Controlling the costs of US health care

Poor uninsured Americans, and middle-class households upset at rising health-care bills, have long been arguing for health-care reform. Now, growing numbers of the most wealthy Americans—including many business leaders—are joining the campaign for change. Paul Webster reports.

With US health expenditure rising past 16% of the country's total economic output—a level almost 50% higher than in any other country—politicians and business executives are scrambling to avoid the bills for America's ragged patchwork of public and private health systems.

Opinion polls indicate that health-care bills are now of greater concern to the US public than terrorism, illegal immigration, or the rapidly rising cost of petrol. At present, the polls suggest, only the war in Iraq and job creation are more worrying to the Americans.

The 45 million uninsured, who have little more than emergency access to health care, have long wanted change. So too have many middle-class people struggling to cope with rising health-care bills. What's new is that growing numbers of wealthy Americans—including many business leaders—also now consider America's sprawling, profit-driven system of health-care delivery unsustainable.

In recent months, increasing numbers of senior business executives have expressed blunt frustration with the rising cost to businesses of insuring employees and pensioners for health care. Some of the largest American companies have openly admitted they aim to slash their health-care liabilities, either by restricting employees' access to health services or by passing their health-care obligations on to government-subsidised programmes.

Retailing giant Wal-Mart, America's largest employer, has come under sustained attack from government leaders in several states angered by the company's refusal to provide its employees with comprehensive health insurance. Wal-Mart's critics say half its employees' children rely on government-financed Medicaid health programmes intended for families of the unemployed and poor. But the company's chief executive, Lee Scott, is unapologetic.

Questioned about retiree health benefits on a confidential internal website for Wal-Mart managers, whose contents were disclosed to *The New York Times*, Scott warned his subordinates not to complain about Wal-Mart's strategy to duck health-care bills: "There are people who would say, 'I'm sorry, but you should take the risk and take billions of dollars out of earnings and put this in retiree health benefits and let's see what happens to the company'," Scott said. "If you feel that way, then you as a manager should look for a company where you can do those kinds of things."

Reflecting the trend among businesses to unload health-care liabilities on government-financed programmes, the number of Americans dependent on Medicaid—which is 43% financed by state governments and 57% financed by the federal government—increased from 46 to 52 million since 2001.

Medicaid costs have been rising by 10% annually for almost a decade. They now consume 17% of state budgets across the USA. Not surprisingly, politicians in many states are fighting back.

In mid-February, Washington state governor Chris Gregoire vowed to introduce a "Fair Share" law aimed at forcing Wal-Mart and other large employers to pay for employee health care. Similar efforts are underway in Colorado, Kentucky, and Massachusetts. On Jan 12, Maryland became the first state to enact legislation forcing Wal-Mart and other companies to pay for appropriate employee health insurance.

Other states have chosen a much tougher approach by scaling-back Medicaid services and enrolment in order to cut costs. In Missouri, cutbacks have thrown 100 000 off Medicaid. Tennessee is pushing to cut 300 000 beneficiaries. Almost every state is pushing for deep cuts to public health services. Last autumn, the Bush Administration agreed to allow Florida to fully privatise its public health system, an experiment that many states are watching closely.

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Wal-Mart has angered many US states by ducking health-care bills for employees

As Medicaid is downsized, the number of uninsured children and adults (public health care for the elderly is provided by Medicare, a federally funded public health programme separate from Medicaid) has expanded by 13% since 2000 to 45 million. A recent study by the Kaiser Commission on Medicaid and the Uninsured offers much sharper detail: since 1999, the number of people reliant on last-resort free health centres serving the very poorest has doubled to 13 million. The Kaiser Commission notes these figures carry a direct human cost. The Commission's research indicates that a reduction in mortality of 5% to 15% could be achieved if the uninsured were to gain continuous health coverage and that at least 18 000 Americans die

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Many uninsured Americans can only access health care through emergency rooms

prematurely each year solely because they lack health coverage.

To the surprise of many Americans—the vast majority of whom work for private companies that pay private insurance corporations to provide them with care—the entire US health-care system has become heavily dependent on hidden and open public subsidies.

David Himmelstein, a Harvard health economics researcher who heads a physicians' lobby group calling for a comprehensive national public health system, says a close review of health finance data reveals America's privately managed system now relies more on public subsidies than the publicly managed systems in the UK, Canada, western Europe, and Japan. "The public's share of health care expenditures in the USA is now the highest in the world", Himmelstein has been telling astonished US taxpayers and politicians.

In a 2002 study published in the journal *Health Affairs*, Himmelstein tallied-up taxpayer-financed subsidies within the system, which is largely managed by for-profit corporations. After totalling up hidden tax subsidies and openly disclosed budgets for programmes such as Medicare and Medicaid, Himmelstein concluded taxpayers pay 59·8% of all US health care costs.

Seen another way, Himmelstein calculates US taxpayers spend the equivalent of 9% of the gross national product (GNP) on health care, while also paying a further 6% of GNP on private health-care bills.

That puts US taxpayers' share of expenditures on health within the US system—which continues, erroneously in Himmelstein's view, to be defined as a privately financed system—ahead of taxpayers' obligations for health in many countries with traditionally defined public systems.

In Washington, where deep tax cuts and ballooning defence costs have created a record-breaking series of federal deficits, federal health-care bills are attracting increasing attention. With 52 million Americans on Medicaid, and the number of Medicare recipients expected to swell dramatically as vast numbers of baby boomers begin retiring over the next two decades, the Congressional Budget Office, a government-financed auditor, says budgets for these programmes will double by 2015.

In December, the White House narrowly persuaded Congress to begin cutting budgets for Medicaid. In late January, President Bush called for a bipartisan commission to investigate health-care costs during his annual State of the Union Address. A week later, the Bush Administration tabled a $2·77 trillion budget for 2007 that proposes to begin slowing the growth in annual spending on Medicare.

Some of the US Government's most extravagant health-care liabilities can be traced straight back to President Bush's own administration, which recently introduced a programme to expand Medicare to cover prescription drug purchases for 42 million mostly middle-class and wealthy retirees.

It is estimated that the new drug benefit programme will cost the US treasury $724 billion over 10 years, making it the biggest expansion of Medicare since its creation in 1965. The legislation launching Medicare expansion passed in July 2003 and was a central element in President Bush's efforts to appeal to retirees—angered by prescription drug costs almost double those in nearby Canada—during his 2004 re-election campaign.

Although the Administration was strongly advised to use the US government's massive purchasing power to force pharmaceutical companies to reduce prices, the White House elected to minimise government involvement by relying on private insurance corporations to handle negotiations with pharmaceutical companies. Administration officials argue that market forces will deliver cost controls better than government regulations of the sort that keep prescription prices in Europe and Canada far below those in the USA.

US medical insurance companies—which earmark an estimated 12% of all medical fees to finance their operations—strongly support this approach. For their part, US pharmaceutical manufacturers say the new Medicare programme has appreciably improved their profit outlooks, part of the brightening picture for drug makers who successfully lobbied the administration in 2004 to implement tax breaks worth an estimated $100-billion annually.

Only weeks after retirees first began receiving prescriptions from government-financed private insurance schemes last November, the White House narrowly convinced Congress to approve cuts to Medicaid imposing new costs on 13 million of the programme's poorest recipients and ending insurance coverage for 65 000 others.

Paul Webster