

***WEE* ON THE DRY SIDE 362**

Healthcare, Unions, Solidarity and Conflict

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The healthcare industry is a large part of the Australian economy. Yet it is notorious for shortages and surpluses. Public hospitals are overflowing, private hospitals have empty beds; chemists, nurses and doctors are screaming, and there have been recent stories on television about patients dying for want of adequate care. The causes of this acrimony and inefficiency are deeply ingrained.

Not long ago a WA health fund opened a mammography screening clinic. It charges \$65 per screening, with a discount for members. Its move into preventive medicine may have no moral significance: the fund management may merely have noted that it is cheaper to treat cancer early. But to block such an endeavour surely is not a moral thing to do.

There is no point offering such a service unless it can be advertised. But the law proscribes the advertising of medical services. What is more, the Australian Medical Association (AMA) wants the law enforced. It, like any guild or union, wishes to exclude outsiders.

The Hippocratic Oath, which doctors no longer take, but which has been associated with medicine for some 2500 years, shows that the attitude is not new.

I will hand on precepts, lectures and all other learning to my sons, to those of my teachers and to those pupils duly apprenticed and sworn and to none others.

Is not that the essence of the closed shop?

Another clause refers to the removal of kidney and bladder stones:

I will not cut even for the stone, but I will leave such procedures to the practitioners of such craft.

Is not that a market-sharing arrangement between physicians and surgeons which will have the effect of increasing their monopoly power and incomes?

Failure to accept either the liberal principle of freedom of choice or the aristocratic principle of *noblesse oblige*, has allowed people in the health industry to adopt a code which includes an important feature of the ethic of all trade unions, namely, solidarity---a conspiracy against outsiders. This conspiracy, like all conspiracies, imposes costs on those outside it.

One characteristic of the healthcare industry, which it shares with other protected industries, is that few of its decision-makers bear the full costs of their own decisions. Patients are insured or subsidised by the government, doctors and hospitals have their fees calculated by reference to their own costs, nurses and other hospital employees belong to monopoly unions that pass a substantial part of any additional cost on to patients and taxpayers, and public hospitals are underwritten by the taxpayer. In such circumstances, why wouldn't the management of a public hospital appease a militant union? Why wouldn't a patient demand, or a doctor offer, expensive tests which he would not consider paying for himself? And so on.

The industry is easy meat for everybody.

Another characteristic is that, instead of relying on prices to allocate scarce resources, the healthcare industry relies on authority. Because of government interference, healthcare prices carry false messages about the relative scarcity of everything from buildings to skilled people and catheters. These must, therefore, be rationed in some other way.

Excessive use of authority has made healthcare notorious for power struggles between the various centres of authority: the hospital administrations, the unions, and the health departments. The alternative is to rely on voluntary exchanges from which both parties gain: i.e. a market. Market outcomes, governed by supply and demand, are impersonal and because they are impersonal they tend to avoid conflict. Railing against markets is about as useful as railing against the weather. Personal authority, on the other hand, may reflect favouritism and yield to threats and bribery.

The least ill-founded criticism of markets is that, since we don't all start as equals and because life is chancy, market outcomes won't necessarily reflect an ideal distribution of the good life. To subsidise the needy, however, it is not necessary to ban advertising, register unions or otherwise prevent competition. Such rules help the providers, not the users, of the services.

A common objection to markets in medicine is based on the belief that doctors do not follow market principles when dealing with their patients. The argument goes: patients who purchase doctors' services are not only ignorant but frightened. They will, therefore, accept the doctor's advice. Thus, the demand for doctors' services is determined by the doctors themselves. Therefore, the more doctors there are, the more services patients

will appear to demand. (Doctors who believe this logic should oppose higher fees for themselves, because high fees will also encourage more doctors to provide more services.) Therefore, so the story goes, it pays society to reduce the number of doctors: that is, to reduce competition. This is achieved by restricting the number of graduates and by not recognising foreign degrees.

There are, however, objections to this surprising thesis. People who don't understand electromagnetic radiation nonetheless buy TV sets successfully by relying on reputation. And in the United States, where medicine is becoming less regulated, patients are searching around for more cost-effective healthcare. Increasingly they are using competing Health Maintenance Organisations and insurance companies to inform themselves before crises arise.

It is impossible to test the notion that the demand for medicine is supply-driven because:

1. Patients' costs are kept close to zero by Medicare and, therefore, patient demand is likely to take off in the direction of infinity without any unusual help from doctors.
2. Doctors have no incentive to offer prices below 85% of the scheduled fee, and
3. As we have already seen, the medical profession frowns on advertising, thus ensuring that the public is needlessly ill-informed.

Whether healthcare is an exception to the laws of supply and demand can be determined only after the industry has experienced genuine competition with flexible pricing. Market-driven prices would overcome the shortages and the over-supply. And they should, at least, reduce the incessant squabbling.

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