Government intervention in health care

Government intervention is a regulatory action taken by a government in order to affect or interfere with decisions made by individuals, groups, or organizations regarding social and economic matters. Government intervention sometimes is necessary to correct situations where the market fails to allocate resources efficiently or distribute income fairly. The reason why government usually intervenes in the market economy is to provide public goods, correcting externalities, redistributing income, and regulating the marketplace. Government intervention in health care has been a major debate in the United States.

There have been over 90 years of government interference that caused the debate and controversy we have today. Government intervention in the health care system was and still is being blamed for the rapid rise in health care cost. There are a few historical events of government intervention in health care that help understand where we went wrong. Health care costs for a family of four have doubled in less than a decade from $9, 235 in 2002 to over $19, 000 in 2011. The graph above is showing how the cost in health care is continually rising from 2002 to 2011. It started in 1932 when Blue cross was established.

The American medical association and the American heart association lobbied for their exemption from insurance regulations and taxes which is an unfair competition. A 3rd party reimbursement procedure was established and that caused inflation in the health care cost. In 1965 Medicare passes. Federal government became the largest single purchaser of health care. Hospital spending doubled. Medicare and Medicaid are constantly spending government dollars. There is an increase in personal health care

expenditures. The demand for service increased due to the fact that patients have no incentives to control costs.

In 1973 Health Maintenance Organizations (HMO) Act was passed by congress to address the rising costs of health care. Instead of fixing the problem by removing the controls and incentives and restrictions, this required that all companies with employees of twenty five or more offer traditional plans also had to offer HMO plans. This is repealed in 1993. In the year 1992 Resource Based Relative Value Scale (RBRVS) is established. Creates relative value for doctors in family practice, internal medicine and obstetrics; while lowering fees for surgeons and radiologists.

It also set a limit of the amount of money doctors would be able to charge above what Medicare allows. This skews the demand for different types of physicians while the government encourages students to become family practitioners and fewer to become surgeons which lead to shortages in certain areas of the medical industry. 2010 Obama care passes requiring insurance companies to cover every person regardless of pre-existing conditions also would require every person to have a certain amount of health care coverage.

Obama care requires that all insurance plans cover preventive services and stops insurance companies from dropping you when you are sick, as well as offering a number of other reforms and protections for the patients. This will make the cost of service go up because people will now go to the doctors for unnecessary ailments and illnesses. This paper will be discussing the two major reasons why government intervention increases health care costs in

the United States and will touch up on how it also decreases the quality of care.

The major reasons are regulations and emergency rooms. Regulations have the potential to change price quantity or quality of medical service and can thereby affect or promote efficiency of resources available. This type of regulation is justified because market imperfections exist that cause inappropriate allocations of society’s resources. Government regulations effects in medical markets are extremely hard to predict. The cost of structure faced by medical firms and decision makers can either make it more effective or harm the competitiveness in the market place.

A price sealing is a type of government intervention when applied in a competitive market can have some very negative results. Governments can regulate the price by establishing a maximum price or reimbursement level which means health care providers are prohibited by law to charge a higher price to patients covered under this price ceiling. The market demand represents the demand for physician services by their consumers. Supply represents the different quantities of services that health care providers are willing to make available for their consumers at various costs.

For cost containment reasons the government sets a cap or price ceiling therefore it increases the supply curve which lowers the price creating an incentive for the physicians to reduce the quantity supplied. Also, the price ceiling creates an incentive for health insurance to buy more services with a lower price and the quantity demands physician service increases. This creates a shortage of physician services that develops in the market which in

return decreases access and quality care for patients. As shown the in graph below as the difference between QD and QS.

When shortages ensue in price ceilings the price mechanism is not seen as a rationing device, this is when unintended outcomes occur. Physicians will treat patients on a first come first serve basis, even if there is an urgent medical attention that requires immediate service, the quality of visits deteriorate to reduce cost, quality reduction means longer wait times to see a physician or shorter time spent with the actual physician in the visit. The increase in price due to government regulations will cause the quality of service to decrease.

Another way the government can intervene is by placing quality regulations. The government sometimes tries to regulate the quality of medical service when the consumers are rationally uninformed that medical workers may be professionally licensed or may require minimum staffing to patient ratios. In either case the structural quality will promote increased quantity. This type of regulation that is aimed at quality usually means higher costs of production. The figure above shows the implication of the quality regulation such as the quality regulation of professional licensing.

The supply and demand curves for medical works correspond to market wages and employment levels. The professional licensing raises the cost of occupational dues. Occupational licensing quality brought the improved job performance which lead to greater demand for the output of professional labor. The second reason that government intervention increases health care and decreases quality is the rising use of emergency rooms. There are a few

reasons why more people are likely to turn to the emergency rooms now instead of their local health care provider.

According to the national Center for Health Statistics, there were 110. 2 million Emergency room visits in 2004, which is an increase of 18% over the last 10 years. The major reasons that contribute to that rise is the increase in elderly (patient using Medicare and Medicate), chronically ill people, and long waiting time for physician appointments due to the lack of physicians. This increase in Emergency Room visit will greatly impact the quality of care a patient receives because critically sick people will wait too long to receive emergency care.

The Center for Disease Control and Prevention found that more than 10% of critically ill patient waited more than 1 hour to be seen by a physician, which is a big problem because many illnesses are time dependent and early intervention gives rise to better outcomes. Also over crowding may increase medical errors, according to the Joint Commission, 50% of sentinel events causing serious injury or death occur in the emergency departments, and approximately one third of these are related to crowding. This increase in ER visits will continue to increase due to the new health form legislation called Obama care.

Emergency room costs will now increase for two main reasons. 1) Being that health care patients that are enrolled in Medicaid or Medicare patients will seek the emergency room, and 2) the insured patients will get increased access to care, in the absence of other programs that create more providers and turn emergency room into increased demand. Medicaid enrollees visit

emergency rooms more than either the insured or uninsured because Medicaid fees are so low that many private facilities and practitioners will not see them. So more often than not the emergency room is the only place they can access health care.

The graph above shows that emergency room visits for Medicare and Medicaid patients is significantly higher than insured patients. The increasing use of emergency rooms will cause health care costs to increase because emergency rooms are considered specialties. The charge for using emergency rooms is higher and more expensive than a typical doctor visit. Emergency room departments provide immediate and lifesaving treatment. People with Medicaid coverage were seen multiple times in the emergency department as opposed to those with private coverage or the uninsured.

Although this paper discusses how government intervention causes an increase in health care and decrease in the quality of care for patients, sometimes government intervention can be useful to contain costs. Government financing eliminates administrative overhead and wastes that are supposed to be associated with private health costs. Also, the government will use the power it has to contain the prices in the medical service fields when it controls the greater shares of health care spending.