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OP-ED COLUMNIST

America's Failing Health

By PAUL KRUGMAN

Working Americans have two great concerns: the growing difficulty of getting health insurance, and the continuing difficulty they have in finding jobs. These concerns may have a common cause: soaring insurance premiums.

In most advanced countries, the government provides everyone with health insurance. In America, however, the government offers insurance only if you're elderly (Medicare) or poor (Medicaid). Otherwise, you're expected to get private health insurance, usually through your job. But insurance premiums are exploding, and the system of employment-linked insurance is falling apart.

Some employers have dropped their health plans. Others have maintained benefits for current workers, but are finding ways to avoid paying benefits to new hires - for example, by using temporary workers. And some businesses, while continuing to provide health benefits, are refusing to hire more workers.

In other words, rising health care costs aren't just causing a rapid rise in the ranks of the uninsured (confirmed by yesterday's Census Bureau report); they're also, because of their link to employment, a major reason why this economic recovery has generated fewer jobs than any previous economic expansion.

Clearly, health care reform is an urgent social and economic issue. But who has the right answer?

The 2004 Economic Report of the President told us what George Bush's economists think, though we're unlikely to hear anything as blunt at next week's convention. According to the report, health costs are too high because people have too much insurance and purchase too much medical care. What we need, then, are policies, like tax-advantaged health savings accounts tied to plans with high deductibles, that induce people to pay more of their medical expenses out of pocket. (Cynics would say that this is just a rationale for yet another tax shelter for the wealthy, but the economists who wrote the report are probably sincere.)

John Kerry's economic advisers have a very different analysis: they believe that health costs are too high because private insurance companies have excessive overhead, mainly because they are trying to avoid covering high-risk patients. What we need, according to this view, is for the government to assume more of the risk, for example by picking up

catastrophic health costs, thereby reducing the incentive for socially wasteful spending, and making employment-based insurance easier to get.

A smart economist can come up with theoretical justifications for either argument. The evidence suggests, however, that the Kerry position is much closer to the truth.

The fact is that the mainly private U.S. health care system spends far more than the mainly public health care systems of other advanced countries, but gets worse results. In 2001, we spent \$4,887 on health care per capita, compared with \$2,792 in Canada and \$2,561 in France. Yet the U.S. does worse than either country by any measure of health care success you care to name - life expectancy, infant mortality, whatever. (At its best, U.S. health care is the best in the world. But the ranks of Americans who can't afford the best, and may have no insurance at all, are large and growing.)

And the U.S. system does have very high overhead: private insurers and H.M.O.'s spend much more on administrative expenses, as opposed to actual medical treatment, than public agencies at home or abroad.

Does this mean that the American way is wrong, and that we should switch to a Canadian-style single-payer system? Well, yes. Put it this way: in Canada, respectable business executives are ardent defenders of "socialized medicine." Two years ago the Conference Board of Canada - a who's who of the nation's corporate elite - issued a report urging fellow Canadians to bear in mind not just the "symbolic value" of universal health care, but its "economic contribution to the competitiveness of Canadian businesses."

My health-economist friends say that it's unrealistic to call for a single-payer system here: the interest groups are too powerful, and the antigovernment propaganda of the right has become too well established in public opinion. All that we can hope for right now is a modest step in the right direction, like the one Mr. Kerry is proposing. I bow to their political wisdom. But let's not ignore the growing evidence that our dysfunctional medical system is bad not just for our health, but for our economy.

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