Who killed health care?

America's $2 trillion medical problem — and the consumer-driven cure

Regina Herzlinger
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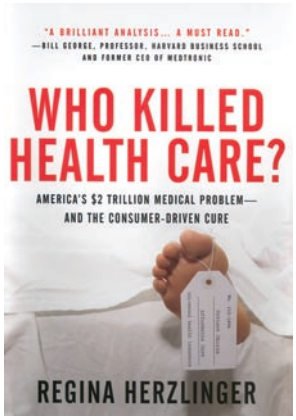

In *Who killed health care? America's $2 trillion medical problem — and the consumer-driven cure*, Harvard Business School professor and respected health care analyst Regina Herzlinger raises fundamental questions about the structure and performance of the U.S. health care system and indicts insurers, hospitals, the government, employers, and academics for "killing" health care.

Herzlinger argues that health care is dead because free market competition has been suppressed and consumers, who should be central to decision-making about their health, are excluded. The solution, proposed by Herzlinger, is "consumer-driven health care" that would serve consumer needs and preferences at lower costs.

The author criticizes health insurers for "just saying no" to provider payments, specialist referrals, and to hospital admissions, without consideration for patient welfare. General hospitals are characterized as "empire builders" that solidify their position through considerable political contributions and suppression of market competition via mergers. Due to their large size and scope, they are inefficient and put patients at risk. Employers are targeted for using employee pre-tax earnings to buy health insurance that does not satisfy consumer needs or preferences and for cost-cutting through restricting consumer choice. Congress and the executive branch are indicted for facilitating suppression of market competition. Academics are criticized for blaming health care failure on "greedy doctors" who increase their incomes by providing unneeded services. Academics are also blamed for underestimating consumer intelligence, claiming that consumers cannot interpret complex health-related information necessary for making the best health care choices. Due to positions taken by these five protagonists, inefficiencies abound in health care, making it a killer.

Herzlinger outlines how consumer-driven health care would transfer choice and purchasing power to consumers, placing them at the center of their health care decision-making. Insurers and providers would be more responsive to consumer needs and preferences; thus *demand* would change *supply*. Suggested changes to health care supply include development of health care–focused "factories" that bring specialists and generalists into integrated "stop and shop" systems of care; a system of consumer-based medical records that acts as a single source of information access for both patients and providers; publicly accessible information about health care prices and performance of providers and insurers; risk adjustments that provide insurers and providers greater payment for serving the very sick than for serving the relatively healthy; and medical technology personalized to the needs of individual patients.

Herzlinger presents the problems well, although this reader believes that doctors and American citizens should also be held responsible for tolerating the decline of health care. In a democracy, citizens should exercise their voting rights to protect and improve vital institutions such as health care.

Although consumer choice is central to consumer-driven health care, the author glosses over the fact that health care does not meet the conditions necessary for efficient consumer choice. Economic theory demonstrates that consumer choice enhances efficiency only if (a) individuals know with certainty the level of satisfaction they will obtain from a product or service, (b) they are rational, (c) they have sufficient information to make good choices (i.e., they know what choices are available and the opportunity costs of each choice); and (d) they are the best judges of their own welfare. Health care is fraught with uncertainty. There are uncertainties about incidence of disease, efficacy of treatment, care outcomes, and other variables. Furthermore, health care decisions are often made under pain, fear, and serious time constraints. Health care consumers often do not have sufficient information, and when available it is often too complex for the consumer to decipher sufficiently to make the best choices. More information would not necessarily overcome uncertainty. It is dangerous to downplay the need for proper information in making health care choices because this can lead to worse health outcomes than those observed under the current system.

Some changes suggested by the author raise serious questions. For example, as health care–focused factories scale up, what will keep them from standardization (leading to less responsiveness to every individual consumer need and preference) and from integrating to a degree where they start to resemble current general hospitals? The author suggests that the factories be of a modest scale. What is the size of that modest scale that will exploit economies of size and scope while focusing on the needs of every individual consumer? Will the suggested risk adjustments not create disincentives for well-care and disease prevention?

Despite the many questions raised about the suggested "cure" for the current health care system, this is an interesting and important book. It is a must read for anyone who is interested in improvements in efficiency, quality, and outcomes in the U.S. health care industry. At the very least, it should provoke serious thought and necessary debate on what direction U.S. health care should take.