The Health Care Blog

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Beware the Bursting of the Health Care Bubble
By GEORGE LUNDBERG

The good news is that if and when the American healthcare bubble bursts, some value will remain. The bad news is that the annual appropriate value could actually be only about 60% of the current expenditure.

The turn of the 21st Century has been marked by the creation, expansion, and im/explosion of at least 3 significant economic "bubbles": the huge company Enron, plus the fields of dotcom and real estate/finance. A "bubble" comes to pass when a commodity of great promise and wide applicability entices many to participate and grows at a pace that reflects hope, excitement, sometimes greed, but does not have sufficient underlying substance to support its continuing growth.

The demise of the fraudulently inflated Enron forecast much of this decade's financial collapse. A once successful oil and gas distribution company, Enron enjoyed accelerated growth in an essential field. But it came acropper by fakery, derivatives, and manipulation, out of synch with sound principles for sustaining value. When the trickery was exposed, little remained . Enron had become a "bubble" company with a top stock price of $90 in 2000 that shrunk to pennies. This emperor had no clothes. It was a house built of Texas sand.

Many of us lived the dotcom boom and bust close up. Computer technologies do have lasting value. The internet added huge new potential with its promise to change the world in a fundamental way and did deliver. But on the way, its promise produced an inflated boom of economic value expectation far in excess of what was possible to sustain. In March 2000, the collapse began, producing a loss of "wealth" of 80 % as reflected in the NASDAQ and 40% in the Dow Jones over just a few months. NASDAQ has not recovered and the Dow Jones took several years to regain and (temporarily) exceed its level , after many companies collapsed. Companies with the most real substance survived; the emperor had some clothes; the field endured and even prospered for the "winners", once the bubble burst.

Then came the bubble of personal real estate; everyone wants his/her own home. Politicians pushed home ownership. Many buyers could not afford the homes they were sold. Subprime mortgages to unqualified buyers accelerated lenders' profits. America's Masters of the Universe created a pure shell game, "derivative financial products", packages of unsound mortgages, thereby claiming vast short term gains. In the computer business, we call that "garbage in; garbage out"; now these products are labeled "toxic ". This derivative and credit swap scheme was "take the money and run" on a grand international scale. When the derivatives bubble burst, the world economy came close to collapse and no one knows for sure when or even whether it will recover fully.

Which brings us to 2009 and the healthcare bubble. Health Care in the USA uses (consumes) some 17% of the Domestic National Product, something like $ 2 600 000 000 000 per year. Its growth has been at 2-5 X the rate of inflation almost every year for as long as I have watched it (some 30 years). Many in health care, especially those with high expectations for continued large incomes from this growth, say, "So what"? "We earned it". I agree that it is better to spend the national treasury for health care than for unneeded, new pork-barrel fighter jets and naval destroyers, or cocaine, booze, tobacco, fancy cars, gambling, second homes, sports, other entertainment, and porno. The problem is that much of the $2.6 Trillion does not provide the medical value needed by our people. At least $400 000 000 000 annually is spent on unnecessary administration, competitive marketing and advertising, lobbying, large incomes (yes , including bonuses) for CEOs and executive staff who run for-profit organizations (and many not-for-profits) plus profits for shareholders. And, (conservatively) something like 20% of the total US health care expenditures (perhaps $ 500 000 000 000 annually) is expended for medical practice activities that are not based on scientifically sound evidence and do not improve patient outcomes. The habits of those over-spending and under-achieving American medical geographic regions and many medical/surgical specialists could/should be changed drastically to better conform to those right-spending or mini-spending and maxi-achieving geographic regions and medical practice organization patterns. From this change, we can expect NO loss of quality, indeed likely improved outcomes. And, some $150 000 000 000 is expended annually for clinically superfluous actions to defend against potential future medical liability allegations.

These expenditures, of no value to patient care or the public health, add up to roughly $1 050 000 000 000 per year. Comprehensive health care reform that puts the interests of patients first, followed closely by the public health and the long term economic health of the United States, will wipe out those expenditures. Pop goes the health care bubble.

Extrapolation bias teaches us that the scenario I advocate here will not happen. We will not control costs. Neither The Final Report of The Committee on the Costs of Medical Care in 1932, nor Harry Truman's proposed National Health Insurance in 1948, nor Wennberg's compelling work on geographic variations of medical practices beginning in 1967 nor Schwartz and Aaron's "The Painful Prescription: Rationing Hospital Care" in 1984, led to basic health care for all Americans or control of health care cost inflation. Why should 2009 be any different? Our system has repeatedly not responded well to data or rationality. But, then again, no prior large group (an organized public, the industry, the market, the profession, or the government) has ever been truly serious about the needed reforms.

Some loud and whispered voices in medicine will say…. "we are not like those finance guys. We deserve our money; after all, we do good". American medical advances unquestionably do save lives. But I argue that medicine is still a learned profession, indeed still a service profession, and should perform as such. Asking the government to throw a lot more money medicine's way in order to cover the uninsured is thinking like those in the failed financial sector. Comparative international experience shows that there is enough money already in our system to care for the basic medical needs of all of our people, if we spent it right. Government has a responsibility NOT to make the health care bubble even bigger. I believe that our long overdue Health System Reform must care for the basic healthcare needs of all of our people as a moral imperative derived from our national culture of common compassion. And, now is the time for those of us in the American medical profession to do our patriotic duty to rein in our many egregious and habit-addicted members and lead the rest of the bloated medical-industrial complex to cut back on its vast waste. We can help to get the

US back on track economically to benefit us and our children's children. But let's beware of the inevitable collateral damage that will result from the bursting of this bubble, and re-valuation of the healthcare industry at 60% current expenditures, and let's prepare for it. Or, will we learn that the American Disease-Medical-Industrial Complex has really been largely a sophisticated "jobs program" all along, and cannot change now since the already high US unemployment rate would rapidly reach double digits?

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