Can Markets Give Us the Health Care System We Want?

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"I was at my sister's today. They have two pots."

$$D = f(\text{prices, incomes, tastes})$$

"Tastes neither change capriciously nor differ importantly between people... [O]ne does not argue over tastes for the same reason that one does not argue over the Rocky Mountains - both are there, will be there next year, too, and are the same for all men."

-- Stigler & Becker, 1977

"The economist continues to search for differences in prices or incomes to explain any differences or changes in behavior"

-- Stigler & Becker, 1977


LASSIE!
GET HELP!!
Shanahan

Resurgence of Interest in Higher Patient Cost Sharing

- Copayments and coinsurance rising in employer-sponsored health plans
- Renewed interest in high-deductible products like health savings accounts and consumer-directed health care
- Structure of the Medicare drug benefit

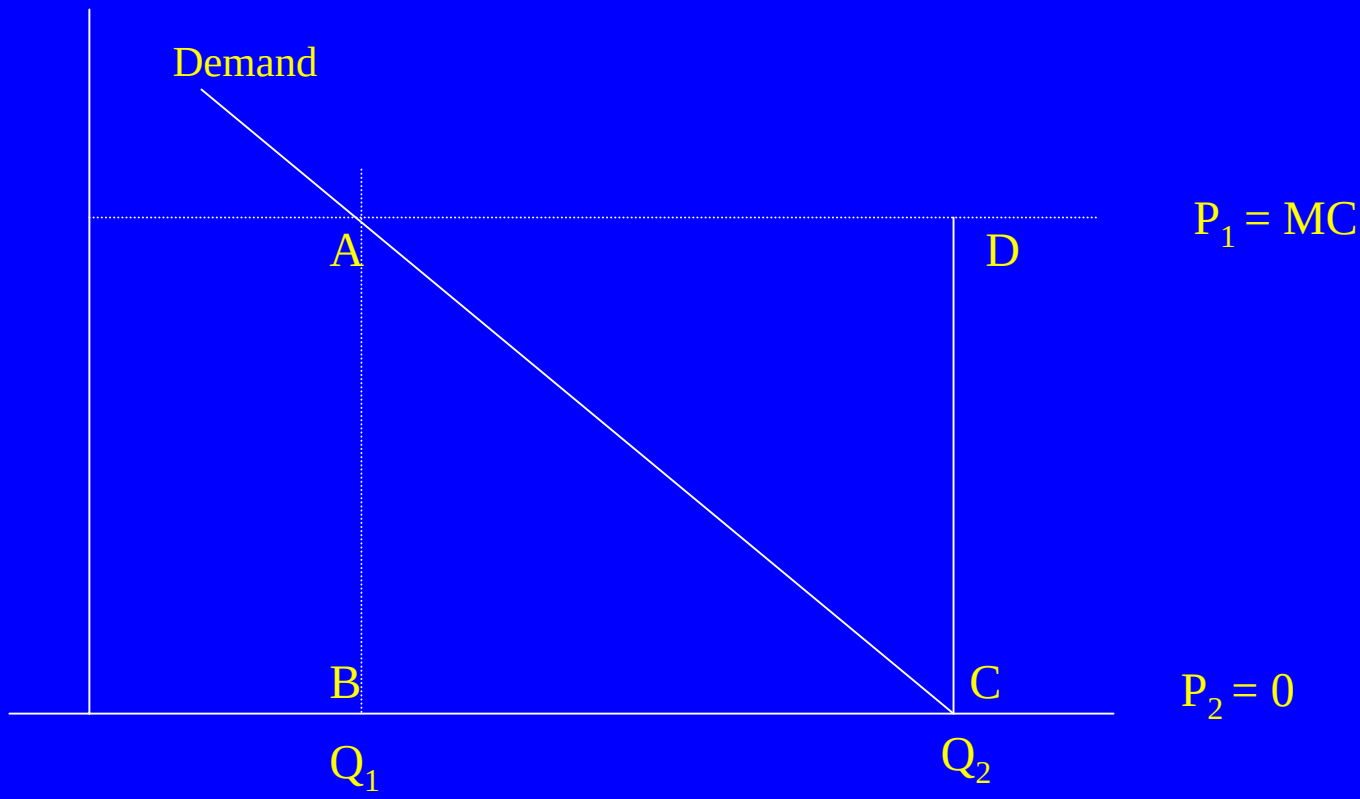
Dr. Pangloss

Dr. Pangloss on “Revealed Preferences”

“It is demonstrated that things cannot be otherwise: for, since everything was made for a purpose, everything is necessarily for the best purpose. Note that noses were made to wear spectacles; we therefore have spectacles. Legs were clearly devised to wear breeches, and we have breeches... And since pigs were made to be eaten, we have pork all year round. Therefore, those who have maintained that all is well have been talking nonsense: they should have maintained that all is for the best.”

-- Voltaire, 1759

Pauly's Demonstration of Welfare Loss From Excess Health Insurance

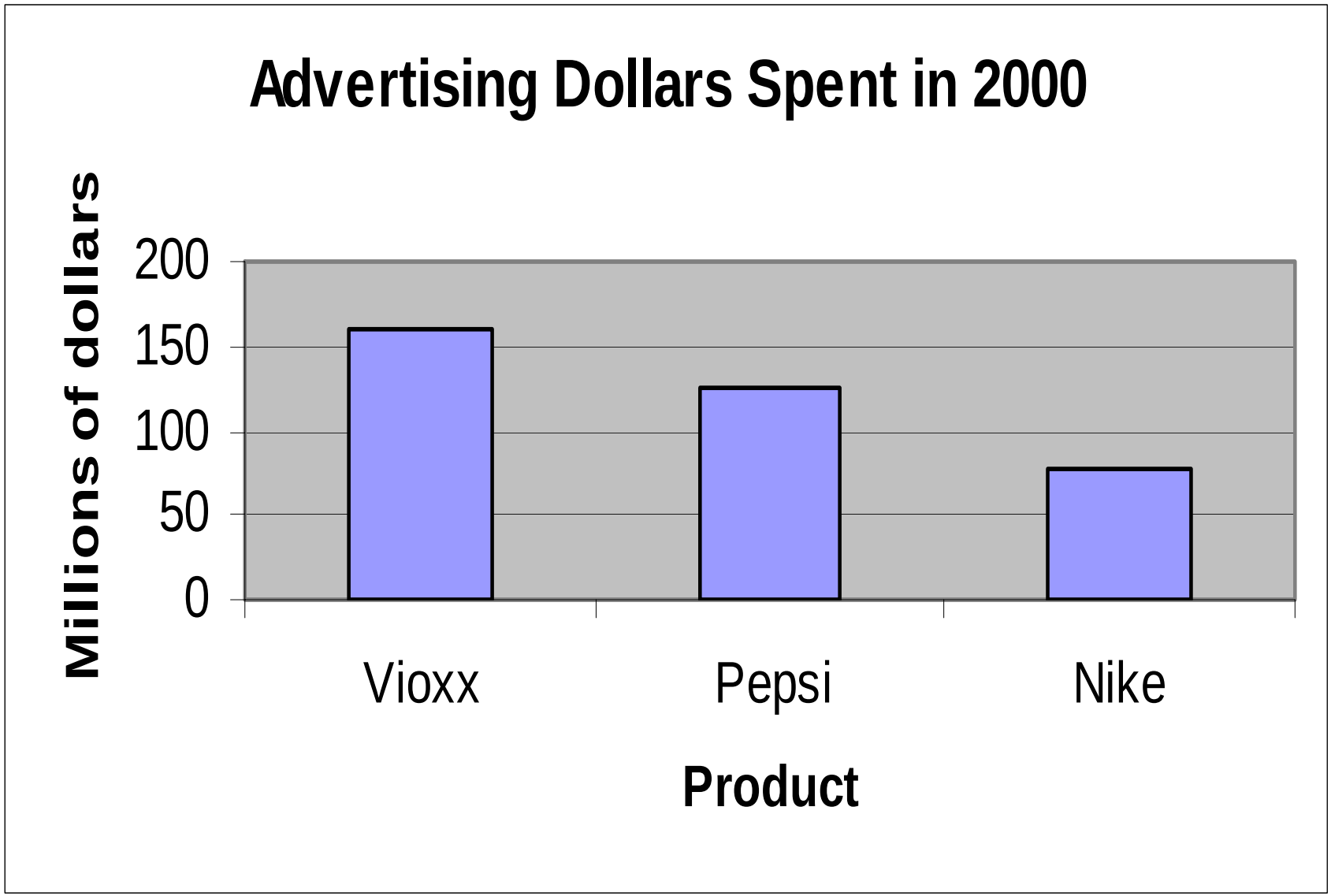


"We are skeptical that the observed demand can be interpreted as reflecting 'socially efficient' consumption, [so] we interpret the demand curve in a more limited way, as an empirical relationship between the degree of cost sharing and the quantity of use demanded by the patient."

-- Ellis & McGuire, 1993

Consumer Sovereignty Implies…

- People would be better off having less health insurance, or none at all
- Copayments should be higher for price-sensitive services like prevention and mental health care
- The U.S. health care system is, by definition, more efficient than in other countries simply because we charge people more, minimizing welfare loss
- Direct-to-Consumer advertising of prescription drugs is better for society


Advertising Dollars Spent in 2000
Millions of dollars
200
150
100
50
0
Vioxx
Pepsi
Nike
Product

“addictions, even strong ones, are usually rational in the sense of involving forward-looking maximization with stable preferences" [and that even though unhappy people often become addicted] ``they would be even more unhappy if they were prevented from consuming the addictive goods.”

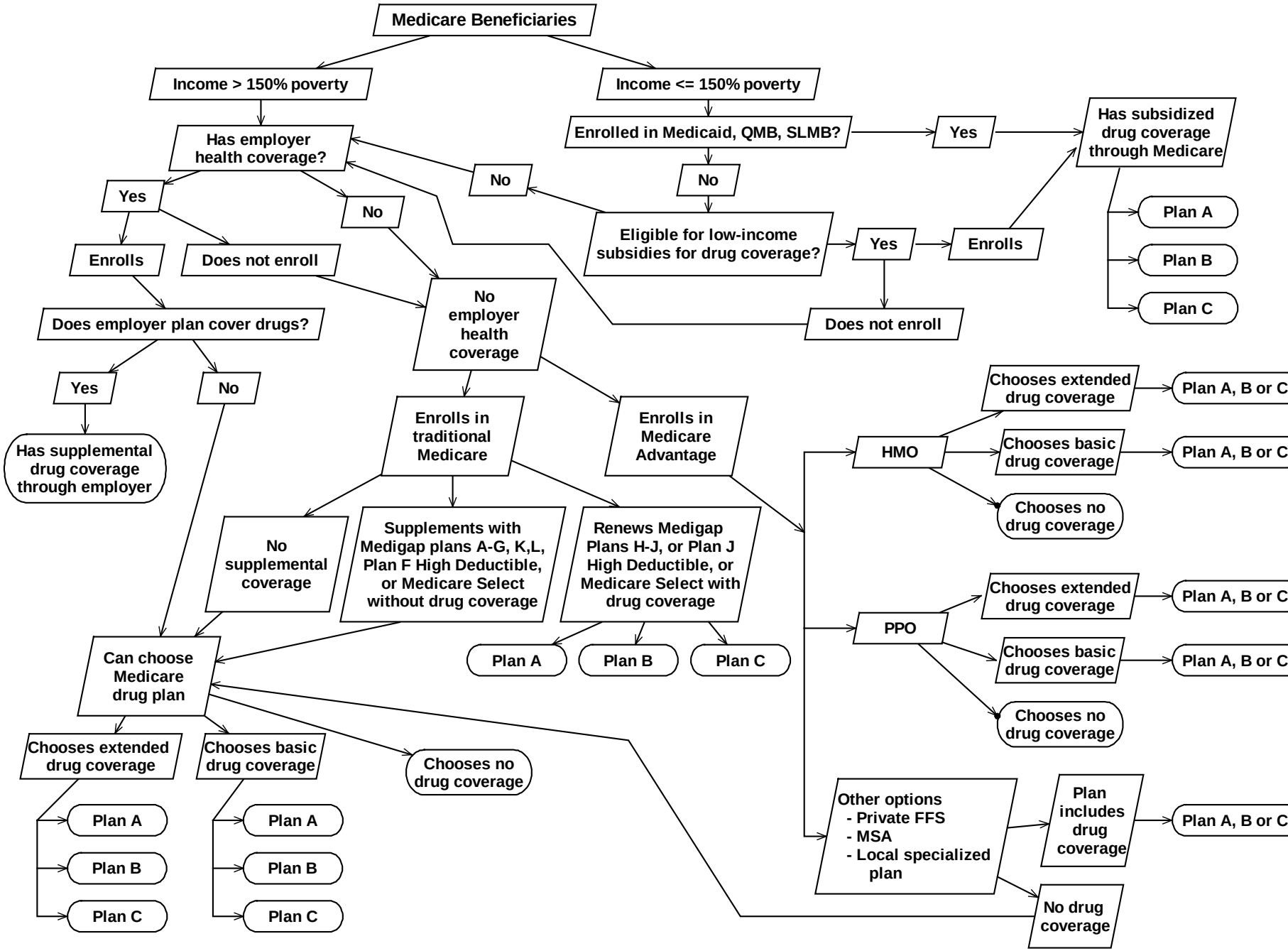
-- Becker and Murphy, 1988

“An economy can be [Pareto] optimal … even when some people are rolling in luxury and others are near starvation as long as the starvers cannot be made better off without cutting into the pleasures of the rich. If preventing the burning of Rome would have made Emperor Nero feel worse off, then letting him burn Rome would have been Pareto-optimal. In short, a society or an economy can be Pareto-optimal and still be perfectly disgusting.”

-- Sen, 1970

"People pay taxes in rough proportion to their incomes, and use health care in rough proportion to their health status or need for care. The relationships are not exact, but in general sicker people use more health care, and richer people pay more taxes. It follows that when health care is paid for from taxes, people with higher incomes pay a larger share of the total cost; when it is paid for by the users, sick people pay a larger share... Whether one is a gainer or loser, then, depends upon where one is located in the distribution of both income ... and health…. In general, a shift to more user fee financing redistributes net income … from lower to higher income people, and from sicker to healthier people. The wealthy and healthy gain, the poor and sick lose."

-- Robert Evans



Health Insurance Decisions Facing Medicare Beneficiaries

"Laissez faire and let laissez faire is what I believe in."

Tentative “Lessons” for Health Care Reform

- Coverage should be universal, and financed primarily from public sources or government-ensured social insurance using progressive revenue sources
- Delivery of services can be carried out privately under the oversight of government, which acts as a purchaser of services
- Emphasis should be placed on containing costs through supply-side rather than demand-side methods

“Lessons” Continued

- Patient cost-sharing requirements should be reasonably low
- Payments to providers should be coordinated among payers
- Government should proceed with caution in providing consumers a choice of insurer
- Fee-for-service payment should be re-evaluated