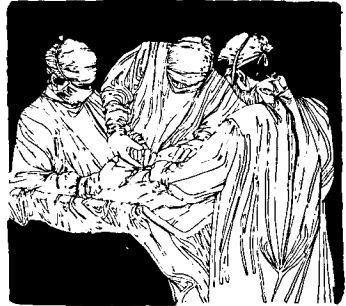


Demand Side Economics in Medicine



SUPPOSE that a pot is boiling over on the stove. What should you do? a) put a heavy lid on it; or b) turn down the fire.

What is it that fuels rising prices? A seller can ask whatever price he wants—but if it's too high, he won't get it. If customers throng to him, he can ask more. If only a few straggle by, he'd better think about asking less. High demand (relative to supply) raises prices.

If sellers are doing a brisk business, chances are that more people will see an opportunity to get into the act. More booths spring up in the marketplace. As competition increases, prices tend to go down. Supply and demand come to

equilibrium. At an efficient farmers' market, most trucks go back to the farm nearly empty, and most customers go home with something to eat for dinner. If any money or produce changes hands without consent of both parties, the thief is hauled off to jail.

To stimulate the economy, Keynesian economists suggest "pump priming." Pour in some money, and increase demand. This has certainly worked in medicine; demand seems to be unlimited. The founders of Britain's National Health Service had the naive hope that as soon as the backlog of medical problems was taken care of and everybody became healthy, demand for services would be saturated. This just didn't happen. For one thing, prolonging life increases the toll of the expensive and chronic illnesses of old age.

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Once the undertaker carries a patient off, he doesn't call again, whether or not his care is prepaid. In a fee-for-service system, doctors have even more incentive to try to keep patients alive.

As demand for medical services has increased, so has supply. When doctors started to make a good living, more people wanted to join the profession. Subsidies to education stimulated supply even more. Grants for building hospitals increased the number of beds, and with insurance and government reimbursement, hospitals were able to afford more and more sophisticated equipment. "Scarcity of resources" is a term that despite its frequent use doesn't really fit this situation. Excess demand resulted in excess supply. Like the sorcerer's apprentice, we seem to have conjured up a flood without knowing how to stop it.

The problem is that we have disconnected the natural regulator, and tried to substitute an artificial one.

Natural regulators for biological systems, industrial processes, and familiar home devices often work on the principle of negative feedback. If the blood sugar rises, the pancreas secretes insulin, which lowers the blood sugar, turning off the insulin. When a person takes a shower, the temperature of the water in the hot water tank falls, and the gas is

turned on; as the temperature rises again, the flow of gas is turned off. The body needs some cells that respond to the glucose level. The water heater needs a thermostat. The economy also needs a sensor to balance supply and demand.

Could we, by conscious effort, improve on automatic negative feedback? Suppose that in a large apartment complex supplied by central hot water, the owner disconnected the thermostat and installed an engineer to regulate the flow of natural gas. Every time a tenant wanted to use the dishwasher or the washing machine or the shower, he would telephone the engineer with information about the type of appliance or the expected duration of the shower. A person caught with shampoo in his hair when the water got cold would provide the engineer with feedback.

One of the tenants who enjoyed a hot tub, and one who took in laundry, would want the engineer to consider their special needs. His friends at the gas company might be interested in increasing the sale of gas to the complex. However, the engineer would be responsible to the landlord for explaining the gas bill.

To document the use of resources, a sophisticated computer could be acquired. To share responsibility for hard decisions, a committee could be appointed. Only two things would be forbidden: 1) sending the tenants in-

dividual bills that discriminated on the basis of metered flow of hot water, and 2) measuring the temperature of the water.

In a free enterprise economy, prices correspond to a thermostat. The price mechanism works automatically, integrating vast amounts of information related to the supply of and demand for a huge variety of resources and services. Large local variations may occur. Based on this computation, millions of buyers and sellers come to voluntary agreements.

Would it not be more humane to substitute a central planning board for this inhuman and automatic price mechanism? Unfortunately, life is so complicated that the planning board cannot obtain better information than that contained in the prices. However smart our engineer, he cannot be as good as a thermometer. Furthermore, though we may *hope* to obtain a totally disinterested and incorruptible engineer or planning board, positions of political power are seldom held by such individuals for long. And power is indeed required, if we intend to override the voluntary decisions that

would have been reached by individuals in the marketplace.

In medicine, the price mechanism has largely been disconnected, by government programs such as Medicare and by first dollar insurance coverage. Seldom do people have to ask whether a test or procedure is worth it from an economic point of view. Insurance company fee schedules also insulate the providers of services from changes in supply and demand. Prices may generally be perceived as low by the (insured) consumers, and high by the providers, thus increasing both supply and demand. Looking at prices from the standpoint of the percentage of the gross national product is a crude and late indicator of trouble. It's like deciding that the water is too hot because steam is pouring out of the cracks.

Using the logic of most of our health care planners, with their "cost containment" regulations, we know what to do in such an emergency. Call the ready-mix truck to pour a concrete containment shell around the water heater, before it explodes. ☹

W. Allen Wallis

IDEAS ON



LIBERTY

THIS freedom of others to compete for advantages is effective in checking individual self-aggrandizement because economic information is effectively disseminated by prices. Prices represent one of the most efficient communication devices ever invented.

Jerry Millett

Herbert Spencer: Freedom's Philosopher

EVERY broad social movement must have a philosophy behind it, something to give coherence, to explain, to justify, and to encourage. The freedom movement is no different. So in England, over a century and a quarter ago, driven by ideas of progressive liberty, Herbert Spencer published *Social Statics: The conditions essential to human happiness specified, and the first of them developed*. The book did not attract much attention, and Spencer sustained a loss on its publication. Nevertheless, the book worked its way into the public consciousness in both England and the United States, so much so, that in one famous statement, Justice Holmes protested that his fellow Supreme Court Judges were trying to write *Social Statics* into the Constitution.

Though plagued by chronic ill health, Spencer continued to turn out major works such as *The Principles of Ethics* and *The Man Versus*

the State until his death in 1903. The success that finally came his way never turned his head, and the honors offered him were often declined: for example, when it was proposed to award him an honorary university degree (he was mostly self-taught), he turned it down, on the grounds that he did not want his ideas accepted because of the authority behind them, but because they appealed to the reason of the reader.

His beliefs in liberty and progressive development were very controversial during most of his lifetime, and since then his ideas have fallen into decline in public estimation and interest because of the attack of his enemies. He has been identified as the premier "social Darwinist," which has come to refer to a set of racist, Fascist notions of throwing little old ladies out into the street to starve, on grounds that "survival of the fittest" must be ruthlessly enforced on everyone. In short, the term "social Darwinist" has come to be a term of abuse, with no serious meaning behind it, and no attempt made to discover what "survival of the fittest" might really mean. Generally, the attack on Spencer has been of the personal variety, with one author, for example, even suggesting that Spencer's philosophy is traceable to his not having access to modern methods of dentistry for treating his bad teeth!

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