

The Observer

LONGBOAT



"If we are to build a better world, we must remember that the guiding principle is this — a policy of freedom for the individual is the only truly progressive policy."

Friedrich Hayek

"Road to Serfdom," 1944

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our view

Nine fallacies of Obamacare

The more "health-care reform" is scrutinized, the more rational Americans figure it out: It defies logic.

It is mathematically impossible to subsidize, pay for and provide health "insurance" and medical care to the millions of uninsured and have health care cost less than it does now.

That's just one of the flaws in this frightening attempt to have politicians control more of our lives. Read the following nine fallacies of health-care reform by Sheldon Richman of the Foundation for Economic Education.

You should be convinced afterward to call your congressman and senator with one demand: Vote "No!" — Editor



The effort to reinvent medical care is so full of fallacies and bad logic that it would take volumes to expose them properly. Nevertheless, here are some of the obvious problems.

1 To begin, the "reformers" want to compel insurers to cover people who are already sick for the same price that healthy people pay. But if someone is already sick, no government plan to pay his medical bills can be called "insurance."

Insurance is a voluntary way to spread risk. Risk comes from uncertainty. But someone already sick doesn't face a risk that he might need medical attention for his ailment. He is certain to require the attention.

Indeed, there's a reason you can't buy homeowner's insurance after your house has burned down or life insurance for a deceased person. Why should one expect to be able to buy insurance to cover medical treatment for a disease one already has contracted?

2 When private donors voluntarily pay the bills, we call it charity or philanthropy or benevolence.

When government pays them after extracting money by force from taxpayers or by requiring insurance companies to overcharge healthy people who are compelled to buy coverage, we should call it (at the very least) welfare.

If someone wants to defend medical welfare, let him do so. But don't let him get away with calling it insurance. He not only does violence to the language; he also clouds the discussion. This is another application of the tacit premise that no one should have to pay for his own medical care. Frederic Bastiat's line about the state being the means by which we all try to live at everyone else's expense comes to mind.

3 President Obama says he will finance "reform" by shifting Medicare reimbursement decisions from Congress to an independent board of experts.

Too bad he is unaware of the Austrian economic critique of central planning. Outside the marketplace, no one can know how much doctors and hospitals should be paid. Bureaucrats can't tell what is too much or little compensation because they can't have the relevant knowledge. Markets are good at setting prices because that knowledge is communicated through people's buying and abstention from buying.

This is not just an academic discussion. Prices are information, and when they are "wrong" there are consequences. If the bureaucrats pay too little, costs will be shifted to others and providers will leave the market, creating shortages. If the bureaucrats pay too much, resources and labor will be drawn away from other needed areas.

With the collapse of the Soviet Union and the continuing examples of Cuba and North Korea, we should all know that government doesn't know how to set prices.

4 Obama promises overall "cost containment." But government has only two ways to accomplish this: rationing or price controls.

The drawback to the first is obvious. People are forbidden to buy the services they want, even when they are willing to pay for them themselves. Bureaucrats — rather than individuals and their doctors — decide what tests and procedures are necessary.

The drawback to the second is that services will disappear from the marketplace. Price ceilings create shortages.

On the other hand, the market has a method for containing costs. It's called economizing, and people practice it naturally when they face the costs and consequences of their decisions.

People are less likely to buy unnecessary services if they have to pay for them. And if they were buying their own insurance, they wouldn't typically buy policies that covered smaller, routine expenses. The administrative overhead would make such policies a bad buy.

5 The New York Times points out that the reformers have two conflicting goals: "to expand health coverage to nearly all Americans while reducing the growth of health spending." How can they do both?

Obama goes back and forth between stressing universal coverage and cost containment, but he doesn't discuss one in relation to the other.

Newly subsidized coverage will bring new demand for medical services and put more upward pressure on prices. As noted, higher prices can be counteracted only by denying service (say, hip replacements for octogenarians) or by imposing price controls, overtly or covertly.

6 What is it government's business how much we spend on medical services? Government's only concern should be to eliminate the ways it interferes with and influences our choices. The aggregate cost of our freely chosen actions is our concern alone, not the government's.

But of course, government interferes with and influences our choices in many ways, and by doing so raises the costs. As President Obama said the other night, "[T]he biggest driving force behind our federal deficit is the skyrocketing cost of Medicare and Medicaid."

For once Obama was conceding that the government is at fault. Medicare and Medicaid are two ways the government

forces the taxpayers to pay for medical care. Those who obtain their medical care through those programs have no incentive to economize because it's free to them.

That's why the budgets are out of control — people act rationally according to the incentive system they are in — and why Obama is looking for ways to control costs. As long as those programs exist, he won't be able control costs without bureaucratic rationing of services one way or another.

If the "reformers" get their way, something much like this failed system will be extended to the public.

7 Obama says two-thirds of the estimated cost of "reform" — at least \$1.5 trillion over a decade — will be paid for "by reallocating money that is simply being wasted in federal health care programs." I wouldn't take seriously any of the reformers' numbers. The safe bet is that cost of the program will far exceed what they project, and most of the savings will never materialize. When Medicare was put together, the pooh-bahs projected that by 1990 hospitalization coverage would cost only (!) \$9 billion. When 1990 arrived, the price tag read \$66 billion.

The final third of cost would likely come from surtaxes on upper-income earners. Are high earners likely to stand still when targeted for new taxes? No. They will adjust their income-earning activities to minimize the tax take, and that will mean lower-than-projected revenues.

Then what? Taxes on the middle class, perhaps. Or more debt and inflation.

8 Does anyone else laugh when politicians promise that government will bring competition, choice and efficiency to the medical industry? Government routinely can't account for millions, even billions, of dollars. And competition and choice? As a compulsory monopoly, government is the enemy of those things.

Competition and choice are what you get when the government backs off. You don't get them when government interjects itself even more into your life.

9 Finally, the way to rig a debate over public policy is never acknowledge the only genuine alternative to your proposal. Obama says, "I'm confident that when people look at the costs of doing nothing they're going to say, we can make this happen." Why is "doing nothing" the alternative to a conscious attempt to reinvent the healthcare industry?

While it is true that doing nothing would be preferable to what Obama and his congressional allies want to do, it is not the best alternative. The best alternative is the free market.

But have you ever heard the advocates of government control offer an argument against the free market? The answer is no, and the reason is that to argue against it would be to acknowledge it as an alternative. And that they cannot afford to do. Better to have the people think we already have a free market in medicine and that it has failed. That way they will be more likely to win support for government control.

The "reformers" task would be more difficult if people understood that what has created the problems is government, not the free market.

This effort to ignore the market solution is abetted by an alleged limited-government party that is unwilling or unable to speak the truth. That helps explain the predicament we are in.

Sheldon Richman is editor of The Freeman magazine. He is a contributor to "The Concise Encyclopedia of Economics." Go to www.fee.org.

CORRECTION

Last week's editorial on the Longboat Key Club's proposal to remove Islandside tennis courts incorrectly identified one of the attorneys assisting the town. The attorney's correct name is **Kelly Martinson**, an associate at the Sarasota firm of Hankin Persson Davis McClenathen & Darnell.