

[The real key to health reform](#) [1]

Written by [Tom Clougherty](#) [2] | Tuesday 26 May 2009



I often feel that the healthcare debate in the UK is so limited as to be pointless. It's not just that people only ever talk about 'reforming' the monolithic NHS, rather than admitting that it's a relic of the Soviet-era central planning which is never going to provide the standards of healthcare that 21st Century consumers rightly expect. Rather, the problem is that even people willing to consider real change usually get bogged down obsessing about the wrong issue.

Discussion inevitably revolves around whether we should have national insurance, or social insurance, or private insurance. But what is completely missed is that it is the very over-reliance on third-party payment that causes most of the economic problems in healthcare, regardless of whether governments, non-profits or businesses are in charge.

The point is that while it makes sense to insure yourself against big-ticket, catastrophic health expenses that might (but hopefully won't) happen, it really isn't sensible to use insurance to pay for unavoidable, everyday occurrences (like having to go to the doctor every once in a while).

When you introduce third party payment into those situations, it causes a number of problems. Firstly, it introduces lots of administrative costs, which frequently exceed the cost of the treatment itself. Secondly, it gives both doctors and patients an incentive to maximize expenses - the patient because he's paid his dues and wants his money's worth, the doctor because he wants to increase his income. Thirdly, it blunts incentives to stay healthy, because that's what you've got insurance for. All this makes third-party payment the main reason why medical inflations runs at 8 or 9 percent a year, even when the wider economy is only running at 2 percent.

The key to successful healthcare reform is to get patients paying doctors directly for routine services, and returning insurance (of whatever sort) to its natural role. If you want a real-world example look at Singapore (where they get great outcomes for less than 4 percent of GDP). And if you want to know how it might work in the UK, have a look at [this](#) [3] ASI report from 2001.

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