



KITCHEN TABLE ECONOMICS

Do We Want a “Single Payer” Health Care System?

You may have heard that Americans should adopt a “single payer” model for healthcare, just as Canada and Britain have done.

What is this and would it be a good idea?

The idea is that a single customer - “payer” - for medical care is more powerful and effective because it can buy care in bulk from suppliers, demand the lowest prices, keep costs under control and universally cover everyone. With healthcare, the government would become the “big customer” buying for all of us.

While this may seem sensible, it actually flies in the face of how markets behave in the real world, in the government world, and even in healthcare.

Consider how we buy most things. There are more than one hundred million customers and only a few suppliers for the groceries, gadgets and services we purchase. But a “millions of payers” system is what empowers customers, reduces costs and improves quality. Suppliers spend millions advertising their lower prices and better quality, trying to out-hustle one another for our business. In some cases, such as electronics like laptop computers, quality improves dramatically as prices stay flat or even fall.

Yet, when government buys new and complex machines for us, the price shoots way up.

The U.S. military is a “single payer” for fighter planes. In 1965 the F-4 Phantom II was the state of the art plane and cost \$2.2 million per copy. With inflation, that would have been \$6.9 million per plane by 1983, but that was when the new F/A-18 Hornet came into use ... and cost \$25 million per plane.

The quality of the Hornet was better than the Phantom, yet the cost was 3.5 times higher. Meanwhile, the laptop computer you bought ten years ago probably cost as much or more as the one you have now, but had ancient technology and features.

With Medicare, Medicaid and private insurance companies paying most of the bills, rather than patients acting as real shoppers, our healthcare system already has the very worst feature of the single payer model. Unfortunately, the new health reform law only builds on this problem.

Healthcare still chews up a larger fraction of the economy in America than in Britain or Canada, but prices for healthcare have been exploding in all the largest wealthy economies, all of which have the single payer problem. From 1990 to 2007, the per-person cost of healthcare in Britain rose faster than it did in America, and the same thing happened in Canada from 2000 to 2007.

A better idea: Instead of a single payer system, think about medical procedures like those laptops, where patients act as true customers and prices fall as technology improves. This has worked for laser eye surgery, once too expensive for all but the most wealthy and now affordable for millions.

Rather than empowering single payers and hiding prices, real healthcare reform would put millions of patients in charge.