

THE GOVERNMENT WE DESERVE - *Gene Steuerle*

Dealing with the Original Sin Driving Health Costs

In budget policy, myths are progress's number one enemy. One silly fiction now making the rounds is that we don't know how to judge the relative value of different types of health care, so we can't control health care costs—at least not for now. Like many myths, this one contains an element of truth—there is a lot we don't know. So what? It's still a myth that we know too little to act.

Suppose you are married and you and your spouse are debating how your daughter Daisy should spend her time. You believe that she should be studying, practicing piano, and avoiding TV. Your spouse believes that educational TV and organized play groups are the way to go. Meanwhile, the kid plays in traffic every day.

Every day, new opportunities arise for the child, you learn more, and she reveals new capabilities and limitations. A headlined study indicates that kids are getting fat in idle gear, another that watching Cookie Monster addicts them to sugar. This new knowledge clarifies your choices, but it doesn't improve your ability to make decisions. You disagree as much as ever, and there Daisy is—still playing in the street.

What's wrong with this picture, anyway?

Why can't these parents realize that making decisions requires neither perfect agreement nor perfect information? And what makes them think that they aren't "deciding"—albeit by default—to let Daisy play in traffic? Clearly, rectifying their original sin by getting the kid out of the street should be the parents' first move.

U.S.-style health care has its own original sin. Insurance, whether public and private, fixes it so my doctor and I bargain over what you will pay for each health benefit I receive. Maybe you pay because we're in the same health plan or maybe because you're a taxpayer. Either way, you'll pay if I demand more, if my doctor decides I need more tests, if she refers me to other providers, or if I need specialists' help.

If something valuable costs little or nothing, demand is potentially unlimited. Close to unlimited demand for health care means it absorbs ever-rising shares of national income. And that means that health reform will ultimately fail unless I can no longer freely shift costs to you and the income of providers, insurers, and intermediaries no longer are determined largely by how many things they do, not their value.

Even if this original sin in health care didn't relentlessly drive health costs up, it still distorts health care spending itself. Research on chronic care trumps research on cures because cures are often less profitable to drug companies. Expensive end-of-life care, no matter that it is often of limited value and sometimes involves needless pain, prevails over preventive health care, some forms of which don't even qualify for health care subsidies.

Reform doesn't end debate. If health insurance costs aren't allowed to spiral out of control, then someone must decide that some prices are too high, that some services are too costly, and that one provider is too expensive relative to another.

But who? Here we act like the parents of the child playing in the street. Some of us don't want government to decide. After all, how can it know which new technology to bet on or what is best for each person?

Some of us don't think that individuals should or could decide either. How can we non-experts pick the right medical care—especially while under the scalpel?

Some of us don't trust intermediaries and providers to live with a fixed pot of money. Hollywood tells us that health maintenance organizations create greedy physicians, while insurers in that world deny us treatment just to make a buck.

But these issues aren't insurmountable. Government, providers, intermediaries, and individuals, at least at time of insurance purchase, can all be made to face up more to the cost side of the health care equation. Every day we wait to act, perverse incentives undermine health care by driving employers and individuals out of the market for insurance and chew up dollars that could be spent on other societal necessities.

Before darling Daisy gets maimed or killed, we need to return decisionmaking to every part of the health care system, from government to individual to providers to intermediaries. Just because hot debates will ensue doesn't mean that we don't know what to do.

See Eugene Steuerle and Randall Bovbjerg, "Health and Budget Reform as Handmaidens", in the May/June issue of *Health Affairs*.