

"The Market and Human Freedom." *Private Practice: The Physician's Journal*, July 1981, pp. 36-46. Keynote speech delivered in Sydney, Australia, at the inaugural meeting of IATROS, the international organization of private and independent doctors, late Spring, 1981.

I am delighted to be here with you because you are part of a small band of people around the world who are trying to preserve the basic elements of a truly free and open society—a task which has for many years seemed almost hopeless but which I believe has recently taken on a new hue of hope. It looks as if there may be a change in the tide, as if that trend—that I am sure all of us bemoan—toward a greater and greater role for government in controlling men's lives may be stopping and reversing.

With respect to the field of medicine, one of the most extraordinary feats of imagination that I know of is a passage in a book by Aleksandr Solzhenitsyn, the novel "Cancer Ward," in which ... the protagonist of the novel visits an elderly man, a physician, who dates back before the revolution and who is able to talk about the nature of private practice in medicine.

...Here was a man [Solzhenitsyn] who had lived in the country, in a communist country, all his life at the time he wrote this. This was long before he was expelled from the Soviet Union and, yet, out of his imagination he was able to construct a true picture of the merits of private practice as opposed to state practice. And this in a country which has gone farther than almost any other in converting the practice of medicine from a noble and honorable profession into an ignoble and dishonorable one—where physicians are required, essentially, to use their art to incarcerate people in prison, to declare them sick when all they are is free spirits, where in the only country in the western world—if you can call Russia the western world—I believe the average age at death is going down rather than up.

And yet, despite the virtues of the private practice of medicine, the trend throughout the world has been in the opposite direction. It has been in the direction of the elimination of private

practice; it has been in the direction of giving government more and more control over the practice of medicine.

...What has been happening in medicine has been part of a general trend for the past 80 to 90 years around the world—toward a greater and greater control of individuals by governmental officials, toward a turning over of more and more power to the government—the growth of government spending, the growth of government regulation, the growth of government intervention in every area.

The growth of government financing of medical care is no different than the nationalization of steel industries in the United Kingdom or of passenger travel in the United States. It's no different than the extension of control over prices or over wages. What you have has been a broad movement ever since the end of the 19th century away from a society in which government serves primarily as an umpire, as a policeman, and toward a society in which government serves as the all-powerful—supposedly and hopefully—all-benevolent father. The trend away from free medicine is part of a general trend not only in the sense that the same kind of greater involvement in government has occurred in area after area, but also in a very different sense, in the sense that it reflects to a considerable extent a kind of schizophrenia among businessmen and among physician professions. Every businessman knows that he's in favor of free trade and free markets except when it comes to himself and he's a special case. He needs a tariff or he needs a special tax arrangement. Physicians have been no different. The medical profession, the healing professions in general, are in favor of private practice but only up to certain limits.

A few years ago I spent a week or so on the island of Kos, a Greek island in the Aegean. I was on the island because it was the home of Hippocrates, the father of modern medicine. ...I wanted to bring Hippocrates in as an introduction to the episode [of "Free to Choose," a PBS 10-part series hosted by the author] or the part, of our program which dealt with the problems of labor unions and labor relations.

...I wanted to use Hippocrates and the Hippocratic oath as an introduction to why you had a development of trade unions and the consequences which they have. Hippocrates himself gave his name to the Hippocratic oath, but he had nothing to do with it. What happened is, as most of you probably know, when he died, the island was full of physicians and of patients who had been attracted by Hippocrates' fame. But when he died, the fame was not there any more and the attraction was not so great, so you had an oversupply of physicians. Of course, physicians didn't like that so they organized themselves into a group and they drafted the Hippocratic oath.

The Hippocratic oath, which all of you probably took when you entered practice but didn't read very carefully, contains many fine and noble sentiments and statements. But if you examine it more carefully, you will see it is essentially a trade union agreement. There is a phrase in it in which the physician says he will take as students only his own children and the children of other physicians.

There is another portion that is an attempt to restrict entry into medicine in an attempt to keep down the numbers.

There is another phrase in there which has to do with jurisdiction. It's a phrase, if you will remember, in which the surgeon says he will not interfere with the medical physician. The medical physician will not interfere with the surgeon. They shall each leave the other to pursue his specialty.

And that is, of course, what has happened to medicine over the course of the centuries that followed. Almost everywhere medical practitioners have formed themselves into organizations that have generally, with the assistance of the state, restricted entry into medicine—all, of course, for good purposes. Nobody ever does undesirable things for bad reasons; all for the good purpose of raising standards of medical practice.

I have examined the story in this area in the United States, in particular with the American Medical Association during the course of the 1920s and 1930s. It's an extreme example of a very powerful trade union which succeeded in keeping down the number of physicians and in the

process raising costs, which succeeded in retarding the development of efficient group medical practice and in the process reduced the quality. I mention this not to attack the American Medical Association or the members of it. They are noble, able people who wanted good things, but were misled. But only to suggest again a sense in which the developments in medicine are not special to medicine.

Input Up, Output Down

...Now, from the point of view of the providers of medical care, the initial effect of government involvement often seems beneficial. After all, here's a new source of funds, here's a new set of finances which will make possible things that were not possible before. And that is indeed true for a time. It is true that in the initial stages when government enters into the financing of medicine, physicians and other providers of medical care do benefit. In the United States the emergence of Medicare and Medicaid has roughly doubled the fraction of the national income spent on medicine and it has greatly benefited many physicians. Indeed, its effect on the incomes of physicians has been far more noticeable than its effect on the quality of care received by patients. A major effect has simply been that the government pays for some things that before the medical professional provided without payment. In that stage there is no doubt that government involvement is beneficial.

However, that is only the entry wedge in the beginning of it. As government control spreads and gets wider and wider, the advantages decline and the disadvantages emerge. And eventually there is a reversal and even from the purely financial point of view, from the amount of resources devoted to medicine, government control tends to reduce it.

The most dramatic example of that is in the United Kingdom, which introduced socialized medicine in 1948 right after the war, so you have a long period. What happens is in the beginning the government spends more because that is part of the process of getting approval for its socialization of medicine. But then, when the thing is done—when the whole thing has been

taken over—then there are always fiscal pressures. People will voluntarily pay their own money to go see a particular physician, but nobody likes to pay taxes for someone else to see a physician. Consequently, the complaints emerge that this is a very expensive process and that you have the cost running away and you have to hold down expenditures.

...[British physician Max] Gammon developed a rather interesting theory—which he called a theory of bureaucratic displacement—in which he said in all bureaucratic enterprises where bureaucracies take over, input goes up and output goes down. A particular application of Parkinson's law, which is the growth of bureaucracy tends to take the place of useful output or useless output tends to take the place of useful. And he gave some evidence on that. In the eight years from 1965 to 1973 in Britain, the number of people on hospital staffs went up 28 percent and, I might note, that the people on clerical and administrative staffs went up 41 percent. On the other hand, the average number of beds occupied per day went down 11 percent and that wasn't because there weren't people there to occupy them. There was a waiting list of some 600,000 people at all times during that period.

The end result of this is two-fold. On the one hand, as all of you know, there has been a virtual flight of physicians from Britain. The number of physicians emigrating from Britain has been something like a third to a half of the number graduating from medical school. ...But the other side of it is that there emerges a pressure from private medicine. And so one of the most rapidly growing developments in Britain has been the institution of voluntary health insurance with, as I was mentioning before, private hospitals being built.

...The setting in which medicine has been practiced during the thousands of years has been one in which the patient has been the client and the employer of the physician. Today the state, in one manifestation or the other, claims to be the employer and thus the one to prescribe the conditions under which the physician has to carry out his work. These conditions may not, and eventually will not, be restricted to working hours, salaries and certified drugs. They may invade

the whole territory of the patient/physician relationship. If the battle of today is not fought and not won, there will be no battle to fight tomorrow.

What is the appropriate role of government in medicine? Given the extent to which government has been taking over, what is appropriate? What should government be doing? In my opinion, if we put to one side the field of public health, which is not what we are really talking about, we're really talking about physician/patient relationships. The fields of communicable diseases, public health and sanitation—there is an important role for government in that area. But in the area of private medicine, I do not believe there is any special role whatsoever for government other than its role in every other area of our lives.

What is that role in other areas of our lives? Well, an important role of government is to enforce laws against fraud and deception. If a person professing to be a physician hangs out a shingle saying "I have been graduated from the University of Excalibur" and it turns out he never went to such a university or there is no such university, then he ought to be prosecuted for fraud and deception. But that's the same in every field and ought to be done for the butcher, the baker, and the shoemaker and the candlestick maker. A second function that governments have assumed and is appropriate for governments to assume is to help people who are in dire distress. We do have a situation in which individual citizens get into a situation, often through no fault of their own, in which they are in dire difficulty and one of those possible situations may be subject to very high medical expenses, but there is nothing special about that. Another reason for dire distress may be a flood that destroys a town or it may be an earthquake or it may be anything else. And in that sense there can be a role for government in assisting people and the terms ought to be the same, in my opinion, regardless of what is the cause.

I do not believe there is any case whatsoever for government's financing ordinary medical care of a private patient. The cost of financing ordinary medical care is well within the means of ordinary families in most of our countries. Certainly so far as the more expensive, unusual forms

of medical care the appropriate method of financing those is insurance just as that is the appropriate mechanism for financing other large risks.

In the United States the development of private health insurance has gone very far indeed. So, that today something like 80 percent of all hospital bills are covered by insurance, most of which is private voluntary health insurance, some of which is Medicare government insurance for the elderly and some of which is other government programs, but most of which is private.

No Government Aid

You hear all the time the argument that medical care is so expensive that you cannot expect the ordinary person to finance it. Well, there are two things wrong with that. First of all, who finances it if government finances it? It's the ordinary people. Government doesn't have any money with which to finance anything. All government has is a monopoly on force. And, therefore, the power to take money out of some people's pockets and use it for purposes that are determined by government. So, ...if ordinary people, if the average people of the country cannot afford to pay for their own medical care, neither can the government afford to pay for it.

But the second thing that is wrong with it is that it misrepresents the magnitude of the expenditures on medical care. The total expenditures in the United States on medical care—and I may say those expenditures have been going up very rapidly thanks to government involvement ...[have] gone from something like 4 or 5 percent of the national income to 9 or 10 percent. But yet those total expenditures on medical care today are less than two-thirds of the amount people spend on their houses. It's less than three-fourths of the amount they spend on their automobiles.

...In my opinion, government involvement in medicine has been the problem and not the solution. And the right ultimate course ...and this is a position that will go much beyond what most of you in this room would go to I believe, ...should be no government involvement, no government regulation, no government subsidization and to add the point where I will lose all of you ...no government licensure of physicians. (APPLAUSE) You are a most unusual audience. I

have argued against the licensure of physicians before the board of directors of the American Medical Association and had one of the most vituperative, the most argumentative evenings I have ever had. But, your endorsement of that is fascinating because I think physicians everywhere and people everywhere are coming to realize the truth of that old saying that if you're going to sup with the devil you better have a very long spoon. And licensure is not a long enough spoon: It has been a major source of the problem.

Well, let me go on and ask the question, what are the prospects of turning things around? And here I think it is possible to be far more optimistic than it was some 5 or 10 years ago. Not because of any element special to medicine, not at all, but for a very different reason and that is that just as the socialization of medicine has been part of the broader movement toward socialism, so the enhancement of private medicine will—can—only occur as part of a broader movement toward an enhancement of human freedom in all areas, toward a reduction of the role of government in our society, toward a cutting of government back to scale. And the reason it is possible to be more optimistic than it was a few years ago is because it seems to me we are experiencing worldwide a movement of opinion and a movement of practice away from the trends of the past 70 or 80 years and in a very different and new direction.

These trends are worldwide and they can be observed not only in the countries most of us come from—the western countries—they can be observed in the countries behind the Iron Curtain. The success of the Russian revolution in 1917, of the communist revolution in China after World War II, were part of this worldwide movement toward greater centralization and collectivism. Just as much as the emergence of the welfare state in Great Britain, of the New Deal in the United States, and similar tendencies here in Australia. And similarly what is happening in Poland, the attempts in countries like Hungary to introduce greater elements of market arrangements, the attempt by Mr. Deng and others in China to introduce a greater role for the market in those countries. They may not succeed, I am not saying they will, far from it. But, they

are indicative of the same kind of a worldwide move away from collectivism and centralized direction and toward a greater role of market and of human freedom.

... You know, the believers in collectivism, the believers in socialism are on the defensive everywhere. Very seldom do people who have taken a very strong and firm position change their position. People pretty well are set in their ways after the age of 25, but you have new generations arising and you have a whole mess of the population that has come to the conclusion that it has been sold a bill of goods and that it has come to realize that these miracles promised by governmental control are not going to emerge.

Freedom Persists

And as a result you have a political movement sparked very much by a resistance to high taxes—and that's probably the most important driving force—which is showing its face all over. It's by no means certain, very far from it indeed, that that movement will be successful. It is far more difficult to unwind the consequences of government control than it is to get involved in those controls in the first instance. Every time government gets involved in any area it sets up vested interests that have a strong reason to oppose the reversal of that policy. That's why it is so difficult to turn things around.

So, I am by no means confident that we shall succeed throughout the world in turning things around, in particular in the area of medicine, of providing a greater role for freedom, but I am certain of one thing: elements of freedom will persist.

Just as the private practice of medicine lit a light that Solzhenitsyn recognized inside of closed-in Russia, so private practice will persist. The real question is whether it will be able to assume as large a place and as large a role as would be in the interest of patients, of physicians, of the community at large.