# Correcting Delusions and Providing Free-Market Solutions in American Healthcare


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*The American healthcare system is in desperate need of medicine. It is plagued by ever-increasing costs of treatment and a lack of overall transparency, with the majority of Americans demanding reforms. While free-market capitalism seems to be the fashionable scapegoat for such problems, market-based solutions are, in fact, the best way for Americans to get the affordable, high-quality care that they deserve.*


One of the most common misconceptions regarding America's current healthcare system is that it is guided by the forces of free and unobstructed markets. While certain components of the system are indeed privatized, almost none of the fruitful trademarks of a free and fair enterprise are actually visible. The abject falsehood that the imperfections — of which there are plenty — in the current system are the product of capitalism has distorted the debate on healthcare reform for decades. Through this misconception's stranglehold on public opinion, it is one the most significant obstacles currently standing in the path towards affordable and high-quality care for Americans and, thus, presents a clear and present danger to the financial and physical well-being of every citizen. It is only upon the correction of this delusion that America's path to a prosperous market-based system can be uncovered.

Interestingly, the origins of much of the modern U.S. healthcare system are largely fortuitous; the system is the product of the creativity of employers attempting to circumvent government intervention, not in the market for healthcare, but in the market for labor (Roy; "How Employer-Sponsored Insurance Drives Up Health Costs"). New Deal wage controls instituted by President Roosevelt significantly curtailed the ability of employers to attract new workers. To remain competitive, they began offering generous healthcare plans to prospective employees, taking advantage of the exclusion of health insurance from the scope of the regulations. In the following years, the Internal Revenue Service permanently baked this accident into the tax code. It exempted employer-sponsored health insurance purchases from income and payroll taxation; however, it notably did not extend this privilege to insurance purchased by individuals with their own money (Roy; "United States: #4 in the World Index of Healthcare Innovation"). This created a major disincentive for healthcare to be purchased directly from providers, where each party would be more responsive to the needs of the other.

It is a basic principle of economics that, for markets to work, the consumer who makes demands must be sensitive to the cost of having those demands met. This is why the government so easily succumbs to price gouging by federal contractors: it has little stake in the matter because it is spending other peoples' tax dollars. By creating a four-tier system wherein employers and insurers act as middlemen, the government has completely divorced the consumer from the supplier. The patient rarely negotiates directly with his healthcare provider; instead, he goes to the employer who pays the insurer who, finally, pays the provider. Each additional tier of this system distances the original consumer from the cost of fulfilling his needs, thus allowing insurers and providers to charge unfair prices (Heath Manning). In other words, the sole balancing force powerful enough to bring the market to equilibrium — informed and direct consumers — is simply not present. For instance, take a recent study conducted by the University of Iowa College of Medicine where a researcher called 100 hospitals and asked for the price of a stand coronary artery bypass grafting (CABG), a very common procedure. Just half of the hospitals were able to provide an upfront price, and for those who could, the range of estimates was $456,000 (Giacomino et al.). This is, as explained, due to an excess of government involvement. It should be no surprise that an opaque market composed of price-insensitive consumers and monopolistic suppliers fails to deliver affordable care. Capitalism, therefore, is not at fault for the problems with the current state of healthcare in America, as supporters of increased central planning would claim. On the contrary, there is not enough of it.

Where a free market in healthcare has managed to emerge from the shackles of government, the results have been overwhelmingly positive. The United States ranks fourth in the World Index of Healthcare Innovation (Roy; "United States: #4 in the World Index of Healthcare Innovation"). It ranks first in the subscores of both Choice and Science & Technology, with the second-highest rated country trailing by a whopping twenty-three points in the latter of these categories — the highest margin of any dimension on the index (Roy; "United States: #4 in the World Index of Healthcare Innovation"). It should be of no surprise that the pharmaceutical and biotechnology industries are some of the freest components of the healthcare supply chain, where innovators can pursue research, gain access to markets, and reap the benefits of their hard work. Entrepreneurs are not forced to navigate the thick web of red tape that would be commonplace in other (worse-performing) healthcare sectors. Instead, clear-cut profit motives propel the country's talent to the frontiers of medical ingenuity. The safe yet efficient regulatory process allows for America to be the world's number one producer of new drugs and medical devices that gain approval, as well as the home of the most Nobel prizes in chemistry and medicine per capita (Roy; "United States: #4 in the World Index of Healthcare Innovation"). Regular citizens benefit from this free market and the unparalleled access to world-leading treatments it provides. And, for the record, the only reason why America is not ranked first overall on the index is due to its Fiscal Sustainability subscore. It has the highest levels of per capita government healthcare spending in the entire world (Roy; "United States: #4 in the World Index of Healthcare Innovation"). Once again, government intervention is no friend to regular people.

For an example of what could be expected if markets were left to do their job, LASIK eye surgery — a non-emergency medical procedure — can serve as a roadmap for the future. It was created as a revolutionary technology to improve visual acuity, often providing an alternative to cumbersome eyeglasses and contact lenses. It was approved by the FDA in the 1990s, and, as one would expect, demand immediately skyrocketed (Tolbert). Now, in the American healthcare system, surging demand generally spells disaster; long wait times and rising costs instantaneously become the norm. However, two anomalies of LASIK make it unique: it is (1) seldom covered by insurance companies and (2) relatively unregulated (Tolbert). The latter of these irregularities created a profit motive, which, in turn, drew competing suppliers into the newly lucrative business, drastically lowering prices and improving quality along the way. This increased competition was supported by price-sensitive consumers targeted directly by suppliers who could now provide transparent and reliable prices upfront, rather than having to deal with an opaque insurance company acting as a middle-man (Hoffmans). Patients were then able to compare prices and values from different providers and make an informed, rational decision on how to best care for themselves and their pocketbooks.

Of course, not all situations are suitable for comparison shopping. In times of emergency, when a patient is being rushed to a hospital in an ambulance or when human life is on the line, people are naturally insensitive to the cost of treatment. This is where health insurance makes sense; after all, insurance is, by definition, there to provide a safeguard against the unexpected. For this type of critical care, there is *perhaps* even room to consider interventionist policies in an effort to keep life-saving treatment affordable. However, nearly 60% of healthcare in the United States is shoppable, falling under the categories of elective surgery, medical tests, or diagnostic exams (Lee). A free market — composed of direct transactions between patients and providers — can, therefore, easily satisfy a significant portion of the national demand in a high quality and cost-effective manner. All that is required from the government is a foundation upon which entrepreneurs can innovate and people can have access to the information they need in order to make their own health decisions.

Free-market solutions such as price transparency will level the playing field between patients and providers, and this new era of accountability will make healthcare more affordable without compromising the country's already impressive quality of treatment. If the federal government can overcome its inclination to involve itself in the work of the private enterprise, markets will always get the job done.

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