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# INTRODUCTION

**T**he U.S. health care system is in the midst of a ferocious war. The prize is unimaginably huge—\$2 trillion, about the size of the economy of China—and the outcome will affect the health and welfare of hundreds of millions of people. Four armies are battling to gain control: the health insurers, hospitals, government, and doctors. Yet you and I, the people who use the health care system and who pay for all of it, are not even combatants. And the doctors, the group whose interests are most closely aligned with our welfare, are losing the war.

The American people must win this battle. A system controlled by the insurance companies or hospitals or government will kill us financially and medically—it will ruin our economy, deny us the health care services we need, and undermine the important genomic research that can fundamentally improve the practice of medicine and control its costs. The current system is well on its way to doing all of these terrible things right now.

There is only one group that can prevent this damage: consumers—you and me—working together with our doctors. I wrote this book to raise the battle cry for American consumers of health care. I want you to know why we must win this war. I also delineate the battle plan that will enable us to turn health care into a system that is responsive to your needs and my needs—a consumer-driven health care system.

This war has been brewing for at least the three decades that I have spent in health care as a researcher and teacher. During that time, I have focused on entrepreneurial health care ventures as a pro-

fessor at Harvard Business School; a member of the boards of directors of dozens of nonprofit and business health care organizations of all sorts, most of them consumer driven; an advisor to U.S. senators and representatives, as well as congressional staffers; a keynote lecturer at hundreds of large health care meetings; and a consumer of health care for my family and myself. I know the current system from top to bottom. I have seen it from virtually every perspective: from the worm's eye view of young students entering the system to the vantage point of high-level CEOs and elected officials; from personal experiences that include visits to the hospital emergency room and the paneled chambers of corporate boardrooms, the U.S. Congress, and the White House.

In some ways, I have been an insider, attempting to change the system from the inside out, working with those who hold the levers of power, trying to move health care in a direction that would make it more responsive to you and me and, at the same time, cheaper and more efficient.

From a health consumer's perspective, things were never good. Two recent experiences, however, have convinced me that the war is at a fever pitch and that the wrong side is winning. They've convinced me that it's time to go public, to go on the attack, and to let the world at large know what's really going on behind the curtains in the health care industry.

The events I'm referring to took place in the U.S. Congress, in Washington, D.C. Public policy is like sausage: you do not want to see how it is made, and the end product is not good for your health. These two were the straws that broke this camel's back.

Both experiences were meetings in which hospitals, insurers, and researchers argued for important, anticompetitive laws that advanced their interests—and hurt ours. No practicing doctors presented their findings or opinions at either meeting, even though the decisions on the issues involved would profoundly affect them. And there was no consumer representation. In fact, I have never attended a health care public policy meeting that included *any* consumer representation.

The first experience was a hearing in July 2006 before the House Ways and Means Committee Subcommittee on Health.<sup>1</sup> The issue was

transparency: should the American people know the *price* of the health care services they use and the *results* doctors and hospitals achieve?<sup>2</sup>

The hearing was triggered by a *Wall Street Journal* article that revealed that U.S. hospitals, most of them nonprofit, charged uninsured patients prices that vastly exceeded those they charged their insured patients.<sup>3</sup> Even though many of the uninsured were poor, some hospitals employed tactics that verged on the criminal in their efforts to collect their inflated bills, driving their uninsured patients into bankruptcy. Ironically, the nonprofit hospitals have been granted immunity from paying taxes as a quid pro quo for their altruism. Where was it?

Transparency would at least help uninsured patients and all consumers of care know what they were going to be charged and the quality of the services they would receive. It was up to the U.S. Congress to force these guys to come clean. But the hospitals and insurers testified at this meeting that transparency would confuse us. They might be willing to post a range of their prices—say, a number between \$200 and \$3,000—but an exact number? No, too confusing. As for measures of their performance, such as the number of men in their fifties who died after open-heart surgery? No way. Some of the researchers who testified supported these assertions, adding that health care providers, primarily hospitals, would collude on prices once they were clearly known. I had heard these self-serving arguments against transparency many times, but I had never heard them used against the poor uninsured before.

The testimony was completely wrong minded.

One of the key success factors of the U.S. economy is transparency. We know the prices and quality of the goods and services we buy, ranging from our morning cereal to our complex computers to our mutual funds. This transparency has enabled us to be smart shoppers. When we are well informed, we can buy from and reward those who, like Michael Dell, founder of Dell Inc., give us good value for our money. Transparency causes what the economists call *productivity*, meaning that we get fair value in exchange for our money. That is why just about everybody supports transparency in all aspects of our lives—except health care.

So what is going on? Why is it that transparency is not a cure for health care? Why are this massive economic sector's prices shrouded in obscurity? Why are its results totally unknown? Why do I know more about the price and quality of my breakfast cereal than about the prices and quality of the hospitals in which my children were born?

The real issue here is power: the less you and I know about the facts, the greater the power of those in the know—the hospitals, the insurers, and the health policy researchers.

This hearing in 2006 convinced me that some members of the American Congress were not interested in protecting the uninsured by compelling transparency. This got me really worried.

The second experience was also a congressional event, and it proved to be my personal tipping point. It was here that I saw that the U.S. Congress was even willing to suppress competition in order to protect the powerful, entrenched status quo health care institutions.

This epiphany occurred at a meeting set up to inform congressional legislative assistants about a new kind of hospital, a small one that specializes only in certain complex, high-tech procedures, like those for treatment of heart disease.<sup>4</sup> These hospitals were partially owned and managed by doctors. It has long been my view that such specialty hospitals generally provide better, cheaper health care than the everything-for-everybody general hospital. These specialized hospitals can become really expert at the focused services they offer because they are run by knowledgeable and experienced doctors—which is often not the case with nonmedical administrators in the huge general hospitals most of us frequent.

The hospital sector sorely needs innovation. Hospitals account for most of the costs and cost increases in health care, yet they provide such wildly erratic quality that hundreds of thousands of patients die yearly from medical errors that occur in hospitals.<sup>5</sup> Although this innovation of small specialized hospitals was only a gnat relative to the size of the trillion-dollar general hospital sector, it potentially posed a major threat to them, and they knew it. To protect their position, the hospitals did what they always do: they ran to the legisla-

tors and tried to kill this potential competitor through politics, urging the Congress to pass the laws that would legislate this form of hospital out of existence.<sup>6</sup>

The key witness at this event was the CEO of a chain of 24 non-profit hospitals who claimed that the impudent, venal 55-bed specialty hospital in his hospital chain's region would limit the ability of his billion-dollar nonprofit hospital chain to give free care to the poor and subsidize the very sick. He argued that the interloper hospital was hurting his own hospital's ability to help the uninsured because it was siphoning away his best-paying patients, hobbling his ability to help the uninsured as much as he wanted to.<sup>7</sup>

Those in attendance nodded in agreement. They believed him. Most of the legislative assistants were in their twenties—too young to be dubious. How could one argue with the charitable intents of hospitals called “St. Elizabeth’s,” “Swedish Lutheran,” or, in this case, “Sioux Valley Hospitals & Health System” (since renamed Sanford Health)? After all, they’ve been a cornerstone of our communities for as long as anyone can remember. The other attendees in the room knew better, but they were in their fifties, veterans of Capitol Hill, long pickled and emasculated by Beltway cynicism.

Unfortunately, the U.S. Congress bought the hospital executive's argument too. In a virtually unprecedented move, it shut down his competition with a moratorium on the expansion of specialty hospitals.

Let's peek beneath the veil of the purity and altruism in which this chain of nonprofit hospitals cloaked its argument and look at its financial results. The facts provide staggering repudiation of its expressed point of view. In 2003, while the hospital was supposedly locked in a death struggle with the entrepreneurial specialty hospital, it still managed to earn \$26 million in profits after all expenses were paid, and it held another \$50 million in cash and liquid investments. This is the money left over after all charitable activities have been completed. These are huge amounts of money for a supposed nonprofit. Then, in 2004, after Congress hamstringing the competitor, profits and liquid assets grew by 15 percent, a rate of growth most

Fortune 500 companies would envy. Indeed, the hospital was fat enough to donate millions to activities like its local high school football league, which received nearly \$200,000.

But very little of its money actually went to the uninsured and others who could not pay their full bills. To the contrary: the hospital's charitable care actually diminished by 40 percent as its profits increased. Not that it was ever large—in 2004, it amounted to only \$5 million—but by 2005, after its competitor was taken out by the U.S. Congress, the hospital's charitable care fell to \$3 million.

As you review these figures, bear in mind that the hospital operates as a nonprofit. We exempted it from paying tens of millions of dollars in taxes, but all we got in return was a piddling amount of free care for the uninsured. And even that paltry amount was puffed up by the kind of accounting gobbledygook that raises this accounting professor's eyebrows. The value of the hospital's charitable care was measured at the hospital's top prices, prices that nobody pays except for the uninsured. The hospital even had the nerve to include the differences between these inflated charges and the amount it received from Medicare and Medicaid in its charitable care calculation.<sup>8</sup> (If these accounting practices were followed by U.S. businesses, they could declare every discount from their list price as charity and claim a tax exemption as a result.)

What most bothered me about these incidents is that both the Democrats and Republicans in Congress lined up behind the attempts to suppress competition and transparency. Some Democrats in Congress really warmed to the task because it would enable them to enlarge the U.S. government's takeover of our health care system, a policy they had long favored. After all, if consumers will only get confused by information, and if providers, like hospitals, will only price fix as a result of transparency, who, other than Uncle Sam, can step into the breach? But some of the Republicans did not object strenuously either. Like the Democrats, they had drunk deeply from the well filled with Beltway Kool-Aid.

In the minds of most of our U.S. senators and representatives, when it comes to health care, the federal government is the savior—not you, not me, not our doctors, not information, not entrepreneurs.

No, the only party that can make health care cheaper and better is Uncle Sam. Indeed, Uncle Sam has recently become Doctor Sam: Congress is actually telling doctors how to practice medicine. And to enforce its cookie-cutter ideas on how to provide care for you and me, the U.S. Congress is using our money so only those doctors who follow the congressional recipes for medical care will be well paid.

## **The Better Way: Consumer-Driven Health Care**

Let us be clear about what we want: a consumer-driven health care system that is simultaneously cheaper and better.

Right now, we pay too much for too little health care. The massive costs of our system of care create major competitiveness issues for our economy and our children. If General Motors spends \$1,600 per car on health care and Toyota spends only \$110, there is no way that GM cars can compete with Japanese cars on price. The costs of U.S. health care dwarf those of other countries with which we compete—and they do so without readily apparent commensurate improvements in the quality of care. Further, we are leaving our progeny a bitter heritage: they will be holding the bag for our government's health care costs for the elderly and poor, some of which have been funded with borrowed monies they will have to repay. Insurance costs are so high that we have over 46 million people who go without it, which is a shameful scar on the richest country in the world. Indeed, the exclusions the insurers have on what they will pay for are so stringent that some sick people cannot obtain the care they need even when they have insurance.

To add insult to injury, we receive far too little health care for all this money. Sure, we have some great doctors, hospitals, and medical technology; but quality varies wildly among and within providers of health care. And because of the lack of integration of medical care delivery for the chronic diseases and disabilities that account for 80 percent of health care costs, patients fall between the cracks—for example, kidney disease patients don't get the preventive care they desperately need to halt the progression of their deadly disease.

Soaring health care costs that cripple our global competitiveness, uneven quality of care, 46-plus million of uninsured, and Medicare and Medicaid programs whose deficit threatens our children's economic welfare—who can best solve these mind-numbing problems? The government? A technocratic elite? Status quo insurers and hospitals? Or you and me?

There are two broad sets of belief here. One group believes in the transformative powers of big, organized institutions, such as governments and large insurance firms. The other camp believes that small is beautiful. To them, only consumers and the entrepreneurial institutions that serve them can transform health care.

### **Big-Is-Beautiful Health Care**

To those in the big-is-beautiful camp, the government or a health policy, hospital, and insurance elite holds the key to solving health care's problems. The big-is-beautiful camp believes that only the elites, bristling with Ph.D.s in statistics, epidemiology, or health economics, possess the intellectual tools needed to decide how much should be spent, on what, and where. Why?

First, this group believes that as a service industry, the health care sector is incapable of the kind of productivity gains that characterize the rest of an economy. Just as an orchestra's productivity cannot be increased by making it play faster, so too the productivity of health care is fixed. And when it comes to costs, the worst is yet to come with our aging population and marvelous medical technological innovations that will create vastly expensive new drugs and devices. Further, you and I are incapable of the kind of complex decision making that health care requires. To buttress their superiority, the elites regularly publish research in health policy journals that underscores the inability of ordinary Americans to understand critical aspects of health care.

The big-is-beautiful solution? Let the government put a lid on the costs and ration health care through established health insurers and hospitals, with the active advice of the academic policy makers.

The ripest apples on the rationing tree are the sick, the 20 percent who account for 80 percent of health care costs. Once the government manages the sick, it can penalize errant doctors whose inexplicable deviations from centrally prescribed care regimens the health policy world regularly documents. Alternatively, in a nod to competition, this camp would permit large private health insurers to vie for our business. Each insurer would offer identical products so we do not become confused.

### **Let the Flowers Bloom: Small-Is-Beautiful Health Care**

To the small-is-beautiful crowd, consumers who shop in free markets for differentiated products steadily drive down price and increase quality, even for complex goods. For example, the affordability of cars and personal computers has increased along with their quality, although the average consumer likely does not understand how they work. Two characteristics explain these results. The first is the availability of excellent, trustworthy, user-friendly information that focuses on the product characteristics that consumers find important, such as *Consumer Reports*' and J.D. Power's reliability and safety data for cars. This kind of information, available only in consumer-driven industries, enables the average person to buy intelligently. Second, as we all learned in our introductory economics courses, markets are equilibrated by *marginal* consumers, not by *average* ones. The discerning, last-to-buy group consists of the picky, assertive people—like the well-informed parents in the car market who are concerned with safety—who drive down price and improve quality for all the rest of us.

Along with their beliefs in the wisdom of consumer-based free markets, this camp is also much more sanguine about the possibilities for productivity enhancement in service industries. In a 2002 report, McKinsey & Company cited retailing and finance as the top two drivers of the remarkable U.S. increases in productivity in the late 1990s.<sup>9</sup> Entrepreneurial activity, not rationing, offers the best cure for massive health care costs.

## **Big- versus Small-Is-Beautiful Health Care Systems**

These ideological dicta create distinctly differing approaches for reforming our health care system.

Those who distrust markets and consumers prefer a single-payer system, in which the federal government's excellent, centralized management would wring savings from billions of dollars now wasted, in their view, on the hapless, competitive private-sector health insurance firms and wildly inefficient doctors and use the savings to provide coverage for the uninsured. Alternatively, they would restrict insurance choices to a handful of uniform managed care health insurance options. In practice, this idea would work like an automobile market in which every manufacturer offers identical cars designed by a technocratic elite. But this approach, in every situation where it has been tried, stifles new ideas that challenge conventional wisdom, reduces quality, and leads to bureaucratic bloat, fraud, and favoritism for the rich and powerful.

Those who believe in consumers and entrepreneurs opt instead for private-sector solutions. The small-is-beautiful camp would open the health insurance and health care delivery markets to entrepreneurial innovators. For example, the HealthAllies division of the UnitedHealth Group, the country's largest private insurer, already offers insurance products that cost as little as \$300 a year. The company gives the little guy access to discounted networks of medical care providers at nearly the same price as the big groups pay. Information entrepreneurs would enable consumers to scrutinize these innovations via excellent, comprehensive information about their quality and price.

And while the big-is-beautiful camp, which believes that productivity increases cannot be attained, would micromanage doctors to standardize their practice patterns and curb "unnecessary" spending on the sick, the other would liberate entrepreneurial health care providers to create new programs that control costs by increasing quality and require the dissemination of information about the prices and quality of care of providers.

Retailing led this country's productivity boom from 1995 through 1999. Health care entrepreneurs could lead the next productivity boom. Just as retailing entrepreneurs redesigned that industry to meet consumers' needs for good prices and convenience—giving us access to Internet shopping, stores such as Staples organized around shoppers' needs, and low prices—so would health care entrepreneurs redesign the health care system from the bottom up. The savings from all this would be used to subsidize the poor uninsured to purchase health insurance.

The fixes are not difficult. We must get back the money our employers and government now take from our salaries and taxes to buy health insurance on our behalf so that we can choose it for ourselves. Our innovative, caring doctors must be empowered to design better, cheaper health care. Our poor should be subsidized by the rest of us, so they can buy health insurance just like everybody else. And our government should help subsidize the poor, provide transparency, and prosecute fraud and abuse. All the other busybodies must get out of the way—the empire-building hospitals, the micro-managing insurers, the self-serving academics. Their role is to support, not to manage, us and our doctors.

These are the choices that confront us—a health care system dominated by established, status quo players or a health care system dominated by consumers. The current system—and the one envisioned by Congress, the hospitals, the academics, and the insurers—is hazardous to our health and our wealth. My hope is that we can change the direction they are trying to drag us in and go in a different direction, one that will deliver high-quality care to everyone cheaply and efficiently.

This book, then, is my attack on the current system and the battle plan for our repairing control of it. Read on and learn, in Parts 1 and 2, who is killing health care and how they are doing it. The villains you'll meet include our hospitals, our insurers, our employers, your representatives in Congress, and the policy-making academic community. You'll also run into a few heroes—including the doctors and medical innovators who are fighting the politics and the odds to

bring you better care and a longer life. In Part 3, I lay out the principles as well as the specifics of consumer-driven health care—what it is, why it will work, what it offers all of us—and analyze the lessons from consumer-driven systems like Switzerland’s. I describe how it will improve quality and control costs for the sick and the poor. And in Part 4, I close with a comprehensive step-by-step plan of the carrots, the sticks, and the laws that will make this consumer-driven system happen.