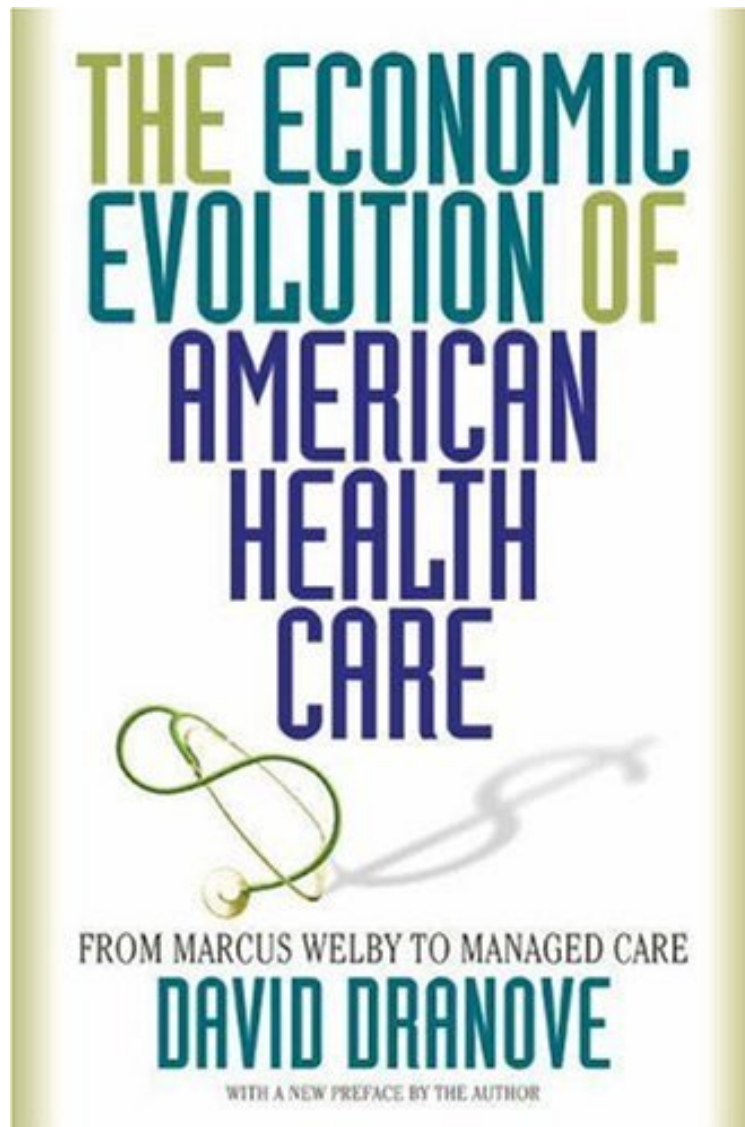


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## The Economic Evolution of American Health Care

*David Dranove*

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**David Dranove : The Economic Evolution of American Health Care** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Economic Evolution of American Health Care:

0 of 0 people found the following review helpful. Good but very dense By Scott McKeon Be ready for a very intense bit of reading, each sentence in this book is full of information and is needed to understand the next sentence. Even so, if you have the time and energy, you wouldn't go wrong to pick it up. It helps explain the development of the current situation of healthcare in the US, and it does it from an analytical, economic perspective, which is important in this day of feelings and propaganda. 0 of 2 people found the following review helpful. Easy to Read and Informative By C.

BehlivanI am in Healthcare IT area and I learned lots of insights about the problems of the healthcare industry from this book for excelling our product offer to physicians. Great Book Great Author...9 of 11 people found the following review helpful. Dry readingBy JWHCertainly the economics of American healthcare is an issue that has risen into the social consciousness in the last several decades. The issues are complex, but important to anyone who may be a provider or consumer of healthcare. Since this includes all of us, you might expect this book to have broad appeal. However, I doubt that it will.Do not let the lighthearted subtitle "From Marcus Welby to Managed Care" beguile you into thinking this is causal reading. It is not. It is a well-researched, well-written and scholarly look at changes in healthcare delivery in the last several decades. This does not lend itself to casual reading. While healthcare administrators and physicians may find this material worthy, it is not a book that many would read for enjoyment.Mr. Dranove has done a very fine job of concisely summarizing the issues in a very complicated subject. The reader is not presented with any equations or formulas and numbers and jargon are kept to a minimum. This is a very nice conceptual presentation of the issues surrounding largely unsuccessful attempts to reform American healthcare delivery. Emphasis is placed on prior attempts to affect marketplace forces and how these efforts failed because of unforeseen variables. The dullness of the material is not the fault of the author. The material is actually very well presented; it is just a very dry subject.If you are motivated to read this book, a better understanding of very important issues surrounding the economics of American healthcare will reward you. I found reading this book to be like taking bitter medicine. I'm better because of it, but I didn't enjoy it.

The American health care industry has undergone such dizzying transformations since the 1960s that many patients have lost confidence in a system they find too impersonal and ineffectual. Is their distrust justified and can confidence be restored? David Dranove, a leading health care economist, tackles these and other key questions in the first major economic and historical investigation of the field. Focusing on the doctor-patient relationship, he begins with the era of the independently practicing physician--epitomized by Marcus Welby, the beloved father figure/doctor in the 1960s television show of the same name--who disappeared with the growth of managed care. Dranove guides consumers in understanding the rapid developments of the health care industry and offers timely policy recommendations for reforming managed care as well as advice for patients making health care decisions. The book covers everything from start-up troubles with the first managed care organizations to attempts at government regulation to the mergers and quality control issues facing MCOs today. It also reflects on how difficult it is for patients to shop for medical care. Up until the 1970s, patients looked to autonomous physicians for recommendations on procedures and hospitals--a process that relied more on the patient's trust of the physician than on facts, and resulted in skyrocketing medical costs. Newly emerging MCOs have tried to solve the shopping problem by tracking the performance of care providers while obtaining discounts for their clients. Many observers accuse MCOs of caring more about cost than quality, and argue for government regulation. Dranove, however, believes that market forces can eventually achieve quality care and cost control. But first, MCOs must improve their ways of measuring provider performance, medical records must be made more complete and accessible (a task that need not compromise patient confidentiality), and patients must be willing to seek and act on information about the best care available. Dranove argues that patients can regain confidence in the medical system, and even come to trust MCOs, but they will need to rely on both their individual doctors and their own consumer awareness.

From The New England Journal of MedicineDuring India's struggle to gain independence from British rule, a reporter asked Mohandas Gandhi, "What do you think of Western civilization?" Gandhi replied, "I think it would be a very good idea." In *The Economic Evolution of American Health Care*, David Dranove acknowledges many of the problems of contemporary managed care but argues that, properly structured, it would be a very good idea. Although Dranove worries about "the possibility that managed care will never fulfill its promise," because "politicians may legislate [it] out of existence," he states, "I have no doubt that market forces can enable patients to obtain the highest quality care at low prices, while encouraging providers to be efficient and innovative." Writing in a nontechnical style, Dranove tries to "use an economic lens to examine the historical development of managed care." This is a tall order -- certainly in such a slim book -- and the results are uneven. There is little new here for those familiar with health policy, and the book may not be an absorbing enough read for a general audience, but it could be helpful to physicians and medical students who want to understand the economist's view of health care, including such important concepts as moral hazard, demand inducement, flat-of-the-curve medicine, and the medical arms race. The two strongest chapters are those on "merger mania" and on quality. In the former, Dranove presents economic theory and evidence that call into question the value of horizontal mergers (e.g., mergers of health maintenance organizations [HMOs]) and vertical integration (e.g., the purchase of physicians' practices by hospitals). Dranove recognizes the possibility that "many of the current mergers are thinly veiled efforts to gain market power" and that "if current trends continue, the health care economy may be dominated by firms that succeed through the abuse of power rather than through value creation." He believes that antitrust law can prevent this outcome but focuses more on potential antitrust violations by physicians and by hospitals than on such violations by health plans. Although he acknowledges that managed care to

date has mostly involved the management of cost, Dranove argues that by creating incentives for achieving continuous quality improvement and for reengineering the processes by which medical care is delivered, managed care can simultaneously contain costs and improve quality. He provides a reasonably thorough discussion of difficulties in measuring quality and in providing data on quality that patients will actually use, and he makes the interesting argument that imperfect measurements of quality, although unfair to some providers, nevertheless are better for patients and for quality improvement in general than no measurements of quality at all. The *Economic Evolution of American Health Care* combines an admirable degree of balance, candor, and realism with unsupported optimism and rather egregious economic functionalism. For example, after reviewing the literature on strategies used by HMOs to contain costs, Dranove carefully concludes that "selective contracting leads to lower prices, the evidence on incentives is weaker, and the evidence on UR [utilization review] is virtually nonexistent." Yet the book also contains such extremely optimistic statements as this one: "More and more providers are using electronic medical records, so the technology for linking medical records to outcomes should not be an obstacle to performing meaningful outcomes research." Dranove acknowledges that "managed care has utterly failed to win the trust of American patients" and that there is a widespread dislike of managed-care organizations, yet he claims that "managed care has clearly won the market test," because most patients are enrolled in managed-care organizations, and "markets provide what consumers demand.... Providers and insurers have gotten the message that consumers demand cost containment." This claim, based on what Dranove dubs the "survivor principle," represents the pure form of economic functionalism, which assumes that whatever is, is right. The book is occasionally marred by insufficient citations and by the fact that Dranove, a professor at Northwestern University's Kellogg Graduate School of Management, knows the hospital industry well but, like many health services researchers, is obviously less familiar with physicians and with the on-the-ground organization of health care. He incorrectly states, for example, that physicians spend four to six years in residency training, that physician-owned ambulatory-surgery centers have higher costs than hospital-owned centers, and that physician-hospital organizations routinely deduct the cost associated with each referral to a specialist from the incomes of their primary care physicians. Dranove concludes with general recommendations -- for example, physicians should acknowledge that quality varies and work to improve quality measurements -- and with a warning to physicians that if managed care does not succeed, they may find themselves dealing with a single-payer, government-run system. But perhaps in an attempt to keep the book short and simple, he gives only the briefest arguments for why he prefers managed care to a single-payer system and does not address the difficult, albeit relatively technical, questions about risk adjustment, the role of purchasing coalitions, risk contracting, and the incentives required to create a business case for investing in quality. Practical answers to these questions would be necessary if managed care were to become more than a good idea.

Lawrence P. Casalino, M.D., Ph.D. Copyright copy; 2001 Massachusetts Medical Society. All rights reserved. The New England Journal of Medicine is a registered trademark of the MMS.

From Booklist: Dranove, an academic and author, examines with an economic perspective the historical development of managed care. The goals for his book are to detail the strengths and weaknesses of the traditional physician-patient relationship and refocus the public debate about managed care. He began the book with an optimistic view of managed care and, while he continues to be optimistic, now understands that managed care may never fulfill its promise. Hurdles to success include the need for those markets to remain competitive necessitating strong antitrust laws; the need for better health-care data, which may require government intervention both to coordinate the collection of data and to establish a confidential patient identifier; the need for managed-care providers to accept quality standards; and the need for patients to shop around for the best managed-care plans and the best providers. Although everyone will not agree with the author's theories and conclusions, he offers important insight into a complicated and critically important sector of our society.

Mary Whaley Copyright copy; American Library Association. All rights reserved "[Dranove] offers important insight into a complicated and critically important sector of our society."--Booklist "[Dranove] raises interesting points on the benefits of managed care but does not hesitate to point out where MCOs can go wrong. While the book emphasizes the business aspect of healthcare, an economics degree is not necessary to understand the principles that are illustrated."--Library Journal "When you ask people why they don't like managed care, they usually don't give clear answers . . . But most people haven't had particularly bad experiences themselves . . . So it's been hard for most of us to know just how managed health care really does stack up . . . It's no longer so hard, thanks to *The Economic Evolution of American Health Care*, by David Dranove. . . A wealth of information."--David R. Henderson, *The Wall Street Journal* "Although everyone will not agree with the author's theories and conclusions, he offers important insight into a complicated and critically important sector of our society."--Booklist "Many governments are actively considering market-based solutions to health care inflation. My message to them is simple: before you try to emulate much of what we have done, read David Dranove."--Jerome P. Kassirer, *Canadian Medical Association Journal* "David Dranove acknowledges many of the problems of contemporary managed care but argues that, properly structured, it would be a very good idea."--Lawrence P. Casalino, *New England Journal of Medicine* "An excellent book that makes accessible a great deal of interesting and relevant research. . . . It reviews a remarkable list of important policy issues in a very short space and provides sharp economic insight into each of them. Even more, it is written in clear, non-technical language. . . . I recommend it

highly."--Alain C. Enthoven, Healthplan "The Economic Evolution of American Health Care delivers a great deal of new and valuable information in a crisp, very readable style. It is an excellent primer on the state of the US health care industry and on the economics of competition in health care."--Sherry Glied, Health Economics