GOOD HEALTH
And how to get it

By

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Dr Fred Hansen obtained his medical degree in Hamburg, Germany. He has practised as a GP in Germany, England and recently in Australia. He therefore has first hand experience of a range of health care systems. Dr Hansen founded a think tank in Hamburg as well as subsequently working with another think tank in Germany. As a free lance journalist he has contributed articles on science and medicine to Die Zeit and Frankfurter Allgemeine Zeitung , in professional journals has published a number of papers on a range of topics from biological warfare to tropical medicine and to health care reform. In 2006 he was awarded the Adam Smith Medal by the Adam Smith Institute for his contribution to free market thinking. You can find his regular blogs on the website of the ASI.

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Many thanks for this invitation. I am very grateful for the opportunity to present my vision of health care arrangements for Australia

by Fred Hansen

I would like to note that this talk is based on experience from my stint with the European Union, where I worked with a team on total quality management. This was actually a program for the implementation of high performance breast cancer screening in Germany. And frankly perhaps my most inspiring source was the Toyota Production System or the art of lean management.

Now, first

Global Opportunities

If we are to believe pundits like Paul Kelly, editor of *The Australian*, it takes excellence in only three parameters to increase the "hard power" of this country. They are economic growth, population growth and technological innovation. Health care is positioned well in between and does affect all three. In addition to immigration, excelling in health care comes with the benefit of maintaining a healthy workforce that enhances productivity. Health care has already become an export industry of growing importance.

> As Chicago Nobel economist Gary Becker has put it*: 75% of our wealth is not land, buildings, equipment and the rest but the 'human capital' skills, health, and experience of our people. The best way to improve all that, though, is to get government* out *of the picture.*

This is true: Innovation does flourish much better in private industries, especially small business, than under big government. And innovation in a knowledge-based economy is a crucial thing for Australia if we want to outperform the Asian Tigers. Health care innovation will probably be a key factor in the knowledge-based economy to come. The other route to success will be demography, says Ross Garnaut from the Australian National University. And Australia is well poised for becoming a state-of-the-art exemplar of the globalization model, because it is the only rich Western country other than the United States on the path of population growth and immigration. It helps that the Australian health care system happens to be the least socialized in the West with the only exception of the United States. Fortunately we haven't got the huge problems with uninsured, that tantalizes the Americans. On the other hand, many OECD countries in Europe face declining and aging populations, bloated welfare states and economic stagnation.

Australia should steer free from the European welfare behemoths that are driving population decline. Instead Australia should push politics out of healthcare and hand it over to the markets.

At the moment more of the opposite seems to be happening with commonwealth spending growing faster than private expenditures for health care. The effect is cropping out of the private sector by an expanding public sector. As a rule of thumb from US data: For every extra dollar spent on Medicare the private sector contracts its spending on health care somewhere between 50 and 75 cents. The Question to be answered here is: Will

universal health insurance and state run hospitals survive the challenges of the 21st century or will they become obsolete?

This brings me to my second topic:

The challenge of a fundamental shift in health risks and the pattern of our disease burden

The root causes of ill health have changed from contagion or bugs - as in spreading epidemics - to cholesterol, as in our unhealthy life style. Lets make this clear: Epidemics like Cholera used to hit everyone and therefore homogenized and unified. The answer was one-size-fits-all medicine, which is still around - requiring collective health care arrangements like Medicare and drugs for everyone.

Contrary to that: Cholesterol and Lifestyle are thoroughly personal, rooted in our private differences and this is actually pulling us apart. The answer to that is bespoke individual treatment. However all Western health systems were designed in the era of epidemics and hardly adopted to the new setting. Proof for that comes from OECD data demonstrating that different health outcomes do not necessarily reflect good or poor health care anymore.

For example Japan and the UK spend about the same per capita on health but Japanese live many years longer. Likewise Korea and Turkey also spend the same, however Turkish women die 10 years earlier than Korean women. No surprise then, given the multiethnic mix of the United States that life expectancy differs greatly there too. There is not anymore one American

health according to Harvard's School of Public Health. In their 2006 study titled *Eight Americas* - each of them reflecting regional race-mixes - they reported stunning differences in life expectancies between groups of up to 35 years. Peter Huber of the Manhattan Institute concludes:

> *Factoring out wealth, race, and access to health insurance doesn't eliminate most of these disparities (in life expectancies FH)…Medicine's principal mission today is to provide antidotes to the unhealthy side of human diversity….*
>
> *Common as they still are, insurance systems that pool health risks indiscriminately are vestiges of the past. They can't survive what lies ahead. Insurance makes sense for risks that people can't control.*

The inconvenient truth for advocates of universal health insurance is that new drugs for the first time put people in overall control of their medical conditions. Of course this has not banished luck completely but the role for big government is definetely over in medicine.

Now, the consequence is this: If people can control about half of their health risks, they obviously need health insurance only for the other 50%. In this case they need coverage only for catastrophic events requiring hospital treatment, which is much cheaper than universal coverage. Drugs and doctor visits for minor medical problems can by purchased by consumers themselves with tax-free money.

This means we have to dispose of one-size-fits-all medicine as under Medicare and replace it by a market for consumer-directed health plans. And private insurance should be given a much bigger role in preventive care in Australia. This could set off a rush to innovative arrangements for health care delivery. Innovation or the lack thereof is certainly the biggest disadvantage of state run systems like Medicare. Medicare fails to provide incentives for preventive care, it does not improve quality and price transparency and it stifles competition between providers.

And the public is sensing this.

Recent polls show that healthcare has become an issue for most Australians. 55% of respondents told a recent AGE/Nielsen poll that the Australian health system is not very well run, with only 42% saying the opposite

Well, lets now look at the problems that are on top in Australian health care right now: these are *cost, access and quality.*

First **costs**: Health care spending in this country has been growing faster than GDP in each year since 1990, the strongest growth has occurred with spending on drugs and will continue to do so. Main drivers are medical progress, aging populations and increasing expectations and demand by patients. The projected growth till the middle of the century at the current trend is doubling the percentage of health care spending as part of the GDP to roughly 20% from 10% now.

Second **access**: The biggest problem here is waiting times for medical attention or surgery. While only 5 % of Americans wait longer than four months for surgery 23 % of Australians and 36 % of Britons do according to a study of the Canadian Fraser Institute in 2003. 44% of Canadians compared to 35 % Australians found it somewhat or very difficult to access a specialist and 63 % compared to 49% had to wait between one and four month for non-urgent surgery.

There are also barriers to access GPs, as I learned myself as a locum doctor in Perth. Because there is no reimbursement for doctor's advice on the phone or via e-mail patients are facing huge problems to get help for minor ailments. Therefore they call out expensive out-of-hours locums when they need a prescription and too many people end up in hospital because their chronic conditions are not properly managed. This leaves us with a 43 % higher rate of hospital overnight stays in Australia than in Canada, on which our system is modeled.

The most severe problem is of course **poor quality of services:** Recent media coverage has exposed many problems of hospital care in Australia. And studies seem to confirm the grim picture if we believe Professor Jeff Richardson (Reducing the Incidence of Adverse Effects, Center for Health Economics, Research paper 19, 2007) from Monash University commenting on the results of the "Quality in Australian Health Care" (QAHC, Wilson, Runciman et al, Medical Journal of Australia 163, 1995).

After examining more than 14,000 hospital admissions in NSW and SA, it is estimated that the national cost of adverse events in hospitals at more than

$4 billion per year in 1995 - 50% of which was avoidable. By extrapolating their results to the whole of Australia the authors estimated that adverse events happened in 470,000 hospitals admissions, resulting in 18,000 deaths and 50,000 cases of permanent disabilities. Richardson offers a brutal comparison:

> *Medical errors have been responsible for the death of more Australians per annum, than the average annual death rate of Australian soldiers in WWI (15,800). Permanent disabilities per annum approximate the annual rate of casualties in WWI (62,500). ...In 2004, the Federal Government provided $580 million to subsidies medical indemnity premiums for doctors. It addressed the symptom and not the problem.* (Jeff Richardson: Priorities of health policy, cost shifting or population health, paper presented at the Australian Health Summit, Canberra August 2003)

Richardson admits a paucity of data, but claims a conservative estimate of the cost for mistakes to be about $9 billion per annum or about 10% of total health expenditure in Australia - at least half of that is preventable.

A NSW parliamentary enquiry in 2004 stated that the state's hospitals cover-up problems and fail to disclose mistakes. International surveys show that in fact Australia's record in this area is deplorable. Medical errors in the health care system are estimated at between 3.2 and 5.4 percent in the US, 9 percent in Denmark, 10 to 11,7 percent in the UK but a shocking 10.6 to 16.6 in Australia.

There are huge quality problem out there. How can customers steer free from them? It is well known that performance between hospitals varies widely not only in Australia.

(In the US consumers can turn to the Dartmouth Atlas that illustrates how performance varies from region to region and state to state. However in Australia provider performance data can't be compared. What you can pick up is data on different utilization rates for various procedures throughout Australia: Angioplasty being more popular in Victoria or Caesareans more widespread in Queensland. And in Tasmania it's much more difficult to get an endoscopies done than in Victoria and so on. But this is hardly useful information for patients.)

There is a strong case to be made for giving patients and consumer's access to performance and outcome date about hospitals and other health care outlets. Private hospitals in Australia have already adopted principles of quality management such as the Toyotas Kaizen, which translates into "continuous Improvement" that roots out inefficiencies. However an incentivised or mandatory reporting system is required. Only then we get the basis for meaningful consumer choices. This would give consumer-driven health care the momentum for change.

Now, how would such a system look like?

First: To prevent a meltdown of the Medicare we would depend on changing unhealthy behavior mainly by handing back responsibility and control of health expenditures to consumers. The reason for that is that

privacy laws and data protection prohibit any third party intervention – be it government, employers or insurers – into personal life styles. And we don't want to change that. However the only escape from this dilemma is to join together the roles of patient, consumer and payer. Just put informed consumers in the driving seat. Yet we need to differentiate consumer choice in primary care, where they make perfect sense from hospital care. Obviously sudden illness renders patients incapable of making choices. However for elective surgery consumers can look for the hospital that fits them best. Giving individuals responsibility means to charge them higher premiums if they don't look after themselves properly.

Second: Some time further down the road biotechnology may be able to sort out our life style mess. But I doubt it is possible without more responsibility for the customer. Biotechnology is already driving medicine to new levels of personalized medical care offering more choices, based on the individual genetic outfit. It is important to note, that future bespoke pharmaceuticals will be much more expensive than the previous one-size-fits-all drugs, like antibiotics, that served almost everyone in the population. Future drugs are designed for much smaller populations and that increases their cost.

Third: Medical innovation, until recently only revolving around new drugs and medical devices, will in the future also revolve on the organization of health care delivery. The strongest incentives will be for replacing short-term fixes or episodic treatments in health care delivery with long-term commitment over the full care cycle. This will create focused medical outlets with dedicated multi professional teams. The best way to improve quality is to accumulate experience through endless repetition, requiring

doctors to perform the same procedures hundreds of times per year. This was the lesson American car manufacturers learned the hard way from Japanese competitors. In the same manner better accountability based on transparency of prizes and quality gives incentives for surgeries and hospitals to specialize and often focus on just one medical condition like asthma, diabetes, heart failure etc.

Fourth: The present government rebate of 30% on the purchase of private health insurance is very welcome and should be developed further by combining it with health savings accounts (HSAs). This would provide pre-tax money, which consumers have saved, for small purchases of preventive and other medical services, for drugs and also for the premiums of catastrophic health insurance. Health Savings Accounts can reduce health expenditure without compromising patient health as demonstrated in countries like South Africa and Singapore and more recently the US. People, who choose to stay uninsured, will have to pay a penalty that goes into a safety net institution that pays for those, who cannot pay their medical bills. Those who cannot afford any health spending will get the necessary funds from the government in cash.

Fifth: Instead of zero-sum-competition and cost shifting between the actors of the present health system we need value-based competition for consumers or patients. Value stands for clinical outcomes or other health measures of individual patients. It is therefore crucial to have all health care providers fitted with state-of-the-art facilities for measurement and reporting of clinical outcomes. This should include mortality, infection rates and adverse drug effects for every hospital as well as accidents and the frequency of all

procedures performed. This is the essential part of consumer-directed health care, which rests on choices and informed decisions.

Sixth: Positive competition will ring the death bell for one-size-fits-all medicine and eventually for the full service hospital. Specialized or focused hospitals and other health care outlets will bring prices down, as previous trials have shown. In the US there are already lots of examples for this such as the famous hernia repair clinic in Toronto, the Cleveland Clinic in Ohio, the Texas based Anderson Cancer Center and Boston's Back Clinic. As in any other market, focus and competition will enhance quality. Value-driven competition will bring about excellence in catering for just one special medical condition. Remote control or Tele-medicine and health-IT will help those new units to compete regional, national and global.

Seventh: The focus on the active consumer rather than the passive patients is a result of stressing prevention and primary care and minimizing hospital care. In the long run all health care providers, hospitals as well as surgeries, have to be re-organized or re-aligned along health care delivery value chains for every single medical condition. All data collection and team composition has to be arranged according to patient needs. The consumer or patient has to be at the organizational center for any future health care delivery system. Hospitals and practices will tear down the structure of doctor-focused specialties (old faculties) and rearrange them in disease specific teams. The required new skills mix will shake up the whole medical training system.

Eighth: Most past reforms tackled only the demand side of health care. We have to extend reform to the supply side and give doctors new opportunities.

The fee-for-service remuneration of doctors and other health professionals has to be phased out gradually and replaced with a system of service packages, sometimes called “boutique medicine”. It simply boils down to just one bill for the whole care cycle or for a long-term care contract. Multiple billing by every provider involved in the care of one patient is driving administrative costs. All this will bring transparency and enable consumers to compare quality and prizes.

Ninth: The market for health insurers has to be deregulated to give them more flexibility with coverage and prizing. If true value-based competition is encouraged there remains only the problem with cherry picking of health plans or insurers. Insurers who happen to enroll more chronically ill people at the same premiums will get risk-adjusted payments from a shared pool paid for by other insurers with more healthy enrollees. The health insurance industry has a role in adapting to growing consumerism by developing new consumer models with more informed choices.

Tenth: Once full price and quality transparency of the heath care markets is established, the consumer-driven market reform will take off. Informed health care customers in many different areas will drive change. This will trigger the emergence of other innovative and market-driven health delivery solutions like nurse led walk-in-clinics, new forms of medical tourism, online purchase of pharmaceuticals and other services. It will also foster the increase of convenience for customers. This will slow down prize growth in health services down as we have seen before in cosmetic surgery.

To sum it all up: the health care system, which I favor, is already working well in focused medical outlets for cosmetic surgery in this country and in many global competing outlets like the Bumrungrad Hospital in Bangkok, that treats 1,2 million people from up to 190 countries each year. Their management is so supreme that Bill Gates just purchased their software in order to sell it to hospitals worldwide. Just have a look at websites like “Treatment abroad” from the UK or “Australian dental tours” and get a quote for dental work that you always have postponed. And if the prizes suit you head for Bangkok or Hungary to have it done at a fraction of the Australian costs. In the end you will get a feeling how it works.

Thank you for your attention!