# Tackling the **Profit Problem** in Healthcare:

## What the US Can Learn From Europe

The United States is facing some daunting economic challenges, not the least of which is our broken healthcare system. The US spends nearly twice as much money per capita on healthcare as other developed nations, yet the metrics show that Americans end up with worse care and poorer health. Moreover, American businesses are spending way more on healthcare than their international rivals, making them less competitive in an increasingly global economy. In truth, our hodgepodge healthcare system is going to bankrupt the nation if we don't figure out a better way.

The Obama healthcare plan was a step in the right direction, but only a minor one. By the time it is fully implemented in 2014, it will have increased access to healthcare for millions (though not all) of Americans. But it will have done little to rein in costs. In theory, cost controls should be a goal that Republicans and Democrats can agree on, yet it will be an even bigger political battle than the previous one over access. That's because to rein in costs it will not be possible to tinker around the edges of a broken system, as the 2010 healthcare reform did. It will be necessary to fundamentally overhaul the system in ways that powerful special interests will fight.

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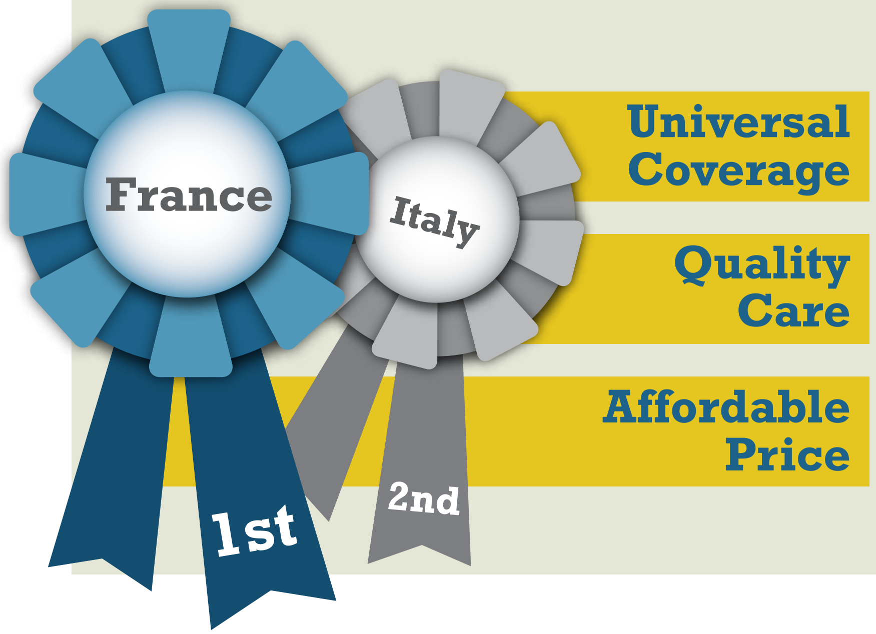
### World Rankings for Healthcare




**Out of 191 countries, the US ranked:**

**72nd** for "level of health"

**37th** for "overall health system performance"

One reason the US is ranked so low is that nearly 50 million Americans (1/6th of the population) have no health insurance at all. No other developed country leaves so many of its people stranded without basic care.

At the root of the grotesquely expensive and inefficient US healthcare system is the fact that it is a for-profit system where profit-hungry corporations have incentive to charge premiums as high as they can get away with, while at the same time providing as few patient services as possible. That's the basic formula for how any business maximizes profit—charge more and spend less. Yet those incentives result in perverse outcomes when the goal is providing healthcare for all Americans. In short, the US healthcare system prioritizes profits before people, yet to deliver quality, affordable healthcare it is necessary to do just the opposite.

### Healthcare for People, Not Profits

Americans could learn a great deal about how to design an efficient, cost-effective and humane healthcare system by looking across the pond. Europe has substantially achieved what America has yet to figure out—how to enact universal coverage and quality care at an affordable price. And surprisingly, many European nations have accomplished this without using a single-payer system, or "socialized medicine," as it is sometimes called.

To understand the magnitude of what Europe has accomplished, it is necessary to understand how far behind America is on health and healthcare. France and Italy, which have universal coverage for all their residents—even recent immigrants—were ranked first and second in the world rankings for healthcare published by the United Nations' World Health Organization (WHO). Most other European nations also were ranked near the top. The United States meanwhile is ranked 72nd of 191 countries for "level of health" and 37th for "overall health system performance," just behind Costa Rica and Dominica and just ahead of Cuba, all countries with a fraction of America's wealth.[1] One reason the US is ranked so low is that nearly 50 million Americans—one-sixth of the population, including millions of children—have no health insurance at all. No other developed country leaves so many of its people stranded without basic care.

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The US ranks poorly not only on various health indicators but also when it comes to related metrics such as the number of physicians, hospital beds, medical errors, high out-of-pocket expenses, infant mortality, life expectancy and much more.[2] One commonsense yardstick for measuring the relative merits of different nations' healthcare systems has been called "the heart attack question": If you have a heart attack, are your chances of survival better in the United States than in other countries? The answer is a decided "no." The best place to have a heart attack is Japan if you are a man, France if you are a woman. The United States ranks only twenty-second for men and twenty-third for women among industrialized nations, according to the American Heart Association.[3]

To some extent the quality of healthcare in the American patchwork system depends on one's income level and job situation. If you are the president of the United States or a member of Congress—whose European-level benefits far outpace those of most Americans[4]—or if you work for a profitable corporation, you receive a Cadillac healthcare plan, including access to extremely sophisticated medical technology and procedures. But most Americans don't enjoy such luxurious care, they get the Yugo or jalopy plan, if they have healthcare at all.

Despite the large differences in performance between American and European healthcare systems, somehow Europe manages to spend only a fraction of what the United States spends. According to WHO, the

## Healthcare Spending

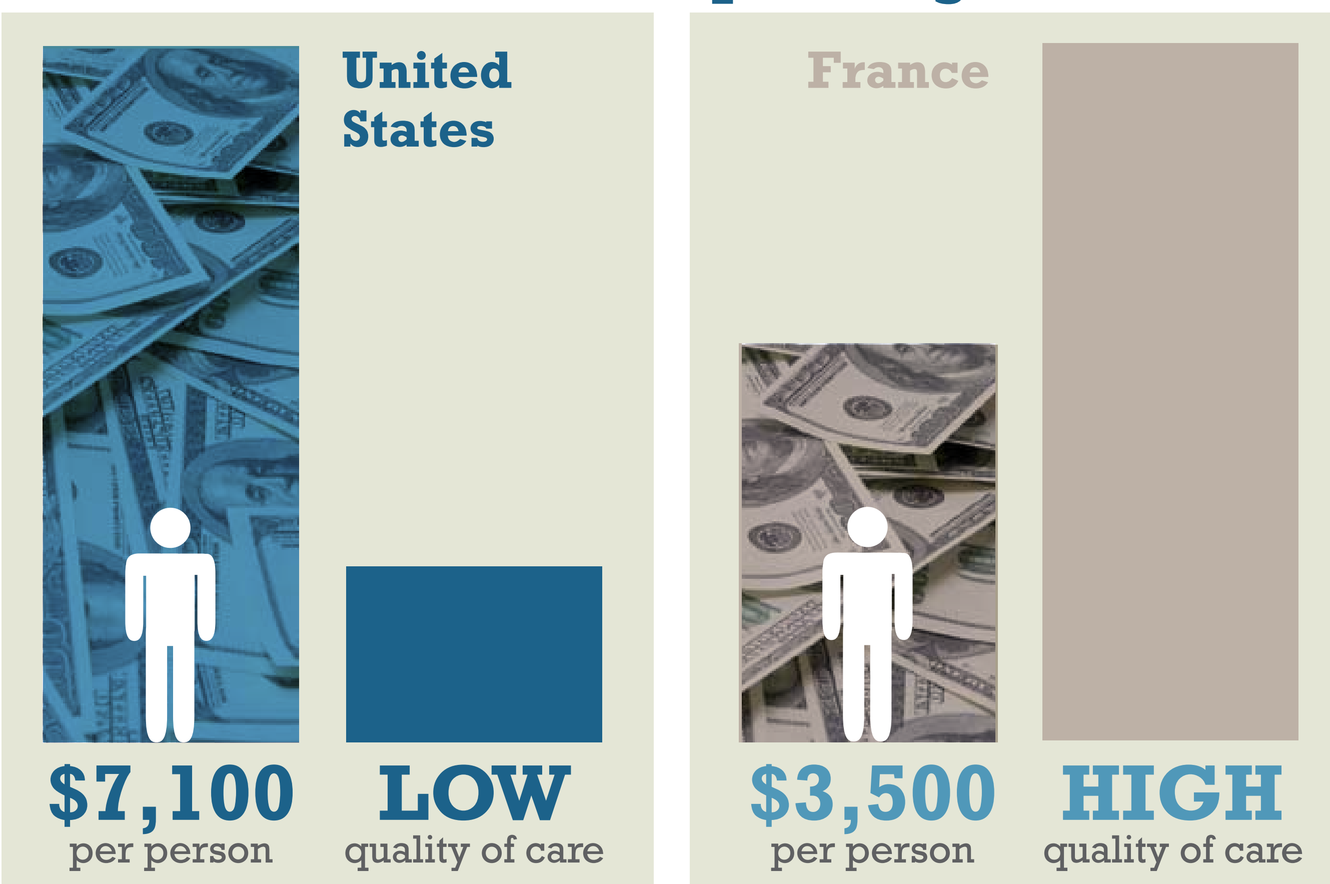




Photo courtesy The National Economic and Social Rights Initiative (NESRI)

*Residents of Vermont rally to support healthcare reform at the State House in Montpelier.*

US spends nearly 17 percent of our gross domestic product on healthcare, about $7,100 per person, compared to an average 8.6 percent in European countries. France does it for far less, spending just $3,500 per person, even though it has the top-rated healthcare system in the world.[5]

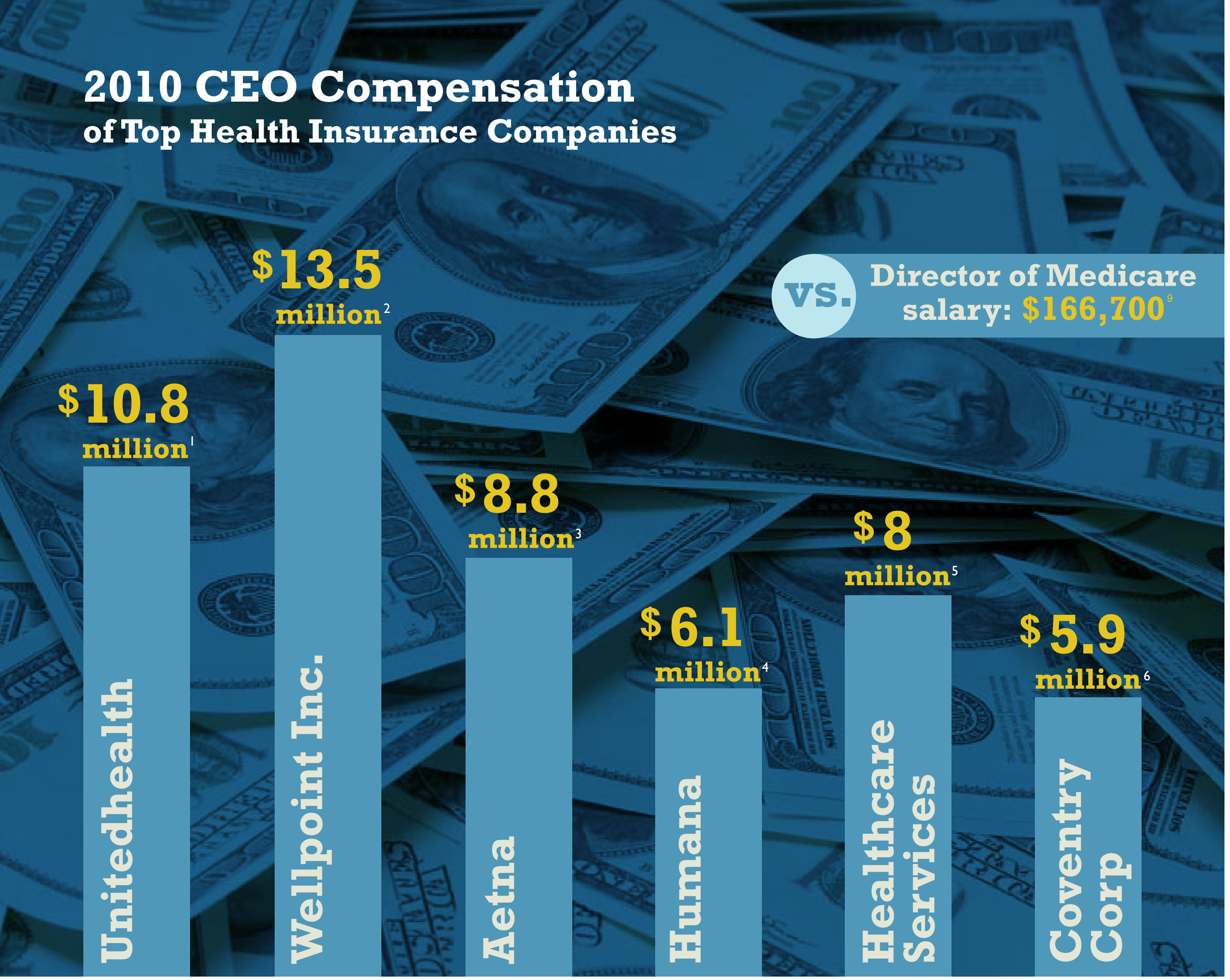
How do the French, Germans, British and other European countries manage to provide better healthcare than most Americans receive for about half the per capita cost? While there are differences from nation to nation, there also are some broad generalities to point to.

### *La Santé D'abord:* "Health Comes First"

The first overriding difference between American and European healthcare systems is one of philosophy. The various European healthcare systems put people and their health before profits—*la santé d'abord*, "health comes first," as the French are fond of saying. It's no coincidence that as America tries to grapple with soaring healthcare costs and lack of universal coverage, the CEO kingpins of the healthcare industry rake in tens of millions of dollars in individual compensation and bonuses.[6] Healthcare corporations spout platitudes about wanting to provide good service for their customers, but there's no escaping the bottom line reality that the CEOs of giant health corporations ultimately are accountable to one small group—their stockholders. If nothing else, the US healthcare system provides a valuable fable illustrating that corporate profits and affordable, quality universal healthcare are not a viable mix.

The second major difference between American and European healthcare is in the specific institutions and practices that flow from this philosophy of "health comes first." Contrary to stereotype, not every country in Europe employs single-payer, or government-run, "socialized medicine." Unlike single-payer in Britain, Canada or Sweden, other nations like France and Germany have figured out a third way that not only appears to perform better than single-payer, but it also might be a better match for the American culture. This third way is a hybrid that allows private insurance companies and individual choice of doctors (most of whom are in private practice). It is based on the principle of "shared responsibility" between workers, employers and the government, all contributing their fair share to guarantee universal coverage and to hold down costs.

These healthcare plans share some common features with President Obama's 2010 healthcare reform, but with two essential differences. Like the new healthcare reform, participation for individuals is mandatory, not optional, just like it is mandatory to have a driver's license to drive an auto. But a key difference is that in France, Germany and elsewhere, the private insurance companies are non-profits instead of for-profits. The backbone of the German healthcare system, for example, is composed of about 200 private but non-profit insurance companies, all of whom compete against each other for patients. Patients have freedom of choice to go to whichever doctor they wish. Doctors, nurses and healthcare professionals are paid decent salaries but




It's difficult to fathom why insurance premiums continue to rise and coverage shrinks, while the CEOs take home millions of dollars a year. One glimmer of hope is the announcement by Blue Shield of California, a non-profit and one of the top ten health insurance providers. After public outcries about premiums and executive compensation, the organization promised to refund $167 million to customers and cap future profits.[7]

Other insurance companies will be required to follow suit. The federal healthcare overhaul requires insurers to spend at least 80 percent of their revenue on medical care, leaving 20 percent for administrative costs, including salaries and profits. Insurers that don't meet that target will be required to issue refunds to policyholders. The law also implements government review of individual and small business policy rate increases of 10 percent or more.[8]

from the editor

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not as much as their American counterparts, and you don't have healthcare CEOs making tens of millions of dollars. Nor do you have stockholders demanding the highest return for their investment. Generally speaking, the profit motive has been wrung out of the system.

So the most direct way to reduce costs is to introduce a dominant-sized, non-profit sector into the healthcare market, but that's not sufficient. After all, Kaiser and Blue Cross/Blue Shield are US non-profits, but they rake in huge earnings and pay multimillion-dollar CEO salaries. So that's why France and Germany have deployed a second essential element for cost controls—negotiated fees for service. In these "shared responsibility" systems, fees for every healthcare service and product are negotiated between representatives of the healthcare professions, the government, patient-consumer representatives, and the private non-profit insurance companies. Like in the US system for Medicare, together they establish a national agreement for treatment procedures, fee structures and rate ceilings that prevent healthcare costs from spiraling out of control. Contrary to critics' claims about single-payer systems, this has not led to healthcare rationing or long waiting lists for treatment. And this has been good for businesses because it doesn't expose them to the soaring healthcare costs that have plagued American employers.

As just one example of how this affects costs, look at the difference in prices for medical drugs. Because America has nothing like these sorts of negotiated price controls (outside Medicare), some of Europe's drug companies come to the US where they can sell their prescription drugs for a lot more money than they can in their own countries. Europe's pharmaceutical businesses make one-third of their profits in the US market because they can charge five times as much in the US for the same pill made in the same factory.

That combination of non-profit insurance companies and negotiated fees for service prevents costs from spiraling out of control. Now you can see why the for-profit healthcare corporations in the United States, and the politicians who do their bidding, will fight tooth and nail against the only types of reforms that have ever proven successful at reducing costs. But US healthcare costs are so high, and so threatening to the nation's future, that eventually the logic of reform will prevail.

## A "Third Way" for Healthcare

The verdict is in, and it's clear that non-profit healthcare is superior to for-profit healthcare. It costs less and it delivers better results. The results speak for themselves, showing the difference between healthcare run mostly as a non-profit venture with the goal of keeping families and workers healthy and productive, or running it as a for-profit commercial enterprise.

Americans love to be number one and win the Gold, whether in Olympic track and field, the Tour de France, the World Series or the Super Bowl. But I'm still waiting for the day when Americans decide they want to be number one in healthcare. Wouldn't it be grand to beat the French for a change at something that really matters?

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*Steven Hill (www.Steven-Hill.com) is a political writer whose latest books include* Europe's Promise: Why the European Way is the Best Hope in an Insecure Age *(www.EuropesPromise.org) and* 10 Steps to Repair American Democracy *(www.10Steps.net). His articles and op-eds have appeared in the* New York Times, Washington Post, Wall Street Journal, International Herald Tribune, Financial Times, Guardian, Los Angeles Times, New York Daily News, The Nation, Washington Monthly, Ms., Salon, International Politik *(Germany),* Hürriyet Daily News *(Turkey),* Courrier Japon, India Times, Egypt Daily News, *and other leading publications. He is a cofounder of FairVote and former political reform director at the New America Foundation.*