HEALTH CARE REFORM: THE RIGHT AND WRONG WAYS

by Dwight Bartlett

Right now seems to be a critical point in the debate in Washington about health care reform. There is a broad consensus that our health care "system," if you can call it that, is seriously dysfunctional. Witness the fact that more than 47 million Americans are uninsured and tens of millions more are underinsured, leading to uninsured medical expenses being the single leading cause of personal bankruptcy in America. Witness the fact that we spend about 16 percent of our Gross Domestic Product (GDP) on health expenditures, which ranges anywhere from 50 percent to 100 percent more than other economically advanced countries. Witness the fact that we get poorer results from our overly expensive health care, if our level of health is measured by standards such as life expectancy and infant mortality rates. By both measures we rank near the bottom among economically advanced countries. Just to give you one example, Japan's figures are approximately 81.6 years and 3.2 per thousand respectively, while ours are 78.4 and 6.2. Yet, Japan only spends about half as much as we do on health care as a percent of GDP.

The contributing factors to this unfortunate situation are many and varied, so health care reform efforts must be multifaceted. It is generally believed, for example, that our medical malpractice insurance system in this country encourages frivolous lawsuits, and the practice by health care providers of defensive medicine, i.e., the use of tests and procedures not indicated by the patient's condition simply to avoid the possibility of being sued for failing to consider every conceivable diagnosis, no matter how remote. A few states have adopted caps on damages for pain and suffering, which seem to help in this regard.

Another factor cited frequently for our high costs is the lack of a national electronic system of personal health care records, which health care providers can access in an effort to provide health care, which is well integrated with the total program for an individual patient. How much this would help control costs and improve outcomes is controversial, but the achievement of some benefit seems obvious by common sense.

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It is increasingly recognized by health care economists and other experts in this field that the overwhelming major contributor to the high cost of our health care is our fee-for-service form of reimbursement of health care providers.

care eligible individuals are enrolled and which is characteristic of most employer-based health insurance programs, other than Health Maintenance Organizations (HMOs), which cover the great majority of non-elderly Americans.

Fee-for-service health care provides exactly the wrong incentives to health care providers. It incentivizes them, doctors and hospitals, to provide expensive forms of health care, because that maximizes their profits. This is well documented by studies conducted at the Dartmouth Medical School by John Wennberg and Elliott Fisher, who estimated that of the two trillion dollar expenditure for health care in 2006, as much as 700 billion dollars was spent on health care that did patients no good but caused unnecessary harm.*

Often cited as examples of health care programs that produce superior results at lower costs are the Mayo Clinic and Kaiser Permanente. A government run system which also reputedly gets better results at lower costs is the Veteran's Health Administration. All of these operate on other than a fee-for-service basis, with doctors being compensated on a salaried basis and the system being reimbursed on a group capitated basis, depending on the number patients they care for. As a result, providers have an incentive to keep the population for which they are responsible as healthy as possible at as low a cost as possible, using results-oriented experience-based health care procedures.

All this sounds like a revisiting of the HMO movement, which started out so promisingly in the 1970s with leadership from the Nixon administration, but which came a cropper in the 1990s as insureds complaining about unqualified accounting types at the HMO making medical decisions. Since employers were paying most of the bills, insured employees simply wanted no limits on expensive health care.

The current danger in health care reform is that the politicians will focus on closing coverage gaps without taking measures to control costs. The consequences of that can be seen in Massachusetts, where it is estimated that the cost of health care has gone up by 30 percent since their state mandates of universal health insurance coverage have gone into effect. We desperately need to avoid repeating that mistake at the national level. Let us hope that the Washington politicians will be brought to realize what is the true root of our current and growing crisis.

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