Health Care Economist John Goodman on Market-Based Health Care

By: Joseph Lawler **September 19, 2012**

John Goodman, a health care economist at the National Center for Policy Analysis and prolific blogger, argues that America's health care system doesn't function like a real market in his new Independence Institute book, Priceless: Curing the Healthcare Crisis. RealClearPolicy spoke with Goodman to learn about his criticism of the current state of health insurance in the U.S., and to find about his proposals for fixing the problem. What follows is an edited transcript of the conversation.

RealClearPolicy: Your basic criticism of the health care system in the U.S. is captured in the title of your book: Priceless. Can you summarize that argument?

John Goodman: In health care we've completely suppressed the market, and we've been doing it for decades. In this respect, we're very similar to other developed countries. We like to think that our health care system is very different from the systems in Britain, Canada, and Europe, but in fact we have more in common than there are differences. Because we've suppressed the market, no one ever sees a real price for anything. No patient, no doctor, no employer, no employee. What we have is a bureaucratic system that gives us all perverse incentives. And when we act on those incentives, we make costs higher, quality lower, and access to care more difficult than otherwise would have been the case.

What's an example of those perverse incentives?

Basically, in the United States, we pay for care with time and not with money – just as they do in Canada, just as they do in Britain. The non-price barriers to care are far more important than the fees providers charge. Non-price barriers are things like: how long does it take on the telephone to get an appointment with a doctor? How many days do you have to wait before you see the doctor? How long does it take to get from your home to the doctor's office? And once you get there, how long do you have to wait in the waiting room before you see the doctor? Those are all forms of non-price barriers to health care. And they're very significant. Subject to those time barriers, we all have an incentive to overconsume health care as patients. And because of the way we pay doctors, they have an incentive to overprovide. That's the primary reason that health care

costs are so high. The primary reason we have a quality problem is that when providers don't compete on price, they don't compete on quality, either. The reason there's an access problem is precisely that the time price of health care is getting larger and larger in this country, just as it has in other countries. If you ration by waiting, you're always going to have an access problem.

How would you correct those perverse incentives?

I would like to liberate all the players so we can have a real market for health care. And I'd like to do the same think for health insurance. When you have real prices, people have good incentives. They will compare prices, they will compare quality, and providers will compete on price and quality. When they do that, they will have an incentive to get costs down, to get quality up, and to make health care more accessible.

What's your evidence? Can you point to any examples of such markets?

Wherever third-party payers are not the dominant forces, health care markets work very well. There are very few third-party payers in the market for cosmetic surgery. In that market, you get a package price covering the doctor, the nurse, the facility – one price for the entire procedure. You have price competition. Over the past 15 years, we've had a huge increase in demand, all kinds of technological change, and yet the real price keeps coming down. Lasik surgery is another market where people are basically paying with their own money. You have price competition, you have quality competition, you have complete transparency, you have package prices. And over the last decade, the real price of Lasik surgery has dropped by 25 percent.

Your book also includes specific criticism of the Affordable Care Act. Can you spell that out a bit?

Well, it's going to force you to buy a health care plan whose cost is going to grow at twice the rate of growth of your income. So eventually it's going to crowd out every other form of consumption. And it limits your ability to protect yourself, for example by going to a higher-deductible or more limited benefits. There is a bizarre system of subsidies that will encourage employers to drop health insurance for everyone who makes a below-average wage. We may see a complete restructuring of American industry in response to these subsidies. It gives health insurance plans in [the health care insurance exchanges set up by the government] an incentive to overprovide to the healthy and underprovide to the sick. And that's not good if you happen to be sick. It has a mandate, but the fine is small and it's going to be weakly enforced; therefore people will have an incentive to game the system, remaining uninsured until they get sick, and then buying insurance, getting their care, getting their care paid, then dropping insurance again.

Are all those problems fixable within the structure of the health care law? Or do they come along with the basic structure of the act?

None of these problems is fixable, if what you mean is "tinker around the edges." What we need is fundamental reform that liberates people. And what I mean by liberation is the kind of reform that allows prices to allocate resources so that when people go into the market they see a real price?

I think we need to talk about the doctor shortage. That's the greatest weakness in Obamacare that's going to give the Democrats the most trouble.

Obamacare will insure about 30 million new people, and they will try to double their consumption of health care. At the same time, it's going to require everybody else to have more generous insurance than they want to have, and that's going on right now. What I mean by more generous insurance is that there's a long list of preventive services that people will be entitled to with no deductible and no co-payment. When people try to take advantage of these benefits, the demand for doctors' services is going to greatly exceed supply, because there's nothing in the legislation that creates any new doctors. So we're going to have a rationing problem, and the waiting times are going to grow, for every doctor, for every kind of service. In this kind of market, if you're in a plan that pays less than what most other plans pay, you're going to be pushed to the end of the rationing line.

And who are these people? They're the elderly and disabled in Medicare, low-income people in Medicaid, and, if the Massachusetts example is followed, the newly-insured people in the health insurance exchanges. In this environment, those seniors who can afford it are going to turn to concierge doctors. They're going to pay $1,500-$2,000 a year for a doctor who will see them same-day or next-day, who will be their advocates, and who will spend more time with them. What we're going to get very quickly is two-tiered medicine. Those who can afford it will get convenient care and better care. Those who can't will find that they're waiting for services, and the services they get will not always be the best services.

Is there a way to meet the ACA's goals without running into this problem?

There's no way to avoid this. Economists at Duke University actually estimated what would happen if everybody in America took advantage of all the preventive services and all the screenings the act says we're entitled to. The conclusion is the average primary-care physician would be working seven and a half hours a day just doing screenings on healthy people, with very little time left over for anything else.

Obamacare makes promises that are not paid for. It makes promises it cannot deliver on. And when people try to take advantage of those promises, we're going to have a huge problem with access to care. The most vulnerable populations are going to be the ones that will be affected in the worst way. So when Democrats voted for Obamacare, they probably thought they'd be helping out vulnerable populations, but in fact access to care is going to get worse for all those groups.

Is there an alternative to the ACA that could provide those groups with the insurance that they need that wouldn't result in this doctor shortage?

Yes. We need to provide people with refundable tax credits so they can buy health insurance and open a generous Health Savings Account. I believe that with ideal insurance all primary care should be paid for by people from a Health Savings Account. That way we would always be looking at market prices and we would have price transparency. There's no reason to use health insurance to provide routine health care. We need price rationing instead of rationing by waiting.

What's the prospect for reform like that in the U.S. in the next 5-10 years?

From my conversations with Republican members in Congress, I conclude they're all dedicated to repealing Obamacare. I detect very little enthusiasm for replacing it with something better. So I'm afraid that what we're going to get from Republicans is the status quo. That's going to be a disappointment to a lot of us.

So is the kind of reform you'd like to see a lost cause?

There's a wonderful bill that was introduced by Senator Coburn in the Senate and by Paul Ryan in the House that has some of the reforms that we like. It would give every American a refundable tax credit, and everybody would get the same amount of money. It would create excellent incentives on both sides of the market to create high-quality health insurance. Unfortunately, there's very little appetite, in the Republican Party in general, for major reform. There's a Congressional Health Care Caucus, which has at its website my suggested Healthcare Contract with America. There are five provisions. They put it up on their site, but I don't detect enthusiasm to go out and enact legislation based on these ideas.

Turning to the topic of Medicare, what do you think of Republicans' plans to move Medicare to a premium-support model?

I like the idea of premium support. The marketing mistake they made is to pretend that it's something radically different from what we now have. In fact we already have a voucher program with premium support. It's called Medicare Part C, or Medicare Advantage, and one out of every four seniors has a private health insurance plan as a result of that opportunity. What Ryan and Romney should have said is that this is going well, the seniors who're in these plans really like them and want to stay, therefore we should enable even more seniors to have these opportunities.

What's the evidence that Medicare Advantage is efficient, while traditional Medicare is not?

Many Medicare Advantage plans are not that different from traditional Medicare; some are. What we need to do is liberate that market too and give the plans incentives to keep costs down and quality up. There are too many restrictions on what the plans can do. But there's a lot of

evidence that the better plans are more efficient; they can provide less costly care, and better care.

What is that evidence?

By better care I mean fewer admissions to hospitals and fewer readmissions Problems are taken care of so that hospitalization is not required. On several metrics, some of the best Medicare Advantage plans appear to be much better than Medicare.

Is that true on the fiscal side as well?

The way we pay these plans is usually influenced by political considerations. So we're overpaying. We're paying more than we need to be in order to get the job done.

As far as Medicaid is concerned, there's a dramatic difference between the two parties. The Democrats want to add millions to the Medicaid rolls, while Republicans have advocated moving the program to a block-grant system. What do you think of the debate?

I like the idea of a block grant, because it allows states to control health care dollars. Right now, every time they waste a dollar, they only lose one-third of it, while the federal taxpayers lose two thirds of it. With block grants, when they waste a dollar it's their dollar. So you greatly improve incentives. Then we need to roll back regulations so that states are free to do the kinds of things that will make Medicaid a more efficient program. In general, Medicaid is an inferior insurance plan. It's second-tier medicine. What I'd prefer us to do is to allow everyone on Medicaid to take their money and use it to enroll in a private plan, if they wish. I'd also reverse that. I think there ought to be a refundable tax credit available to everyone, and if people want to enroll and Medicaid pay their refundable tax credit to the Medicaid program, then I would let them do it. So there would be a public plan people could enroll in if they want. But I've never heard of anybody actually wanting to be in Medicaid, as opposed to, say, a Blue Cross plan.

I think many would say that if you gave red states a fixed block grant that only grew at a slow rate, many of them wouldn't end up covering everyone they need to.

The block grant has to come with some conditions. One is that it has to be spent on indigent health care, and the second is that the state will have to cover the entire poverty population. Other than that, they ought to be free to do it in the way they see fit.

So a block grant is reconcilable with the goal of covering everyone below a certain poverty level?

I think the states are going to have to agree to cover everyone below the poverty level. They're going to have to agree to spend money on indigent health care. They can't spend it on education or anything else. But they'll be free to decide they can't afford in vitro fertilization, or acupuncture. So states will be free to decide what benefits they want to cover.