THE MYTH OF FREE MARKET HEALTH CARE IN AMERICA

Uncle Sam Picks Up Nearly Half of the Country's $2.5 trillion Annual Health-Care Tab

By Shikha Dalmia

ObamaCare is in retreat. That much was clear the moment the President started springing B-grade Hollywood references to "blue pills and red pills" in its defense during his news conference last week. But before ObamaCare can be beaten back decisively, its critics need to answer this question: How did his plan for a government takeover of roughly a fifth of the U.S. economy get this far in the first place?

The answer is not that Democrats have a lock on Washington right now – although they do. Nor that Republicans are intellectually bereft – although they are. The answer is that both ObamaCare's supporters and opponents believe that – unlike Europe – America has something called a free market health care system. So long as this myth holds sway, it will be exceedingly difficult to prescribe free market fixes to America's health care woes – or, conversely, end the lure of big-government remedies.

The fact of the matter is that America's health-care system is like a free market in the same way that Madonna is like a virgin – i.e., in fiction only. If anything, the U.S. system has many more similarities than differences with France and Germany. The only big outlier among European nations is England, which, even in a post-communist world, has managed the impressive feat of hanging on to a socialized, single-payer model. This means that the U.K. government doesn't just pay for medical services but actually owns and operates the hospitals that provide them. English doctors are government employees!

But apart from England, most European countries have a public-private blend, not unlike what we have in the U.S.

The major difference between America and Europe of course is that America does not guarantee universal health insurance whereas Europe does. But this is not as big a deal as it might seem. Uncle Sam, along with State governments, still picks up nearly half of the country's $2.5 trillion annual health care tab.

More importantly, contrary to popular mythology, America does offer public care of sorts. It directly covers about a third of all Americans through Medicare (the public program for the elderly) and Medicaid (the public program for the poor). But it also indirectly covers the uninsured by – at least in part – paying for their emergency care. In effect, anyone in America who does not have private insurance is on the government dole in one way or another.

This is not radically different from France, where the government offers everyone basic public coverage, of course – but a whopping 90% of the French also buy supplemental private insurance to help pay for the 20% to 40% of their tab that the public plan doesn't cover.

Meanwhile, in Germany, about 12.5% of Germans who are civil employees or above a certain income opt out of the public system altogether and rely solely on private coverage – even though they know it is well nigh impossible to return to the public system once they switch. And more Germans likely would go private if they were not legally banned from doing so.

The most striking similarity between America, France, and Germany, however, is the model of "insurance" upon which their health-care systems are based. In other insurance markets, the more coverage you want, the more you have to pay for it. Consider auto insurance, for instance. If you want everything – from oil changes to collision protection – you'd have to pay more than someone who wants just basic collision protection. That's not how it works in health care.

For the same flat fee – regardless of whether it is paid for primarily through taxes as in France and in Germany or through lost wages as in America – patients in all three countries effectively get an ATM card on which they can expense everything (barring co-pays) regardless of what the final tab adds up to. (Catastrophic coverage plans are available in America, but the market is extremely limited for a number of reasons, including the fact that most States have issued Patient's Bill of Rights mandating all kinds of fancy benefits even in basic plans.)

Thus, in neither country do patients have much incentive to restrain consumption or shop for cheaper providers. In

America and Germany, patients don't even know how much most medical services cost. In France, patients know the prices because they have to pay up front and get reimbursed by their insurer later – a lame attempt to ensure some price consciousness. But since there is no cap on the reimbursed amount, the French sometimes shop for doctors based on such things as office decor rather than prices, according to a study by David Green and Benedict Irvine, researchers at Civitas, a London-based think tank. (Green and Irvine reported this as a good thing.)

So what are the consequences of this "insurance" model and how are the three countries coping with it?

America, as Obama continuously reminds us, spends 16% of its gross domestic product on health care – the highest percentage in the World. If current trends persist, in 75 years health care will consume about 50% of the GDP – and all of the Federal budget. But France is not doing a whole lot better. Its health-care system is the third most expensive in the World with over 11% of its GDP going toward health care – nearly three times more than the amount in 1960. The French fork over more than 20% of their income in taxes for public coverage (and another 2.5% to purchase supplemental private coverage) – yet their public program suffers from chronic deficits. Germany, similarly, spends about 11% of its GDP on health care with Germans contributing more than 15% of their income toward buying health care.

If France and Germany are not spending even more on health care, one big reason is rationing. Universal health-care advocates pretend that there is no rationing in France and Germany because these countries don't have long waiting lines for MRIs, surgical procedures and other medical services as in England and Canada. And patients have more or less unrestricted access to specialists.

But it is unclear how long this will last. Struggling with exploding costs, the French government has tried several times – only to back off in the face of a public outcry – to prod doctors into using only standardized treatments. In 1994, it started imposing fines of up to roughly $4,000 on doctors who deviated from "mandatory practice guidelines." It switched from this "sticks" to a "carrots" approach four years later, and tried handing bonuses to doctors who adhered to the guidelines.

Meanwhile, in Germany, "sickness funds" – the equivalent of insurance companies – have imposed strict budgets on doctors for prescription drugs. Doctors who exceed their cap are simply denied reimbursement, something that forces them to prescribe less-effective invasive procedures for problems that would have been better treated with drugs. But the most potent form of rationing in France and Germany – and indeed much of Europe – is not overt, but covert: delayed access to cutting-edge drugs and therapies that become available to American patients years in advance.

The point is that there is no health-care model, whether privately or publicly financed, that can offer unlimited access to medical services while containing costs. Ultimately, such a model arrives at a crossroads where it has to either limit access in an arbitrary way, or face uncontrolled cost increases. France and Germany, which are mostly publicly funded, are increasingly marching down the first road. America, which is half-publicly and half-privately funded, has so far taken the second path. Should America offer even more people such unlimited access through universal coverage, it too will end up rationing care or facing national bankruptcy.

The only sustainable system that avoids this Hobson's choice is one that is based on a genuine free market in which there is some connection between what patients pay for coverage and the services they receive. That is emphatically not what America or any Western country has today. Looking to these countries for solutions as Obama and other advocates of universal health coverage are doing will lead to false diagnoses and false cures. HFN

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