

The Importance of Health and Health Care

The American health care system is an engine for innovation that develops and broadly disseminates advanced, life-enhancing treatments and offers a wide set of choices for consumers of health care. The current health care system provides enormous benefits, but there are substantial opportunities for reforms that would reduce costs, increase access, enhance quality, and improve the health of Americans.

An individual's health can be maintained or improved in many ways, including through changes in personal behavior and through the appropriate consumption of health care services. While there is substantial health care spending in the United States, the importance of health does provide a strong rationale for this level of spending. But because health care financing and delivery are often inefficient, there are opportunities to advance health and access to health care services without further growth in spending. To improve the efficiency of health care financing and delivery, the Administration has pursued policies that would increase incentives for individuals to purchase consumer-directed health insurance plans. The Administration has also worked to link provider payments to performance, thus rewarding efficient delivery of health care. In the President's State of the Union Address, he proposed changing the tax treatment of health insurance, offering all Americans a standard deduction for buying health insurance. Such a change could play an important role in increasing the efficiency of the American health care system and expanding health insurance coverage.

The key points in this chapter are:

- Health can be improved not only through the consumption of health care services, but also through individual behavior and lifestyle choices such as quitting smoking, eating more nutritious foods, and getting more exercise.
- Health care has enhanced the health of our population; greater efficiency in the health care system, however, could yield even greater health for Americans without increasing health care spending.
- Rapid growth in health care costs and limited access to health insurance continue to present challenges to the health care system.
- Administration policies focus on reducing cost growth, improving quality, and expanding access to health insurance through an emphasis on private sector and market-based solutions.

Health and the Demand for Health Care

The demand for health care is unlike the demand for most consumer products and services because while the desire for consumer products and services comes from direct consumption, the desire for health care is not derived directly from the consumption of the medical procedures themselves; rather, it comes from the direct value of improved health that is produced by health care. For example, demand for an MP3 player is based on the enjoyment that an MP3 player brings to a consumer, but few would choose to get a laparoscopic cholecystectomy for the same reason. Rather, a consumer's desire to have her gallbladder removed is directly related to the positive impact the operation is likely to have on her health. Understanding how health is produced, demanded, and valued is a useful starting point for evaluating the health care system and health care policy.

Demand for Health

People demand health because of its role in facilitating and providing happiness. Health can be defined along two dimensions: the length of life (longevity) and the quality of life. A person derives value from the quality of life directly and indirectly: directly because one's level of health affects the enjoyment of goods and leisure and indirectly because one's level of health enhances productivity (Box 4-1). Enhanced productivity can be rewarded in the labor market through higher wages. The indirect effect of health on productivity suggests that health is an important component of human capital investment. Consistent with the basic principle of our economic system, consumers exercise choice in purchasing health care and other goods and services.

The Production of Health

Health care is only one of the factors that determine health. Other factors include individual behaviors, environmental factors, social factors, education, income, and genetics. If we think of an individual as a producer of health, the key production inputs are the time and money spent on health-improving activities and health care. Health-improving activities can include individual choices regarding exercise, nutrition, and lifestyle. Health care can include hospital care, outpatient visits to medical providers, nursing home care, and medication. Because health can deteriorate from accidents, sudden disease, and the effects of aging, health care inputs are needed not only to maintain current levels of health but also possibly to restore health following an illness or injury.