Doing Better with What We Have – Key to Successful Reform

Waste is Silver Lining in Black Economic Cloud

BY JEFFREY C. BAUER, Ph.D.
Dr. Bauer, medical economist and health futurist, is a Chicago-based partner in management consulting for Affiliated Computer Services-HealthCare Solutions.

Health care reform was expected to be one of the three issues that would determine the outcome of the 2008 U.S. presidential election. Instead, by the time all votes were cast, all three items on the original list were replaced by a singular focus on the economic crisis. The speed and scope of financial collapse caught almost everyone by surprise, and efforts to restore normal economic activity will undoubtedly preoccupy politicians and policymakers for the next few years. Indeed, the economic problem is so big that prospects for reform in any other area in the United States are likely to be defined by their impact on economic stabilization.

Medical care is one of the largest sectors of the American economy, so it cannot and will not be ignored as the economy's problems are addressed. Many millions of Americans will lose their health plans as employers cut jobs and employee benefits. Providers' revenues will decline as unemployment rises, threatening the survival of more than a few hospitals and health systems. A strong multiplier effect will challenge the conventional wisdom that the health sector is immune to economic downturns.

The net result of all the adverse economic forces will be hard times on both the supply and demand sides of the medical marketplace. The 2008 presidential candidates did not foresee this looming economic disaster when they prepared and promoted their health reform proposals. They quibbled, for the most part, about the best way to extend health insurance to more Americans. Their proposals to expand access implicitly assumed continuation of a strong economy.

Consequently, post-election analysis of the candidates' reform proposals is probably irrelevant, given that economic circumstances are now different from those that prevailed when the plans were made. On the other hand, health care is arguably an essential foundation of a civilized society, one that cannot be removed from discussion of economic turnaround. Restoring the health of the American economy requires fixing the health sector. The medical sector must be reformed because the United States cannot afford to keep increasing the portion of gross domestic product dedicated to health care, but this critical transformation must be aligned with the broader context of economic reform. A 20th-century health system will not work well in the new and different economy of the 21st century.

What Politicians Are Telling Us

The campaign promises from the 2008 presidential election were essentially identical to those made throughout the 1980s and 1990s: lower costs, higher quality and more access. No candidate has ever moved in refreshingly new and bold directions, such as proposing to create the world's healthiest country. The only differences between candidates' health reform plans for several decades have been the specific policies that would presumably control costs and improve quality and access. The approaches to reform range from incentives at one extreme to mandates at the other (that is, carrots to sticks). The costs of implementation are at best "guesstimates" based on optimistic and generally untested assumptions.

History explains why we do not know if the candidates' plans would work. No presidential

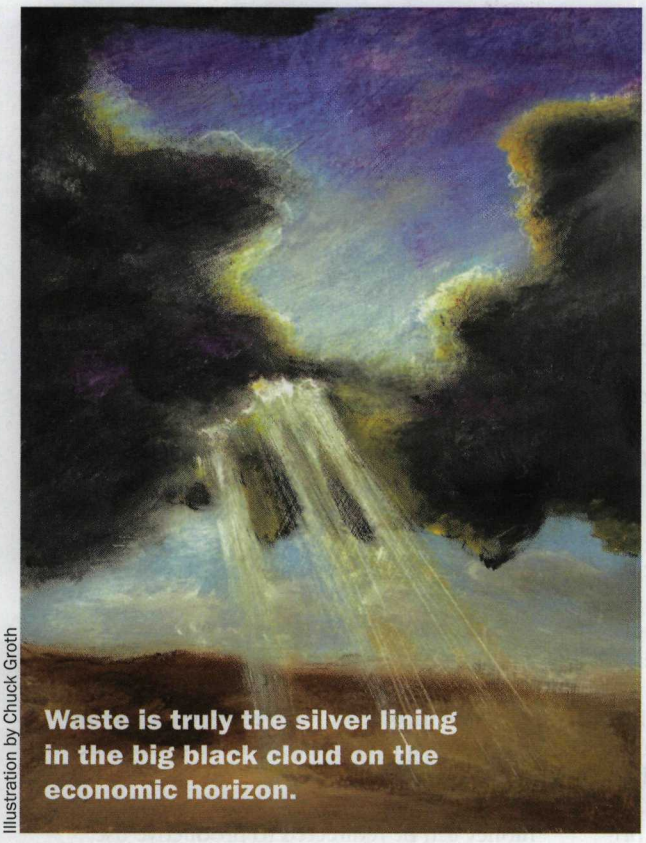

Illustration by Chuck Groth

Waste is truly the silver lining in the big black cloud on the economic horizon.

candidate's proposal for health reform has ever been implemented in the United States. (Lyndon Johnson and Richard Nixon both made major changes in health care, but their programs were proposed and implemented after each became president.) At best, campaign promises set the stage for subsequent debate in Congress, the only branch of the federal government that can make or change laws. Presidential candidates were deceiving voters when the say that they will change health care if elected. In reality, only legislators have this power.

Presidential campaign promises for health reform are equally misleading in three distinct ways:

1) Expanding the number of Americans with health insurance does not mean that more people will have access to health care. The supply of medical services in the United States has almost no relationship with the demand for them. Plans to increase demand need to be accompanied by coordinated plans to increase supply in the absence of excess capacity (i.e., a surplus of health facilities and professionals). The current shortage of health professionals will lead to rising prices and longer waits for care if demand is increased and supply is not. The candidates' health reform proposals in 2008 did not address the critical issue of supply.

2) Even if the reform proposals had a mechanism to keep supply and demand in balance, having access to health professionals does not guarantee that patients will get the care they need. Careful studies by the Rand Corporation, for example, suggest that patients with access to health care receive only about half the care that should be delivered to them.[1] Other analyses suggest that many of the services actually received are medically unnecessary or even harmful.[2] In other words, Americans with health insurance receive too little appropriate care and a substantial quantity of inappropriate care. Politicians will not touch this problem with a pole of any length, but resolving it is a precondition of meaningful reform.

3) Politicians do people a disservice when they promise desired improvements in cost, quality *and* access. Improvements in more than one variable are theoretically possible when resources are unlimited, but only one variable can be optimized when resources are limited – the reality now imposed by the worst economic situation in nearly a century. Health care today is a sector that cannot count on getting more resources under current and foreseeable economic circumstances. Economic analysis clearly demonstrates that, when resources are limited, trade-offs must be made. Further, the economic model of constrained optimization suggests that finding a solution requires developing a national consensus on which variable to optimize and what limits to establish for other variables in the system. Without exception, our final candidates for president have always avoided reform proposals that force voters to focus on making trade-offs.

What Politicians Aren't Telling Us

The economic outlook for the next few years offers no promise of net new funds for health care (or any other government program except economic recovery, for that matter). The candidates in the 2008 presidential election indirectly acknowledged this reality by noting that a substantial portion of the costs of their health reform

plans would need to be covered by technology-based savings in existing programs. However, studies conducted by non-partisan experts consistently estimated net new costs of hundreds of billions of dollars during a 10-year period for both camps' proposals, far more than any savings that could be produced from technology.

Finding additional funds for health care reform without an economic downturn would have been extremely difficult. Finding new money with today's accelerating economic crisis is nearly impossible. Tax revenues will likely fall for several years, forcing the federal government to borrow unprecedented sums just to cover the projected budget deficit of $500 billion, along with the economic recovery packages totaling another $1 trillion in 2008 alone.

The status quo is not good, but the outcome of reform based on the current proposals might be really bad.

Political debate during the 2008 election failed to address a disquieting parallel between our seriously troubled economy and the latest health reform proposals. The economic disaster of 2008 is deeply rooted in government-sanctioned, private-sector programs to expand the economy by reducing financial barriers to consumption (e.g., subprime lending). People were able to buy houses and automobiles they could no longer afford after interest rates and gas prices inevitably increased. Trying to help the many victims of the resulting disaster is one of the hardest challenges ever faced in the United States. Basic concepts of social justice are truly in play.

Health care will not be exempt from a similar outcome if uninsured Americans are encouraged (Republican plan) or compelled (Democratic plan) to buy health insurance. In the likely event that universal access would be accomplished with "basic" high-deductible health plans, the economic implications are scary because consumers do not have money to pay an increasing share of rising health care costs. Providers promoting universal access in today's economy should soberly contemplate the implications of getting what they ask for. The status quo is not good, but the outcome of reform based on the current proposals might be really bad. Giving a high-deductible health plan to an uninsured American with no disposable income is not unlike giving the same person a 100-percent loan to buy a house that could not otherwise be afforded. The equivalent of foreclosure or repossession in health care is unpalatable from professional and ethical perspectives, and its economic implications would threaten the survival of many providers.

EXAMPLES OF WASTE IN HEALTH CARE

Estimates of waste range between one-fifth (20 percent) and one-third (33 percent) of national health care expenditures.[4] Examples of waste include:

- Widespread use of unproductive or counterproductive clinical interventions.
- Failure to use least-expensive resources to achieve desired outputs.
- Poor utilization of personnel and facilities.
- Redundant reimbursement procedures with perverse incentives.
- Inappropriate balance between acute care, disease management and prevention.

What Economics Are Telling Us

Although economic analysis suggests that health care providers as a group cannot continue to count on income growth, economics also provides a roadmap for staying in business under the circumstances if productivity can be improved. Businesses can survive, and even grow, if wasted money can be redirected to productive use. Fortunately, but not proudly, health care providers waste a lot of resources in their daily operations. Current estimates of unproductively employed resources in health care range from one-fifth to one-third of all health care dollars spent in the United States.

This waste is truly the silver lining in the big black cloud on the economic horizon. Like fat that can be turned into muscle, these wasted resources provide hope for the future for hospitals, health systems and their professional staffs. Ensuring the reallocation of wasted resources to productive use may well be the biggest strategic challenge for health care's leaders during the next few years. It can be accomplished with the proven tools of performance improvement (e.g., Lean, Six Sigma, Toyota Production System) and information technology.[3]

Clinical and economic transformation of health care should be the health industry's top priority as a matter of professional pride, but the economic crisis now makes it an imperative for survival. Indeed, health care delivery organizations can even thrive in the future if they develop efficient and effective ways to do business. Learning how to provide health care correctly (i.e., safely

with no unexplained variation) all the time, as inexpensively as possible, provides a solid base for improving the health of Americans in the 21st century. Extending health insurance to all Americans does not accomplish this ultimate goal if resources continue to be wasted. Access to care could be expanded with the redirected resources, but the waste must be recaptured first.

Avoiding Unintended Consequences

Although health reform proposals in the latest presidential election did not present any new policy ideas in the context of new economic circumstances, the need to eliminate waste subtly entered the policy discussion – but not necessarily in a way that will improve the delivery system or the health of Americans. For example, expanding the use of information technology received noticeably more attention than ever before in the campaign discussions. However, the substantial savings associated with information technology were conceptually appropriated to offset existing expenditures; overall spending could be reduced by the amount of money saved with information technology. This approach creates a perverse incentive because the reward for improved performance is reduced income for providers, an outcome which might fairly be described as "today's mess for less." Instead, leaders in health care must expeditiously develop a vision and a plan to show how much more good can be done with the resources they already have.

Providers will not have the resources to invest in essential performance improvement if recaptured waste must be returned to the government and other purchasers. Therefore, the future of health care depends more than ever on how well providers can demonstrate their commitment and capability to improving the way they do business with the resources they have. The timing for reframing the reform discussion along these lines is critical. Focusing attention on a better return (that is, away from spending less) cannot wait until the next presidential cycle. The task requires immediate attention.

Redirecting the focus of reform – from implicitly providing the same quantity and quality of care with fewer resources to explicitly providing top-quality care for more Americans with existing resources – will not be an easy sell to the public. In addition to requiring a viable vision and feasible plan, it will require accountability and collaboration with all stakeholders. Transparency, fairness, equity, community benefit and measurable standards based on best practices and performance improvement must all be a part of the deal under any circumstances. Neither voters nor elected officials are willing to trust health care providers to go at it alone.

Finally, given the current economic outlook and the election outcome reflecting a desire for change in national priorities, health care leaders must also be prepared to show that dollars spent on health care return more to the welfare of the United States than dollars spent on other goods and services. Economists present this concept in terms of "guns vs. butter." Now may be the perfect time to apply this concept literally. The future of the United States will be decided by economic choices made within the next two years. Shouldn't health care be a top priority? Americans who voted for change may be ready to support a health care system firmly committed to change they can believe in. ■

Comment on this article at www.chausa.org/hp.

NOTES

1. Elizabeth A. McGlynn et al, "The Quality of Health Care Delivered to Adults in the United States," *New England Journal of Medicine* 348, no. 26 (June 26, 2003): 2635-2645.
2. For an excellent discussion of these studies, read Shannon Brownlee, *Overtreated: Why Too Much Medicine In Making Us Sicker and Poorer* (New York: Bloomsbury, 2007).
3. For extensive analysis of these concepts and their successful applications in health care, see Jeffrey C. Bauer and Mark Hagland, *Paradox and Imperatives in Health Care: How Efficiency, Effectiveness, and E-Transformation Can Conquer Waste and Optimize Quality* (New York: Productivity Press, 2007).
4. Bauer and Hagland, 33.