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The Soviet Medical Nightmare

BY YURI N. MALTSEV

The Soviet Union was the first country to introduce a fully nationalized health-care system. To the cheers of Western "progressives," Lenin signed a decree in 1919 stating that every Soviet citizen had a right to free medical care. Looking at the history of Soviet health decrees, it appears as if the system has been improved every year. And the present Soviet constitution, adopted in 1977, contains the right to "health" (not just health care).

To provide this right, the Soviet Union has more doctors than any country in the world, on a per capita basis and in absolute numbers. There are twice the number of hospital beds as in the U.S.

For years, the official Soviet health statistics looked better than any in the West. The only problem is that these institutional statistics do not correlate with vital statistics, which are more reliable and show a desperate state of



public health.

The average Soviet lives about 10 years less than the average American (62 for Soviet males and 69 for females, compared to 71 and 78 in the U.S.). In certain regions of the Soviet Union (Yakutia, Karaplukia, Kalmukia, etc.), life expectancy for males is

20 years less than in the U.S. (49 for males and 58 for females). In some rural areas of the Russian Federation, the life expectancy for males is as low as 45 years.

The Soviet infant mortality rate—24.5 per 1,000—is 2.6 times as large as the U.S.'s and

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The Economics of Government Medical "Insurance"

BY MURRAY N. ROTHBARD

One of Ludwig von Mises's keenest insights was on the cumulative tendency of government intervention. The government, in its wisdom, perceives a problem (and Lord knows, there are always problems!). The government then intervenes to "solve" that problem. But lo and behold! instead of solving the initial problem, the intervention creates two or three further problems, which the government feels it must intervene to heal, and so on into socialism.

No industry provides a more dramatic illustration of this ma-

lignant process than medical care. We stand at the seemingly inexorable brink of fully socialized medicine, or what is euphemistically called "national health insurance." Physician and hospital prices are high and are always rising rapidly, far beyond general inflation. As a result, the medically uninsured can scarcely pay at all, so that those who are not certifiable claimants for charity or Medicaid are bereft. Hence, the call for national health insurance.

But why are rates high and increasing rapidly? The answer is

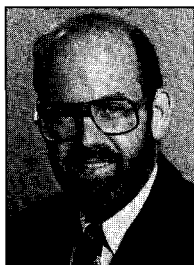
the very existence of health-care insurance, which was established or subsidized or promoted by the government to help ease the previous burden of medical care. Medicare, Blue Cross, etc., are also very peculiar forms of "insurance."

If your house burns down and you have fire insurance, you receive (if you can pry the money loose from your friendly insurance company) a compensating fixed money benefit. For this privilege, you pay in advance a fixed annual premium. Only in

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The Trouble With Licensure

From the President



BY LLEWELLYN H.
ROCKWELL

Not too long ago, the Tennessee Dental Society sued to stop a "danger to patients": professional tooth cleaning. Not that they had anything against professional tooth cleaning; they wanted the professionals to be dentists and their employees, not dental hygienists in independent practice.

One of the hygienists protested that her price was lower, and therefore people would get their teeth cleaned more often. "It also helps that they don't have to fear the drill, although I refer any problems I see to dentists." But she was driven out of business because she wasn't licensed as a dentist. What her customers thought meant nothing.

A few years before, the Oklahoma State Dental Society lobbied for a toughened law against "denturists": dental technicians who make false teeth directly for customers, bypassing the dentist.

At a press conference, the head of the dental society was asked if this weren't already against the law. Yes, he said, but a patient had to bring a complaint, and none would. It seems the denturists would give dissatisfied customers their money back—and let them keep the teeth in the bargain. A reporter wondered whether a dentist had ever returned an unhappy patient's money, and was told the question was irrelevant.

I like my dentist, and would never go to a less qualified if cheaper professional. But why should it be illegal, in a free market, for me to do so?

For centuries, professionals have sought to cartelize their occupations, that is, to limit competition. The stated reason is protecting consumers, but the real reason is financial.

Just recently, a legal secretary was threatened with jail in Florida. She was helping people fill out legal documents, something

she had done in a law firm for 20 years. But now she was doing it on her own, for pay. In Florida, as in all other states, the actual crime is practicing unlicensed law, medicine, or dentistry *for money*, which alone tells us the real nature of the offense.

Medical organizations argue that only licensure enables us to distinguish the qualified from the goof-off. In fact, it is the reverse. Licensure endangers consumers by making them less watchful, since they assume that any state-licensed doctor is competent.

With specialists—where the market process of certification rules—consumers are very watchful. Any doctor may legally do plastic surgery, for example, but customers look for a highly qualified, well-recom-

cartelize the system with the Hippocratic Oath.

The oath pledged devoted care to the sick, but also that "I will hand on" my "learning to my sons, to those of my teachers, and to those pupils duly apprenticed and sworn, and to none others."

In the modern world, England's Royal College of Physicians—a state-approved licensing agency—has long been the model medical monopoly, exercising iron control over its members' economic conduct. But this guild-like system wasn't salable in laissez-faire America.

In 1765, John Morgan tried to start an inter-colonial medical licensing agency in Philadelphia, based on the RCP. He failed, thanks to bitter infighting among the doctors, but did begin the

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mended, board-certified surgeon. The same is true in every other specialty, as it would be for all physicians without licensure.

Why should it be illegal for a pediatric nurse to set up an independent practice in Harlem, or a geriatric nurse in West Texas? Yet both would be tossed in jail.

Again, I would never go to anyone but my family doctor. But why, in a free society, should I not be allowed to choose?

Restricting the supply of medical care has a long history. Hippocrates built a thriving medical center on the Greek island of Cos in the fourth century B.C., and taught any student who could pay the tuition. But when the great man died, there was fierce competition for students and patients, and the doctors sought to

first American medical school, where he established the "regular mode of practice" as the dominant orthodoxy. Those who innovated were to be punished.

After the Revolution, said historian Jeffrey Lionel Berlant, "a license amounted to little more than a honorific title." In Connecticut and Massachusetts, for example, unlicensed practitioners were prohibited only from suing for fees. And in the free-market 1830s, one state after another repealed penalties against unlicensed practice.

By the mid-19th century, there were virtually no government barriers to entry. As economist Reuben A. Kessel noted, "Medical schools were easy to start, easy to get into, and provided, as might be expected in a free mar-

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ket, a varied menu of medical training that covered the complete quality spectrum." Many were "organized as profit-making institutions," and some "were owned by the faculty."

From time to time, doctors attempted to issue tables of approved fees—with price cutting called unprofessional—but they failed, because price-fixing cannot long survive in a competitive environment.

Organized medicine's lobbying against new doctors and new therapies began to be effective in the middle of the century, however. The official reason was the need to battle "quackery." But as historian Ronald Hamowy has demonstrated in his study of state medical society journals, doctors were actually worried about competition lowering their incomes.

The American Medical Association was formed in 1847 to raise doctors' incomes. Nothing wrong with that, if it had sought to do it through the market. Instead, its strategy, designed by Nathan Smith Davis, was the establishment of state licensing boards run by medical societies. He attacked medical school owners and professors who "swell" the number of "successful candidates" for "pecuniary gain," fueled by the "competition of rival institutions." These men ad-

vance "their own personal interests in direct collision" with "their regard for the honor and welfare of the profession to which they belong." The answer? "A board of examination, to sit in judgment" to restrict entry and competition, which he did not point out could *only* have a pecuniary motive.

As philosopher William James told the Massachusetts legislature in 1898: "our orthodox medical brethren" exhibit "the fiercely partisan attitude of a powerful trade union, they demand legislation against the competition of the 'scabs.'" And by 1900, every state had strict medical licensure laws.

The Flexner Report of 1910, which Murray N. Rothbard discusses elsewhere in this issue, further restricted entry into the profession, as legislatures closed non-AMA-approved medical schools. In 1906, there were 163 medical schools; in 1920, 85; in 1930, 76; and in 1944, 69. The relative number of physicians dropped 25%, but AMA membership zoomed almost 900%.

During the great depression, as Milton Friedman notes, the AMA ordered the remaining medical schools to admit fewer students, and every school followed instructions. If they

didn't, they risked losing their AMA accreditation.

Today, with increasing government intervention in medicine—often at the AMA's behest—the organization exercises somewhat less direct policy control. But it still has tremendous influence on hospitals, medical schools, and licensing boards.

It limits the number of medical schools, and admission to them, and makes sure the right to practice is legally restricted. The two are linked: to get a license, one must graduate from an AMA-approved program. And there is a related AMA effort to stop the immigration of foreign physicians. The AMA also limits the number of hospitals certified for internship. And licensure boards will accept only AMA-approved internships.

The licensure boards—who invariably represent medical societies—can revoke licenses for a variety of reasons, including "unprofessional conduct," a term undefined in law. In the past, it has included such practices as price advertising.

Medical licensure is a grant of government privilege. Like all such interventions, it harms consumers and would-be competitors. It is a cartelizing device incompatible with the free market. It ought to be abolished. ◀

The Soviet Medical Nightmare

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more than five times as large as Japan's. The Soviet rate is even higher than Washington, D.C.'s, notoriously high rate of 23 per 1,000. In the rural regions mentioned above, and in the republics of Central Asia, the infant mortality rate is above 100 per 1,000 births, putting these regions in the same development category as Burkina Faso, Chad, and Bangladesh.

Even these statistics mask what B. Iskakov of the Moscow Institute of National Economy calls the "worse than critical" situation in health care. He classifies the population into groups based on

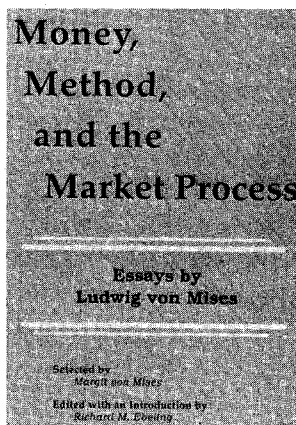
health. Among the people whose health indicators are within the norms, he places less than half of the Soviet Union's 287 million people. Between 53% and 63% of the population belong in the remaining groups: people with hidden deficiencies, people who are chronically ill but can wholly or partially function, and people who cannot function because of grave physical deficiencies. Seventy to 80 million people are chronically ill and have serious physical and mental deficiencies. In Moscow alone, up to 68% of the population is health-deficient.

The crisis will grow worse because the new generation is much less healthy than the old. Three quarters of the U.S.S.R.'s 170 million children have been officially classified as unhealthy; a quarter of them are chronically ill or handicapped. Of Moscow's children born in the 1980s, between 70% and 90% are considered health-deficient—double the amount from the previous decade. Between 20% and 25% of these are mentally retarded. Among young people (14 to 17 years of age), one third have chronic mental and physical dis-

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A Misesian milestone! This new collection of essays by Ludwig von Mises, many of them published here for the first time, fully displays his intellectual power. The book covers many of the ideas that made Mises famous: the praxeological method, money as a product of the market, free trade, and the debate between capitalism and central planning. It also offers new insights into the cooperative movement, the nature of group conflict, development economics, and the role of ideas in history. His essay on Marxian socialism is nothing short of prophetic. This is the definitive *Mises Reader*. One reviewer has called it "the most significant economics collection of the decade." Special price this month, including postage and handling: *Money, Method, and the Market Process*. 352 pp. Quality paperback: \$19.95. Note: full-time students may purchase the paperback for \$9.95.

orders, many inherited from their parents.

How can all this be explained? On one level, it is a complex of factors: poor diets, pollution, low quality of health care, stress (waiting in lines, red tape, humiliating bureaucracy), illegal drugs, legal drugs, and sexually transmitted diseases.

The Soviet authorities like to point to alcoholism, which is indeed rampant: per capita consumption of alcohol increased by 800% from the 1940s to the 1980s. But there is a saying in the Soviet Union that shows the deeper truth: when a nation withdraws itself from world history, everybody gets drunk.

Thus alcoholism too often serves as a scapegoat. The real culprit is socialized medicine. We are watching the effects of 70 years of Leninist health care.

Top Communist Party and government officials have their own Ministry of Health hospitals. They have full access to specialized medical care more or less on the level of Western countries, free of charge.

The masses aren't so lucky. Their medical care is generated by an enormous bureaucratic system. At the top is the giant Ministry of Health of the U.S.S.R. Under it are the Ministries of Health of the various republics and under them are the regional Departments of Health. Each of these have District Departments of Health, which actually run the network of hospitals, ambulances, and health clinics. All told, the Soviet health industry employs four million people.

All medical "norms" are generated by the Ministry of Health. The hospitals themselves are responsible for generating statistics, so they try to make themselves look as good as possible. For example, it's impossible to tell how many diseases a patient catches just from the unsanitary conditions in the hospital

itself. But on paper, everyone looks happy.

The industry is run according to a socialist "plan." For example, the planned hospital stay is 21 days. And no one can stay longer. But if the bribe is high enough, you can be re-admitted for another 21 days with a different doctor in a different division. If you stay for fewer than 21 days, you would be fortunate to see a doctor, much less be treated.

It is impossible for ordinary people to get decent pharmaceuticals, and drug stores have only the most primitive medicines. Moreover, the doctors do not give prescriptions based on medical need, but on the avail-

In Moscow, the hospitals keep four to six patients per room, but in the outskirts, 12 to 16.

ability of drugs. Each doctor is sent a list of everything locally available and he can only prescribe drugs on the list. If a person has a disease for which he needs a special drug, he can forget it.

The country is flooded with penicillin, however. In 1946, Stalin was impressed with how effective it was at fighting disease and ordered that the Soviet Union have the same amount the West does. The "plan" has never been altered, but 89% of citizens have built-up a resistance to penicillin's effects. But it is still prescribed because there is nothing else.

The doctors who have medicines unavailable in drug stores

open underground medical services and charge extremely high prices for even minor treatments. In many cases, only one antibiotic shot is necessary, but the doctors will continue to charge for placebos. Because there is little competition in the underground doctors, these practices are neither exposed nor challenged.

All hospitals are extremely congested. In Moscow, the hospitals keep four to six patients per room, but in the outskirts, the hospitals house 12 to 16 patients per room. Private rooms are only available for people who are dying.

Officially, all medical care is supposed to be free. But there are enormous lines for such things as preventive check-ups and surgery. People with chronic appendicitis must wait a year and a half for service. And cancer detection is very poor. There is no screening for the masses, so by the time it is detected, it is too late.

Rural areas have virtually no real medical care. Thirty-six percent of rural hospitals have no running water or modern sewage systems.

There are no disposable syringes in rural hospitals, so they are re-used an average of 1,000 times. They are sterilized by boiling, which is fine provided they are boiled for 40 minutes. But they are often not, because the workers have no real incentive to do so. That's why there is an epidemic of hepatitis in the Soviet Union (716,000 cases were reported in 1988, over 30 times the number of cases reported in the U.S.).

More than 85% of Soviet AIDS patients were given the disease through dirty government needles or the AIDS-infected public blood supply. The medical authorities dump the blood into a common pool, separated only by blood type. If 599 donors are healthy, and one has AIDS, the blood is potentially

deadly for everyone who receives it. More recently, they have adopted a supposed system for screening the blood, but because of negligence, it doesn't work.

Because there is no private property, the hospital staff dumps test tubes filled with infectious disease anyplace they can. In rural areas, you can find glass mountains filled with test tubes and beakers carrying, for example, the tuberculosis bacillus which lasts for 90 years.

The "plan" says that medical treatment for any one patient must not cost more than the official rate of 11 cents per day. If the hospital spends more, they must give other patients less.

The hospitals must even abide by a planned death rate, which is set to make the system look better than it is. The lower the rate reported by the hospital, the better. If the patient dies on the front steps, it doesn't go into the statistics. The hospitals throw people out when they are dying. Doctors will tell the family how much better it would be if the patient spent his dying days at home. Or the doctors will simply give the patient a clean bill of health and evict him from the bed. In this way, the hospital stays within the planned mortality rate.

Physicians are required to study medicine for seven years. Yet their wages are extremely low—about one-third of bus drivers, for example. The state sees this as a way for the physician to "pay back society" for all the resources he took going through "free" schooling. The concept of intellectual capital is as absent as private property.

Why then would anyone go into medicine? Partly because they work less (36 hours per week) and hold jobs with high prestige. But the main reason is that the profession offers tremendous access to resalable goods and bribes.

The average physician has

3,000-5,000 people assigned to him. The patients have no choice. They must take whoever they are assigned in any given territory. If the local physician is a butcher, that's too bad. The patient cannot change. If the doctor kills you, relatives have no recourse.

Doctors expect bribes, but they go about it subtly. "We can operate for free, but we will have to do so without anesthesia," one will say. "If you want some anesthesia, I have a friend who can get it, but I'll have to pay for it out of my own pocket. Will you reimburse me?" As bad as this system of bribes is, of course, health care would be worse without it.

Bribing for anesthesia is most

The hospitals must even abide by a planned death rate, set to make the system look better than it is.

common for abortions. And the Soviet Union has the highest rate of abortion in the world, 106 per 1,000 fertile females (the U.S. is second with 29). And the primitive quality of care results in an enormously high rate of pelvic disease.

The "plan" stipulates that food served in hospitals be limited to 14 cents per day. And it tastes like 14 cents a day. Everything in the kitchen which is decent is stolen by the employees and sold on the black market.

Under perestroika, the authorities briefly allowed doctors (retired and active) to open cooperatives and openly charge for medical care. ("Cooperatives" is a euphemism for private

ownership.) The cooperatives were highly regulated, taxed at 60%, harassed, and attacked through red tape. And there were constant streams of bureaucrats wanting payoffs. But the cooperatives were much more efficient and humane than the state clinics. Patients were able to get the service they wanted and were able to avoid the risk of getting AIDS.

But on December 21, 1988, the Ministry of Health banned medical cooperatives. Since the health-care system is supposed to be one of the great achievements of socialism, the government could no longer stand the embarrassment. The cooperatives became a threat to bureaucratic empires.

There is a tendency in Russia to exempt medical care from serious reforms. The people have been promised health, and they don't know why they are not getting it. The public thinks that if everything is private, they will get the same system, but have to pay for it. They don't understand that the costs of socialized medicine are expressed in lives and health lost. Under a private system, these costs would fall, and service would improve—dramatically. Because of these misunderstandings, however, health care may be one of the last areas to be privatized.

Government control takes freedom of choice away from the public and puts it in the hands of bureaucrats responsive only to their own interests and those of the state, instead of the buying public. Private enterprise in medical care means patient sovereignty. The Soviets ignored this principle, and the public is now paying for it with their health and lives.

Americans who are thinking about the virtues of a socialized medical system ought to think again—about the Soviet experience. ◀

The Economics of Government Medical "Insurance"

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our system of medical insurance, does the government or Blue Cross pay, not a fixed sum, but whatever the doctor or hospital chooses to charge.

In economic terms, this means that the demand curve for physicians and hospitals can rise without limit. In short, in a form grotesquely different from Say's Law, the suppliers can literally create their own demand; through unlimited third-party payments to pick up the tab. If demand curves rise virtually without limit, so too do the prices of the service.

In order to staunch the flow of taxes or subsidies, in recent years the government and other third-party insurers have felt obliged to restrict somewhat the flow of goodies: by increasing deductibles, or by putting caps on Medicare payments. All this has been met by howls of anguish from medical customers who have come to think of unlimited third-party payments as some sort of divine right, and from physicians and hospitals who charge the government with "socialistic price controls"—for trying to stem its own largesse to the health-care industry!

In addition to artificial raising of the demand curve, there is another deep flaw in the medical insurance concept. Theft is theft, and fire is fire, so that fire or theft insurance is fairly clear-cut—the only problem being the "moral hazard" of insurees succumbing to the temptation of burning down their own unprofitable store or apartment house, or staging a fake theft, in order to collect the insurance.

"Medical care," however, is a vague and slippery concept. There is no way by which it can be measured or gauged or even defined. A "visit to a physician" can range all the way from a careful and lengthy investigation and discussion, and thoughtful advice, to a two-minute run-through with the doctor doing

not much else than advising two aspirin and having the nurse write out the bill.

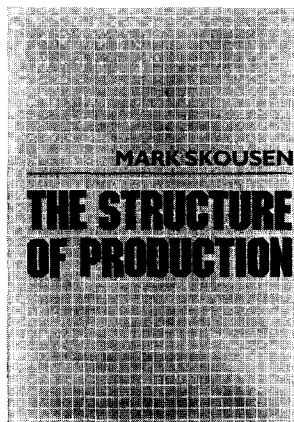
Moreover, there is no way to prevent a galloping moral hazard, as customers—their medical bills reduced to near-zero—decide to go to the doctor every week to have their blood pressure checked or their temperature taken. Hence, it is impossible, under third-party insurance, to prevent a gross decline in the quality of medical care, along with a severe shortage of the supply of such care in relation to the swelling demand.

Everyone old enough to remember the good-old-days of family physicians making house calls, spending a great deal of time with and getting to know the patient, and charging low fees

neither a medical degree nor any other advanced degree, was commissioned by the Carnegie Foundation to write a study of American medical education. Flexner's only qualification for this job was to be the brother of the powerful Dr. Simon Flexner, indeed a physician and head of the Rockefeller Institute for Medical Research. Flexner's report was virtually written in advance by high officials of the American Medical Association, and its advice was quickly taken by every state in the Union.

The result: every medical school and hospital was subjected to licensing by the state, which would turn the power to appoint licensing boards over to the state AMA. The state was supposed to, and did, put out of business all

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A tour de force! In this important new book, Mark Skousen—economist and investment giant—shows that only an Austrian view of capital, as contrasted with the Keynesian and other faulty models, shows us how the economy works, and why government intervention doesn't. Bonus: although this is an academic work (albeit a very readable one), it contains, says the author, "the world's most powerful financial-economic tool" for both conservative investors and speculators. NYU press sells this book for \$45; our special price, including U.S. postage and handling, is \$29.95.

to boot, is deeply and properly resentful of the current assembly-line care. But all too few understand the role of the much-beloved medical insurance itself in bringing about this sorry decline in quality, as well as the astronomical rise in prices.

But the roots of the current medical crisis go back much further than the 1950s and medical insurance. Government intervention into medicine began much earlier, especially in 1910 when the much celebrated Flexner Report changed the face of American medicine.

Abraham Flexner, an unemployed former owner of a prep school in Kentucky, and sporting

medical schools that were proprietary and profit-making, that admitted blacks and women, and that did not specialize in orthodox, "allopathic," medicine: particularly homeopaths, who were then a substantial part of the medical profession, and a respectable alternative to orthodox allopathy.

Thus through the Flexner Report, the AMA was able to use government to cartelize the medical profession: to push the supply curve drastically to the left (literally half the medical schools in the country were put out of business by post-Flexner state governments), and thereby to raise medical and hospital prices and

doctors' incomes.

In all cases of cartels, the producers are able to replace consumers in their seats of power, and accordingly the medical establishment was now able to put competing therapies (e.g., homeopathy) out of business; to remove disliked competing groups from the supply of physicians (blacks, women, Jews); and to replace proprietary medical schools financed by student fees with university-based schools run by the faculty, and subsidized by foundations and wealthy donors.

When managers such as trustees take over from owners financed by customers (students or patients), the managers become governed by the perks they can achieve rather than by service of consumers. Hence: a skewing of the entire medical profession away from patient care and toward high-tech, high-capital investment in rare and glamorous diseases, which redound far more to the prestige of the hospital and its medical staff than it is actually useful for the patient-consumers.

And so, our very real medical

crisis has been the product of massive government intervention, state and federal, throughout the century: in particular, an artificial boosting of demand coupled with an artificial restriction of supply. The result has been accelerating high prices and deterioration of patient care. And next, socialized medicine could easily bring us to the vaunted medical status of the Soviet Union: everyone has the right to free medical care, but there is, in effect, no medicine and no care. ◀

The Doctor and the Price System

BY BILL MURCHISON

Your average communist economic reformer, assuming he wouldn't rather be called a pederast than a communist, is a quick study. He knows the economic mess and muddle in Eastern Europe and the Soviet Union can be traced to official contempt for the free-market price system. He says that there will be no economic gains until prices drive economic endeavor. What an inspirational sight, the dawning of economic realism!

Then we look around at home. What do we see? Among other fearful sights, we see Ted Kennedy and friends, renewing the ancient cry for a larger federal role in financing health care, and winning renewed support for the endeavor. We see congressmen and corporate executives pointing to Canada's government-financed health system as a model for the economic incompetents to the south—that's us—to follow. That's because (we're supposed to infer) government health care is "free" and rich people will pay the tab. There's no need to ask how much national health care would cost and Senator Kennedy would rather you wouldn't. By some estimates his plan would cost \$100 billion annually.

Are we paying close and serious attention to what goes on in Eastern Europe? How could we be? If we were, we'd be showing

the price system far more respect, particularly with respect to health care.

Health care costs since 1980 have been rising at twice the inflation rate and the prognosis is not

surance system, he need do little more. His competitive instincts dull, and he becomes a bureaucrat, a servant of the system. This doesn't bother him, because he's rewarded for being part of the

There's no need to ask how much national health care would cost and Senator Kennedy would rather you wouldn't. By some estimates his plan would cost \$100 billion annually.

going to get any better. New medical technology can do wondrous things, but it's not cheap. Liability insurance, to cover jury awards in malpractice cases, costs doctors, thus consumers, more than ever before.

There is a widespread perception that doctors are behaving too much like businessmen and not enough like healers. No doubt this impression is in the minds of juries that hit doctor-defendants with multimillion-dollar judgments.

I argue instead that the doctor isn't businessman enough because he doesn't have to be competitive in the medical monopoly. Once a doctor plugs into the in-

system. The system is tailored not to patients' needs, but to those of health-care professionals—doctors, hospitals, drug companies, and so on.

The federal government is the instrument of this economic irrationality—not the first time it has played this role. The real explosion in medical costs began a quarter of a century ago with Medicare, which boosted demand without increasing supply. Medicare not only sent prices skyrocketing, it made the bureaucrats in Washington, D.C., major power brokers. Federal spending accounts for almost a third of medical monies received

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The Doctor and the Price System

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and government policy shapes the form and cost of health care.

Another reason that health care costs so much is that employers, but not employees, are allowed to deduct the cost of health insurance from their taxable income. Thus, health insurance becomes an employee benefit—a tax-free substitute for a pay increase. Typically, a large company provides employees a small range of health program options. My employer, a large publisher, makes available a health maintenance organization (HMO), a group insurance plan, and the services of a group of doctors in private practice. An employee has to be a nut, or independently wealthy, not to subscribe to one of the options. On the other hand, the employee takes what he can get. He can't shop around for what best suits his needs and pocketbook.

Health-care contributions are deducted from paychecks. Since we never had the money in our hands to begin with, we don't really miss it. Only with major illnesses do we think about costs. Most of the time we just sign a form and pay a flat \$5 fee, never wondering what the bottom line says. It's oh so painless, even though the costs and premiums go up every year.

These health plans also have a tendency to bind employees to their jobs. A friend of mine, whose wife is ill with cancer, has turned down major professional opportunities because, were he to leave his present employer, his coverage would stop; whereas, if he owned a private policy, coverage would follow him anywhere.

The upshot is that the important link between the service renderer and the price paid has been

severed. The price system works best where buyer deals directly with seller.

Medicare, the connection between costs and service having been obscured, stands on the brink of bankruptcy. Costs, between 1978 and 1988, rose from \$24.2 billion to \$87.6 billion. Massive payroll tax increases, certain to come unless medicare is reformed, will hurt workers without curbing the appetite for Medicare services. If anything, the appetite will increase as senior citizens decide they'd better get theirs while they can.

The thing to do, if the price system is to work, is to let people

der a national health system where everything is "free." Overutilization of medical services is the result of national health-care systems.

A buyer would shop around for the insurance policy that best suits his needs. Who knows his needs better than himself?

If we ever manage to return to a free market in medicine, prices will stabilize and more medical services will be provided. Only under government monopoly, or near monopoly, can suppliers of goods and services charge high monopoly rates. To paraphrase Dr. Samuel Johnson, the knowledge that one is about to be un-

Unload the price mechanism from the wagon, hide the truth about who's paying for what, and you've prepared the way for an unholy mess.

pay directly for routine medical needs and their own health insurance. Tax deductions that are now given to employers for health insurance payments would be paid to employees making them better off. Similarly Americans should be allowed to deduct all out-of-pocket medical expenses.

This would re-link the buyer and seller by cutting out the middle man. The buyer is going to act differently when he sees the money going out of his pocket. He's only going to undertake the medical procedures that he feels are needed. This would be less than the amount demanded un-

dercut by a competitor concentrates the mind wonderfully.

What's essential, while the reformers deliberate, is to recognize that health care is not an un-Misesian exception to the rule that market prices matter. Price matters indeed; here as everywhere else, maybe even more so. Prices are signals; more of this, less of that; something new, better than the old. Unload the price mechanism from the wagon, hide the truth about who's paying for what, and you've prepared the way for an unholy mess. Not unlike the mess in health care, come to think of it. Is there a doctor in the house? ◀

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