

# Choosing the Future

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## About “Health Care Costs”

The drive to reform “America’s Health Care System” is driven by what is generally decried as an explosion in “the cost of health care” and by a desire to improve system access for the millions of Americans said to be without it. Although this formulation is accepted almost universally by policy makers and the public alike, it is wrong on several critical counts.

Whenever consumers of any highly desirable product or service are insulated from the financial consequences of the consumption decision, demand for that product or service will be virtually infinite, especially if access to and use of the product or service is presented as a right.

Until that basic economic principle is recognized and acted upon, efforts to control total expenditures for “health care” at the national level are doomed to failure.

- It is a misnomer to describe American physicians and hospitals as a “health system”, at least in the centrally organized and controlled sense so ardently desired by many in the political class and which the Third Party Payer system is frantically attempting to build. The Business Dictionary defines a system as “[a] set of detailed methods, procedures, and routines established or formulated to carry out a specific activity, perform a duty, or solve a problem.” American medical care has been provided historically by private practice physicians who operated independently from each other and from the thousands of independent individually-governed hospitals to which their patients were occasionally admitted. *It can be argued that the traditional strength of American medical care, including much of the advances in Medicine, grew from the fact that the practice of medicine was not centrally controlled, standardized, or systematized.*
- Understanding the difference between unit cost and aggregate cost is essential when considering the growth in national “health care expenditures”, most of which is really growth in *health insurance expenditures*.
  - Unit Cost: If a unit of health care is defined as “the successful diagnosis and treatment of a patient”, the ratio of cost to benefit has improved significantly over the last several decades, especially if one controls for the cost of unnecessary regulation, the expense of defensive medicine, and the effect of the Third Party Payer system.
  - Aggregate Cost is the total amount spent on physician-directed medical and hospital care and it is the explosion in aggregate costs that has motivated efforts to control it. This is calculated by multiplying unit cost by aggregate demand.

“The Affordable Care Act” suffers from the same fundamental conceptual flaw as “*The No Child Left Behind Act*”. Both imagine that results are controlled by “system” performance when, in fact, the characteristics of students and patients play a very large role in outcome determination.

FJB



7667 N.W. Prairie View Road, Suite 204  
Kansas City, Missouri 64151  
(816) 587-2120  
<http://bradyinc.com>