



**THE BUSINESS OF HEALTH:
THE ROLE OF COMPETITION, MARKETS, AND REGULATION**

By Robert L. Ohsfeldt and John E. Schneider

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Criticism of the U.S. health-care system for its high cost and uneven coverage is abundant. The World Health Organization (WHO) ranked the U.S. health system thirty-seventh out of the 191 WHO member countries—approximately equal in performance to Cuba. A recent *Health Affairs* study gave the U.S. system a score of sixty-six out of a hundred, a barely passing grade compared with other developed countries. Can our health system be that far behind? Is it irretrievably broken?

The answer is a resounding no according to economists Robert L. Ohsfeldt and John E. Schneider in their just-published book, *The Business of Health: The Role of Competition, Markets, and Regulation* (AEI Press, 2006). They argue that the U.S. health-care system performs as well as the government-run single-payer systems often held up as models.

The authors debunk the belief that the performance of the U.S. health system can be improved by purging the profit motive from medicine and by centralizing control. Their analysis reveals that:

- There is no marked difference in cost efficiency or quality of care between tax-exempt and for-profit hospitals. Moreover, tax-exempt hospitals—which do not pay property and income tax in exchange for an obligation to serve the community—provide charity care worth only as much as the tax payments they avoid.
- Quality of care generally improves with competition among hospitals.
- Single-payer systems do not guarantee universal access and do not necessarily result in high-quality health care. State-run systems have trouble keeping up with changes in consumer demands and new medical technology.
- Competition spurs innovation, induces efficiency, and enhances quality of care:
 - Competition between specialized hospitals and general hospitals results in learning, improvement, and a greater focus on core competencies. Specialized hospitals are likely to be more clinically and economically efficient.

- State regulation of insurers and health plans stifles competition, resulting in inefficiencies and higher prices.
- There is no evidence that direct-to-consumer advertising (DTCA) contributes to the growth of health-care costs or causes physical harm to consumers. Rather, DTCA increases patient awareness of the risks and benefits of treatment, yielding real improvements in health.

The authors conclude that many aspects of the hybrid health-care system found in the United States appear to be working well. However, we need to adopt reforms aimed at helping consumers become better shoppers for value in health-care services. Such reforms include:

- Reducing, revising, and eliminating the laws and regulations that inhibit the functioning of markets.
- Developing a more coherent strategy to evaluate medical technologies and services.
- Making contracts between health-care plans and enrollees more transparent.
- Introducing greater price awareness and sensitivity in health-care markets. This could be achieved, for example, by providing price information to health-plan customers and eliminating excess utilization with high-deductible plans.
- Improving the coordination, marketing, and outreach of public insurance programs to reduce the number of uninsured.

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