



Health Care Costs Are Killing Us

by Arthur L. Kellermann

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For the first month of my medicine internship at the University of Washington, I was assigned to Seattle's VA Hospital. I was stunned to learn that my attending physician would be Paul Beeson, widely regarded at the time as one of the giants of American medicine.^[i] At an age when most doctors are enjoying their retirement, Dr. Beeson was still doing what he loved best—caring for patients and teaching.

I have forgotten most of the clinical pearls Dr. Beeson taught that month. But one that still stands out is the way he questioned the need for every lab test, x-ray and treatment my team ordered. "Why do you want *that*?" he'd ask. "What will you do with the result?" Throughout the month, he urged us to forego interventions that offered little benefit to our patients, but exposed them to potential side effects or complications. His message was clear. Do only what's needed, not more.

Today, we need Dr. Beeson's message more than ever before. In the three decades since I trained under him, America's health care system has grown so large, it claims a bigger share of the gross domestic product than American manufacturing or wholesale and retail trade.^[ii] As a result, the federal government spends more on health care than national defense and international security assistance. In several states, health care is crowding out spending for education. In the past decade, health care cost growth has wiped out the hard-won earnings of middle-class families.^[iii]

America won't remain a great nation if we continue on this path. Peter Orszag, former director of the Office of Management and Budget, has written that "Rising health-care costs are at the core of the U.S.' long-term fiscal imbalance."^[iv] At a time when our country is teetering on the edge of a "fiscal cliff," no challenge in health care is more important than reducing health care spending.

Recognizing the urgency of the situation, we recently synthesized 30 years of RAND Corporation research on health care spending and summarized it in five research briefs. The first outlines the dimensions of the challenge and serves as the series' executive summary.^[v] The other four describe complementary strategies for flattening the trajectory of health care spending:

1. **Foster efficient and accountable providers**—Although patients are the ultimate consumers of health care, physicians drive spending through the tests, treatments, hospitalizations and referrals they order. This brief ^[vi] makes a strong case for realigning how providers are paid in order to reward value rather than volume, and to encourage the elimination of wasteful and inappropriate care.
2. **Engage and empower consumers**—Many consumers give little thought to costs, because they think someone else is picking up the tab. But most of us are bearing a far larger burden than we realize. This brief ^[vii] reviews RAND's seminal research on the impact of cost-sharing, and more recent findings on the mixed effects of consumer-directed health plans. It also discusses the importance of giving consumers accurate and clear information that people with limited health literacy can understand, so they can select their providers based on quality and cost.
3. **Promote population health**—More than 70 percent of deaths in the United States and a comparable share of our nation's health care spending are due to behavioral or environmental causes, but only 5 percent of health spending is directed toward reducing these risks. This brief makes a strong case for the value of public health and the importance of population-based interventions to prevent costly chronic diseases.^[viii]
4. **Facilitate high-value innovation**—In most sectors of the U.S. economy, technology boosts productivity and lowers costs. In health care, the opposite is true. This is because the marketplace rewards innovators who create drugs and devices that can command high prices. What would happen if we altered incentives to encourage development of low-cost, high-impact technologies? This brief ^[ix] explores four promising ideas, including removing financial and regulatory barriers to high-value innovation; enhancing the efficiency of federally-sponsored research; expanding and improving the use of health information technology; and studying states' experiences to assess the impact of innovative health policies.

Notwithstanding the partisan battle over the federal Affordable Care Act, large majorities on both sides of the aisle in Congress support a market-oriented health care system based on competing health plans and providers. The only problem with this approach is that currently, American health care does not follow the rules of a normal market.^[x]

It doesn't have to be this way, RAND research, and the work of others, suggests that if we realign perverse incentives that currently drive costs higher, and start rewarding providers who embrace efficiency, accountability and value, American ingenuity and competition will take care of the rest. That's why my New Year's resolution is work to bring this about.

More information on these ideas can be found at: <http://www.rand.org/health/feature/health-care-cost.html>.

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