

Economics in Healthcare

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Disclosures

None



Is Healthcare a Right?



Is Healthcare A Right?

- Definition (Merriam-Webster):
“the power or privilege to which one is justly entitled”
- “Justly entitled” according to what law?





St Thomas Aquinas

Eternal Law

Natural Law

Positive Law

Divine Law

-Treatise on Law





St Thomas Aquinas



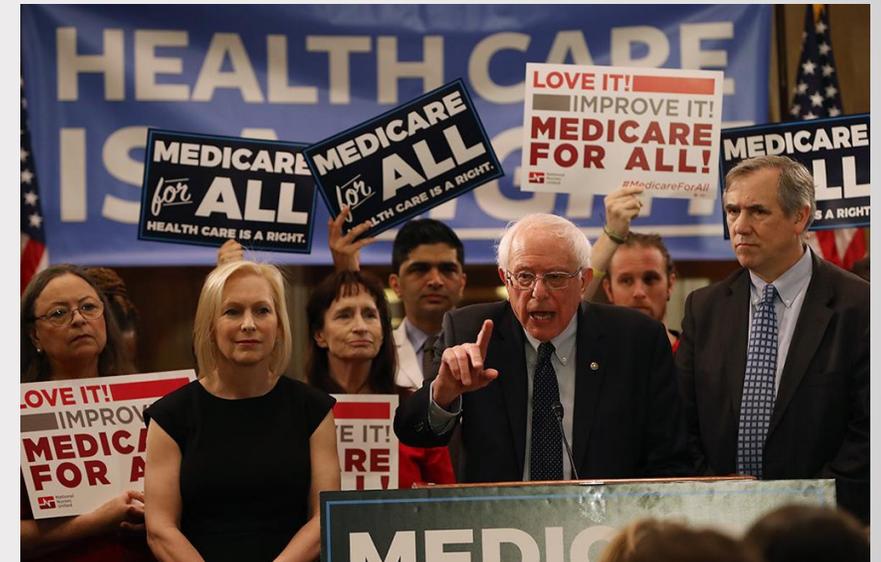
Is Healthcare A Right?

- John Locke (1632-1704)
- Declaration of Independence (1776)
- Bill of Rights (1789)
- World Health Organization Constitution (1946, Signed 1946, Ratified 1948)
- International Covenant on Economic, Social and Cultural Rights (1966, Signed 1977, Not Ratified)



Is Healthcare A Right?

- Gray Areas
 - Right to Access or Right to Free Care?
 - Quality of Care
 - Elimination of Competition
 - Financing
 - Infringement of Rights?
- Medicare for All (Sanders)
- Medicare for America (DeLauro)

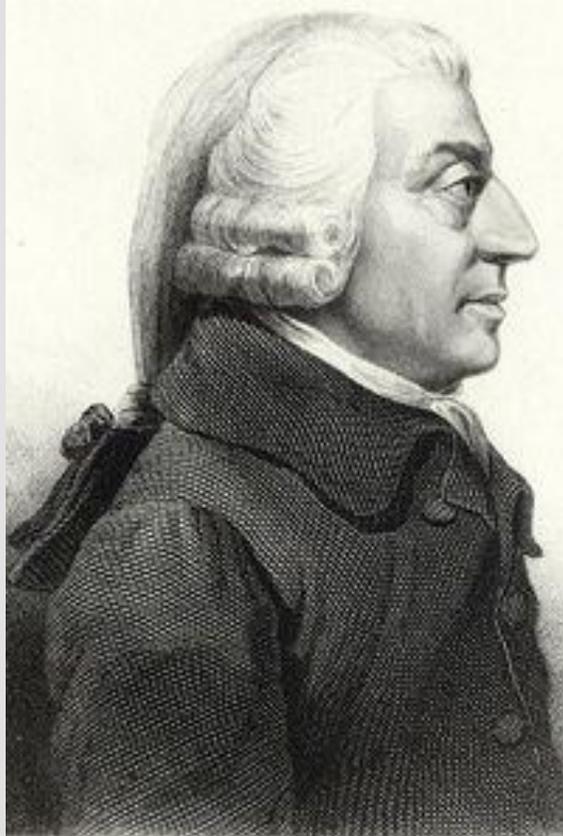


QUESTION

Why is the Health Care Market an
Inefficient Economic System?



How Markets Work

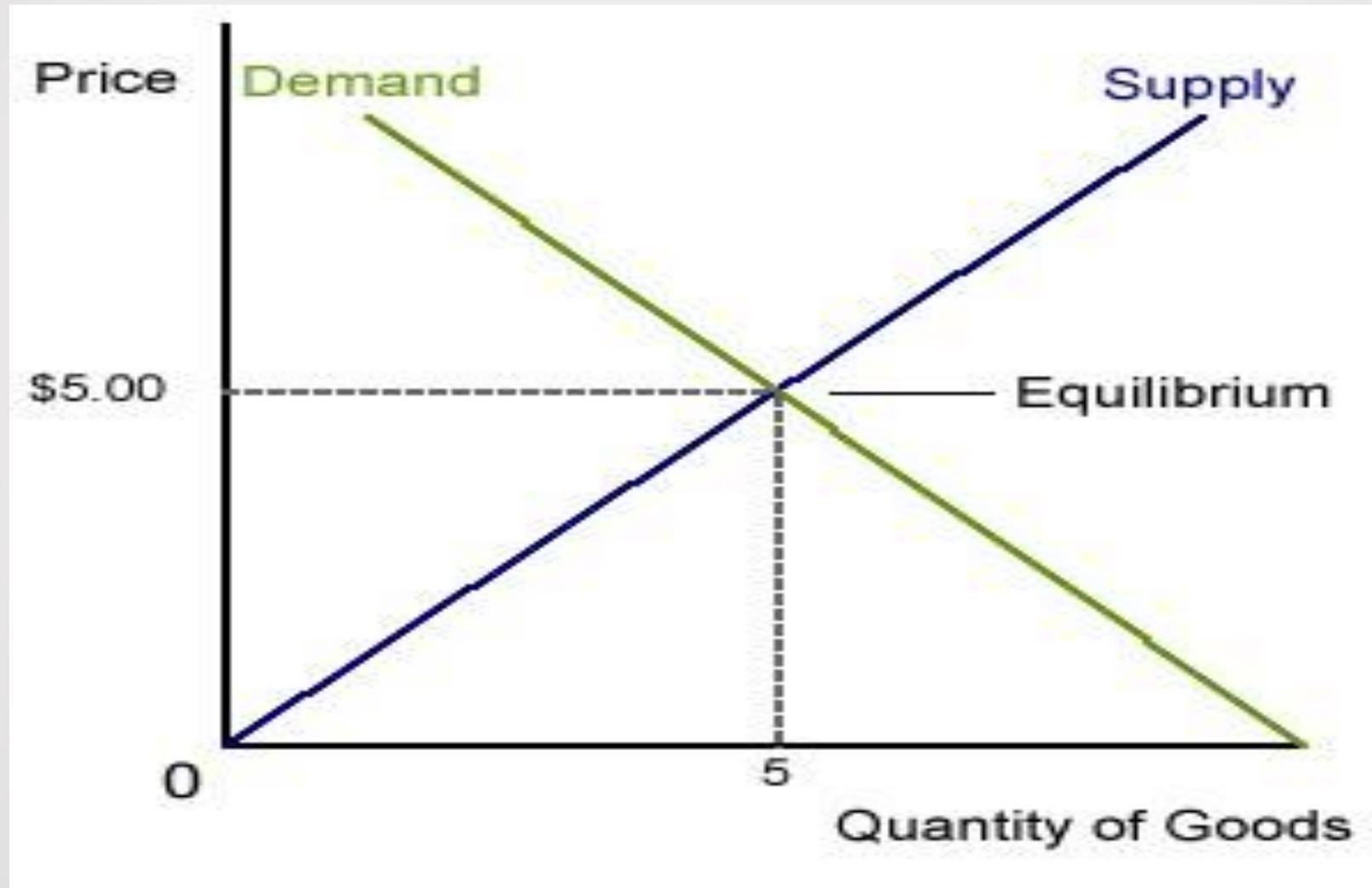


Adam Smith
1723-1790

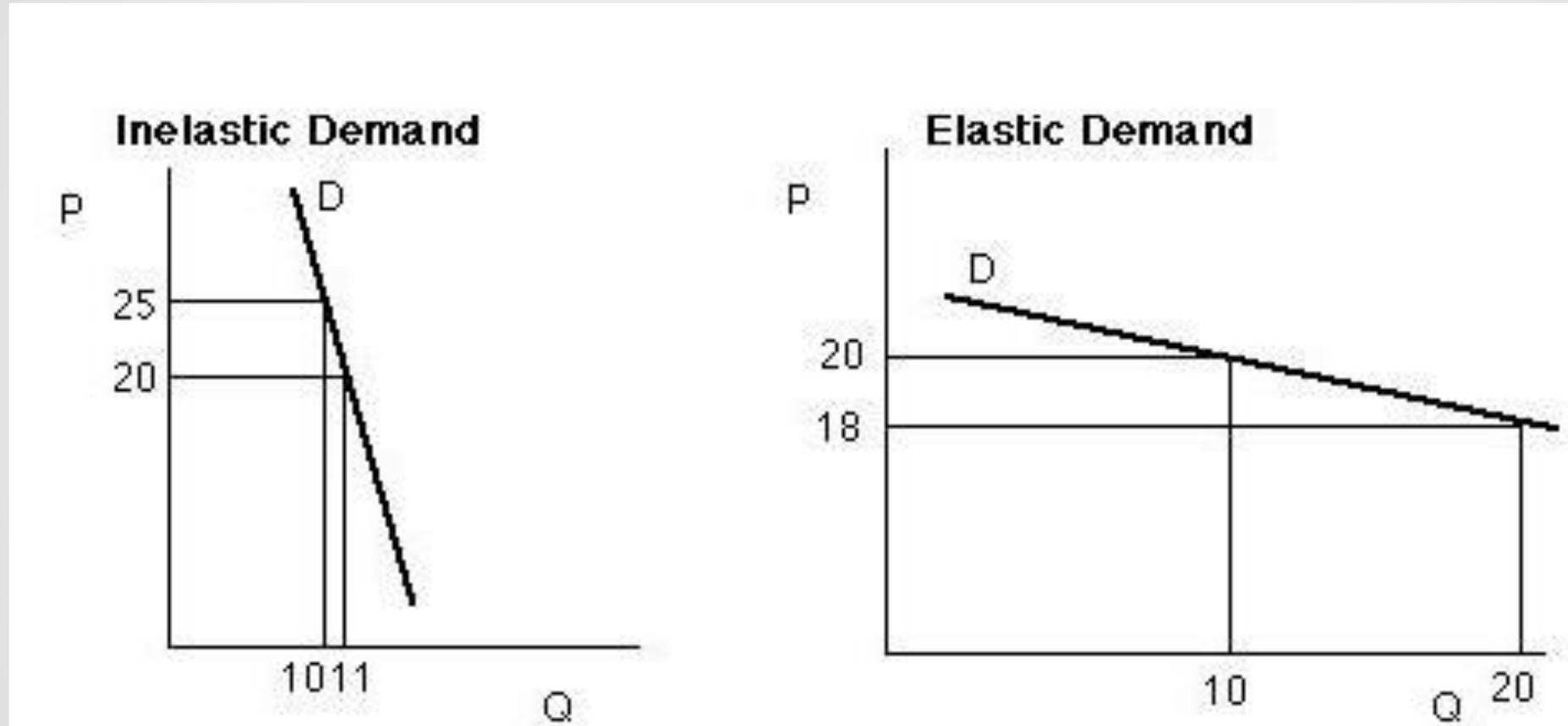
“The Invisible Hand”



How Markets Work



Elasticity of Demand



The Influence of Externalities

Externality

“..arises when a person engages in an activity that influences the well-being of a bystander but neither pays nor receives compensation for that effect.”



Externalities in Healthcare

Mostly Positive!



Assumptions

- Transactions are between buyers and sellers, and there are many of each
- Perfect Competition
 - Products for sale are all the same (commodity)
 - Many buyers and sellers
 - Buyers have complete knowledge of the qualities of the product
- Price is the primary factor influencing decisions
- The “invisible hand” leads to equilibrium and efficiency



Reality in Healthcare

- Third parties are involved
- Patients/Payers don't know what they need
- Rules established by third parties determine allocation of resources



Product Knowledge



Monitoring Quality

- Government Regulation
 - Licensing
 - FDA
 - Laws
 - Payer Rules (CMS)
- Civil Courts
- Tax System
 - Not-for-profit hospitals
 - “Fair Market Value”
- Provider Organizations

And..
Insurance Companies



The Insurance Market



- The Value of Insurance
- Moral Hazard
- Adverse Selection



The Insurance Market

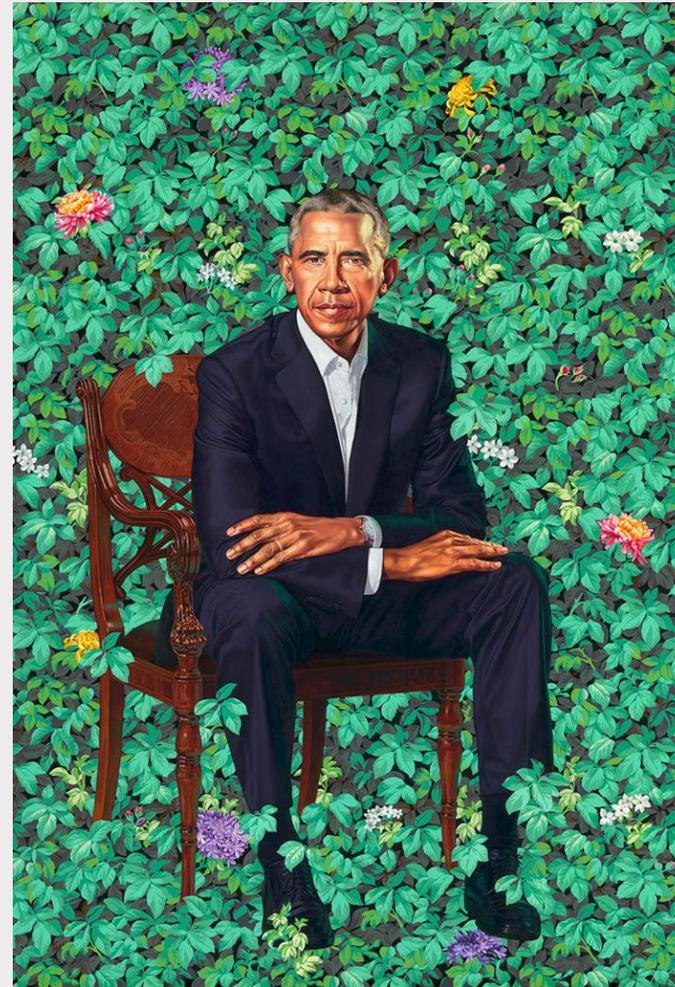


The Death Spiral!



The Insurance Market

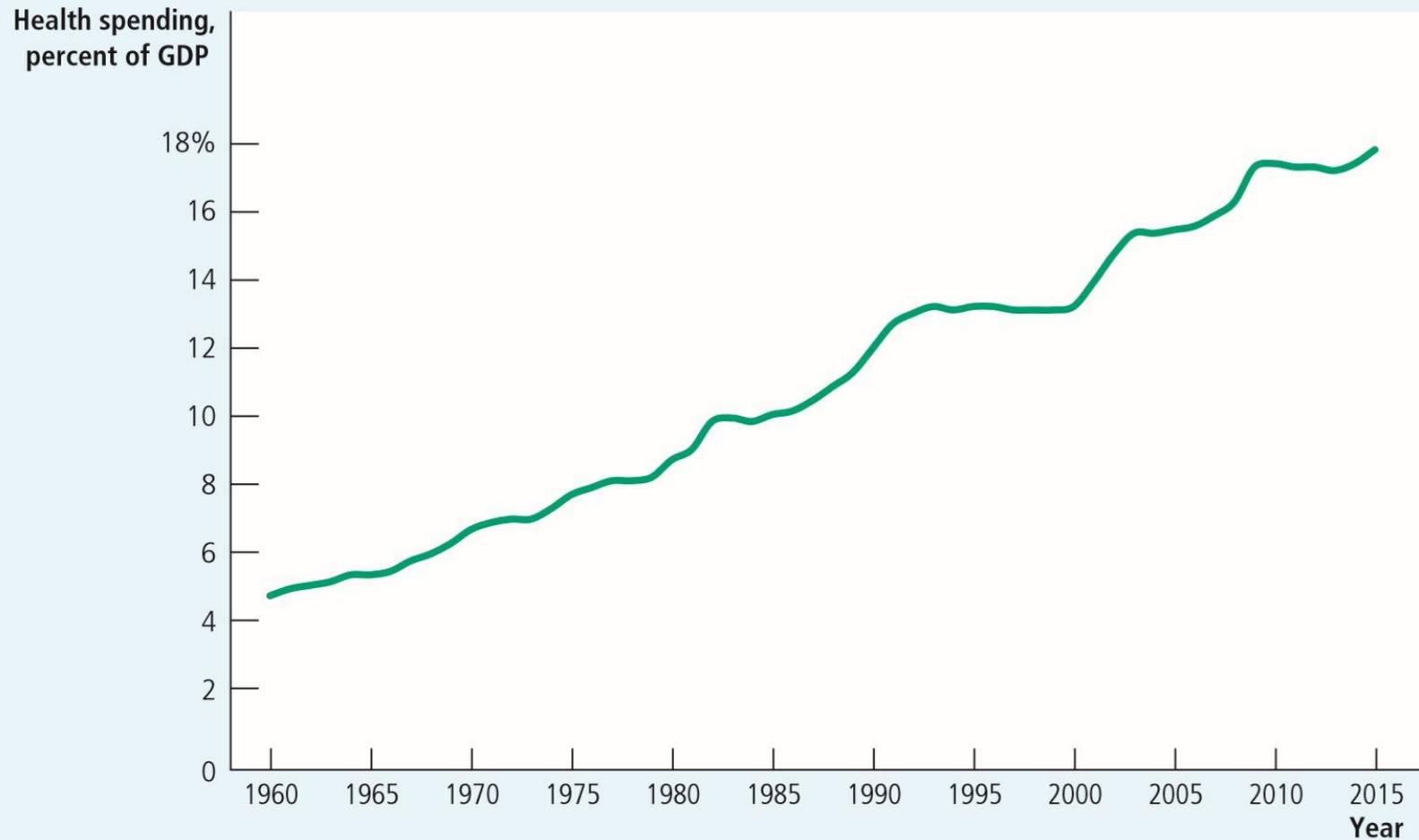
The Patient Protection and
Affordable Care Act of 2010



Health in the U.S.

Source: Center for Medicare & Medicaid Services.

Health Spending as a Share of GDP: Changes over Time



Health in the U.S.

Why is Healthcare Spending Increasing?

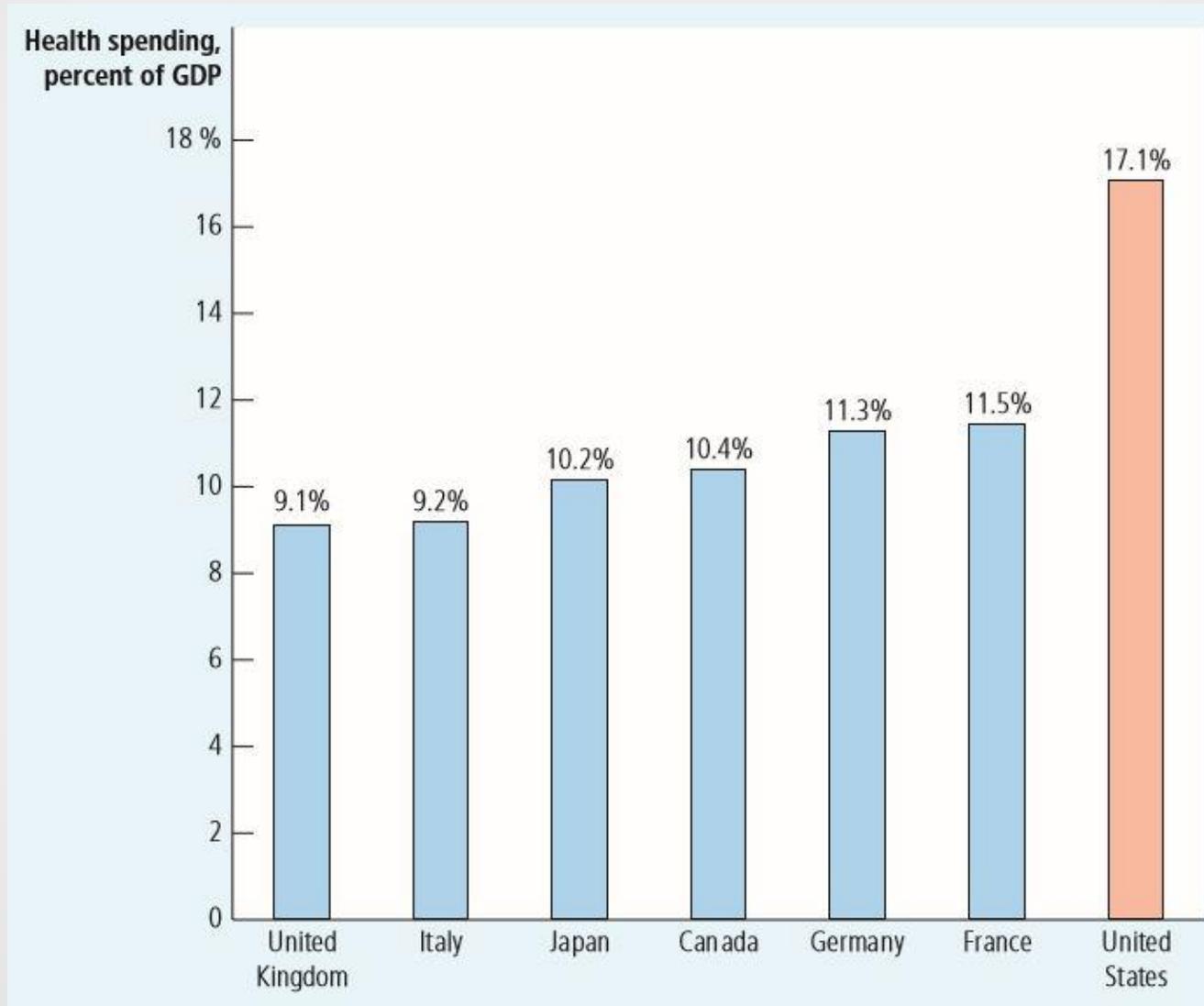
- Baumol's Cost Disease
- Costly Technology
- Changing Demographics
- People are Wealthier



William Baumol



Health in the U.S.



Health in the U.S.

Why is Healthcare Spending Higher in the U.S.?

- Lifestyle Choices
- Costly Technology
- Changing Demographics
- People are Wealthier
- Drug Prices



The Economics of Healthcare



“Nobody knew health care could be so complicated.”
-Donald Trump