

PMO526

**Healthcare Economics
Team Diverseline**

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Discussion Issue: Discuss the various methods used to allocate scarce resources in the US health care system. What are the implications of these allocations (in terms of quality, outcomes, efficiency, and equity) and how can the “system” improve its performance by addressing these allocative decisions?

Introduction

The U.S. healthcare system is plagued by numerous issues. Healthcare prices are rising out of control. Health outcomes as defined by mortality rates and life expectancies are lower than other comparable countries. Even though the United States pays much more for its system, many people do not have any insurance coverage at all; therefore, there is unequal access to healthcare. But more important are issues of allocation. While at times it seems that there are inadequate resources in the healthcare system, the problem may actually stem from allocation of health products rather than from underproduction. The sad reality is that there is not even a clear method to measure whether there is a surplus of or lack of physicians at national level; we simply cannot tell if we need more doctors or if we need a better allocation system. While addressing allocation in an isolated manner will not have much impact on improvement of the system because of the impact of many other factors, a discussion of allocation as a part of a bigger picture will be of benefit to an understanding of problems in the healthcare system.

The principal issue is that there are scarce resources that can be used in many different ways but disagreement on how to use them. The problem can be examined using certain methods. The tool that can help us spread the resources in the healthcare system is economic analysis. Economics gives healthcare managers a framework for decision-making, making sense of costs, and outlining the goal with given scarce resources. Economics is used as a road map to reach an optimal point logically in helping the allocation of scarce resources. As derived from fundamental concepts in economics, two major methods and a combination of these two methods are available to allocate scarce resources.

Scarce Resource Allocation Methods

The scarce resources are allocated through three major methods: a free market system, a social justice system, and a hybrid of the two systems. A pure free market system and a pure social justice system are available only in theory. Almost all the health care systems exist on a continuum somewhere in between these two extremes. Before we examine the U.S. healthcare system, we will address the two allocative methods and the implications of these methods on a few issues.

A Market System in Health Care

A free market system: A free market system uses consumer purchasing behavior to allocate scarce healthcare resources. A free market system, in theory, is driven by competition and operates at economic efficiency to produce the most products at the lowest price possible to consumers. In other words, this system operates based on the

consumers who can afford the service. In general, this system is believed to yield the best quality of services at the lowest price for consumers. The free market system impacts on quality, outcomes, efficiency, and equity.

Quality: A free market approach to healthcare in theory supports competition and technological advances. In this system every producer is in competition for consumers, and healthcare companies would want to offer the best services possible at the most reasonable prices to attract consumers to their service sectors. When providers compete for consumers, the quality that patients receive improves. Additionally, a free market system creates a greater balance of healthcare providers; that is, the change of consumer's demand is readily met with changes with appropriate response. In the past, when healthcare turned more toward managed care, medical students opted for more general practices because that was what the market was dictating. However, since healthcare providers are free to set up practices in any location following the demand of consumers, the providers are going to go to locations that have most earning potentials, i.e. where the money is at. For the people who can afford the service in the area where lots of services are set up, this system means improvement of quality. The detrimental side of a free market system is that it can leave a lot of people without any care. For these others, the choice can be between a good quality care and no care.

Outcomes: In general, because providers are eager to obtain more consumers with lower prices and quality services, the healthcare outcome can be good. However, similar to quality of care, better outcome is limited to those with access.

Efficiency: Both allocative efficiency and productive efficiency can be high with a free market system. Because it is dependent on consumer purchase behavior and because the competition is heavy for consumers, the quantity and type of healthcare that society wants with lowest possible price is easily met by this system. Because healthcare providers would set up practices in a location as determined by market forces, in theory a free market system has the potential of being a very efficient system. However, the true care needs, aside from purchasing behaviors of those who can afford the services, is unfortunately different. This system does not do anything to assess and meet the needs of the population as a whole.

Equity: With regard to equity, we see the same problem over and over again, namely, where the wealthier people receive any and every type of service and those without do not. If we look at equity at a systemic level, a question arises: is the system better able to deliver horizontal equity for all the people with different socio-economic status (SES), ethnic backgrounds, ages, and genders? Because the system depends on the money, as long as a patient can afford the price the service will be available equally. Nevertheless, this is a limited equity. But vertical equity may be another matter. Is the system strong in delivering equal opportunity of care that is appropriate for the different types of illnesses having varying levels of seriousness? If the demand is high at one area, the service in that particular area will be available. However, the other areas without much demand will have insufficient capacity to service patients. This system would

support the growth of specialties that may limit access by many, and sometimes it may even detract from basic and preventative health care.

Other factors: Although a free market system is based on competition that supposedly improves quality of care, the system would support quality only up to a point depending on the price of that care. If competition is too costly for small groups because of the bigger organizations' price cuts, this can drive many providers out of business, or worse yet may affect quality. In a free market system, the process can seem fair, but the outcome can seem unfair.

A Social Justice System in Healthcare

A social justice system: A social justice system uses planning of allocation of scarce resources based on some pre-determined criterion, such as need of services. Social justice systems, unlike free market systems, which blindly follow consumer purchasing habits, set criteria before production of services and thus allocate services according to the needs of the population. Allocations are analyzed and planned on specific criteria with the following implications.

Quality: A social justice approach to healthcare can lead to a decrease in quality because it takes away the benefits of competition and the impetus for the development of advanced technology. However, if need is correctly assessed, and then a segment of a national healthcare plan could be dedicated to advancements in technology and specialties that can help further improvements in quality of care. Quality will probably at least be stable and at best improve regularly since the needs of the population will dictate the various allocations. Indeed, the idea of quality depends on one's perspective. If you are one of those people in the underserved areas with little or no healthcare, then having access to the same healthcare as everyone else will seem like a big improvement overall.

Outcomes: Again, based on various analyses (e.g., the need, the demand, the burden of disease, etc.) it is easier to plan for better outcomes. This approach might in fact improve the overall health of the nation, but it may slow progress toward treatment of highly acute but rare conditions.

Efficiency: It would be easier to balance the economics of supply and demand on a system that is more structured toward basic services and prevention. However, it is also possible that the costs for non-routine care might be increased.

Equity: This approach would make basic services more readily available at a more cost-efficient rate that would benefit all customers. For equity, more planning equals better allocation of resources, and thus a more optimal situation for everybody.

Other factors: A social justice system calls for some type of centralized planning to project the nation's health care needs and to allocate resources appropriately. Unfortunately, an accurate prediction of the need is difficult. For instance, an analysis of physician surplus or shortage yields different results depending on who does the analysis.

So, accurate forecasting of need is challenging. In addition, when there is a change in consumer's need causing a sudden change in the market, it may be slow to respond to the changes in a timely manner. Similarly, unlike in a free market system, the adaptation of new technology can be sluggish in the social justice system. Also, this system gives doctors and nurses the feeling that there are restrictions and limitations put on their decisions to provide care to their patients.

A hybrid system:

A hybrid system utilizes parts of both systems listed above. Our group believes that the U.S. healthcare system is a hybrid system but is closer to a free market system. The United States has a free market system that creates active competitive markets but also does have restrictions and guidance in order to better equilibrate these same markets. However, as the U.S. system has proven, a compromise between two systems is not always best because a hybrid not only takes the good sides of both systems but takes on the disadvantages of both systems as well.

System Improvement

After discussing these methods, specifically listing their pros and cons and their implications on quality, outcome, efficiency and equity of healthcare, our group's consensus was to push the U.S. health system more toward a social justice system. We suggest a number of recommendations for improvement.

First, the public education is necessary. The public needs to be educated on the issue of true cost of healthcare. They need to be informed of indirect costs of healthcare, which has been obscured by the negotiated price of care by insurance and tax reduction. If the real price of healthcare is realized by consumers, then moral hazards will decrease, therefore making a given service available for those with more critical care needs.

Second, more regulation (e.g., licensure and certification) can be used to protect consumers who are naïve when it comes to who can perform what on them. One of the drawbacks of regulation is that strong organizations with more lobbying power can put a smaller business out of business or limit their services even if those small businesses have been doing perfectly fine in terms of serving the community. More regulation might be needed to keep them afloat.

Third, this system needs someone in charge to assess the demand and supply nationwide. It was suggested that we conduct a nationwide health census to allocate the resources, just like the U.S. Census is used to allocate other funds. In this way, the federal government can determine need and also allocate health resources. As seen in the early 1960s, government funded medical school education when a physician shortage was expected. The government was able to respond by increased financial aid to meet the need for decades to come.

Fourth, with this new approach, more incentives for offering services in rural areas or inner cities can be mandated by certain regulations, therefore increasing the accessibility in underserved areas.

These changes can bring about greater modification to the U.S. healthcare system in a positive direction. With the system that is already in place in the United States, the cost of healthcare has been out of control, health outcome has been low based on dollar usage when compared to other developed countries, access to care has been limited, and most of all people have not been satisfied with the system although most of them do not even understand the system due to its complexity. However, with a new approach, prices can be regulated with an equal quality of care and more access to care established. When need and supply are correctly analyzed and allocated - not just blindly following consumer habits - then access to care will become more equitable for everyone. Overall, then, the health of the population will improve.

Conclusion

The economic method has a fatal flaw in terms of addressing healthcare because the analysis is based on demand and supply and not based on health outcome and improvements. However, no system is perfect, and it is virtually impossible to provide everyone with all the care they need. As noted, resources are scarce, meaning that the resources have alternative usage.

If someone who has access to all and is blinded to profit can take charge of critical analysis of demand and supply and can allocate these scarce resources while encouraging market competition, then the result is positive. The federal government is already taking care of a military population through a fully developed system, and it has been successful in doing so. As mentioned in our group discussions, recognizing the issue and discussing the inherent problems are the beginning of constructive change. This discussion is a signal that such change can be imminent.