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Health Care Reform: Killing the Golden Egg Laying Goose (and Patients Too)

Ronald Bailey | November 18, 2009

The U.S. health care "system" is a mess. Yet, the elements of market competition that still manage to survive have had the salubrious effect of driving medical innovation and improving patient health outcomes. A new study by the free market Cato Institute, "Bending the Productivity Curve: Why America Leads the World in Medical Innovation" reports:

> ... none of the most influential international comparisons have examined the contributions of various countries to the many advances that have improved the productivity of medicine over time....
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> In three of the four general categories of innovation examined in this paper — basic science, diagnostics, and therapeutics — the United States has contributed more than any other country, and in some cases, more than all other countries combined. In the last category, business models, we lack the data to say whether the United States has been more or less innovative than other nations; innovation in this area appears weak across nations.
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> In general, Americans tend to receive more new treatments and pay more for them — a fact that is usually regarded as a fault of the American system. That interpretation, if not entirely wrong, is at least incomplete. Rapid adoption and extensive use of new treatments and technologies create an incentive to develop those techniques in the first place. When the United States subsidizes medical innovation, the whole world benefits. That is a virtue of the American system that is not reflected in comparative life expectancy and mortality statistics.

> Policymakers should consider the impact of reform proposals on innovation. For example, proposals that increase spending on diagnostics and therapeutics could encourage such innovation. Expanding price controls, government health care programs, and health insurance regulation, on the other hand, could hinder America's ability to innovate.

As I have pointed out some prominent analysts actually favor putting a stop to medical innovation. For example, I noted in my article, "Dreams of Stagnation" that bioethicist Daniel Callahan argues that...

> ... even the Europeans, Callahan sadly notes, have been contaminated by "the quest for perfect health." His nostalgia is palpable. "If we had exactly and only the same range of technologies as were available twenty or thirty years ago, there would be no problem in equitably allocating resources," he writes. "We could readily afford that level of medicine and health care." (It would be even cheaper, of course, if we returned to using rattles and beads as remedies.) Callahan says political philosopher Daniel Sarewitz is "not far off the mark when he writes: `Political and cultural institutions might find their goals better served by responding to [their] problems as if scientific and technological progress had come to an end and the only recourse left to humanity was to depend upon itself.' "

Callahan reiterated his arguments for European-style cost controls on medical innovation in his new book, *Taming the Beloved Beast: How Medical Technology Costs Are Destroying Our Health Care System*:

> "They use—among other tools—price controls, negotiated physician fees, hospital budgets with limits on expenditures, and stringent policies on the adoption and diffusion of new technologies." [In other words, stifle innovation.]
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> "Cutting the use of technology will seem wrong—even immoral—to many," Callahan admits.

Well yes.

Harvard University economist Kenneth Rogoff observed:

> "[I]f all countries squeezed profits in the health sector the way Europe and Canada do, there would be much less global innovation in medical technology. Today, the whole world benefits freely from advances in health technology that are driven largely by the allure of the profitable U.S. market. If the United States joins other nations in having more socialized medicine, the current pace of technology improvements might well grind to a halt."

In my column, "2005 Medical Care Forever," I suggested this thought experiment:

> ...what if the United States had nationalized its health care system in 1960? That would be the moral equivalent of freezing (or at least drastically slowing) medical innovation at 1960 levels. The private

> sector and governments would not now be spending so much more money on health care. There might well have been no organ transplants, no MRIs, no laparoscopic surgery, no cholesterol lowering drugs, hepatitis C vaccine, no in vitro fertilization, no HIV treatments and so forth. Even Canadians and Britons would not be satisfied with receiving the same quality of medical care that they got 45 years ago....
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> As Rogoff suggests, the nationalized health care systems extolled by progressives have been living off the innovations developed by the "only country without a universal health care system." I wonder how Americans would vote if they were asked if they would be happy freezing medical care at 2005 levels forever?

Go here to download the new Cato Institute study.