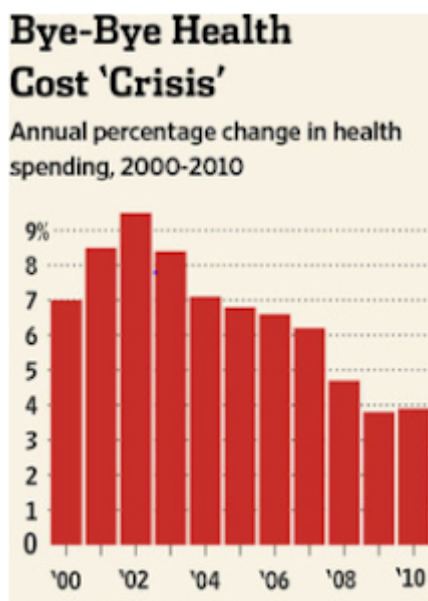


Bacon's Rebellion

Reinventing Virginia for the 21st Century

Creating a Real Medical Marketplace in Virginia

Posted on [February 21, 2012](#) | [6 Comments](#)



Graphic credit: American Enterprise Institute

by James A. Bacon

Excellent story in the *Times-Dispatch* today. Too bad it's buried on the business page. It should have been squeezed onto the front page, or at least in the A section, to share space with the wall-to-wall coverage of abortion, gun bills and the rest of the Culture War effluvia that so mesmerizes the reporters and editors of Virginia's newspapers.

The underplayed article focuses on a topic that affects everyone, rich and poor, young and old: the lack of price transparency in health care. [Tammie Smith](#) illustrates the point by recounting the story of Lisa Ownby, a Williamsburg mother of two boys who suffer from a condition in which their tooth enamel easily erodes. Dentists recommended complex oral surgery for the two. But when Ownby asked how much the procedures would cost, no one could tell her.

"I was told I could not be given a dollar amount of what I'd owe," she said. Figuring that the procedures might cost her a \$1,000

copy, she went ahead and had the procedures done. She was floored to find that the charges amounted to nearly \$40,000 before health insurance-negotiated discounts. The final charge was \$17,000 paid by the insurer and \$3,000 out of pocket.

"If I had known it would cost \$40,000, I would have said, 'No.' They were baby teeth," Ownby said. "It's not even like they were saving permanent teeth. I could have chosen to say, 'I couldn't afford this.' I wasn't given that option."

This story highlights the greatest single failing of the American health care system today: the total lack of price transparency. It is ludicrous to describe what we have today as a "market-based" health care system, and an intellectual fraud to attribute the inadequacies of the system to "market failure." *When there are no prices, there is no market economy!*

There are two basic approaches to fixing the problem. One approach, adopted by the U.S. and the economically advanced democracies, is to move toward a government-dominated, command-and-control health care economy. The other, attempted only in isolated pockets such as cosmetic medicine, Lasik surgery and medical tourism, is to move toward a consumer-driven health care system in which prices play a major role in decision making.

Virginia has made some feeble gestures in the direction of increasing price transparency, supporting the activities of the private, not-for-profit [Virginia Health Information](#). VHI has a contract to collect and report state health data, including health care prices on some 30 common medical procedures such as abdominal ultrasound and hip replacement. But VHI lacks the resources to post data for thousands of other medical procedures that Virginians encounter.

However, [HB 343](#) submitted by my representative, Del. John O'Bannon, R-Henrico, and [SB 135](#), co-sponsored by Sen. Toddy Puller, D-Mount Vernon, and Sen. Dick Saslaw, D-Springfield, would establish a Virginia All Payer Claims Database system. The purpose would be to: "facilitate data-driven, evidence-based improvements in access, quality, and cost of health care through understanding of health care expenditure patterns and operation and performance of the health care system."

As O'Bannon told the T-D: "The ultimate goal is to give people knowledge that they can use when they go for their day-to-day health care needs, so that they will know the value of something, what something costs, how good the quality is."

This is arguably the single-most important piece of legislation before the General Assembly today, and O'Bannon, Puller, Saslaw and other co-patrons should be applauded for collaborating on a bipartisan basis to pull it off. According to the Richmond Sunlight website, the House and Senate both have passed their respective versions of the bill. It is unimaginable to me that Governor Bob McDonnell would not sign the legislation into law, but I have not seen any pronouncement from him on the issue.

There are a couple of possible sticking points. One could be cost. It's one thing to authorize the creation of a medical claims database, another thing to appropriate money to set it up. How much will this cost, and who will pay for it? That's not clear from the bill.

Another question is whether the state database would conflict with private initiatives popping up in the Virginia medical marketplace like Castlight, which allows enrollees in major insurance programs to do comparison shopping for doctors, services and conditions. Ideally, the state initiative would complement private-sector initiatives, not duplicate them.

Consumer data cannot come too soon. Large private insurers are increasingly shifting to consumer-driven insurance plans with huge deductibles. My insurance plan combines a high deductible and a Health Savings Account with personal wellness coaching and the Castlight service. But I'm guessing that a relatively small percentage of the population enjoys access to this kind of data.

The spread of consumer-driven health care, contends a *Wall Street Journal* [op-ed](#) written by the American Enterprise Institute's J.D. Kleinke, is behind the deceleration in rising health care expenditures that began in 2002, when cost increases exceeded 9%, to 2009 and 2010, when they fell below 4% annually.

The AEI mentioned a number of factors responsible for the decline, including the ability of patients to purchase generic versions of blockbuster drugs developed in the 1980s and 1990s, measuring the effectiveness of prevention and disease management, and the shift from Health Maintenance Organizations (HMOs) to consumer-driven health care. (Undeniably, a less positive factor was the 2007-2008 recession and slow economic recovery.)

“Combine all these new medicines, information channels and business compulsions with the slow, steady transfer of economic responsibility for health care — from corporate and government bureaucrats to consumers and their families — and suddenly health-care starts to look almost like an actual market,” writes Kleinke. “Contrary to the perennial doomsaying, the health-care system is — almost in spite of itself — getting better.”

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6 RESPONSES TO CREATING A REAL MEDICAL MARKETPLACE IN VIRGINIA

Hydra | [February 21, 2012 at 3:57 pm](#) | [Log in to Reply](#)



We cannot even get people to save enough for their LIVING expenses, let alone for their ILLNESS and DYING expenses.

Holding up Health Savings Plans as anything but a tiny part of the health care solution [and one which, like mortgage deductions benefits mainly the wealthy] is simply a cruel hoax.

Combining that idea with extremely high deductibles, which take more money out of the family cash flow for immediate health expenses only makes the HSAs even less likely to be funded, or useful. Most families will NEVER be able to save enough for a single catastrophic health event: that is why you need INSURANCE to spread the risk.

The combination of High Deductibles and HSAs is a cruel joke, that will do little to resolve the economic consequences [let alone the health consequences] of insufficient and uneven health care.

Hydra | [February 21, 2012 at 4:03 pm](#) | [Log in to Reply](#)



WTF does that graphic say?

That the rate of change in health care costs has gone down? We cannot even tell from that graphic if the rate of change is in the positive or negative direction. It could say that it is increasing less slowly than before, but since the rate of change is decreasing we are in fact increasingly stuck with ever escalating costs.

When one sees a percentage graph, and it does not say percent of what, it is probably a misleading graph.

Peter Galuszka | [February 21, 2012 at 4:52 pm](#) | [Log in to Reply](#)



This time I am in agreement. There's no way one can even think about applying free market economics to health care if:

(1) they have no idea what the prices are

(2) they have no leverage to negotiate the prices if they can guess what they are

or

(3) they have no alternative to the procedure or even adequate information about where to go if they want to.

Thus, "managed care" has everything rigged. Obamacare may not be perfect but it is at least a change.

If you look at the VPAP or Open Secrets reporting so many federal legislators, notably Eric Cantor, get a ton of money from the health insurance firms. Yet any time one tries to bring true transparency or true competition to the system, they are shouted down and get nowhere.

[James A. Bacon](#) | February 21, 2012 at 5:16 pm | [Log in to Reply](#)

When Bacon and Galuszka actually agree on something, we can consider it CASE CLOSED!



larryg | February 21, 2012 at 5:51 pm | [Log in to Reply](#)

so Bacon is advocating a Govt command and control system to fix the current private healthcare system that will not provide a marketplace?



correct?

so Bacon is admitting that the private healthcare providers will not, without govt "assistance" provide a real market?



Hydra | February 21, 2012 at 7:37 pm | [Log in to Reply](#)

When we have doctors in loud suits offering Memorial Day 30% off sales for agioplastiees (subject to stock on hand and ten more pages of fine print read on the TV by an announcer on speed) like Crazy Eddie selling cars, then we will find out how much people really want free market health care.



For starters, prices won;t mean a thing. You will need a menu that reads like

Procedure Price Performance Prior Experience
(Five year (Number Performed)
complication rate)