Book Reviews

Health Care for Us All: Getting More for Our Investment
Earl L. Grinols and James W. Henderson. 2010. Cambridge: Cambridge University Press. ISBN 978-0521738255, $29.99 (paper).

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Earl Grinols and James Henderson have written an important book that on first glance has been overtaken by events. In this review I will argue that by focusing on economic fundamentals, this book is important and relevant to reasonable people interested in health care policy. However, I write this review with a tinge of sadness which the authors may share: the current debate on health care has become so charged that it is hard to imagine a rational political debate along the lines of the issues and analysis presented in this book. Upon reading this book, you may be infused with nostalgia for the time when serious and rational debates could at least be hoped for, and I suggest that you hold this book and its arguments at your side, preparing for the moment when debate is again possible.

There are three arguments in this book: an economic analysis of the health care sector, a presentation of the authors' health care plan, and a defense of the authors' view of the role of government. I briefly touch on these three elements below.

The analysis of issues in health care is insightful and well presented. My own expertise is with health care in developing countries and I found their insistence on separating the issues of health care access from the issue of poverty to be helpful and true to my experience. Many poor people have limited access to health care and many people with limited access are poor, but using health care to solve the poverty issue or ignoring poverty while you try to solve the health care access problem is terrible policy. The confusion between the two has disastrous implications in both Tanzania and the U.S. The authors similarly insist on dissecting health insurance into its multiple roles: insuring against unforeseen high costs, insuring against changes in underlying health status (which could lead to permanent, foreseeable high costs), and encouraging behaviors that lower the future costs of health care such as regular preventative care.[1] (The quote about health insurance on page 109 is insightful, and you should reread the chapter as many times as it takes if you do not get the joke.) These and many other analytical tools are useful to understand the implications of current and proposed health care plans.

Their discussion of prices (chapter 10) and innovation (chapter

11) is necessary and useful, but unfortunately brief. This is not the fault of the authors, since they have a short space in which to make their point on a complicated subject. The authors do an excellent job of illustrating that there is no simple solution to these issues; you will be well-armed if anyone says, "all we have to do is ...." One trick I wish they had used to illustrate pricing is the following: when your doctor recommends a test covered by your insurance (so that you pay only a small deductible for the service), imagine what decision you would make if he offered you a choice of the test or the cash amount equivalent to the true cost of the test. Even the most adamant opponent of gate keeping in health care would admit to occasionally seeing the cash as more valuable than the test.

Their plan for health care reform relies primarily on markets to provide both health insurance and health care. Government intervention comes from supplementing the income of the working poor and encouraging the purchase of insurance using market based incentives. Thus, almost all Americans should be insured and purchasing health from the private market. Individuals can choose expensive plans with few restraints on consumption or less expensive plans that cover significantly less. Revenue is generated from taxes on the profits of the health industry, creating a type of closed loop. Government intervention is limited to regulations such as enforcing a one price policy (the price charged by one hospital for one service cannot vary across purchasers) and taxes and subsidies. This is not public health care, but it is not ignoring the health care crisis either.

The plan itself is probably never going to be implemented, not through any fault of its own, but because the political process only rarely adopts plans that are this simple and rational (more on this below). However, it is an excellent reference with which to discuss any proposed plan. The authors illustrate this with their analysis of the Swiss and Massachusetts' plans. Where the plan is similar to the authors' proposal you can almost smell the rationality and where it is not similar you can see the process of political compromise at work.

In their analysis of health care, the authors clearly state their opinions of the economic process and the political process. In their view, one is unavoidable, can be predicted using mathematically tractable models, and is presented in a way that enshrines the principles of human rationality. This is the economic view of human behavior; what others call selfish we economists call rational. What others think is good we see as a response to incentives and what others think is bad is just a response to different incentives. The political process on the other hand (both politicians and voters) is presented as a damaging and dangerous thing that destroys the beauty of good policy. This is not fair. Both behaviors—individual rationality and political power-seeking—are completely rational and predictable outcomes of incentives, and the individual who maximizes his own utility without regard to the utility of others is neither better nor worse than the politician who seeks re-election or the voter who seeks to maximize his take from government revenue. The authors present a plan which is politically impossible and leave us to blame the political process for not taking advantage of it. This is no nobler than a politically astute plan which will fail because economic individuals do not do what they are told. Economic science is not morally superior to political science.

Part II (chapters 4 and 5) is a summary of the authors' view of the role of markets, government, and charity. Grinols and Henderson move swiftly and cunningly between normative and positive statements, something that all economists should view with suspicion. Economics is at its best as a positive science, analyzing the way things are and explaining the intended and unintended impact of policies. It is on less firm ground when it becomes normative: describing the way things should be. For example, most economists (me included) agree that almost all forms of taxation impose social inefficiencies and that therefore, using government for any redistributive purpose imposes significant costs on society. This is a positive result of economic theory backed up by empirical analysis. I reach the normative conclusion that an informed population, using the democratic process, must therefore decide what costs it is willing to bear in order to achieve its redistributive goals: efficiency is sacrificed for equity following the will of the majority. The authors of this book appear to suggest that efficiency is more important that equity in all settings. I do not know what form of polity they would suggest but their writing leaves me with the impression that they believe democracy is inferior to a polity run by efficiency-maximizing philosopher kings reminiscent of Plato. We do not disagree about positive conclusions, just the normative implications of these conclusions. I do not impugn their normative conclusions, but I must point out that they are well outside the bounds of expertise in our discipline.

On the other hand, I benefited from the authors' positive critique of the political process. One point in particular should be driven home whenever possible. A government program which is well-liked, well-run, and considered highly successful is not necessarily a good program. Why not? Because there is almost always a way to achieve everything the program achieves but at less cost to everyone. From farm subsidies to social security, our federal government is riddled with unassailable yet irrational programs. We should never use these programs as guides for successful policy. We may not be able to avoid them, or fix them, but we certainly should not seek to replicate them.

After reading the chapters in section II, I realized that although our political interpretation of U.S. history is different, the lessons we draw from it are not. First, the founders of America understood that choosing a good process was better than laying out what outcomes they wanted. Second, this dovetails nicely with the second welfare theorem, which loosely states that any outcome is either achievable by market forces (process) or not as good as one that does use market forces (process). Thus, third, the authors and I would probably agree that it is dangerous to confound process and outcomes: choose the outcome you want and then figure out how to use market forces to achieve that outcome. Do not simply mandate the outcome you want because you are unlikely to get what you want, and there is probably a much cheaper way to achieve it anyway. In an ideal world, let the politicians tell us what the people want then let the economists (and doctors!) figure out the most efficient mechanism to achieve that.

Thus, despite struggling with much of their discussion in section II, at the end I was back on the same page with the authors. In addition, I learned something very important from reading the book from beginning to end: a careful, well thought-out analysis of the health care market by people to the right of me in the political spectrum would be condemned as socialist by most of the Republican Party today. To be specific, the authors recommend either a value added tax on all consumption combined with a rebate for people who can prove they have purchased health insurance, or a tax penalty on anyone who has not purchased health insurance. As I write this review, people are marching on the White House condemning exactly these kinds of ideas as foreign and anti-American. If I had written this book and replaced the middle section with my interpretation of U.S. history, I am certain my conclusions would be condemned by the liberal wing of the Democratic Party. Reaching this conclusion, I realize what a loss we all experience when our political process becomes dominated by such uninformed and recklessly strong opinions.

In examining this book from a Christian perspective, I was struck by the similarity to debates on health care policy in developing countries. In many poor countries health care is provided at low cost to all citizens through direct public provision, a form of insurance. The debate is whether health care should be provided for free or on a low cost (subsidized) basis. The moral high ground is occupied by those who feel that any fees will impede the access of the poor. My research shows that the quality of care suffers drastically in a free system because all financial resources must come from the central authority, giving consumers no tools with which to demand quality. What struck me is that the largest block of pro-fee health practitioners in developing countries is the voluntary health services, almost exclusively Christian health care services. Thus, most Christians who work in these settings support fees, when the international community as a whole condemns them. I came to my conclusions following an economic process that Grinols and Henderson outline in their book: define your end goal and then choose an incentive based, economically rational system to achieve it. My goal is health care access and fees are the best way to achieve it. Those who disagree with me are, in effect, seeking to mandate what they think is best: high quality health care for everyone for free.

If there is a connection here it is that Grinols, Henderson, and I are more interested in results than intentions. Is this a central Christian theme or something shared by Christian economists? Are we more like economists or Christians? Personally, I am reluctant to justify my views exclusively with Jesus' example as my guide. However, Luke tells us that the Samaritan told the innkeeper he would return to check on the man he had helped. Maybe we the economists need to be the ones who come back and check.

Endnotes

1. In chapter 7 they suggest that subsidized regular visits to the doctor make little sense in an insurance package since they are anticipated and affordable private expenditures (p. 122), but in their plan (p. 140) they recommend subsidized preventive care to offset the lowered costs of curative care. My summary here leans towards the second recommendation because I see regular doctor visits as low cost preventive care. ■