

Face value

Health-care heretic

Regina Herzlinger is trying to transform America's health-care system through her advocacy of consumer choice

May 31st 2007 | From the print edition

ONE recent evening in Boston, Regina Herzlinger was teaching a class on the business of health care in America, taking her students through the travails of a medical-device manufacturer that had failed to get its invention onto the market. The group considered the company's financial position, the economics of the market niche and other factors that foiled its strategy. All this may seem unremarkable given that Mrs Herzlinger is a professor at Harvard Business School (HBS). What is surprising is that the classroom was filled with students from Harvard's medical school, not its MBA programme. Aspiring doctors are not normally taught microeconomics, cost accounting or risk management. But under a scheme dreamt up by Mrs Herzlinger and others, Harvard now offers joint degrees from the two schools. Arming doctors with the commonsense tools of economics is a tactic in a long-running campaign to fix America's health system.

Mrs Herzlinger is America's leading advocate of market-driven, consumer-orientated health reform. In the 1980s, says Ray Gilmartin, a former chairman of Merck, a drugs giant, "she argued for a greater role for competition and choice when market forces and productivity were foreign concepts in this sector." In the 1990s, when "managed care" was all the rage, she predicted correctly that such a dirigiste, cost-obsessed approach would alienate consumers even as it failed to rein in cost inflation ("I said, 'this fish stinks'," she recalls).

Now comes her latest salvo. "The US health-care system is in the midst of a ferocious war. Four armies are battling to gain control: the health insurers, hospitals, government and doctors," she writes at the start of her new book, "Who Killed Health Care?". Then she moves in for the kill: "Yet you and I, the people who use the health system and who pay for all of it, are not even combatants." She wants a national system which requires individuals to buy health insurance, with help in the form of tax breaks for all punters, and subsidies for the poorest. She wants insurance prices to be risk-adjusted and hospitals to be free to charge what they like so they can offer new services as the market demands. Most importantly, she wants the government to demand transparency of price and quality from this notoriously murky industry. "I'm not just an academic, I am an activist," she insists.

Mrs Herzlinger's suspicion of industry and government and her vigorously consumerist stance are the results of personal experience. When she did her doctoral research on medical-cost accounting at Massachusetts General, a giant Boston hospital, its boss was astonished that she could tell him how much a particular treatment at his hospital actually cost. After graduation she worked in the health department of the state of Massachusetts, and says she saw first-hand how clever, well-intentioned people could become trapped in an overbearing, inefficient system. And she faced many obstacles on the way to becoming the first tenured woman and holder of a faculty chair at HBS. "Because I was never part of the old boys' network, I had to look outside for allies—to my students, whom I see as my consumers, and to the wider world outside academia," she says.

Mrs Herzlinger's vision of consumer empowerment faces formidable obstacles, of course, both from defenders of managed care and from supporters of alternative paths to reform. Alain Enthoven, a professor at Stanford University who was the intellectual force behind managed care, dismisses her consumer-directed approach as "great for the healthy and wealthy" but warns that it may "draw more resources into the open-ended fee-for-service sector, whose appetite is insatiable." Marcia Angell, a former editor-in-chief of the *New England Journal of Medicine*, argues instead for a single-payer system, insisting that "private insurers compete not by offering better health care, but by avoiding high-risk individuals, limiting services for those they do cover, and, whenever possible, shifting costs."

Step by step

Even so, it seems that Mrs Herzlinger's once-heretical ideas are making progress. She has advised the Bush administration and members of Congress on recent consumer-minded reforms, such as personal "health savings accounts" and changes to the Medicare health scheme, though she rightly grumbles that these fixes have not yet gone nearly far enough. As health-care reform hots up, she is fielding calls from politicians from both parties. Paul Ryan, a Republican congressman, claims that "of all the thinkers on this topic, Regi has the most influence in Washington—and her ideas are gaining ground." She also has the ear of senior figures in the health-care industry. Ron Williams, the boss of Aetna, an insurance giant, says Mrs Herzlinger's consumer-driven approach is "the most important trend to hit health care—and Regi is a beacon for us practitioners."

But her most important asset may well prove to be her HBS students. Three decades' worth are now in the marketplace, and they are starting to make their presence felt. Larry Gelb, who took her course in 1986 and recalls her being a "breath of fresh air", now runs CareCounsel, a consumer-advocacy firm that represents individuals in legal tussles with health-insurance firms. Other protégés have founded companies to develop her ideas on data transparency, personal financial-management and "focused factories" dedicated to

treating particular ailments.

Mrs Herzlinger notes that managed care went from an idea to nationwide practice in just four years, and predicts that consumer-driven health care with universal coverage (Switzerland's approach is her favoured model) will sweep America over the next four years. And it will happen, she is convinced, as consumers demand better from their health system. She is optimistic, she says, because the people making such demands will be America's baby-boomers—"the most manipulative, self-seeking and effective generation that this country has ever seen."

From the print edition: Business