

# Chapter 8

## Health Care

*Final draft August 2009*

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There is perhaps no domain of economic activity that has generated more controversy in the United States than health care. In the advanced capitalist world, the United States is the only country within which the market plays a substantial role in the delivery of health care services; all other countries have one form or another of universal, publicly supported health care. In the United States there are many people who believe that private health care inherently offers people more choice and higher quality than publicly provided health care, and that market competition is the best way to control costs. Others argue that this is an illusion, that the peculiar character of health care as a service means that market competition will have all sorts of negative effects and that only a more publicly organized system of care will provide high quality care for all.

This chapter will explore these issues. We will begin in the first section by discussing the special qualities of health care, why this is so different from most other things produced for a market. We will then describe the character of the system of health care in the United States at the beginning of the 21<sup>st</sup> century. This will be followed by alternative ways of organizing healthcare delivery, focusing on two examples: the Veterans Administration in the US (direct government provision) and the Canadian health care system (universal government provided insurance). The chapter will conclude with a discussion of why it has proven so difficult to transform the American system.

### **I. THE SPECIFICITY OF THE MARKET IN HEALTH CARE**

The production and distribution of medical services is a very complex social phenomenon, very different from almost anything else produced for a market. Of course, many goods and services have distinctive qualities, but generally these do not call into question the very possibility of delivering the service in a satisfactory manner through market mechanisms. In the case of health care, these properties pose acute problems for a market economy. We will focus briefly on six issues.

#### *1. Extraordinary value of the service.*

People in general value their health very highly, especially when there are life-threatening health problems. When people think about choices among other forms of consumption they generally find it fairly easy to figure out the trade-offs: If I buy this more expensive car how will this affect my budget for new clothing or vacations? In the case of health, people are willing to pay a great deal for cures. If the price goes up and a person can pay for it, they will do so. This is especially the case when their lives or the lives of people they love are at stake: how much income would you give up to save your life or the life of your child? It is thus not surprising that in the United States medical expenses are the leading cause of consumer bankruptcy. People would rather risk bankruptcy than foregoing critical healthcare.

## 2. *Ethical issues in distribution of health care.*

Almost everyone believes that people should not be denied basic medical care because they cannot afford it. Virtually everyone feels that this should be the case for children, since they are not responsible for their poverty. Should children of rich people have access to higher quality care, with better doctors and more comprehensive, advanced treatments than poor children? Should a poor child have to wait in a crowded hospital emergency while a rich child goes to a pleasant urgent care facility? Most people would say that there is something unfair in such situations, even if they are reluctant to do anything about it. Most people also feel that when it is necessary for certain kinds of treatments – like heart transplants – to be rationed, they should not be rationed by price and ability to pay. Should hearts and kidneys be auctioned off to the highest bidder? Most people recoil at such a market solution to the problem of distributing life-saving organs and believe instead that these should be distributed on the basis of medical need and prospects for benefiting from the treatment.

When it comes to the distribution of health care services to adults, there is less universal agreement among Americans that healthcare is a basic “human right” and that inequalities in access to healthcare are unfair. If some adults go bankrupt due to healthcare costs, then this may be regrettable, but – libertarian defenders of markets would say – it is not the responsibility of the state to cover these costs. Still, most people feel that at least basic health care (even if not all treatments), should be accessible to everyone. Healthcare goes along with food and shelter as consumption goods that are close to a “human right” and thus there is a general consensus for having some mechanism for paying for medical care for people who cannot afford it. In a 2007 New York Times/CBS poll, 64% of respondents said that the federal government should guarantee health insurance for all Americans, and 60% said that they were willing to pay higher taxes to do so. This, of course, leaves open the best way of accomplishing this. There are many alternatives: charity from doctors or the public; government direct provision for people below a certain income level in the forms of hospitals and clinics for the poor; government direct provision of healthcare for everyone; government insurance for which only the poor are eligible; universal government insurance for everyone. The fact is that health care has to be rationed one way or another, and the ethical problem is how this should be done -- by ability to pay or ability to wait.

Another issue in the ethical distribution of healthcare concerns the priorities for research on new medications and treatments for diseases. From an ethical point of view, the amount of research effort and funds devoted to any given health problem should depend in significant ways on the seriousness of the disease and the number of people whose lives would be helped by prevention and treatment. In a market-based system, however, research and development will be directed towards the profitability of the treatment once developed, and this depends to a significant sense of the wealth of the people who get the disease. The result is that far more research goes into diseases and health conditions of people in rich countries than in poor countries. The most notorious example is the low level of research on malaria which kills tens of millions of people. A report by the Bill & Melinda Gates Foundation in 2005 found that “total spending on research and development for the disease amounted to US\$323 last year [2004]. That represents about 0.3 percent of total research and development investments....However,

malaria is responsible for 3 percent of all the lost years of productive life caused by all diseases worldwide.... Lost years of productive life is a standard measurement of a disease's impact on society. By contrast, diabetes gets about 1.6 percent of the total money spent on medical research, while it accounts for 1.1 percent of all the productive years of life lost to disease. In other words, the disease burden to society is about one-third of that of malaria, but it gets nearly six times more money in research and development funding.”<sup>1</sup>

### 3. *Information costs*

Most consumers of health care find it extremely costly, if not impossible, to acquire the necessary information to make informed decisions as consumers. How do you really get high quality information on the relative competence of different doctors or clinics or hospitals? There are public ratings of hospitals, but these are very hard to interpret and often quite misleading. A given doctor may exude self-confidence with a warm and engaging personal style, and yet be much less competent than a much less personally appealing doctor. How can most people really figure out who is better? And what about alternative treatments? To be sure, there is lots of information on the web about alternative treatments for any given disease, but there is also lots of bad and misleading information. How can an ordinary person sort this all out? And think how much harder it is to sort out good from bad information in the context of the worry and anxiety that accompanies a serious illness. For all of these reasons people almost always rely on experts, especially on their doctors, to give them information about their health conditions and what to do about them. And while it is desirable for patients to be active participants in making choices about their healthcare and to learn about illnesses and treatments, realistically for most people this will play a secondary role to listening to the advice of their physicians.

There are, of course, information costs to really learning about the quality of other goods and services that are important to people. There is a notorious information problem of buying used cars in which the salesman says that they were only driven on weekends by little old ladies. It is difficult to get reliable information on financial advisors, as reflected in the extraordinary scandal involving Bernie Madoff's ponzi scheme. It is in the nature of markets that actors in exchanges have incentives to hide information when this is to their advantage. But the information problems people face in making choices about health care are particularly salient because the stakes are so high. This is why everywhere, even in the market-dominated healthcare system of the United States, health care services are heavily regulated.

### 4. *The market for Health vs the market for Treatment*

What consumers want is *health* not the consumption of medical treatments. From the consumers' point of view, prevention is much more important than treatment, but from the point of view of profit-maximizing producers of healthcare, treatment is much more lucrative than prevention. The folk saying is “an ounce of prevention is worth a pound of cure”, but if you are selling things

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<sup>1</sup> Emma Ross, “Report highlights low level of malaria research spending”, The America's Intelligence Wire, 31 October, 2005.

you would rather have people buy a pound of cure than an ounce of prevention. This means that in a market-oriented system dominated by profit-maximizing investors, there will be a significant underproduction of preventive measures and a strong emphasis on expanding the market for expensive treatments.

A good example of this mismatch between the priorities of consumers (health) and the priorities of sellers (treatment) was the crisis in availability of flu vaccines in 2007. Flu shots are an example of preventive medicine: you take a shot to prevent an illness, not to treat an illness. Drug manufacturers do not make much money off of the flu vaccine, so only a few facilities are devoted to producing it. When, in 2007, one of these facilities had to be shut down because of contamination, the result was a tremendous world-wide shortage in flu vaccine. More generally, profit-maximizing firms are unlikely to devote a lot of resources to disseminating health-promoting knowledge and encouraging healthy lifestyles, for less money is to be made in these domains than in the treatment of illness.

#### *5. Supply creates demand in healthcare*

In most markets, the consumer's demand for a good or service is what generates the supply: producers see what people want and then increase production (supply) to satisfy these desires (demands). In healthcare services the causal relation between supply and demand often works in the opposite direction: there is a tendency for the existence of a medical technology to generate a demand for its use in medicine. For example, when a group of doctors or a hospital purchase an expensive technology such as a CAT-Scan, then they need to order treatments of patients in order to pay for the investment. This generates a strong pressure to increase the use of the technology. This does not mean, it should be said, that the invention and diffusion of CAT-Scan machines does not constitute an advance in medical treatment. But when the purchase and use of such technologies is governed by market principles, in the aggregate there will be a tendency for unnecessary treatments and tests to occur because of the incentive in using them.

#### *6. Competition between providers generates over-investment.*

In a competitive market for healthcare services, every hospital wants to have the latest, most advanced technologies since this will improve their ability to recruit patients. This means, for example, that every hospital wants to have a CAT-Scan or the facilities needed for open-heart surgery. Instead of figuring out the optimal level of investment in these advanced, expensive technologies relative to other kinds of medical facilities for a particular geographical region, all of the hospitals acquire the expensive technologies in their competition for patients. Instead of competition lowering costs and generating efficiency, it raises costs by generating massive duplication and waste.

Taken together, these six factors mean that the delivery of healthcare services is very different from the market for shoes or cars or entertainment. Different countries have responded to this set of issues in different ways, but among the family of countries with developed economies, only the United States relies significantly on market mechanisms in the healthcare sector. In the next section we will see exactly how this works.

## II. THE SYSTEM IN THE UNITED STATES

At the beginning of the 21<sup>st</sup> century the Healthcare sector is one of the most complex economic sectors in the United States. Even though in the United States the market plays a much bigger role in the delivery of healthcare than in any other economically developed country, it would be a mistake to think of the American healthcare system as a free market system. Rather, the US system should be regarded as a kind of incoherent patchwork of different ways of organizing healthcare services that has developed in a haphazard way over many decades in which the state is heavily involved in healthcare along with nonprofit organizations, groups of doctors and capitalist firms operating within markets. In what follows we will lay out the basic components of this system and some of its consequences.

### How healthcare is provided

In describing how healthcare is provided a distinction needs to be made between the *organizational form through which the service is produced* and the mechanism through which *people gain access to the service*. The main organizational forms in the United States include private doctor's offices organized as individual or group practices; nonprofit clinics and hospitals; for-profit hospitals run by capitalist corporations; Health Maintenance Organizations (HMOs), which include both primary care physicians and hospitals; and government-run clinics and hospitals, organized by cities, counties, states and the federal government. Access to these services is controlled through a variety of different processes involving private payment, various kinds of insurance, and government rules of personal eligibility:

1. *Direct private payment for medical services.* There was a time when the main way people got access to medical services was simply to pay for it out of pocket on a fee-for-service basis. This is the purest market-based form of delivery of health services: the service is offered on a market and when you need it, you buy it. Because in the case of serious illness these expenses can far exceed the ability to pay of everyone except the very wealthy, most people prefer to have some kind of health insurance rather than to rely on good luck and their ability to pay.
2. *Employer-provided insurance.* Sometimes employer-provided insurance takes the form of a general health insurance policy which enables the insured person to see any doctor or go to any hospital, but more often employer-provided insurance is connected to what are called Health Maintenance Organizations (HMOs). These are usually large organizations that include hospitals, clinics, doctors, and a range of other health related services. When an employer provides HMO-insurance, the employee has access to the health care providers within the HMO but cannot use the insurance to pay for health care by other doctors or hospitals without the permission of the HMO. Generally this kind of insurance comes with various forms of "co-payment" in which the insured person pays a relatively small out-of-pocket fee for a given service. In 2006, 61% of the population is covered by employer-provided insurance.
3. *Individually-purchased private health insurance.* Small employers rarely offer health insurance as a fringe benefit, and increasingly larger employers are not offering this benefit. In many firms, part time workers are not eligible for health insurance. Self-employed people

and unemployed people also do not have access to employer insurance. In all of these cases, in order to get health insurance, people have to turn to the private health insurance market. This can be very expensive, generally in the \$5,000-10,000 range for a single person, and often with very high co-payments and large deductibles. In many cases it is simply impossible to buy private insurance: insurance companies have the right to refuse to insure someone on the basis of “pre-existing medical conditions.” Often they do this even if the condition is relatively minor.

4. *Government-provided insurance.* There are two principal government insurance programs paid for through taxation in the United States: Medicare provides fairly comprehensive health insurance for the elderly, and Medicaid provides health insurance for the very poor. Recently government provided health insurance for children has been extended to families whose household income is above the poverty line. Because Medicaid is administered by the States, the quality of the service and the level of income that is used to qualify vary enormously across the states. In 2009 in Minnesota a jobless parent with an annual income less than \$48,400 (almost three times the official federal poverty level) was eligible for Medicaid assistance; in Alabama the threshold was just under an annual income of \$2,000.<sup>2</sup>

5. *Direct Government-provided healthcare.* Access to Government-run healthcare services is generally governed by strong eligibility criteria. The most important of these services are linked to the military: military hospitals for active duty soldiers, and the Veterans Administration hospital system for military veterans. The VA hospitals constitute a form of socialized medicine: the state does not simply provide insurance for people to go to private doctors; it directly organizes the service itself. As we will see at the end of the chapter, this is accomplished in a relatively cost-effective way without sacrificing quality.

6. *Pro-bono services provided by doctors and hospitals.* The final way that people get access to healthcare services is through the charity of doctors and hospitals providing free healthcare to people who do not have insurance and cannot afford to pay. In principle, no one is refused admission to an emergency room or denied medical care for life threatening conditions. Care is supposed to be provided without first screening patients for their ability to pay. The result is that in many instances the costs of this care has to be absorbed by hospitals and doctors, which ultimately means higher insurance premiums and out-of-pocket expenses for everyone else.

Figure 8.1 shows the basic distribution of health care spending across these various ways of paying for health care. As is clear from the figure, the government already plays a quite substantial role in funding healthcare in the United States, but it does so in a way that leaves

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<sup>2</sup> Donna Cohen Ross and Caryn Marks, “Challenges of Providing Health Coverage for Children and Parents in a Recession: A 50 State Update on Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and SCHIP in 2009” (The Kaiser commission on Medicaid and the uninsured. January 2009), p.29

plenty of space for market forces. This, as we will see below, has substantial consequences on healthcare costs, access to healthcare, and health itself.

-- Figure 8.1 about here --

### Arguments in defense of this system

In every other developed capitalist economy in the world, people have decided that it is bad idea to allow for a large role for markets in determining access to medical care. Every other country has some kind of universal system organized by the government and paid by taxes.

Two kinds of arguments in favor of competitive markets in healthcare have dominated the discussion in the US. The first is simply the general pro-market argument applied to healthcare: the market allows freedom and choice; if the government provides universal healthcare insurance it will ration healthcare services resulting in long waiting times for doctor's appointments and necessary surgery, and reduce the ability of individuals to choose their own doctors and treatments. Bureaucrats in Washington, conservatives insist, will make these decisions for you.

The second argument involves a special kind of issue called the "moral hazard problem." A moral hazard is a situation in which there is no incentive to worry about costs since someone else is paying the bill. Insurance sometimes creates a moral hazard by enabling people to engage in riskier behavior. The moral hazard in Healthcare occurs because, it is argued, if you have insurance, you will tend to overuse medical services since you do not have to pay each time you go to the doctor. In private insurance this problem is mitigated because the insurance companies will be worried about such overuse and will impose co-payments and other controls to counter it. But in government insurance, these incentives will disappear. If you have medical care paid for by the government, therefore, this will lead to a massive over-use of the medical care system since no one will have an incentive to make responsible choices: people will consume more medical care than they need, doctors will order more tests than are necessary. Because both doctors and patients face no direct costs for doing so, they will overspend, imposing costs on others – taxpayers in this case – because the government assumes all of the risks for paying for health care.

The proposed solution to this moral hazard problem in health care is a good dose of market competition with individuals paying more of medical costs and healthcare providers competing with each other to reduce costs. *Markets impose responsible behavior on people by making them bear the costs of their choices.* This should lower usage of medical services which in turn will result in lower spending on medical care. This is why the main proposal for health-care reform by strong pro-market conservatives is the idea of health savings accounts: people can put money into these accounts which will be exempt from taxes and then use these accounts to pay for medical bills. This solution implies that in a sense we have too much insurance now rather than too little.

Both of these arguments in favor of market competition in health care are flawed. The first argument incorrectly assumes that a system of government payment for healthcare requires strong government control over the autonomy of doctors and the choices of patients. As we will see in the discussion of the Canadian system at the end of this chapter, this does not have to be

the case: the Government can pay the bills and negotiate prices and yet allow as much freedom of choice as in a market. Furthermore, in the United States healthcare system as currently organized, choice is heavily circumscribed for most people: employer insurances often requires employees to sign up with a specific HMO, and within that HMO they are assigned doctors and cannot go outside of the HMO without permission. People often have to wait a very long time for appointments to see specialists. Most fundamentally, the existence of a market does not guarantee freedom of choice and short waiting times unless you have the resources required of that market.

The second argument – that universal insurance guaranteed by the government would generate massive moral hazard problems – is greatly exaggerated as an issue in medical care. The problem in healthcare systems is that people tend not to go to the doctor until they are very sick, thus ultimately costing the system more, rather than going to the doctor too frequently. Most people do not want to “overconsume” medical services regardless of who is paying. When they face high deductibles, co-payments and other direct expenses that reduce the “moral hazard” they may indeed wait longer to see a doctor, but in the end this often makes their health condition worse and more expensive to treat.

Still, there is a moral hazard problem in healthcare, for example of doctors ordering unnecessary tests since an insured patient will not directly have to pay for this. However, it is probably impossible to eliminate such problems so long as insurance plays an important role in healthcare, which will certainly be the case regardless of whether the insurance is provided by the government or by private insurance companies.

### **Consequences of the healthcare system**

The fact the United States has such a complex, hybrid structure of healthcare services is not in and of itself a problem. Indeed, one might think that each of the elements in this system might counteract the flaws in the others. A pure state-based system might be plagued by government inefficiencies and bureaucratic rigidity, which market competition might alleviate. A pure market-based system might generate unacceptable gaps and inequalities in access to healthcare, which the government system could alleviate. So, it *could* be the case that the complexity of the multi-pronged approach to providing healthcare in the US makes it better than other less pluralistic approaches.

This does not seem to be the case. For starters, Americans spend the most on healthcare of any country in the world, both in absolute dollars and as a percentage of national income. In 2008 Americans spent an estimated \$7868 per capita a year on healthcare, which comes to 16.6% of the gross domestic product.<sup>3</sup> Compare this with other economically advanced countries (see Figure 8.2 and 8.3): No other country (besides the special case of Luxembourg) spent more than \$4,000 per capita, and most other developed countries were in the \$2500-3000 range. In

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<sup>3</sup> Page w146 in Sean Keehan, Andrea Sisko, Christopher Truffer, Sheila Smith, Cathy Cowan, John Poisal, M. Kent Clemens, and the National Health Expenditure Accounts Projections Team, “Health Spending Projections Through 2017: The Baby-Boom Generation Is Coming To Medicare.” *Health Affairs* 27, no. 2 (2008): w145–w155.

terms of percentages of GDP, our nearest rival was Switzerland, which spent 11% of its GDP on health care, while most other countries were in the 8-10% range. We spend close to 16%. What is more, as indicated in figure 8.4, the rate of growth of spending on health care has been much more rapid in the United States than other countries.

-- Figures 8.2, 8.3 ad Figure 8.4 --

Proponents of market competition in healthcare argue that competition should force healthcare providers to reduce costs to attract customers, but this simply has not happened. This is actually not so surprising, for a variety of reasons. First, as already noted, because of the peculiar character of healthcare, competition can raise costs as hospitals compete with each other by buying expensive equipment which they then want to use to recover costs. Both the overuse of expensive technologies and the duplication of facilities raise the aggregate cost of healthcare services. Contrary to what defenders of the free market argue, for-profit hospitals are *not* more efficient than nonprofit hospitals. They may be more *profitable*, but this is mainly because they are more selective in who they treat, since they refuse to treat uninsured poor people. Profitability and efficiency are not the same thing. Second, the complexity of the system, particularly in terms of the enormous variety of insurance plans, each with specific rules and procedures, increases administrative and paperwork costs of medicine tremendously. A 1999 study in the *New England Journal of Medicine* comparing the costs of health care administration in the United States and Canada, a country with a universal public insurance system, reported that “In 1999, health administration costs totaled at least \$294.3 billion in the United States, or \$1,059 per capita, as compared with \$307 per capita in Canada. After exclusions, administration accounted for 31.0 percent of health care expenditures in the United States and 16.7 percent of health care expenditures in Canada.”<sup>4</sup> The contrast is particularly striking in the costs of insurance overhead in the two countries: The overhead costs of private health insurance companies in the United States accounted for 11.7% of total health spending by private insurance companies. This compares to 3.6 % for Medicare and 6.8% for Medicare, the two largest public insurance programs in the United States, and 1.3% of the costs of the Canadian the public insurance expenditures. The result of these differences is that in 1999 Americans spent \$259 per capita on insurance overhead while Canadians only spent \$47 (see table 8.1). Third, the highly fragmented system of financing health care in the United States makes it very difficult for providers to negotiate lower prices for medicines with the large pharmaceutical companies. When finally the U.S. Congress agreed to include prescription drugs in Medicare coverage for the elderly, they explicitly blocked the government from negotiating lower prices. The result is that drug costs in the US are significantly higher than in other countries where government organized health care is able to control such costs.

--Table 8.1 about here --

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<sup>4</sup> p.768 in Steffie Woolhandler, M.D., M.P.H., Terry Campbell, M.H.A., and David U. Himmelstein, M.D., “Costs of Health Care Administration in the United States and Canada,” *The New England Journal of Medicine*, 2003; 349: 768-75.

Now it is not completely obvious that spending 16% of American national income on healthcare is too much. After all, the United States is a very rich country and people certainly value health very highly, so perhaps what the comparison with other countries reveals is that other countries are spending too little, not that the U.S. is spending too much. A key issue, then, is what do Americans get from this very high level of spending?

Unfortunately, in many respects the American healthcare system does not compare favorably with other countries in terms of what it actually delivers. First, consider access. Every other developed capitalist country guarantees universal healthcare coverage to all of its citizens. The United States is the only country without some form of universal healthcare. In 2009 around 47 million US citizens had no insurance at all and had to rely on personal funds or charity for their healthcare. In the two year period 2007-2008, 86.7 million Americans under the age 65 (33% of that age group) were uninsured at some point, and nearly half of these were uninsured for a year or more. 79% of these people were in working families, and 70% were in families with a worker who was employed full time.<sup>5</sup> The United States relies heavily on a private insurance provided by employers, but in recent years, the percentage of people covered by workplace-based insurance has declined. This is true at all income levels, but the declines have been especially sharp for people just above the poverty line. Let us define four categories of people with respect to poverty: *the very poor* whose income falls below the poverty line; *the poor*, whose income is 100%-150% of the poverty line; *the near-poor*, whose income is 150-200% of the poverty line; and the *non-poor*, whose income is above 200% of the poverty line. As indicated in Figure 8.5, among the poor, the percentage of people with workplace-based health insurance declined from 52% to 32% between 1984 and 2006 and among the near poor the decline was from 70% to 45%. Even among the non-poor there was some decline, from 85% to 77%. These declines have not been made up for by any public programs for health insurance and as a result in 2006, roughly 30% of the very poor, the poor, and the near poor had no health insurance at all (Figure 8.6).

-- Figure 8.5 and 8.6 about here --

It is not surprising that so many people lack insurance in a system in which public insurance is only available for the elderly and the poor and private insurance companies are free to deny people coverage. Private insurance companies, after all, are profit-maximizing businesses. If you are in the business of insuring people against medical risks, your ideal customer is a healthy young person who is unlikely to use the insurance. Above all you would like to avoid insuring anyone with a known, serious, health problem. Typically insurance companies therefore refuse to insure people who have “prior conditions”, or if they are willing to provide insurance they exclude coverage for those conditions. Insurance companies also like to deny payment for conditions which they claim were a prior condition even if the patient was unaware of the condition at the time of purchasing the insurance. Even people with who have purchased private insurance in the market and paid premiums for many years find that when they get sick it is often impossible to renew their insurance after the policy ends. These kinds of practices by insurance companies mean that people on employer-provided health insurance who develop cancer or have

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<sup>5</sup> Families USA, “Americans at Risk: one in three uninsured,” (Families USA: Washington, DC, 2009)

a heart attack or some other serious illness and then lose their job, generally find it impossible to buy insurance on the private market.

What about the length of time it takes to get an appointment when you are sick? Perhaps, even though a higher proportion of Americans are without insurance, that nevertheless the competitive market aspects of the system mean that patients on average can more quickly get doctor appointments than in systems with much heavier control by public authorities. Figure 8.7 indicates that this does not seem to be the case: In a study by the Commonwealth Fund, in the U.S. only 26% of patients with a chronic illness were able to get a same-day appointment with a doctor when they were sick or needed care, compared to 40-60% in most of the other countries studied.<sup>6</sup> In addition, over half of chronically-ill Americans report that they had serious difficulties with access to medical care due to cost, compared to less than a third in most of other countries (Figure 8.8).

-- Figure 8.7 and 8.8 about here --

What about the quality of American medical care and, above all, its impact on actual health outcomes? There may be problems with health insurance coverage, but the quality of care could still be so good as to more than compensate for the problems in insurance. And, after all, most of the uninsured do get some kind of healthcare when they have an emergency. So, perhaps in spite of the problems of access and high aggregate cost, the quality of health care in the United States could be relatively good compared to other comparable countries.

The first thing to say here is that the best hospitals and doctors in the United States do indeed provide excellent medical care. Indeed, this is one of the reasons why wealthy people from around the world often come to the leading American hospitals for treatment. Such facilities are undoubtedly among the best in the world with cutting edge technologies and highly trained doctors. Nevertheless, in evaluating the system as a whole the central issue is not the quality of the very best facilities, but the extent to which the system delivers adequate medical care for the society as a whole. While it is a complex matter to link the characteristics of the healthcare system to health outcomes since so many other things also affect health, nevertheless the available data suggest that health outcomes in the United States also do not compare favorably with most other countries. Figures 8.10 and 8.11 compare the United States with other comparable countries on two important indicators of health outcomes: infant mortality and life expectancy. On both of these measures, the United States fares worse than other wealthy countries. In the case of infant mortality, the United States ranks 35<sup>th</sup> among the 195 countries in the United Nations with over 6 infant deaths for every 1,000 live births. This compares rates around 3-4 for many European countries. For black infants, the rates in the United States are comparable to some third world countries, falling between the rate for Botswana and Jamaica. In terms of overall life expectancy, the United States ranks 34<sup>th</sup> among the countries in the United Nations, just below Portugal and just ahead of Albania. While these dismal figures for infant mortality and life expectancy are not simply the result of the problems with the health care system, the inadequate access to health care is one of the critical contributing factors.

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<sup>6</sup> It should be noted that the average waiting time to see a specialist in the United States for insured patients tends to be lower than in these other countries. The data in figure 8.7 are for seeing a general practitioner.

-- Figures 8.10 and 8.11 about here --

One final consequence of the strong presence of markets within the American healthcare system is the preoccupation with medical treatment of disease rather than public health and preventive medicine. The United States is the only country that does not provide universal, free vaccinations of children. When an attempt was made to provide federal funding for universal vaccination of children in the mid-1990s, this was seen as very controversial. It was strongly opposed by drug companies and ultimately failed to pass Congress. The United States also does not provide free prenatal care for pregnant women in spite of the fact that research indicates that \$1 of prenatal care ultimately reduces medical costs for post-natal care by \$3. A market-logic of health care provision does not encourage prenatal care since, when people have to pay for their own medical care (either outright or through co-payments), most people only go to the doctor when something hurts or seems to be going wrong. The only way to make pre-natal care widely used is for it to be free, and this means that it must be paid by taxpayers.

As a result of these various problems – high cost of medical care, inequalities in access, insecurity of insurance coverage, weak preventative care – there is a great deal of dissatisfaction in the United States about the health care system among both consumers and doctors. Very high levels of dissatisfaction with the system: among doctors, among consumers. While it is difficult to compare across countries the level of satisfaction of people with their institutions, since satisfaction and dissatisfaction depend on people's expectations, nevertheless, it seems that the level of satisfaction with their healthcare system is much lower in the United States than in other in other countries. As Table 8.2 indicates, out of ten developed countries, satisfaction with medical system is lowest in the US, highest in Canada.

It is one thing for people to feel dissatisfied with the status quo and another thing to propose a workable alternative that will actually improve the overall performance of the system. In the next section we will examine two models for a more efficient and equitable healthcare system: the United States Veterans Administration hospitals and the Canadian Single-Payer healthcare system.

### **III. ALTERNATIVES**

#### **U.S. Veterans Administration hospital and health system**

The Veteran's Health Administration (VHA) is a system of direct healthcare provided to U.S. military veterans established after WWII. These are hospitals run by the federal government in which the doctors are simply employees of the government. It is not fee-for-service medicine paid for by private insurance. It is a direct government system. As recently as the 1980s, the VHA health system was a mess: the hospitals were deteriorating, morale was low, efficiency was down, quality was uneven. Given the general turn to privatization, there was a lot of pressure to scrap the VHA altogether and give veterans vouchers which they could use to buy health care on the free market. This is more or less what Medicare is – the system for the elderly. The elderly select their health care on the open market and pay for it through the Medicare public insurance system. The dismantling of government run hospitals for Veterans would have seemed the natural thing to do.

Instead, what happened was a major internal reorganization of the VHA – with new technology, new procedures for quality control, new systems of cost containment. How do things look today?<sup>7</sup> In 2003, the *New England Journal of Medicine* published a study that compared veterans health facilities with the more market-oriented Medicare on a wide variety of measures of quality. The study concluded that “As compared with the Medicare fee-for-service program, the VA performed significantly better on all 11 similar quality indicators for the period 1997-1999. In 2000, the VA outperformed Medicare on 12 of 13 indicators”.<sup>8</sup> The National Committee for Quality Assurance (NCQA), an organization that provides information about health care quality for business, ranks health-care plans on 17 different performance measures. Philip Longman reporting on the HCQA evaluations writes “Winning NCQA’s seal of approval is the gold standard in the health-care industry. The winner in 2005 was not Johns Hopkins or the Mayo Clinic or Massachusetts General. In every single category, the VHA system outperforms the highest rated non-VHA hospitals.”<sup>9</sup>

Contrary to what most Americans believe, at least in the domain of health care the public sector seems better able than the private sector to provide consistently high quality while controlling costs. There are a number of reasons for this. First, the scale of the VHA generates large economies of scale in purchasing all sorts of inputs into production. This is especially important in their purchase of drugs at a reduced cost by negotiating significant discounts from large pharmaceutical companies. Second, the VHA has much lower administrative overhead costs than any other health system in the United States. This is also, partially, because of economies of scale – there is a single system of paperwork for a very large organization. But it is also because the VHA does not have to deal with a wide variety of different insurance programs. Third, in the VHA there are very strong incentives for preventive medicine because of the life-time link between the VHA and the patient and also an ease in medical record keeping and health monitoring because of this life-time connection. Private health companies do not have incentives for doing this. Here is an example from the report by Philippe Longman: “Suppose a private managed-care plan follows the VHA example and invests in a computer program to identify diabetics and keep track of whether they are getting appropriate follow-up care. The costs are all upfront, but the benefits may take 20 years to materialize. And by then, unlike in the VHA system, the patient will likely have moved on to some new health-care plan. As the chief financial officer of one health plan told Casalino [a professor of public health at the University of Chicago]: ‘Why should I spend our money to save money for our competitors?’ More generally Longman writes, “investing in any technology that ultimately serves to reduce hospital admissions, like an electronic medical record system that enables more effective disease management and reduces medical errors, is likely to take money straight from the bottom line.”<sup>10</sup>

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<sup>7</sup> The following account of the Veteran’s Administration hospitals comes from an article by Phillip Longman, “The Best Care Anywhere,” *The Washington Monthly*, January/February 2005,

<sup>8</sup> Ashish K. Jha, et. a., “The Effects of the Transformation of the Veterans Affairs Health Care System on the Quality of Care,” *The New England Journal of Medicine* May 29, 2003, p. 2218

<sup>9</sup> Phillip Longman, “The Best Care Anywhere,” *The Washington Monthly*, January/February 2005,

<sup>10</sup> *Ibid.*

Of course, there is no guarantee that a system of direct state delivery of medical services will perform well. After all, until its reorganization and modernization in the 1990s, the VA hospitals were, by most accounts, not doing a good job. There needs to be effective and committed leadership and meaningful political support for public initiative.

### **The Canadian Healthcare System**

Until the early 1970s, the Canadian healthcare system was very much like that in the United States. Most healthcare was provided on a fee-for-service basis paid for by various forms of private insurance, often connected to employment. There was no national program and no universal guarantee of healthcare. In 1971 there was the Enactment of the Canadian National Health Insurance System, now commonly referred to as a “single-payer” system.

The system involves a close working partnership between the Canadian Federal Government and the Provincial Governments. The plans are actually run at the Provincial level with substantial subsidies from the Federal Government. The Federal government provides grants covering about 40% of total costs to Provinces on condition that they have a healthcare program which satisfies the following core conditions:

- It is universal, available to all citizens.
- It is comprehensive, covering all necessary medical services.
- It is portable in the sense that it recognizes the healthcare systems of other provinces and will provide care to any Canadian citizen in the province.
- It is fully accessible to all – there are no special limits and no supplementary charges.
- It is publicly administered and does not allow doctors or hospitals who receive payment from the government program to also receive funds from private insurance or other private forms of payments. This government organization is the only payer, thus the name “single payer”. This single payer negotiates fees and total budgets for hospitals, clinics and doctors. Healthcare providers can choose, if they prefer, to operate outside of the single-payer system and accept private paying patients, but if they do so then they cannot receive any funds from the government system.<sup>11</sup>

Within this system the actual provision of healthcare services can be organized in a wide variety of ways. Individual doctors can open up offices as solo practitioners. Doctors can form group practices of various sorts. Grassroots organizations can create community clinics. Hospitals can be run by churches, nonprofit organizations, by local governments. Individual patients chose their doctors or groups. The national government does not itself directly run these services. What it does is pay the bills on an agreed upon fee schedule that is negotiated annually.

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<sup>11</sup> Recently there has been some erosion of the single-payer condition in the Canadian system following a Canadian Supreme Court decision in 2005 that people in Quebec – and by extension the rest of Canada -- have a right to purchase private insurance as a supplement to the public insurance. It is not clear how this will pay out in shaping the future of the Canadian healthcare system.

How does this system work in practice? First, it must be said that there is rationing on the basis of medical need in Canada and sometimes this means that there longer waits than would occur for some people in the U.S. There is less diffusion and duplication of CAT-scans, for example, in Canada. They are located in fewer hospitals, whereas in the United States competition for patients has the result that most hospitals acquire such technologies. Even though the overall satisfaction with the Canadian system is very high, these longer waits for some procedures does lead to complaints, and sometimes wealthy Canadians come to the US in order to get quicker service. Some of these problems of waiting times and rationing are the result of budgetary decisions by political authorities and could be remedied by increased budgets. But it is also very important to recognize that all medical systems have to ration medical services in one way or another: by denying access through the policies of private insurance companies, by rationing access through ability to pay, or by government policies. It could be argued, therefore, that the form of rationing that comes with the single-payer system does mean a lower “quality” healthcare system *for some people*, since individuals are unable to buy better care or quicker service in the system.

This rationing, however, does not mean that these waiting times necessarily have adverse effects on real health outcomes. Indeed, there are situations in which the existence of a waiting list can actually improve health outcomes since it forces doctors to be more concerned about placing those in greatest need at the top of the list, and this can have the result of reducing unnecessary surgery. In the United States heart surgeons have considerable incentives to perform coronary by-pass surgeries, and a certain proportion of these are medically unnecessary. If there was a waiting list, the more ambiguous cases would be placed lower on the list and alternative therapies would be tried. Some of these, in the end, would not need surgery. In any case, there is no evidence that the modest delays that are sometimes caused in the Canadian system adversely affect health outcomes.

A second consequence of the Canadian single-payer system is that Canada has much more uniform medical services across regions and across classes. There is very little difference in the quality of medical care received by the rich and the poor.

Third, in Canada the availability of health insurance does not enter into employment decisions. In the United States people are very concerned about health benefits with jobs. Many people are reluctant to leave a job they dislike in order to get new training or to look for a better job because of fear of being without insurance. Health insurance costs are also a major problem for many employers for home this significantly raises their costs of production. These rigidities are absent in Canada.

Fourth, as already noted in Table 8.1 the administrative costs for medical care are much much lower in Canada than in the US.

Fifth, the paperwork hassles for patients are also enormously less than in the U.S. In the United States, even if you have good insurance, there is an enormous amount of paperwork involved in getting sick, especially for long complex illnesses involving different doctors, hospitals and clinics. This complexity is increased when people create “health savings accounts” which they use to cover deductibles and co-payments. To use these accounts patients have to

keep track of all expenses, get proper documentation and submit complicated forms to the appropriate agencies. In Canada, patients face none of these headaches. They go to a doctor, get treated, and that's it. The doctor submits the bill to the single-payer system and gets paid according to the negotiated fee structure.

All of this creates a great irony: Canadians have socialized universal insurance, but doctors are less hassled by the state and by bureaucracy than in the United States. Government programs actually result in a leaner and simpler bureaucracy than more market oriented programs! And what is more, individual consumers of health care actually have greater freedom of choice in Canada than in the US. People are not forced to join a specific health plan which only pays for specific doctors, but can choose any doctor that has available slots in his or her clinic.

#### IV. OBSTACLES TO TRANSFORMATION

Given the remarkable improvement in the quality of health care and cost containment in the Veterans Administration hospital system in recent decades, and given the superior performance on so many grounds of the Canadian single-payer system, it becomes a real puzzle why it has proven so very difficult to create some system of universal national insurance in the United States. One common answer to this question is American individualism and the cultural opposition to government programs in the United States, and the generally conservative policy preferences of average Americans. While public opinion undoubtedly plays some role in obstructing universal healthcare, a more important factor is the power of organized forces who have a stake in the existing institutional structure. Three interest groups are especially important: organized physicians, the insurance industry, and pharmaceutical corporations.

The American Medical Association, the professional association of doctors, has been militantly opposed to anything that smacks of "socialized medicine". In 1989 AMA committed \$2.5 million to tell Americans the "facts" about the Canadian system, emphasizing the complaints that are voiced about the system and ignoring the very high level of overall satisfaction with the system of both patients and doctors. During the early 1990s the AMA raised the specter of Big Government making health decisions for all Americans, depriving them freedom of choice.

While the AMA is strongly hostile to state run universal health programs, ordinary doctors are more receptive. For example, a 2007 opinion poll by Indiana University's Center for Health Policy and Professionalism indicated that 59% of physicians supported the idea of federally funded national health insurance.<sup>12</sup> Yet, it also seems that physicians generally believe that their colleagues are less in favor of a significantly more expansive role for the government in financing health care. In a 2004 study of physicians in Massachusetts, 63.5% indicated that they preferred a single-payer publicly financed health insurance system over a system based on managed care private insurance or a fee-for-service system, but only 51.9% of the respondents

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<sup>12</sup> Aaron E. Carroll and Ronald T. Ackerman, "Support for National Health Insurance among U.S. Physicians: 5 Years Later." *Annals of Internal Medicine*, Volume 148 • Number 7 April 1, 2008. p. 566

believed that most physicians would support a single-payer system.<sup>13</sup> A similar discrepancy between the views of physicians and their perception of their colleagues beliefs was found in earlier studies: a study in the 1960s on physicians' attitudes towards Medicare when it was first introduced found that "70 percent of private practitioners in the State of New York were in favor of it, but only 26 percent thought most of their colleagues were in favor of it."<sup>14</sup> In a 1973 national study of physicians' general attitudes towards National Health Insurance, "Three-fourths (74%) of the physicians interviewed thought that most of the doctors they knew personally were opposed to 'some form of national health insurance' ... Yet when asked about their own attitudes, more than half (56%) were in favor of some form of NHI."<sup>15</sup> What this reflects is the fact that doctors' beliefs about the opinions of other doctors are shaped by the AMA, and since the AMA so stridently opposed national health insurance, most doctors believe that this is the dominant view among doctors. In fact, the AMA's opposition is rooted in interests and preferences of the elite strata of doctors, but because of their visibility and power they are able to define the "public opinion of doctors" as a whole.

The other powerful sources of opposition to national health insurance are the private insurance companies and large pharmaceuticals. As Carl Schramm, a spokesman for Health Insurance Association of America stated, commenting on the prospects for a Canadian-style single-payer system in the United States: "We'd be out of business; it's a life and death struggle."<sup>16</sup> Pharmaceutical companies are among the most profitable corporations because of their ability to charge high prices on patented drugs. They successfully blocked the idea of negotiated lower prices for the Medicare drug plan passed 2003. In Canada the Single-payer system has forced drug companies to charge lower prices, and the VHA in the United States has also been able to negotiate lower prices than the open market. The pharmaceutical companies oppose any unified national system for paying for healthcare because of the threat this would pose to their ability to demand such prices.

So long as these private interests are able to dominate the public debate over healthcare and influence the policy options that politicians are prepared to put on the table, the prospects for a universal health care system capable of controlling costs and providing good quality care for all are dim.

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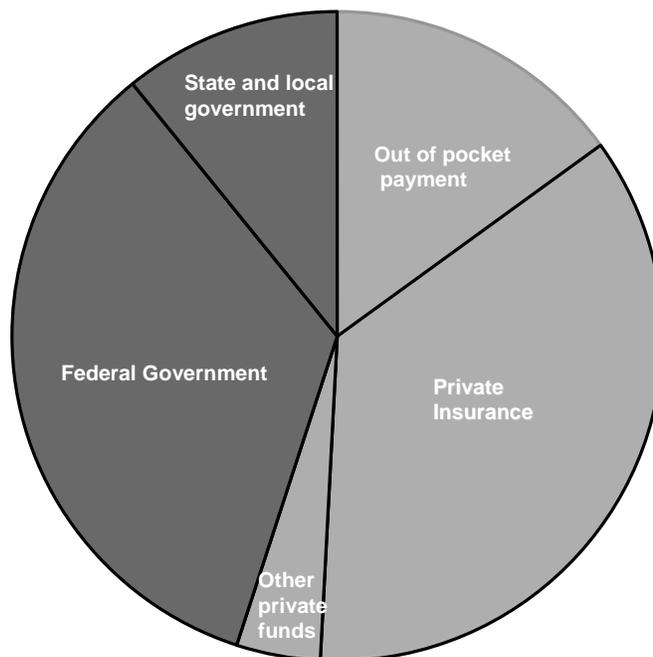
<sup>13</sup> Danny McCormick, David U. Himmelstein, Steffie Woolhandler, and David Bor, "Single-Payer National Health Insurance: physicians' Views", *Archives of Internal Medicine*, 2004, 164: 300-304.

<sup>14</sup> John Colombotos and Corrine Kirchner, *Physicians and Social Change* (New York and Oxford: Oxford University Press, 1986), p.28.

<sup>15</sup> *Ibid.* p.27-8.

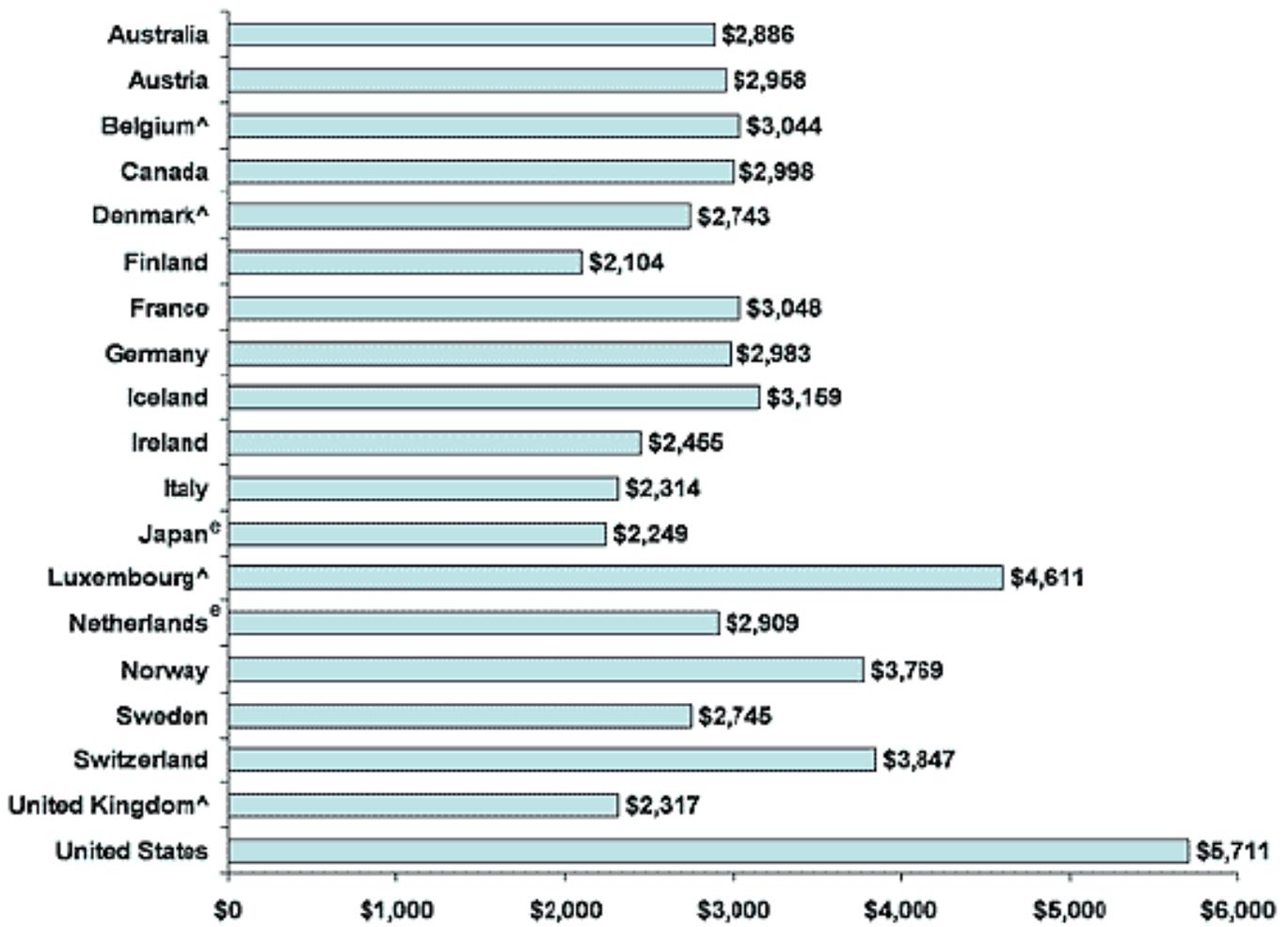
<sup>16</sup> Quoted in Theodore R. Marmor and Jerry Mashaw, "Canada's Health Insurance and Ours: the real lessons, the Big Choices", in Jonathan Lemco, *National health care: lessons for the United States and Canada* (Ann Arbor, University of Michigan Press, 1994)., p.70

FIGURES & TABLES FOR CHAPTER 8



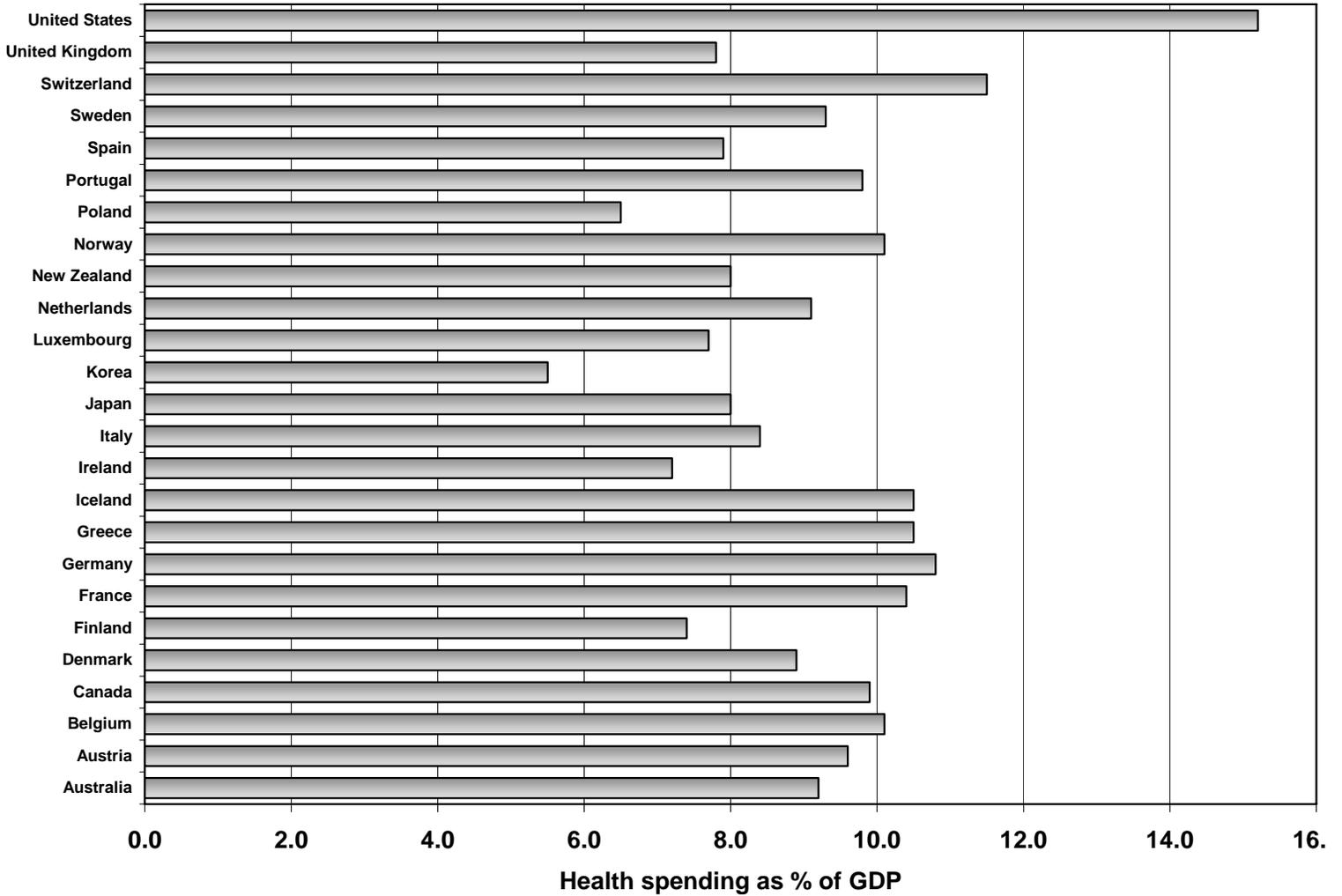
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National Center for Health Statistics, *Health, United States, 2007, With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 125, p.380

**Figure 8.1**  
**Sources of funding for Health Care in the U.S., 2005**



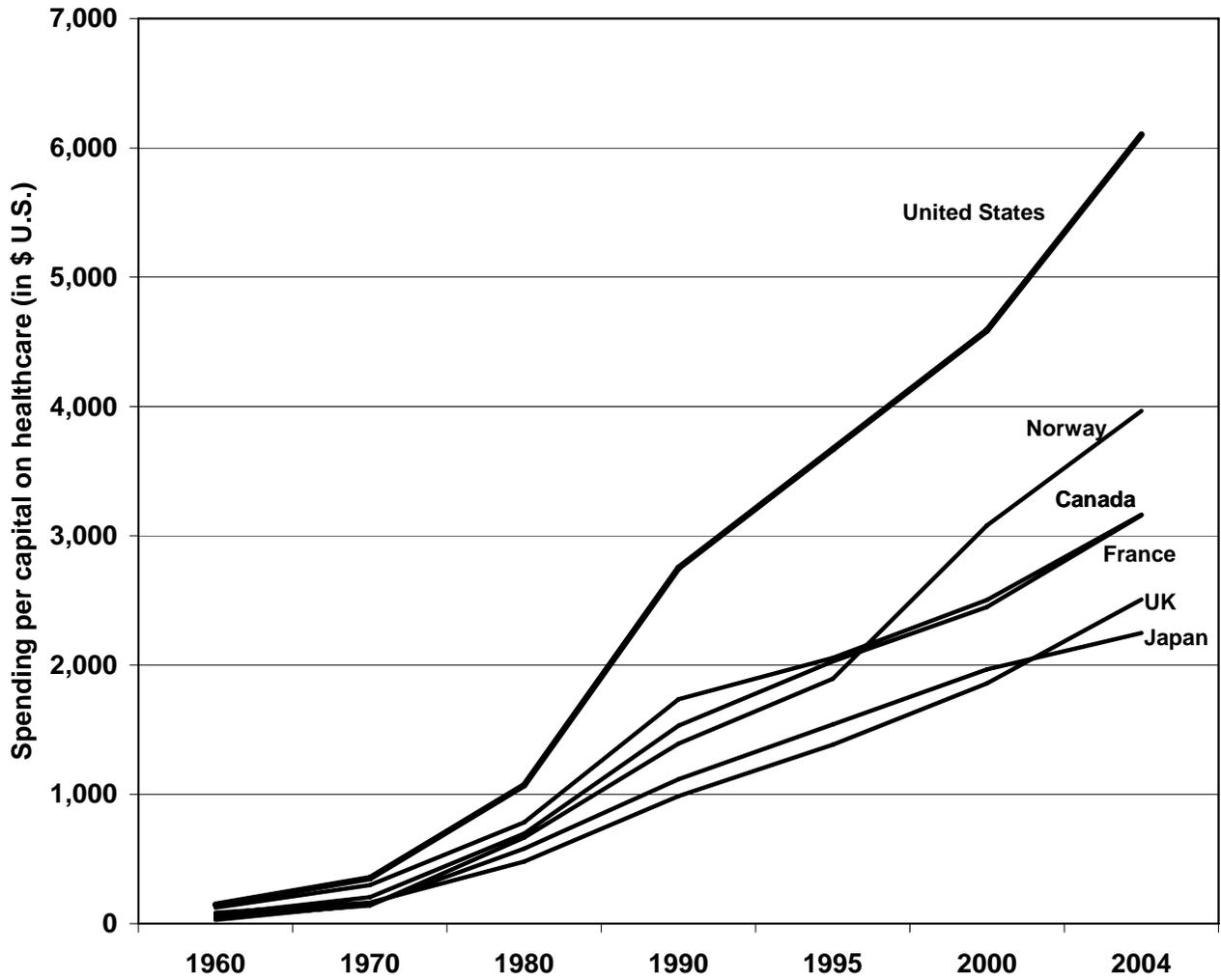
**Source:** Source: Organization for Economic Co-operation and Development. *OECD Health Data 2006*, from the OECD Internet subscription database updated October 10, 2006. Copyright OECD 2006, <http://www.oecd.org/health/healthdata>.

**Figure 8.2**  
**Total spending per capita on health care, U.S. and selected countries, 2003**



Source:  
 National Center for Health Statistics, *Health, United States, 2007, With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 120, p.374

**Figure 8.3**  
**Total spending per capita on health care as a % of GDP,**  
**U.S. and selected countries, 2003**



Source:  
National Center for Health Statistics, *Health, United States, 2007, With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 120, p.374

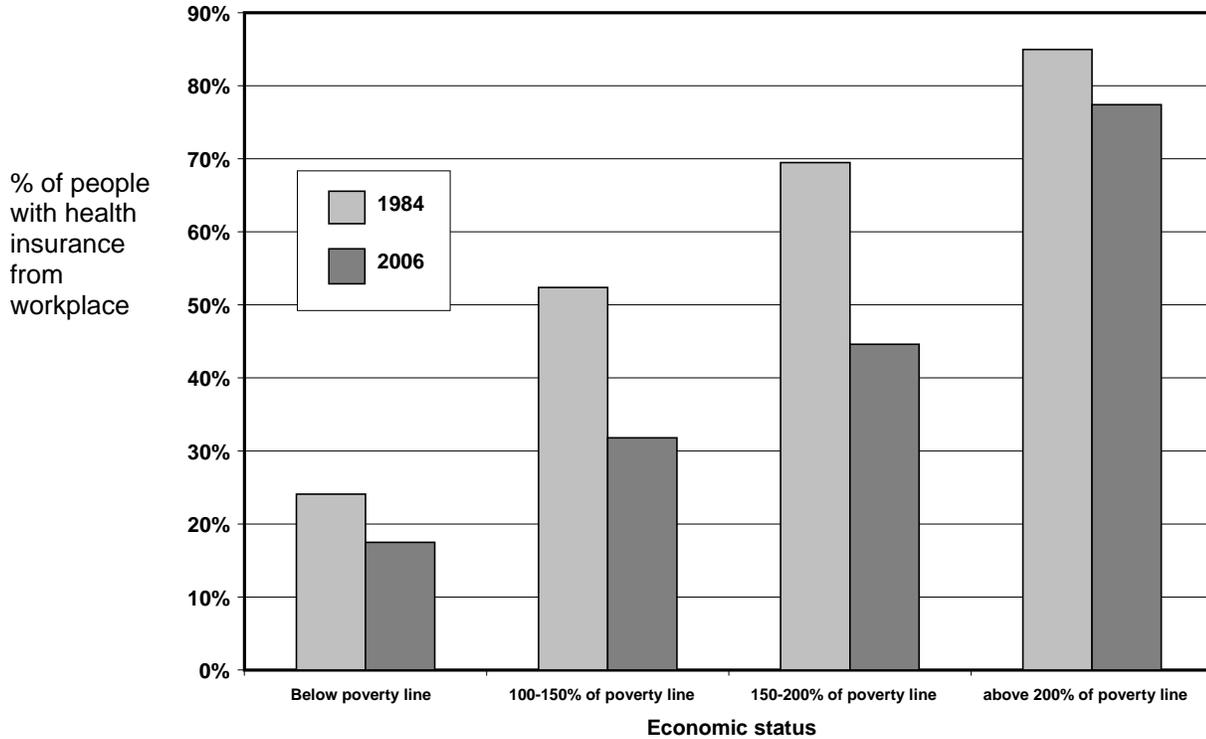
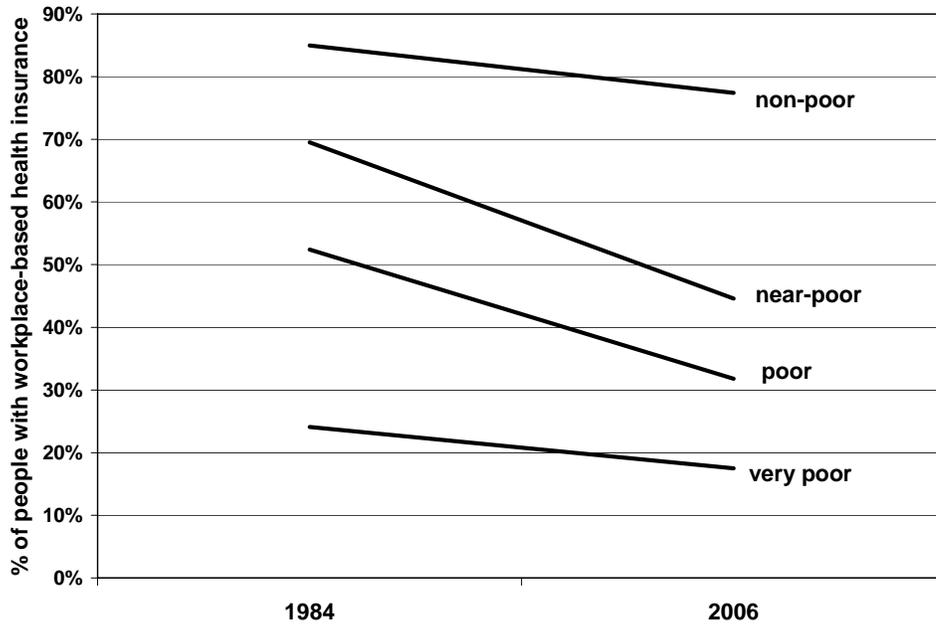
**Figure 8.4**  
**Growth in spending per capita on health care in the US and selected countries, 1960-2004**

Cost Category	Spending per Capita (U.S. \$)	
	United States	Canada
Insurance overhead	259	47
Employers' costs to manage health benefits	57	8
Hospital administration	315	103
Nursing home administration	62	29
Administrative costs of practitioners	324	107
Home care administration	42	13
Total	1,059	307

Source: Steffie Woolhandler, M.D., M.P.H., Terry Campbell, M.H.A., and David U. Himmelstein, M.D., "Costs of Health Care Administration in the United States and Canada," *The New England Journal of Medicine*, 2003, p.771

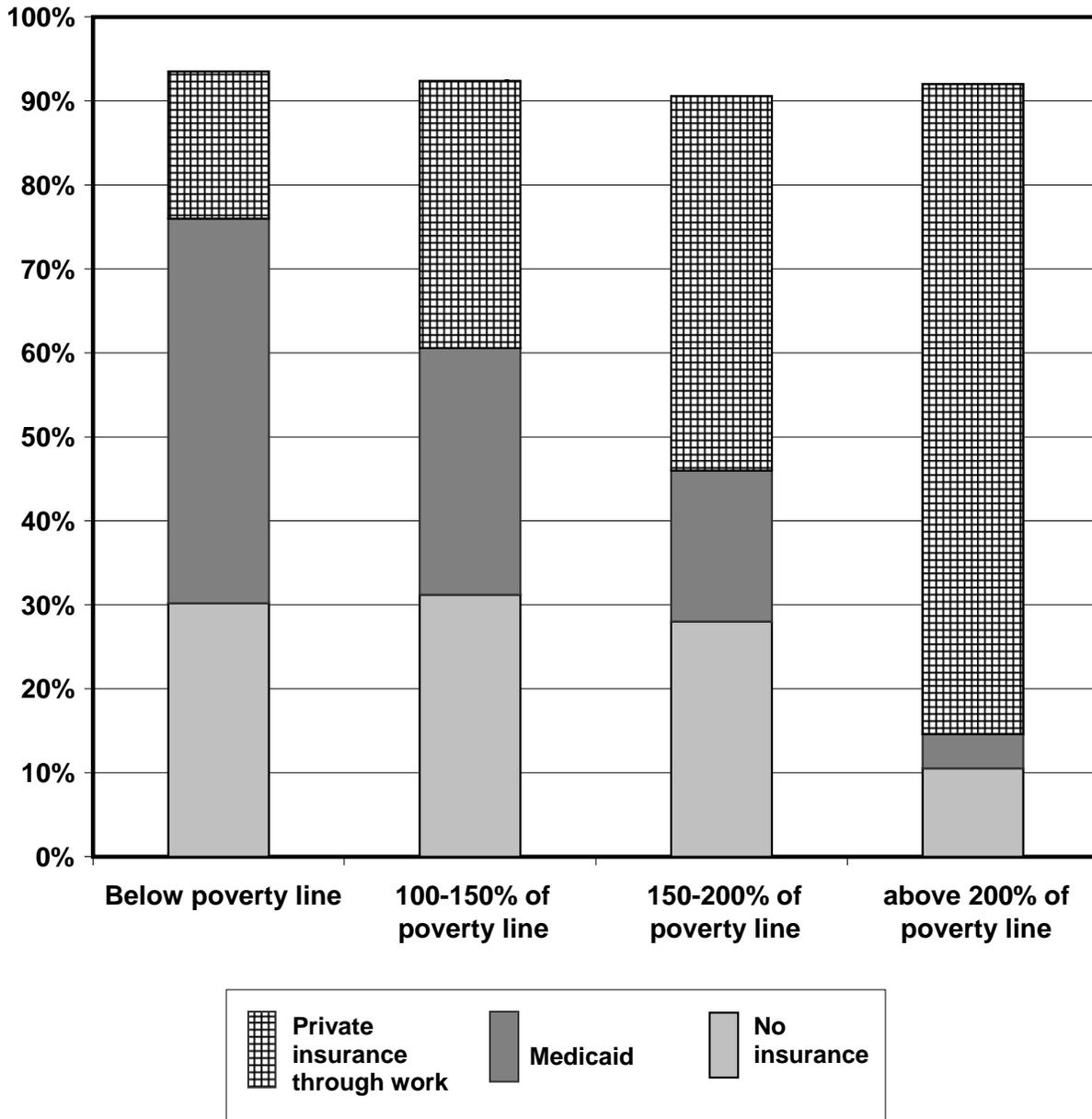
**Table 8.1.**  
**Costs of Health Care Administration in the United States and**  
**Canada, 1999.**

[Alternative formats for graph]



Source:  
 National Center for Health Statistics, *Health, United States, 2007, With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 137, p.400

**Figure 8.5. Percent of people under 65 years of age who get private health insurance through their workplace by economic status, 1984 and 2006**

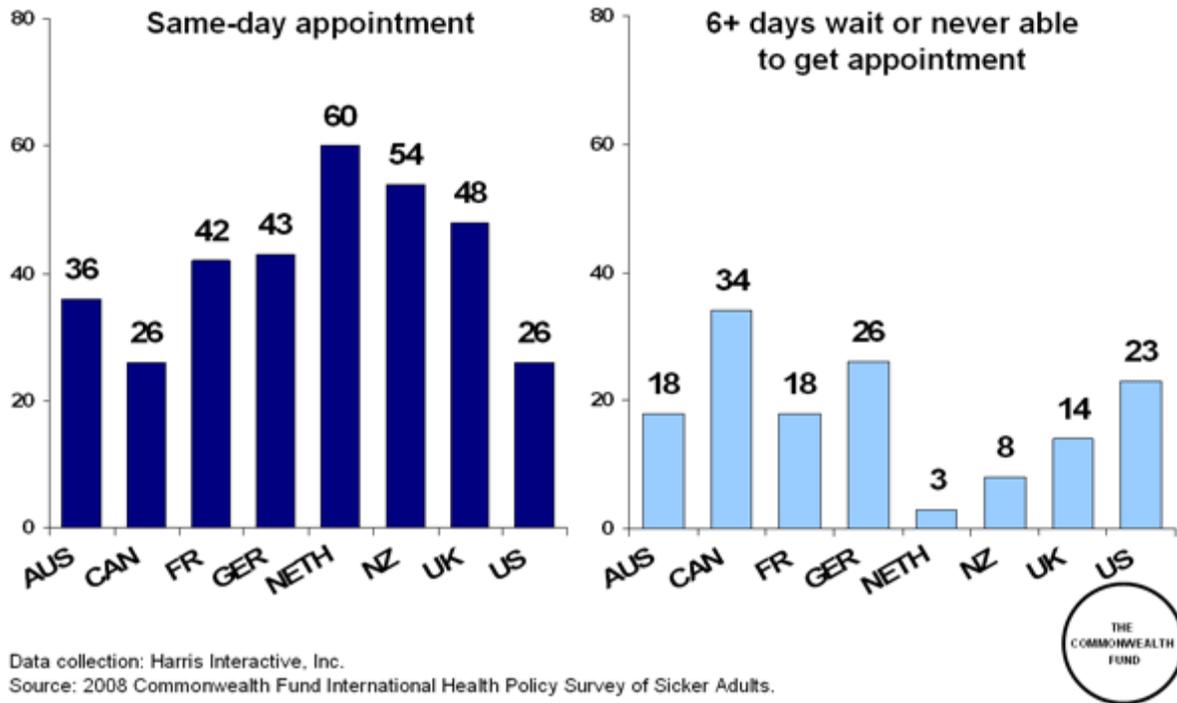


Source:  
 National Center for Health Statistics, *Health, United States, 2007, With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007)

**Figure 8.6 Economic status and health insurance, 2006**

### Access to Doctor When Sick or Needed Care

Base: Adults with any chronic condition  
Percent

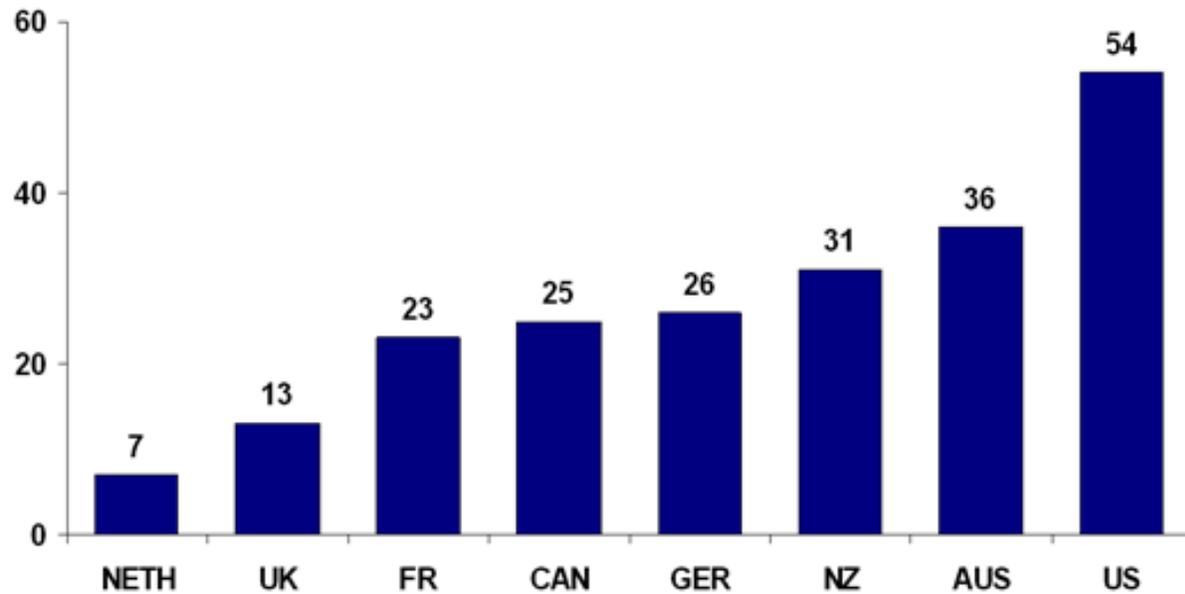


Data collection: Harris Interactive, Inc.  
Source: 2008 Commonwealth Fund International Health Policy Survey of Sicker Adults.

Figure 8.7 Access to Doctor When Sick or in Need in Eight Countries, 2008

**Base: Adults with any chronic condition**

**Percent reported access problem due to cost in past two years\***



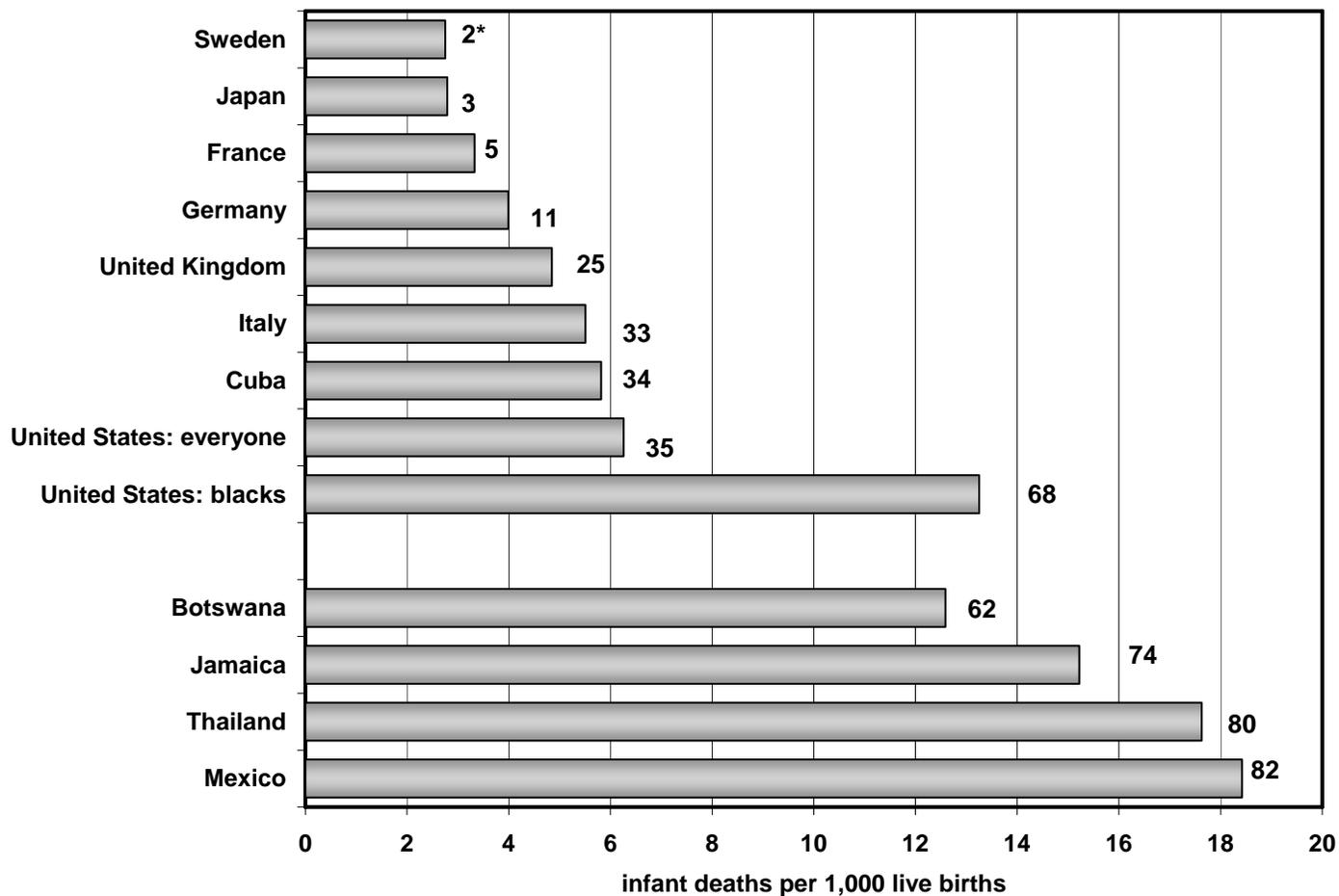
\* Due to cost, respondent did NOT: fill Rx or skipped doses, visit a doctor when had a medical problem, and/or get recommended test, treatment, or follow-up.

Data: The Commonwealth Fund International Health Policy Survey of Sicker Adults (2008).

Source: C. Schoen et al., "In Chronic Condition: Experiences of Patients with Complex Healthcare Needs in Eight Countries, 2008," *Health Affairs* Web Exclusive, Nov. 13, 2008.



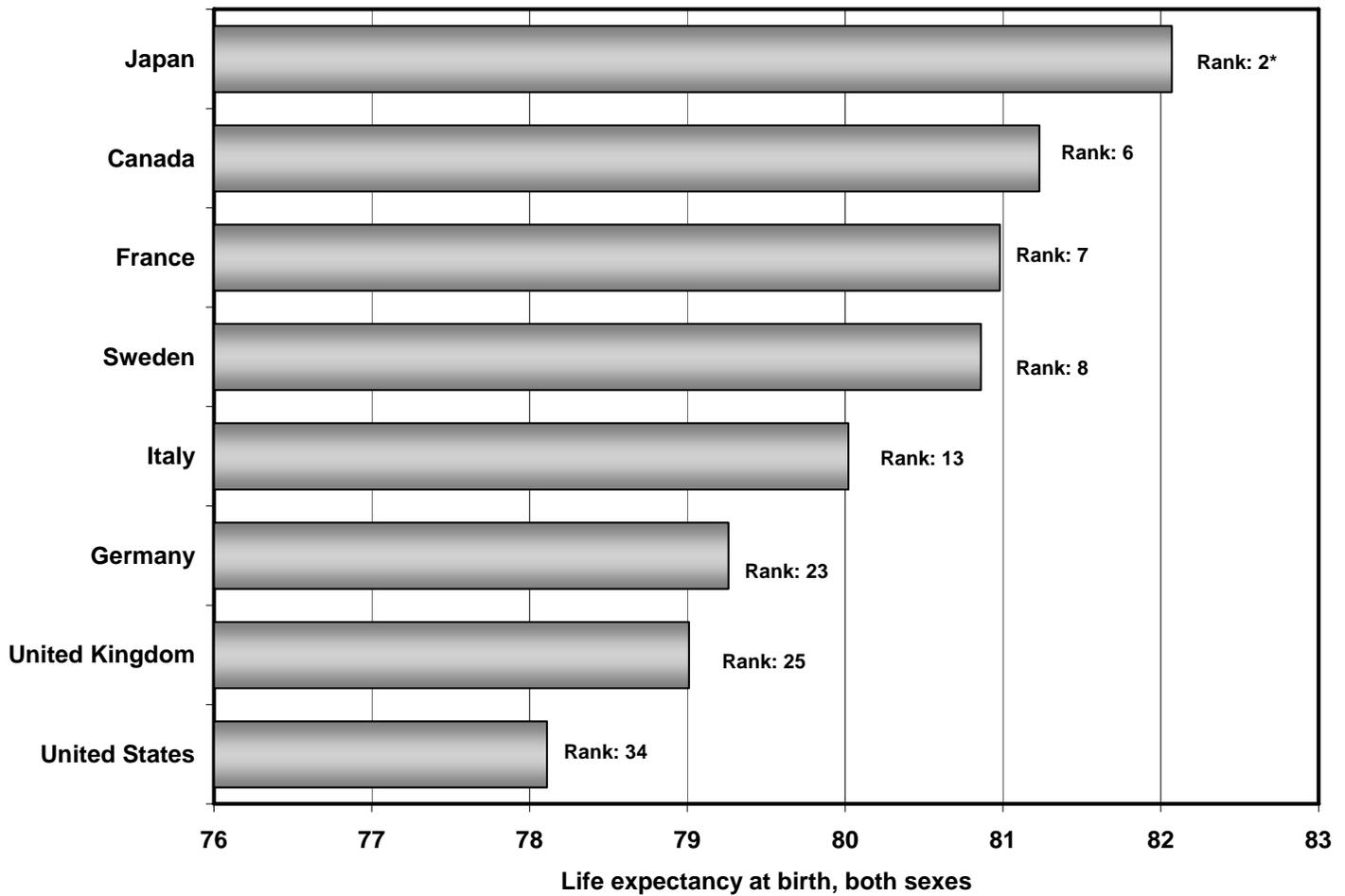
**Figure 8.8 Cost related access problems among the chronically ill in eight countries, 2008**



\* Rank = ranking within 195 member states of the United Nations

Sources: Cross national data come from Central Intelligence Agency, *The World Factbook, 2009*. "Country Comparisons – Life Expectancy at Birth." The United States data for African-Americans, come from National Center for Health Statistics, *Health, United States, 2007, with Chartbook on Trends in Health of Americans* (Huntsville, MD, 2007), p. 159

**Figure 8.9**  
**Infant mortality rates, United States and selected countries, 2009**



\* Rank = ranking within 195 member states of the United Nations

Source: Central Intelligence Agency, *The World Factbook, 2009*. "Country Comparisons – Life Expectancy at Birth"

**Figure 8.10**  
**Life Expectancy at Birth, United States and selected countries, 2009**

	Minor changes needed <sup>a</sup>	Fundamental changes needed <sup>b</sup>	Completely rebuild system <sup>c</sup>
Canada	56%	38%	5%
Netherlands	47	46	5
West Germany	41	35	13
France	41	42	10
Australia	34	43	17
Sweden	32	58	6
Japan	29	47	6
United Kingdom	27	52	17
Italy	12	46	40
United States	10	60	29

<sup>a</sup>On the survey, the question was worded as follows: "On the whole, the health care system works pretty well, and only minor changes are necessary to make it work better."

<sup>b</sup>"There are some good things in our health care system, but fundamental changes are needed to make it work better."

<sup>c</sup>"Our health care system has so much wrong with it that we need to completely rebuild it."

Source: p. 188 in Robert J. Blendon, Robert Leitman, Ian Morrison, and Karen Donelan "Satisfaction with Health Systems in Ten Nations". *Health Affairs*, Summer, 1990, p. 185-192.

**Table 8.2**  
**The Public's View of Their Health Care System**