Time to Face Facts about American Medical Care

Craig J. Cantoni

Maybe the coronavirus will be the impetus to pull Americans away from their smartphones, social media, tribal politics, and bread and circuses (pizza and 24/7 sports coverage) to face the facts about their own physical condition and the condition of the American "healthcare"/insurance system.

Conditions are a bit more complex than the diagnosis from the right, claiming that we have the best system in the world for dealing with epidemics, because our pharmaceutical industry is the best at developing vaccines and cures, far surpassing the minimal or nonexistent pharmaceutical industries in socialist countries and former communist ones. Conditions are also a bit more complex than the diagnosis from the left, claiming that the nationalization of healthcare is the answer to all of our ailments.

My own simple-minded, long-held belief is that a virus will eventually take down the human race, albeit not the current coronavirus.

It speaks volumes that the nation has spent trillions in Afghanistan, Iraq, and elsewhere but has not stockpiled emergency supplies of gloves, masks, and sanitizers. And it speaks libraries full of volumes that we are dependent on China and India for more than 90 percent of the ingredients for many drugs, including essential antibiotics.[1]

On the latter point, free-market purists who inhabit the echo chambers of free-market think tanks—and whose opposite numbers inhabit the echo chambers of progressive think tanks—spout theories about the economic glories of comparative advantage and creative destruction, as if humans are driven by trade alone and not also by love, culture, art, security, the Seven Deadly Sins, and an instinctive fear based on 200,000 years of human existence that another tribe might decide to stop trading, and instead start splitting heads open with stone axes.

But let's switch to facts.

Unhealthy Economics

First, a key question: Why should you listen to me, since I'm not a world-renowned expert on "healthcare"?

This is how I arrived at my assessment. Thirty years ago *The Wall Street Journal* published a long commentary of mine (one of seven it published) on the history of American health insurance, explaining how we got to our predicament at the time and what to do about it. After that, I held a conference on the subject at my own expense, a conference at which national experts and politicians spoke. And after that, I went on a speakers' circuit, where I encountered absolute proof that the system would never be reformed.

The proof revealed itself at a conference of executives with the National Association of Manufacturers. In my address to attendees, I explained how a consumer market in medical care and insurance had been destroyed by third parties picking up the tab, especially employers, who got between those who supplied care and insurance and those who received them. I further explained how this was driving up costs for both consumers and employers.

In the middle of my remarks, an executive stood up red-faced and bellowed, "I've had three bypass surgeries that didn't cost me anything, and no one is going to take my insurance away from me."

I had an epiphany at that moment: that market reforms were never going to happen and that the nation would slowly move towards socialized medicine.

An aside: No doubt, most of the companies represented at the conference have since offshored much of their operations due to rising labor costs, including huge increases in the cost of employer-provided health insurance.

Now to the numbers. Many of my facts are from one of the best summaries ever written on what ails our medical system, by A. Gary Shilling.[2]

Medical expenditures as a percentage of gross domestic product have risen from about 5 percent of GDP in 1960 to more than 19 percent today. This is partly due to an aging population and to the advent of very expensive drugs and medical treatments, but it is mostly due to the systemic inefficiencies and waste of a badly broken system.

This puts the U.S. at the top of industrialized countries in spending but near the bottom in life expectancy. We also have unique demographics that add to costs and lower life expectancy (see below).

The consumer price index (CPI) for medical care has increased 2,236 percent since 1960, versus 780 percent for all other consumer goods and services. The only service that comes close to this rate of increase is the tuition gouging by universities, where overpaid administrators and professors pretend to care about social justice while gorging on student loans.

In the last six years, prices for branded drugs have increased 62 percent versus a 7 percent increase in the CPI for other goods. And drugs are much more expensive in the U.S. because Americans are subsidizing the astronomical cost of drug research and development while foreign consumers of the same drugs get a free ride in this regard.

Employment in the "healthcare" (medical care/insurance) industry has risen over the past 20 years from being well below employment in retail and manufacturing to being above. In many cities, healthcare companies are the largest employer next to government.

The industry has increased its spending on lobbying from less than $200 billion to nearly $594 billion over the past 22 years. This doesn't include the cost of giving jobs and board positions in healthcare companies to friends and family of politicians, such as Michelle Obama's six-figure public relations job with a Chicago hospital when Barack Obama was in the state legislature.

Despite the high employment in the industry, the U.S. has

the lowest ratio of physicians per 1,000 people (2.6) among 19 other developed countries. For example, Austria has nearly twice as many physicians per 1,000 people. Because of limits on enrollment in medical schools in the U.S., in 2018, 23 percent of physicians obtained their medical degrees in other countries, including in institutions with low academic standards.

U.S. physicians are leaving private practice—and the Republican Party. Because of hospital groups' gaining market power through mergers and acquisitions fueled with Medicare and Medicaid money, and independent physicians' lacking the economies of scale to handle ever-increasing government and insurance company red tape, physicians are increasingly becoming employees of hospital corporations. The share of physicians working in such hospitals has gone from 26 percent in 2012 to 44 percent in 2018.

This shift from private practice has resulted in a boom in the building of medical offices on hospital campuses or nearby. This is certainly the case in Tucson/Pima County, Arizona, where I live. The City of Tucson has a poverty rate twice the national average, and the city and county have an excess of run-down commercial and residential properties and many miles of broken roads; yet scores of opulent medical complexes are going up. Most residents probably see the construction as a positive, because they are unaware of the bad economics behind it.

At the same time, the share of physicians' political contributions going to Republicans has dropped from 61 percent in 1990 to 42 percent today. Also, half of medical students are now women, who tend to be Democrats. Moreover, lower-paid physicians such as family doctors, pediatricians, and internists tend to be Democrats, while higher-paid surgeons and anesthesiologists tend to be Republicans.

Self-Inflicted Ill Health

Forty percent of Americans are obese, and another 30 percent are unhealthily overweight. The percentages are higher for blacks and Hispanics. The percentages are similar in Mexico, a country that has been the top source of immigrants to the U.S.

Almost all of this extra weight and the corresponding medical issues are not due to body chemistry or genetics but to overeating, to the consumption of unhealthy foods, and to a lack of exercise.

Overweight Americans have become such a large political constituency and such a large market for advertisers and producers of goods and services that great care is taken to not offend them.

A case in point is a new drug that is undergoing testing to prove that it can reduce the urge to overeat. Backers of the drug are positioning it as the best way for those supposedly cursed with bad body chemistry to lose weight. The anticipated price of the drug will be $1,000 a month. This raises a moral question of why Americans who control their weight without drugs should subsidize those who don't. It'll prove to be a moot question, however, because overweight voters are in the majority and will vote in their vested interest to have the drug covered by Medicare and Medicaid and to be otherwise subsidized by government.

Admittedly, it is very difficult not to gain weight, given the abundance of cheap calories in America and the incessant advertising for unhealthy, calorie-laden foods. Way over the top in this regard is a TV commercial for a new KFC product: fried chicken served between two glazed donuts. The "sandwich" probably has 3,000 calories, or 1,000 more calories than the recommended daily intake of calories for an average person. (On average, 3,000 extra calories equate to a pound of extra weight, and a person would have to walk 30 miles to burn off these extra calories.)

Summary

The foregoing facts are a sampling of how American medicine has been ripped apart over the last 75 years. Sadly, there is little hope that national leaders on the left or the right understand the issues and know how to put the pieces back together. Nor is there much hope that Americans will put down their smartphones, pizzas, and sports viewing long enough to learn the facts.

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