MIT SEMINAR ON HEALTH CARE SYSTEMS INNOVATION

'Health Care Systems' from a Health Policy Perspective

Stan N. Finkelstein, M.D.
Massachusetts Institute of Technology

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Timeline: Major Themes of U.S. Health Policy

Major Quality of Care Initiatives
1990

Market Approaches to Cost Containment
1980

'Regulatory' Approaches to Cost Containment
1970 - 80

Expand Access to Health Care
1945

When National Health Care Spending Was Half of Current Rates, Many Called its Growth, “Unsustainable”

TOTAL HEALTH EXPENDITURE AS % GDP BY YEAR

SOURCE: WHO and OECD Data
1940’s and 50’s
Major Theme: Expand Access

- Origin of employer-based health insurance.
- National health insurance falls to be enacted.
- Major investment in medical research – National Institutes of Health.
1960’s
Major Theme: Expand Access

- Medicare (1965) – Government insurance coverage for elderly, disabled.

- Medicaid (1965) – Government insurance coverage for indigent.

- ‘Regional Medical Programs’ – Expand access to new medical technology.

- ‘Health Professions Legislation’ – Incentives to build new medical and other health professions schools, increase number of graduates.
‘Moral Hazard’

The prospect that a party insulated from risk will behave differently from the way it would behave if it were fully exposed to the risk.

‘Adverse Selection’

The more extensive the insurance coverage, one has, the more likely the party will experience a loss.

‘Principal/Agent’ Problem

He/she who orders does not buy, and he/she who buys does not order.

‘Cost Reimbursement’

When costs are fully reimbursed by insurers, incentives don’t exist to confirming the costs.
When National Health Care Spending Was Half of Current Rates, Many Called its Growth, “Unsustainable”

TOTAL HEALTH EXPENDITURE AS % GDP BY YEAR

SOURCE: WHO and OECD Data
1970’s
Technology: The Culprit Behind Rising Health Care Costs

‘Technological Imperative’

Doctors’ need to access the latest, most sophisticated technologies to meet what they perceive to be the needs of their patients (Victor Fuchs, 1974).

‘Process Innovation Lags Product Innovation’

New technology should be cost reducing as process innovation typically follows product innovation (James Utterback, 1978).

THIS HAS NOT HAPPENED IN HEALTH CARE

‘Perverse Incentives’

If a doctor is an effective performer and ‘Health Triumphs Over Disease’, he/she earns less compensation.
1970’s
Major Theme: Regulatory Approaches to Health Cost Containment

- Wage-Price Freeze
- Certificate of Need
- Rate Setting
- HMO Legislation (mixed regulatory, market approach)
- Peer Review
1980’s
Major Theme: Market Approaches to Health Care Cost Containment

- Revisions to HMO Legislation – reduce barriers to entry

- ‘Prospective Payment’ – Diagnosis Related Group (DRG) Reimbursement

- ‘Managed Care’

- ‘Managed Competition’

- Rand Health Insurance Experiment
1990’s
Major Theme: Market Approaches to Health Care Cost Containment

- Clinton health reform plan fails to be enacted.
- Increasing penetration of ‘Managed Care’.
- ‘Unmanaged Competition’
- ‘Evidence-Based Medicine’
When National Health Care Spending Was Half of Current Rates, Many Called its Growth, “Unsustainable”

TOTAL HEALTH EXPENDITURE AS % GDP BY YEAR

SOURCE: WHO and OECD Data
2000
Major Theme: Quality Initiatives

- 3 National Academy Reports
  - ‘To Err is Human’
  - ‘Crossing the Quality Chasm’
  - ‘Building a Better Delivery System’

- Interest in ‘Lean’ and other systems approaches to fixing problems of health care delivery.

- Medicare prescription drug coverage.

- Cost containment efforts stymied – lack of political will?
2009 Health Care Reform

- PPACA Initiatives with the Potential to Improve the Value of Health Delivery

- Please refer to handout
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