

STRAINED MERCY

The Economics of Canadian Health Care

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PREFACE

Cliff Lloyd once said that anyone writing a textbook makes a simultaneous confession of arrogance, incompetence, and greed. In all fairness, I think a Canadian is guilty of only two out of three. At the end of the process, however, it is all too obvious how much has been left undone, or done inadequately. There are also, no doubt, parts that are overdone.

The end product is the result of a series of painful compromises among several different books with different purposes -- such as providing a comprehensive survey of health economics, impressing one's professional colleagues, serving as a text for courses in health economics, and demonstrating the application of economics to health care services in a way that would be most interesting and useful to the people actually on the line in organizing, delivering, and funding health care -- in Canada or elsewhere. This book tries to do a bit of each. But it is primarily intended for two specific audiences which are only partially overlapping.

In the first place, it is a text for courses in health economics, as part of university programs in health planning and administration, economics, or public administration. The formal economic analysis which is explicit in the text presupposes that the reader has as background a one-term course in micro-economic theory, and remembers and understands it. The concept of optimal resource allocation, and the strengths and weaknesses of price and market systems, supply and demand, in that process, as well as the basic theory of the firm, would normally be covered at that level. Some of the footnotes are used to deal with theoretical points which the text sweeps under the rug, or to cover the author's professional flanks; the reader who finds them incomprehensible can ignore them without loss.

There is, however, a much larger group of health professionals -- administrators, clinical practitioners, planners, "bureaucrats" of various sorts -- with a considerable interest in and knowledge about health care organization and delivery, "at the coalface," as the British say. Their work inevitably has an economic dimension, whether explicit or implicit. But their acquaintance with formal economic analysis may be variable, remote, or unsatisfactory, and they may find abstract graphic or algebraic demonstrations unhelpful at best.

Accordingly, I have tried to make the presentation self-contained in two respects. First, the economic concepts and tools of analysis which do emerge explicitly are defined and explained at each point, so that previous economic background is not essential. This is not wholly satisfactory, as the definition of a tool or concept, however complete, is not a substitute for previous experience in working with it. But it does mean that the reader can work through any part of the text without previous economic training. Some parts may require a bit of determination.

Secondly, the formal parts are in chunks which are not critical to the flow of the text. The reader who is prepared to take the demonstrations on faith can skip over them without loss of continuity. Nothing is presented which is not also described in words, so that those who find formalisms highly allergenic will not lose any of the main points. This comment applies in particular to the brief outline of the von Neumann-Morgenstern approach to utility and risk in 2, the discussion of externalities and demand curves in 3, and the application of Lerner's Rule in 6. A considerable amount of theory is lurking behind chapters 7 and 8 as well, but it does not emerge formally. The presentation of a Leontief-type fixed coefficients manpower planning model in 13 may also require a certain amount of concentration. But, in fact, everyone who thinks about health care (or anything else) at all systematically has been engaged in "modelling,"

usually in a similar form, just as she has always been speaking prose. The conversion to a formal language makes the process explicit, but does not introduce a new activity.

This then raises a question as to why the graphs and algebra are there at all, other than to demonstrate that the author is, indeed, an economist. Why not simply present an extended "policy analysis" study of health care, with the formal economics out of sight, if not out of mind.

The question is a serious one, because it seems to me that the insights and generalizations of experienced and thoughtful health care people are often much more reliable guides to understanding how health care systems "work" than are patterns of thought derived from off-the-shelf economic analyses of idealized "consumers," "firms," and "markets." The hospital administrator's adage that "a built bed is a filled bed," for example, or the physician's comment that "the sickness in a community must be sufficient to support the practitioners in that community," are not always and everywhere true. But they express important empirical regularities, and point to even more important underlying patterns of incentives and behaviour. A simple-minded "demand-and-supply" story, by contrast, which treats health care services as commodities analytically indistinguishable from litres of milk, is worse than useless. It obscures and diverts attention from the most interesting and important problems of health care delivery, which literally cannot be expressed in such a framework, and even for the phenomena it purports to explain it gets the empirical facts wrong. Universal "free" care, for example, does not in fact lead to overutilization and cost escalation; the whole process is a good deal more subtle and interesting than that.

But certain characteristic confusions over objectives or motives, and failures of consistency and logic, arise from the non-analytic approach. A limited amount of economic formalism can serve as a powerful check on such mistakes. There are a number of basic ideas and thought patterns which economists have worked out, and use routinely, such as opportunity costs, the distinction between resource costs and wealth transfers, partial versus general equilibrium or "what happens next," which non-economists are frequently unaware of, or ignore. And they go wrong as a result. Economic analysis does tend to encourage "well-ordered thoughts," while great practical experience and insight is quite consistent with surprising intellectual muddles.

Further, formal analysis not only identifies the limitations of inference from experience, it may also serve to underpin and reinforce such experience against criticisms drawn from incomplete and half-baked "pop" economics. As Joan Robinson put it, "We study economics, not to understand the economy, but to avoid being deceived by economists." And some additional understanding does come, as well. When the health care people in a policy debate are roughly right, and off-the-shelf economic analysis is precisely wrong, as may occur for example in discussions of "needs" versus "demands," the "conversation of the deaf" can be resolved by a more complete formal analysis. This book tries to provide that more complete analysis, and to demonstrate its resolving power.

The concentration in the text on developing and presenting an analytic framework for health economics means that it could not hope also to provide a comprehensive description, much less historical analysis, of the Canadian health care system. Canadian institutions are outlined, and a number of data series are assembled which show some aspects of its evolution over the last thirty-five years. The Canadian experience motivates and illustrates the analysis, as does the partly parallel and partly contrasting United States experience.

But the analytic framework is intended to be much more general, to be useful to people trying to understand the economics of health care through whatever national system it might be expressed. A good deal of abstract economic analysis is presented in the health economics literature as if it were fully general and free of specific institutional content, yet on closer examination it turns out to presuppose the existence of particular institutions or patterns of

transactions -- usually those of the United States. I have probably done the same, but I have tried to make the interaction, the "unity of theory and practice," explicit. The theory arises as inferences from our experience -- where else could it come from? -- but I do not think the book is only about Canada.

The work is thus complementary to more complete descriptive studies which would tell the reader what the Canadian health insurance and health care systems are like -- who does what and with which and to whom. The extended essay by Maurice LeClair in *National Health Insurance: Can We Learn from Canada?* (S. Andreopoulos, ed., New York: John Wiley, 1975), Lee Soderstrom's *The Canadian Health System* (London: Croom Helm, 1978), Gordon Hatcher's *Universal Free Health Care in Canada, 1947-77* (Washington, D.C.: D.H.H.S., 1981), or Malcolm Taylor's *Health Insurance and Canadian Public Policy* (Montreal: McGill-Queen's, 1978), are all sources for a more complete description of where we are and how we got here. This book tries to contribute an interpretation of why we got here, how we might go about evaluating the situation, and where we might go next.

A preface is also an opportunity to try to thank all those whose ideas and efforts were exploited in the work. There were a lot. Morris Barer and Greg Stoddart read and commented on several chapters, to the considerable benefit of the book, as well as collaborating on a number of research projects which are reflected here in one way or another. The work shared over the decade with Geoff Robinson also made a major contribution, helping me to understand a little bit about medicine, and a bit more about medical people. The outline of the book was developed during a most exciting year at the University of Toronto as a Health and Welfare Visiting National Health Scientist -- Alan Wolfson, Gene Vayda, Carolyn Tuohy, and the others in Health Administration helped to shape my thinking there. My understanding of how professions function has been greatly assisted by them and by Bill Stanbury and Michael Trebilcock. The impact of Tony Culyer's work, particularly on externality issues, will be obvious by the references, while Uwe Reinhardt and Ted Marmor have, from different perspectives, contributed a North American context which highlights the strengths and weaknesses of the Canadian system. And Brenda Lundman has, among other things, tried to keep me up to date, and more or less straight, about some of the finer (and politically crucial) points of the federal-provincial health care relationship.

These and a number of other people have provided both ideas and, perhaps as important, moral support in encouraging me to get the book written. Glen Beck, André-Pierre Contandriopoulos, John Horne, Sidney Lee, Daniel Le Touzé, Pran Manga, Dick Plain, Lee Soderstrom, and Hugh Walker, among others, have not only been sources and sounding boards, but have suggested strongly that they thought the enterprise might be worthwhile. I hope it, was. My colleagues at the University of British Columbia have done likewise. Though not themselves primarily interested in health care, they have always encouraged my peculiar tastes; and I am indebted to David Donaldson in particular on aspects of insurance and theoretical welfare economics. In addition, many people in Health and Welfare Canada and Statistics Canada, and in several provincial health ministries, have been very generous with their time and data before and while this book was being written.

Much of the actual writing was done during a sabbatical year supported by U. B.C. and by a grant from the SSHRC. But the structure and content of the book have evolved over a much longer period. Successive groups of students in Economics 384 in the U.B.C. Health Services Planning program have provided an interactive experimental environment for this process, as have participants in the Banff Centre's Senior Health Administrators Program. I am grateful for their reactions and input, and like all those named above they enjoy the usual blanket absolution for remaining errors, obscurities, and inadequacies.

The writing of a book is, of course, only one stage in the production process. Margaret Francis at Population Paediatrics, U.B.C. converted the rather dubious handwriting to word processor with remarkable patience and good humour.

Finally, my family has put up with the seemingly endless process, and all the lost weekends and weeks, which inevitably go with a book. Meg's attitude has been the practical one of well, get on with it. If you have to do it, do it. Charley wanted to know if it would make any money. But my wife, Susanne, in the end, has to bear a considerable share of responsibility for the final product. If she had not been nursing at MGH when I was in graduate school, I would never have begun to work in health economics in the first place.

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