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History, Values and Healthcare

IS OUR HEALTHCARE SYSTEM

You're listening to ReachMD XM157, The Channel for Medical Professionals. Welcome to the Clinician's Roundtable. Your host Dr. Maurice Pickard and joining me today is Mr. David Johnson. He is a managing director in a healthcare group of City Global Markets.

DR. MAURICE PICKARD:

Thank you very much Mr. Johnson for joining us.

MR. DAVID JOHNSON:

Thank you Maurie.

DR. MAURICE PICKARD:

Can you tell me; to begin with, what is the unique character of American's healthcare systems?

MR. DAVID JOHNSON:

Let me start with this story. About 20 years ago, I had to give a talk to a group of New Jersey legislators and they wanted me among other things to answer the question why is the US healthcare system the way it is? Not like Europe, not like Canada and I had never really thought about it. To tell you the truth I have just been working on it on the finance side and so it was 2 weeks before and I have not gotten an idea the week before and 2 or 3 days before I still was not sure, but I just started writing down, what I thought were some quintessential American values, things like were good in a crisis but bad at long term planning. We believe in competitive financial markets, but we distrust the government. We revere the individual, we have a strong community orientation, we have faceable demand, we believe in miracles, love technology and I rate those around the country and as I kind of looked at it

DR. MAURICE PICKARD:

And winning, I think.

MR. DAVID JOHNSON:

And winning, yes, being No. 1, of course, and I rate those around the country and what stills out of that is the healthcare system that provides the absolute best healthcare that money can buy, absolute world leader in technology and innovation, but at the same time has

enormous coverage gaps and a maldistribution of facilities and practitioners and that is evidenced by 40 million, 50 million people without health insurance, many medically undeserved areas and so on, and so that the punch line to the question was if you want to understand why we have the healthcare system we do, look in the mirror and it reflects who we are as a people, our values and experience and I think that becomes an interesting avenue to look at the healthcare system because in some respects how do you explain why we as a society tolerate 50 million people without health insurance. We are the only industrialized country that does not provide health insurance to its citizens and my own belief is that it is deeply ingrained in our DNA and a byproduct of our belief and rugged individualism and to some extend if people do not have health insurance we view it as their own fault.

DR. MAURICE PICKARD:

So in other words, our values and our histories have led us to this particular point. You used the word fragmentation and certainly it is not that hard to see how fragmented our system is. But you also say that our fragmentation is ironic. What did you mean by that?

MR. DAVID JOHNSON:

Ironic is a misused word, I think, quite a bit, but it is where our perceived strength when looked at more closely also reveals a weakness. Step out of healthcare for a second and I think you could argue and not many would disagree now that our attempt to go in to Iraq as the nation sole superpower was ironic in some respect. What appears as a strength and indeed was a strength, unmatched military powers, our ability to extend that on a global basis allowed us to go in to Iraq, but the over belief, over confidence in our ability to execute a difficult mission has actually turned that into something that is a much longer term, much more costly, much more damaging to our national reputation than any one and certainly any of the planners would have anticipated so and that is what I mean by ironic, since what appears as a perceived strength actually has been, upon close examination, weakness. Again, I think when you are looking at the American Healthcare System; we have so many perceived strengths. Our hospitals, our technology, the level of training our physicians, our ability to attract the best and the brightest from other countries not only to practice medicine but to conduct research at first glance make the health system appear without rival in the rest of the world, but in some respects upon closer examination, that is why I am so interested in values, on closer inspection of those values we find that there is a byproduct that is not positive and that is we have a society with uneven access to healthcare. We have a system that tends to respond to crisis and it is terrible with many logical things like disease management, preventive care, promotive care and so on. Again, that is the function of the fragmentation. The fact that the parts work independently and in some cases produce remarkable results, but in other cases produce results that are terribly disappointing.

DR. MAURICE PICKARD:

Ya, in 1993 our president said the system is barely broken and it is time to fix it and now we are looking at it many years later and we are almost at the exact same place and during now an election campaign. Certainly, I grew up with and I am not an economist, I am a physician that I grew up in my home that markets would resolve all financial problems. That this was a market driven economy, but in our particular profession supply does not necessarily meet demand, especially when you have a third party payer picking up the bill how would you respond to what is known as Roemer's Law?

MR. DAVID JOHNSON:

For the larger point, I think healthcare economics is frequently countered into, gets Roemer's Law on a second, but you know another interesting counter intuitive aspect of healthcare economics is that investment and technology adds cost, in almost every other industry, you can take them off banking, automotive, warehousing detail, investment and technology reduces cost by creating greater efficiency in healthcare. As I said when hospitals and physicians investment technology it invariably raises cost, another counter intuitive example was Roemer's Law which is based on the work of healthcare public policy researcher from UCLA actually died a couple of years ago, but he noticed in the early 60s that rather than demand driving supply that supply is driving demand and in essence I will give you kind of a basic example. If you have more cardiac cath labs and more cardiac surgeons in any given area that area is going to end up with more cardiac cath procedures whether or not there is medical necessity for it and the reason that occurs is our system really is not a market based system and the way, I think, most of us know that the patient receiving the care is not direct thing for, in almost all circumstances that is done by a third party, the insurance company or the government. The person determining the level of care is the physician or hospital that then negotiates directly with the insurers or receives the government payment, so by and large the determination of whether or not something gets done is the function of reimbursement, not a market behavior and that was Roemer's observation was

that supply can drive demand if there is a high likelihood that a third party will reimburse the cost of those services and even though he made that observation in 1960 it is still largely true today and has been in all times that will form around the margins that would still basically in a system where hospitals and doctors provide healthcare services generally around acute episodes of disease or injury and they submit their work for payment through a third party and it is not really subject to the normal rules of supply and demand, so the more facilities the more practitioners you have. You may have seen a report that came out from <_____> about a month ago and the physician named Jack Weinberg who has been doing studies of Medicare use for payment and use for years and he has filled volumes that show how different areas of the country have different practice pattern. His latest study looked at the cost of chronic care for Medicare in the last 2 years of life and I think part of the reason this particular study has gotten more publicity is that he focussed on the 5 highest ranked medical centers, academic medical centers from the US News and World report study and we can talk about it a little later but all household names, The Cleveland Clinic, The Mayo Clinic, John Hopkins, Mass General and UCLA, and it turns out that the Mayo Clinic had the lowest cost Medicare paid, lower cost for chronic care in the last 2 years of life and any of the other 5, it was just over 50,000. UCLA had the highest cost at just fewer than $100,000 and the reason for the difference was not that UCLA charged higher prices because by and large Medicare pays the same with some differences for all procedures. It is just if you happened to be a patient at UCLA, you got a lot more medical care, you get more procedures, more tests, and more days in the ICU. Now, digging more deeply into that the defenders of that type of aggressive treatment will say that they are being aggressive if they are going extra miles for their patients. If we talk to the president of the Mayo Clinic, what he will say is that the physicians are salaried, but they not

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