Adriene: Welcome to Crash Course Economics, I'm Adriene Hill.

Jacob: I'm Jacob Clifford. Today we're going to talk about the economics of healthcare. Healthcare is different than some of the other markets we've talked about.

A: If you're having a heart attack, you're not going to shop around for the hospital with the best prices. And a hospital emergency room isn't going to wait for your credit card to go through before they treat you. But, we're getting ahead of ourselves. Let's get started.

(Intro)

A: For a lot of reasons, healthcare is different than the other markets we've talked about. First, you never know when you're gonna need it. It's kinda hard to plan to fall off your bike and break your arm. And after you break your arm, that visit to the emergency room? It's gonna be expensive. That's why we have health insurance, whether it's private or public.

A: Private insurers periodically collect money in the form of premiums paid by individuals or their employers. Public insurance programs collect money from tax-payers. You'll hear some countries have free healthcare, but it's not free, they're paying for it. Either directly through insurers or through taxes.

A: Let's work out all the details in the thought bubble.

J: So Canada has a public health system where the government funds healthcare for everyone through taxation. Doctors offices tend to be private businesses that get paid directly by the government; but hospitals and operating tables are public property and hospital staff are public employees, sort of like public schools. This is often called a single payer system since the government is doing most of the paying. Canadians have to pay for prescription drugs, eyeglasses, and dental care themselves or get them through supplemental private insurance.

J: Now France technically doesn't have the single payer system because healthcare providers are paid through several nonprofit insurance funds. All citizens are required to get health insurance and they're free to choose their doctor. Unlike Canada, most French providers, including hospitals, are private businesses.

J: The U.K. is different still. It has a socialized healthcare system which is funded and controlled by the government and taxes. The majority of doctors, specialists and hospitals are all paid by the government, not insurance companies.

J: Today, the U.S. has a little of everything. Almost all providers: hospitals, clinics and doctor's practices are private firms. Most households with adults under 65 are covered by private insurance; either through their employers or through individual policies. But the US has a single payer system for those over 65 and those below the poverty line. Medicare is a taxpayer funded public insurer that pays providers to care for seniors and Medicaid is a similar program for low-income households.

J: Oh, and the US also has a small, UK-style system with government-run hospitals and government employee doctors, but it's only for veterans and it's called the VA.

A: Thanks Thought Bubble. So, let's get down to some numbers. Economists evaluate the effectiveness of a healthcare system on three criteria: access, cost, and quality.

A: According to the Census Bureau, in 2014 10.4% of Americans didn't have health insurance coverage, down from 13.3% in 2013. Two thirds of Americans had health insurance through a private insurer. The vast majority got coverage through their employer and the rest bought individual plans. About a third of Americans had health insurance through a taxpayer-funded government insurance plan, like Medicare, Medicaid, the VA, and healthcare for active duty military and their families. So 2/3 plus 1/3 plus 10% uninsured adds up to more than 100%. That's because someone who switches from public insurance to private insurance gets counted in both numbers. That's just the way the census does it.

A: Let's talk a little about the uninsured. Compared with the general population, people without insurance tend to be somewhat younger, earn less, and be more racially diverse. Because Medicaid covers people below or near the poverty line, the uninsured are usually not completely destitute. They often work a part-time or low wage job, which puts them above the Medicaid threshold, but their employers may not offer insurance to part-time workers. If an uninsured person gets sick or gets hit by a bus, they can easily get stuck with six figures of medical bills. And those unpaid medical expenses drive up costs for everybody.

J: This brings us to the cost of healthcare. Good news, Americans: we're number one! Well, actually it's not that great. In 2012, the U.S. on average spent $8, 745 per person on healthcare. Other rich countries like Switzerland and Norway spent a little over $6,000, and countries like Germany, France, the U.K., and Japan spent in the $3-5,000 range. So the U.S. is spending twice as much per person as most other developed countries. Put another way, the U.S. spent the same share of GDP just on Medicare as most countries spend to cover their entire population.

J: So why does the U.S. spend so much more than other countries? Well, some argue that it's due to the high quantity of care per person. Since insurance companies, rather than patients, pay providers, patients might want more care, like tests, procedures, and treatments than necessary. It's like an all you can treat buffet. You know you shouldn't go back for that fourth general General Tso x-ray, but it's just so delicious. The RAND Health Insurance Experiment a few decades ago found that requiring patients to pay for a portion of their healthcare costs deters them from over-consuming healthcare. That's one reason that in the U.S., many insurance plans have deductibles, a form of cost sharing where the patients is required to pay a part of the cost before the insurance kicks in.

J: Many economists say prices are also a problem. In most other countries, insurers pay between $200 and $400 for an MRI. In the U.S., the price is around $1,500, and it's not like the U.S. MRI machines are somehow better. They're exactly the same machines. And you can go down the list of treatments and procedures, and in nearly every case, U.S. providers are being paid three, four, five times more. This is because the U.S. doesn't have a unified system that can aggressively negotiate with doctors, pharmaceutical companies, and other providers. They point out that Medicare and Medicaid often get a significant discount compared to small insurers.

J: Another reason for the high cost is the blizzard of paperwork generated by the interaction between dozens of insurers and thousands of providers. Both the insurer and the provider have to employ a team of unhappy people in cubicles to haggle over the reimbursement rate of an appendectomy. These teams add to the administrative cost of healthcare.

A: So which problem is driving healthcare costs? Quantity, price, administrative costs? When you dig into the numbers, the U.S. consume a pretty high quantity of tests and treatments per person. But it's not radically higher than most other countries. And several countries, like Germany, do even more. Likewise, the U.S. administrative costs are also higher, since a lot of countries

drastically reduce their billing paperwork with a universal insurer. But that cost explains only about 10-20% of the cost difference. Most of the difference comes from the fact that U.S. providers are paid much higher prices than their counterparts in other countries.

A: Okay, let's talk quickly about quality. There are a lot of ways to measure the quality of a country's healthcare system. Let's look at a few different metrics. According to the Kaiser Family Foundation, the U.S. has higher rates of hospital admissions for preventable conditions, and it has high rates of medical, medication, and lab errors. The U.S. does stock up pretty well in terms of diagnosing and successfully treating conditions like heart disease and some types of cancer. But remember, spending per capita is much higher in the U.S. than the rest of the world.

A: Reforming is difficult thanks to something called the Iron Triangle. The Iron Triangle is a section of the western Atlantic Ocean where ships and planes are frequently spirited away by extraterrestrials. Sorry, I'm terrible at triangles. That's the Bermuda Triangle. The Iron Triangle refers to the mutually beneficial relationship between members of Congress, government bureaucrats, and lobbyists. Bureaucrats want to protect their funding and jobs, Congressmen want to get reelected, and lobbyists want to advance the interests of their clients. And they all end up working toward policies that maintain the status quo and aren't necessarily in the best interest of the people. But they're not worthless. The Iron Triangle got together in 2010, and the U.S. government passed the Affordable Care Act, sometimes called ObamaCare. This stab at reforming the American healthcare system has been controversial to say the least.

A: Let's take a look at what the law does and doesn't do. ObamaCare didn't set up a U.K. style system, where hospitals are public property, and doctors are public employees. It also didn't establish a universal public insurance system, like expanding Medicare to everyone. Instead, the Affordable Care Act tries to increase health coverage by requiring private health insurers to insure everyone who applies, charge the same premiums to people of the same age, and cover pre-existing conditions. To prevent otherwise healthy people from only buying health insurance when they get sick, it requires everyone to obtain health insurance or pay a fee. The law also subsidizes health insurance premiums for those who can't afford to pay market rates.

A: So that's ObamaCare's supposed to do. Is it working? Well, it has reduced the number of Americans without insurance. So access seems to have improved. The Affordable Care Act also has provisions meant to deal with cost, and that's a little more difficult to assess. The act rewards doctors for cutting costs and requires greater price transparency. It also mandates a move to electronic record keeping. As far as improving quality goes, it's probably too early to tell.

J: In the end, the economic debate over healthcare is just like the debate over other topics we've covered in Crash Course Economics like price controls, climate change, and equality in education. The recurring question is when, if ever, should the government get involved to help markets achieve the most effective, efficient, and fair outcome? ObamaCare reflects people's attitude towards government and capitalism. Americans don't fully trust either one of them. Healthcare reforms have left private insurers and providers in place, but at the same time increased regulation. Insurers are now required to do things they wouldn't normally do, like cover people with pre-existing conditions.

A: So that's the American healthcare system, which is weird, and expensive, and necessary. That's also the end of our textbook economics episodes.

J: So I'm moving to Canada to write a textbook and enjoy some of that sweet, sweet subsidized healthcare.

A: And I'm gonna stick around and talk about the economics of things like immigration, and social security, and happiness.

J: Thanks for watching. She'll see you next week.

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