

Health care is a good like any other

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Suppose 30 years from now, Prime Minister Justin Trudeau decides it is Canadians' basic right to have equal access to hotel rooms. And he instructs Rights Minister Catherine Clark to decree that thenceforth the price of all hotel rooms will be zero, with hoteliers to be compensated directly by the federal government.

What do you suppose would happen? Basic economics says that if the price of something falls, people want more of it. They "slide down the demand curve," as we economists put it. That isn't always the case. In the 19th century, poor Irishmen responded to declines in potato prices by buying fewer potatoes, using the money they saved on spuds to buy a scrap or two of meat instead. But it's a reliable enough relationship that economists refer to it as the "law of demand." So if you really did allow Canadians (and not just their kids) to stay in hotels free, it's all but certain you'd see a big jump in the number of reservations.

What would happen to the supply of hotel rooms in a "bed-i-care" system like this? That would depend on how much Ottawa paid the hotels. If at first the government mimicked the amounts the market had provided -- if to begin with, hotels got a grant equal to their previous year's revenues -- then nothing much would happen.

But over time there'd be trouble. Ottawa would have to figure out a formula for financing hotels. It wouldn't want to pay those that didn't have any guests, so the formula would have to be tied to the number of people staying. But then it wouldn't want hotels to cut the quality of service so as to increase their profit per guest, so it would also have to somehow relate the formula to the quality of service. And Ms. Clark would soon get questions in the House about why she was providing so many luxury-level grants to Toronto hotels and grants only a third of that to hotels in St. John's. So she'd have to start regulating the ratio of luxury services allowed. Or maybe ban luxury services altogether, which would mean monitoring the size of the in-room TV screen and the diversity of the mini-bar, and so on. Pretty soon we'd have royal commissions roaming the country asking Canadians what temperature they liked their hotel rooms at.

And there would be shortages. For the law of supply says that if you pay people less for providing a service, they'll usually respond by providing less of the service. With demand heavily over-subscribed, and with governments squeezing costs -- as they almost certainly would -- waiting lists would be inevitable.

Now, the subject here isn't really hotel rooms, it's health care. And defenders of the current system will immediately object that "Health care isn't like hotel rooms!" -- which of course it isn't: Queuing for hotel rooms can't kill you. Queuing for health care can.

That's not what they mean, however. What they mean is that you can't use normal economic analysis to analyze health care -- that it's "offensive" to do so, as one of my students wrote on his or her (anonymous) evaluation of my introductory economics course last fall. But when you think about it, nothing much is like anything else. Cars aren't like computers which aren't like popsicles which aren't like bread, yet somehow they all manage to get themselves sold in private markets. They're all subject to the laws of supply and demand. And, unlike health care, they're all readily available.

As more and more Canadians have sat less and less patiently in doctors' waiting rooms and hospital corridors over the past few years, it may have struck them that for just about everything else that's

available in this society, including the most frivolous things, they don't have to wait. But for health care -- which when they need it is the least frivolous good imaginable -- they do have to wait, sometimes a dangerously, often a worryingly, long time.

I think my student is wrong. Seeing health care as a good like any other lets us understand this overriding anomaly of Canadian life. With consumers paying zero and with the price suppliers receive controlled by provincial bureaucracies, demand can't help but exceed supply.

But if we did free up prices, wouldn't that exclude poor people? Yes, it would, unless we gave them the wherewithal to buy in. Just as, if a future prime minister really did want to let poor Canadians enjoy the nation's finest hotels, the way to do it would not be to nationalize and micro-manage the hotel industry, but to give poor people the money to get their share of the supply. *Adapted by the author from an essay in Better Medicine: Reforming Canadian Health Care, edited by Dr. David Gratzer. Published by ECW Press, Toronto and Montreal, 2002.*