

# Getting It Right on Value and Health Care

David Gratzer, MD  
Manhattan Institute

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I am honored to testify today in these hearings on “Getting Better Value in Health Care” before the Committee on the Budget. My name is David Gratzner. I am a physician and a senior fellow at the Manhattan Institute in New York. The views I present are my own and do not necessarily represent those of the Manhattan Institute.

Before speaking directly to the topic at hand, I wish to put forward an important anecdote. The daughter of a friend of my family will start elementary school in the fall. Of course, there doesn’t seem much remarkable about the above statement – millions of children across the United States are starting grade 1 in a couple of months. But my friend’s daughter is a cancer survivor. Just a couple of years ago, she was diagnosed with leukemia. After a series of treatments, however, she’s fine. Actually, she’s more than fine. She’s bright, energetic, full of life. And why shouldn’t she be?

But not that long ago, of course, a diagnosis of childhood leukemia was a death sentence. Today, the vast majority of children under the age of 12 with this illness are cured. That’s not to suggest that life isn’t without complications – recent studies peg their SAT scores at lower than average for their age cohort – but these challenges seem minor compared to battling cancer.

We’re talking today about “getting better value in health care.” At a time when health costs are spiraling up, it would be difficult to think of a more timely or relevant topic. But as we consider what’s wrong with American health care and what’s to do, it’s important to remember what’s right. People like my friend’s daughter get excellent health care.

Before discussing better value, we should note our values in making it possible for people like my friend’s daughter to thrive: (1) American health care is built on the

doctor-patient relationship; (2) health care isn't just about dollars and cents, but about improving lives; (3) the best way of saving money is to keep people out of the health care system by keeping them healthy in the first place.

We live in challenging times. My co-witness Peter Orszag provided macro-numbers pointing out the high cost of health care. Let me bring things back to the household level: Median family income has dropped by a thousand dollars a year every year since the beginning of the decade because of rising health costs.

Why? The central problem is the *way* Americans pay for their care. Rather than paying directly, most people get their health insurance from their employer (or the parent's or spouse's employer). Someone else foots the bill. This odd financing arrangement developed because of World War II wage controls. Employers began to provide health benefits as a disguised form of income, and their incentive to do so only increased when the IRS ruled that, unlike income, these employer-provided benefits would not be taxed.

The resulting accidental system is wasteful and bureaucratic. With Americans paying directly just 13 cents for every health dollar they spend, there is much incentive to spend first, and ask questions later. Health managers, meanwhile, create bureaucratic hurdles in an attempt to constrain patient choice (and thus costs). During the 1990s-heyday of managed care, for instance, HMOs attempted to dictate whether and when their patients were tested. HMOs have fallen away – the economic problem they attempted to address continues.

There is hope: the *Miami Herald* ran a story on a Fort Lauderdale woman who shopped around for physiotherapy – and saved herself a thousand dollars a session.

Obviously, not every health service can be “shopped for.” That said, there are some basic steps that we should take with health care to make it easier for patients and providers to seek out excellence and value:

### Moving Decisions Closer to Families

Innovative health insurance products like health savings accounts encourage Americans to think more about the financial consequences (and the value) of the health services they receive. Medicaid experiments in South Carolina and Florida also attempt to reward better decisions.

### Transparency

For practically everything other than health care, Americans are able to access good pricing information before making a decision. That’s not true with health care. HHS has started to reveal more information – an important if small step. The federal government should make its pricing information available and encourage hospitals, clinics, and doctors to do the same.

### Better Information on Quality

While some aspects of health care remain difficult to measure, surgical outcomes, complication rates, and a raft of other information is available – except to patients. Ultimately, better quality information should be developed, which probably will come from both public sector sources (e.g., the New York State report cards on cardiac surgery) and private sources (e.g., the Leapfrog Group).

### More Competition and Choice

For 60 years, the federal and state governments have heavily regulated health care. The end result is that patients are deprived of choice, innovation suffers and costs ultimately rise. New regulations ought to be carefully considered in terms of their impact on choice; existing regulations should be reviewed.

Some have suggested that a centralized board should oversee health-care decisions. While the idea is tempting – who wouldn't want a defining authority to push America to better value in health care? – the international results are at best mixed. The euphemistically named NICE in Britain, as an example, is slow to approve drugs for funding (often taking up to 2 years) and tremendously biased against new or cutting-edge cancer treatments, which partially explains the poor outcomes found in that country.

American medicine has never been better. American health care, though, is at a cross-roads. Some see utility in pushing down the path to greater government involvement. In five-sixth of the economy, however, we value individual choice, competition, and responsibility. The prescription for American health care is thus clear.