

## Explaining Obamacare

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How can we make sense of Obamacare? How do we explain the passage of this law and its incompetent roll-out? And how do we explain the stated beliefs of most democratic politicians and the liberal media today that the system can be fixed? The answer given here is (1) the neglect of Austrian economics and, correspondingly, (2) the acceptance of the various ideologies associated with progressivism and central planning.

### Neglect of Austrian Economics: Complexity, Entrepreneurship and Invention

#### *Complexity and Entrepreneurship*

To show why the neglect of Austrian economics helps explain, one must understand two fundamental principles of the Austrian description of capitalism. The first is about complexity. Market interaction in an advanced capitalist economy is so complex that no single mind could ever grasp it. In light of modern technology, a healthcare services “industry,” even if it is highly regulated, is not just a part of the complex market interaction. It is fully integrated with all of the other parts. It follows that no single mind could ever grasp it.

The term “industry” is less useful in describing the supply of healthcare services than other terms. We cannot speak of the healthcare industry like we speak of, say, the apple industry. On the one hand, there is no uniform item called healthcare services. There are uncountable elements in the mix of healthcare services. These range from highly specialized treatments for rare diseases to local exercise and dietary services. Each of the countless elements in the “mix” differs along a variety of dimensions including the location and time at which they will be demanded and the time it takes to supply them.

Within the “mix” are services that, from the demanders’ points of view, are substitutes and complements. From the suppliers’ points of view, costs may be saved by supplying more or many of the services jointly. In addition, each of these elements, in its particular dimension, lies at the end of an unfathomable supply chain. The service of breast cancer treatment, for example, requires multiple instruments, tools, testing services, and varieties of personnel. Each instrument is the product of a manufacturing process in which other manufactured products are combined, treated and assembled. The parts themselves are manufactured from other materials products that are combined, treated and assembled. Leonard Read’s “[I, Pencil](#)” helps to explain the supply chains for a very simple tool. Most of the tools, testing machines, etc., used in supplying healthcare services are far more complicated than a pencil. They may be produced, or many of their parts are likely to be produced, by entrepreneurs located in other countries from parts produced in still other countries. Correspondingly, so are their supply chains.

Consider now the *human* resources employed in supplying healthcare services. There is a supply chain here as well. The different specialist doctors, physician assistants, nurses, testers, office personnel, testing personnel, analysts, monitors, and pharmacists are the products of a lengthy and complex period of training and education. The individuals who produce this training are part of the complexity also. So also are the trainers and educators. Since these trainers and educators are also trained and educated, the complexity extends back more or less indefinitely.

The term “supply chain” is really a metaphor. If we expand the metaphor, we can refer to “links” that correspond to each distinguishable material factor of production. At each link, we might say, lies an entrepreneur. Each of these different entrepreneurs must choose the quality and cost of the tool,

machine, human resources, etc. that she produces. She has a profit incentive to try to reduce cost and increase her service's attractiveness to buyers. She caters to her buyers. If they want low-priced, low quality tools, human resources, etc., she recognizes that she can profit by supplying these rather than high-quality, high-priced ones. Each entrepreneur tries to outdo her rivals by meshing the demand for the range of products she can produce with its cost and price. She usually can sell a higher quality if she incurs higher cost. But which quality-cost mix she chooses is dictated by the buyer's demands. And the demands for each of these factors of production is dictated by the demand for each of the numerous healthcare services.

### *Invention and Innovation*

The second principle that one should understand is that entrepreneurs under capitalism have incentives to invent and to innovate. Private property rights and free enterprise give individuals incentives to make the consumer "product" better and they provide incentives to reduce costs at every nook and cranny along the supply chains.

### *A Regulated Industry*

It is important to emphasize that the complexity and incentives described here are present not only in an imaginary purely capitalist system but also in regulated capitalism. Regulation, as a rule, does not affect the "degree of complexity." However, it may specifically target invention and innovation. We can imagine regulators doing this if they mistakenly believe that they could reduce costs by stopping research and development. Their reasoning might be that because research and development is an element of cost, they can cause firms to reduce costs by mandating that they reduce such activity. However, so long as the market is free for the more wealthy consumers and producers of healthcare services, one can expect cost-saving innovation to occur outside the regulated system. Such cost-saving would eventually be copied and passed on to the suppliers in the regulated system. In the US today much research and development is carried out by the there is a large amount of charitable giving.

### **Central Planning of Healthcare Services**

Complexity, as I use the term here, implies something important about central planning. It implies that nobody has the ability to make a blueprint of a healthcare services system that can duplicate the system under capitalism. The administrators of such a system can have no in-system guide to know how to provide a quality and level of healthcare services that even comes close to what is already in place in the US. It is possible for the leaders of a central planned system to try to copy the systems of other countries. But a capitalist healthcare services system is so complex that they could copy only fragments. It is also possible for the central planners of a nation that is rich in mineral wealth to contract out the supply of healthcare services. But if the planners had to rely solely on the government bureaucracy to supply, "quality" would be low and costs would be high. And since the quality of most healthcare services cannot be measured, the planners would not know it.

Under an isolated, centrally-planned healthcare services system, innovation would virtually cease. The incentive to innovate could only be based on the goodwill and competence of administrators and the promise of prizes from the top. But who would know which prizes to give? It is clear from the failure of the Soviet and Chinese systems of central planning that the goodwill and competence of administrators is a local phenomenon. The members of the "politburo" who directed the supply of consumer goods from the top was populated by fat cats. They isolated themselves to form a different social and economic class from the local administrators and the rest of the people. Local administrators were concerned with local matters. They did not think about the implications of their work for people in other administrative districts, provinces, or nations. The incentive to make widely beneficial innovations was virtually nil.

### **Capitalist Supply of Healthcare Services**

In spite of regulations and restrictions, the "product" of the US healthcare services "industry" improves from day to day. Just watch your local health TV show. The shows do not tell the whole story. They do not usually cover the uncountable cost-saving innovations that are adopted by suppliers of healthcare services and by the entrepreneurs located along the supply chains. These innovations

would occur only, or in incomparably higher measure, under capitalism.

The innovations cannot be planned in advance by the central planners. In the US, they are the consequence mostly of profit-seeking and charitable giving by donors who have become rich under regulated capitalism. Some help is provided by tax-financed government grants. However, government grants are given to all sorts of people for all sorts of things. Who knows whether, in net, these grants are more productive than the private investments that the tax money would have supported.

### **Central Planning in and Environment of Global Capitalism**

The system envisioned under Obamacare would not be isolated from the rest of the world. It could be designed to try to copy or buy the innovations and organization that were adopted in capitalist nations. The Soviets were able to keep up with innovation in physical production for part of their production sectors for a while because its scientists and technicians copied and because the KGB infiltrated the high-tech industrial plants of the era and stole blueprints or bribed officials with access to patented technology. But the US is the leader, at least for now, in healthcare innovation. Surely, the quality of its numerous healthcare services would fall substantially if citizens had to rely on copying or contracting out for services provided by suppliers in other nations.

Global capitalism gives incentives to entrepreneurs all over the world to make huge investments in cost saving and service improvement because the entrepreneurs expect to make huge profit. The prospect for high profit yields high investment. High investment, in turn, yields reliable, though largely unpredictable, technological progress.

Critics say that the US healthcare services system is “broken.” What they really mean is that the entrepreneurs have not done what the critics think ought to be done. However, if they knew Austrian economics, they would realize that trying to “fix” the system through central planning is a idealistic wish that would never be realized. A centrally planned of a system would not only result in an inferior set of services, it would stifle innovation.

### **The Source of the Central Planning Ideology**

Why would people in the US think that the current regulated market system should be replaced by a centrally planned system? Why would the vast majority not reject Obamacare? The answer appears to be trust. They think that the President and other opinion leaders are smart people. Smart people, they believe, can put smart policies into effect. The main reason why Obamacare was adopted by the legislature is the belief that the President is smart. But whatever it might mean to be smart, trust in a false ideology can lead to economic disaster.

Where did Obama get his false ideology? There is no way to trace the development of his mind. However, we do know that he learned a subject that was labelled “economics” or “political economy” at Columbia University from law and political science professors and possibly from socialist or progressive economics teachers. Such people have no clue about the complexity of capitalism. They also do not know about the absence, under central planning, of the incentive to innovate. They promote ideologies of a bygone intellectual age. Back in the day, demagogues tried to sell the idea that high standards of living can be achieved without private property rights, free enterprise, markets, prices, and profits. All that is needed is competent central planners. These professors tooted, and still toot, the same old horn. If they knew Austrian economics, they would recognize their errors.

### **Incompetence in the Roll-Out**

We have already seen the initial results of the effort to switch from the regulated system to the vision of a centrally-planned Obamacare. The website was a fiasco. By far the worst is yet to come. This is due to the people he or his aids have hired to direct the plan and to implement it. They are even less competent than one would expect politburo officials to be.

First Obama has hired many of the misguided progressives from whom he learned or who learned the same false-hope ideology of central planning. These people are competent in their chosen task of promoting central planning and progressivism. However, they know virtually nothing about how to affect a central plan.

Second, he has availed himself of the spoils system by hiring those who he or his aides have judged helped him get elected and who will help him in the future. This includes campaign contributors, campaign supervisors, technicians and blue collar “get-out-the-vote” people. As the roll-out continues,

the public will be treated to a barrage of additional fiascos. Investigations will reveal that these blunders were caused by incompetent administrators.

**Lessons Learned?**

As Obamacare “rolls out” citizens of the US will learn, step by painful step, about incompetence. They will not realize that behind it all is the socialist and progressive bent of the education system. They also will probably not learn about capitalism and central planning. But at least they will learn that Obama’s effort to install central planning failed miserably. They will learn that his promises about central planning have not been kept. And they will learn that Obama’s “smartness” does not extend to economic issues.