

Why Real Healthcare Reform Won't Happen: Reflections on a Forum

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The two-day forum titled *My Health is Your Business: Making Healthcare Work in North Carolina* was held this week at the McKimmon Conference and Training Center in Raleigh, NC. It presented a truly world class panel of governors, congressmen, senior cabinet level health officials, university chancellors, medical school deans, CEOs of Fortune 500 firms, and even an ex-President of the United States.

The audience, about a thousand strong, was equally impressive – national and state politicians, university professors, physicians, health policy makers, hospital directors, lobbyists, senior insurance executives, and corporate presidents. It seemed like the best and the brightest were there, all interested in the healthcare of North Carolina.

The forum started off as expected. We were told that forty-five million Americans are uninsured, and it's getting worse. Premiums and co-payments are rising at an alarming rate, three times faster than wages over the last four years. Health benefits are being slashed. Throughout the forum, a whole catalog of depressing statistics was cited, recited and cited again.

Sixteen percent of our gross domestic product goes to health care, larger than any other developed country. Drug costs continue to outpace inflation. There are large racial disparities. Forget about social security, it's Medicare, Medicaid and health programs for children that are the real crises. The healthcare system is broken we were told, but we care about our citizens of North Carolina, so let's fix it. The stage was set.

The featured speaker on the first day was the former Speaker of the House, Newt

Gingrich. He talked about innovation and information. There is simply no excuse for the human suffering and social cost of lost records, wrongly prescribed drugs, and multiple billings. Gingrich was pointed and blunt in his recommendations. Healthcare needs to be transformed. It must adopt basic business principles, modern information technology, and a more market based orientation.

Soon afterwards Professor Michael Porter of the Harvard Business School was even more aggressive in calling for change. He noted that unlike all other products and services, where prices decrease and quality gets better over time, the healthcare industry is rapidly moving in the opposite direction.

As the world's leading authority on the economics of industry behavior, Porter knows when there is something fundamentally wrong. He argued that the healthcare industry is currently playing a zero-sum game, with providers, insurers, and employers simply pushing costs back and forth without creating any value. It is, as Porter notes, a dysfunctional economic system.

We need to radically shift the healthcare industry structure to a "positive-sum" game. Porter offered some ideas -- measure the true value to the patient, let the patients know which providers are doing a better job and at what cost, enforce anti-trust rules in health care, allow greater hospital specialization, let the patients shop around as informed rational consumers, require citizens to buy health insurance, and package treatments and billing around clusters of procedures rather than the current, highly fragmented system.

Fundamental structural and technological change -- I was really excited. It makes absolute sense. If you want to

change an industry's bad behaviors and non-social outcomes, make sure they're playing the right game. Get the correct rules and people will play correctly. It was exactly what the forum was supposed to address.

But something just didn't feel right. I looked around the audience as Porter was speaking. The communal body language spoke volumes. I was surrounded by concerned looks, sounds of low grumbling, and a thousand heads quietly shaking in disagreement.

Sure the audience was most cordial and applauded, but then it hit me. Nobody in the audience really had any stake in changing the system.

Both Gingrich's and Porter's recommendations shift the economic power to the patient. They recognize that healthcare is like any industry – some service providers are better than others, the customer should have full price and quality information, efficiencies occur from institutional specialization, entry barriers can be reduced thus increasing the supply of critical inputs, and the incentives for adopting new systems and technologies should be market-based.

Gingrich's and Porter's recommendations focus on adding value to the production and delivery of healthcare while reducing the barriers to cost reductions. Their recommendations would restructure the healthcare industry away from the traditional players. It strips power from the currently favored healthcare institutions, and gives it back to the patient and consumer – what a radical idea.

Physicians, however, really don't want a structural change. According to *Medical Economics* the average physician in the South makes well over \$200,000 per year in take-home compensation, and that is AFTER malpractice insurance. Those in medical groups have average salaries over \$300,000. Many specialties make a lot more. And, on the average, physician income is still going up a little faster than inflation.

Honestly, why would physicians desire more competition, or let patients discover who was better at medicine? They have it made under the current system.

Hospitals certainly don't want more competition from smaller specialized surgical outpatient facilities. They're huge and powerful. They fight competition at every turn.

What about the myriad of clinics and outreach programs serving our underprivileged populations? They survive on subsidies that flow from the current system. They just need more, a lot more. Competition confuses the issue.

Insurance companies don't want much change either. Basically, they pool, buy, and sell risk. If one changes the structural rules, they may have to learn new skills. What if they also had to manage other types of healthcare information and technologies?

And then there are the Schools, Departments and Institutes of Public and Health Policy. They are crammed with professors, data bases, research facilities, and graduate students. It is a virtual growth industry, with hundreds of policy papers and articles being written each year.

In fact, it's interesting to note that healthcare is the only area where a massive policy generating bureaucracy is built around just one economic sector – and we're not even talking about the medical, dental, and nursing schools that actually train the providers. What would happen to these powerful and highly funded healthcare policy institutions if the economics of healthcare became lean, mean and market oriented?

Our State and National politicians really appear stuck. In spite of their sensitive and passionate appeals, politicians are pretty nervous about radical change. That would require fighting physicians, hospitals, clinics, health policy institutes, and insurance companies. That would take guts, and besides they live in the world of entitlements.

The Healthcare Forum soon forgot Michael Porter and Newt Gingrich. Their

suggestions were erased from the communal memory, never to be seriously mentioned again during the two-day program.

Instead, the discussions quickly turned to thoughts of reinsurance programs and cooperative insurance purchasing pools. Executives proudly talked about their corporate wellness programs and new health consciousness. Working group sessions focused on subsidies for the uninsured, new programs for low income parents, and healthcare portals for children. But it struck me that these were only short-term patches -- colorful and sensitive sounding band aids that only tweak the obviously bankrupt healthcare system.

And then it happened. In one working group late in the afternoon, an audience member raised the question about revenues. How are we going to pay for these "patches" and "band aids"? We need more revenues.

I could feel the tension building. And then he stated the unmentionable - we need to raise taxes. The room literally exploded with riotous applause and cheers. It was finally out. He said it again, this time louder and with more authority.

Now the panel and audience could freely talk about it without feeling guilty. Time and time again, on both days, it was repeated -- the healthcare system needs more revenues. Companies need to pay more. The Federal government should provide more entitlements, loans, and grants. And of course, how could the White House be so "cruel" to not provide more money for healthcare in its proposed budget. More revenue is needed!

The panel and audience responses were, I guess, understandable. Asking healthcare insiders to create an innovative solution is like asking the old Swiss mechanical clockmaker to invent the digital, quartz-powered electronic watch. It's not going to happen. He's just going to wind the spring a little tighter.

Does a market based healthcare delivery system work? Of course it does. Over the last decade the corrective laser eye surgery field has been a great case study.

Competition between practices is polite but intense, even in relatively small communities. Corrective eye surgeons are highly specialized, many having performed the various procedures thousands of times. Like any business, they have found their peak level of efficiency. Their practice staffs are organized, coordinated and managed as highly tuned business units.

Patients make informed choices. And guess what? Prices and costs for corrective eye surgery have tumbled over the past five years. Quality has increased dramatically, and new technologies and procedures are adopted faster than in any other field of medicine. And according to medical salary surveys, ophthalmologists still make a pretty good living.

What can North Carolina do? This is what I took away from the Health Forum.

First, for any community larger than 25,000 immediately break apart the price gouging medical provider monopolies -- we do have antitrust laws, enforce them with a passion.

Second, any public university campus that has a graduate biology or chemistry program should immediately start a medical school and start producing doctors. Prices are a function of supply and demand, we need more supply. Medical schools do not need to be the huge white elephants they are today. We have Schools of Education everywhere, why not Medical Schools. Like new teachers, medical students get most of the training working with local providers anyway.

Third, eliminate the huge and multiple barriers to entry. Physicians should be able to form partnership with non-physicians. Practices should be allowed to form around bundles of procedures, not around specialties. No other industry has entry barriers as high as the health industry. Yet the vast majority of these entry barriers are simply trade restraints that ultimately results in higher prices to the consumer while insulating the industry.

Fourth, require all individual health information, billing, and medical records

throughout the State to be digitized, and instantly accessible between all providers. In addition, the individual patient should have complete access. Stop the nonsense about physicians and providers owning the records.

Fifth, as Michael Porter argued, immediately establish meaningful performance measures for providers, and then publish that data. Let the consumer make rational decisions – that requires information.

Sixth, like automobile insurance, every North Carolina citizen should be required to directly buy health coverage. Make sure the tax incentives are structured properly, but get the employer out of the health care cycle. People that can't afford the insurance should be directly subsidized.

And finally, every politician should read Newt Gingrich's and Michael Porter's books on real reform for the U.S. healthcare system.

Will these, or similar recommendations, alleviate the Healthcare crises in North Carolina? Probably overnight.

Will these, or similar recommendations, ever be implemented? Not in my lifetime.

Many kudos to Governor Hunt and the *Institute for Emerging Issues* at North Carolina State University for organizing the Health Forum. It was eye-opening and remarkably informative to say the least.

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