"It's the Prices, Stupid: Why the United States is So Different from Other Countries"

by Arthur Gale, MD

"It's The Prices, Stupid: Why the United States is So Different From Other Countries" is the title of an article that was published in the journal Health Affairs in 2003 by Princeton health care economist Uve Reinhardt.

Reinhart concluded that the main reason that medical costs were so much higher in the U.S. than other industrialized countries was higher prices. Reinhardt was on the editorial board of the *Journal of the American Association* (*JAMA*) for many years where he wrote a number of articles on medical economics. He died in 2017. Up until now his conclusions have largely been ignored by the policy makers in government, academe and business who are trying to control healthcare costs.[1]

A new study from the Harvard T. H. Chan School of Public Health and the London School of Economics published in the March 18, 2018, issue of *JAMA* confirms Reinhardt's conclusion that price is the most important factor in explaining high medical costs in the U.S.[2] I believe that the authors use the term price to mean unjustified markups on goods and services by drug and device companies, insurance companies and hospitals.

This landmark study is much more comprehensive than Reinhardt's research. Its central conclusion is that control of pricing is far more important than all of the other measures that have been tried in the past to lower health care costs. In fact it is the only effective strategy that will ever lower costs.

The study compares healthcare costs in the U.S. with the countries that comprise the OECD–Organization of Economic Cooperation and Development. These countries consist of seven European industrialized democracies as well as Canada, Australia, and Japan.

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There are many proponents of managed care who do not want to hear this message. Managed care which got its start in the 1970s was introduced to the American public as the solution to high health care costs. The U.S. did not actually have high health care costs in the 1970s when compared to other OECD countries. Ironically costs rose only after the introduction of managed care.[3] Business consultants, MBAs, and government agencies such as the Federal Trade Commission heralded managed care as a great cost saving strategy to replace the antiquated so called "cottage industry" health care delivery system which existed at that time. It turns out that the health care experts were wrong.

Ashish Jha, MD, Professor of Global Health at Harvard and senior author of the *JAMA* study notes that P4P (Pay for Performance) and VPB (Hospital Value–Based Purchasing) which were introduced in the U.S. with much fanfare as primary strategies to both lower costs and improve quality have not been shown to be effective in achieving either goal.[4] Until the *JAMA* study Jha, a leading authority and policy maker on health care issues, was a strong proponent of both P4P and VBP. The study also suggests that evidence-based medicine and meaningful use which were introduced to improve quality and lower costs have also failed to lower costs.

Most efforts to lower costs in the U.S. have focused on utilization. The *JAMA* study surprisingly shows that in most regards the U.S. is essentially not very different from the OECD countries in most measures of utilization. It does not differ significantly with regard to hospital discharges, hospital bed days, consultations, and length of stay. For MRIs, CT scans, total knee replacements, hysterectomy, Caesarian deliveries, and cataract surgery the U.S. is slightly above average. For hip replacement the U.S. is average. Jha concludes that overall that "we (the U.S.) look pretty average."[5]

The implications from these findings are enormous. Decreasing length of stay for hospitalized patients and penalizing hospitals for readmissions within 30 days will have no significant effect in lowering U.S. healthcare costs. The same can be said for prior authorization for tests and x rays, hospitalists, nurse practitioners, and mid-level care givers all of whom were introduced with the assurance that they would cut costs.

Nor will hospital and office-based doctors seeing patients faster and for shorter periods of time have a significant effect on lowering overall healthcare costs. Such assembly line medicine is a major cause of physician burnout which is endemic to the profession today. It is also frustrating to patients.

Another surprising finding of the new study shows that fee-for-service is practiced in many OECD countries and has had no significant effect in raising health care costs![6] This finding contradicts the accepted wisdom of leading U.S. policy experts. It means that capitation payments which eliminate fee-for-service do not lower health care costs. Examples are Accountable Care Organizations (ACOs), bundled payments, HMOs including staff model HMOs like Kaiser Permanente, hospital integrated systems that employ physicians, and hospital and physician risk contracts.

Some of the main architects of Obama Care stated categorically that getting rid of fee-for-service would cut costs and make Obama Care affordable to consumers.[7] That has not happened, and high premiums and deductibles make Obama Care unaffordable for many American families.

All of these managed care schemes to lower health care costs basically serve as a smoke screen to divert attention away from the true cause of high medical costs-overpricing and profiteering. An egregious example of hospital overpricing was highlighted in Elisabeth Rosenthal's book "An American Sickness." The author describes how the consulting firm Deloitte and Touche told hospitals throughout the U.S. "you can increase the amount you bring in just by manipulating how you bill."[8] Hospitals throughout the U.S. have scrupulously followed this advice.

Some other commonly held beliefs about the differences between the U.S. and the OECD countries are at odds with the evidence:

Belief: The U.S. uses more healthcare services than peer countries, thus leading to higher costs.

Evidence: The U.S. has lower rates of physician visits and days spent in the hospital than other nations.

Belief: The U.S. has too many specialists and not enough primary care physicians.

Evidence: The primary care versus specialist mix in the U.S. is roughly the same as that of the average of other countries.

Belief: The U.S. provides too much inpatient hospital care.

Evidence: Only 19% of total healthcare spending in the U.S. is spent on inpatient services-among the lowest proportion of similar countries.

Belief: The U.S. spends too little on social services and this may contribute to higher health care costs among certain populations.

Evidence: The U.S. does spend a bit less on social services than other countries but is not an outlier.

Belief: The quality of healthcare is much lower in the U.S. than in other countries.

Evidence: Overall, quality of care in the U.S. isn't markedly different from that of other countries, and in fact excels in many areas.[9]

The study by Jha clearly demonstrates that it is *prices* charged by hospitals, insurance companies, drug and device companies that explain why health care costs in the U.S. are so much higher than in OECD countries.

Managed care has been around since the Federal HMO Act was enacted under the Nixon administration in 1973.[10] It has had over 40 years to prove that it will cut costs. As I have described in numerous articles written over the past 25 years it has increased not decreased costs.

Medicare and other government programs pay for over half of the health care in the U.S. Medicare is expected to go bankrupt in 2026.[11] Businesses also are also complaining about the high cost of health care for their employees. Legendary investor Warren Buffet has called our health care system a tapeworm.[12]

What happens next is unpredictable. But in light of the *JAMA* study we at least now know what the cause of our unaffordable health care system is. It is unlikely that the leaders of managed care will voluntarily change the present system. By maintaining the status quo they can continue to reap huge profits. Perhaps as a free and democratic nation we the people might begin to address and correct the problem.

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