

## What Obamacare Doesn't Fix

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September 23, 2013

Is medicine really different?

President Obama's signature achievement is designed to drive down health care costs and expand access to medical care by mandating that all Americans carry health insurance, while subsidizing those who can't afford it. The House Republicans recently proposed an alternative that would allow consumers to shop for insurance across state lines and offer tax deductions for health care costs. David Goldhill, Democrat and CEO, argues that by accepting the third-party insurance-centric status quo, both sides have it wrong.

At a recent Cato Institute forum for his new book, *Catastrophic Care: How American Health Care Killed My Father—and How We Can Fix It*, Goldhill laid out his diagnosis of American health care ills, and outlined how American medicine can be healed.

Goldhill's involvement in health care reform stems from a personal tragedy: his father died at the age 83 when, after checking into a hospital with pneumonia, he caught a secondary infection at the hospital and died. A month later, *The New Yorker* published a piece by Atul Gawande profiling one doctor's efforts to convince hospitals to implement a series of protocols which would greatly reduce the incidence of hospital-borne infection. Goldhill recounted that

What was interesting to me as someone who had just lost a parent and as a business man is that it cost almost nothing to implement these protocols, yet he was having a hard time getting hospitals to implement them.

He noticed that "hospitals weren't incentivized, economically or otherwise, to do something very simple and very small, that saved lives." Goldhill began grappling with health care's peculiar economic model, an island outside the forces of the real economics. The model is built on the assumptions that health care consumers are price insensitive, and that the government can better act as the consumer. Yet, when Goldhill examined the reality of health care, those notions simply did not hold up. In the first place, he observed that most patients seek long-term chronic pain management, not emergency trauma

care; for patients like this, ignorance of the price often increases potential for pain. Patients, such as seniors, are more likely to undergo surgeries and other risky procedures that will increase their potential for pain; individuals are more likely to engage in risky and possibly detrimental treatments when someone else is paying for it.

Highlighting the government's bipartisan failure to bring down health care prices, Goldhill cited the Prospective Payment System, enacted under the Reagan administration to drive down prices by reimbursing hospitals at predetermined prices, encouraging hospitals to release patients sooner. The result is that while the number of days a patient was kept in a hospital declined by two-thirds, the amount Medicare pays per day has increased five-fold since 1983. Moreover, since then, hospitals claim medical costs have soared to 7.5x their early 1980s prices.

Some might try to write this off as the price of medical advances, but Goldhill reminded us that there was another item which was quite expensive in the 1980s: the computer. Yet now, for a fraction of the cost of an early PC, we have more power on a phone than an entire building of 1980s Apples. By treating health care as an island, insulated from market forces, we have created an industry that is economically out of control.

What is Goldhill's solution? In his original article, and now in his book, he proposes a radical overhaul of the whole system. In its place, he would like to see a consumer-driven health care system, with a single national program of catastrophic insurance (for medical care totaling over \$50,000) which all Americans would be required to buy with fixed premiums determined by age. Individuals would fund the rest of our health care costs as we do everything else: with our income and savings.

To this end, he proposes a mandatory Health Savings Account with a required minimum percentage of post-tax income, subject to both a total dollar contributions floor and cap. That way, for expensive, but non-catastrophic health needs, the future contribution can be borrowed against. For the truly poor, Goldhill proposes a certain level of governmental assistance for HSAs.

As long as the government subsidizes an insurance-centric health care model, Goldhill believes our healthcare costs will continue to skyrocket while our health fails to reap the benefits.