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## Where Are the Innovators in Health Care Delivery?

Written by John Goodman

Almost everyone believes there is an enormous amount of waste and inefficiency in health care. But why is that? In a normal market, wherever there is waste, entrepreneurs are likely to be in hot pursuit — figuring out ways to profit from its elimination by cost-reducing, quality-enhancing innovations. Why isn't this happening in health care?

As it turns out, there is a lot of innovation here. But all too often, it's the wrong kind.

There has been an enormous amount of innovation in the medical marketplace regarding the organization and financing of care. And wherever health insurers are paying the bills (almost 90 percent of the market) it has been of two forms: (1) helping the supply side of the market maximize against third-party reimbursement formulas, or (2) helping the third-party payers minimize what they pay out. Of course, these developments have only a tangential relationship to the quality of care patients receive or its efficient delivery.

The tiny sliver of the market (less than 10 percent) where patients pay out of pocket has also been teeming with entrepreneurial activity. In this area, however, the

entrepreneurs have been lowering cost and raising quality — what most of us wish would happen everywhere else. For example:

- There are more than 1,000 walk-in clinics spread across the country today — posting transparent prices and delivering high-quality, low-cost services;
- Whole businesses have been created to provide people with telephone and e-mail consultations because third-party payers wouldn't pay for them;
- Mail-order pharmaceuticals are a huge and growing market — one which emerged to offer price competition to consumers who buy their drugs out-of-pocket;
- Wal-Mart didn't introduce the \$4-a-month package price for generic drugs in order to do a favor for Blue Cross. It is catering to customers who pay their own way;
- Concierge doctors are also providing patients with innovative services — services that health insurers don't cover.

With respect to medical care itself, the technological response has been much the

same. Wherever there is third-party payment, the goal of innovation is to produce more products that qualify for reimbursement, even if the effects on patient outcomes are only marginal. Wherever there is no third-party reimbursement, innovators are focused on ways to lower cost and raise quality.

Take cosmetic surgery. Over the past two decades there has been an enormous amount of innovation in the field — all of the cost-lowering, quality-raising variety. That explains why the volume of cosmetic surgeries grew six-fold over the past 20 years, while the real price declined by more than one-third. Similarly, there has been remarkable innovation in LASIK surgery — another area where third-party payers are not. Yet the real price of LASIK surgery has declined by 25 percent over the past decade.

The same principle can be seen at work in the international marketplace. For example, India has a potentially huge market for medical care. But 80 percent of health care spending in that country is private and there is very little health insurance. So some of the companies that make expensive technology for the developed world are now finding ways to produce the same services for a fraction of the price.

GE Healthcare, for example, has introduced a portable electrocardiogram machine into the Indian market that will perform the heart exam for 20 cents (compared to a normal price of \$50). Siemens (another maker of high-end, expensive equipment) has built mobile diagnostics units for the Indian market with X-ray, ultrasound and pathology systems.

As Sujay Shetty, leader of the pharmaceuticals practice at PricewaterhouseCoopers in India, explained, “In India we want first-world technology at third-world prices... India can also be a springboard for Africa and Latin America, which have similar needs.”

The bottom line: If we want more of the right kind of innovation in the United States, we must encourage arrangements (like Health Savings Accounts) that will give patients more control of their health care dollars.

*John C. Goodman is the president and CEO of the National Center for Policy Analysis President and the Kellye Wright Fellow.*