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# BOOK REVIEW

## Apotheosis Of The Health Care Consumer

BY JAMES C. ROBINSON

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### **Market-Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry**

by Regina Herzlinger

(New York: Addison-Wesley, January 1997), 416 pp., \$25

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As good generals always do, U.S. health policy experts are busily fighting the last war. During the heroic phase of Clintonism, they distinguished themselves by debating the relative virtues of single payers and single sponsors as if the American citizenry was interested in income redistribution and regulatory centralization. Now they are legislating consumer protections under the assumption that Americans have been herded like so many cattle into a managed care slaughterhouse. The prevailing perspective is the same: The ordinary American is a "patient": ignorant, helpless, and passive.

Regina Herzlinger's new book, *Market-Driven Health Care*, is a glass of ice water thrown in the face of this conventional health policy wisdom. For Herzlinger, American consumers are educated, self-interested, and aroused. They have at their fingertips books, magazines, and Web sites that demystify medicine and point the direction to self-care and system mastery. They are not amused to wait an hour for an appointment to save their physician three minutes. They are paying for health care increasingly with their own money, which makes them grumpy and pugnacious. Any part of the health care system that doesn't ask "how high" when they say "jump" will not be in the yellow pages next year.

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If the consumer is so smart, why is the system so dumb? In Herzlinger's view, the major culprit is health insurance. People don't shop for value in health care because the bill is going to a third party. *Market-Driven Health Care* provides snapshots of a range of industries that offer better productivity, quality, and cost-effectiveness while demanding out-of-pocket payment. The solution is straightforward: Get rid of insurance—that is, get rid of coverage for preventive and primary care. Restrict it to catastrophic coverage. Medical savings accounts with high deductibles will sober up the consumer and thereby the provider.

In Herzlinger's view, the ills of the U.S. system extend beyond insurance and health policy to the megalomania and "edifice complex" of the health care industry. Multispecialty medical groups are bad. Staff-model health maintenance organizations (HMOs) are bad. Integrated hospital systems are bad. And on and on. What is good? The smart and focused organization.

Needless to say, *Market-Driven Health Care* is not for everyone. Most obviously, physicians are advised to stay away. Herzlinger's repeated eulogies to McDonald's and Wal-Mart as the prototypes for modern health care endanger the coronary arteries of anyone who believes in medicine as a special calling. Health services researchers also will shun the book unless they enjoy unorthodox economics. My personal favorites concern vertical integration, Herzlinger's *bête noire*: "Because GM produces many of the components used in its cars it can avoid paying independent firms for them." Or check this out: "After all, a vertically integrated system does not pay for the profits earned by its component parts." Or, as the explanation for the dubious assertion that vertically integrated firms do not compete on

the basis of price: “After all, price competition courts potential ruin as successive waves of price-cutting cut into profits.”

Health care managers are offered reams of contradictory advice. Herzlinger denounces multispecialty medical groups under the thesis that big is bad (p. 106) and then praises the nation’s largest physician practice management firm (p. 191). She trashes large conglomerates (p. 149) and then praises a health care supply firm with 167 operating subsidiaries (p. 269). She advocates package pricing for episodes of illness (p. 88) but hates Medicare’s diagnosis-related groups (DRGs) (p. 275). She dislikes managed care (pp. 113, 117) but likes HMOs and capitation (pp. 127, 190).

The most difficult concept to understand is Herzlinger’s “focused factory.” This has something to do with “resizing” but not with “downsizing,” outsourcing but not layoffs. It is organized and paid separately but is not a carve-out. What might a focused factory look like? Herzlinger rethinks diabetes care. She visualizes a “diabetes management corporation” (DMC), a team of endocrinologists operating in shopping malls (p. 195). To deal with comorbidities, a DMC also employs primary care physicians; eye care professionals; vascular surgeons, cardiologists, and neurologists; podiatrists and physical therapists; dermatologists; nephrologists; psychiatrists and other behavioral therapists; nurses, nutritionists, and home health aides. This is focused? A DMC also owns hospitals that specialize in vascular and reconstructive surgery, treatment of foot ulcers, and amputations. It operates dialysis centers. However, a DMC is “not tied to bricks and mortar.”

*Market-Driven Health Care* is dedicated to American consumers, but not to those with second-rate shopping skills. Herzlinger offers her vision of the efficient consumer of the not-too-distant future: A woman whose child has returned from summer camp with nasty sores on the arms and legs logs into her medical database for a search of symptoms and diagnoses, e-mails her physician (including photos of the sores), e-mails the pharmacy to approve her physician’s e-mailed prescription,

receives the pharmacy’s delivery at home, reviews a printout of nearby providers (including location, office hours, consumer satisfaction, quality ratings, and prices), and then phones her friend Nancy, who was treated at one of the centers, and discusses Nancy’s treatment. All of this, with the exception of the chat with Nancy, takes only thirty minutes of Supermom’s valuable time.

Herzlinger’s cure is a nostrum, but the underlying disease of nonresponsive health care is very serious. As we ponder the future contours of the system, we must avoid both dismissal of the ignorant, passive patient and glorification of the omnipotent, omniscient consumer. I offer three weary observations.

First, most consumers are smart, but when sick they get scared. They often pick benefit packages that cover what they don’t need while disguising subtle airpockets of noncoverage. Many patients want to trust their physician in a way that they would never trust a salesman. Others entrust themselves to quacks.

Second, unconstrained consumer choice is a social virtue but can undermine the organizational foundations of quality and efficiency. The demand for broad networks impairs efforts to weed out the worst providers and impairs quality competition among integrated delivery systems, to say nothing of focused factories.

Third, consumer self-interest is more powerful than anyone’s altruism in driving system change but is not conducive to social insurance. Herzlinger’s “hardworking, overburdened, educated consumer revolutionaries” are no more interested in community rating than they are in raising taxes to cover the uninsured.

The average consumer is to the marketplace what the average citizen is to the nation state. Both economy and polity would work better if the raw material were of higher quality. Having tried all of the obvious alternatives, we reluctantly content ourselves with competition and democracy as social mechanisms that muddle through, while taking people as they really are.