Understanding and Addressing American Healthcare Spending

By David Payne

"Although a balanced solution to America's economic problems will mandate both increasing revenue and cutting unnecessary programs, directly bringing down healthcare expenditures must become a much higher priority. It is essential to balance the federal budget, bring down the debt, and also to ensure the survival of the healthcare programs Americans depend on."

Introduction

In spite of unprecedented resources and expertise, the American healthcare system not cost effective. More money is spent on healthcare in America than any other country, both per capita and overall (OECD). These costs are projected to rise dramatically throughout the foreseeable future (Torres 2012). Yet American public health is middling. Life expectancy at birth is between 78 and 79 years old, one year below the OECD average of free market democracies (OECD). The US infant mortality rate is 5.98 deaths per thousand births, higher than most comparable countries (Factbook). Also, the US has the highest rate of childhood obesity in the world (International Comparisons). This data illustrates that the massive financial costs of the US healthcare system are not justified by notably good health outcomes. High costs and mediocre public health must both be addressed, but the costs in particular demand fast solutions (Figure 1 and Figure 2).

The Costs of American Healthcare

In America, Healthcare spending totals to 21 percent of income for middle class households. Lower class households are hit even harder, spending an average of 61 percent of the money they earn on healthcare (Out of Pocket). Because of this intense financial pressure, medical bankruptcy is common, accounting for more than half of all bankruptcies in America (Himmelstein 2009).

There is also macroeconomic pressure side to reduce healthcare spending. Healthcare costs are projected to increase to roughly 20% of GDP by 2021 (Factbook). Nearly half of that massive cost will be paid directly by the federal, state, and local government. Healthcare will account for 2.4 trillion dollars in government spending per year (Wayne 2012). These costs have already had a significant impact on the national economy. The Congressional Budget Office attributes government healthcare spending as the single largest contributor to the US budget deficit (Squires 2012). There is strong domestic and international pressure to reduce the national debt and deficit. If healthcare costs are not reigned in, the only options will be to raise revenue through unpopular tax increases or to crowd out other valuable social institutions such as public education and Social Security (as outlined in a New York Times editorial titled the Fiscal Cliff Opener, which explores President Obama's plans to increase revenue and decrease the deficiit).

Although a balanced solution to America's economic problems will mandate both increasing revenue and cutting unnecessary programs, directly bringing down healthcare expenditures must become a much higher priority. It is essential to balance the federal budget, bring down the debt, and also to ensure the survival of the healthcare programs Americans depend on. The current situation is untenable, especially for Medicare. The Medicare Trust Fund, which pays hospitals for goods and services provided to Medicare enrollees, is projected to become insolvent in 2024 (Morgan 2012). If this is allowed to happen, those Americans depending on Medicare will begin to find themselves unable to afford the medical attention they need.

Although the cost of American healthcare is the highest in the world, Americans do not utilize a particularly large amount of healthcare services per capita. On average, Americans spend less time in the hospital and consume fewer prescription drugs than Germany, Canada, and the United Kingdom (Marmor et al. 2009).

The immense overall costs of American healthcare stem primarily from the high prices of the healthcare products. An OECD study of worldwide healthcare costs found that healthcare procedures in the US consistently cost more than the identical procedures carried out in other countries, with no reason to suggest that the extra spending is translated into better outcomes for the patients. Delivering a newborn costs 50% more in the United States than in France, Sweden, and Canada (OECD). Yet the infant mortality rate in America is higher than any of these

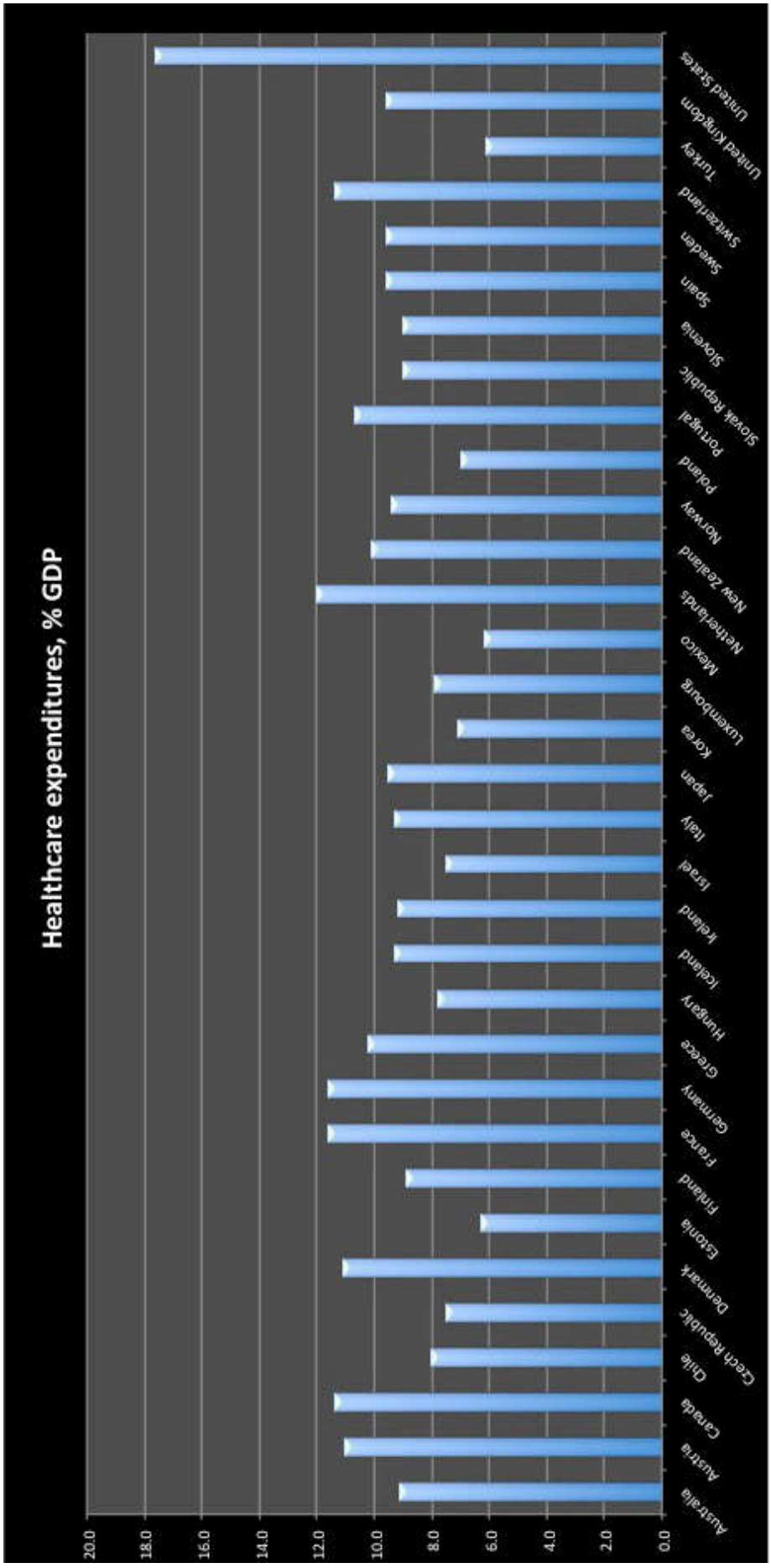

Figure 1. Health expenditure as a share of GDP, OECD countries, 2010. (OECD Health Data). The United States spends a larger share of GDP on healthcare than any other country. Overall expenditures are also the highest in the world.

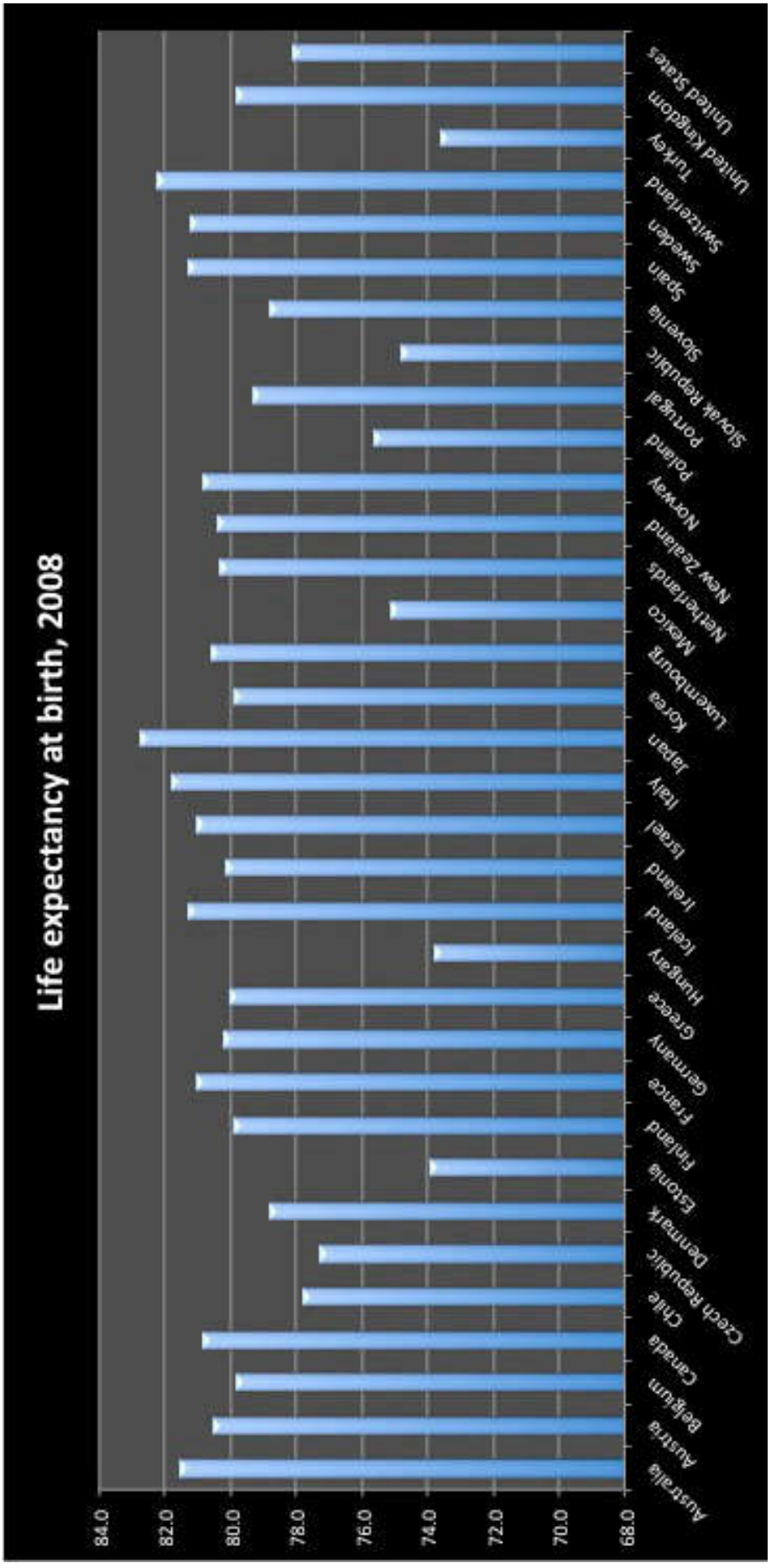

Figure 2. Life expectancy at birth, OECD countries, 2008. (OECD Health Data). Life expectancy at birth is lower in the United States than the OECD average. In 2008, America ranked 26 out of 34 countries surveyed. The reasons for this are multifaceted, but illustrate that the costly American healthcare system has not yielded remarkable public health outcomes.

countries. Similarly, chemically identical prescription drugs cost more in the United States than the rest of the world, with no benefit to American patients (as disclosed by the US Department of Health & Human Services on their website, HealthCare).

Domestic and International Strategies for Cost Reduction

While known best for its insurance coverage mandate, the Affordable Care Act has provisions in it that are designed to decrease costs and make the insurance marketplace more favorable for consumers. To address costs, the law slows the rate of growth for payments to hospitals and physicians. The law also provides for a new range of preventive services to Medicare enrollees at no out of pocket cost, which may lead to better health outcomes for the population (US Department of Health & Human Services).

The law has provisions to discourage Medicare and Medicaid abuse. Additionally, it reduces payments to hospitals for readmitting patients with certain conditions. These measures encourage more judicious behavior in utilizing healthcare resources for both providers and consumers (Carroll 2012).

While these initiatives do have potential to reduce costs, the system as a whole will remain mostly unchanged. While a radical transformation is politically impossible in America today, policymakers must continue to take the issue of healthcare cost reduction seriously. More bold action will be needed to make a significant difference.

International evidence suggests that the best way to bring down cost is to set concrete limits on national healthcare spending (OECD). As United States policymakers grapple with a 16 trillion debt, adopting a spending cap may become more politically realistic. American policymakers would do well to study the example of Germany, a multi-payer system that saw its spending on physician services drop dramatically after introducing spending limits on major healthcare sectors in the 90s (OECD). The failure to institute cost controls has resulted in much higher spending per capita and overall than other rich democracies, who have seen their costs increase much more gradually (Figure 3).

Another keystone of many national healthcare systems is a program of public insurance available to all citizens (OECD). Public insurance offers access to care that generally equals or exceeds private insurance in quality, and frequently costs less (Ku 2007).

Government insurance companies reduce expenses in several ways. Public insurance consolidates purchasing power, allowing the company to negotiate lower fees with providers and pharmaceutical companies (OECD). Government insurance programs also have lower administrative costs than private companies, and are not beholden to shareholders to produce a profit (OECD) (Figure 4).

Some states have taken the lead in utilizing public insurance, which may open the door to discussion of a national public insurance program. Vermont is transitioning to a single payer public insurance system, which is projected to save 200 million dollars in its first year and cut overall costs by 25% by the time it is fully implemented (Marcey 2011). The potential for savings is large, but national policymakers will likely remain tenuous until individual state's plans come to fruition and produce favorable results.

Conclusion

The US spends too much on healthcare, without reaping remarkable rewards for the population's public health. The primary cause of the elevated costs is the price of healthcare goods and services, not the quantity of healthcare consumed. Bringing down healthcare

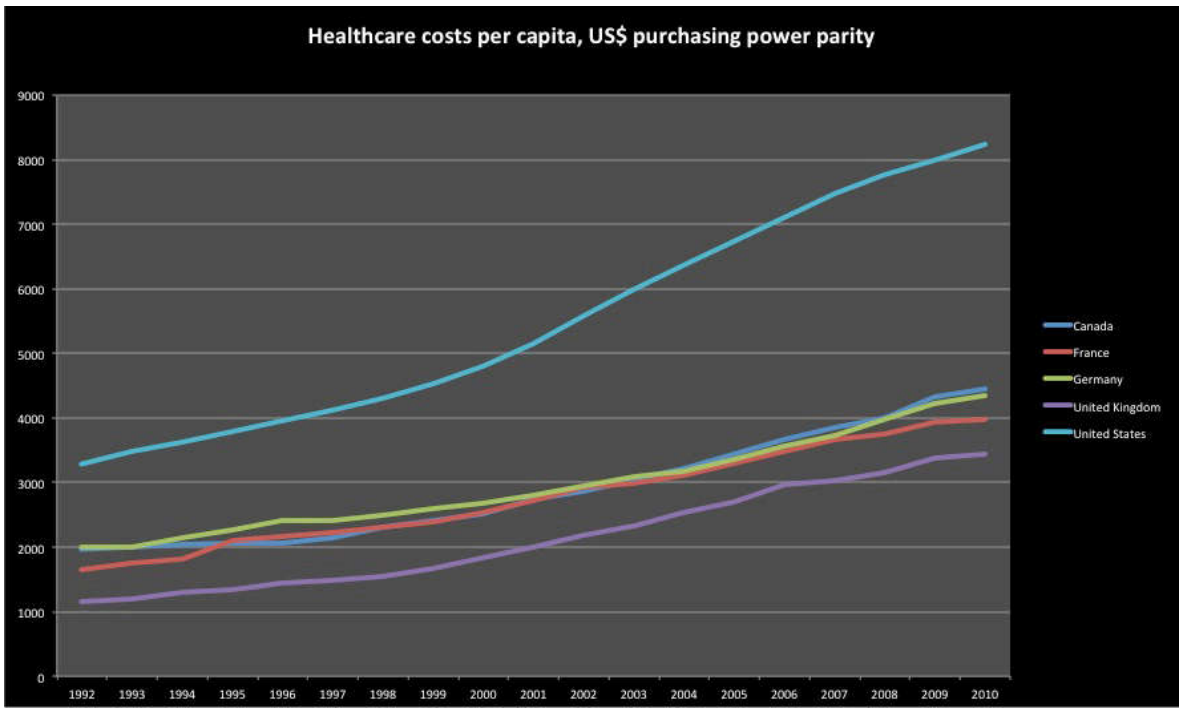

Figure 3. Healthcare costs per capita, US$ PPP, OECD countries, 1992-2010. (OECD Health Data). The United States has seen healthcare costs escalate much quicker than other rich democracies. The growth of costs can be tied in part to systematic inefficiencies a lack of set caps on spending.

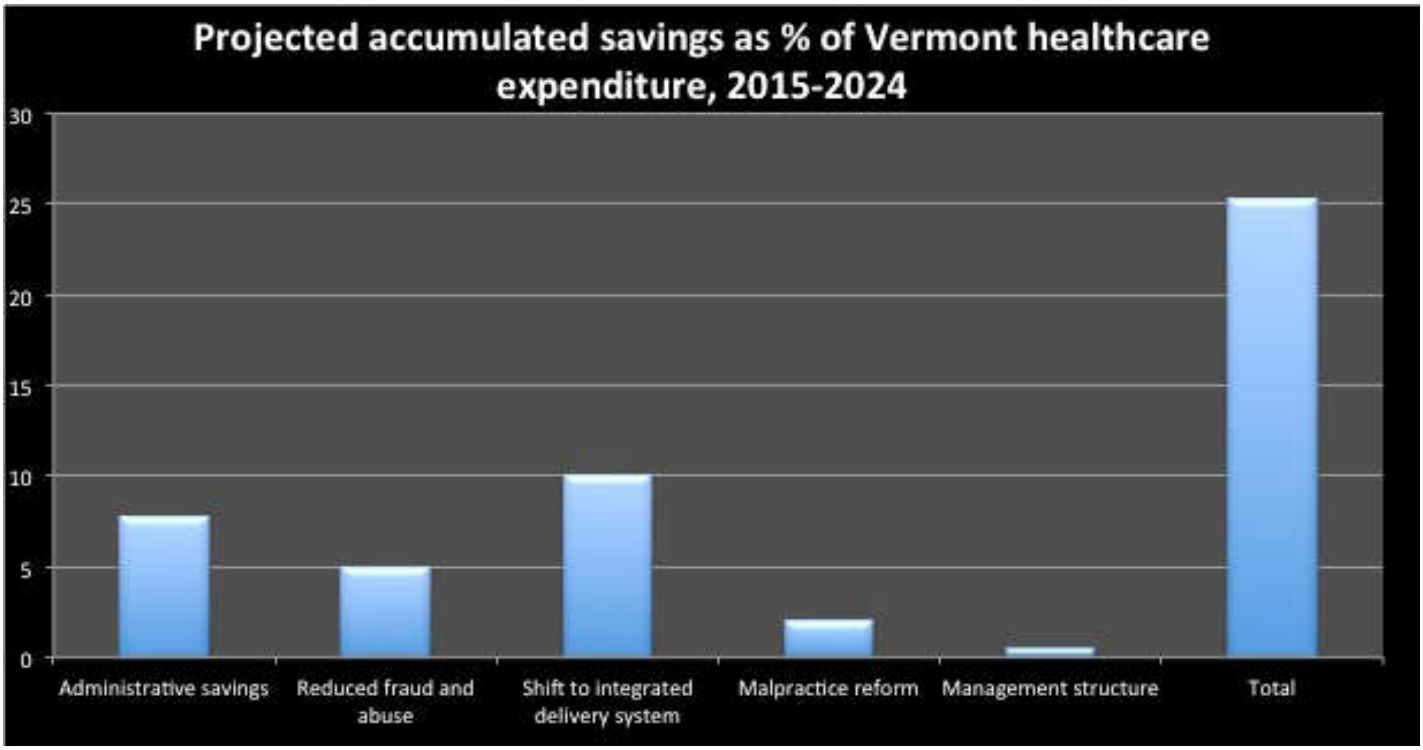

Figure 4. Projected accumulated savings due to healthcare reform, 2015-2024, Vermont. (Vermont legislature). Vermont is in the midst of implementing a single payer health system. A best case scenario will yield savings over 25%, with the largest share of savings coming from a shift to an integrated system of delivery. The new system aims to provide a continuum of care to all residents of Vermont.

spending is necessary for the well being of America's economy. Failing to control costs will endanger the medical and social programs that Americans depend on. Policymakers must consider bold measures, however politically difficult, to control costs, including public insurance programs and overall spending cuts.

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David Payne is an NYU alumnus from the class of 2012. He is currently working full-time as an EMT in and around Boston. He is interested in the intersection of healthcare, economics, and politics.