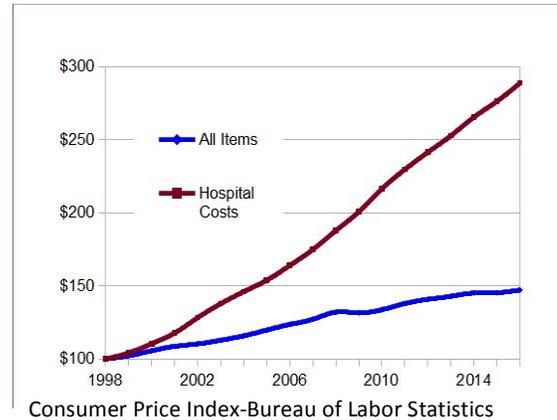


The amazingly powerful free market fails when it comes to health care

Health care rose at a dramatically higher rate from 1997 through 2016 compared with the price of all other goods and services during the same period.

During this period, inflation was at near historic lows, and profound increases in productivity were realized through gains brought about from the information technology revolution. Hospital costs increased at their steepest rate in the years before implementation of the Affordable Care Act (ACA).



What are some of the reasons for this market failure?

- **People who purchase health care inevitably cross subsidize the care of others**

Since federal law prohibits hospitals from turning away the indigent in need of lifesaving care, cost shifting is inevitable. But putting off care until the need is acute is wasteful; preventative care often reduces the need for expensive interventions. But without insurance, people may wait for an emergency to seek care. Plans that increase the number of uninsured amplify this problem.

- **Lack of price transparency undermines consumer behavior**
- **Health insurance creates a disconnect between the payer and consumer of health care**

An efficient free market relies on consumers pursuing their own self-interests. A lack of price information makes it challenging if not impossible for consumers to compare prices. Insurance further diminishes the incentive to seek less costly care options once the out-of-pocket limit is reached. The incentives for savings are least for the most expensive procedures, where potential savings are greatest. Insurers control costs by rationing care through both limitations on approved procedures/medications and by limiting access to providers. Both require costly additional bureaucracy and staff.

- **Unlike in the free market, additional health care providers and capacity often increase costs**

Because health care is complicated, patients typically depend on physician guidance when making their health care choices. When capacity and expensive diagnostics become available, patients are typically directed towards these services. This leads to cost escalation for services that may or may not be superior. A lack of transparent cost and quality information exacerbates this problem. The significant variation in charges among hospitals for the same procedure is evidence of the market power that providers wield. In a competitive market, prices should converge as consumers seek lower-cost providers.