

## Book Review

R.G. Frank and T.G. McGuire. "Economics of Mental Health" Chapter 16 in Culyer A.J. and Newhouse, J.P. (editors). *Handbook of Health Economics, Volume 1B*. Amsterdam: Elsevier Science B.V. First Edition, 2000, pp. 893-954.

Across my desk has come the *Handbook of Health Economics, volume 1A and 1B*. This is part of a series of *Handbooks* for various branches of economics produced as a "definitive source, reference, and teaching supplement for use by professional researchers and advanced graduate students." It turns out that definitive coverage of health economics requires 35 chapters and nearly 2000 pages. Those who teach health economics to the usual heterogeneous audience of undergraduates, graduates, medical doctors, nurses, administrators, health services researchers and an occasional real life policy maker have had their prayers answered. Almost any question you can ask about health economics is covered so that you can respond with erudition. You probably will not attempt reading it through from the first page to the last, but rather will read it like a bible, in sections, seeking some partial salvation since the whole appears beyond immediate grasp. For behavioral health economics, the growing dynamic work in mental health, alcohol abuse, drug abuse, and cigarette smoking is treated in four separate chapters devoted to each of these areas, and this review focuses on the mental health chapter.

It is of course wonderful to see the power of economic analysis displayed in this volume. Remembering that all economists have suffered through the crucible of intermediate and advanced microeconomics, it is amazing to see the numerous advances in economic theory embodied in the body of work called health economics. From normative to positive economics, from theoretical to applied research, from mathematical to statistical methods, health economics has expanded the main body of the economics discipline. The international focus of this journal exemplifies the importance of health economics in global affairs and welfare of nations.

Professors Richard Frank and Thomas G. McGuire, both at Harvard University, contribute an important chapter to this book in volume 2, "Economics and Mental Health." Substance abuse treatment is folded under the umbrella of mental health much as it was during the U.S. debate about national health insurance. The authors take as their main question, "Is mental health care different from health care?" They succeed in answering this question in the affirmative as outlined below. The chapter is divided into 6 main sections: introduction; institutional context, private insurance markets, moral hazard and adverse selection, public finance, and conclusion.

The authors first detail some of the factors that make mental health different from medical care. First, mental illnesses are fairly prevalent and have unique external costs to societies and families not seen in medical care. Second, costs are focused in the 4% of the population that experience the more severe forms of mental illness. Employing and insuring of these individuals are significantly affected by this reality. The literature has measured significant relationships from mental illness to employment income, violence, crime, HIV/AIDS infection, child abuse, family break-up and homelessness. Treatment for these disorders seems to be fundamentally rationed while care is financed through a large array of institutional arrangements. Furthermore, the supply of services is subject to uncertainty in quality and outcome. In the United States, managed behavioral health care is the new dominant institution with both a service delivery and insuring function. Innovative management and organizational arrangements have led to mental health care that

is carved out of the health plan as opposed to medical care.

The authors then compare issues surrounding private insurance for mental illness that are unique as compared to medical care insurance. While mental health/substance abuse is insured, restrictions on coverage are quite stringent and do not follow rational models of insurance provision. The average insured is exposed to considerable risk to *high cost, low probability* events such as schizophrenia. Coverage has focused on low expenditure risks, rather than expensive and financially ruinous episodes. Furthermore, insurance is inadequate for conditions that require management of chronic reoccurring conditions.

At the heart of their discussion of the insuring function is the role of managed care to ration utilization. Managed care is the instrument to reduce the demand incentive effect, and the cost control issue that is of such great concern for payers. They go further to outline the research needs in payment arrangements of the new contracts written under managed care and specific capitation arrangements. Empirical evidence has documented impressive reductions in spending with little information on the efficiency and equity implications of such changes.

The authors continue to detail how private insurance markets are susceptible to incentive effects of benefit coverage and reduced price at point of service. Under managed care, cost controls are thought to reduce the waste inherent from the incentive effects of the insurance policy. Another problem is that high cost mental health/substance abuse patients create adverse selection when they are attracted to plans that have adequate coverage. Health plans respond by reducing and limiting coverage for treatment of mental health and substance abuse disorders. To counteract this response, many states choose to mandate benefits. Unfortunately, incentives may be created for private plans to skimp on mental health care with an inefficient level of coverage as the end point. Approaches to the selection problem involve risk adjustment of premiums and carve-outs of managed behavioral health care organizations outside of the main medical care coverage and delivery system.

The authors maintain that public mental health and substance abuse treatment systems are critical health systems. First, mental health and substance abuse treatment systems have unique understanding of the service delivery needs for such patients. Second, there are distinct relationships between national government and lower regional governments that must be determined in health care financing arrangements. An example is the reimbursement exclusion of state mental health hospitals under the U.S. federal government's Medicaid program for the poor. Third, the public faces large external costs for mental illness, substance abuse and addiction. Clearly, for drug-involved individuals large costs are generated in crime careers, family dysfunction, incarceration, and the total demands on the criminal justice system. Private provision has been constrained by the reality of the states role in mental health and substance abuse care.

The authors have limited their essay to financing concerns. However, there are many other issues as the 35 chapters in two volumes indicate. Of primary importance, is cost-benefit and cost-effectiveness analysis that is critical to behavioral health. Indeed, some may say that the state of financing is limited by the public understanding of the value-added of such treatment to health and the current state of research results on such interventions. Complicating the economic analysis of financing and cost-effectiveness is the numerous social goals for individual and community mental health. Other economic research may involve the usual market analysis,

regulatory issues, agency relationships, and efficient production of services. Special attention must also be directed to the role of equity in public and private insurance arrangements and the role of distribution weights in cost-benefit studies. There are many interesting questions still to tackle, and specialization in mental

health economics will be necessary for future progress, as the authors have ably detailed.

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