

# American Health Care Is a True Monstrosity

**WASHINGTON** – Among wealthy nations, America holds the dubious record as the country with the highest health care spending as a percentage of national wealth, (18% of GDP), extraordinarily high costs of even standard procedures, and mediocre health outcomes.

## **Big spenders**

Think about it, the next big spenders on health average around 10% of GDP. Related to our \$ 20 trillion GDP, American overspending is roughly \$ 1.4 trillion. This waste is almost double the entire defense budget.

If Americans were getting vastly superior quality of care for all this extraordinary amount of money spent on health, then you could say that you pay for what you get. But there is no evidence that, on average, Americans are getting superior care.

## **No serious debate**

And yet, this gigantic cost difference between the US and other wealthy countries is not questioned by health care experts, policy-makers or consumers. It is accepted as a fact of life. *“Well, this is what health care costs in America”*. In the US all the policy debates are not about trying to understand why we have stratospheric costs. They are only about deciding who pays the bill.

Not much effort, it seems, goes to try and find out the causes of this enormous discrepancy between the US and other rich nations. By and large, lower health care costs in other wealthy countries are superficially explained away as due to low quality, socialized medicine. *“In the UK or Canada*

*citizens get lousy service because of low quality, rationed care. No wonder it is cheap".* This is a generic charge that is mostly untrue.

### **Economist and management consultants cannot get to the bottom of this?**

What is even more extraordinary is that America is the home of thousands of economists and top of the line management consultants who should have the intellectual ability to understand that our high costs are in large measure due to horrible practices and down right perverse economic incentives.

### **The major flaws**

At the cost of oversimplifying the extremely complex, layered US health care system, here are its major flaws. In the US we have an awful mix of private health care providers, without any genuine private sector competition, because services are paid mostly by medical insurance and not by the care recipients. Therefore health care providers do not feel the market pressure that would normally induce all participants in any economic sector to do their very best to offer the highest quality product or service at the lowest price, so that they can stay ahead of the competition. In US health care there is no real "market". This lack of competition among private sector providers who are into this business to make a profit leads to abnormally high prices. In other words, providers tend to jack up prices well above cost and overall inflation, without any justification.

### **Perverse economic incentives**

And it gets worse. In the US, self-employed doctors make money only when they can prescribe something to sick people. Therefore, there is absolutely no incentive to teach people "prevention", that is healthy life style habits, so that they can stay away from the doctors' office as for as long as

possible. Healthy patients bring no money to the providers. This may sound absurd, but in this system doctors want/need many sick people. This is only way they can make a living. From this perspective, the ideal patient is someone with a chronic condition that must be treated but cannot be cured. Patients for life are a wonderful source of guaranteed income.

Well, thanks to extremely bad personal habits when it comes to diet and lack of exercise –just think of the obesity epidemic and all its health consequences– millions of Americans now need to be treated for chronic ailments such as cardiovascular diseases and type 2 diabetes. While this is not good for the patients, from the standpoint of providers millions of sick Americans are an endless windfall amounting to hundreds of billions of dollars.

### **Prevention would be a game changer**

But here is the thing. Any serious health care professional knows very well that with proper education and guidance, many chronic diseases could be prevented and in most cases reversed. But where is the financial incentive to educate the public? It just does not exist. Doctors do not want to lose their revenue. Ditto for pharmaceutical companies that simply love to have millions of Americans who need their drugs in order to manage (never cure) chronic ailments.

### **The ugly picture**

So, here is the ugly picture. Through their unchecked bad personal habits millions of Americans have developed a host of chronic diseases that require monitoring and treatment at inflated prices. This way causing enormous and but totally preventable expenditures.

Could this trend be reversed? Of course it could be, provided a sustained “wellness education” campaign conducted by the government and all the key providers. Can we do this? Of course we can. Think of the sustained efforts carried out for

many years aimed at convincing Americans to stop smoking. Millions did so. However, today the medical profession has practically zero incentive in educating the public on ways to stay healthy and prevent disease.

So, there you have it. Tens of millions of Americans in poor health, private sector providers who love this, and a complicated medical insurance system that masks true costs and allows higher and higher prices. And here is a telling illustration of what this perverse system produces.

### **\$ 50,000 for a new knee**

A WSJ front page story (*What Does Knee Surgery Cost? Few Know, and That's a Problem*, August 22, 2018) tells us how some health care providers almost casually set extravagantly high prices for procedures which are completely disconnected from actual costs.

*"For nearly a decade, Gundersen Health System's hospital in La Crosse, Wis., boosted the price of knee-replacement surgery an average of 3% a year. By 2016, the average list price was more than \$50,000, including the surgeon and anesthesiologist.*

*Yet even as administrators raised the price, they had no real idea what it cost to perform the surgery—the most common for hospitals in the U.S. outside of those related to childbirth. They set a price using a combination of educated guesswork and a canny assessment of market opportunity.*

*Prompted by rumblings from Medicare and private insurers over potential changes to payments, Gundersen decided to nail down the numbers. During an 18-month review, an efficiency expert trailed doctors and nurses to record every minute of activity and note instruments, resources and medicines used. The hospital tallied the time nurses spent wheeling around VCR carts, a mismatch of available postsurgery beds, unnecessarily costly bone cement and delays dispatching physical therapists to get patients moving.*

***The actual cost? \$10,550 at most, including the physicians. The list price was five times that amount.*** [bold added]

*Competitive forces are out of whack in health care. Hospitals are often ignorant about their actual costs. Instead, they often increase prices to meet profit targets. Patients, especially those with insurance, often don't know the price of a procedure and rarely shop around."*

### **Massive overcharging, and nobody cares**

Got that? Patients and insurance companies are outrageously overcharged, and almost nobody can figure this out. Uninformed patients are clueless and therefore do not fight this outrage.

But how is this possible? In no other economic sector providers could get away with exorbitant over pricing, because competitors with lower prices would fight to get their business. True, however, as noted above, in the US health care system elementary free market economic principles simply do not apply.

The mix of private health care providers bent on maximizing profits, a maze of insurance plans, and health care customers who lack even the most elementary means to assess costs and do any comparison shopping without getting lost have created a monster.

### **Anybody can see this**

Again, any intelligent observer who cares to look into this ugly picture can see this abomination and immediately grasp that there is an urgent need to teach wellness education in order to minimize overall health care needs and therefore costs , and transform the entire health care delivery system so that physicians are rewarded for keeping people healthy, not for prescribing expensive therapies for preventable diseases.

To be clear, it is obvious that not all health care is about “wellness education” aimed at eradicating or at least minimizing preventable illnesses. There are and there will be many other ailments, including: genetic conditions, cancer, accidents, injuries, epidemics. And they need to be dealt with.

My point is that when you eliminate life style caused illness and the ridiculous over prescribing affecting almost everything else, we are talking about possible savings in the hundreds of billions of dollars per year.

### **It will be difficult**

Look, I am not totally naive. I realize that reforming medical care in the US would be an enormous, thankless undertaking. There are just too many stakeholders who have a strong interest in keeping things just the way they are, because this is how they make money.

Still, by not touching the status quo, we keep wasting hundreds of billions of dollars every year in unnecessary therapies and procedures whose costs keep getting inflated beyond any justification, while the average American is trapped in an unhealthy life style.