SOME PERSPECTIVES ON COSTS

Stephen L. Bakke – August 7, 2009

This is one of several topics which lead into my attempt at identifying reasonable and viable elements of health care reform – "soon to be completed". My suggestions will recognize the compelling need for reform, accept those aspects which virtually all citizens agree must change, and provide an alternative to the undesirable, and ever less popular, government imposed system.

If I were "King", (some friends and family claim I really would like to be – and don't y'all think that would be just grand?!) I would do all I could to reduce the impact of health care expenses while ensuring high quality and broad insurance coverage. And, listen closely! – **I am not in favor of maintaining the status quo!** I believe that most conservatives agree with me on that point, in spite of the reports to the contrary that they just want to keep what we've got. There is much that should change, but let's be sure we understand those changes, and identify those "beneficial" cost increases that distinguish our system in terms of improved treatment outcomes, timeliness of care, and innovation. **Then – let's fix the rest!**

The U.S. is faulted for having the highest per capita health care costs. The reason for the criticism is simply that the critics assume that means we spend too much on health care – across the board. But to initiate the right kind of reform we must recognize that not all increased spending is wasteful. In fact, it has been proven that countries with lower levels of health care spending have worse outcomes than the U.S. along a variety of measures. Our system reacts faster to medical requirements, and the outcomes are universally better (discussed in an earlier report). Sometimes we do receive what we pay for.

Economist Thomas Sowell writes: "Just as medical care, houses and cars were all cheaper when they lacked things that they have today, so medical care in other countries is cheaper when they lack many things that are more readily available in the United States. There are more than four times as many MRI units per capita in the United States as in Britain or Canada …… There are more than twice as many CT scanners per capita in the United States as in Canada and more than four times as many per capita as in Britain. These advantages do cost money!

Yet we are constantly hearing that we should emulate our neighbor to the north, Canada, for a health care role model. It is not generally reported that the U.S. has historically spent roughly the same percent of GDP on public health care as Canada. This translates into a higher relative level of absolute spending, since the U.S. economy has a higher level of per-capita output than Canada.

According to readily available statistics, the typical American family directly spends just 5.4% of its income on health care, as opposed to 40.8% on housing, 18.3% on transportation, 18.2% on food, and 4.5% on clothing. But to be fair, remember that much of this typical family's health care expenditures, are not directly spent by them – rather, it's paid by their employer or the government. But nevertheless, for a great majority, while medical expenses are too high, these individuals generally have not been denied an excellent standard of living.

The U.S. compares favorably when real resources are measured rather than just monetary statistics. Per capita the U.S. uses fewer physicians, nurses, hospital beds, physician visits, and hospital days than the median OECD (Organization for Economic Cooperation and Development) country. This is a group of 31 industrialized countries including the U.S., England, Canada, Australia, France, Germany, Korea, and two dozen more.

The cost increases mostly occur in expanding health care sectors and adoption of expensive new technologies – drugs, devices, tests, and procedures. I think that's a good thing. You can't control costs without affecting quality and the incentive for valuable new developments. The head of the Congressional Budget Office (CBO) recently reported to the House of Representatives that "Studies attribute the bulk of cost growth to the development of new treatments and other medical technologies …… reducing or slowing spending over the long term would probably require decreasing the pace of adopting new treatments and procedures or limiting the breadth of their application.

Some supporters of Obamacare state that we have gone too far in this expansion of technologies because only a fraction of medical drug and technology research has resulted in dramatically improved outcomes. Wasn't that Tom Daschle's contention? But what are our priorities? Do we want to freeze medicine in place, or do we want to be on the cutting edge of discoveries and advancements? It seems to me that most advances come only after much experimentation and failure. And leadership doesn't come cheaply.

Sources of Information

The major sources of information used in developing my health care commentaries will be included in my future report on health care reform recommendations. A preliminary, but not complete, list of sources can be found in my April 2009 report on the status of our health care system and reform.