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COMMENTARY

Where Are the Innovators in Health Care?

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Harvard Business School Bulletin | December 15, 2007
Health Policy: Other

No sector of our economy is more in need of innovation than health care, yet its many regulations handcuff entrepreneurs. A consumer-driven health-care system will unlock these shackles to bring about a much-needed entrepreneurial revolution.

Health care's $2.2 trillion of costs (17 percent of GDP) breaks the backs of U.S. firms that compete with companies in countries spending, at most, 12 percent of GDP on health care. Yet, despite this torrent of cash, more than 40 million Americans lack health insurance, mostly because they cannot afford it.

In almost every sector of our economy, brilliant, effective innovators have forced sluggish U.S. industries to become more productive. Sam Walton's exquisitely detailed supply chain management, coupled with his daring decision to locate Wal-Marts in rural areas, kick-started the boom in retailing, while Bill Gates, Steve Jobs, and Michael Dell drove productivity in the IT sector. These entrepreneurs, and so many others, have fundamentally improved our economy by making goods and services better, cheaper, and more accessible.

But can you name any innovators in our bloated, inefficient health-care system?

While there is innovation in the medical technology and health-insurance sectors, when it comes to health services, the 800-pound gorilla of our system, entrepreneurs are nowhere to be found. And their absence has enabled the status quo providers to get fat and sloppy.

One analysis showed that hospital activities accounted for $400 billion of the excessive costs of U.S. health care while all too many quality measures have worsened. Patients learn — sometimes the hard way — to bring along an assertive, intelligent loved one to protect them during a hospital stay.

Entrepreneurs avoid health-care delivery because status quo providers, abetted by legislators and insurance companies, have made it virtually impossible for them to succeed. Unlike any other U.S. industry, consumers do not set prices, yet they provide all the money through taxes for government programs and forgone salaries for employer-provided benefits. A third party — a government or an insurance company — not only sets the prices but goes so far as to specify procedures and even the kinds of patients to be covered.

Lately, payers are even telling doctors how to practice medicine, and those who follow their recipes get paid more. The recipes are devised through an innovation-killing “peer review” process. The history of medicine is filled with shameful stories of “peers” who used their powers to suppress innovations: Judah Folkman, the brilliant scientist whose antiangiogenesis theory forms the basis for many important new cancer drugs, for example, had difficulty obtaining peer-reviewed government research funds for nearly a decade.

Third parties’ lock-hold on reimbursement punishes innovators. When the Duke University Medical Center’s innovative new program for people with congestive heart failure so substantially improved patients’ health that hospital visits and usage plummeted, the perverse nature of the payment system meant Duke couldn’t benefit from saving its patients’ money — nearly $8,000 per person. In only one year, the program had reduced costs by 40 percent, yielding the kind of do-good returns that would normally earn kudos from Wall Street and Main Street. But because the third parties pay providers only for treating sick people, they penalize innovators who make people healthy.

Nonmarket-based payment is but one of many barriers to innovation that plague the health-care industry. Insurance entrepreneurs who confront mandated benefits and “community pricing” can neither design nor price their innovations. Technology entrepreneurs must clear massive hurdles before securing the “coding” and “coverage” decisions that open the door to reimbursement. And health-service entrepreneurs must comply with tens of thousands of pages of regulations.

Time and again the regulatory status quo blocks entrepreneurship. No wonder the twenty or so doctors enrolled in my Innovating in Health Care course at Harvard Business School are ruefully driven to earn MBAs once they realize they can innovate in medicine better as an entrepreneur than as a doctor.

Luckily there is a solution, but there is only one: consumer-driven health care. Let’s take back our $2.2 trillion from the entrepreneur-suppressing status quo and allow consumers to reward those entrepreneurs who lower costs by improving health. Until we control our own health-care system, the entrepreneurs who could reform it — and make our lives better — will continue to look elsewhere for opportunities. Who can blame them?

This piece originally appeared in Harvard Business School Bulletin

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