



# The Health Care Blog

## All the Care that Money Will Buy

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I believe we could spend our entire national income on health care. Not by frittering money away, but by spending it on goods and services that even in small ways could improve the odds of better health. (Examples below.)

I find that most people in health policy agree with that assessment, but rarely do they see its logical (and I would say obvious) implication. If we spent all our income on health, we would have nothing to eat, nothing to wear, no place to sleep. There would be only health care. Since that's clearly an undesirable state of affairs, it must be good for people to refrain from obtaining all the useful care that money will

buy. Further, such restraint needs to be exercised quite often.

What brings this to mind is a new RAND study finding that people with Health Savings Account plans consume less care than people with conventional insurance and have lower health care costs. The people who were studied cut back on such "useful care" as mammograms, screenings for cervical and colorectal cancer and even childhood vaccinations.

Some critics pounced on this result and claimed that consumer-directed care is bad for patients. The critics are, of course, very wrong.

We have written before about the controversy surrounding mammograms, prostate cancer tests and other screenings. Studies differ about their medical value, and the cost per year of life expected to be saved can be quite high. All of this makes the case for individual choice. If not getting a \$100 test keeps you awake at night, by all means get the test. There is no reason for private or public bureaucracies to make that decision for you.

This latest controversy also calls to mind the very famous RAND experiment conducted about 30 years ago. In that study:

- People with a deductible of about \$2,500 (in today's prices) cut back on spending by about 30% relative to people who faced no out-of-pocket costs.

- Aside from some minor quibbling there was no negative impact on health from the higher deductible.
- But people with high deductibles were as likely to cut back on useful health services as they were to cut back on unnecessary care.

This third bullet was seized upon by latter-day critics to argue that patient choices appear to be random, and therefore the experiment in consumer-directed care showed it to be a failure. In fact, the patients' behavior is exactly what you would expect from a rational consumer of any product. When something is free the temptation is to take everything that is offered. The incentive to distinguish between what is "necessary" or "useful" and "unnecessary" or "unuseful" is largely nonexistent. When you have to pay market prices, however, you have an incentive to pay more attention — figuring out what's "unnecessary" and dropping that as well as those "necessary" items whose value is less than their price.

Which brings us back to how we could spend the entire GDP on health care if the socialist idea of free care — not based on ability to pay — were ever actually implemented:

- The Cooper Clinic in Dallas offers an extensive checkup (with a full body scan) for about \$4,000 or more. Its clients include high-profile individuals. Yet if everyone in America took advantage of this opportunity, we would increase our nation's annual health care bill by nearly one-half.
- More than 1,000 diagnostic tests can be done on blood alone; and one doesn't need too much imagination to justify, say, \$10,000 worth of tests each year. But if everyone did so we would more than double the nation's health care bill.
- Americans purchase nonprescription drugs about 12 billion times a year, according to a calculation by Simon Rottenberg some time ago, and almost all of these are acts of self-medication. Yet if everyone sought professional advice before making such purchases (as they probably would if there were no time or money price), we would need 25 times the number of primary care physicians we currently have.
- Some 1,100 tests can be done on our genes to determine if we have a predisposition toward one disease or another. The latest charge for a full gene sequencing was \$50,000. Yet if every American did that the expense would exceed the entire GDP.

Notice that in hypothetically spending all of this money we have not yet cured a single disease or treated an actual illness. We are simply collecting information. If in the process of searching we actually found something that warranted treatment, we could spend even more.

Spending all of other peoples' money on health care is easy, like taking candy from a baby. To prevent that from happening, public or private bureaucracies can ration your care and tell you what services you can and cannot have. Or, you could manage more of your own health care dollars and make you own choices between health care and other uses of money.

Need I say which alternative is likely to work better for you?

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