Health Care Reform: A Conflict of World Views

A Central Role for Government or a Market Based Approach?

The purpose of this session is to examine the core beliefs that underlie the different approaches to health care reform and to debate the appropriateness and the expected consequences of taking actions based on those beliefs. Health care policy makers and those who would implement those policies, such as legislators, fall roughly into two camps. One camp is comprised of those who advocate a central role for the federal government to control costs, increase access and improve quality. The other camp is comprised of those who advocate a market based approach to achieve the same goals.

Advocates of a central role for government and advocates of a market driven approach both agree that everyone should have access to health care and that no one should be denied care because of lack of ability to pay. The fundamental disagreement is whether health care resources are best allocated through mechanisms put in place by the federal government or through market based mechanisms.

Those who advocate a central role for government envision a system with the government as essentially the single payer, and as such, playing a key role in deciding what health care is appropriate to provide; a system that they believe would be the most equitable in the allocation of health care resources. Those who advocate a market based approach envision a system with expanded access to private insurance with government playing a limited role similar to that played in other sectors of the economy. Decisions about what health care to provide would take place primarily between doctors and patients; a system that they believe would be more effective at allocating health care resources than a single payer system.

The policy makers who advocate a central role for the federal government have been and continue to be in the majority and have been the most influential in shaping past legislation and regulation, including the current legislation under consideration in Congress. However, in the last twenty years and in particular the last ten, the influence of those who advocate a market based approach has been increasing. Their ideas are reflected in the design of the recently introduced Medicare drug benefit. The drug benefit is a government entitlement, but it is delivered through competing private health plans. The Medicare drug benefit has lower costs, higher levels of satisfaction among seniors, and wider choice among private plans than had been projected, an outcome that advocates of the market based approach use to reinforce their arguments.

Thus, the two camps have fundamentally different world views about the ultimate design of the health care system and which approach would achieve the most equitable and effective outcomes. These different world views create major conflicts between the camps when deciding how to go about expanding access, improving quality and controlling costs. In many respects, these conflicts have contributed to the stalemate that
has occurred when attempts have been made to reform the health care system, and they are not easily resolved. The nature of these conflicts becomes apparent when trying to answer the following questions.

**Is health care a public or a private good?**

Those who advocate a central role for the federal government believe that health care is a public good, and as such, is the responsibility of the government to provide. They also believe that health care is a human right and that denial of access to health care is a violation of human rights. Advocates for a market driven approach believe that health care is a private good and is primarily the responsibility of the individual and should be provided through the private sector. Advocates of these vastly different approaches are pragmatic and recognize that both the government and the private sector have roles to play, but there are major differences over whether that role should be central or limited.

**How much should be spent on health care?**

Those who favor a central role for government use percent of GDP as the key measure to consider when deciding how much should be spent on health care. The belief is that there should be an upper limit, or cap, on the percent of GDP for health care, a belief that is consistent with the view that the system should be financed by the government, which then makes health care a budget issue. Advocates of a central role of government see “global budgeting” as the tool to be used to limit spending if the demand for health care exceeds what government determines it can afford. The task of government in these circumstances becomes how best to allocate health care spending among the competing demands in the most equitable fashion.

Advocates for a market driven system would argue that the amount spent on health care should be the sum of millions of individual decisions to buy health care, the same way that spending is determined in the rest of the economy. The upper limit of what is spent and the allocation of how it is spent should be determined by patients in consultation with their doctors about the additional health outcome that will result from an additional expenditure. This market driven approach would require greater transparency about quality and costs than is now available and would require that the patient have a meaningful personal financial stake in the outcome of the decision, which is not usually the case.

**Who should decide what health care will be provided?**

Once it has been decided that health care is a public good, largely financed by government, and that government should cap the amount spent on health care through global budgeting, it follows that the government should play a central role in deciding what health care is appropriate to provide. Otherwise, government could not carry out its task of allocating equitably the limited resources across competing demands. The underlying assumption is that capable and knowledgeable people can design a comprehensive approach to health care that will make these resource allocation decisions
in a rational manner. This underlying assumption leads to attempts to reform the entire system from the outset according to this comprehensive design.

Medicare already functions in this way, but the impact on patients is somewhat muted because of the cost shifting by providers to the private sector to compensate for being under reimbursed by the government. Certain new procedures are restricted and delayed but apparently not yet to an extent to trigger a protest. With an entire health care system operating under conditions where government plays a central role, the approaches such as those used to control Medicare spending would have to be expanded significantly. Tools and techniques, such as health benefits measured in “quality adjusted life years”, “comparative effectiveness studies”, and “cost benefit analyses”, would be brought into wider play to assist the panels and commissions that would be established to make the reimbursement and allocation decisions.

These studies, when done well and when their limitations are understood, have merit. The issue is who decides what procedures and technologies are made available based on these studies – a government panel or the doctor and patient? Market economy advocates come down on the side of the doctor and patient and see these studies as important assists to the doctor and the patient when deciding what procedures are appropriate. The underlying assumption of those who advocate a market driven approach is that the health care delivery system is far too complex for any group, no matter how knowledgeable or expert, to manage from the top down. The belief is that the sum of many, many individual doctor and patient decisions will provide a superior outcome compared to top down management. This underlying assumption leads to a more incremental approach to reform the system.

**Who should decide the price of health care?**

Those who advocate a central role for government are adamant that markets do not work in health care and that price competition does not exist. Their solution is a regime of administered prices and centrally established reimbursement rates, the approach used in Medicare. The Medicare prescription drug benefit is an anomaly in that pharmaceutical prices are not set by the government, but some members of Congress continue to introduce legislation to authorize the government to negotiate the prices directly.

The advocates for a market based approach believe that price competition exists and can be expanded. They cite the Federal Employees Health Benefits Program, which covers members of Congress and federal employees, as a successful example of market competition among health plans. Members choose a plan each year from a wide variety of competing plans that best fits their needs. Also, health plans have generated vigorous price competition among pharmaceutical companies. Congressional Budget Office studies indicate that this competition would continue to be more effective in holding down pharmaceutical prices than if the government moved to negotiate the prices directly.
How to achieve improvements in health care quality and productivity?

Advocates of a central role for government believe that improvements in health care quality can be achieved through incentives built into the reimbursement system. Various payment schemes have been proposed to reward hospitals, for example, for demonstrated improvements in quality of care. Advocates of a central role for government do not believe that patients can be relied upon to demand quality improvements because of their inability to judge quality and interpret quality data. Productivity is seldom mentioned, but a lower administrative cost of a more centrally managed health system is often cited as an advantage of a single payer approach.

Advocates of a market driven approach believe that increased competition within the health care system will drive improvements in quality and productivity and that the same approaches used in other parts of the economy for quality improvement can work in health care. In fact, some hospitals have become case studies of how to use these techniques. Advocates of a market driven approach would encourage the growth of specialty hospitals and specialty clinics, which they believe have demonstrated superior outcomes at a lower cost, to compete with integrated health care systems. They call for broader dissemination of information to patients about outcomes, quality indicators and prices to facilitate competition.

What is the role of technology?

Advocates of a central role for government believe that technology and the overuse of technology is a major cost driver in the health care system. In their view, the use of technology should be limited until studies have confirmed its cost benefit to the system and its effectiveness compared to existing procedures.

Advocates of a market based approach believe that technology has great potential to bring productivity and quality benefits to the system. They are concerned that requiring studies to justify the use of the technology would inhibit innovation and improvements in the initial versions of the technology. They point out that cell phones and computers are nothing like the products that were first introduced. The issue, as far as they are concerned, is how to capture the productivity benefits. For example, major advances in same day surgery in lower cost settings have not led to the reductions in prices that would be expected to occur due to the productivity gains made possible by medical technology. The influence of Medicare reimbursement is seen as a major inhibitor of price competition.
What are the appropriate performance metrics for the health care system?

Advocates of a central role for government criticize the efficiency and efficacy of the health care system by pointing out that the U.S. spends a higher percentage of GDP for health care but has a shorter life expectancy than other countries. Those who advocate a market driven approach point to metrics such as the superior outcomes in cancer care and cardiovascular disease in the U.S., the lack of waiting times for treatment, and the early availability of innovative medical treatments.

Assignment questions:

1. Do you believe that a market based approach can work in health care? What do you think the role of state and federal government in health care should be?
2. What actions are being taken to deal with costs and quality of health care for the people within your organization? How might these actions differ depending on whether the federal government plays a central role or the system is market driven?
3. What outcomes would you predict for health systems designed according to these different approaches? What might be done to manage the downsides of these approaches?
4. What steps do you think should be taken now to reform the U.S. health care system?

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