

# PREFACE

**B**eing an economist, I believe an economic approach is very useful, not only for understanding the forces pressing for change in healthcare, but also for explaining why the health system has evolved to its current state. Even the political issues surrounding the financing and delivery of health services can be better understood when viewed through an economic perspective—that is, the economic self-interest of participants.

For these reasons, I believe an issue-oriented book containing short discussions on each subject and using an economic perspective is needed. The economic perspective used throughout is that of a “market” economist—namely one who believes markets (in which suppliers compete for customers on the basis of price and quality) are the most effective mechanisms for allocating resources. Of course, at times markets fail or lead to outcomes that are undesirable in terms of equity. Market economists generally believe that government economic interventions—no matter how well intentioned or carefully thought out—can neither replicate the efficiency with which markets allocate resources nor fully anticipate the behavioral responses of the economic agents affected by the intervention. In cases of market failure, market economists prefer solutions that fix the underlying problem while retaining basic market incentives rather than replacing the market altogether with government planning or provision.

Healthcare reform has been an ongoing process for decades. At times, legislation and regulation have brought about major changes in the financing and delivery of medical services. At other times, competitive forces have restructured the delivery system. Both legislative and market forces will continue to influence how the public pays for and receives its medical services. Any subject affecting the lives of so many and requiring such a large portion of our country’s resources will continue to be a topic of debate, legislative change, and market restructuring. I hope this book will help to clarify some of the more significant issues underlying the politics and economics of healthcare.

## Changes in the Seventh Edition

Many revisions and additions have been made in this seventh edition. The book consists of 38 chapters, a glossary, 116 exhibits, and extensive references lists. In

addition to updating the exhibits (including several new exhibits) and adding recent references, the book has been revised (some sections rather extensively) and updated, using recent data, adding new research findings relevant to various sections, and including new sections in some chapters.

Three chapters have been added: Chapter 30, “Should Profits in Healthcare Be Prohibited?”, Chapter 32, “Health Associations and the Political Marketplace,” and Chapter 38, “The Affordable Care Act: Did It Achieve Its Goals?”

The Affordable Care Act (ACA), the most significant health policy enacted in many years, affected all aspects of the healthcare financing and delivery system. Many people and institutions have been affected by this legislation, including physicians, hospitals, other healthcare providers, insurers, employers, employees, unions, the uninsured, the states themselves, as well as the federal government. Any book on health policy must discuss the ACA.

The ACA, however, is so complex and its reach so extensive that it is impossible to cover it in one or two chapters. Instead, the ACA is discussed in those chapters in which particular aspects of the legislation are relevant. ACA policies and their implications are repeated in several chapters. The reason for this is twofold. First, instructors generally do not assign all 38 chapters to their students. Second, some chapters would be incomplete if particular aspects of the ACA were not included. For example, the ACA made important changes to the health insurance market and to Medicaid eligibility. Thus, these changes and their consequences are discussed in both chapter 7 and chapter 9.

The following chapters were significantly revised or include important new sections. The three new chapters for this seventh edition are also described below.

### ***Chapter 10: How Does Medicare Pay Physicians?***

Included in this chapter is a new section on the Medicare Access and CHIP Reauthorization Act (MACRA), which describes and analyzes the likely consequences of the new Medicare physician payment system starting in 2019.

### ***Chapter 14: Physician Malpractice Reform***

The emphasis in this chapter has been changed from a discussion of the recurrent malpractice crises and why malpractice premiums have risen to the objectives of the malpractice system, proposed reforms, and their likely effectiveness, including a new illustrative exhibit.

### ***Chapter 23: Who Bears the Cost of Employee Health Benefits?***

This chapter has been extensively revised and emphasizes how the costs of various mandates are shifted to employees.

***Chapter 25: The High Price of Prescription Drugs***

A new section is included that analyzes the shortage of generic drugs. It is surprising that the supply of generic drugs, inexpensive copies of drugs that have lost their patent protection, cannot be increased quickly when the demand for such drugs exceeds the available supply. The reasons for these recurrent shortages and appropriate public policies are discussed.

***Chapter 30: Should Profits in Healthcare Be Prohibited?***

This is a new chapter. Many people have questioned the role of profits and the adverse incentive effects of making a profit in healthcare. The different definitions of profits used by accountants and economists are discussed, including when “excess” profits are beneficial to society, as well as appropriate government regulation when excess profits are generated by certain types of behavior. Also examined is why not-for-profit hospitals and insurers must earn a profit. Examples of the consequences of prohibiting profits are given, and the importance of profits in providing incentives for developing treatment and cost-reduction innovations is discussed.

***Chapter 31: The Role of Government in Medical Care***

A new section titled “Political Markets Compared with Economic Markets” discusses the similarities and differences between the two types of markets.

***Chapter 32: Health Associations and the Political Marketplace***

This new chapter discusses the types of legislation demanded by different health associations. Understanding the economic self-interest of association members and their policy preferences gives us insight into why the financing and delivery of medical services has evolved the way it has. Also discussed are the types of legislation and regulation favored (and opposed) by politically powerful health associations.

***Chapter 33: Medical Research, Medical Education, Alcohol Consumption, and Pollution: Who Should Pay?***

An appendix titled “Inframarginal Externalities in Medical Education” has been added to this chapter. The appendix describes the circumstances in which sufficient private benefits accrue to individuals from becoming physicians that make medical education subsidies unnecessary.

***Chapter 35: Employer-Mandated National Health Insurance***

In addition to various updates of exhibits, data, and commentary, this chapter includes a discussion of the ACA’s employer mandate.

**Chapter 38: The Affordable Care Act: Did It Achieve Its Goals?**

This new chapter examines an important objective of the ACA: reducing the number of uninsured. The chapter elaborates on several ACA issues covered in other chapters and provides new materials and exhibits regarding the ACA's approaches for reducing the number of uninsured. Sufficient time has passed and data have become available to allow analyses of the effectiveness of these ACA approaches: Medicaid eligibility expansion, employer mandate, small-business tax credit, individual mandate, and subsidies within the health insurance exchanges. Suggested legislative changes are presented that could increase the number of insured. Bipartisan political support is essential to enacting legislation that expands insurance coverage.

**Instructor Resources**

This book's Instructor Resources include a test bank, PowerPoint slides, discussion points for the book's end-of-chapter Discussion Questions and additional questions and discussion points, a detailed syllabus planner, teaching tips, chapter overviews, and a transition guide to the new edition. For the most up-to-date information about this book and its Instructor Resources, go to [ache.org/HAP](http://ache.org/HAP) and browse for the book's title or author name. This book's Instructor Resources are available to instructors who adopt this book for use in their course. For access information, please email [hapbooks@ache.org](mailto:hapbooks@ache.org).

**Acknowledgments**

I thank Glenn Melnick, Thomas Wickizer, Jerry German, Jeff Hoch, and several anonymous reviewers for their comments. For this seventh edition, I also thank Elzbieta Kozlowski for all her assistance, particularly the collection of data and construction of the exhibits.

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