

When Is the Price Right?

G. Keith Smith, M.D.

Medicare sets prices periodically through a convoluted bureaucratic process that involves secret meetings by a select AMA committee, the AMA/Specialty Society Relative Value Scale Update Committee or "RUC."

I told the designers of the new website for the Surgery Center of Oklahoma (www.surgerycenterok.com) that I wanted to be able to edit all its parts. I wanted to be able to change prices, for instance, from my smart phone. Anticipating competitors when medical pricing becomes transparent, I wanted to be able to change our prices on the fly as it seemed appropriate.

What Prices Signal

As I've told people many times, we don't know whether our prices are right, and we won't know until others start openly competing with us. True and rational prices emerge from this type of activity, rather than from the edicts of the arrogant central planners.

It is important to understand that we won't always lower our prices in response to competitors and the marketplace. If the desire for a certain procedure or price is greater than our ability to supply it, that will be a clue that our price for that service is too low. This brings to mind the old story about Ludwig von Mises at a busy restaurant. Having been told that there would be a two-hour wait, Mises said, "They should raise their prices." The price this restaurant charged was obviously not congruous with its ability to supply the customer.

We can either react emotionally to prices, or grasp the fact that prices are signals, a seemingly high price meaning that the seller has a low or comfortable inventory or service capacity. At a car dealership a sales manager once quoted me \$5,000 more than a competing dealership for the same car. He didn't want to sell that car as badly as his competitor, indicating to me that he was comfortable with his inventory or maybe even felt it was a little on the low side. He sent his message, and I sent mine. I bought from his competitor.

The importance of price transparency and the presence of a competitor cannot be overstated. Medical care in this country is characterized by a lack of price transparency and vicious government-aided attempts to limit the presence of competitors in the marketplace with legislation like CON (certificate of need).

Years ago, Medicare sent me a check for \$78 for an anesthetic I gave to a patient receiving a knee replacement. Months earlier they had sent me a \$278 check for an anesthetic I gave to a patient for a difficult six-hour open-heart surgery. They sent their message, and I received it loud and clear! I quit dealing with Medicare.

Had I continued to work at these wages, I would have sent the Medicare bureaucrats an incorrect message, one that

indicated that I was a willing participant in this exchange. Continued participation would have indicated that I had an almost infinite capacity to provide my service, a never-ending surplus of time and energy. Continuing to work at these rates would have likely sent a tempting message to cut my payment even further, in a more aggressive attempt to find that price at which I would walk away.

Many physicians continued to work at these rates and sent corresponding signals. Many if not most cardiac anesthesia services are currently subsidized by various mechanisms, the true price paid to the anesthesiologist being below the going market rate.

At the Surgery Center of Oklahoma we don't necessarily want to be the cheapest. We do want to offer the most extreme value, however. We will offer the highest quality we possibly can and be the best we can be at any given moment in time, and we want to price that service as near the market-clearing price as we believe possible.

Remember that the market-clearing price is that price at which neither surpluses nor shortages exist, theoretically representing the best win-win deal possible. This price may not be the same from month to month or even from day to day. As a healthy and competitive free pricing market emerges in medicine, this price "dance" will help ensure that patients are getting the best deal without running the risk of a shortage of physicians or facilities willing to supply the service. The resulting prices when they stabilize will more likely be within the reach of even a low-wage earner, where these prices should have been all along. The access to care that will result from this price competition will dwarf any sort of access success achieved with "universal coverage," a nightmarish utopia the Canadians and British and other "universal care" countries' citizens are experiencing.

What is a tonsillectomy worth? What is a hernia repair worth? Is it worth more if a top-tier surgeon does the procedure, or should it be the same no matter? Washington, D.C., bureaucrats and many academicians fancy themselves smart enough to answer questions like these. But according to a guiding principle of the Austrian School of Economics, called the subjective theory of value, something is worth what someone will pay for it (and what someone will accept for it). A Mercedes-Benz holds one value for an investment tycoon and another for a monk. This same luxury car has one value for the busy dealership and another for the one that is only rarely landing a sale. This is so obviously true that little else needs to be said. It follows that any individual, no matter how fatally conceited, who assigns a fixed price to a service or product, will be wrong.

How Do We Arrive at Our Prices?

So how did we decide on our initial prices? I asked the

surgeons how much they would like to be paid for the procedures you see on our website, each of them aware that if they shot too high, patients would be sent a signal, one that might run patients off. As an anesthesiologist, I basically bill for my time, so the anesthesia charges were pretty easy to figure.

The facility charges (this is where the incredible savings lie) were basically time and materials. How much time in the operating room was needed, and what supplies would be required? After adding what seemed to be an appropriate profit margin and an allowance for equipment purchases and upgrades, we had prices that were one-sixth to one-tenth of what many “not for profit” hospitals in our area were charging for the same procedures. Our price was half what Medicare paid these same hospitals (according to what I have

been told by congressional staffers) and were even less than what Medicaid pays these same hospitals, according to what reporter Jim Epstein discovered during his *Reason* magazine documentary about our facility.¹

I have been asked many times, “How did you come up with your prices?” I hope this is informative. Prices are an indispensable signal in a free market and must not be a “proprietary” secret of the AMA and the third-party payment industry.

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REFERENCE

1. Epstein J. Oklahoma doctors vs. ObamaCare. *Reason.com*, Nov 15, 2012.

New Government Warning Labels

Craig J. Cantoni

After requiring new warning labels on cigarette packaging, the federal government is expanding the idea to other items. Each of the following should have a black-box label:

- **Ballots:** The two main political parties use voting as a distraction so that the hoodlums can steal the chrome wheels from your car while you're in the polling place.
- **U.S. dollar:** Today's dollar was created out of thin air in violation of the Constitution. Such fiat money is anything but a storehouse of value, and only fools would keep their lifetime savings in such Monopoly money.
- **Welfare payments:** These checks create dependency, obesity, out-of-wedlock births, and children who are considerably more likely to commit crimes, have poor grades, drop out of school, and grow up to vote for Democrats.
- **Public school report cards:** The grades are inflated; unionized teachers are required to know progressive pedagogical nonsense but not anything about the subject matter; and high-school graduates will have to go to college for remedial education.
- **Property tax bills:** Most of the money will go to public schools, where most of it will be wasted on greedy apparatchiks and unions.
- **Bank deposit slips:** The bank shouldn't be trusted with your Monopoly money because it is part of an

unconstitutional and corrupt banking cartel controlled by the Federal Reserve.

- **Pay stubs:** Deductions for FICA taxes go to the Ponzi schemes of Social Security and Medicare.
- **Paperwork from health insurance companies and medical facilities:** High prices and Byzantine rules are results of the government's destruction of a consumer market in medical care and insurance in 1942.
- **Census forms and Equal Employment Opportunity posters:** Government racial classifications result from certain racial and ethnic groups' race-baiting and unconstitutional search for racial preferences.
- **College applications:** Ninety percent of professors are leftists who love to turn the children of the bourgeoisie into neo-Marxists who loathe capitalism, the traditional family, and the nation's founding principles.
- **Speeches by members of Congress:** Hide your children and your silverware while Congress is in session.

Unfortunately, because of the proliferation of warning labels over the decades, no one will read the new warnings and the nation will continue its rapid descent into insolvency and social upheaval.

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