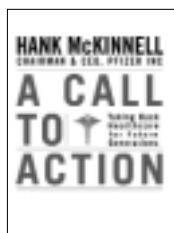


A Call to Action: Taking Back Healthcare for Future Generations.

By Hank A. McKinnell. 2005. New York, NY: McGraw-Hill, Pp. 256, \$27.95.



This book's prescription for the U.S. health care system is a fundamental paradigm shift. Lack of space prevents summarizing each point individually, but a common theme (which business economists should appreciate) recurring throughout the book is that incentives matter. These incentives should increasingly empower consumers by encouraging responsibility and control. For instance, uninsured families need incentives to motivate them to purchase health coverage. This might take the form of either a carrot or a stick. One possible solution mentioned is a tax credit that would provide low-income workers a subsidy close to the tax-exemption that middle-income families enjoy.

Patients need incentives to be wise consumers of medical services. Consumer-driven health plans, such as health savings accounts (HSAs), provide this incentive since patients pay incidental medical bills out of their HSAs. With the right incentives, patients will take responsibility for their own health—including knowing their own health metrics such as cholesterol, blood pressure, and blood glucose. When patients understand the effect healthy behaviors have on these numbers, they are more likely to engage in prevention rather than waiting until problems arise.

A Call to Action challenges Americans to take back control of their health from a system dominated by third-parties more concerned with treating illness than preventing it. However, the book contains little material that would be new to health economists. In describing how the United States arrived in the predicament it currently finds itself, the author accurately lays the blame on decisions made 60 years ago. Wage and price controls in effect during World War II meant employers had to turn to forms of non-cash compensation to recruit or retain workers. Workers pay taxes on cash wages but not on fringe benefits like health insurance. Over time, it became common for workers to fund their family's health care by using tax-free insurance policies obtained through employment.

The effect of third-party payment on the price of medical services could have been predicted by any economist. Less obvious is the loss of patient autonomy that occurs when third parties control health dollars. The inevitable result is that third parties ration care by providing care only to the sick rather than investing in disease prevention.

A Call to Action also discusses the role pharmaceuticals plays in health care. Hank McKinnell is uniquely qualified to discuss the efficacy of drug therapy. After earning a Ph.D. from the Stanford Graduate School of Business, he went to work for the drug maker, Pfizer. Thirty-four years later he is now Pfizer's Chairman, in addition to being Chairman Emeritus of the Pharmaceutical Research and Manufacturers of America—the trade group that represents innovative drug makers.

McKinnell attempts to answer

several questions that beleaguer the drug industry. These include: Why are prescription drugs so expensive? And why do they cost more in the United States than in other industrialized countries? Is excessive marketing to blame for high drug costs?

Pharmaceutical manufacturers like to say that new drugs must be expensive in order to recoup the high cost of research and development. Rather than accept this overly-simplistic view, McKinnell explains what economists already know. Once funds are spent, research and development is a sunk cost. Firms do not make pricing decisions based on past expenditures. Rather they price products based on present conditions and expected future opportunities. This is where incentives matter. Drug companies won't hunt for new drug molecules if price controls take away their profit potential.

McKinnell dismisses the notion that drug marketing increases the price Americans pay for drugs. Drug marketing is mostly used to educate physicians (and patients) about products and provide free drug samples to patients. Dr. McKinnell goes on to explain that the prices of drugs are not high when compared to their value. Increasingly, drug therapies substitute for more expensive modes of care, such as hospitalization. Despite this fact, drugs are not consuming a bigger share of health care resources than in the past. The proportion of health care dollars spend on medicines is about ten percent—essentially unchanged from four decades ago.

To those who complain new drugs are unaffordable, McKinnell explains that the prices of innovative drugs fall over the long term. In 1993, the average wholesale price of the ten

best-selling drugs was \$44 per monthly prescription. A decade later, nine of the ten had gone off patent, and the price had fallen by 75 percent to about \$11. McKinnell also cites a fact of which most people are probably not aware. That is, although Americans pay higher prices for name-brand drugs than citizens in other developed countries, Americans pay lower prices for off-patent (generic) drugs. The reason brand-name drugs are cheaper abroad is because countries like the United Kingdom and Canada essentially free-ride on U.S. research and development. These countries use price controls to force down the cost of patented drugs—something that U.S. trade negotiations should address.

A Call to Action also urges Americans to demand electronic medical records and improved direct-to-consumer medical communication. Here again, the common theme is choice, responsibility, and control. Empowered consumers need access to information on drugs and therapies in order to talk openly with providers. Electronic medical records would allow patients to easily access their accumulated medical history, facilitating communication with providers. An added benefit of electronic medical records is improved quality when patient information is more readily available.

Overall, the book is an easy read. The central theme is that individual patients (not bureaucracies) hold the key to reforming health care. Increasingly, Americans should focus on preventing costly diseases rather than fixate on the high cost of health care.

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Three Billion New Capitalists: The Great Shift of Wealth and Power to the East

By Clyde Prestowitz. 2005. New York, NY: Basic Books, Pp. 321. \$26.95 Hardcover.



Former Reagan administration trade official Clyde Prestowitz has gotten it right—the two most fundamental economic and political issues facing the United States today are America’s eroding competitiveness and its lack of will to reverse this powerful trend. The biggest problem facing America right now is not social security.

In nimble prose, Prestowitz gives us an interesting, relevant, objective, and valuable viewpoint on a key contemporary global economic issue. The details of his argument are persuasive. With clarity and intrigue, he lays out a comprehensive and current panorama of what is happening to America’s competitive position on the global scene and why. His apprehensions and predictions are based on many disturbing signals. He detects signs of trouble everywhere, from changing demographics to America’s amorphous technology policy. In the present complex, globalized context, it is plausible to predict the increasing role of Asia. Today, China’s growing economic power is begetting geopolitical power.

Without tables, graphs or charts, Prestowitz personalizes the issue of outsourcing. He supports the notion of free trade while successfully challenging some of the theoretical foundations of classical economic theory. “In practice, we all know that currencies don’t really float nor is there usually strong re-employment.”

But lost jobs are not the real

issue. He contends that what really bites is what the jobs pay. Economists frequently ignore the factor price equalization discussion because they say wages will rise in developing countries along with productivity, as the economies move up the scale of industrialization and as demand for labor bids up its price. The sobering reality is that the addition of three billion new capitalists to the global labor pool is likely to have an equalizing effect on many wages.

Prestowitz has an enviable and uncanny ability to capture the mood of the times in his descriptions of competing nations. “Economists don’t fully realize that if you don’t think you can get a job as a software developer, you probably won’t take a degree in computer science.” He is concerned with the declining relative performance of U.S. grade school students; and he is concerned that India is now producing 3 million college graduates per year and China 2.4 million, compared to just 1.3 million in the U.S., and that “no one in Washington is minding the store.” Prestowitz provides us with a readable and sobering perspective of how technology developed in U.S. universities and funded by American taxpayer dollars is likely to be commercialized abroad.

But let’s not all leap into China expecting to become rich. The author raises reader awareness of considerable risks for foreign direct investment in Asia. Even as he avoids questionable labor practice issues, Prestowitz acknowledges that the success of China and India is accompanied by pollution, water shortages, and disease—costs that could negate their success. He also points out indisputable U.S. advantages: America spends more on research and development than any other country, its leading universities are unquestionably the best in the world, and—

although its relative power and influence is on the decline—the United States remains overwhelmingly the most important country on the globe.

It is comforting for Americans to keep telling themselves that they have the highest productivity and strong GDP growth and will therefore remain the location of choice for business. But Prestowitz demonstrates the fallacy of this argument in his examination of America's method of data calculations, revealing overblown productivity gains and concealing serious unemployment.

The United States spends too much while other nations spend too little. Prestowitz examines this claim within the context of deficits, dissaving, and U.S. consumption as the motor of the global economy (although U.S. influence is limited). Absent, however, is a discussion of China's growing consumerism—its quantity and level of sophistication.

The role of international capital flows, particularly the U.S. current account balance, is inextricably a part of his discussion. Prestowitz discusses "the end of the U.S. dollar" with substantiated possibilities for its replacement as the world's currency. Readers especially interested in the issue of the U.S. dollar's dominance would be well-served with additional detail, such as that presented in Peter Gray's recent volume *The Exhaustion of the Dollar*.

Information can be an agent of change. However, if the author's observation that America's policy makers are turning a blind eye to the issues he discusses—either because the issues are not pretty or their remedies would be unpopular (which translates into failure to be re-elected)—U.S. competitiveness, and therefore American standards of living, face an inevitable decline.

Like any good weatherperson, Prestowitz has given us the warning

signs. But he has done weather forecasters one better: Prestowitz's global forecast includes not only the current conditions but also suggestions on how the hurricane can be avoided. Globalization has weakened traditional protectionism. Therefore, the United States will find its capacity for action increasingly restricted and its range of options reduced. The author is not predicting a disaster but rather sees an apparently successful global system with serious flaws.

Three Billion New Capitalists: The Great Shift of Wealth and Power to the East is a useful contribution to a growing volume of literature in the field. There is enough value-added for the specialist, adequate basic information for the novice, and sufficient real-world examples based on the author's first-hand experiences for the generalist.

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