The Left Atrium

Costs and cautions in health care

The economic evolution of American health care
David Dranove
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Notwithstanding all the negative publicity in recent months about deaths in the United States from medical errors, our poor record on infant mortality rates, and our failure to rise to the top of all nations in the longevity of our population, few Americans, including physicians, choose to get their health care anywhere else. Our physicians are highly trained and skilled, the technology we apply to medical care is the envy of physicians outside the country, and the resources we expend on care exceed those of other countries by an embarrassingly wide margin. This vision of accomplishment, along with the recent success at holding down the inflation of health care costs, has led many countries, including Canada, to look to the US for lessons to apply to their own health care system. Many governments are actively considering market-based solutions to health care inflation. My message to them is simple: before you try to emulate much of what we have done, read David Dranove's sobering book.

Despite the largesse of our country's investment in health care, there is universal dissatisfaction with our health care system. Some 42 million people who are uninsured or underinsured get either no care or spotty care. Even patients who are insured under government programs can find themselves flung from one insurance company to another and from a long-trusted doctor to a stranger. Physicians are constantly grumbling about managed care bureaucracies, their need to see more and more patients in shorter time frames, and the loss of their professional autonomy. Academic medical centres that are strapped for cash because of cutbacks in income from the federal government and insurance companies are dropping valuable community programs that are not profitable; some medical centres have gone bankrupt. Vertical integration and mergers of major academic medical centres, expected in the past to help those centres survive, have often not done so, and many of these arrangements have fallen apart. Many not-for-profit health maintenance organizations have faltered, even to the extent that some have been forced into receivership. Shortened hospital stays and pre-admission workups have reduced the quality of in-hospital medical education, and no adequate substitute has been identified as yet. Needless to say, many of these problems can be traced to the failure of the market to deal adequately with health care.

Fred Sebastian

David Dranove, a professor at Northwestern University's Kellogg Graduate School of Management, has been actively studying health care markets, organization, regulation, quality, financing, competition and managed care for two decades. In this book he documents succinctly and accurately the economic and political forces that have shaped our current system. He does so with a minimum of jargon, thus making his book accessible to physicians and even the public. He starts with a look at our traditional health care system and shows how accelerating costs led to governmental intervention, and how frustrations with the lack of success of these programs ultimately led to the managed care revolution. He painstakingly elaborates on the kinds of health insurance systems that have evolved and the benefits and drawbacks of each. He tackles important issues. His analysis of the status of measuring the quality of care is scholarly and dispassionate.

Dranove's reference to Alain Enthoven as an early mentor is no small clue to his considerable initial enthusiasm for markets and managed care as a solution to the organization of our health care system. Nonetheless, he admits openly that this strong bias has subsequently wavered. As managed care has moved from theory to practice, and as the negative public and professional reaction to it has grown, Dranove has added a coating of realistic scepticism to his view of the future of managed care.

Advocates of managed care underestimated the public's persistent desire to remain with a doctor of their choice and their profoundly negative reaction to highly visible instances of denial of care. Moreover, proponents overestimated physicians' willingness to use structured algorithms and guidelines for patient care, their willingness to manage care, and their ability to restrain the use of resources. Politicians, encouraged by the remarkable reduction of health care inflation (generally attributed to managed care), assumed that they had finally found a mechanism to avoid continuous inflation in health care far out of proportion to general inflation. By the end of the century, however, there were already signs

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that the savings resulting from managed care practices accepted by physicians had run out. Physicians and their organizations were crying out for more money, academic medical centres were running deficits on operations and imploring the federal government to restore cutbacks, and health maintenance organizations were again raising their rates to fund the march of technology, the expense of caring for more and more elderly people, and the cost of pharmaceuticals. In short, managed care had failed in its current incarnation to achieve its promise.

The lesson for other countries is hardly inchoate. Market forces do work effectively for consumer products and services, but unconstrained market forces do not produce an ideal health care system. Many countries have looked toward the drastic changes in the US as a possible model for dealing with problems and defects in their own system, especially health care cost inflation. Any country interested in embarking on changes in their health care system that include elements of our recent experiment would do well to read Dranove's authoritative text. They should then proceed cautiously. Very cautiously.

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