

## It's Time for a New "Old" Way

All you have to do is open the daily paper or tune to your favorite news program and you get an update on the struggle over Medicaid funding between Congress, the states and the White House. As all politics is local, one has to participate in local events to get a true measure of what this all means. I attended the latest Medicaid Forum at the FDR Library a few days ago and came away with the conclusion that there must be a better way to solve the problems debated.

Sitting in the audience at the FDR Library I listened to the impassioned speeches and declarations about the needs of those less fortunate among us and the comments of our equally impassioned state legislator on the reality of having to balance the competing demands for our tax dollars. I could not fail to note the absence of physicians either on the dais or in the audience, yet without physicians no amount of money, regulations etc, can deliver health care to the Medicaid population or for that matter to the rest of us.

This absence was not accidental. Working with physicians on a daily basis I have come to realize that in increasing numbers they are giving up fighting the system so to speak. Our current health care system is predicated on the assumption that there is and will continue to be an abundant supply of willing and able providers of healthcare services no matter what regulatory or fiscally onerous conditions may be forced upon them. As a society we have come to believe that health care resources are inexhaustible and access to health care is a right with those delivering these services having an obligation to provide these services under whatever terms and conditions society arbitrarily sets.

Based on these assumptions, we have, over the course of the last four or five decades, turned the health care market on its ear by abandoning the laws of the free market. It is true the health care market was never truly free owing to the anti-competitive nature of physician and hospital organizations which continue to this day but the imposition of myriad programs and regulations over the years only took the health care market further and further away from anything resembling a free market.

The current debate over Medicaid is only one piece in the overall mosaic of health care. The system is complex and like other markets, has many disparate stakeholders with competing needs, wants and priorities. Faced with problems the tendency has been to deal with each issue or stakeholder without regard to the other parts of the system. This approach has not and will not work except as a band-aid to stem an impending flood.

Looking at the trends currently impacting the health care system in an impartial objective manner we are able to clearly discern the fundamental causes and note some potential solutions to what may appear to be insoluble dilemmas.

We are in the midst of the rushing together of several deepening trends that lead to turmoil and dislocation. Among these trends are changes in the way health care services are paid, changes in the health care provider community and dramatic changes in the demographics of the patient population. Other trends, while important, only accentuate

the depth and turmoil in evidence. Among them we list consumerism, the development of the Internet and advent of pharmaco-genetics.

Over the past decade and a half, commercial insurance carriers, so called third party payers have changed the way they pay for services by increasingly emulating the terms and fees set by Medicare and Medicaid. The effect of this change is that today some 85% of all health care expenditures are made by virtually one payer which dictates terms and fees to all providers. The fees and terms dictated by government programs and closely copied by the private insurance carriers are set based on budgetary and political considerations, not arrived at through free negotiations. Thus they have no correlation with the costs of delivering care effectively leaving a shrinking (currently 15%) sector of the market, who pay cash, if at all, to make up for the financial losses of physicians, hospitals and other providers. As someone intimately familiar with the finances of physicians and hospitals, I can attest to the fact that providers at every level are hurting and the hurt is getting worse with each passing day.

It must be noted here that the complaints we hear that healthcare costs are growing out of hand has little or nothing to do with what providers charge. The growth in health care expenditures, especially of Medicare and Medicaid are a function of the expanding population, the increase in longevity, the addition of new expensive technologies and the expansion of covered benefits. Witness the impact on Medicare expenditures of the new pharmaceutical benefits, whose unintended consequences we can only surmise or compare the range of covered services in Medicaid by the State of New York with those of other states.

Under these conditions the health care provider community is left with increasingly unpleasant choices. The number and frequency of closings or impending closings of hospitals, nursing homes and others is only made more acute by the growing trend among physicians to leave medicine many at the height of their careers. Less apparent but just as important is the impending shortage of future providers (it takes at least 10 years to train a physician) as applications to medical schools are dropping. It is also worth noting that with physicians becoming increasingly marginalized and even demonized by society this leads to a lowering in the quality of current applicants to medical schools which in turn will lead to a lowering of the quality of future doctors. This at a time when projections are that demand for physicians will expand significantly in the coming years, The same situation is apparent in the ranks of nurses and other allied health care providers.

It should be obvious that our fundamental assumptions and policies guiding the health care system are not working and current trends if left unchecked could easily destroy the remnants of what is still the most advanced and innovative healthcare system in the world.

Changing the system overnight is not possible or even recommended. There are excellent proposals to fix certain, important, parts of the system such as those suggested in the new book, Winning the Future by Professor Gingrich. Such proposals, while good in and of themselves, do not seem to address the true fundamental issues in all their aspects.

Recognizing that the health care market is complex and that piecemeal approaches have not worked, it is time to develop and implement solutions that are comprehensive in nature and address the fundamental assumptions of the current arrangements.

It is time we considered the free market as a solution. Historically the free market has proven itself as an effective way to allocate scarce resources in a fair way and at the same time has proven itself as the most flexible system in adapting to changes in the demand for and supply of goods and services. However, with forty years of the current increasingly dysfunctional system any fundamental changes will need to be approached carefully.

I strongly recommend the development and implementation a pilot demonstration project of the application of free market principles to the health care market. This pilot project will need to take into consideration every aspect of the health care system and realign it to be responsive to free market forces in all its characteristics. The two overarching considerations are that the project be limited geographically in such a way to encompass all the stakeholders in the market and to be of such duration to allow for the orderly transition from the current system to a new approach as well as allow the new approach enough time to show observable outcomes.

Undoubtedly this proposal will meet with much resistance. Nevertheless it needs careful consideration which I believe that with the proper preparation, development and implementation in a circumscribed geographic area will prove successful and than expandable to other areas. We owe ourselves nothing less.