

Last week I discussed how the invention and proliferation of health insurance, during the last half of the 20th century, is largely responsible for the soaring cost of health care in the United States. Spending someone else's money when buying a product or service, removes the incentive to shop wisely.

Most of us have become accustomed to spending the insurance companies' money when paying for health care. That led to health care providers charging ever higher prices for their services. To cover these skyrocketing expenses, insurance companies had to charge more and more for their premiums. Eventually employers had to pass more of this cost on to their employees.

Insurance companies also instituted managed care programs where providers agreed to begin discounting their services to the insurance companies. While this saved the insurance companies money initially, it also increased the cost of doing business by the insurance companies, since it created many new layers of administrative procedures that took many new employees to manage. As a result insurance companies had to continue to charge a lot for their premiums.

Doctors and hospitals felt the financial squeeze that managed care created and so they found ways to sidestep the regulations in some areas and simply raised their prices or increased their patient volume in other areas in order to continue to make a profit. Managed care has essentially been a failure in reducing the cost of health care, although it has made a lot of money for insurance providers.

Most of us know that our current health care system needs to be fixed. It is too expensive and the quality of the health care that we do receive has suffered as a result of our attempts to reduce the expense. The quality is down partly for the obvious reason that some cannot afford to get health care. It is also down because too many of us are getting procedures that we don't need. Doctors and hospitals are recommending unnecessary services to make up for the price controls that the insurance companies are imposing, as well as the extra staff costs that are needed to comply with the massive administrative burden of managed care.

Next week I will discuss what we can do about this problem.