The Uniqueness of Health Care

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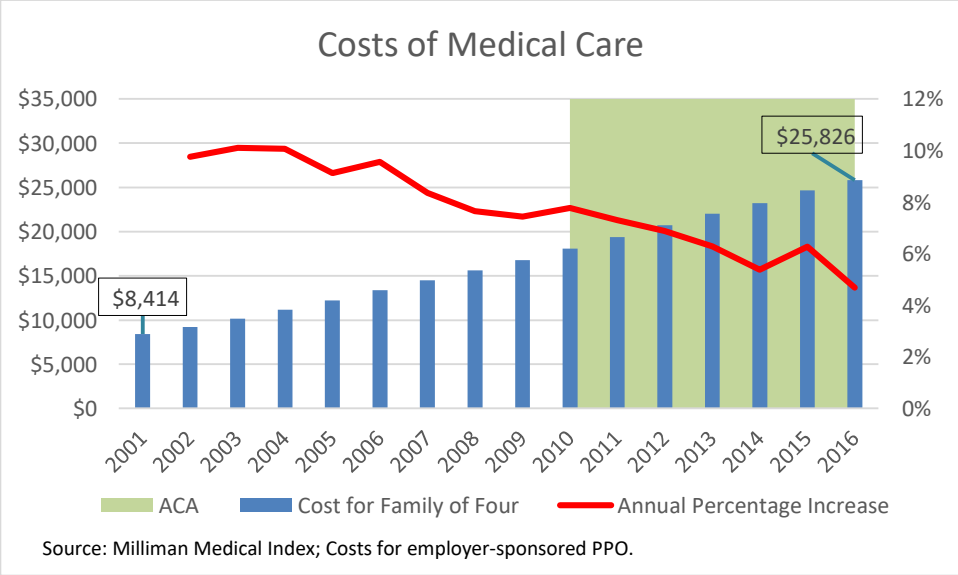
Health care is not a typical good or service, in an economic sense, which makes it a square peg in a round hole. Health care evokes strong emotions and opinions because it is a highly personal commodity that is at the core and essence of our very existence. This alone firmly places health care into a category all its own, not subject to the normal assumptions we can make about how to produce, distribute or regulate it. The various, historical attempts to treat health care as a standard economic commodity is perhaps what has created its very demise. Could a different approach be to acknowledge health care's uniqueness and to use its distinct attributes as the guiding principles for its provision?

Let us start with the basic facts. Health care is consuming 17% of U.S. gross domestic product (GDP) or $3 trillion per year. This is more than we spend on education (5.4% of GDP) and the military (4.7%) combined (World Bank). These costs are the highest in the developed world, more than double the OECD average, and yet our outcomes don't justify the costs. As the graph shows, these costs have been escalating relentlessly both before and after the signing of the Affordable Care Act (ACA) and even with the percentage declines in annual costs (red line), health care costs are more than 200% higher in 2016 than they were just 15 years ago. In fact, prior to the initiation of government into health care via Medicare and Medicaid in 1965, costs were rapidly escalating. They were increasing so quickly that the elderly and the indigent were becoming destitute trying to pay for health care while many hospitals were becoming insolvent trying to provide care for the sick and dying showing up at their emergency rooms (but unable to pay). Hospitals were, in fact, a strong lobby for Medicare and Medicaid. The moral undertone of denying care to the elderly and indigent was also a driving force, especially for a country that was prosperous and influential in the world arena.



Source: Milliman Medical Index; Costs for employer-sponsored PPO.

In addition to the moral undertones are the numerous other attributes that the economist, Kenneth Arrow, highlighted as a red flag back in a 1963 article. The demand for health care is highly unpredictable because we don't usually know when we will need it the most. In the economics vernacular, this makes health care "inelastic" meaning people will pay almost anything to obtain it when they really need it. This clouds a logical price structure. Outcomes are not guaranteed since everyone is different and you can't really return the good if you don't like the outcome. This introduces another

distortion: malpractice. The high costs of malpractice insurance that physicians have to pay get passed right back to the consumer in the form of higher premiums. Most other countries have tort limits. The supply of health care is restricted by the American Medical Association by keeping the number of medical schools and therefore, medical graduates low. Because utilization is highly variable between individuals and costs can be so high for even one health episode, there is a third-party payer system (insurance). Most would agree that insurance is necessary, yet it introduces a distortion as well. Once we pay premiums, we can consume at will. We do not pay per unit of service, often don't know what the total cost is, and therefore tend to over consume services. There is significant cost shifting in health care because anytime an individual utilizes health care services, but cannot pay, providers negotiate higher insurance premiums to recover their costs. No one would argue that technology is a bad thing, and yet, improvements in technology are incredibly costly. Tied to this is the relative ignorance non health care professionals feel in terms of when to optimally use technology or just about any health care service. This is called informational asymmetry and it makes most of us willing consumers of whatever the doctor might recommend. Given that doctors can be sued at will, and that they are often compensated by levels of patient utilization, their incentive is to provide maximum care. The U.S. also has an inverse ratio of specialists to primary care physicians and specialists tend to charge more for office visits and order fancier tests. All of these product anomalies have been driving up costs for decades; however, we now have an even greater hurdle - unhealthy lifestyles. Fully 75% of health care costs are for preventable, chronic maladies mostly tied to being overweight or obese (Centers for Disease Control). Sixty-six percent of the U.S. population is either overweight or obese. This is the elephant in the room, and it is dictating demand more so than any other factor. This attribute and the implicit uniqueness of health care does not really call for discourse on whether we should have a government-run or privately-run health care system. It calls for a paradigm shift in how we provide health education, how we alter health behavior, and how we move from a curative model to a preventive model. It calls for personal awareness and responsibility in terms of our own health care utilization. If these tenets are the foundation of a health care system, huge strides can be made in terms of quality of life, in terms of affordability and therefore, in terms of accessibility for all.

Tatiana Bailey will be presenting more about the U.S. health care system at the World Affairs Council breakfast at the Pinery on December 6th: https://csworldaffairs.org/event/global-healthcare-trends/

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