INTRODUCTION

Health and Economics

> The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions.
>
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> Introduction to the
> *Cambridge Economic Handbooks*

The problems are all around us: a mother searching frantically for someone to see her sick child; a crippling disease that puts a family hopelessly in debt; a tenfold increase in deaths from emphysema * since 1955; a doubling of Blue Cross rates in just a few years. The list could be extended almost without limit.

If the problems are numerous and varied, so are the proposed solutions. National health insurance, health maintenance organizations, public utility regulation of hospitals, expansion of medical schools, stricter control of drugs—these are some of the panaceas that have been offered to meet the "crisis" in health care.

Amid the emotion-laden debates that have surrounded these topics, it is not easy for the concerned layman, government official, businessman, student, labor leader, or even health professional to define the problems, acquire the necessary facts, and understand the critical individual and social choices that must be made.

To assist in this process is the primary purpose of this book. In it I try to distill analyses and conclusions based on my research in health services over the past decade, my experience on a medical school faculty, first-

* Chronic obstructive disease of the lung.

hand observation of many innovative medical care organizations, and discussions with leading professionals in medicine, hospital administration, the drug industry, public health, and related fields. Most important, this book approaches the problems of health and medical care from a specific point of view—that of the economist.

The economic point of view is rooted in three fundamental observations about the world. The first is that resources are scarce in relation to human wants. It is hardly news that we cannot all have everything that we would like to have, but it is worth emphasizing that this basic human condition is not to be attributed to "the system," or to some conspiracy, but to the parsimony of nature in providing mankind with the resources needed to satisfy human wants. That inefficiency and waste exist in the economy cannot be denied. That some resources are underutilized is clear every time the unemployment figures are announced. That the resources devoted to war could be used to satisfy other wants is self-evident. The fundamental fact remains, however, that even if all these imperfections were eliminated, total output would still fall far short of the amount people would like to have. Resources would still be scarce in the sense that choices would still have to be made. Not only is this true now, but it will continue to be true in the foreseeable future. Some advances in technology (e.g., automated laboratories) make it possible to carry out current activities with fewer resources, but others open up new demands (e.g., for renal dialysis * or organ transplants) that put further strains on resources. Moreover, our *time,* the ultimate scarce resource, becomes more valuable the more productive we become.

The second observation is that resources have alternative uses. Society's human, natural, and man-made resources can, in most instances, be used to satisfy many different kinds of wants. If we want more physicians, we must be prepared to accept fewer scientists, or teachers, or judges. If we want more hospitals, we can get them only at the expense of more housing, or factories, or something else that could use the same land, capital, and labor.

Finally, economists note that people do indeed have different wants, and that there is significant variation in the relative importance that people attach to them. The oft-heard statement, "Health is the most important goal," does not accurately describe human behavior. Everyday in manifold ways (such as overeating or smoking) we make choices that af-

* A machine process that cleans the patient's blood of the waste chemicals that his nonfunctioning kidneys are unable to remove.

fect our health, and it is clear that we frequently place a higher value on satisfying other wants.

Given these three conditions, the basic economic problem is how to allocate scarce resources so as to best satisfy human wants. This point of view may be contrasted with two others that are frequently encountered. They are the *romantic* and the *monotechnic*. The romantic point of view fails to recognize the scarcity of resources relative to wants. The fact that we are constantly being confronted with the need to choose is attributed to capitalism, communism, advertising, the unions, war, unemployment, or any other convenient scapegoat. Because *some* of the barriers to greater output and want satisfaction are clearly man-made, the romantic is misled into confusing the real world with the Garden of Eden. Because it denies the *inevitability* of choice, the romantic point of view is impotent to deal with the basic economic problems that face every society. Occasionally, the romantic point of view is reinforced by authoritarian distinctions regarding what people "need" or "should have." Confronted with an obvious imbalance between people's desires and the available resources, the romantic-authoritarian response may be to categorize some desires as "unnecessary" or "inappropriate," thus protecting the illusion that no scarcity exists.

The monotechnic point of view, frequently found among physicians, engineers, and others trained in the application of a particular technology, is quite different. Its principal limitation is that it fails to recognize the multiplicity of human wants and the diversity of individual preferences. Every problem involving the use of scarce resources has its technological aspects, and the contribution of those skilled in that technology is essential to finding solutions. The solution that is optimal to the engineer or physician, however, may frequently not be optimal for society as a whole because it requires resources that society would rather use for other purposes. The desire of the engineer to build the best bridge or of the physician to practice in the best-equipped hospital is understandable. But to the extent that the monotechnic person fails to recognize the claims of competing wants or the divergence of his priorities from those of other people, his advice is likely to be a poor guide to social policy.

The basic plan of this book is straightforward. Thus, the first chapter presents from an economic point of view the nation's major health care problems: high and rapidly rising costs, inequality and difficulties of access, and large disparities in health levels within the United States and between the United States and other countries. The discussion of these

problems, and the subsequent analysis of the choices we must make, set the stage for a few central themes that run throughout the book.

The first theme is that the connection between health and medical care is not nearly as direct or immediate as most discussions would have us believe. True, advances in medical science, particularly the development of antiinfectious drugs in the 1930s, '40s, and '50s, did much to reduce morbidity and mortality. Today, however, differences in health levels between the United States and other developed countries or among populations in the United States are not primarily related to differences in the quantity or quality of medical care. Rather, they are attributable to genetic and environmental factors and to personal behavior. Furthermore, except for the very poor, health in developed countries no longer correlates with per capita income. Indeed, higher income often seems to do as much harm as good to health, so that differences in diet, smoking, exercise, automobile driving and other manifestations of "life-style" have emerged as the major determinants of health. Chapter 2 develops this theme in some detail.

Although it is the patient rather than the physician who has the major influence on his health, the opposite is true regarding the cost of medical care. As we whall see in Chapter 3, it is the physician who, as "captain of the team," makes the key decisions (regarding hospitalization, surgery, prescriptions, tests, and X rays) that account for the bulk of medical care costs. Many of these decisions are not rigidly determined by "medical necessity," and, depending upon how medical care is paid for, utilization and costs can vary greatly. This theme is further elaborated in the chapters on hospitals (4), drugs (5), and medical care finance (6).

The relative unimportance of the physician in health and his great importance with respect to cost lead us naturally to a third theme—the folly of trying to meet the problem of access by training more M.D. specialists and subspecialists. The access problem involves mostly primary care * and emergency care—and could frequently be met with physicians' assistants, nurse clinicians, and other kinds of health professionals. The "doctor shortage" is far from universal, and in some specialties, such as surgery, there is actually a surplus. Furthermore, such surpluses, rather than reducing costs, actually raise them (see Chapter 3).

A fourth theme, concerning the payment for medical care (Chapter 6), is that there is no magic formula which can transfer the cost from individ-

* The care given by practitioners who agree to serve as the first point of contact for the patient who needs or thinks he needs health services. It typically deals with the more common and relatively uncomplicated types of health problems.

uals to government or business. If the American people want more medical care, they are going to have to pay for it through fees, insurance premiums, taxes, or, if the taxes are levied on business, higher prices. The choice of payment mechanism is not irrelevant, however, because of its implications for the poor, and its implications for the total cost of care.

The most central theme of the book is the necessity of choice at both the individual and social levels. We cannot have all the health or all the medical care that we would like to have. "Highest quality care for all" is "pie in the sky." We have to choose. Furthermore, while economics can help us to make choices more rationally and to use resources more efficiently, it cannot provide the ethics and the value judgments that must guide our decisions. In particular, economics cannot tell us how much equality or inequality we should have in our society (Chapters 1, 6, and the Conclusion).

A few words about what this book is *not* are also in order. Although I am a specialist in health economics, this book is not written for my fellow specialists. I have not attempted to fill in all the details or to argue exhaustively in support of every conclusion. I have tried very hard to get the main points right; indeed, to help the reader realize what the main points are. In a world that is becoming increasingly specialized, it is important to try to take a look at the "big picture," to reach an audience which, if not large, is certainly influential.

This is not an "angry" book; neither is it a defense of the status quo. Surely there is much in the American health care scene to criticize, much that ought to be changed. But if the change is to be for the better, it should be based on an understanding of why things are the way they are. Anger often gets in the way of understanding. As Gordon McLachlan, a leading British health care expert, has written, "One of the major policy requirements for most Western societies today is to eschew the drama for awhile, and examine critically with scientific techniques the dogmas and cliches with which the policy-making for medical care has been encumbered." [1]

This book is not a directory of villains. It is simply not true that you can always recognize the "bad guys" by their white coats. Most health care problems are complex, and, except for my desire to avoid being too technical, the complexities are not evaded. Few simple solutions are presented, because, in my view, few exist. Some health care problems defy "solution." At most one can hope for understanding, adjustment, amelioration.

Although I have tried to avoid polemics, I have not tried to conceal my

opinions or to present a balanced point of view on every issue. Other observers—indeed, other economists—may well reach conclusions different from mine. Some of the data are certainly open to alternative interpretations. More important, value judgments undoubtedly differ. My greatest hope is not that readers will uncritically accept all my conclusions, but that this book will help them reach their own with a firmer command of the facts and a clearer understanding of the relationships among health, economics, and social choice.