

The Healthcare Dichotomy

The issue of runaway healthcare costs has been at the forefront of American politics for over a decade. We have all heard horror stories from the insured and uninsured alike: \$1000 visits to the emergency room, \$3000 MRIs, even trips to the pediatrician can give us sticker shock these days. To make matters worse, the accelerating retirement of the baby boomers promises to continue, if not exacerbate, this trend.

So what, if anything, can be done to arrest this rise in costs?

Surprisingly, answers may lie somewhere in the world of elective surgery. In 2014, roughly 11.3 million Americans chose to undergo either cosmetic or LASIK eye correction surgery. We chose to focus on these two categories of medical care because they are the most common types of elective procedures. Uniquely, the costs associated with both have grown at a much more reasonable pace than medical care, and in the case of LASIK have actually fallen over the past two decades.

Using publically available data from The American Society for Aesthetic Plastic Surgery we created a price basket of the 10 most popular procedures and tracked it going back to 1998 when the data began being recorded. The result was a 33% increase in prices versus an 80% rise in the cost of medical care as reported by the Bureau of Labor Statistics over the same time period. Data from Allaboutvision.com, which has tracked the cost of LASIK since its approval by the FDA, shows an even more impressive drop in costs of 4% since 1998. In fact, looking at the table you can see that elective procedures have risen less than not only medical care but general prices as well. It is also important to note that cost data for both types of elective procedures are in nominal terms, meaning they are both even lower when adjusted for inflation. On top of this, they offer satisfaction rates in the 90% range as opposed to roughly 70% for common surgeries in hospitals.

So, why have we seen such a dichotomy between elective procedures and the rest of the healthcare industry? The answer lies in price discovery. Neither LASIK, nor cosmetic surgery are covered by insurance plans, Medicare, or Medicaid which means that patients are required to pay their medical expenses out of

pocket. These are some of the few procedures that are sold in a free market, allowing for price advertising, consumer driven purchases, and competition. This gives the average person a much bigger incentive to shop around and find the best price and quality before making a decision.

This is in stark contrast to healthcare in the rest of the US where prices are opaque due to insurance, and rising constantly due to ever increasing built in administrative costs. In fact, the [Wall Street Journal](#) recently reported that some hospitals and medical centers are charging less for cash upfront than for copays on certain procedures in order to avoid the red tape from insurance and other collection hassles.

Don't get us wrong, we know it isn't feasible for patients to begin paying upfront in the majority of cases, and we aren't likening life threatening illnesses to the less serious issues elective procedures solve. However, the more we obscure prices with new laws and further regulations the less incentive entrepreneurial doctors and surgeons have to innovate and produce the productivity gains we need to get prices under control. With the legal and administrative side of medicine ballooning like it has been, there's no wonder we have a shortage of medical students. Maybe they're all just becoming lawyers instead.

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