Letter from America —

‘Madmen in authority’ and health care reform

In his latest letter, Angus Deaton exposes the incoherence of the Trump administration’s attempts to reform health care in the USA (as well as its ignorance of the late Kenneth Arrow).

The new administration in Washington, together with the Republican majorities in the House and Senate, have taken up healthcare reform as their first major legislative task. Republicans have wanted to repeal Obamacare since it was passed against their united opposition, and campaigned on repealing it in 2016, as did President Trump. As the debate progressed, it has been hard not to think of Ken Arrow, who died on February 21st at the age of 95. Keynes famously wrote of ‘madmen in authority’ who hear the voices of past academic scribblers, and ‘practical men,’ who are the ‘slaves of some defunct economist.’ ‘Madmen in authority’ could hardly be improved upon as a description of Washington today, though one might wish that the defunct economist were Arrow, and not, as seems to be the case, the authors of those elementary economics texts that ‘demonstrate’ that markets maximize wellbeing. Arrow’s 1963 *American Economic Review* paper on ‘Uncertainty and the welfare economics of medical care’, contains a careful characterization of why and how the standard free-market theorems break down when we try to think about healthcare as a commodity like a phone or an automobile. As experience around the world has shown, and as Arrow anticipated, there is no ideal delivery system for healthcare, though it is only in the United States that policy has consistently tried to prove that Arrow was wrong about markets, and today, yet another attempt waits in the wings.

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Out with the experts!

In the Trump administration, as has happened in the past, economists have been largely excluded from positions of authority in Washington. The Council of Economic Advisors has been demoted from Cabinet status and no new Chairman of the Council has been nominated at the time of writing. The health reformers, led by House Leader Paul Ryan, are driven in part by their unshakeable political commitment to the repeal of Obamacare, which has insured an additional 16 million people. But they also share a genuine intellectual belief that healthcare would be better with more market and less government; Ryan has often noted his intellectual indebtedness to Ayn Rand and has said that it was her *Atlas Shrugged* that got him interested in economics. Trump meanwhile displays an unsurprising ignorance. ‘Nobody knew health care could be so complicated’ fits someone who promised that he would give everyone higher quality coverage at lower cost. And the American public has long greatly disliked and distrusted their health care system, providing fertile ground for those who would blame Obamacare. Of course, difficult cases are common in using almost any medical system, and it is unclear what people really want or would pay for. When recently asked, 46 per cent of Americans were opposed to Obamacare, while only 26 per cent were opposed to the Affordable Care Act, which is the official title of Obamacare.

Yet there are certainly arguments for the free market case. If there were no subsidies, and no government programs, we could better benefit from the fierce cost control that competitive markets yield for other technologically complicated commodities, like TVs or phones. The absence of government might also help eliminate the gigantically expensive industries that live off and lobby for government favours and government programs, with the willing help of legislators. Yet pervasive insurance would still stand in the way of cost control and some have proposed banning insurance, except for catastrophically expensive treatment, though this is hardly a policy that would appeal to those who believe in the magic of markets. Arrow lurks around every corner!

Choice may be a ‘good’...

Republicans promise choice, arguing that people should be able to choose the healthcare plans that they want and not have the government restrict their choice. Ryan talks about giving people ‘access to quality, affordable health care’ meaning that they can purchase it. Jason Chaffetz, Chairman of the House Oversight Committee, noted that ‘Americans have choices . . .and so, maybe rather than getting that new iPhone that they just love. . .maybe they should invest in their own health care. They've got to make those decisions themselves.’ In these discussions, healthcare is a commodity like any other, and if people do not choose to purchase it, they should be free to choose. Choice is unproblematic, and little recognition is given to the possibility that people might choose badly. In such a world, well-informed consumers will drive out deceptive insurance policies, just as consumers will drive out financial advisors whose investment vehicles are designed to profit the advisors, not the investors. Eliminating regulations on such products is a clear early aim of the Trump administration. For those of us who disagree, it is easy to see such policies as sops to the insurers or advisors who are enriched by deception, but there is also a genuine difference of belief, and an economics literature in support. Indeed, much of the 'Chicago' economics of Stigler, Coase, and Friedman can be thought of as demonstrations that the problems that bothered Arrow are either not so bad after all, or have cures that are worse than the disease. As in that literature, today's reformers say little about the ability to pay. Jeb Hansarling, another House Chairman and Texan Republican, has claimed that he didn't know why he was a Republican until he studied economics (from Professor Phil Gramm, later an influential and powerful Senator from Texas) and 'I suddenly saw how free-market economics provided maximum good to the maximum number,' and was convinced that 'I'd like to serve in public office and further the case of the free market.'

...but it comes at a terrible price

Another great American health economist, Victor Fuchs, who played a role in urging Arrow to write the 1963 paper, and who is happily (and productively) still with us at the age of 93, has long noted that there is no reason why every country should have the same healthcare system. Americans are less egalitarian than Europeans, and are much less trusting of government. So perhaps their healthcare system ought to be more market-based. Yet Fuchs now believes that, at a price of around a trillion dollars a year, we are paying far too much for our tastes. Life expectancy in the US is among the lowest in all rich countries, and in the last two years has been falling, uniquely among comparable countries. Working-class whites are dying from an epidemic of suicides, drug addiction and alcoholism, and are facing rising death rates from heart disease. The mixed system of government and private provision has generated a machine that is perfectly designed for profitable rent seeking, but appallingly designed for improving or even maintaining health. And because so many Americans have health insurance 'provided' by their employers, and believe it to be free, they do not see how the cost of healthcare is holding down their wages.

At the end of his paper, Arrow wrote: 'It is the general social consensus, clearly, that the laissez-faire solution for medicine is intolerable.' This is perhaps one of the few sentences in the paper that has not stood the test of time, though there is nothing at all wrong with the last clause.

European Economic Association uncovers questionable research practices

In a recent survey of its 2250 registered members, the EEA finds a striking mismatch between economists perceptions of appropriate research behaviour and the practices to which they are prepared to admit. The survey, said to be very representative of the Association's membership, consisted of responses from 426 individuals.

In order to shed light on economists' *norms*, respondents were asked 'how do you assess the following [22] behaviours?' When it comes to choosing a research topic, for example, 85 per cent felt that personal interest or intrinsic motivation provided the best basis, whilst 60 per cent felt that prospects for publication should be taken into account and 19 per cent thought that choice should not be driven by data availability. Some behaviour was universally condemned: copying work from others without citing (by 100 per cent); fabricating data as well as excluding part of the data are rejected (by 97 per cent); using tricks to improve test values (by 96 per cent) and incorrectly crediting co-authorship (by 93 per cent). Strategic behaviour in the publication process is also frowned upon but less forcefully than practices applicable when analyzing data or writing papers. Citing strategically or maximizing the number of publications by slicing into the smallest publishable unit is rejected by 64 per cent. Complying with suggestions by referees even though one thinks they are wrong is considered unjustifiable by 61 per cent.

When it came to *practice*, the respondents were asked whether they had engaged in any of 26 different behaviours. Consistent with their declared norms, 96 per cent stated that personal interest determined the choice of their research topic, while publication prospects were reported to have been decisive for 67 per cent. More disturbingly, about 20 per cent admitted to having refrained from citing others' work that contradicted their own analysis and about the same confessed to having maximized the number of publications by slicing their work into the smallest publishable unit. Even more, 24 per cent, said they copied from their own previous work without citing. 32-38 per cent admitted to questionable practices of data analysis. Even sexual or financial favours were sometimes countenanced (albeit by only 1-2 per cent).

In order to elicit their perceptions of misbehaviour on *the part of others*, respondents were given a scale of 'up to …%' in deciles. The fabrication of data was not thought to be widespread with a median response of 'up to 10 per cent'. Using tricks to improve test statistics and data mining were more commonly suspected with a median response of 'up to 30 per cent'. About a third of respondents had observed at least one case of 'scientific misconduct' within their own department or institution.

Further details can be found in the paper by Sarah Necker, 'Scientific misbehavior in economics', *Research Policy*, 43 (2014), pp.1747-59.