



How to Fix America's Healthcare Problem

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Abstract: Healthcare dominates American Politics more than any other democracy in world. And there is a reason. Most nations of world manage their healthcare costs at less than 10% of GDP. However in America healthcare costs are around 20% of GDP. Hence almost 50% of healthcare costs have to be borne by private sector. And that is extremely expensive. However if one studies closely, the reason healthcare is so expensive is because doctors are paid hugely and too much unnecessary hospitalisation and massive administrative costs of insurance. Hence if these costs are checked it is possible for USA to manage its health care costs within 10% of GDP and can be entirely borne by Government.

The basic problem of health care in United States is that it costs nearly 20% of GDP whereas in most of developed nations of world health care costs are managed within 10% of GDP. And now when health care costs 20% of GDP, the US government with a very low tax to gdp ratio of 26% manages to pay for only 50% of healthcare costs. Hence the private sector has to fund remaining 50% of healthcare costs which amounts to almost 10% of GDP.[1]. This means huge insurance premiums and more than 10% of population remaining entirely uninsured for health. This paper explores why US health care costs are so high and finds remedies to fix US healthcare problems by bringing down the costs of US health care systems.

I. Introduction

Healthcare in USA costs almost twice as much as any other developed nation in world. Despite this United States has worse health outcomes compared to peer nations of world. The United States is the only nation in world without a system of Universal Healthcare and with a large proportion of population without health insurance.

Healthcare costs in Various Nations of World

Healthcare costs a huge amount in various nations of world. The table below shows health care costs as percentage of GDP in developed nations of world. By deliberate design nations at middle level of development and low level of development have been kept out of this because that would confuse the comparison.[2]

Nation	Healthcare Expenditures as Percentage of GDP
USA	17
Germany	12
France	11
Japan	11
UK	10
Canada	11
Spain	9
Italy	9
Netherlands	10
Portugal	9.5
Switzerland	11
Sweden	11

From the above table it is obvious that health care costs in USA are almost 80% more than health care costs in most other nations of world. However US healthcare costs were not this high always. As the table below shows that US health care costs were far less some decades ago.[3]



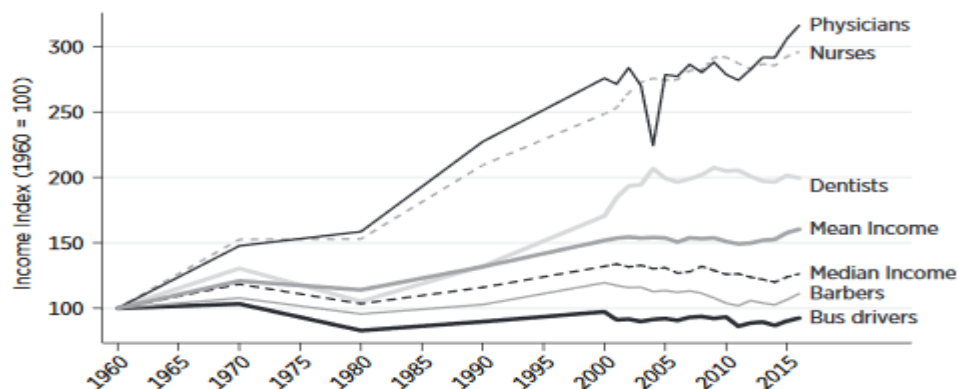
Year	Healthcare costs as percentage of GDP
1970	6.9
1980	8.9
1990	12.1
2000	13.3
2010	17.2

Clearly USA was managing its health care costs within 7% of GDP in 1970. In fact as recently as 2000, USA managed its health care costs within 13.3% of GDP. Healthcare costs in USA have increased only recently. Why is that? The US spends almost 4 trillion dollars in Healthcare. Let us see how to reduce these costs

Salaries of Doctors and Nurses and medical staff have Risen Way Too Fast

The Salaries of Doctors and Nurses have increased far faster than salaries of other categories of workers. Indeed salaries of Doctors in USA are far higher compared to salaries of Doctors in other countries of the World.

Figure 19. Average Annual Income, Selected Professions, 1960–2016



Notes: "Average income" refers to average income among those employed.
"Physicians" includes surgeons. "Barbers" includes beauticians and manicurists.
Source: Integrated Public Use Microdata Series (IPUMS), 1950 occupation definitions.

As the above figure shows while the mean income has only increased by 50% and salaries of drivers and barbers has barely increased the salaries of doctors and nurses have increased by 300%.

Average Salaries of Doctors in USA is around 300,000 dollars whereas in UK it is around 66,000 GBP. Thus it is obvious that after adjusting for differences in per capita GDP, the salary of doctors in USA is on an average almost 4 times that in UK.

Now it should be obvious that just by reducing salaries of doctors and nurses and other medical staff in line with salaries of other employees, the cost of US health care system can be reduced by at least 0.7 trillion dollars. So we have already reduced the costs of US healthcare system from 4 trillion dollars to 1 trillion dollars.

Cost of Insurance and Billing and Administration

In USA almost 35% of medical expenditure goes towards administration and billing and insurance. In Canada the amount spent on Administration is half that of USA. Of course all cost of administration cannot be entirely eliminated but it most certainly can be reduced.

Now if the US healthcare system were entirely free and provided by Government the cost of billing and insurance can be reduced substantially. The US spends almost 1 trillion dollars in administration out of which almost 500 billion dollars is due to insurance and billing. It should be obvious that if government handles all health care then the cost of insurance and billing can be reduced and almost 0.5



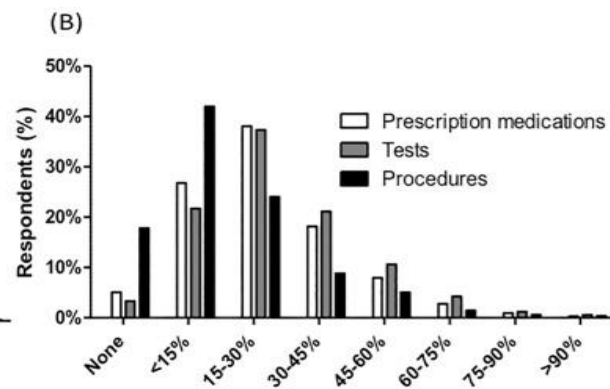
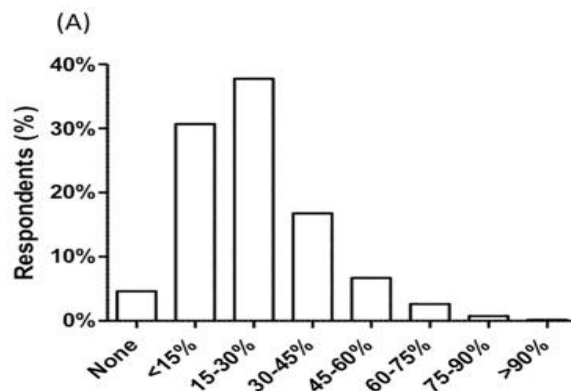
trillion dollars can be saved in US healthcare expenses.

Unnecessary Hospitalisation and Over Treatment Costs

Hospital Care costs almost 31% of healthcare expenses in USA. A typical angioplasty to open a blocked blood vessel, for example, costs \$6,390 in the Netherlands, \$7,370 in Switzerland and \$32,230 in the U.S. Similarly, a heart bypass operation in the U.S. costs \$78,100 compared to \$32,010 in Switzerland. There are almost 4 times MRI in USA than in Canada. Some hospitals

charge multiple times for simple procedures like X ray and Blood test. This adds up to the cost.[5]

A survey of physicians found that almost 20% of US healthcare is unnecessary and overtreatment. Twenty-seven percent of respondents believed that at least 30–45% of overall medical care is unnecessary; 4.6% of respondents believed that none of the medical care delivered is unnecessary. Thirty percent believed that at least 30–45% of prescription medications are unnecessary, 37.7% believed that at least 30–45% of tests are unnecessary, and 16.2% believed that at least 30–45% of procedures are unnecessary.



So if almost 20% of healthcare procedures, tests and medicines are unnecessary and over treatment, it should be obvious that almost 1 trillion dollars of healthcare expenses can be reduced by curbing overtreatment and unnecessary hospitalisation.

II. Conclusion

The US health care system costs almost 4 trillion dollars or 18 % of GDP.

Almost 2.5 trillion dollars in US healthcare system can be saved by following means

Reduction in Salaries of Doctors and Medical Staff = 0.7 trillion dollars

Reduction in Insurance and Billing and Administration = 0.5 trillion dollars

Reduction in Overtreatment and Unnecessary Hospitalisation = 0.8 trillion dollars

Thus almost 2 trillion dollars of expenses can be reduced by switching healthcare entirely to government thus eliminating insurance and billing costs, reducing salaries of doctors and nurses in line with those of employees and reducing overtreatment and unnecessary hospitalisation.

If USA eliminates 2 trillion dollars in medical expenses out of almost 4 trillion dollars in medical expenses, the cost of healthcare in USA can be brought down to 10% of GDP and in line with other

OECD nations in Europe and Japan with similar levels of development.

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