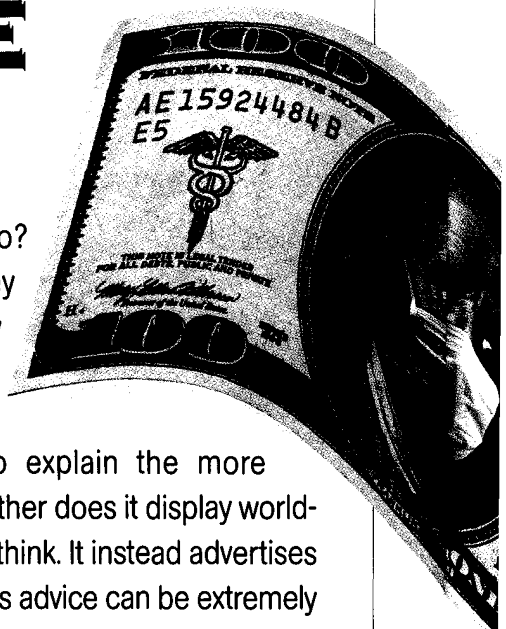
WARNING

'Following the Money' Is Dangerous to Health Care



By Gerard Smedinghoff

Why do people do what they do? What makes them choose what they choose? And why do they buy what they buy? There's one way to find the answer: Just follow the money. Unfortunately, "following the money" does nothing to explain the more complicated political phenomena of our time. Neither does it display world-weary cynicism and sophistication, like some observers would like to think. It instead advertises intellectual laziness and ignorance. And most important, listening to this advice can be extremely expensive and wasteful, especially when applied to health care.

To understand why, consider the implications of the following true story: An American on a business trip to the former Soviet Union found himself in an unpleasant situation. Waiting in a Russian airport for a flight back to the United States, he found that he had to do—as Cervantes was fond of saying—that which no other man could do for him. What made this situation unpleasant was the fact that toilet paper is still scarce in Russia and none can be found in public restrooms. The entrepreneurial American solved his dilemma by exchanging a dollar for several hundred worthless rubles, which he took with him into the restroom and which soon found their way into the Moscow sewage system.

The problem with "follow the money" (FTM) logic is Gresham's law of media: The bad content drives out the good. That which has real value, people keep for themselves and keep out of circulation. Ask yourself, what would you rather have: money or the things money can buy? Going one step further, what would you rather have: money or the things money *can't* buy? All of a sudden, money isn't so important. FTM may explain the rationale for some macro-level decisions, but often it has little effect on results.

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Why Health Care?

A brief look at the issue of health care reveals that FTM has about as much relevance to individual health as following the astrological charts has to one's future. Have you ever heard anyone say, "When you've got money, you've got everything"? No. You hear, "When you've got your *health*, you've got everything." Personal health is much more valuable than money, and, for the most part, you can't trade money for health. If you could, rich people would never die of cancer or any other dread disease.

Obviously, in the realm of commodities (or near commodities) such as a bushel of wheat or a ton of steel, FTM makes sense. There is a direct proportional relationship to

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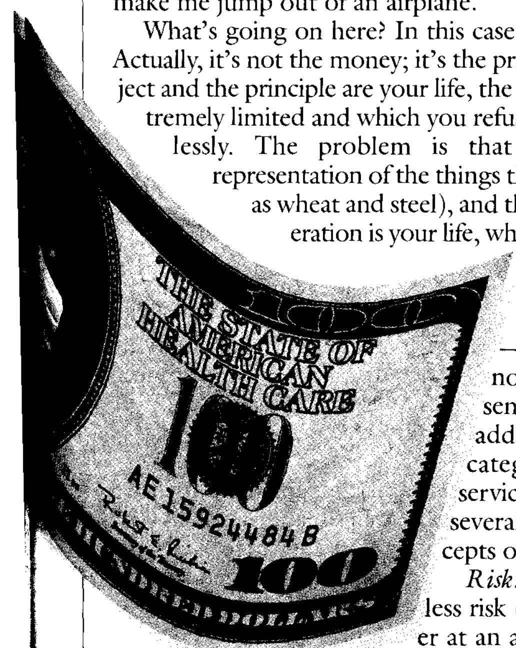
money and quantity. But health and health care lie closer to the other end of the spectrum where money has much less relevance.

Consider skydiving, the extreme end of this spectrum, where money has almost no effect on value. Would you be willing to jump out of an airplane at 20,000 feet for $100? How about $1,000? How about $1,000,000? What's that you say? "Skydiving might be great fun; but I have two small children; I just can't take that risk right now." Or more likely, "There's no amount of money you can offer me that will make me jump out of an airplane."

What's going on here? In this case, money is no object. Actually, it's not the money; it's the principle. Here, the object and the principle are your life, the supply of which is extremely limited and which you refuse to put at risk needlessly. The problem is that money is only a representation of the things that you can buy (such as wheat and steel), and the item under consideration is your life, which happens to be one of those things that money *can't* buy.



Specifically, money—in and of itself—has no value. What it represents *does* have value. In addition to the obvious categories of goods and services, money represents several other personal concepts of value:

Risk. Things that involve less risk (riding a roller coaster at an amusement park) are more valued than things that involve greater risk (skydiving).

Effort. Things that require less effort (snow blowers) are valued over and above things that require more effort (snow shovels).

Time. Things that require less time (FedEx delivery) are valued over and above things that require more time (U. S. Postal Service), and things in the immediate future are valued above things in the distant future (time value of money).

Opportunity Cost. You can't be in two places at the same time.

Preference. Things that one prefers (pasta to a vegetarian) are valued more than things that one dislikes (sirloin steak), and some things are preferred in increments (periodic rainfalls to a farmer), while others are preferred in bulk (alcoholic beverages to a college student).

Goods are bulky and not easily moved around. Services are ephemeral. Risk is difficult to quantify. Time, effort, and preference vary with individual abilities and tastes. So what money represents can't easily be measured, and the values assigned to what money represents change continually and are different for each individual. In other words, money is the map, and value is the territory. Don't mistake the map for the territory.

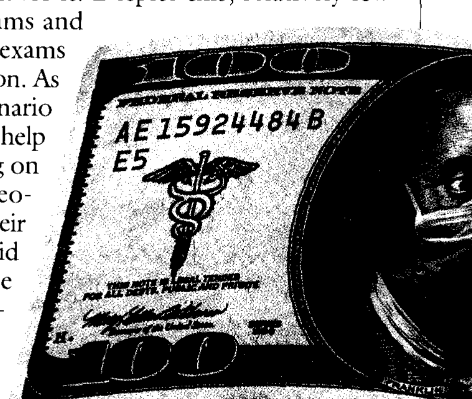
So Why Do We Use It?

We're locked into the logic of FTM because it's the bias of the government and the only language the Internal Revenue Service understands. For example, if you choose to donate money to a homeless shelter in your city, the IRS allows you to deduct the entire amount of your donation from your taxable income. But suppose, instead of making a cash donation, you decide to work one evening a week in the shelter serving meals to the unfortunate homeless people of your city. According to the IRS, the value of the *service* you provide to this needy population is not deductible from your taxable income, nor the value of the *time* or *effort.* Likewise, the value of the *risk* you take traveling to and working in the less desirable part of town is not deductible. Nor is the value of the *opportunities* you forgo (such as an evening out) or the value of your *preferences* (since you'd rather be sitting in your recliner watching *Monday Night Football.*)

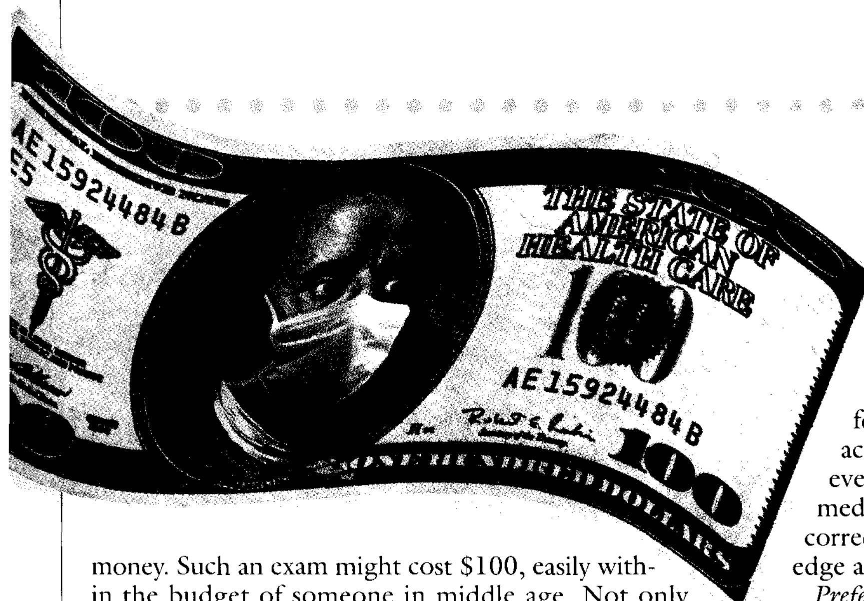
That's why when you're up against the IRS, you're better off "following the money." But when it comes to your health, you're on your own. You can define value in any way you choose. You're free to balance the variables of goods, services, risk, effort, time, and preference to suit your tastes.

Because the vast majority of people are unwilling to needlessly put their lives at risk by jumping out of an airplane, regardless of the rewards, one would naturally assume that this same set of people would place their health at the top of their list of priorities. Not so. To understand why, ignore that "follow the money" advice. Instead, follow what people value and how they value it.

Virtually every middle-aged female has heard of breast cancer and is aware that she is at risk for it. And virtually every middle-aged male has heard of prostate cancer and is aware that he is at risk for it. Despite this, relatively few women get breast exams and few men get prostate exams for early cancer detection. As with the skydiving scenario posed above, one can't help but ask, "What's going on here?" Aren't these people concerned about their health? Aren't they afraid of death? Don't these people love their families?



To begin with, it's probably not the



money. Such an exam might cost $100, easily within the budget of someone in middle age. Not only would it be covered under most health plans, many plans will pay the entire cost of the exam in an effort to promote this vital service and reduce the potential cost of more expensive surgery down the road.

It's the principle. To find out which principle, revisit the value categories listed above.

Risk. It's minimal: the radiation of one additional x-ray.

Effort. Again, minimal: getting to and from the doctor's office is the most difficult part.

Time. Minimal: an office visit that might take up an afternoon of one's day.

Opportunity Cost. Measurable. Now we're getting somewhere. When a woman passes on the opportunity to get a breast examination, she's effectively making the statement, "I value what I can accomplish this afternoon at work more than whatever value I can derive from submitting myself to a medical examination." Ultimately, this may not be the correct valuation. But it represents her level of knowledge and her priorities.

Preference. Enormous. We've struck a gold mine. We've found the answer. Finding out that you have cancer can ruin your day. Waiting to find out if you have cancer can ruin an entire weekend. People will do almost anything to avoid both the knowledge that they have cancer and the tense wait for the test results to come back from the lab. It's the skydiving example in reverse.

Actuarially speaking, a middle-aged woman faces the risk of death at the rate of q_x. An offer of a sum of money to her to go skydiving can be phrased as follows: "For X dollars, would you be willing to increase your probability of dying from q_x to $q_x - e$?" The cost of a preventive cancer examination can be phrased as follows: "At a cost of Y dollars, would you be willing to reduce your probability of dying from q_x to $q_x - e$?"

But these equations are meaningless for the most part because we've already learned that, in situations such as this, following the money doesn't get you anywhere. Let's try reversing the incentives. If the average middle-aged woman won't pay $100 for a breast exam, would she be willing to sacrifice an afternoon of her time, accept the loss in her productivity, endure the agonizing wait for the test results, and confront the possibility of her mortality if you paid her $100? How about $1,000 or $1,000,000? Maybe now we'll get some takers.

Then There's Time

Health care is expensive enough as it is. How expensive would it be if patients were allowed to bill the time they spend getting health care to their health plans? For those employers that don't reduce the salary of employees for time off from work, in effect, they already are.

This is precisely the problem with most economic analysis, but especially so when analyzing health care. The key drivers of the U.S. health care system—employers, insurers, government, doctors, and hospitals—are following the money, because it's the easiest variable to measure and the easiest one to understand. The FTM problem is made worse in the health care situation because efforts to reform health care delivery don't follow the money as much as they *push* *on the money lever.*

To the average mother who is devoted to her family, an offer of $1,000 to go skydiving is insufficient. By pushing on the money lever, or increasing the amount of money offered to her, to say $1,000,000 or more, you're not going to move her any closer to strapping on a parachute. What you have to do is examine her underlying values and push on those levers.

For example (and remember, we're speaking purely in the theoretical here), if you kidnaped her son and threatened to kill him if she refused to go skydiving, you'd now have no trouble persuading her to jump. Initially, she did not want to go skydiving because she valued her family so highly relative to any sum of money offered to her. Once her family was threatened, she immediately adjusted her priorities.

Yet the threat to her life that results from jumping out of an airplane is very similar to the threat to her life that results from passing on the opportunity for early cancer detection. The incremental variable is still e, whether it's added to or subtracted from the risk of death to a middle-aged woman. There are several economic utility theories to explain this apparent paradox. But none of them involves FTM.

Despite the best efforts and intentions of government, employers, insurers, and doctors to push on the money lever, the truth is that many people don't value their health very highly. If they did, very few people would smoke, overeat, and drink to excess. A quick glance at the value categories illuminates the data that FTM distorts:

Time. People prefer work and leisure to preventive health care and strenuous exercise.

Effort. People prefer to eat and drink to excess rather than discipline themselves to live a consistent, healthy lifestyle.

Risk. People exaggerate and avoid immediate quantifiable risks such as skydiving, while they ignore and discount the vague longer-term risks of their unhealthy lifestyles.

Preference. Barbecued ribs taste better than oat bran.

Opportunity Cost. You only live once, and don't want to miss out on all the fun.

If the powers that be in the U.S. health care system want to dramatically improve the health of the population, all they need to do is invade these categories of personal preferences and definitions of value. Unfortunately, this would also violate every principle of the U.S. Constitution and would result in a de facto fascist dictatorship, which is not a pleasant proposition. And besides, the Nazi party has already copyrighted the slogan "strength through joy." This leaves us with two options.

- The costly and wasteful logic of FTM, as practiced by most employer health plans and governments, and which inevitably points the way to the city sewage system. As we've already demonstrated, FTM, or pushing the money lever, is a very efficient means of wasting money but is a very inefficient means of improving personal health.
- Leaving people to freely live their lives—however healthy or unhealthy—according to their wishes, accepting all the resulting consequences, both good and bad. Then all the money spent (or pushed) on improving people's health (which is not wanted and wasted) can be spent on goods and services that people value. Perhaps, under these circumstances, it might make more sense to "follow the money." □