Programme OPERA – ENTRETIENS

Entretien – santé n°11

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Interviewer: At first, if you agree, could you go back to the beginning of your interest in health care policy? I read that you became interested in health policy issues when you worked for Litton Industries. But why did you become so interested in it?

Responder: I had been working 12 years on Defense policy and I was tired of it. Georgetown University, here in Washington, invited me to be on their board and I was on their health committee. Actually I wasn't there for my skill in health policy since I did not have any but for my knowledge in public finance and my experience in government and public policy. I started to get interested in the topic of health policy and I found it very exciting. Actually, I didn't know nothing on health care since my wife's father was a physician and I had often talked with him about this topic. Moreover, I grew up in Seattle, in the state of Washington, and at this time in this city a new kind of hospital was created, a much more integrated medical organization, Group Health Corporation. Even early when I was a teenager, I made a lot of sense for me that it was the future of medicine, that integrated organizations, from an economic point of view, were more efficient. The dominant system was and is still today the fee-for-service system. So I understood early what most Americans understand now.
When I left the Department of Defense, I went to Litton Industries, that is a extremely diversified company. There, at this time, nobody knew anything about medical care and health policy and, as we say, "in the land of the blind the one-eyed man is king". So I quickly became head of the Litton medical products, which was a very big industry with factories in Freiburg in Germany, in Poland, Chicago, Washington. What I learned there is the point of view of medical industry, and that from they are unconscious of costs! They always want more advanced technology, with more complex features, and everything.
What also happened is that the National Academy of Science had formed the Institute of Medicine and I was elected as member. There were above all medical academics but I think they thought that they should include people from industry. So they picked up me. And it was great. I went there and there were very interesting debates about big medical and health policy issues. At least, I was very interested in them.
So when Stanford offered me to join the faculty, I decided to specialize in health care and health policy.

I: Why did you choose to go back to the university? Did you have applied for the job?

R: What I will say is not modest but I had been secretary assistant of the Secretary of Defense and I was known to have developed theoretical thoughts in the department. I was very famous. They offered me a very good position in the faculty, a chair, with a lot of freedom. I have never applied for a job in my whole life.
So I started to read health economics. And I got to know Victor Fuchs and Paul Ellwood, who became very good friends. Actually, an English company is doing an anthology of my most important articles and texts and I wrote this story in introduction. I should sent it to you.
So my interest in health policy developed step by step, from Georgetown University, to Litton Company, to the Institute of Medicine.

I: Could you develop a little bit more on what was going on in the Institute of Medicine? What were the discussions about? Who were there? …

R: They were discussing the major issue in health policy. One of them, my friend Paul Ellwood, had developed the idea that there was a much better way to organize medical care, in integrated organizations, or HMOs, etc – there are many expressions for that. So there were discussions about that and of course medical academics thought it was very bad – and of course, because they would have earned much less money! There were also discussions about the balance between generalist primary physicians and specialists, about abortion policy. I am sure you could find that in the archives of the Institute of Medicine.

I: Did you meet Victor Fuchs and Paul Ellwood in the Institute?

R: We regularly met at the Institute but actually I had known them before. The first time I met Ellwood, we were both invited at a conference in Colorado on health care policy, debating the issue of national health insurance. Actually the conference was from 8 to 10 am and then it was a break for the rest of the day!! So when it was time for the break, I went out to go skiing and I met Ellwood who was doing the same. And we became very friend. I understood what he was trying to explain and develop and I was very interested in it. Then, he put on a meeting every year in his house in the beautiful Jackson Hole Mountains with many very important people, heads of medical industries, the head of Blue Cross and Blue Shield.
Concerning Victor Fuchs, we were invited to a medical meeting organized by … . He was an economist like me interested in cost-effectiveness analysis applied to medical care. The question was "is it right or wrong to consider costs in health care issues?" And if you are an economist, you think that it is important, because as you know, one of the first assumptions of economists is that resources are limited. So when you spend money for health, you cannot spend that money for something else. So Victor Fuchs was at this conference and he also joined the faculty at Stanford at the same time as me. You know, it's a very nice and pleasant place to be. He was used to play ping pong and we played together and had very great time! Actually, I was not bad but he was much better than me! We became very good friends. He is more the scientist and I am the public policy analyst.
At the Institute of Medicine, there were also deans of famous medical school.

I: Did you also read Martin Feldstein?

R: Yes. I got to know him very well. We became friends.

I: In what circumstances?

R: I couldn't tell it. I don't really remember.

I: When you joined the faculty of Stanford, was there a health economics department?

R: No. Victor was in the Economics department, and I was in the Business School, chair of public policy management, what was based on my experience in the government and especially with McNamara. Because McNamara was famous for his management innovation in the administration. And the dean of the Business School thought they needed to develop training for the public sector, how to manage the public sector. They wanted to develop a public management program. But it was not thought for health sector, but for all public sectors.

I: Do you know when a health economics department was created in Stanford?

R: We don't have one! The only thing is that when you are a old well-recognized professor in the United States, and especially in this faculty, you have a lot of freedom to do what you want to do and if you are lucky, it may work. During a very long time, there were no other health economics. I created a course on evaluating cost in health technology sector and for that, I hired a MD and Phd in economics. But that's it!

I: Nevertheless, it's a field that developed a lot from the seventies in the United States…

R: Yes. And many business school have developed programs only for the health sector. Northwestern University, University of Pennsylvania, they have a whole building only for health economics!

I: Few years after you joined the faculty you developed the CCHP, a health policy proposal, for the Carte administration. Could you describe this report-writing process?

R: I knew Kennedy and Johnson people from the time I was in the Pentagon. Joseph Califano[1] was the liaison between the defense department and the White House. Under Lindon Johnson he was chief of staff for what we can call the Great society programs. Then, when Carter was elected, he appointed Califano as secretary of HEW. During his campaign Carter had promised a universal health insurance system that would cover everybody. So after the election, Califano called me and said: "we have this problem, Carter promised a universal

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[1] Joseph A. Califano, Jr. was born in 1931 in Brooklyn, New York, to a working class family. He received a Jesuit education at Brooklyn Prep and Holy Cross, where he graduated in 1952. Following graduation from Harvard Law School in 1955, Mr. Califano then served as a lawyer in the Navy, which he subsequently left to join a Wall Street law firm. Inspired by the Catholic Workers movement, Joseph Califano joined the Kennedy Administration and worked to reorganize the Pentagon with civilians. Joe Califano described "an air of invincibility" in "imposing hands-on civilian control on the military." Following that he moved into the civil rights movement, determined to change American culture by changing peoples' beliefs and emotions. Mr. Califano then moved back to the much more lucrative private practice of law, where in defending the Washington Post, he says he was on a "crusade to save Democracy." In 1976, Joseph Califano became Secretary of Health, Education and Welfare (HEW) under Jimmy Carter. However, within three years President Carter was forced to fire him largely because Califano's "blunt, high-profile, self-promoting approach cost Carter too many political allies." 1

health insurance but with no idea on how to do it". I came to the administration and we discussed. What I forgot to say is that I also signed up with Kaiser Permanente to work as a consultant. I didn't want to move in with my whole family back to Washington but I propose to come back and forth. At this time, everybody was concerned about costs. My vision was that prepaid groups could provide excellent medical care for much cheaper than traditional organizations. These groups worked with medical team versus individual professionals. It was a culture of medical team work, versus culture of professional and individual autonomy. So I thought that if we had (he explains the principles of the CCHP) integrated groups hardly and fairly competing and that people could choose the best for them, the system could convert and be much more productive. It was also the idea of Paul Ellwood. So I did not leave California but work as a consultant. I also received a lot of advice of colleagues in California, especially from the Kaiser Permanente. Since you know, most medical professionals were furiously against the prepaid groups. You know, an obvious thing in American history is that the medical profession, especially through AMA, blocked all the reforms to control cost or to decrease the autonomy of medical professionals. This story is well documented in historical studies, like in Paul Starr, *The social History of American Medicine*[2]. What we have to do is: the government plays the rules for competition and the people choose. Where this kind of groups really developed and when people really have choice between different types of plans, this became true. At Stanford for instance, people have choice between a HMO plan and a traditional plan and 80% of people have the HMOs plan. So there is proof, but anyway.
I really thought that the best way to improve the quality of care, coordinate care and reduce cost, was the competition between prepaid groups. Policymakers still want to limit ethe cost from above, top down, and that doesn't work! At least here, in this country with our culture and political institutions. Then the editor of the New England Journal of Medicine invited me to write an article about my plan[3].

And also, the national mood turned against the government and the public sector, taxes. It was the time of the book by Charles Schultz, *The public use of private interest*[4], for instance. I

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[2] In fact, *The Social Transformation of American Medicine: The rise of a sovereign profession and the making of a vast industry*, 1981.

[3] Alain C. Enthoven, « Consumer-Choice Health Plan — Inflation and Inequity in Health Care Today: Alternatives for Cost Control and an Analysis of Proposals for National Health Insurance », *N Engl J Med*, March 23 1978 ; « Consumer-Choice Health Plan — A National-Health-Insurance Proposal Based on Regulated Competition in the Private Sector » *N Engl J Med*, March 30, 1978

[4] Charles L. Schultze, *The public use of private interest,* Brookings Institution Press, 1977 - Business & Economics - 93 pages. According t conventional wisdom, government may intervene when private markets fail to provide goods and services that society values. This view has led to the passage of much legislation and the creation of a host of agencies that have attempted, by exquisitely detailed regulations, to compel legislatively defined behavior in a broad range of activities affecting society as a whole--health care, housing, pollution abatement, transportation, to name only a few. Far from achieving the goals of the legislators and regulators, these efforts have been largely ineffective; worse, they have spawned endless litigation and countless administrative proceedings as the individuals and firms on who the regulations fall seek to avoid, or at least soften, their impact. The result has been long delays in determining whether government programs work at all, thwarting of agreed-upon societal aims, and deep skepticism about the power of government to make any difference.Strangely enough in a nation that since its inception has valued both the means and the ends of the private market system, the United States has rarely tried to harness private interests to public goals. Whenever private markets fail to produce some desired good or service (or fail to deter undesirable activity), the remedies proposed have hardly ever involved creating a system of incentives similar to those of the market place so as to make private choice consonant with public virtue.In this revision of the Godkin

remember this example. In California, we have a airline company that flew between cities in North and South and the prize between San Francisco and Los Angeles was half the prize between Boston and Washington, for the same distance. So peole were starting to ask “why?”. And it was because in California, the airlines companies were not regulated by the government! So many people noticed that, even Kennedy! They noticed that public utilities regulations don’t work well, at least in this country. So this plan I had written seemed to me the right thing to do and I decided to push as hard as I could as long as somebody would show me that it was not possible. And it is possible! Even if politically it is difficult because medical industry is against!

I: Do you think that these ideas you developed had a big impact on policymakers?

R: There were introduced several times. In 1979, a bipartisan bill was introduced by the Republican David Stackman and …. In 1992, Jimmy Cooper in the House also developed a bill with them, in the Conservative Democratic Forum.
I called it “managed competition” to differentiate from “free market”. You can’t have free market with insurance because insurance policy has increased ().
So Cooper started to develop something and found cosponsors. Hillary came along and I met with her. At the end, a lot of my ideas were included in the final bill but with a big problem. Many Democrats could not trust the market to control cost and the bill became “trop dirigiste”. She said, “my husband will have to campaign for a second mandates in 3 years and he has to show some progress in reducing costs, cost is raising too much over control”. But it doesn’t work. So I and she had a big argument. And then she worked in secret in her office with Ira Magaziner and () and we didn’t know what would go out.
I can compare with Lindon Johnson for Medicare. He was a very good politicians, he had been Senator and knew that for something passes the Congress, Congress has too be involved. The White House wrote on a paper the main things for the bill, sent it to the WMC and said “as long as you respect these things, I will sign it”. But Hillary drafted these hundreds of pages and put them in front of Congress. And congressmen said: “it’s not my baby! I am not the father!”. It was a big disappointment for me. If she had gone to Cooper and said: “Could you develop that in this way?”, it would had follow the process in Congress and likely passed.
Then it came to Obama and he went to another extreme. He thought to do the opposite and turned up over the Congress. That was also a terrible mistake because all the congressmen are fighting for their localities and particular interest of their regions.

Congress is not naturally in claim of the national interest. So he said, as long as it covers everybody, that’s fine. That was an horrible thing because of the huge amount of political money that come from what I call the medical industry complex (physicians, drug companies, insurance companies, nurses, hospitals…). And what they did not want was cost containment. So they lobbied so much! Consequently we got a bill that has no serious cost containment in it. There is the Independent Advisory Board formed of 16 officials who rule by decree the Medicare payment-rate. But not in the United States! It does not work here! I remember I was in Paris at Roger Martins, “le PDG de Cochery Bourdin Chaussé” and I was thanking him for his hospitality and I said “What I learned is that here the government is very powerful”. And

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Lectures presented at Harvard University in November and December 1976, Charles L. Schultze examines the sources of this paradox. He outlines a plan for government intervention that would turn away from the direct "command and control" regulating techniques of the past and rely instead on market-like incentives to encourage people indirectly to take publicly desired actions.

he said: “In France we killed the king but the government still runs by divine right”. In France powerful people are bureaucrats and here they are lawyers. So the medical industry spent 1,2 billions dollars for lobbying. They promised campaign contribution if the Congressman was doing this or that.

There is a reflection of my ideas in the final act. The idea to organize a market for competition through exchanges. But I disagree with the employer mandate. I think that employer-based system of health care has proved to be a failure because employers are competing to have more and more generous plans. And it’s also the interest of the labor unions. It’s a bargaining prize for them.

I: What did you during the legislation process?

R: I worked on a report for CED. Do you know it? I will write it for you: CED, Committee for Economics Development – www.ced.org - See Quality Affordable health Care, Beyond the Employment-Based System.
We developed it in 2007 and it involved a lot of business people. CED is also very well connected to members of Congress and they spread the reports to them when it was released. So it was a group of progressive business people, who feel their commitment and their interest in social development, like health but also better education for instance. It’s a centrist non partisan group.
I also spoke a lot to people notably from the Adviser Economic Council.

I: Who there?

R: Lary Summers, chief economist. In Congress, to in my opinion the most promising bill, by Senator Ron Wyden[5] from Oregon and cosponsored by the republican senator Bob Bennett. So they proposed a bill and obtained 16 Senator sponsors. So Wyden called me up and told me “we need more cosponsor. Would you like to help us to convince other senators?” The ideas were much closer to the managed competition ideas and I helped them to find support. I did the same in Congress. One day, I went to see Waxman – whom I know for so long time who is a friend now – and I explained him that with my views. In his district in California they have a lot of local non-profit HMOs and a strong trade association of these HMOs. So I explained him that this plan would open the market to these HMOs to everybody – now they

[5] Wyden mostly supports free trade. While still in the House, he voted for the North American Free Trade Agreement (NAFTA) and has subsequently supported many trade deals in the Senate being one of the very few Democrats to vote in favor of the Central America Free Trade Agreement (CAFTA). In 2009 Wyden sponsored the Healthy Americans Act, an act that would institute a national system of market based private insurance. Despite a voting record in favor of public health care,[citation needed] Wyden was attacked by union interests for advocating replacement of the employer tax exclusion with a tax deduction that would apply to all Americans (not just those who enjoy the good employer benefits provided to many union members). Not long after Tom Daschle's withdrawal as President Barack Obama's nominee as United States Secretary of Health and Human Services due to a scandal over his failure to pay taxes, The Oregonian reported that Senator Wyden was being touted by many healthcare experts as a likely candidate to succeed Daschle as secretary-designate.[21] Although Wyden was ultimately passed over in favor of Kansas Governor Kathleen Sebelius, he took advantage of the interim to reintroduce his Healthy Americans Act, with additional co-sponsorship from Republican senators led by Tennessee's Lamar Alexander and Utah's Bob Bennett as well as from fellow Oregon Senator Jeff Merkley.[22][23]

have to find employers. All the groups in the exchanges. He said “yes” but Blue Cross and blue Shield have 1000 lobbyists in Washington to prevent that to happen.

I: At the end of the eighties, did you also have contact with Republican-oriented experts? Like in Heritage, since they had developed ideas that had similarities with yours…

R: Yes, I meet regularly Stuart Butler in meetings and there are similarities between our views. My history has been more with Democrats, Kennedy and then Johnson. But yes with Butler I think we became closer and closer. Sometimes he send me a draft for comments.
With experts from Heritage, I think their line is freer market oriented on details rules than mine. For instance, they don’t think that insurance plans must be standardized and I do.
The interesting () is attractive, like Cooper and Wyden.
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Republicans, and it is part of their ideology are against considering cost in health care, they don’t want to consider the prize of medical technology, new drugs… and we have to!
I consider myself as in the middle, as an independent. If sometimes I am seen with Butler, it does not mean that I am Republican and the same is true with Democrats.

I: What do you think about the development of the field of outcome research?

R: It is very important. It is very important to know how much a treatment costs as compared to its efficiency. Actually the first development was by Paul Ellwood on management in health care. At the MIT, he gave a lecture in the 80s on management and outcome in health care. I also did one on Cutting cost without reducing quality of care. Kaiser Permanente did also a lot about that. The last talk I did was for a conference organized by economists on competition among hospitals, among drugs companies, among physicians, etc. My contribution was to say that health care is delivered by systems that work together.