

More Market, Less Straightjacket

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Bravo! President Bush espoused free-market principles for health care in his State of the Union speech. After Hillary Clinton's bid for a centrally controlled system, it's great to have someone in office who understands that health care, like everything else in our economy, must follow market principles. But . . . deliverance is in the details. Sadly, the president's plans fall short of a real market-based health-care system. While it liberates demand, with expanded tax-support for consumers' purchase of health care, the plan imprisons suppliers in the government's micromanagement straightjacket.

The president's plan expands the availability of high-deductible health-insurance plans, in which insurance kicks in only after consumers spend a considerable sum out of their own pockets, and health savings accounts that provide a tax-sheltered vehicle for saving needed funds, complemented by tax credits for the purchase of insurance. High-deductible plans motivate users to reduce health expenditures, typically without diminishing health status.

But how much can they really affect our system? Health care follows Pareto's Law -- 20% of the users account for 80% of the costs -- and their massive health-care expenditures will remain largely insured, no matter how high the deductible. To respond, the administration intends to subsidize plans that manage care heavily. But, what kind of competitive market features government subsidies that make one product much cheaper than the others?

And, is managed care good for the country's health? Put it this way, do you want "managed computer," "managed investments," or "managed car" insurance? Who is more capable of selecting the right computers, cars, and financial investments for you -- an anonymous third-party, who can ration your money? Or you?

From Richard Nixon's days, Republicans steadily espoused managed care as the health-care solution, steadily plumping it up with massive subsidies. The salubrious impact of managed care was exemplified by Kaiser Permanente, a vertically integrated chain of hospitals and health plans, serviced by large physician groups affiliated solely with it. Kaiser genuinely manages care, creating new ways of treating chronic diseases, for example, which it implements throughout its

massive system. But most managed care organizations are no Kaisers. They cannot afford the multibillion dollar investment the Kaiser model requires. Instead, they "manage care" by providing enrollees with a narrow network of hospitals and doctors whose prices they muscled down.

But the market rebelled. Consumers protested narrow networks, while fragmented health-care providers "merged" to counter managed care's oligopsonistic market power. This is the version of managed care the administration is backing.

Where's the beef? How will this managed care control costs and improve quality?

The rest of our economy is productive because suppliers can freely create better, cheaper products. But, currently, our brilliant health-care providers are prohibited from creating such innovations. The government not only dictates their prices but also tells them how to provide health care. Thus, when Duke Medical Center created an innovation that in one year reduced the costs of a chronic disease by more than \$8,000 per person by improving health status, it lost virtually the entire amount. Under current government-controlled pricing, providers get paid for treating the sick and lose money when they make them healthier.

A real consumer-driven health-care system would enable Americans to choose among excellent suppliers: it would liberate both consumers and providers. The Bush administration has the right idea. Market-based solutions offer the best promise for health care. But policies that create an uneven playing field, by selectively subsidizing one type of health plan, and that continue to chain our brilliant health-care providers in government's micro-managing straightjacket, fulfill nobody's idea of how a market operates.

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