



Bipartisan Indifference to Controlling Health Care Costs

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If President Obama's **health care summit** showed anything it is that when it comes to controlling health care costs there is bipartisan agreement in favor of looking for the easy solution. Both sides dragged out the traditional villains, "fraud, waste, and abuse." There was the usual search for silver bullets. Republicans dwelled at length on medical malpractice Democrats talked about pooling and the advantages of comparative shopping through the exchanges. Everyone was in favor of preventive care.

But both sides seem curiously unwilling to address the most important participant in the health care equation -- the consumer.

Democrats appear to see consumers only as a class needing protection. Their focus is almost exclusively on government action.

Republicans at least give lip service to a consumer-focused health care system, but seem reluctant to really endorse proposals that shift more risk and responsibility to those consumers.

Perhaps that is because in the long-run, the only way to spend less on health care is to consume less health care. Someone, sometime, has to say no. But the incentives under our current health care system perversely encourage everyone to say "yes."

Essentially, we all want to live forever. This makes health care a very desirable good. At the same time, the normal restraints imposed by price are frequently lacking. Today, of every dollar spent on health care in this country, just 13 cents is paid for by the person actually consuming the goods or services. Roughly half is paid for by government, and the remainder is covered by private insurance. And, as long as someone else is paying, consumers have every reason to consume as much health care as is available.

On the other, when consumers share in the cost of their health care purchasing decisions, they are more likely to make those decisions based on price and value. Take just one example. If everyone were to receive a **CT brain scan** every year as part of their annual physical, we would undoubtedly discover a small number of brain cancers much earlier than we otherwise would, perhaps early enough to save the patient's life.

But given the cost of such a scan, adding it to everyone's annual physical would quickly bankrupt the nation. But, if they are spending their own money, consumers will make their own rationing decisions based on price and value. That CT scan that looked so desirable when someone else was paying, may not be so desirable if you have to pay for it yourself. The consumer himself becomes the one who says no.

Think of it this way. If every time you went to the grocery store, someone else paid 87 percent of your bill, not only would you eat a lot more steak and a lot less hamburger --but so would your dog. And food costs would go up for everyone.

The [RAND Health Insurance Experiment](#), the largest study ever done of consumer health purchasing behavior, provides ample evidence that consumers can make informed cost-value decisions about their health care. Under the experiment, insurance deductibles were varied from zero to \$1,000. Those with no out-of-pocket costs consumed substantially more health care than those who had to share in the cost of care. Yet, with a few exceptions, the effect on outcomes was minimal.

And, in the real world, we have seen far smaller increases in the cost of those services, like Lasik eye surgery or dental care, that are not generally covered by insurance, than for those procedures that are insured.

In fact, a [study](#) by Amy Finklestein of MIT suggests that nearly half of the per capita increasing health care spending is due to increased health insurance coverage.

No one is suggesting that people shouldn't have insurance. But insurance is ultimately meant to spread the risk of catastrophic events, not to simply prepay your health care. Your homeowners insurance covers you if your house burns down. It doesn't pay to mow your lawn or paint the fence.

Unfortunately, rather than getting consumers more engaged in their health care decisions, Congress appears ready to move in the other direction.

The president actually denounced high-deductible insurance and greater consumer cost sharing as "not real insurance." Both the House and Senate versions of health reform reduce co-payments and all but eliminate policies with high-deductibles. No co-payments at all are allowed for a wide variety of broadly-defined "preventive" services. The consumer share of health spending will actually decline to just ten cents of every dollar by 2019.

This all but guarantees that health care costs and spending will continue their unsustainable path. And that is a path leading to more debt, higher taxes, fewer jobs and a reduced standard of living for all Americans.

Health care reform cannot just be about giving more stuff to more people. It should be about actually "reforming" the system. That means scrapping the current bills, and crafting the type of reform that makes consumers responsible for their health care decisions.

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Michael Tanner is a senior fellow at the Cato Institute and head of research into health care reform.