Liberal Benefits, Conservative Spending

by Stephanie Woolhandler, M.D., M.P.H., and David U. Himmelstein, M.D.

Few would dispute that our health care system is deeply troubled. Estimates are that 39 million Americans are completely uninsured, and millions more have inadequate coverage. After a brief lull, health care costs have resumed their exuberant growth. Health maintenance organizations (HMOs) have both failed to contain costs and fallen to the basement of public esteem, commercial pressure threatens medicine’s best traditions, and healing has become a spectator sport, with physicians and patients performing before a growing audience of bureaucrats and reviewers.

Opinions on solving these problems are even more divided. We advocate national health insurance because we are convinced that any lesser measures will fail.

The Problem
In the 35 years since the implementation of Medicare and Medicaid, a welter of patchwork reforms has been tried. HMOs and diagnosis-related groups promised businesslike efficiency that would contain costs and free funds to expand coverage, but the resulting market competition has created a variety of new problems. Billions of dollars have been used to expand Medicaid and similar programs for children, and both Medicare and Medicaid have tried managed care. None of these initiatives has made a dent in the number of uninsured. Nor have they durably controlled costs or lessened the bureaucratization that is consuming the medical profession.

Patchwork reforms founder on a simple problem: expanding coverage always increases costs unless resources are diverted from elsewhere in the system. With the U.S. economy going sour, our health care costs are nearly double those of any other nation and large infusions of new money are unlikely.

Without this new money, patchwork reforms can only increase coverage by siphoning resources from existing clinical care. Advocates of managed care and market competition once argued that their strategy could reduce health care costs by trimming clinical fat. Unfortunately, this “diet” program was overseen by new layers of bureaucrats who were not only intrusive but also expensive and devoured virtually all of the clinical savings.

Resources are seeping inexorably from the bedside to the executive suite. Bureaucracy now consumes nearly 30 percent of our health care budget. The shortage of bedside nurses co-exists with a proliferation of RN utilization reviewers, and clinicians are being pressured to see more patients to increase institutional profit by their colleagues who have withdrawn from direct care and now work in administration. The latest policy nostrums—medical savings accounts and voucher schemes such as President Bush’s “premium support” proposal for Medicare—would further amplify bureaucracy and limit care.

Medical savings accounts discourage preventive and primary care and fail to curb the high costs of care for the severe illnesses that account for most health spending. These plans also require insurers to start keeping track of all out-of-pocket spending while retaining their existing bureaucracy, and would slash the cross-subsidy from healthy enrollees to the sick.

Voucher programs are thinly veiled mechanisms to cut care. The vouchers offered are invariably too skimpy to allow people to purchase adequate coverage, forcing lower income individuals into substandard plans. Voucher schemes also posit that frail elders and other vulnerable patients will make wise purchasing decisions from a welter of confusing insurance options, and they boost insurance overhead by shifting people from group plans (Medicare or employer groups) into the individual insurance market where overhead consumes more than 35 percent of premiums.

To anyone with a history of cancer, voucher programs are a cruel joke. Vouchers would cover only a fraction of the exorbitant premiums insurance companies charge cancer survivors in the individual insurance market.

The Solution
The key to achieving significant health care savings is single-source payment. Canada and numerous other nations use this solution and it works. Canadian hospitals, which are mostly private, nonprofit institutions, do not bill for individual patients. They are paid a global annual budget to cover all costs, much as a fire department is funded in the U.S. Physicians, most of whom are in private practice, bill by checking a box on a simple insurance form. Fee schedules are negotiated annually between provincial medical associations and governments, but all patients have the same coverage, so patients with cancer and others who need expensive or long-term care need never fear exceeding their benefits.

Unfortunately, during the 1990s, Canada’s health care funding was starved by governments responsive to pressure from the healthy and wealthy who did not want to subsidize care for the sick and poor. Canadian and U.S. health care spending was once comparable, but today Canada spends barely half what we do per capita. Even though shortages of expensive, high-technology care have...
resulted, Canada's health outcomes remain better than ours: their life expectancy is two years longer and most quality comparisons indicate that Canadians enjoy care equivalent to that received by insured Americans. For instance, Canadian death rates are lower than those in the U.S. for both cardiovascular disease and cancer, especially among younger individuals with potentially curable malignancies. A system structured like Canada's but with double the funding could provide high-quality care without the waits or shortages that Canadians have experienced.

**The Model**

The national health insurance that we propose would create a single, tax-funded, comprehensive insurer in each state, federally mandated but locally controlled. Everyone would be fully insured for all medically necessary services, and private insurance duplicating the national health insurance coverage would be proscribed (as is currently the case with Medicare). The current Byzantine insurance bureaucracy, with its tangle of regulations and wasteful duplication, would be dismantled. Instead, the national health insurance trust fund would dispense all payments, and central administrative costs would be limited by law to less than 3 percent of total health care spending.

Each hospital and nursing home would negotiate an annual global budget with the national health insurance based on past expenditures, projected changes in costs and use, and proposed new and innovative programs. Many hospital administrative tasks would disappear. There would be no hospital bills to keep track of, no eligibility determinations to make, and no need to attribute costs and charges to individual patients.

Clinics and group practices could elect to be paid fee-for-service or receive global budgets similar to hospitals. While HMOs that merely contract with providers for care would be eliminated, those that actually employ physicians and own clinical facilities could receive global budgets, fee-for-service payments, or capitation payments (with the proviso that such payments could not be diverted to profits or exorbitant executive compensation).

As in Canada, physicians could elect to be paid on a fee-for-service basis or receive salaries from hospitals, clinics, or HMOs.

Properly structured, the administrative savings national health insurance could create would pay for the expanded coverage.

**Funding**

While national health insurance would require new taxes, these would be fully offset by a decrease in insurance premiums and out-of-pocket costs. The additional tax burden would be smaller than anticipated, since nearly 60 percent of health care spending is already tax supported (vs. roughly 70 percent in Canada). Besides Medicare, Medicaid, and other public programs, our governments fund tax subsidies for private insurance that exceed $100 billion per year, and local, state, and federal agencies that purchase private coverage for government workers account for 22.5 percent of total employer health care spending (Woolhandler and Himmelstein, unpublished analysis of Current Population Survey data from the U.S. Census Bureau, 2001).

We suggest that the national health insurance program be demonstrated in one or two states before it is nationally adopted. Funding might initially mimic existing patterns to minimize economic disruption, but all payments would be funneled through the national health insurance trust fund that would receive the monies that currently go to Medicare, Medicaid, and employee health benefit subsidies. Employers would pay a tax equivalent to what they now spend for group insurance policies. In the long run, a shift to a more progressive financial base funded by income tax would provide a fairer and more efficient revenue stream.

**The Difficulties**

The national health insurance we propose faces important political and practical obstacles. The virtual elimination of private health insurance will evoke stiff opposition from insurance firms and investor-owned hospitals. Drug firms will fear that a national health insurance program would curtail their profits. In addition, the financial viability of the proposed system is critically dependent on achieving and maintaining administrative simplicity. Vigilance and statutory limits would be needed to curb the tendency of bureaucracy to reproduce and amplify itself. Canada controls costs by enforcing overall budgetary limits. Canada also implements a micromanagement approach that contrasts sharply with our micromanagement approach, with its case-by-case scrutiny of billions of individual expenditures.

**Conclusions**

National health insurance could solve the cost versus access conflict by slashing bureaucratic waste and reorienting the way we pay for health care. National health insurance could also restore the physician-patient relationship and free physicians from the bonds of managed care and overwhelming paperwork, while still giving patients a free choice of physicians and hospitals.

How many more failed patchwork reforms must we try? How many more patients must be deprived of care because they cannot afford it, and how many trillions of dollars must we squander on a malignant bureaucracy before we adopt the only viable solution?

Stephanie Woolhandler, M.D., M.P.H., and David U. Himmelstein, M.D., are founders of Physicians for a National Health Program. They teach and practice medicine at Harvard Medical School and the Cambridge Hospital in Boston, Mass. References are available by e-mailing: writer @ accc-cancer.org.