

## Ferrara at TAS: Priceless John Goodman

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With the publication of his path-breaking book *Patient Power* in 1992, [John Goodman](#) did more to change the course of health care in America than Barack Obama has done, or will do. Goodman has just published a new book, [Priceless: Curing the Health Care Crisis](#), which offers the prospect of a worldwide revolution in health care policy. With the Supreme Court about to rule on [Obamacare](#), this book could not be more timely.

*Patient Power* argued for policies that would shift the power and control over health care funds and decisions to patients and their chosen doctors, and away from third party bureaucracies such as government, HMOs, and insurance companies. It spawned Health Savings Accounts (HSAs) and other consumer directed health plans that have proven far more effective in controlling and reducing health care and insurance costs than anything President Obama has ever done.

### Health Care Liberation

Goodman begins his new book by explaining the vast, new revolutionary vistas that have opened up since *Patient Power*:

First is the importance of liberating doctors. Our focus in *Patient Power* was on freeing the patients....Give patients control over their own healthcare dollars, we argued, and they will become more careful, prudent consumers of health care. What I didn't anticipate was that the changes on the supply side of the market would be far more profound than the changes on the demand side....On the provider side, however, we are unleashing a torrent of entrepreneurial activity that would have been unthinkable only a decade ago..

The foundation for the revolutionary changes is still *Patient Power*, Goodman explains:

When patients aren't spending their own money, there is no way doctors can compete for their patronage based on price. When they don't compete on price, they don't compete on quality either. The services they offer will be only those services the third parties pay for and only in settings and ways the third parties have blessed. But give patients control over their own healthcare dollars and the provider community will begin to meet needs in ways the third-party-payer bureaucracies could never have dreamed of.

Part of the solution, Goodman explains, is consequently "Doctor Power," giving doctors and hospitals more power over their own practices and services to compete in serving the needs and desires of patients. Goodman says, "What we need is a system in which the provider side of the

market competes to provide value because it is in their self-interest to attract patients in this way. We will never solve America's healthcare crisis from the buyer side of the market. It can only be solved from the provider side...[E]very example of high-quality, low-cost medicine originated on the supply side — not the demand side — of the market.”

Goodman continues, “The second thing I missed the last time around was the importance of prices. The single worst public policy decision in all of health care was the decision to eliminate money prices from the market. Have you ever wondered why the panhandler on the street corner has a cell phone, but no access to primary care? It's because he can buy a cell phone in a real marketplace, but he can't buy health care that way.” Goodman explains some of the implications:

As this book goes to press, a new study finds that enrolling children in the Children's Health Insurance Program (CHIP, essentially Medicaid for children) does not result in their receiving more medical care. But when CHIP pays higher fees to doctors, the children do get more care.... But we make it illegal for the family to add to CHIP's fees and pay the market rate for their care. They can have free health insurance only if they agree not to purchase the same care everyone else is able to buy.

Goodman contrasts the failure of health care for the poor with food stamps, which do successfully help the poor. With food stamps, the poor are free to choose the same food available in the market to everyone else at market prices, and supplement their food stamps with their own funds to do so.

Goodman further explains:

The third thing I failed to fully appreciate in the earlier book is the second biggest mistake in all of health policy: making it illegal for insurers to charge premiums that reflect real risks.... In most places we make it against the law for a health insurer to charge a fair premium to a person who has above average expected healthcare costs. This means that insurers have an economic self-interest in avoiding people with health problems and in failing to encourage them to seek optimal treatment once they do enroll.

Goodman and I both agree that the government should sponsor a health care safety net so no one will suffer without essential health care, as discussed below. With that backstop, however, we need to maximize the power of the market to provide the best health care at the lowest possible cost. But that is not what we are getting under current policies, as Goodman explains: “The absence of real prices for health insurance and real prices for medical care combines to completely deter what should be a vibrant market to solve the problems of people with medical problems.... Notice that both of these policy mistakes share the same basic problem: the suppression of the price system. That is why I chose to title this book, *Priceless*.”

Goodman describes how the market would work to benefit patients and consumers of health care if the price system were allowed to operate properly: “In a normal market, prices convey

information. A high price tells innovators and entrepreneurs the market places a high value on getting a problem solved. It communicates that the reward for finding a solution could be high as well. When the price system is artificially suppressed, the information does not get communicated. Almost all of our problems in health policy stem from this central fact.”

Goodman explains that if the price system is allowed to work, “In such a market, the sick would be just as desirable as the healthy to an insurance company. And there would be an active, entrepreneurial market to find low-cost ways to solve your health problems — in order to lower costs both for you and your insurer.”

Goodman explains as his fourth new insight the reason we are blocked off from truly effective health policy reform: “[T]he most important differences people have over health policy have little to do with facts, reasoning or logical argument. The most important differences stem from differences in fundamental world views. There are a very large number of people in this field who find the price system distasteful — at least for medical care.” As a result, “the truth of the matter is that there is no amount of evidence that is going to convince most of the orthodox health policy community that prices should be allowed to allocate resources in the market for medical care. For well intentioned reasons perhaps, they are emotionally predisposed to favor the suppression of normal market processes.”

### **Health Savings Accounts**

In more concrete terms, the revolution begins with Health Savings Accounts (HSAs), which involve health insurance paying all expenses above an annual deductible of preferably \$2,500 to \$5,000 or possibly more. That insurance is much less expensive with those high deductibles alone, and the savings is put in the HSA savings account and used to pay health expenses below the deductible. Whatever is not spent stays in the account earning interest to pay for future expenses, and can be withdrawn and used for anything in retirement.

That means that the patient is paying for all non-catastrophic health care effectively with his own money. Now the patient has full market incentives to avoid unnecessary care, and shop around for the least expensive care he does need. Studies and experience show that such HSA incentives reduce health costs by 30% or more.

Goodman explains the potential for such HSAs: “In moving from a \$1,000 annual deductible to a \$2,500 deductible, the family is exposed to an additional risk of \$1,500 per individual (\$3,000 per family). In return, they can save almost \$5,000 a year in reduced premiums. In moving from a \$1,000 to a \$5,000 deductible, the family takes an additional \$4,000 of risk per individual (but no more than \$8,000 per family). But the [annual] premium savings is nearly \$8,000.”

Consequently, workers and families with HSAs can expect to have enough in their HSA savings accounts to cover all expenses below the deductible.

Such HSAs can be expanded throughout the entire health care sector. Workers with employer provided insurance can be given the freedom to choose them. Seniors on Medicare can be

empowered to choose HSAs for their Medicare coverage. The poor on Medicaid can be freed to choose HSAs for their Medicaid coverage as well.

### **Doctor Power**

In this book *Priceless*, Goodman opens up the vista for how health care providers, doctors, hospitals, specialists, etc. can and will respond to patients with such incentives. He explains, “The biggest misconception among both friends and foes is that HSAs have their primary impact on the demand side of the market.... In fact, HSAs and their companion accounts are having their greatest impact on the supply side of the market.... Once money is in the hands of the patient, entrepreneurs on the supply side will try to compete for it by better meeting patient needs.”

But the health care providers must be freed of the barriers that are currently preventing them from serving patients this way. Goodman explains, “Unlike other professionals, doctors are not free to repackage and reprice their services in ways they believe will best help their patients. Instead, third-party payer bureaucracies will tell them what tasks they will get paid for performing and how much they will be paid to charge. Doctors are the least free of any profession we deal with. Yet these unfree actors are directing one-fifth of all consumer spending.”

Goodman proposes to start the most fundamental Doctor Power reform in Medicare: “Any provider should be able to propose and obtain a different reimbursement arrangement, provided that (1) the total cost to government does not increase, (2) patient quality of care does not decrease, and (3) the provider proposes a method of measuring and assuring that (1) and (2) have been satisfied.” Such reform begun in Medicare would then quickly spread throughout the private sector.

Doctors, hospitals, specialists and other health providers would then be free to develop and implement new models to serve their patients, maximizing quality while using market incentives to reduce costs.

### **Health Care Safety Net**

Goodman has also developed a health care safety net that would ensure access to essential health care for everyone, with no individual mandate and no employer mandate. Indeed, such reform would effectively provide universal coverage for everyone, achieving what [Obamacare](#) promised but did not deliver.

That would begin with block grants for Medicaid back to the states, with the states completely free to redesign their Medicaid programs to best serve the poor. The voters of each state can then decide how much assistance for the purchase of health insurance to provide each family at different income levels to assure that the poor would be able to obtain essential health care. This would rightly vary with the different income and cost levels of each state. The poor would then be free to choose the private health insurance they preferred, including HSAs, liberating them

from the Medicaid ghetto, which is an institutionalized means for denying them health care by refusing to pay doctors and hospitals sufficiently to assure their timely access to essential health care.

A second step necessary to ensure a complete safety net is to allow each state to use part of their Medicaid block grant to set up a High Risk pool. Those uninsured who become too sick to purchase health insurance in the market, perhaps because they have contracted cancer or heart disease, for example, would be assured of guaranteed coverage through the risk pool. They would be charged a premium for this coverage based on their ability to pay, ensuring that they will not be asked to pay more than they could afford. Federal and state funding would cover remaining costs. Such risk pools already exist in over 30 states, and for the most part they work well at relatively little cost to the taxpayers because few people actually become truly uninsurable.

The law already provides that insurers cannot cut off already existing policyholders, or impose discriminatory rate increases, because they become sick *while* covered. That would be like allowing fire insurers to cut off coverage for houses once they catch on fire. If this law needs to be modernized, it should be.

With these reforms, those who have insurance can keep it, those who can't afford it are given the necessary help to buy it, and those who nevertheless remain uninsured and then become too sick to buy it have a back up safety net in the risk pools. Everyone is assured of being able to get essential health care when they need it, with no individual or employer mandate.

The book fleshes all of this out in full detail. But you can already see the outline of how such market reforms would liberate health care to both reduce costs and provide a safety net covering everyone, providing a complete and vastly superior replacement for Obamacare. Market incentives through such innovations as HSAs would gain control over costs, and the new health care safety net would assure no one would suffer without essential care. Goodman's health care vision will be directing modern health care policy in America and beyond long after Obamacare has been forgotten, relegated to the dustbin of history.

Today, while America enjoys the best and most advanced health care in the world, it can best be described as an East German caricature of the maximum, 21st century, fully capitalist health care that our modern science could support. As Goodman concludes, "Liberated from the confinement of legal impediments and suffocating bureaucracies, doctors, patients, hospital personnel and profit-seeking entrepreneurs are perfectly capable of solving our most serious health policy problems. All they need is the freedom to be able to do so."