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OP-ED COLUMNIST

## **The Medical Money Pit**

By **PAUL KRUGMAN**

**A** dozen years ago, everyone was talking about a health care crisis. But then the issue faded from view: a few years of good data led many people to conclude that H.M.O.'s and other innovations had ended the historic trend of rising medical costs.

But the pause in the growth of health care costs in the 1990's proved temporary. Medical costs are once again rising rapidly, and our health care system is once again in crisis. So now is a good time to ask why other advanced countries manage to spend so much less than we do, while getting better results.

Before I get to the numbers, let me deal with the usual problem one encounters when trying to draw lessons from foreign experience: somebody is sure to bring up the supposed horrors of Britain's government-run system, which historically had long waiting lists for elective surgery.

In fact, Britain's system isn't as bad as its reputation - especially for lower-paid workers, whose counterparts in the United States often have no health insurance at all. And the waiting lists have gotten shorter.

But in any case, Britain isn't the country we want to look at, because its health care system is run on the cheap, with total spending per person only 40 percent as high as ours.

The countries that have something to teach us are the nations that don't pinch pennies to the same extent - like France, Germany or Canada - but still spend far less than we do. (Yes, Canada also has waiting lists, but they're much shorter than Britain's - and Canadians overwhelmingly prefer their system to ours. France and Germany don't have a waiting list problem.)

Let me rattle off some numbers.

In 2002, the latest year for which comparable data are available, the United States spent \$5,267 on health care for each man, woman and child in the population. Of this, \$2,364, or 45 percent, was

government spending, mainly on Medicare and Medicaid. Canada spent \$2,931 per person, of which \$2,048 came from the government. France spent \$2,736 per person, of which \$2,080 was government spending.

Amazing, isn't it? U.S. health care is so expensive that our government spends more on health care than the governments of other advanced countries, even though the private sector pays a far higher share of the bills than anywhere else.

What do we get for all that money? Not much.

Most Americans probably don't know that we have substantially lower life-expectancy and higher infant-mortality figures than other advanced countries. It would be wrong to jump to the conclusion that this poor performance is entirely the result of a defective health care system; social factors, notably America's high poverty rate, surely play a role. Still, it seems puzzling that we spend so much, with so little return.

A 2003 study published in *Health Affairs* (one of whose authors is my Princeton colleague Uwe Reinhardt) tried to resolve that puzzle by comparing a number of measures of health services across the advanced world. What the authors found was that the United States scores high on high-tech services - we have lots of M.R.I.'s - but on more prosaic measures, like the number of doctors' visits and number of days spent in hospitals, America is only average, or even below average. There's also direct evidence that identical procedures cost far more in the U.S. than in other advanced countries.

The authors concluded that Americans spend far more on health care than their counterparts abroad - but they don't actually receive more care. The title of their article? "It's the Prices, Stupid."

Why is the price of U.S. health care so high? One answer is doctors' salaries: although average wages in France and the United States are similar, American doctors are paid much more than their French counterparts. Another answer is that America's health care system drives a poor bargain with the pharmaceutical industry.

Above all, a large part of America's health care spending goes into paperwork. A 2003 study in *The New England Journal of Medicine* estimated that administrative costs took 31 cents out of every dollar the United States spent on health care, compared with only 17 cents in Canada.

In my next column in this series, I'll explain why the most privatized health care system in the advanced world is also the most bloated and bureaucratic.

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