions of additional families across the United States."*

## Retail Health Clinics Expand Services, MDs Protest

[WSJ](#) -- *Retail health clinics are adding treatments for chronic diseases such as asthma to their repertoire, hoping to find steadier revenue, but putting the clinics into greater competition with doctors' groups and hospitals.*

*Walgreen Co.'s Take Care retail clinic recently started a pilot program in Tampa and Orlando offering injected and infused drugs for asthma and osteoporosis to Medicare patients. At some MinuteClinics run by CVS Caremark Corp., nurse practitioners now counsel teenagers about acne, recommend over-the-counter products and sometimes prescribe antibiotics.*

*Walgreen, the second-largest pharmacy chain by stores, plans to start a pilot program for managing diabetes in coming months. CVS's MinuteClinic is piloting a rapid test for conjunctivitis, or pinkeye, at its Atlanta clinics and working with the Cleveland Clinic to provide care to asthma patients.*

**MP:** So how are the MDs responding to the increased competition from retail clinics?  
First of all, they don't like the competition:

*Such moves (expansion of services at retail clinics) are raising the ire of physicians' groups that see the in-store clinics as inappropriate venues for treating complex illnesses. In May, the Massachusetts Medical Society urged its members to press insurance companies on co-payments to eliminate any financial incentive to use retail clinics.*

But second of all, they are responding to the competition from retail clinics by acting more competitively themselves:

*The clinics are helping alter the practice of medicine. Doctors are expanding office hours to evenings and weekends. Hospitals are opening more urgent-care centers to treat relatively minor health problems.*

## Forget Top-Down Overhaul of Health Care, How About the Government Just Gets Out of the Way?

*In the midst of all the talk about a top-down overhaul and reworking of the health-care industry, supposedly to fix the failures of the private sector, two new studies show that the private sector could do a better job of reform if government would just get out of the way. Time Magazine features two Rand Corporation reports on the rise of a new phenomenon, retail health clinics, and the impact that price awareness and competition have on the market. The studies focused on my state, Minnesota, which prides itself on health-care public policy – but private-sector care wins out.*

*Instead of hiding behind insurance co-pays, the clinics offer pricing up front to consumers, so that they can decide for themselves what to “buy” and how much they want to pay for service. This is the same mechanism that works to keep prices down and supply consistent in other areas of health care that insurance plans do not traditionally cover. For instance, cosmetic surgery and Lasik rely entirely on consumer compensation. There are no third-party payers to get in the way of rationally allocating resources to demand. In those markets, producers and consumers find each other in the normal manner, advertising, discounts, and price competition, and the market attracts new providers when scarcity appears and prices rise.*

*If we want to reform care, bend the cost curve downward, and promote supply in the health-care industry, we need to learn the lesson from retail health clinics. The top-*

*down reform proposed by Congress threatens to stop real reform and amplify everything that's currently wrong with the system.*

~[Edward Morrisey](#)

This web site always has loads of good stats.

<http://mjerry.blogspot.com/>