Choosing the Future

Critical Information for Critical Times, Edition of Wednesday, September 2, 2015

First we must call things by their right names. -Chinese proverb

In general, when people talk about the cost of "health care", they have in mind the cost of medical care; that is, the physician-directed diagnosis and treatment of an illness or injury in a doctor's office or a hospital.

However, when politicians, government officials, and employers talk about the cost of "health care", they are talking about the aggregate cost of government or commercial hospital insurance.

These are not the same things and appreciating the difference is of vital importance.

"Health care" (or even worse, "healthcare") is a socio-political construct which conflates medicine, public health, and hospital insurance, blurring vitally important distinctions. Politically, this construct has been quite successful but it has led us to the brink of economic disaster. Let us de-conflate "health care" in bite-sized chunks, starting with the real cost of medical care.

The total cost of medical care in the United States can be calculated using the formula shown below:

N x U = C

Where:

N = Number of occasions of service (physician office visits, exams, hospital patient days, etc.).
U = Unit cost per occasion of service (labor, supplies, equipment, etc.).
C = Cost of medical care in aggregate.

In economics, elasticity in demand refers to the degree to which demand for a good or service varies with its price. It seems logical to believe that medical care consumption is driven by clinical need and much tertiary care consumption certainly is. However, there is a significant amount of elasticity in demand for primary health care. To the extent that consumers of any desirable service, such as medical care, are shielded from the real costs of the consumption decision, demand for that service will increase exponentially—and so will the aggregate cost generated by its consumption. *That is reality and it is a problem.*

My first hospital office more than forty years ago was in a Midwestern teaching hospital situated directly across the hall from that of the Chief of Medicine. His stock introductory message to each new crop of first-year residents was direct. "Eighty percent of all human disease is self-limiting," he would say, leaning back in his chair with his feet up on his desk. "Most of your patients will get better with or without your efforts-just don't screw it up!" Now I don't pretend to know if Fred's "eighty percent" estimate was accurate although the evidence (see here, here and here) increasingly suggests that it was. However his central point is not only true but essential to understanding one of the principle reasons that aggregate costs have exploded. *Much unnecessary primary care demand is generated by the Third Party Payer System from patients who don't have to pay for it.* This factor alone drives up "N" in our formula geometrically. Next week: The Other Shoe.

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