

Health Care For The Mentally Ill

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Issue Background

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Im here to tell you, since were quoting P.J. ORourke right now, he said that Giving more money to government was like giving teenage boys whiskey and car keys. And even though you work as hard as you can to make government programs work, there are certain reasons why they will not work no matter how you work, so were going to get a little lesson this morning in public choice economics.

But to start with I can, yes, give an example at the end of this talk of a drug that has indisputably, or a class of drugs, saved money in hospitalization costs. There are studies out there that do it so if the person who had that question, we can help you.

One of the things I find as I go around and talk about health care in this state, is Im still talking to a lot of people who think that the socialized systems where the government controls health care are still the best. And they really, what they usually will do to me is quote to me or for me, or to argue with me, is quote statistics on things that I think are very bad measures of how health systems in developed countries perform. The classic statistics that are quoted to you are infant mortality, OK? Well, what people dont know is that definitions of live births vary over different countries and so the number of babies born alive depends on where you are. So infant mortality is going to depend on where you are. A one-pound premature baby in some countries in Europe is not considered alive, its not counted. So when somebody quotes you infant mortality to say that the U.S. health care system is bad,

ask them if they've done it by birth weight categories. Other things that are used, our life expectancy, U.S. health care system gets beaten up: Oh, life expectancy is way too short compared to other countries and look how much we spend.

Well, a more useful measure is probably the number of years of useful life, because life expectancy depends on how many risks people take and it can be changed by behavior. Extremely promiscuous people may catch diseases that shorten their lives, people who like to bungee jump may shorten their lives, and so forth, and depending on your culture, you're going to get life expectancy that may change having nothing whatsoever to do with the medical care system. The other things consumer surveys, well, everybody in Canada likes their health care system, I saw a survey that said that 89% of the people thought it was great. Well, at any one time, only about four percent of the people in any given developed country have been in the hospital or needed sophisticated care. So consumer surveys of that kind are worthless, because people don't know what they're talking about.

Other thing, you'll see health care spending statistics, countries count health care spending in different ways. In some countries, hospital construction is counted, in other countries, it isn't. All right, so the U.S. spends a lot, but I would be with Naomi in saying that the U.S. spends a lot because we're a very wealthy country and people buy more health care just like they buy more education, bigger houses and more cars. So health care spending is large here, but it's large because people like good health. And buying more health care does extend the number of years of your useful life. Furthermore, well let me, the classic example is, how many people who are poor in poor countries buy corrective eye surgery? Not very many. That's part of U.S. health care spending, so is plastic surgery and a number of other things. So you have to be careful.

So the reason I'm doing this is saying Let's stop bashing the U.S. health care system based on these kinds of statistics that are blunt measures, that are worthless in developed countries, and let's start looking at things like years of active life, waiting lists for treatment, the availability of advanced treatments, how fast the

system adopts new technologies, and how fast the system innovates.

And when you do that, the market-based U.S. health care system comes way ahead, and what's really astounding is that it comes out way ahead for people who are politically unpopular, seriously ill, for the people who are poor and the people who are elderly. It's those most vulnerable groups that government-controlled health care does a completely lousy job. And if you want examples I'll give you two or three: in the Netherlands, reports are now coming out that elderly people are afraid to go to the hospital because doctors kill them, because they need the beds. If you are elderly in the Netherlands, chances are you go into a hospital somebody is going to decide "We don't need this person anymore, you're going to get an overdose of pain killer. In one year, about four percent of all deaths were doctor-caused deaths and it wasn't because of medical error, OK?"

Children who have been killed are those with Downs Syndrome as babies, OK, so if you are someone with a serious disease, you are not going to get good care in the government-controlled hospitals. Now, in the Netherlands, you have health insurance until they decide that you are superfluous.

The British newspapers have lately been carrying a lot of stories about British cancer care in which it turns out that women in Britain have no access to the advanced drugs that we use here for chemotherapy. And in fact British newspapers are calling their own health care "Third World system." And the reason is that British bureaucrats looked at this new class of drugs and said "These are too expensive, and we're not going to offer them. So, yes, these people are insured but they do not have access to any kind of advanced care when it comes to cancer."

And, in Canada the one people love to quote the most you can wait seven months for a Pap smear. OK, yes, you have insurance, and, no, you don't have to pay but you wait seven months. And furthermore, at one Vancouver hospital, ten percent of the people that were treated were uninsured because they hadn't paid their provincial fees. And the Canadian system routinely kills people by

making people who need what would here be a fairly routine though serious heart bypass operation sit on waiting lists until they're too weak to withstand the surgery. One month alone they bumped 126 people off the waiting list for these people died. I would point out that that does lower Canadian health care spending statistics. But it's not necessarily the way we want to do it.

So, the first point to remember here is that thinking about health insurance as if it's medical care is a huge mistake. And people who advocate more government programs have got to stop doing that, because it can be disastrous. It is not the same thing at all.

Now, in spite of all this, people still say Well, yes, but somehow the U.S. or the State of Colorado or something is going to do it differently. This particular government program, by gosh, will be different than all the ones that have been tried all around the world, everywhere else, and it will perform well. I mean, I sort of hear that comment a lot.

So, my response to that is, OK, well, at the Independence Institute we were kicking this around last winter, and we said Well, let's look at a specific group that already is covered by U.S. government programs, specifically in the state of Colorado, and let's see what happened to those people. And so the group we picked and that's what's covered in this Treatment Denied piece is people who are suffering severe mental illness, specifically schizophrenia. Now, this was an interest, the reason we picked it was, first of all, the U.S. Department of Health and Human Services estimates that most people with schizophrenia, OK, are on Medicaid, about ninety percent is the current estimate. Because it hits you when you're in your early earning years and it can just wipe you out forever, it's a horrendous disease.

So, the point is that because ten percent aren't covered by the system, you have some sort of reference standard, you have something to compare it against. If all you're doing is looking at a government program, you have no clue how well it's performing because you don't know what the possibilities are, even if you go through all the financial stuff and so forth.

The second reason for picking people with schizophrenia was that they do require sophisticated treatment, this isn't somebody who needs a flu shot, I mean, frankly speaking, most people can give other people a flu shot. This is something that requires advanced drugs to treat, psychiatrists who know what they're doing and so forth. They often end up in the hospital needing heavy-duty care because psychotic symptoms are so dangerous and they let their general health run down.

The other thing about schizophrenia is that it doesn't yet have any biological markers, although it's fairly clear from the evidence that's been coming in that it's got to be some biologically-based disease. And there's no question, in some sense, about when someone has it. When they start, one person was standing in the middle of Colfax claiming he was going to get blown up, you know. This is not someone who's functioning normally. It's not a worried well person who wants Prozac or something like that, they're very sick.

And the third reason for picking it, this, is that the treatment of schizophrenia has been revolutionized in the early nineties by a whole new class of drugs, and we wanted to see how quickly these new drugs were picked up by the public system. Now I must say that we started out with some *a priori* opinions that probably the public systems weren't going to work very well, were from the Independence Institute after all, right? But there were reasons for this, we just aren't blindly biased. The reasons for this come out of a branch of economics called public choice theory, which talks about the different incentive systems that face private decision makers versus public decision makers. And these are why giving money is whiskey and car keys for young teenage boys.

And it's an important enough advance in the field of economics and people who do a lot of health things, people who come through the medical side, I don't think, come in contact with it. So that's one reason I want to spend a little time on it. It's so important that three people got Nobel Prizes for contributions to this.

So this is a very worthwhile set of things to think about. And what

they say is political systems are really bad at delivering certain types of things and theres not a whole lot we can do about it. And the reason that theyre bad is because of decision-making differences that change the incentives that Dr. Goodman was talking about. So thats why hes trying for incentive neutrality. One of them is that a political system cant respond to preference intensity, meaning if I really, really want something. I have a very limited ability to tell Medicaid policy makers that I really, really want something. Say I really, really want a private room in a hospital because I am sick of referring from surgery in a ward with three dementia patients, which I had happen to me in a Canadian hospital. They had wards, this wasnt this long ago, you sat there with ladies who were up all night long walking around and talking to things in the air. Its hard to recover from major surgery when you do that.

So, what do I do in the U.S. where I can communicate my preference? I say to the hospital, Please, I will pay extra for a private room. So the market system lets you record your intensities: I really want that drug because Im very sick, I will pay extra for it. Public system? Everybodys the same, you have to stand in line. So the public system cannot find out how much people want something. This means that the sickest patients in political systems, the ones who are really chronically ill and need sophisticated services, often go without. The classic case was in Ontario, where people were waiting in line for CAT scans like months, OK? The government wasnt funding, and these were people with cancer who need diagnostic imaging, the government couldnt fund more staff for the CAT scanner, so it was not working 24 hours a day. So at night the staff would come in and agree to do peoples pets, OK, because in the private sector the people could pay them under the table to have their pets CAT scanned. So the pets were getting better treatment than the people.

Now, what do you think the Canadian bureaucracy did? It, of course, paid extra so that they would staff it, you know, twenty-four hours a day, right? No, of course not. They shut it down; you couldnt scan your pets in the human CAT scan anymore. And made no change whatsoever in the wages for individuals.

OK, so in addition to you can't register your preferences, the second thing is voters can only get bundled goods. My only way of influencing the government ultimately, aside from making campaign contributions, which you know if I'm poor I can't do, is to say "Can I split my vote? No, I can't. How do I vote for, say, Candidate A, I'd like to give him one-tenth of my vote, because he supports more medical research, but I don't want to give him the other nine-tenths because he doesn't want to increase education spending and he wants to take my guns away. Can I split my vote? No.

How do I pick between those two candidates? Well, I really can't. But in a market system where you're letting people buy care, people can do that. I mean, I buy one drug and not another, and so forth. So I'm sending signals to the people who are producing all day long, saying "I want this, I don't want that, and so forth. You can't do that in a political system.

And then there's rational ignorance, which means that most of us walk around being rationally ignorant of what our government is doing. Because following government is kind of an unrewarding proposition, anyway. It's boring, OK? Are people rationally ignorant about the cars they drive? You can probably walk up to anybody and say "Whose your representative's name?" and they're kind of like "Oh, I don't remember. Ask them where they bought their car and they know. So this kind of person, you know, he's stuck, he doesn't know anything, voters don't know your name, the system doesn't know what to do.

The second thing is that, and here's a really important one that affects care that we get, is political systems have an incentive to provide current benefits and ignore future costs. This is what's driving a lot of the prescription drug regulation, OK? What are the future benefits that the people that are pushing it think they're going to get? All these people are going to love them because their prices go down. Future costs? There aren't going to be any new drugs produced. Once you've run out the capital stock of drug factories, which will wear out in about twenty years, nobody's going to build new ones because they're not going to be able to make any profits, you're not going to get new drugs. Molecular

biologists cost money. You have to pay it.

They've done this. How many times do we have to do this experiment? They did it in Canada, they don't produce any drugs in Canada. England had a vibrant drug production group in the early eighties, they passed drug price regulation because they thought they were spending too much. Everything's gone, OK? So if you want advanced technologies you have to let the market pay for it.

Well, we looked at how states handled the new drugs that were introduced for Medicaid patients. And the other thing that you have to think about is that public systems are really bad at cost cutting. And the reason they're really bad at cost cutting, is nobody gets rewarded for it. Now private sector people are really bad at costing, too, and they hate it. I mean, you want to see somebody who's really upset now, talk to a small business owner during the recession. He's got to decide what he's going to cut. If he makes the wrong cut, he's out of business.

Public sector doesn't have to do that. And that's one reason we're hearing so much about ads, in some sense doctors don't want to cut, they don't want to tell people, No, I'm not going to prescribe that drug for you. So, like any normal person, what are they trying to have happen? Get rid of the ads, so that people don't bug us, we don't have to say no. Saying no is tough.

So what we found when we looked at the health care reforms for people on Medicaid, is that if you have severe schizophrenia, and you are in Medicaid, OK, what had happened in Colorado and most other states is when they use the waiver that Dr. Goodman was talking about, Colorado went to the Department of Health and Human Services and said, Can we have a waiver so we can change our Medicaid program? What the state did was it centralized the Medicaid program and put everybody into a capitated payment scheme. In other words, they made the Medicaid health care program just like the public schools. Financing's the same: We pay you up front, you have to go to this geographic provider, outcomes, we don't know, new technology, we don't know. But we know it's going to be expensive, so we're not going to do it.

So we now have a Medicaid mental health care system in Colorado that's modeled after the public schools. What do you think happened?

Well, you know, people are getting care, but since people, since politicians get more from providing lots of small benefits for a large number of people than they do for providing, uhm what's the word I want, very intense benefits for the very ill. What happened is that when Colorado went into the Medicaid managed care for the mentally ill, it arbitrarily said We're going to save so much from Medicaid managed care that we're going to cut everything by five percent. It's what the state did. They cut provider payments by five percent and then said, But this is going to be so much more efficient, you've got to provide a lot of services. You've got to provide peer counseling, you've got to provide drop-in mental health counseling, this, that and the other thing. So there were all of these services that nobody knows if they work, maintained for people who could just walk in. But it turns out that if you were severely schizophrenic and you wanted to see a psychiatrist, you had to be suicidal to get an appointment that was immediate. And, costs went up. There was a 1998 report by the state auditors office that showed that although the Medicaid population that was getting mental health care had increased before the state centralized the system. After the system was centralized, the number of people served declined and costs went up.

Now the drug use in Colorado hasn't been an issue. But it certainly was in Tennessee and Kentucky, where state lawmakers there simply said, Oh my gosh, this is going to destroy us. Massachusetts said People are desperate for this drug, but treating the state's eligible population would cost five million that we don't have. And the drugs were these atypical antipsychotics. At the same time, the people in Texas, which has a population only three times Massachusetts were saying, Oh no, it's going to cost us a hundred million for these drugs. We can't let people have them. There are presumably more schizophrenics in Texas.

The people in California said, This Clozaril is the most expensive drug we've had. This is from a Wall Street Journal article, I'm not

making this up. They said, This is the most expensive drug we've ever seen estimated costs are going to be three hundred million. Their cost estimate was 60 times more than Massachusetts. Oklahoma just waved the flag and said, That's it. We just can't -- it's going to take our whole mental health care budget.

Kentucky put everybody on prior approval and simply denied atypical antipsychotics to people with schizophrenia. The response from the National Association of the Mentally Ill was the one that put it in perspective, where the lady said, The states routinely pay \$55,000 a year for people on dialysis. Why are they balking at a \$9,000 per year drug treatment when it's going to put people out of hospitals that they're spending \$55,000 a year on?

Well, we spent ten years, and it's in detail in that paper, states spent ten years mucking around with this. The studies have come out ten years later showing that there's no question that this new class of drugs improves individual functioning and reduces hospitalization costs, and we could have been there ten years sooner if we'd had a system more like what Dr. Goodman suggests and less like one that funds our public schools.

So, for that reason, and I want to leave you with one final thought, if you really don't believe that government is more efficient, Colorado right now, the governor has said that he wants \$1.6 million to pay for, quote, Optimizing treatment for women with breast and cervical cancer. And this is going to be one of the issues at the special legislative session.

I ran the numbers. One point six million in the Colorado state budget is something like five bucks for a family with income of forty thousand dollars. Now I think if it was a life and death situation like a cancer diagnosis, most households in this country would come up with the five bucks instantly. They'd reorient their spending.

What does it take for the government system? It takes a special session. So I'll leave you with that thought. Thanks very much.

Linda Gorman is a Senior Fellow at the Independence Institute.

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