Comparative Health Care Systems. Folland *et al* Chapters 22

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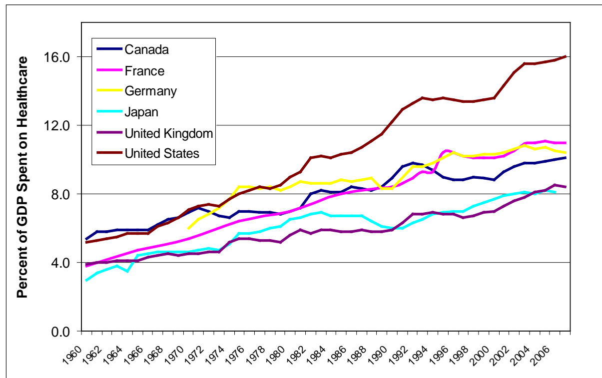
Health Care Systems.

- There are many different forms of health care delivery in place in different countries.
  1. **Traditional sickness.** Private insurance with state subsidies.
  2. **National health insurance.** State provides single-payer health insurance (Canada).
  3. **National health services.** State directly provides health care (e.g., U.K.)
  4. **Mixed.** Elements of any of the above (e.g., United States.)

Health Care Expenditures as a Fraction of GDP: Selected Countries



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United Kingdom

- Parallel public and private systems.
- Public: health care provided directly by the state. GPs paid by capitation (lump sum per patient under their care, regardless of services actually provided).
- Spending is lower than in the U.S. or Canada because of rationing.
- (graph: price ceiling, parallel markets)

Note on rationing.

- It is NOT necessarily bad that in systems like the U.K. (or Canada) care is rationed through "gatekeeper" (GPs) and waiting lists.
- The point many commentators miss is that under ANY system care is rationed in some way (infinite demands, finite means).
- Maybe price is a better way to ration, maybe not, but we are choosing among different ways to ration, not choosing whether to ration.

Germany.

- All workers are mandated to have health insurance (why?)
- Can choose state-provided (87%) private (10%) and other (e.g. military).
- "Sickness groups" (insurance pools) contract directly with providers.
- Modest, but not trivial, payments from patients for care, e.g., 10 euro to visit a dentist, 10% of prescription drug costs.

Canada.

- Socialized health insurance since circa 1970.
- Universal coverage (why?), no marginal payments for care, funding through complex provincial/federal arrangements.
- For the most part, pharmaceuticals and dental services not covered.
- Physicians are mostly private for-profit “firms” paid by fee-for-service according to province-specific fee schedules, although many are now paid by salary or capitation.
- GPs act as gatekeepers (cannot see a specialist without a referral from a GP)
- Hospitals are not-for-profit firms.

Canada cont.

- Health care is nominally a provincial matter, but in order to qualify for federal funds provinces must abide by the Canada Health Act.
- CHA requires public administration of health care, comprehensive coverage for “medically necessary” services, universality (everyone nominally gets same coverage), portability, and accessability.
- No extra billing: providers are forbidden to bill the state and also “top up” with payment from patients.
- No user charges.

U.S. system.

- Very complicated! Not (even remotely) accurate to describe as "free market," although there are more market mechanisms in place than in other Western countries.
- Very expensive! 16% of GDP, and the U.S. has high GDP.
- **Medicare**: universal insurance for the elderly. Complex, with multiple different plans people can opt in to.
- On the order of 44 million covered.
- Medicare reimburses providers using complex formulas intended to capture how much it costs to treat a patient with given observable characteristics (DRG, diagnostic related group).

U.S. cont.

- **Medicaid**: public provision of insurance to the poor.
- On the order of 60 million people covered.
- Does not cover "poor" people generally, must meet complex requirements. In effect, poor families with small children and single-parent families likely to be covered.

U.S. cont.

- Medicare/Medicaid are very expensive. At exchange rates which held a few years ago U.S. *public* expenditures per person were higher than Canadian!
- Effective? Difficult to measure.
- RAND Health Insurance Experiment should lead us to question effect on health.
- Some studies suggest that these programs have improved health through improved access to care, at least in some dimensions (e.g., infant mortality), but often not cost-effective.

Comparing Canada and the U.S.

- Both countries have mixed public/private provision of care. The U.S. system is substantially more expensive, but Canada's system looks cheap only relative to the U.S., not most other countries.
- Why is the U.S. system more expensive?

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- We can always write: total costs = (mean cost per service)*(# services)
- What primarily drives differences, number of services or cost per service?
- Overwhelmingly, the data tell us that it is cost per service differences which drive total cost differences. U.S. residents consume slightly fewer services on average than Canadians.

- Why is the average cost of a service higher in the U.S.?
- A small part of the difference can be attributed to lower administrative costs in Canada. We don't have the mess of insurance companies, HMOs, and patchwork legislation.
- "It's the price, stupid." Simply, the U.S. system is more expensive because everything costs more.

- Why does stuff cost more? It could be because Americans get higher–tech care. That does explain part of the difference, e.g, several times as many MRI machines in the U.S. than Canada.
- Most of the difference is at the end of the day due to differences in wages. Health care providers, particularly physicians, are paid much more in the U.S. than in Canada.