

## MORE MYTHS ABOUT HEALTH CARE by Jim Bice

Will Rogers said, "It isn't what we don't know that gives us trouble, it's what we know that ain't so." With the health care debate continuing full bore, there are quite a few "facts" offered as truth that are simply wrong and often intentionally misleading. No truly productive solution will emerge when these false facts represent our common starting point.

In previous articles we have used excerpts directly from House Bill 3200 (HB3200) to advise our readers of exactly what is contained in the health care reform proposal. The following is an overview of some of the myths that have been used to completely disassemble the health care industry and rebuild it as an agency of the federal government.

### MYTH # 1: HEALTH CARE COSTS ARE RISING

The amount we spend on health care has indeed risen, in absolute terms, after inflation, and as a percentage of our incomes and GDP. But, that does not mean costs are soaring.

You cannot judge the "cost" of something just by what you spend. You must also judge what you get in return. The cost of 1950's level health care has dropped in real terms over the last 60 years. And in the 1950's, lots of things would kill you that 2009 health care would prevent. Nobody wants 1950's health care, they just want to pay 1950 prices for 2009 health care. We want the latest pills, techniques, therapies, general genius discoveries, and highly skilled labor that would make today's health care seem like science fiction a few years ago. But successful science fiction is expensive.

The fact that we spend so much more on health care now is a positive. The negative part is that a significant part of that spending is wasteful. That is mostly the government's fault and is not what advocates of government control want you to focus upon. We spend

more on health care because it is worth so much more to us. We also spend more on computers, compact discs and HDTV. We also spend more on them now than we did in 1950 because none of them existed in 1950. Health care today is a combination of knowledge that has existed for years as well as entirely new technology that came about in the very recent past. We spend more on health care because it's better, it prolongs our lives and enhances our quality of life. This is a good thing! Increased health care costs are not an indictment of the free market, it is a staggering achievement of the free market.

### MYTH #2: DRUGS ARE CHEAPER IN CANADA

It is, indeed, true that you can buy many drugs in Canada cheaper than you can buy them in the US. This is often used as an indictment of the US's (relatively) free market system. But it is grossly misguided.

We have a partially free market in the US where drug companies spend billions of dollars to develop new wonder drugs, much of which is spent to satisfy regulatory requirements. The cost of this development is called a "fixed cost." Once a new drug is developed and approved by the regulatory bureaucracy, it does not cost that much to make each pill. That's called a "variable cost." If people only paid the variable cost (or even a bit more) for each pill, the whole thing would not work. The drug company would never get back the massive fixed cost of creating the drug in the first place, and so no company would try to develop new ones. Manufacturers must, and do, charge more than the variable cost of making each pill. Many people take a superficial view of this system and believe it's unfair that drug companies charge much more than their costs to produce. They are completely wrong and not looking at all the costs.

Canada has socialized medicine and they bargain as the only buyer for

drugs, paying well below normal costs. Drug companies that spent the enormous fixed costs to create new miracles are charging a relatively high cost in the free and still largely competitive United States to recoup their fixed cost and to make a profit. But socialist societies like Canada limit the price they are allowed to charge. The U.S.-based company is then faced with a dilemma. What Canada will pay is not enough to ever have justified creating the miracle pill. But, once created, perhaps Canada is paying more than the variable cost of each pill. Thus, the company can make some money by also selling to Canada at a lower price; as it's still more than it costs them to make the drug.

If the U.S. tried to be Canada, as is proposed in HB3200, no miracle pills will ever get developed because there will be nobody to pay the fixed costs. Drug companies sell their products to Canada at low prices, making a little profit, and slightly reducing the amount they need to charge us. This creates the illusion that the Canadian system is somehow better than ours because our own drugs are cheaper there. They are only cheaper to the extent we are subsidizing them by paying their portion of drug development costs and, unfortunately, we cannot subsidize ourselves. Proponents of the Canadian system imply that our system is broken, and delivers only expensive drugs, when the socialist Canadian system delivers the goods for its people. We could emulate the Canadian system here and have cheap drugs, if only we can find a much bigger, more medically advanced, freer country to make miracle drugs for themselves, and then insist that we pay them only a bit above their variable cost for our share, and then they in turn agree to let us be their parasite.

### MYTH #3: SOCIALIZED MEDICINE WORKS IN OSME PLACES

This is similar to the disparity in drug prices discussed above. But truly

socialized medicine has never really been tested. Those touting socialism's success have never seen a world without a relatively (for now) free U.S. to make or pay for their new drugs, surgical techniques, and other medical advancements for them. If the U.S. joins in the insanity of socialized medicine we will see that when you remove the free market means of research and development for profit, it just does not work. Even now, many of the countries with socialized medicine are reducing services, extending waiting times for treatment and eliminating certain drugs and treatments altogether because of the huge costs.

Ask yourself, "Why do people from other countries come here for medical treatment if their system is so efficient?" Go to the parking lot at OHSU in Portland and look at all the Canadian license plates on the vehicles.

The bottom line is that the U.S.'s free system intellectually and financially subsidizes the world's unfree (socialized) ones.

### MYTH #4: A PUBLIC (GOVERNMENT) OPTION CAN CO-EXIST WITH PRIVATE INDUSTRY

This one has been the subject of much of the debate on health care reform. Part of the current administration's plan is to add a "public option" for health insurance. That is, health insurance provided by the government (actually paid for by you). Those advocating the "public option" say it's just there to keep private enterprise honest. They point out that private doctors prescribe more expensive procedures than ones employed by the government, and then use that as evidence that the private system has inefficiencies. Doesn't the already massive competition in health care keep things honest??

The government does not co-exist or compete fairly with private enterprise, anywhere. The regulator cannot be a competitor at the same time. The first thing the government will do is under price the private system. Cheaper is better, right? But who will make up the difference? You and your family will if you pay taxes. The government can always under price competition, not through doing it better, but by robbing Peter to pay Paul. They will take money from your left pocket and give you a small portion of it back in your right pocket.

The government always cheats when it's involved in "honest" competition. Try mailing a first class letter through Fed-Ex, or playing a lottery through a private company. Once the government discovers it cannot win, it changes the rules. The government has the power to legislate, tax, steal, imprison, and even kill. Those are advantages most private firms do not have.

Perhaps the best example of the destructive "public option" is our nation's schools. Here we clearly have a government provided "public option" competing with private schooling. To send your kids to private school you need to first pay your taxes for the public schools. You have to pay for education twice. By every measure, the schools provided by the government pale next to the private options.

With a "public option" things inevitably would go the way of our public schools. Instead of existing to please customers (patients and students, respectively) the "public option" in schools exists largely to benefit empowered stakeholders of the system (health administrators and unionized school employees, respectively), who will shamelessly pretend to give a damn about sick people and children.

The "public option" cannot co-exist with the freedom to choose and thus will indeed lead to full-on socialization.

### MYTH #5: GOVERNMENT HEALTH CARE WILL NOT LEAD TO RATIONING

Rationing has to occur. This is a reality. If you have a product or service, like health care, that is ever increasing in quality, and therefore cost, there is no way everyone can have the best at all times. It's going to be rationed by some means. The alternatives come down to the marketplace or the government. People favoring free markets point to the explicit rationing that occurs in other countries, while those favoring socialism point to the number of uninsured who get their health care through emergency rooms and the like (a form of rationing). But there are differences.

There is no system that provides for unlimited wants with limited resources. Our choice is whether it should be rationed by free people making their own economic calculations or by a bureaucracy run by Congressional committee. Free people making their own choices only consume what they value above price, using funds they have earned or been given voluntarily. With socialized medicine health care is rationed by committees of politicians trying to get re-elected and increase their own power, and people consume as much of it as the commissars deem permissible.

People are frustrated at many aspects of the current system, and it is tempting to tear it all down and build something that looks shiny and new and perfect. Many of the complaints concern the complexity of getting insurance, treatment and reimbursement. This is mostly due to excessive regulation, a complex employment-based insurance system strongly encouraged by tax law, and litigation for the benefit of trial lawyers rather than patients or anyone else. What we need is unfettered competition and clear legal standards.

Another major concern is provision of basic health care to the needy. This is an important issue, but not one that should drive the trillion-dollar health care debate. There is also the concern that health care costs make U.S. workers too expensive to compete in global markets. As long as workers get full value for their health care dollars, it shouldn't matter whether companies pay in cash or in health benefits. The competitiveness issue is an important one, but health care costs versus wages versus taxes to pay for public health care is a minor detail. The main consideration is not how it's divided up but total costs, and total value received by the worker. Costs are minimized, and value received maximized, by open competition.

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