

# Re: The Root Cause of Rising Health Care Costs

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- *From:* [maxwelton@xxxxxxxxxxx](mailto:maxwelton@xxxxxxxxxxx)
  - *Date:* 28 Dec 2006 09:43:05 -0800
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Peter Olcott wrote:

<[maxwelton@xxxxxxxxxxx](mailto:maxwelton@xxxxxxxxxxx)> wrote in message  
[news:1167262984.380211.68750@xx](mailto:news:1167262984.380211.68750@xx)

S. Doo wrote:

On Wed, 20 Dec 2006 10:31:53 -0600, "Peter Olcott"  
<[NoSpam@xxxxxxxxxxx](mailto:NoSpam@xxxxxxxxxxx)> wrote:

The root cause of the problem with rising health care costs is that health care lacks sufficient price elasticity of demand. Within the free enterprise system a rational supplier will continue to raise prices until they are stopped by falling demand.

Within the current way that health care is bought and paid for, this is not going to happen. This only leaves two possible choices to fix the problem:  
(1) Find a way to add price elasticity of demand to health care.  
(2) Provide a system for purchasing health care outside of the free enterprise system.

The bulk of health care is *\*already\** purchased outside the free enterprise system in the US.

That's what's caused this whole mess.

## Re: The Root Cause of Rising Health Care Costs

What's the "price elasticity of demand" when there's no price to the consumer, eh? When the health care is "free" via Medicare, Medicaid, etc, and paid for through taxes; or provided through "benefits" that separate the cost of an item from obtaining it, and which themselves are heavily tax subsidized, reducing the real price to everyone but taxpayers?

So why was it ever created to begin with? Do you think there might have been a reason? A reason that you are talking about recreating?

The system for the payment of medical goods and services was created in ignorance of this system's devastating effect on the price of these goods and services.

Obviously the medical insurance system would have never been created if simple supply and demand was keeping cost controlled. You advocate going back to something that doesn't work.

Imagine this was food instead. Suppose the politicians said food is \*too important to life\* to be supplied unfairly by the free market, so the government must provide it to all instead. So they nationalized most of the food stores, took the previous average food expenditure of the average person, stocked its nationalized stores with "free" food in that amount, and then hit everyone with taxes to pay for it.

You are part right. The problem is government restricting supply. You

Since there are many other professions where the supply of providers of these services are restricted in the same way, and there is no problem of rising prices in these fields, you are proven wrong. Try and prove otherwise.

## Re: The Root Cause of Rising Health Care Costs

You haven't proved anything. There is no other field that restricts the entry and graduation of students the way medical professional schools have done. But that isn't the whole of it, you must not be aware of drug patents and the restrictions placed on opening hospitals and clinics by the government. Medicine is a heavily regulated field and the government is allowing this for reasons of quality control, but much of it results in non productive profiteers taking advantage of the situation.

see hospitals can't just be opened like grocery stores. The government must approve them. So the existing hospitals all try to make the case that there are already enough existing hospital beds. So unlike the new grocery store the new hospital never gets built. Also drugs can't be made and sold like your everyday candy maker can do so there is also a government advocated monopoly here. Then also consider that unlike engineering school grads, admission and graduation of medical school professionals are carefully controlled. So what we have is an existing bureaucracy contributing to the problem.

What would happen? Well, obviously, everybody who was very happy with hamburger and tuna five days a week previously would head right to collect filet mignon and lobster every day -- and why not, they've already paid for it with their taxes haven't they??

Yeah right. I can't remember the last time I told a doctor to skip the simple procedures and put me under the knife for open heart surgery. That is what most of us really want. C'mon. Your analogy has no basis in what is being discussed unless you want to instead say that no one wants any of the food at the grocery but the doctor says you have to eat specific things if you want to stay to live a healthy life. So the only thing you can compare is prices for the same items at different grocery stores.

If there is no price elasticity of demand for a set of goods and services there is no incentive to provide these goods and services efficiently. Without vigorous price competition to trim off every bit of waste and inefficiency, we are left with a lot of waste and inefficiency. This fact will remain true regardless of changing anything else. This is the root cause of the problem.

I can't believe you are being completely objective in what you see as a

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solution to the problem. No matter what, you seem to advocate doing away with any method of third party payment. The thing about third party payment is that if managed properly it can work to hold down medical cost. If your solution is true then we would likely see a lower price for service given to the uninsured, since you believe that the insurance payment method is responsible for high payment of services. Actually it is the uninsured that always get stuck with a higher price.

I am sure you can go to another country that doesn't have an insurance method of payment for medicine. Relative to the US or Europe you will likely find the cost to be less expensive, but not for the average person that lives in that country. You will also likely see a lot of people simply doing without because of the cost. The nice thing about insurance is much of the time it provides incentive for prevention.

If we wait in the US long enough to where like you say very few people will be able to afford insurance, then we will likely see a similar thing. So maybe you will get to see the results of your theory.

For example not every hospital will be able to afford a half million dollar medical imaging device that is used 3% of the time. Only hospitals that can manage to utilize this device nearly 100% of the time will be able to afford such a device, on and on with every aspect of providing medical goods and services.

Regardless of any cost to you if a doctor tells you that you can take a pill and skip the outpatient surgery, which will you do? What if on another occasion he tells you that you can have outpatient surgery and skip being admitted to a hospital and going under full surgery. Which choice are you going to make? The answers to these questions are easy ones to make. Then consider the relative cost of each one.

The fact is that no one really wants to go to the hospital or take medicine regardless of the cost. If demand is outpacing supply in medicine then it is because the population is growing faster in proportion to available health care. It isn't that people have the ability to pick and choose something they have decided they want while ignoring the cost.

A problem can't be solved until the problem is first understood.