

## Preface

BEING AN ECONOMIST, I believe an economic approach is very useful, not only for understanding the forces pressing for change in health care but also for explaining why the health system has evolved to its current state. Even the political issues surrounding the financing and delivery of health services can be better understood when viewed through an economic perspective, that is, the economic self-interest of participants.

For these reasons, I believe an issue-oriented book containing short discussions on each subject and using an economic perspective is needed. The economic perspective used throughout is that of a “market” economist, namely one who believes markets—in which suppliers compete for customers on the basis of price and quality—are the most effective mechanisms for allocating resources. Of course, at times markets fail or lead to outcomes that are undesirable in terms of equity. Market economists generally believe government economic interventions, no matter how well intentioned or carefully thought out, can neither replicate the efficiency with which markets allocate resources nor fully anticipate the behavioral responses of the economic agents affected by the intervention. In cases of market failure, market economists prefer solutions that fix the underlying problem while retaining basic market incentives rather than replacing the market altogether with government planning or provision.

Health care reform has been an ongoing process for decades. At times, legislation and regulation have brought about major changes in the financing and delivery of medical services. At other times, competitive forces have restructured the delivery system. Both legislative and market forces will continue to influence how the public pays for and receives its

medical services. Any subject affecting the lives of so many and requiring such a large portion of our country's resources will continue to be a topic of debate, legislative change, and market restructuring. I hope this book will help to clarify some of the more significant issues underlying the politics and economics of health care.

For this fourth edition, in addition to revising and updating each of the chapters, tables, and figures, several new chapters have been added. These chapters address several of the more topical issues in health care. One new chapter discusses the future role of hospitals. Another discusses market competition; has it been tried and has it failed to improve the health care system? A previous chapter on a Medicare prescription drug benefit has been omitted and in its place is a new chapter on the public policy dilemma facing the pharmaceutical industry.

Given the large number of chapters and topics covered, and given that not all chapters will be assigned to students, some overlap naturally occurs in subject matter.

To help the reader focus on important points related to each issue, a list of discussion questions appears at the end of each chapter. A glossary is also included.

I thank Glenn Melnick, Thomas Wickizer, Jerry German, Jeff Hoch, and several anonymous reviewers for their comments. For this fourth edition I also thank Elzbieta Kozlowski and Mary Alice Pike for the collection of data, construction of the figures and tables, and preparation of the manuscript.

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