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The Profit Motive in Healthcare

Deane Waldman MD, MBA

Professor Emeritus of Pediatrics, Pathology and Decision Science, University of New Mexico, Albuquerque, NM USA; and former Director of Center for Healthcare Policy, Texas Public Policy Foundation, Austin, TX USA.

*Correspondence: Deane Waldman
dw@empowerpatients.info

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Abstract

Wherever humans interact, there is profit motive. Profit is generally considered monetary, but other objects of value can be considered profit, such as power, prestige, re-election (politicians), and physical objects, viz., A Rembrandt painting or Maserati automobile. In healthcare, the "profit" that end-users (herein called We the Patients) seek is readily affordable, medically timely health care.

Given that profit motive is an inherent and therefore an unavoidable driver of human behavior, the following question is the focus of this report. Does the reward system in healthcare align with the desired outcomes?

The alignment of rewards to healthcare outcomes is evaluated within stakeholder groups: providers, healthcare facilities, big pharma, insurance, government, and We the Patients (the public).

The only stakeholder group with consistently aligned incentives is We the Patients. To make optimal use of the profit motive and thereby achieve desired healthcare (system) outcomes, behaviors of We the Patients must be rewarded. This can only be done when We the Patients have decision-making authority and are personally responsible. The way to achieve timely, affordable, quality medical care in the U.S. is called the Empower Patients Initiative, where financial and therefore medical control is restored to Americans.

Keywords: medical care, health insurance, psychic reward, Big Pharma, bureaucratic diversion, employer-sponsored health insurance, medical autonomy.

JEL: H11, I11, I18, K23

Introduction

Is the profit motive in healthcare a good thing or bad? [1] Is it harmful or beneficial to the public? Should profit-seeking should be regulated out of U.S. healthcare?

Profit can be defined as acquisition of anything of value to individuals. While profit typically is financial, it can be in other forms, viz., a physical object, an ability (physical or mental), power, or even time. At its core, profit motive is synonymous with self-interest as a driving force affecting human behavior.

Profit seeking is inherent to all human beings. There is no entity – organization, industry, government, or one-person office – without profit motive as long as humans are involved.

As healthcare is populated and run by human beings, there will always be profit motive. Whether this is beneficial or harmful, a good thing or bad, lies in whether or not the "profit" produces the desired outcome from a healthcare system: timely provision of medical care so as to maintain or restore optimal health for each person.

When incentives are aligned, they reward behaviors that produce the desired profit, viz., medical care. When there is misalignment, care-producing behaviors are either not rewarded or punished.

U.S. healthcare is failing to produce the profit desired by the public that supports the system: affordable, readily accessible and timely, high quality medical care. The incentives are misaligned for the various stakeholders.

Results

Providers

In the helping professions, particularly those who provide medical care, there are two profits: monetary and psychic.[2] The latter is the dominant one for most nurses, physicians and therapists. The psychic reward represents the highest and most desirable of Maslow's hierarchy of human needs, self-actualization. [3] The psychic reward is why trauma surgeons get out of a warm, cozy bed to operate at 3AM. As one nurse described the psychic reward, "When my babies [her patients] do well, it feeds my soul."

A provider obtains the psychic reward when he or she changes a sick or injured individual into a healthy, functional person by using his/her judgment and skills to make the best decisions for that patient. There is no psychic reward when a third party takes away a care provider's decision-making capability, viz., by preventing the doctor from choosing the proper medication or by ordering the surgeon where and when to operate, and even what operation to do. Such "responsibility without authority" is a major source of frustration among physicians. [4]

The financial reward is also misaligned as it is determined by third party, ultimately Washington, not by the provider's charge. Payments are predetermined, generally a small fraction what the provider considers the value of services rendered.

Instead of being rewarded for optimal patient outcomes, care providers are rewarded for throughput volume (meeting standards for numbers of patients per hour), filing maximal billing codes, and compliance with federal regulations and hospital guidelines. Incentives are misaligned.

When provider incentives are misaligned, wait times are excessive, service is brief and impersonal, and outcomes are suboptimal, just what Americans are experiencing from the U.S. healthcare system.

Healthcare facilities

Healthcare facilities – hospitals, clinics, out-patient treatment centers, nursing homes, etc. – are rewarded with money according to contracts, not by patient outcomes. Their behaviors focus on satisfying terms of the contract, generating revenue, and complying with federal mandates and regulations, rather than satisfying their customers: patients.

Just as with providers, profit incentives are misaligned – they reward economic efficiency and fail to reward medical effectiveness: timely, quality patient care.

Big Pharma

Pharmaceutical manufacturers such as Johnson & Johnson, Merck, Moderna, Pfizer, etc. are often lumped under the colloquial "Big Pharma."

As publicly traded, for-profit companies, Big Pharma's first responsibility is to their share-holders. They must generate financial profits to distribute as dividends, which are return-on-investment to shareholders.

Alignment of Pharma incentives with patient welfare is ambiguous. They sell drugs that are intended to improve or restore health or extend longevity such as anti-cancer drugs, new antibiotics, and clot-busting medications. They must take financial risks in Research and Development to find that small number of effective, marketable medicines among many highly expensive failures. Revenue must offset the R&D losses, or they go out of business. Their profits are evidence of aligned incentives, aligned with stockholder desires.

When federal government mandates that all Americans take an experimental drug such as COVID mRNA genetic treatment and pays multi-billions via non-competitive contracts, Big Pharma generates large profits that are misaligned with patients' preferred outcomes. Many Americans did not want the treatment but were forced by federal decrees. The drug was inappropriate for mass usage and harmful to millions. [5] When Pharma foists products on the public (by federal mandate) that are medically dangerous, that is an extreme form of incentive misalignment.

Insurance

The original purpose of insurance is to mitigate financial risk. Such risk may be a house fire, damage from tornado or flood, an auto accident, or a large, unexpected hospital bill. Premium payers join a risk pool where the insurance seller pays a predetermined amount if and when the low proba bility, infrequent event occurs.

Insurance as a third-party payer for health care started with a group of schoolteachers in Dallas, Texas, shortly after the stock market crash of 1929. [6] A monthly payment of 50 cents would guarantee a Dallas teacher up to 21 days of care at Baylor Hospital in the unlikely event they needed hospitalization. The concept began to spread but it took World War II to make third-party payment virtually the only way people received medical care.

With World War II price and wage freezes, Washington allowed employers to reward employees with something other than money in their pockets: health insurance paid by the employer, tax-advantaged to the employer. After the war, all the wage freezes were repealed but the tax-advantaged "employer-supported health insurance" benefit was preserved. [7] These monies paid directly to third-party insurance carriers represent earnings denied

to the employee. In 2025, that amount averaged $26,993. [8] For 2026, the amount of denied wages sent to insurance companies is projected to be more than $27,000 for each of 165 million American workers.

Just like Big Pharma, insurance companies' first responsibility is to acquire large revenue streams to offset large medical payouts and to produce dividends for share-holders. The incentives that govern their behavior are consistent with the goal of financial profits. As they "delay, defer, and deny" [9] authorization of payment for care, they expend less of their premium revenue, which becomes profit. The contracts signed with health plans for care of their clients (patients) provide for the cheapest drugs, low-bidding medical providers, and least expensive care facilities.

A second incentive for insurance is, similar to healthcare facilities and providers, compliance with federal rules and regulations. Noncompliance can lead to dire consequences such as loss of licensure or severe financial penalties.

Incentives for third-party (insurance) payers for health care are not only misaligned, they are perverse. When they give less care, both quantity and quality, they make more profit.

Government

Through its regulatory powers, federal government is the ultimate decision-maker in healthcare. Because third-party insurance carriers must follow federal insurance rules and regulations, Washington controls both benefits or demand in market terms and spending or supply of care. The incentives that determine politicians' regulatory decisions directly impact healthcare outcomes – both cost and access – of all Americans.

Despite the rhetoric about providing "all the care that Americans deserve" (Obama, 2009), the singular incentive that drives federal politicians' decisions, the "profit" they seek, is votes to achieve re-election. They do this by creating healthcare jobs that in turn generate grateful voters. Between 1970 and 2020, when the number of physicians increased 100 percent, the number of healthcare bureaucrats – healthcare workers who provide no care but consume "healthcare" dollars – increased by 4,400 percent. [10] Washington's massive bureaucratic apparatus consumes half of all healthcare spending, i.e., $2.45 trillion in 2024. [9] Last year, the U.S. government wasted healthcare dollars equal to the entire GDP of Brazil.

We the Patients

The one thing all people have in common, regardless of other characteristics or defining features, is the need (now or later) for medical/health care. To honor U.S. founding fathers, Americans as a group are herein called, We the Patients.

What We the Patients value, what they consider "profit," are freedom (medical autonomy), and access to affordable medical care when needed. The current system rewards neither.

Medical autonomy is the right to choose one's care. While the patient usually needs the advice of a professional, the final decision of what care a person receives, by whom, when, and at what cost is, by both custom and law, made by the patient. In healthcare today, medical autonomy has been all but suppressed. Third parties make medical decisions, for We the Patients, based on the incentives described above.

The usual market forces that drive down prices – consumers' need to economize and competition among sellers for consumer spending – are absent from the healthcare. Third parties, not consumers, are making decisions. As a result, for decades the cost of care has exceeded the rate of inflation as well as most patients' ability to pay.

The incentives of We the Patients are not misaligned – they are ineffective. As patients are not the decision-makers, their behaviors and the incentives that motivate them have been made meaningless by "micro-economic disconnection." [11] Consumers (patients) and sellers (providers) are no longer connected by the care transaction. Consumers do not pay directly for what they consume. A third party decides what the consumer will "buy." A third party, not the seller, determines the "price" the seller will be paid.

Conclusion

Profit motive is an inescapable fact of human existence. All activities that involve human beings, very much including healthcare, have self-interest as a motivating factor in human behavior.

It is not the presence of profit motive that causes healthcare system failures. Rather it is the misalignment of incentives that produce unacceptable wait times for care, death-by-queue, [12] unaffordable family medical expenses, and unsustainable national spending on the healthcare system.

As misalignment is the root cause, restoring proper alignment is the cure. When those who make financial and medical decisions are rewarded by receiving the care they need when they need it at prices they can afford, the incentives or reward structure will be aligned with the outcomes desired from the healthcare system.

There is only one stakeholder group whose incentives are consistently aligned: We the Patients. Therefore, We the Patients should be making the financial decisions. Control of spending by patients will in turn restore their medical autonomy, which at present has been coopted by the federally protected third-party payment system. [13]

The solution to dysfunction of the U.S. healthcare system, that will make care both affordable and accessible, is to deploy the profit motive via the Empower PATIENTS Initiative. [2,14] President Trump put the answer to healthcare woes in the simplest possible terms, just "give the money to the people." [15]

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