Health Care

Do people have a right to it?

Wed. April 1, 2009

ECO3933 - Market Ethics

Lecture Topics

1. Introduction
2. The problems of health care
3. The free market approach
4. Planning the Great Leap Forward?
5. Health care specifics in the U.S.
6. Further questions to ponder

1. Introduction

The right to self-ownership gives a person the exclusive control over his or her own body and life.

Question of the Day: Do people have a right to health care? If so, how much (basic, comprehensive, emergency) and should it be compulsory?

2. The problems of health care

2.1. Mix of opinions, value judgements, and agenda-driven facts

Here are some responses from a British survey:

i. "If people don't lead healthy lives, why should the health authority waste money on making them aware and providing services?"
ii. "The most important thing is to cure people who have life threatening illness and then help people to lead a good life."
iii. "Instead of curing it, prevent it."
iv. "Care of the dying is important---why should people suffer?"

2. The problems of health care

2.2. Positive vs. Normative

i. Positive: "Specialist in heart-lung transplants resigns in protest at lack of funding"

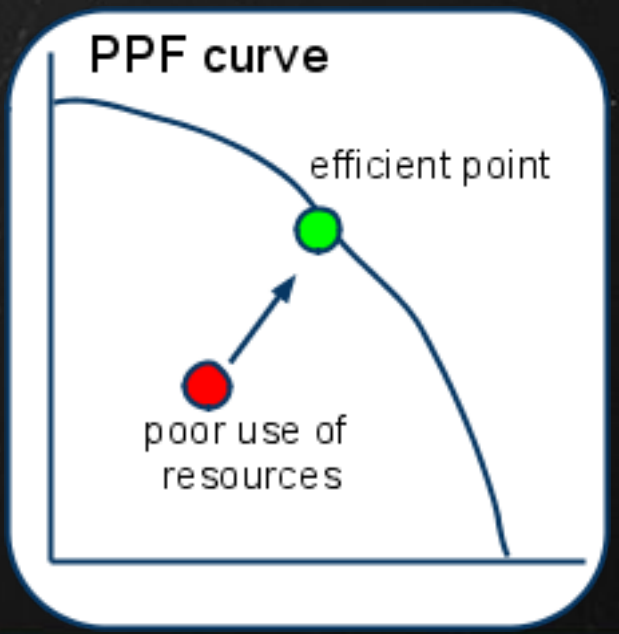
ii. Normative: "Health care is a basic right and should be provided free"

iii. The difficulty in the debate is separating positive and normative statements. Sorting out fact from opinion is a first step but it does not explain why there are not.

2. The problems of health care

2.3. Scarcity

i. Increased Demand: aging society, increased real incomes, and technological improvements.
ii. Limited Resources: like normal . . . land, labor, capital, and entrepreneurship. If we limit one of them, we can run into shortages and end up inside the PPF.



2. The problems of health care

2.4. Trade-offs

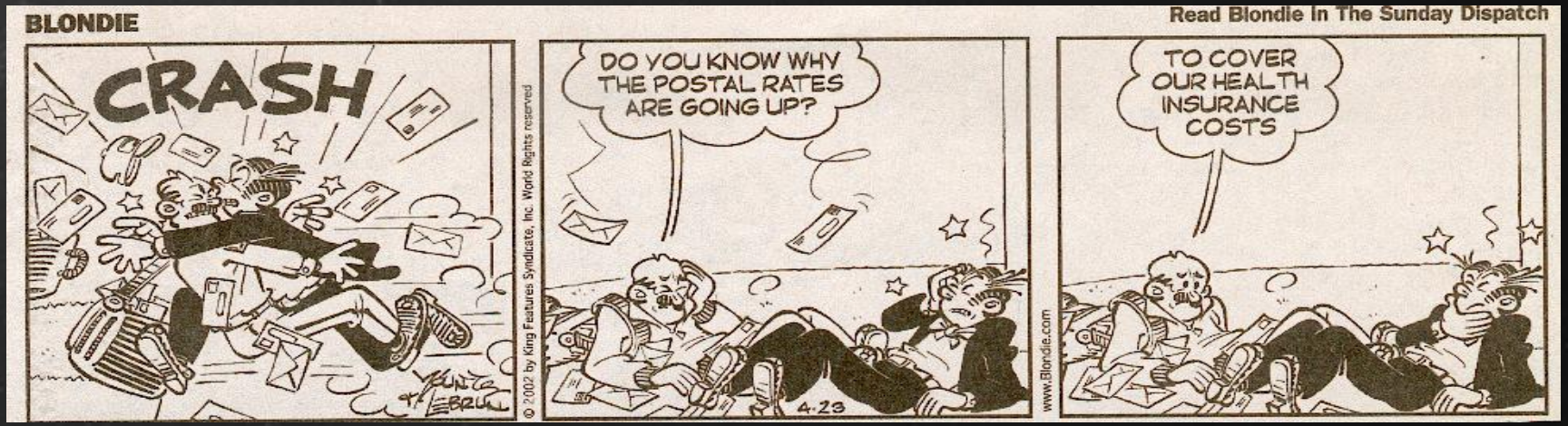
i. Efficiency: Are we on the PPF frontier?

ii. Equity: Are allocations just?

- Horizontal: equal treatment of equal need
- Vertical: unequal individuals should be treated differently
- A right versus an entitlement?

2. The problems of health care

2.4. Trade-offs



Remember, we should always ask, "At whose expense?"

2. The problems of health care

2.5. Debate

Government: Existing allocations are inefficient and central planning can improve market failures.

Free-market: Allocation of resources and market inefficiencies (from existing interventions) are the problems.

Which should we believe?

2. The problems of health care

2.6. A difficult question

i. Situation: Child B was suffering from leukemia.
ii. Diagnosis: Eight weeks left. Treatments would cost over $100K (in 1995), unlikely to succeed, and unpleasant.
iii. Question: What would you want done as a doctor? As a parent? As the child? As the insurance provider?
iv. What happened: A private donor covered the costs. She died within a year.
v. Options: Prioritize health services, implement citizen "juries," or rely on ability-to-pay. Which is best?

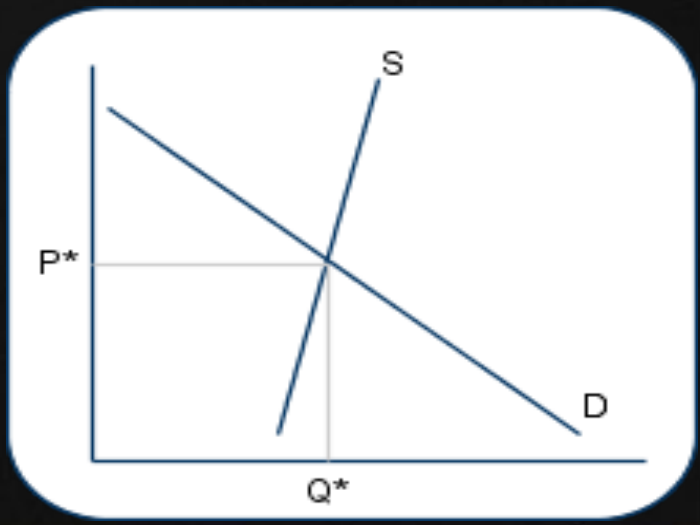
3. The free market approach

3.1. Market-clearing

Without market frictions, we have buyers and sellers coming together to provide and purchase services.

i. Buyers: Motivated by cheap services. Desire high quality and quick timely delivery.

ii. Sellers: Motivated by profit. Med school is a costly investment and equipment is not cheap!



3. The free market approach

3.2. Frictions

Prevent the market clearing conditions to take place.

i. Demand side: Changing demographics, curative vs. preventive care vs. cosmetic
ii. Supply side: Instead of pure private provision, we may see cost sharing of HMOs (third party providers), employer-provided plans, and government-provided programs (Medicare and Medicaid).
iii. Other economic ideas: elasticity and information asymmetries (adverse selection & moral hazard)

3. The free market approach

3.3. Why might a centralized system fail?

i. No prices
ii. Uncertainty from lack of repeated interactions
iii. Power to impose unwanted treatments
iv. Bureaucratic inefficiencies
v. Bad incentives for investment (doctors and firms)

4. Planning the Great Leap Forward?

4.1. Where might the market come up short?

i. Knowledge: If information is not perfect, we cannot get the right goods at the lowest possible costs to maximize surplus.

ii. Perfect competition: Requires perfect information, a homogeneous good, many buyers and sellers, and free entry/exit. If not, suppliers are not price-takers.

Doctors and suppliers can often influence price or the quantity of services.

4. Planning the Great Leap Forward?

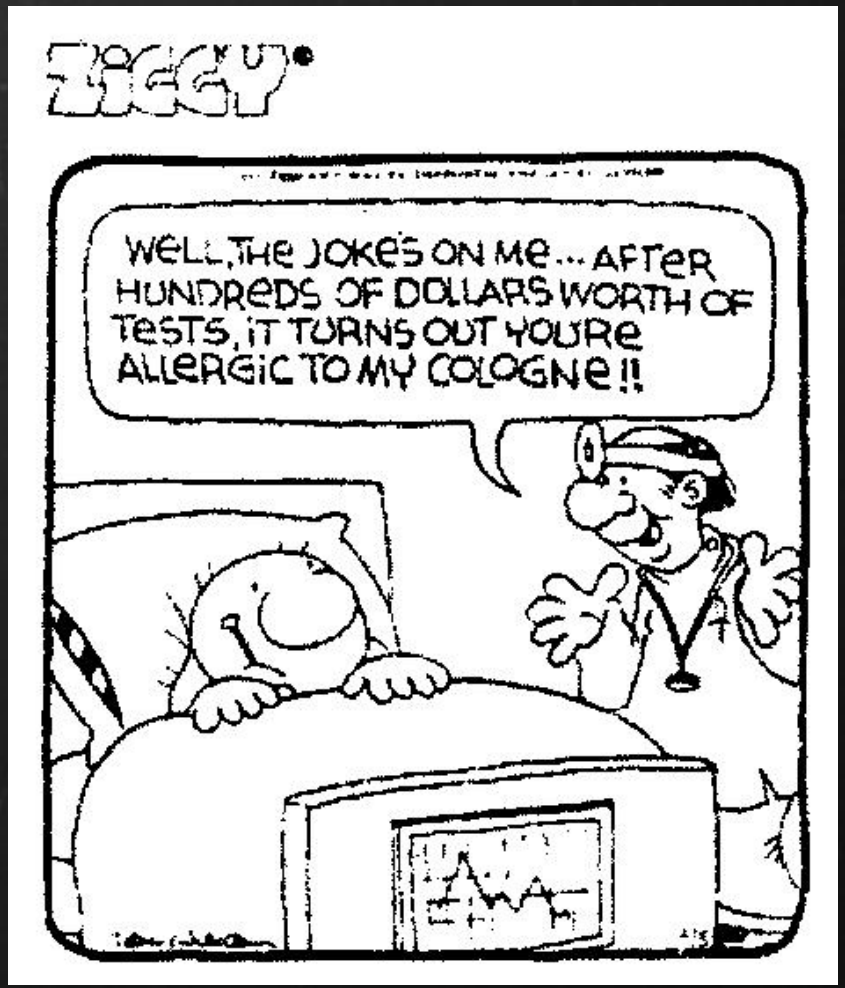
4.2. Risk and uncertainty

Health care is a unique type of good because it often deals with insurance, which entails risk and uncertain investments.

i. Moral Hazard: Having insurance changes the way we act.
ii. Adverse Selection: More risky individuals are more likely to seek insurance.

4. Planning the Great Leap Forward?

4.3. Distorted incentives breaking our mathematical models?



4. Planning the Great Leap Forward?

4.3. Distorted incentives breaking our mathematical models?

In the free market, a doctor is motivated by profit gains and is held accountable by patients who will transfer to other providers. We rely upon doctors to act in our best interests, as our agent.

i. Technical knowledge of doctors: Do doctors really serve impartially on our behalf or on there own?
ii. Utility maximization of patients: How do we know our appropriate bundle of "goods and services"? Tastes may be distorted. Transitive preferences is probably a stretch.

4. Planning the Great Leap Forward?

4.3. What else is wrong with the assumptions?

i. Imperfect competition from monopolies: economies of scale, economies of scope, price maker.
ii. Externalities: vaccinations (polio, malaria, and the common flu), selfish versus caring (the free market under-provides services)
iii. Equity concerns: An egalitarian or paternalistic approach. How many are not insured (and how policy may affect our perception)?

4. Planning the Great Leap Forward?

4.3. What else is wrong with the assumptions?

Video about health care in Canada

http://cdn.abcnews.com/stossel/free/stossel_cuba3.wmv

5. Health care specifics in the U.S.

5.1. Historical changes

i. 1960s/1970s: Doctors had monopoly power over supply by restricting entry. The AMA prevented doctors from advertising, which undermined exchange of information and rational choice.

ii. 1982: Supreme Court outlawed AMA's ban on advertising. FTC reduced price fixing.

iii. 2000: Intense competition, large spending on services, multiple nations with compulsory public health insurance.

5. Health care specifics in the U.S.

5.2. Nowadays: Five main issues that we face

Problem 1: Do HMOs restrict access to doctors?
Fix: Increased income allows people to patronized international hospitals when operations are denied.

Problem 2: Should we buy health care on the job?
Fix: Employer-provided reduces job mobility. Reduce tax breaks for employers. Digitization might help transitions, but the MB may be small.

Problem 3: Information asymmetry means I know little.
Fix: The Internet. Sites like WebMD.com.

5. Health care specifics in the U.S.

5.2. Nowadays: Five issues that we face

Problem 4: Is the U.S. lagging behind?
Fix: The numbers are misleading. Life expectancy is high, but we less healthy than other OECD countries. Why? We spend most on per-capita annual health care in the world, but it's cosmetic and preventive.

Problem 5: Does the market really work?
Fix: You decide. Our choices allow us to die from degenerative and self-inflicted diseases (alcohol and smoking) instead of waiting in long lines for subpar care.

6. Further questions to ponder

How would we finance compulsory or extensive health care?

How should we measure effectiveness?

What's the difference between quality versus quantity?

Are QALYs (Quality Adjusted Life Year) even legit?

Does health care make us healthy?

Should we include dental, vision, child care as "rights"?

Does government health care imply a right-to-life?