

# Improving Health Care: Direct-to-Consumer Competition

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Observation #1:  
Health Care Competition  
Is Hard Work,  
Made Harder by Government

Public Programs Influence Competition

- Govt Purchasing & Administered Pricing
  - Distorts Prices, Overbuilds Capacity, Skews Allocation
  - Clumsy Buyer
  - Shapes Business Environment

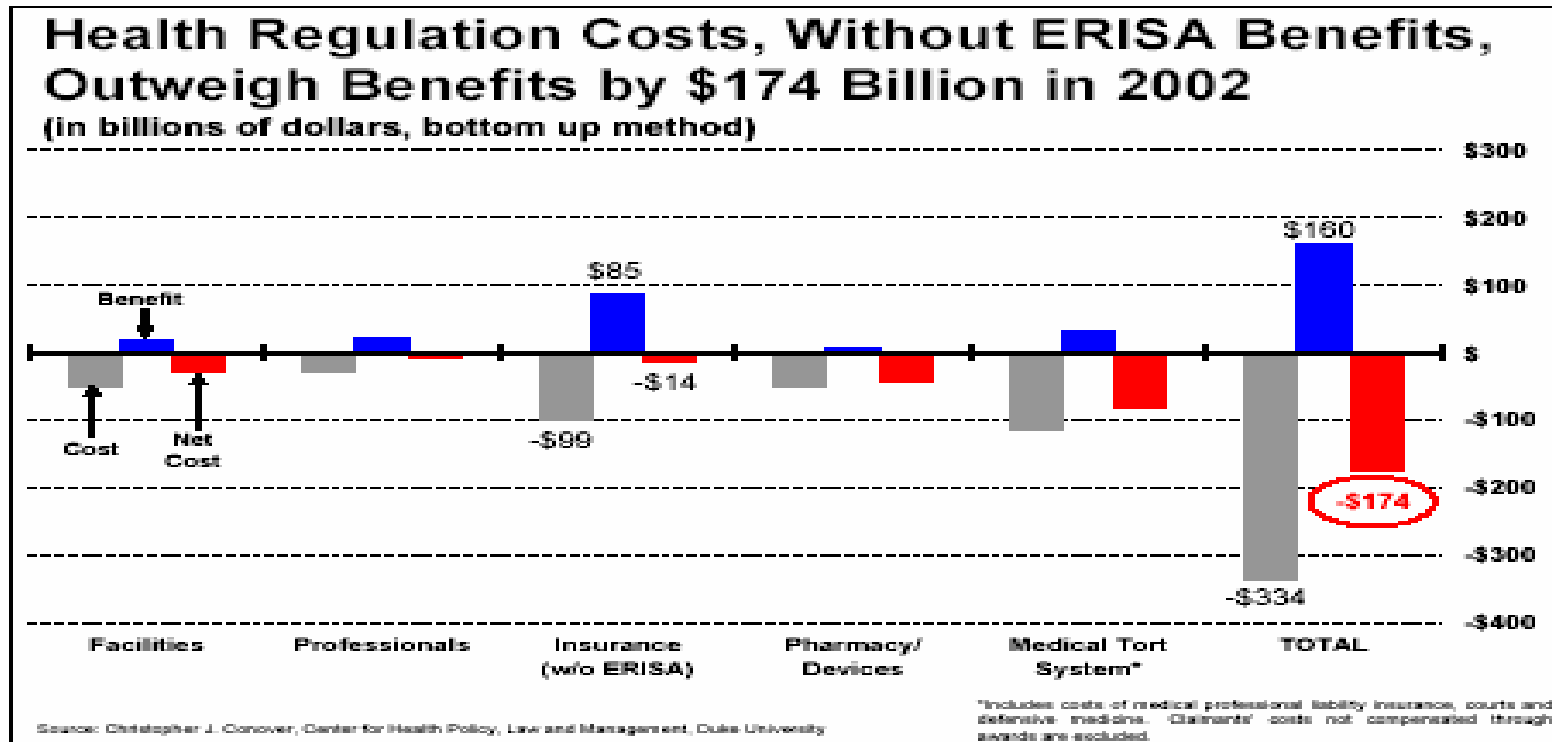
# Observation #2

## Unintended(?) Consequences

### OverRegulation & MisRegulation

- \$174 Billion Net Burden
- Adaptive Behavior to Game System (Ex. SSHs, ASCs, CON)

# Net Burden of Health Services Regulation 2002



Prepared by the Joint Economic Committee  
 Chairman Robert F. Bennett  
 May 17, 2004

# Sectoral Competition within the Health Care Industry



# Observation #3

## Competition vs. Subsidies

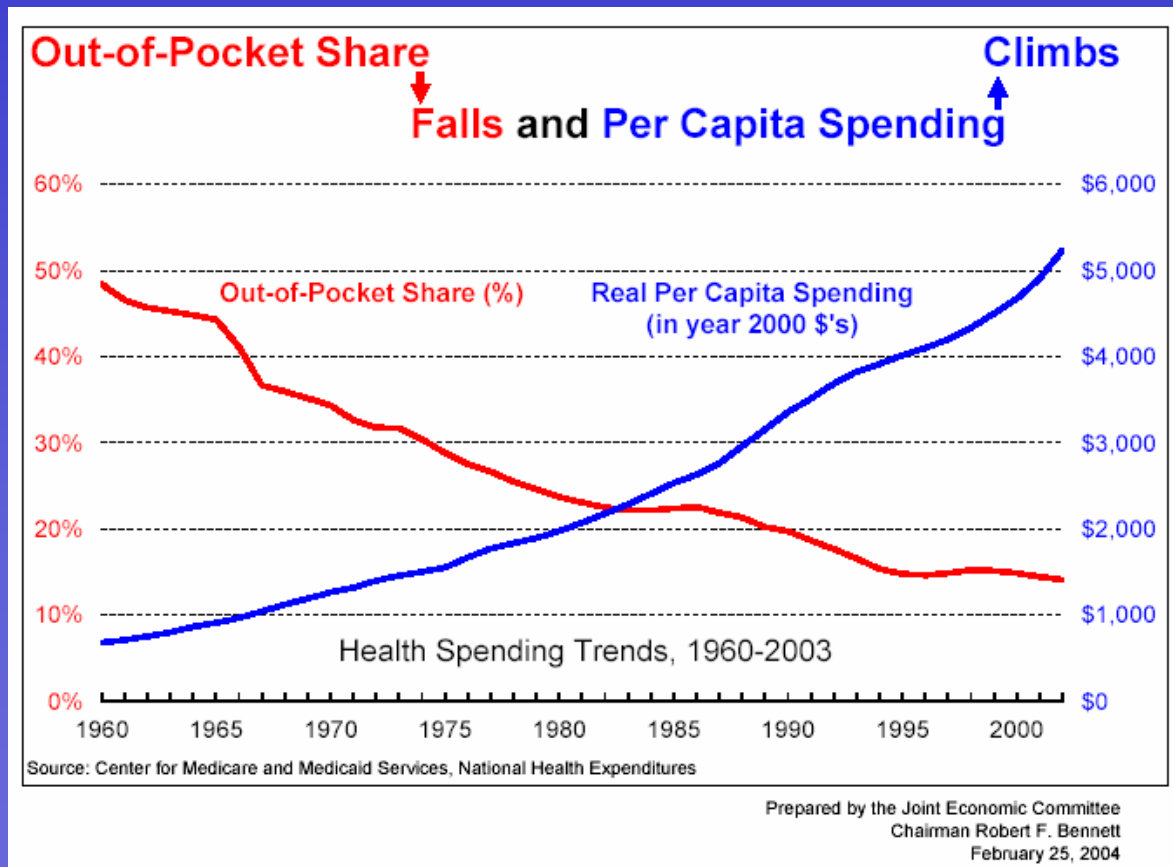
- Mistargeted Subsidies & Hidden Cross-Subsidies
- Do What I Say, Not What I Do
  - Price Controls, MFN, State Action
  - Noerr-Pennington, (Un)Competitive Bidding

# Observation #4: The Golden Rule

Third-Party Payment = Third-Party Decisions

- Tax Exclusion
- ERISA

# Greater Share for Third-Party Payment Drives Health Spending Higher





# Observation #5: Who's The Boss?

## Putting Consumers Last in the Health Care Food Chain

- <15% NHE Paid OOP
- Third-Party Payors Largely Decide How Much to Pay & What to Cover ( 47% of Workers -- Choice of >2 Plans)
- System Designed around Preferences of Payors, Providers, & Politicians; Not Patients
- Temporal Disconnects between Investments and Rewards (Quality, Safety, Value)
- End Users Live, or Die, with the Consequences

Observation #6:  
Consumer Driven Care Is Too  
Important to Be Left to Consumers

“There is no justification for putting patients in the middle of ... health care financing”

Thomas Priselac, re “Tiering,” Chapter 3, p. 35  
*Improving Health Care: A Dose of Competition*

# Competition: For What? For Whom? Where? and When?

## Looking for Competition in All the Wrong Places

- Provider Inputs vs. Health Outcomes
- Satisfy Payors, not Patients
- At Level of Health Plans and Hospitals, or  
Level of Individual Health Conditions
- At Point of Network Contracting & Plan Enrollment,  
not Point of Service
- Wrong Place, Wrong Time, Wrong War?

# Observation # 7

## Dialing 411 for Health Care Info

- Price Transparency Is Just the Beginning
- If They Know What It Costs, They'll Ask What It's Worth
- Need Longitudinal Cost Per Episode Measures & Comparisons
- Make Existing Data Available; Realigned Incentives, New Intermediaries Help Refine It
- Better than Nothing, Will Become Good Enough
- Public Disclosure Drives Behavioral Change
- Marginal, Informed Consumer Signals Others

# Observation # 8

## Antitrust May Be A Small Hammer Looking for Even Smaller Nails

- Picked the Lower Hanging Fruit Decades Ago
- More Powerful Forces of Distortion at Work
- Hospital Merger Record – Time for Critical Loss Analysis

# You're Going to Need A Bigger Boat

