Looking beyond the Market

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For the most part, the market doesn't work where health care is concerned. It has been particularly ineffective in constraining costs over the past half-century, with stakeholders (insurance companies, organized medicine, pharmaceutical companies, trial lawyers) propelling runaway spending. Yet as they shape reform legislation, politicians on both sides of the aisle merely want to make relatively minor adjustments to the current system.

The market is about maximizing profit, and it encourages predatory behavior by participants who have an advantage, as the stakeholders in the health care system do. Because of the asymmetry of knowledge between providers and consumers, if doctors tell patients that tests or procedures are needed, patients overwhelmingly acquiesce. And perverse incentives in the fee-for-service method of compensation encourage physicians to increase the volume and intensity of their services. This is the primary driver of unnecessary care, which, according to the Congressional Budget Office,[1] accounts for up to 30% of health care spending — possibly as much as $800 billion of this year's $2.5 trillion expenditures.

The market-based system of health insurance coverage keeps administrative costs high — consuming 15 to 25% of the nation's health care dollars.[2] Behind these administrative expenditures are labyrinthine pathways for approval of services, post hoc rejection of claims, difficulties in obtaining reimbursement, the multiplicity and opaqueness of the plans offered, and the cherry-picking of policyholders — the ways in which insurance companies have made health care a nightmare for many Americans. They also use a strategy called "recission" to cancel coverage of sick policyholders by finding loopholes in their contracts. And they write policies providing inadequate coverage without explaining the limitations comprehensibly.

Insurance companies also engage in illegal conduct in their quest for profits. In January 2008, UnitedHealthcare and several of its subsidiaries were charged by New York's attorney general "with defrauding consumers by manipulating reimbursement rates for patient visits to out-of-network doctors"[3] — and other insurance companies used the same rate schedule.

The inability of private Medicare Advantage plans to deliver care less expensively than regular Medicare is another indication of the market's failure in the health care arena. These private plans have required subsidies from the government of 13 to 17% above Medicare payment rates in order to continuing operating.[4]

Though many politicians believe that market forces and insurance companies are the best therapy for the current crisis, using them to reform the system is like putting the foxes in charge of the henhouse. It is not that market-based measures should be totally ignored in any reform proposal. They simply should not be the mainstay of our corrective efforts.

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