

NATIONAL REVIEW

Half of All Health Spending Is Wasted

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We know the American health-care system is wasteful. But we don't dare to look at how much money we're throwing away — and we especially don't dare to do anything about it.

There is a strange combination of two facts. First, it is the consensus of the relevant studies and health-policy experts that about half of all health-care spending in the U.S. is wasted. That is, if we spent half as much as we spend, we wouldn't be worse off at all, so long as we spent the remaining money on what's truly needed. In fact, we might be better off, and not just because an enormous dead weight would be lifted off the economy.

Second, not only has this fact not registered at all on the American public consciousness, but the vast majority of health-policy experts are in denial about it — not in the sense that they straightforwardly reject the non-controversial finding, but in the sense that they seem very reluctant to admit it or talk about it and certainly seem to behave as if it were not the case.

The Cato Institute, a well-known libertarian think tank, runs an online journal of ideas called *Cato Unbound*, with an excellent premise: For each issue, one thinker defends a provocative thesis; three other thinkers with opposite or orthogonal views respond; a blog-like debate ensues. In a 2007 issue, they allowed the iconoclastic economist Robin Hanson to advance the claim that half of all medical spending is wasted.

“King Solomon famously threatened to cut a disputed baby in half, to expose the fake mother who would permit such a thing,” Hanson wrote. “The debate over medicine today is like that baby, but with disputants who won't fall for Solomon's trick. The left says markets won't ensure everyone gets enough of the precious medical baby. The right says governments produce a much inferior baby. I say: cut the baby in half, dollar-wise, and throw half away!” He laid out study after study showing no effect from differences in health spending on health outcomes, culminating with the famous “RAND Experiment” randomized field trial, the gold standard for evidence in social science, showing no improvement in health from increased medicine. (Since Hanson wrote, the Oregon Medicaid health experiment, with similar robustness, showed a similar result.)

It's what happened next that was so fascinating. None of the respondents really disputed Hanson's claim, and yet at the same time vigorously argued that it should be ignored. Spending is too high in some areas, but it's also too low in others, one said. Invest in information

technology, said another. Lots of medical technology is expensive. Currently half of the spending is wasted, but we might still want to spend more, albeit better.

Imagine a company that makes bars of soap. Its business consists primarily of two activities. With half of its revenue, it runs a soap business — manufacturing soap, distributing and selling it, marketing it, researching new and improved soap formulas. All of that goes on in a nice large building. But the company takes the other half of the money and burns it in an endless bonfire in the parking lot. Armored cars convert the revenue into cash and bring it to the bank. Other employees are staffed to take the cash and put it into a big pile, others still to make sure it all burns.

Suppose you are given a tour of this operation, and afterward you meet the CEO and ask for an explanation. “Well, the cash-pile-burn project is not very efficient, but the rest of our company is very efficient!” he responds. You press him for a meaningful answer. “With better IT, we can boost profitability!”

I might be exaggerating, but not too much. As a rule, in any field, when you find that experts all agree on a fact and yet are in complete denial of it, then you’ve found something important. Of course, these trillions of dollars wasted aren’t a literal pile of burning cash somewhere that we can just stop burning. They are profits and even livelihood for some of the most politically powerful actors in America — not just unpopular insurers and drug companies, but hospitals, doctors, and nurses. The bigger the problem, the more unlikely a solution can be feasible, either politically or practically. Told you this would be an uncomfortable truth.

At the same time, it would still behoove those who don’t run for office or prescribe unnecessary treatments or overcharge for medical devices for a living to, if nothing else, shout the simple fact from the rooftops.