

Nebraska Council

ON ECONOMIC EDUCATION

Can Capitalism Save American Health Care?

By David Gratzer, M.D.

[Editor's note: While the NCEE takes no stand on any specific health care proposals, we feel that it is important for citizens and policy makers to consider a variety of innovative ideas.]

Everyone I know has some frustrating story about American health care, often involving the confusion—the prices that are inscrutable, the ever-rising costs, the questionable quality, and the chaotic lack of information. That is the micro-level. Of course, the macro picture is equally confusing. We now spend \$2 trillion a year on health care in the United States: 16 percent of GDP. It is awesome how much health costs have gone up in just a short period of time—not in the last 500 years, not in the last 50 years, but in the last five years. The Kaiser Family Foundation recently released a report showing that health insurance premiums have doubled since the year 2000.

What to do about this problem? As you are well aware, some people are looking north for answers or looking over to Europe. That is the ongoing government temptation, and some people in the corporate world, in academia, in the union halls of America are looking north and seeing potential. Not me.

I grew up in Winnipeg, Canada, and I learned my most important lesson in medical school not in the classroom, but on the way to it. One blisteringly cold February morning, I decided to take a shortcut across the emergency department. I swung open the doors and I discovered the emergency room overcrowding crisis that was plaguing so many

Canadian hospitals in the mid-1990s. I remember the smell: the smell of sweat, the smell of urine, the smell of fear that hung in the air. Elderly people had been waiting four, sometimes even five days to get a bed. And I remember stepping into that emergency room and thinking to myself, something is desperately amiss.

When I grew up in Canada, although I was interested in getting into medical school, I didn't give a lot of thought to health policy. When Hillary Clinton's health care proposal was debated in the United States in the 1990s, I remember vaguely thinking there was something good about the idea: After all, government should be involved in health care. But when I stepped into that emergency room, it got me thinking. Again, I was a Canadian. There are three things I absorbed from that environment: One was a fondness for ice hockey, the second was an ability to convert Fahrenheit to Celsius in my head, and the third thing was a belief that if the government did it when it came to health care, it must be compassionate.

In Canada at the time, there were really two schools of thought with regard to health reform. There were the people who thought we should spend more—I like to call them the spendthrifts—and the people who thought we should just hire more administrators and make the system work better—I like to call them the magicians. I started to think about these things, and I became a spendthrift, and then I became a magician, and then I became agnostic, and eventually I became an atheist on this Canadian health paradigm because I realized there

About the Author:

David Gratzer, M.D., a licensed physician in both the United States and Canada, is a Senior Fellow at the Manhattan Institute for Policy Research. The late Milton Friedman, Nobel Laureate in Economics, wrote that Dr. Gratzer is "a natural-born economist." David Gratzer's most recent book is *The Cure: How Capitalism Can Save American Health Care* (Encounter Books, October 2006), now available in paperback. Previously, he authored *Code Blue: Reviving Canada's Health Care System* (ECW Press, 1999), which was awarded the Donner Prize for the best Canadian public policy book in 2000. He is often quoted on health matters across North America. His writing has appeared in more than a dozen publications, including *The Wall Street Journal*, *The Washington Post*, and *The Los Angeles Times*. Dr. Gratzer is married and is the father of two daughters.



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was something going on which was much more fundamental: there was a problem with a government-run system.

Maybe it was just the experiences I had, seeing a patient who had the classic symptoms of sleep apnea and needed to go to a sleep disorders clinic for a test: three-year wait list. My father, who could barely walk—classic symptoms of spinal stenosis—was told he needed an MRI and told he should wait eight or nine months.

What I discovered was how many Canadians were realizing that there was a problem in the system. Today, things are very different than they were even a short time ago. A private clinic opens up at a rate of about one a week in Canada. One of the foremost critics of Canadian health care is a doctor who was just elected president of the Canadian Medical Association. Even the Supreme Court of Canada recognizes something is desperately amiss; in 2005 they ruled that access to waiting lists is not access to health care.

Canadians are beginning to rethink their system. You find the same thing across Europe. Yet here's the irony: If Canadians are willing to rethink things and embrace, at least to some extent, some capitalism when it comes to health care, I find increasingly that many Americans are not. If Canadians are willing to rethink these issues, Americans are also rethinking and heading down the same lines that Canada once did. That's a terrible mistake.

Let's shift gears for a moment and ask a simple question: Why are there so many problems with American health care? Here is a very simple answer: Americans are not *underinsured*; they are *overinsured*. As a result of this, American health care is so terribly expensive because it's so terribly cheap. I think I can explain to you everything about American health care in four dates.

A lot of people tend to think of medicine as an ancient tradition, but medicine is a thoroughly modern creation, and it begins on February 12, 1941, with the first clinical use of penicillin. During the heat of the war, a research lab in Britain chose to treat a person who was dying of a simple infection: Alexander Albert had scraped his face on a rose bush. The scrape became infected, and within a few days he was dying in the sepsis ward of the local hospital. They gave him a dose of penicillin, and nothing happened. On day two they gave him another dose; nothing

happened. On day three they gave him a third dose, and his fever broke. On day four he was up and eating again; on day five he was palpably better. All we understand about modern medicine really begins with this first day.

Isn't it remarkable that in such a short time, something like heart disease could be revolutionized? Death by cardiovascular disease has fallen by two-thirds over the last 50 years. Winston Churchill, shortly after the bombing of Pearl Harbor, comes to the United States and gives one of the greatest speeches of his prime ministership. Then he gets on a train to go to Canada to give an equally rousing speech in Parliament, but on the train he discovers the window is stuck. He wants some fresh air, and he's straining and straining. Suddenly, he gets crushing chest pain radiating to his left arm. He's having a heart attack. What is state-of-the-art medicine for the Prime Minister of Britain or anyone else in 1941? Six weeks of bed rest.

Had we discovered nothing else in the 20th Century, I'm still convinced it would have been the century of medicine, but so much else follows: steroids, beta blockers reducing cardiac mortality—one pill by 50 percent—antidepressants, antipsychotics.

So medicine is much better. Dick Cheney, who has had 4 heart attacks, has a special type of pacemaker which costs about 50 times more than the average expenditure on health care in 1950. Many people conclude that while medicine has never been better, we're paying more than ever because progress costs money.

I don't buy it, because in every other aspect of the economy, technological advancement has been accompanied by a fall in prices. Look at unit price. The computer on my desk is faster, much more sophisti-

cated, and yet it's so much cheaper. Look at the macro level: Agriculture is much more sophisticated than it was 50 years ago. We feed more people a more diverse amount of food, and yet as a percent of GDP it has dropped.

Why is it that health care keeps rising year after year? Why has its cost doubled since 2000? I think the answer is because of the odd way we pay for health care in America.

October 26, 1943 is possibly the most important day in health policy in America. The IRS ruled for the first time that employers could provide health insurance and pay the premiums in pre-tax dollars. This was later codified in the Internal Revenue Act of 1954.

How did this come about? Wage and price controls during the Second World War. Employers needed to attract employees but couldn't offer better wages. So they started to offer benefits, and in particular, they offered health insurance, something employers really hadn't done before; and what was a fringe benefit initially became the mainstay of private insurance for Americans.

Employers could now offer prospective employees a benefit in pre-tax dollars, avoiding wage controls. It was also a good deal for employees. If your boss offers you \$1,000 in bonus, how much are you really going to take home? Depending on your tax bracket, you might only take home \$500. But he offers you \$1,000 worth of health insurance, and you could potentially take home \$1,000 worth of benefits. That is why, well into the 1970s and '80s, employers offered health insurance and lots of it; why sunglasses, marital counseling, hair transplants were all at one point in time covered by health insurance.

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December 1, 1942: Lord Beveridge in London issues his report on public health insurance, and he points out that the most compassionate way of doing it is through zero-dollar insurance. He then goes on a speaking tour across the United States, and although his ideas fall apart before Congress, eventually I think they provided the intellectual foundation for Medicare and Medicaid.

Americans are hopelessly overinsured when it comes to health. For every dollar spent on health care in the United States, only 14 cents comes out of pocket. That applies for people on Medicaid, Medicare, and the privately insured—and that's why we have such an upside-down universe when it comes to health care.

How do I think we ought to proceed? There is a fourth date I think you need to bear in mind: January 1, 2013. Why did I pick this date? We spend about \$2 trillion a year on health care in the United States; by 2013, reasonable projections are that will rocket up to about \$4 trillion: 16 percent of GDP today will rocket up to about 21 percent of GDP.

In other words, if companies like GM and many other companies are having trouble paying for health care today, you haven't seen anything yet. Everything we know about American health care is about to change.

How can we deal with this financial crisis? I've only really found three choices for America. One: Go back to managed care. Health spending reached a plateau in the mid-1990s. Sure, people were upset, but we actually contained costs.

Option number two: socialized medicine. Every other Western country has done it. You want to call it universal health care; you want to call it single-payer system; whatever you want to call it.

Option number three: Let's try something we don't do a lot of in health care policy in the United States: capitalism. Let's do for health policy what we've done in the other five-sixths of the general economy.

What do I think about managed care? Overly paternalistic. I don't think it jibes with American values. What do I think

about socialized medicine? You've already heard what I think about socialized medicine. That really leaves us only with the third option. There are basically five steps that I think we ought to take now and that Congress needs to act on and the President needs to sign into law.

First of all, we need to make health insurance more like every other type of insurance. As I've alluded to before, Americans are overinsured because, in a sense, their health insurance doesn't discriminate between small items and large items. Imagine if we did that for car insurance. It wouldn't just cover you if you were in an accident, but it would cover you if you had a fender bender or your tank of gas was running low. Car insurance would be feverishly expensive were we to adopt that approach. American health care is so very expensive because we violated basic rules of insurance. I think we ought to expand and revise Health Savings Accounts, which provide an important first step in separating smaller expenses from catastrophic events.

Idea number two: Government policy needs to foster competition. American health care is the most regulated sector in the economy. The result? A health insurance policy for a 30-year old man costs four times more in New York than in neighboring Connecticut because of the multitude of regulations in the Empire State. Americans can shop out of state for a mortgage; they should be able to do so for health insurance.

My third idea: We need to reform Medicaid. Medicaid has become the great sleeper issue. We spent \$5 billion in 1970; today, we spend over \$300 billion a year, in part because it is owned by neither the state government nor the federal government and, as a result, is probably the worst government run program in America.

How to reform Medicaid? Turn it over to the states. I favor block funding, much in the way we reformed welfare a decade ago. Let the states experiment and innovate.

Idea number four: We have to revisit Medicare. We've had a lengthy and feverish discussion about a prescription drug benefit, but we really haven't seriously reformed it in any way. I don't think this is a cure-all,

but I don't think we can even look at solving our Medicare crisis until we get away from wage and price controls, which has been among the reform efforts of this Administration and every other Administration since Medicare was created.

Finally, my fifth idea is we have to look at prescription drug prices, which I think everyone can appreciate are too high. The way to do that is to go back and reconsider the role of the Food and Drug Administration.

I don't think the approaches of expanded government through managed care or Medicare and Medicaid are going to work. I think the problems with American health care are going to grow with time, and thus we need to look at that third option, that crazy option that so few people are willing to embrace but that we've embraced for the other five-sixths of the economy.

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339 College of Business Administration
University of Nebraska - Lincoln
Lincoln, NE 68588-0404
Tel: 402-472-2333
Fax: 402-472-9700
web: www.nebraskacouncil.org

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