

Outline Lecture 9. Market Failures: Health
October 4, 2006

I. GENERAL CONSIDERATIONS ABOUT HEALTHCARE

1. Extraordinary value of the service
2. Ethical issues in distribution: some rationing process is needed
3. Information costs for average consumer
4. The market for Health vs the market for Treatment
5. Supply generates demand
6. Competition between providers → over-investment

II. THE HEALTHCARE SYSTEM IN THE UNITED STATES

A. Current U.S. situation -- basic facts:

1. 40 years of improvement
2. Incredibly complex institutional structure
3. Spend more than other countries
4. Lower access than other countries especially for the near poor
5. Minimal concern with prevention
6. Lower health standards than other comparable countries
7. Only country without universal program
8. High dissatisfaction by patients and doctors

B. The defense & Critique of the US System

1. **Defense: markets and competition generate accountability and control.**
 - Moral Hazard Problems: markets make consumers more responsible
 - competition will improve efficiency of providers
 - competition generates innovation
2. **Problems with this Logic:**
 - Moral hazard problems in healthcare are not so important.
 - For-profit hospitals are NOT more efficient than nonprofit hospitals -- they are just more selective in who they treat (i.e. they will not treat uninsured poor people).
 - Increasing competition often increases costs

C. Accessibility & Affordability

- **Standard view = Inevitability of affordability-cost trade-off: increase access will lead to greater costs**
- **Alternative View in favor of national health insurance: *conditions which produce universality make it easier to control costs.***

III. THE U.S. VETERANS HEALTH ADMINISTRATION

- **Higher quality + lower cost than private sector health care in the US**
- **Reasons for success**

IV. THE CANADIAN SYSTEM

A. Basic Structure: “Single payer” healthcare.

- **universal = for all citizens**
- **comprehensive = covers all necessary medical services**
- **portable = recognizes other provinces**
- **accessible = no special limits, charges**
- **publicly administered = no private insurance, no extra charges**

B. Effects of Single Payer system

- **Rationing on the basis of medical need**
- **Much more uniform medical service across regions, classes**
- **Administrative costs for medical care much lower than in the US**
- **irony: Canadians have socialized insurance, but system is less bureaucratic**
- **Paperwork hassles for patients = enormously less than in the US.**
- **Freedom of choice is greater for most people in Canada than in the US**

C. Some problems with the Canadian system

- **sometimes longer waits than would occur for some people in the US**
- **some high technologies are less available**

V. KEY POLITICAL QUESTION:

Why is universal national health insurance off the political agenda in the US?

Answer = power of opposition, not social, political, demographic structures.

- 1. Organized Physicians**
- 2. Insurance companies**
- 3. pharmaceutical companies**