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Big Ideas In Health Economics

BY JONATHAN S. SKINNER

HEALTH ECONOMICS AND POLICY: SELECTED WRITINGS BY VICTOR FUCHS

By Victor R. Fuchs
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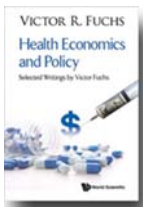

Health economics as a profession has grown exponentially in the past half-century, but not everyone agrees on what health economics is. Many physicians think that health economists spend their days tabulating prices for cost-effectiveness studies. I once was called by a large pharmaceutical company seeking to recruit a health economist. Puzzled as to why any profitable company would want to employ me, I asked what they meant by "health economics." With a sigh, the recruiter responded: "To prepare a business case for marketing new drugs."

Refreshingly, Victor Fuchs's new collection of articles and essays, *Health Economics and Policy*, provides a clear vision of what health economics is—or at least should be. (Disclosure: I wrote a book chapter with Fuchs some years back, which is not included in this volume.) One could not ask for a more experienced guide: Fuchs, the Henry J. Kaiser, Jr., Professor of Economics and of Health Research and Policy (emeritus) at Stanford University, commissioned Kenneth Arrow to write the 1963 *American Economic Review* urtext of health economics, which, as Fuchs describes in this book, has launched more than a thousand articles. Despite coming to health economics in his forties, Fuchs has since written a remarkable number of pathbreaking articles over a half-century, most of which are included in this volume. Along the way, he has earned nearly every honor in the economics profession, including being elected president of the American Economic Association and having an eponymous lifetime achievement award awarded annually in his honor by the American Society of Health Economists.

The book consists of forty-two articles in eight sections, accompanied by fresh introductions, and includes two graceful forewords by Sir Angus Deaton and Victor Dzau. A variety of topics are covered, ranging from a comparison of US and Canadian hospitals (the Canadian hospitals treat their patients more intensively but charge less); to conceptual measures of poverty; the role of smoking and education in explaining poor health; changes over time in health spending on the aged population; the future of health economics; and his belief in the importance of writing clearly, which he views as a matter of personal character. With so many chapters and topics, this book is designed for grazing.

The essay "The Doctor's Dilemma—What Is Appropriate Care?" is a good place to start, as it neatly explains why so many efforts to control health care costs to the "socially optimal" level (where marginal benefits equal marginal costs) are likely to fail. Economists can extol the value of allocative efficiency, but a health professional's job is to improve the health of *their* patient. The professional often has little patience for the idea that they should withhold potentially beneficial treatments because doing so would impose too large a financial burden on distant third-party payers.

From the very beginning, Fuchs understood the distinction between health and health care. For example, in his 1974 book *Who Shall Live?* he compared Nevada and Utah—which, despite their similar health care use patterns, experienced vastly different life expectancy. By now, the solution to the puzzle is well known: Health behaviors and social factors are what really matter for longevity and quality of life. At the time, this was radical news, especially to physicians. Fuchs continued to explore this key distinction in the book, with several chapters taking a clear and critical look at the links between socioeconomics, health-related behaviors, and health.

In another essay, Fuchs and coauthors Alan Garber and James Silverman compare spending and outcomes for patients admitted to a university hospital by either academic or community physicians. Not surprisingly, they find higher risk-adjusted utilization rates for patients admitted by the academic physicians—and, as was the case in a recent *JAMA Internal Medicine* study, lower short-term mortality. But unlike the more recent study, Fuchs and coauthors measured longer-term nine-month mortality and found that the initial differences had disappeared.

A critical finding, but there's just one problem: The data are from 1981–82. It could be that any technology gap between academic and community physicians has changed, or perhaps the results from this one hospital wouldn't be replicated in a national sample. But as Fuchs discusses in his essay on the Nobel laureate Gary Becker, there are facts, and there are ideas. It's the ideas and the insights that are important here. The idea that medical treatments may yield only transitory health benefits deserves more serious consideration in current debates.

Fuchs's facts from articles past are all certainly relevant, but they need to be replicated and reconsidered in light of expanding data and statistical methods now available to researchers. Indeed, this is exactly what Raj Chetty and coauthors did when they returned to the Nevada-Utah paradox with millions of

individual tax returns and mortality data to pin down just how much sicker was Nevada than Utah, even after careful stratification by lifetime income.

Fuchs has often been referred to as the dean of health economics. A better term is ambassador-at-large, because for so many noneconomists, he was the first person to point out the importance of the economic perspective in health policy. Back in the 1970s, with just a handful of practicing health economists in existence, he could not engage in traditional academic navel-gazing and expect anyone to pay attention. *Health Economics and Policy* contains several essays explaining health economics to humanists ("What Every Philosopher Should Know about Health Economics") and, most importantly, to clinicians ("Major Concepts of Health Care Economics"). Fuchs also reminds economists that they need to be aware of facts outside of their narrow field. For example, he pointed out many decades ago that the US decision to eschew universal health coverage was not just a temporary aberration, but instead a reflection of its unique philosophical leanings and political structure. How right he was.

So returning to the original question: What is health economics? Fuchs, naturally, provides a succinct definition: "What economics does do is help us arrange the relevant information in a systematic way and make explicit the choices that individuals and society face. Therein lies much of its unpopularity."

Anyone seeking to understand how health economics can contribute to the continuing health policy debate in a positive and productive way, and any health economist seeking relief from bad writing and small ideas, will gain from reading this volume. ■

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