

FROM WELFARE TO HEALTH CARE. COMMENTARY ON VON STUDNITZ

by Hans-Hermann Hoppe

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While Professor von Studnitz' article contains many illuminating insights concerning the health care system of the advanced Western welfare states and its ever more obvious crisis, his analysis does not advance to the root of the problem; hence, his reform proposals are not nearly radical enough.

In all welfare states, health care ranks among the most socialist economic sectors, and except for education it is the one sector which has been socialist for the longest time. The current health care crisis is the inevitable result of health-care-socialism (just as the simultaneous education crisis is the necessary outcome of education-socialism). Consequently, the cure and solution to the problem is simply to subject the health care industry, at long last, to the `normal' rules and practices of a private property based market economy.

This implies four fundamental reforms. After almost a century of socialized health care, each of these reform steps might at first appear radical and drastic, or even crude and cruel. But each step simply follows from the seemingly innocuous and undemanding request that health care providers and industries be made subject to the same rules as `normal' businesses; and each reform step contributes to lower prices and/or a higher quality of health care products and services; that is, to prosperity and health.

(1) In all welfare states, highly restrictive licensing requirements for medical schools, hospitals, pharmacies, and medical doctors and other health care personnel exist. Their supply is largely regulated and rationed by decree, rather than driven by consumer demand. By eliminating

all licensing requirements, the supply of health care products and services would almost instantly increase, prices would generally fall, and a greater variety of health care products would appear on the market. Competing voluntary accreditation agencies would take the place of compulsory government licensing - provided that health care providers believe that such accreditation would enhance their own reputation, and that their consumers care about reputation and are willing to pay for it.

Consumers, because they are no longer duped into believing that such a thing as a "national standard" of health care quality and efficiency exists, will increase their search time and make more discriminating health care choices.¹

(2) Likewise, all welfare states impose severe restrictions on the production and sale of pharmaceutical and therapeutical products. Practically every drug and medical treatment must first find government approval and receive a government product license before anyone can begin selling and marketing it. Not consumers, but the central government and its 'bureau of public safety and health' (such as the Food and Drug Administration, in the U.S.), determine which health-related products will or will not be supplied. To return health care to market discipline requires that all of these restrictions and product license requirements be eliminated, and the Food and Drug Administration and its various national counterparts be abolished. Cost and prices for drugs and treatments would largely fall; and more, a greater variety, and better - because they would be consumer determined - products would reach the market faster and sooner. Competing voluntary approbation and accreditation agencies would take the place of monopolistic and compulsory government licensing, provided there exists a sufficient consumer demand for the services provided by such agencies.

¹ On licensing, and in particular on medical licensing, see Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), ch.IX; Ronald Hamowy, "Medicine and the Crimination of Sin: 'Self-abuse' in 19th century America," *Journal of Libertarian Studies*, Vol.1, no.3, 1977; idem, "The Early Development of Medical Licensing Laws in the United States, 1875-1900," *Journal of Libertarian Studies*, Vol. 3, no.1, 1979; Ronald Hamowy, ed., *Dealing with Drugs: Consequences of Government Control* (Lexington, MA: Lexington Books, 1987).

Consumers would be allowed to act in accordance with their own - rather than the central government's - risk assessment; and competing drug manufacturers and sellers, in order to safeguard against product liability suits as much as to attract consumers, would provide increasingly better and accurate product descriptions and warranties.²

(3) All welfare states impose highly restrictive regulations on the health insurance industry. As a result, health insurance agencies have increasingly become machines of income and wealth redistribution, rather than of insurance. To return the health insurance industry to the discipline of the market requires that all insurance regulations be eliminated, and the various national regulatory agencies be abolished, so as to make 'health insurance' once again insurance, instead of welfare.

Insurance (risk pooling) can be offered only against events over whose outcome the insured possesses no control. One cannot insure oneself against suicide or bankruptcy, for instance, because it is in one's own hands to bring these events about. Because a person's health, or lack of it, lies largely and increasingly within his - and earlier his parents' - own control, many, if not most health risks are actually uninsurable. "Insurance" against risks whose likelihood an individual can systematically influence falls within the province of that person's own responsibility.³

Moreover, any insurance involves the pooling of individual risks. It implies that to some of the insured more will be paid out than what they paid in, and to others less. But no one knows in advance who the 'winners' will be, and who the 'losers.' Winners and losers are randomly distributed, and the resulting income redistribution is unsystematic. Otherwise, if winners and losers could be systematically predicted, losers would not want to pool their risk with winners,

² Robert Higgs, "Banning a Risky Product Cannot Improve Any Consumer's Welfare (Properly Understood), with Applications to FDA Testing Requirements," *Review of Austrian Economics*, Vol. 7, no. 2, 1994.

³ On the fundamental distinction between insurable and uninsurable risks, see Frank H. Knight, *Risk, Uncertainty, and Profit* (Chicago: University of Chicago Press, 1971), esp. ch. VII; Ludwig von Mises, *Human Action. A Treatise on Economics* (Chicago: Regnery, 1966), esp. ch. VI; also Richard von Mises, *Probability, Statistics, and Truth* (London: Allen & Unwin, 1957), esp. chs. 1, 3.

but with other losers, because this would lower their insurance costs (premium). I would not want to pool my accident risks with those of a professional football player, for instance, but exclusively with those of individuals in circumstances similar to my own, and at lower costs.

Because of legal restrictions on health insurers' right of refusal - to exclude any individual risk as uninsurable and discriminate freely between different group risks - the health insurance industry in Western welfare states is only partly concerned with insurance. As a result of government insurance regulation, health insurers cover a multitude of uninsurable risks pooled with genuine insurance risks, and they do *not* freely discriminate between various groups of people who pose significantly different insurance risks. The industry thus runs a system of income and wealth redistribution - benefiting irresponsible actors and high-risk groups at the expense of responsible individuals and low-risk groups. Accordingly, the industry's prices are high and ballooning.⁴

To deregulate the insurance and in particular the health insurance industry means to restore it to unrestricted freedom of contract: to permit a health insurer to offer any contract whatsoever, to include or exclude any risk, and to discriminate between any group of individuals. Uninsurable risks would lose coverage and be returned into the realm of individual responsibility, the variety of insurance policies for the remaining coverage would increase, and price differentials would tend to reflect actual insurance risks. On average, prices would drastically fall. And the reform would restore individual responsibility in health care.⁵

(4) All welfare states subsidize - through taxes - the sick and unhealthy. Yet subsidies

⁴ For details on health insurance regulation in the U.S., see John Goodman & Gerald Musgrave, *Patient Power* (Washington, D.C.: Cato, 1992); T.P. Wasley *What Has Government Done to Our Health Care?* (Washington, D.C.: Cato, 1992); J.L. Bast, R.C. Rue & St.A. Wesbury Jr., *Why We Spend Too Much On Health Care* (Wabash: Heartland Institute, 1992). Interestingly, although written from a so-called free market perspective, both works show no comprehension of the fundamental distinction between insurable and uninsurable events and its implication for the insurance of health risks in particular.

⁵ On contract theory, see Murray N. Rothbard, *The Ethics of Liberty* (Atlantic Highlands, N.J.: Humanities Press, 1982); on medical contracts, Richard A. Epstein, *Medical Malpractice. The Case for Contract* (Burlingame, CA.: Center for Libertarian Studies, 1979).

invariably create more of whatever is being subsidized. Subsidies for the ill, unhealthy and disabled breed illness, disease and disability, and promote carelessness, indigence and dependency. To subject health care to the discipline of the market implies that all subsidies be eliminated and compulsory welfare be replaced by insurance, family welfare, and voluntary charity. Medicaid, Medicare, and their many equivalents must be abolished. In so doing, the will to work for a living and to live healthy lives would be strengthened, and the 'health-quality' of future populations would be improved.

In conclusion, one can do no better than to quote the great Mises on health care. It took almost seventy years and immeasurable human pain and suffering until it became generally acknowledged what Mises had already irrefutably demonstrated about the impossibility of a socialist economy in 1922. At the same time and location, Mises had also explained the destructive 'logic' of compulsory social insurance and provided a solution to our current health care crisis. "To the intellectual champions of social insurance, and to the politicians and statesmen who enacted it," wrote Mises, "illness and health appeared as two conditions of the human body sharply separated from each other and always recognizable without difficulty or doubt. Any doctor could diagnose the characteristics of 'health.' 'Illness' was a bodily phenomenon which showed itself independently of human will, and was not susceptible to influence by will. ... Now every statement in this theory is false. There is no clearly defined frontier between health and illness. Being ill is not a phenomenon independent of conscious will and of psychic forces working in the subconscious. A man's efficiency is not merely a result of his physical condition; it depends largely on his mind and will. Thus the whole idea of being able to separate, by medical examination, the unfit from the fit and from the malingerers, and those able to work from those unable to work, proves to be untenable. Those who believed that accident and health insurance could be based on completely effective means of ascertaining illnesses and injuries and their consequences were very much mistaken. The destructionist aspect

of accident and health insurance lies above all in the fact that such institutions promote accident and illness, hinder recovery, and very often create, or at any rate intensify and lengthen, the functional disorders which follow illness or accident. ... To feel healthy is quite different from being healthy in the medical sense, and a man's ability to work is largely independent of the physiologically ascertainable and measurable performances of his individual organs. The man who does not want to be healthy is not merely a malingerer. He is a sick person. If the will to be well and efficient is weakened, illness and inability to work is caused. By weakening or completely destroying the will to be well and able to work, social insurance creates illness and inability to work; it produces the habit of complaining - which is in itself a neurosis - and neuroses of other kinds. In short, it is an institution which tends to encourage disease, not to say accidents, and to intensify considerably the physical and psychic results of accidents and illnesses. As a social institution it makes a people sick bodily and mentally or at least helps to multiply, lengthen, and intensify disease."⁶

⁶ Ludwig von Mises, *Socialism* (Indianapolis: Liberty Classics, 1981), pp. 430-32. First published in Gerard Radnitzky, ed., *Values and the Social Order, Vol. 3, Voluntary versus Coercive Orders* (Aldershot, UK: Avebury, 1997), pp. 471-476.