

A Business Case for Universal Healthcare: Improving Economic Growth and Reducing Unemployment by Providing Access for All

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A BUSINESS CASE FOR UNIVERSAL HEALTHCARE: IMPROVING ECONOMIC GROWTH AND REDUCING UNEMPLOYMENT BY PROVIDING ACCESS FOR ALL

By David Sterret, Ashley Bender,§ David Palmer^N*

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METHODOLOGY

Many of this report's conclusions revolve around comparisons between the levels of success of the United States economy with those of other countries, juxtaposed with whether those other countries have government-supervised systems to ensure universal access to healthcare.

Although many people equate the term "single-payer" with universal healthcare systems, this report uses the term "government-directed universal care" to signify countries that have systems in place to ensure affordable access to care for all. This distinction exists because some universal healthcare systems are not technically single-payer systems.

Technically, a single-payer system is one in which a single government entity collects money to pay for healthcare and pays the bill. Systems in Canada and the United Kingdom are often deemed "single-payer," although they differ in the significant respect that the Canadian system involves provincial governments reimbursing private-sector providers, whereas providers in the United Kingdom are employees of the government.¹

France, Germany, and Japan employ government-directed systems in which residents and employees must pay into healthcare funds, which are typically highly regulated non-profit organizations.² The funds, which essentially act as insurance companies, pay providers for care rendered.³ Because of their provisions to cover the unemployed and their success at achieving virtually universal access to care, these systems are sometimes referred to colloquially as "single-payer," although they are technically multi-payer.

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¹ In reality, neither Canada nor the United Kingdom truly have single-payer systems because residents of both of those countries make significant out-of-pocket payments, such as to purchase private insurance to gain access to additional benefits. See Sean Boyle, EUROPEAN OBSERVATORY ON HEALTH SYS. AND POLICIES, UNITED KINGDOM (ENGLAND): HEALTH SYSTEM REVIEW 2011 96 (2011), available at http://www.euro.who.int/__data/assets/pdf_file/0004/135148/e94836.pdf (explaining that sometimes patients must make direct payments for services that National Health Service does not cover or make co-payments); see also Sarah Kliff, *Everything You Ever Wanted to Know About Canadian Health Care in One Post*, WASH. POST, (July 1, 2012, 4:37 AM), <http://www.washingtonpost.com/blogs/wonkblog/wp/2012/07/01/everything-you-ever-wanted-to-know-about-canadian-health-care-in-one-post/> (asserting that while thirty percent of healthcare spending comes from private sources, a large portion of Canadian spending on dental care came from either employer-sponsored plans).

² See Naoki Ikegami, *Japanese Health Care: Low Cost Through Regulated Fees*, 10 HEALTH AFFAIRS 93 (1991); Anne Underwood, *Health Care Abroad: Germany*, N.Y. TIMES, Sept. 29, 2009, http://prescriptions.blogs.nytimes.com/2009/09/29/health-care-abroad-germany/?_php=true&_type=blogs&_r=0; Joseph Shapiro, *Health Care Lessons From France*, NAT' PUB. RADIO (July 11, 2008, 1:41 AM), <http://www.npr.org/templates/story/story.php?storyId=92419273>.

³ See Underwood, *supra* note 2.

The purpose of this report is to compare the economic performance of the United States with that of countries with government-directed systems to ensure universal access to care.

INTRODUCTION

Much of the controversy over our nation's healthcare policy is rooted in a widely perceived tradeoff between improving access to care or nurturing the economy. Some conservative economists argue that a government-directed program to provide healthcare to all Americans would reduce economic growth, possibly even leading to a decrease in access to healthcare itself.⁴ Conversely, others argue that treating healthcare as a fundamental human right might willingly sacrifice some economic growth in exchange for the security and social value of ensuring that everyone has access to affordable healthcare.⁵ This report will show that the perceived tradeoff between prosperity and universal access to care is a false choice. A survey of other countries' healthcare systems compared with their relative levels of economic vitality suggests that providing universal care is more likely to foster economic growth than inhibit it.

The need to reform the United States healthcare system is beyond dispute. We spend more than two-and-one-half times more per capita (\$8,508) than the average amount spent (\$3,322) by the thirty-four countries in the Organization for Economic Cooperation and Development ("OECD").⁶ However, life expectancy, which is arguably the most important healthcare indicator, is almost one-and-one-half years lower in the United States (78.7 years) than the OECD average (80.1).⁷ Despite the extraordinary spending in the United States, about forty-eight million Americans lack health insurance, diminishing their access to necessary care and jeopardizing their financial security.⁸ Medical bills are the greatest cause of bankruptcy in the United States.⁹ Furthermore, a 2010 study published in the *New England Journal of Medicine* ranked the United States just thirty-seventh in the world on an index of global health systems.¹⁰

⁴ Zachary A. Goldfarb and Amy Goldstein, *Health-care Law will Prompt Over 2 Million to Quit Jobs or Cut Hours, a CBO Report Says*, WASH. POST, Feb. 4, 2014, http://www.washingtonpost.com/business/economy/cbo-botched-health-care-law-rollout-will-reduce-signups-by-1-million-people/2014/02/04/c78577d0-8dac-11e3-98ab-fe5228217bd1_story.html.

⁵ *Id.*

⁶ OFFICE OF THE SEC'Y-GEN., ORG. FOR ECON. CO-OPERATION AND DEV., *HEALTH AT A GLANCE 2013: OECD INDICATORS 155* (Nov. 21, 2013), available at <http://www.oecd.org/els/health-systems/Health-at-a-Glance-2013.pdf>.

⁷ *Id.* at 25.

⁸ See Robert Pear, *Percentage of Americans Lacking Health Coverage Falls Again*, N.Y. TIMES, Sept. 17, 2013, http://www.nytimes.com/2013/09/18/us/percentage-of-americans-lacking-health-coverage-falls-again.html?_r=2&.& (providing that while the proportion of people who have private health insurance declined, the proportion of people with government coverage increased).

⁹ See, e.g., Dan Mangan, *Medical Bills Are the Biggest Cause of US Bankruptcies: Study*, CNBC (June 25, 2013), <http://www.cnbc.com/id/100840148> (claiming that healthcare coverage does not ensure financial hardship).

¹⁰ Christopher J.L. Murray & Julio Frenk, *Ranking 37th—Measuring the Performance of the U.S. Health Care System*, 362 N. ENG. J. MED. 98, 98 (2010).

This report does not expound further on these generally accepted findings about the shortcomings of the United States system. Instead, the aim of this report is to debunk the perception that instituting a government-directed—or, colloquially, “single payer”—system to provide universal access to care would be harmful to the United States economy.

This report will illustrate that the United States economy is currently hampered in numerous ways by having an inefficient, inequitable healthcare system.¹¹ The research on which we relied was completed before the full implementation of the Patient Protection and Affordable Care Act (ACA). However, we expect that even if the law works as intended, it will not resolve the problems that we raise because the law largely preserves our employment-based healthcare system.¹² In Part I, we discuss specific harms to the economy inflicted by our system’s reliance on employers to provide healthcare benefits.¹³ Part II examines how the United States economy compares through the lens of several indices, including some published by conservatives.¹⁴ These comparisons illustrate that most countries with more vibrant economies than the United States have government-directed, universal healthcare systems.¹⁵

I. THE NEGATIVE EFFECTS OF NON-PORTABLE HEALTH INSURANCE ON ECONOMIC GROWTH AND UNEMPLOYMENT

A. ‘Job Lock’ Reduces Economic Growth

Unlike people who live in other industrialized countries, most Americans rely on employer-sponsored health insurance for access to medical services.¹⁶ Our system is a historical accident that resulted from World War II economic controls.¹⁷ To dodge government-imposed wage controls, businesses began offering health insurance and other fringe benefits to attract workers.¹⁸ The federal government made this system permanent in 1943 by making employer-sponsored healthcare a tax-free benefit.¹⁹

¹¹ Arnold S. Relman, *For-Profit Health Care: Expensive, Inefficient and Inequitable*, PHYSICIANS FOR A NAT’L HEALTH PROGRAM (Feb. 21, 2002), <http://www.pnhp.org/news/2002/february/for-profit-health-care-expensive-inefficient-and-inequitable>.

¹² Elizabeth Hagen, *Job-Based Health Coverage and the Affordable Care Act: Why the Law Won’t Cause Employers to Drop Coverage*, FAMILIES USA (May 2013), <http://familiesusa.org/product/job-based-health-coverage-and-affordable-care-act-why-law-wont-cause-employers-drop-coverage>.

¹³ Henry R. Hyatt & James R. Spletzer, U.S. CENSUS BUREAU, U.S. DEP’T OF COMMERCE, THE RECENT DECLINE IN EMPLOYMENT DYNAMICS 1 (Feb. 14 2013), *available at* http://www.frbatlanta.org/documents/research/seminars/seminar_spletzer_021913.pdf.

¹⁴ *See e.g.*, Neeraj Sood, Arkadipta Ghosh, & José J. Escarce, *Employer-Sponsored Insurance, Health Care Cost Growth, and the Economic Performance of U.S. Industries*, 44 HSR: HEALTH SERV. RESEARCH 1449 (2009).

¹⁵ *Id.*

¹⁶ Hubert Janicki, U.S. CENSUS BUREAU, U.S. DEP’T OF COMMERCE, EMPLOYMENT-BASED HEALTH INSURANCE: 2010 1 (2013), *available at* <http://www.census.gov/prod/2013pubs/p70-134.pdf>.

¹⁷ *See* Alex Blumberg & Adam Davidson, *Accidents Of History Created U.S. Health System*, NAT’L PUB. RADIO (Oct. 22, 2009), <http://www.npr.org/templates/story/story.php?storyId=114045132> (attributing the inadvertent spread of employer-based health insurance to the Great Depression).

¹⁸ *Id.*

¹⁹ *Id.*

Fifty-five percent of all Americans, and more than sixty-eight percent of working-age Americans—those ages eighteen to sixty-five—rely on employer-based insurance for access to healthcare.²⁰ Although the United States has health insurance programs for the very poor (Medicaid) and those sixty-five and older (Medicare), there is no reliable, reasonably affordable means for Americans who lack access to government programs or employer-based insurance to obtain access to healthcare. Some would argue that the health insurance exchanges being created under the ACA will meet this need, but costs to obtain insurance through the new exchanges, especially for older people, will likely put this solution out of reach for many.²¹

Our employer-reliant system has caused health insurance to become an overriding consideration in Americans' career decisions.²² This phenomenon has resulted in lower "employment dynamics," which are "the rate at which workers and businesses exchange jobs."²³ An employee's unwillingness to change jobs for fear of losing health insurance benefits is known as "job lock."²⁴ Job lock inhibits workers from gravitating to the jobs most suited to them or pursuing entrepreneurial endeavors. Likewise, it frustrates employers' ability to find and hire the best potential employees.²⁵ Studies have found that job lock reduces mobility by 22.5 percent,²⁶ makes employees sixty percent less likely to leave their jobs,²⁷ and decreases the rate of self-employment by two-to-four percent.²⁸

A system that provides universal access to health coverage, on the other hand, is "far more likely to promote entrepreneurship than one in which would-be innovators remain tied to corporate cubicles for fear of losing their family's access to affordable healthcare," wrote Jonathan Gruber, who was one of the chief architects of the healthcare reform law

²⁰ Janicki, *supra* note 16, at 1.

²¹ See Robert Pear, *On Health Exchanges, Premiums May be Low, but Other Costs Can Be High*, N.Y. TIMES, Dec. 9, 2013, <http://www.nytimes.com/2013/12/09/us/on-health-exchanges-premiums-may-be-low-but-other-costs-can-be-high.html?pagewanted=all>.

²² Scott J. Adams, *Employer-Provided Health Insurance and Job Change*, 22 CONTEMP. ECO. POL'Y 357, 358 (2004).

²³ See Henry R. Hyatt & James R. Spletzer, U.S. CENSUS BUREAU, U.S. DEP'T OF COMMERCE, THE RECENT DECLINE IN EMPLOYMENT DYNAMICS 1 (Feb. 14 2013), available at http://www.frbatlanta.org/documents/research/seminars/seminar_spletzer_021913.pdf (citing a decline in job-to-job flows from forty-seven to fifty-three percent).

²⁴ See Alan C. Monheit & Philip F. Cooper, *Health Insurance and Job Mobility: Theory and Evidence*, 48 INDUS. & LAB. REL. REV. 68 (1994) (asserting that job lock can have far-reaching economic implications because such lack of mobility "can eliminate potential gains in productivity and income, adversely affect worker satisfaction, and alter the volume and quality of goods and services produced").

²⁵ See Alan C. Monheit & Philip F. Cooper, *Health Insurance and Job Mobility: Theory and Evidence*, 48 INDUS. & LAB. REL. REV. 68 (1994).

²⁶ Scott J. Adams, *Employer-Provided Health Insurance and Job Change*, 22 CONTEMP. ECO. POL'Y 357, 366 (2004).

²⁷ Inas Rashad and Eric Sarpong, *Employer-provided Health Insurance and the Incidence of Job Lock: A Literature Review and Empirical Test*, 8 EXPERT REV. OF PHARMACOECONOMICS AND OUTCOMES RESEARCH 583, 583 (2008).

²⁸ Alison J. Wellington, *Health Insurance Coverage and Entrepreneurship*, 19 CONTEMP. ECON. POL'Y 465, 477 (2001).

passed in Massachusetts in 2005 and whose work greatly influenced the structure of the ACA.²⁹ It is estimated that 1.6 million small business workers suffer from job lock and that providing universal healthcare coverage would bring that number close to zero.³⁰ In addition, instituting a system to ensure universal coverage would add 1.5 million entrepreneurs,³¹ which would significantly increase our gross domestic product (GDP), according to a study by the Kauffman Foundation.³²

The Kauffman Foundation study goes further to explain how eliminating job lock benefits the economy on a micro-level. Through the process of new and expanding businesses replacing the market share of established companies and the ongoing efforts of businesses and workers seeking their most productive matches, entrepreneurs create new products, which allows employees to accomplish more tasks in less time and ultimately creates more jobs.³³ This increased activity is associated with higher economic growth.³⁴ By enabling workers to do the type of work that they do best and enjoy the most, eliminating job lock increases the GDP.

B. ‘Job Lock’ Drives Up Unemployment, Reducing the Number of Potential Customers for Businesses

A 2009 study by researchers at the Rand Corporation shows a link between the healthcare system in the United States and unemployment levels.³⁵ The study examined the effects of “excess healthcare costs,” which the study defined as the difference between the inflation rate for healthcare services and the increase of the GDP of the United States.³⁶ For example, if the rate of medical inflation were five percent and the rate of GDP growth were three percent, “excess healthcare costs” would be calculated as equaling two percent.

By looking at the experience of close to seventy million workers in thirty-eight industries over nineteen years, the researchers measured the impact of rates of growth of healthcare costs in certain industries and extrapolated that data across the United States economy.³⁷ The average excess healthcare costs over the period in which the Rand study

²⁹ Jonathan Gruber, *A Shot in the Arm*, WASH. MONTHLY (May-June 2009), <http://www.washingtonmonthly.com/features/2009/0905.gruber.html>.

³⁰ SMALL BUS. MAJORITY, THE ECONOMIC IMPACT OF HEALTH CARE REFORM ON SMALL BUSINESS 17 (2009), available at http://www.smallbusinessmajority.org/pdfs/SBM-economic_impact_061009.pdf.

³¹ Linda Blumberg et al., THE AFFORDABLE CARE ACT: IMPROVING INCENTIVES FOR ENTREPRENEURSHIP AND SELF-EMPLOYMENT, TIMELY ANALYSIS OF IMMEDIATE HEALTH POL’Y ISSUES 3 (2013), available at http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2013/rwjf406367.

³² *Inventive Billion Dollar Firms: A Faster Way to Grow*, EWING MARION KAUFFMAN FOUND., (Dec. 2010), <http://www.innovationcenteroftherockies.com/PDF/Downloads/KauffmanFoundationbilliondollarfirms.pdf>.

³³ *Id.*

³⁴ *Id.*

³⁵ See generally Neeraj Sood, Arkadipta Ghosh, & José J. Escarce, *Employer-Sponsored Insurance, Health Care Cost Growth, and the Economic Performance of U.S. Industries*, 44 HSR: HEALTH SERV. RESEARCH 1449 (2009).

³⁶ *Id.* at 1453.

³⁷ *Id.*

was conducted (1986-2005) were 2.2 percent.³⁸ Meanwhile, the Rand study found that an excess healthcare cost of just 0.2 percent—one-tenth the actual experience for the period—would exact a toll of 120,803 lost jobs.³⁹ Taken together, Rand study findings yield the conclusion that excess healthcare costs led to the loss of more than a million jobs over a twenty-year period.⁴⁰ This means that businesses were left with about a million fewer employed potential customers.⁴¹

Instituting a system that provides care to all Americans would end the problem of non-portable healthcare benefits, freeing the United States economy from a long-standing burden and create jobs.

II. IMPLEMENTING A UNIVERSAL CARE SYSTEM WOULD IMPROVE AMERICAN COMPETITIVENESS INTERNATIONALLY

Although many Americans believe as an article of faith that the United States enjoys the strongest, most entrepreneurial, most resilient economy in the history of the world, recent empirical assessments comparing the economies of the United States and other countries have not been so charitable.⁴² Meanwhile, most of the countries that rate higher than the United States, even by the scorecard published by the conservative Heritage Foundation, offer universal healthcare through government-directed systems.⁴³ In fact, most other developed countries in the world have universal access to care through government-directed systems, which partially explains why all of the countries that outrank the United States in various economic indices have such systems.⁴⁴

Despite conservatives' reflexive view that a government-directed healthcare system would be a pox on the economy, there are many common sense reasons that such systems foster economic growth. Aside from enabling greater job mobility, as discussed in Part I of this report, a government-directed system would diminish the burden on businesses by (1) slowing (or, potentially, reversing) increases to health costs, (2) decreasing businesses' obligations to bear the burden of those costs, and (3) distributing the costs that remain on businesses' shoulders more equitably.

A. The United States Trails Many of Its Competitors by Various Economic Measures

As discussed above, the United States fares worse than many countries with universal healthcare systems by various measures, including some maintained by conservative organizations. For example, the Heritage Foundation/Wall Street Journal Index of Economic Freedom ranks countries based on ten benchmarks under the four broad

³⁸ *Id.* at 1457.

³⁹ *Id.* at 1449

⁴⁰ *Id.*

⁴¹ *Id.* at 1449 (increasing the number of unemployed reduces the number of potential customers by the same amount).

⁴² *2014 Index of Economic Freedom*, HERITAGE FOUNDATION, <http://www.heritage.org/index/ranking> (2014).

⁴³ *Id.*

⁴⁴ *Id.*

headings of Rule of Law, Limited Government, Regulatory Efficiency, and Open Markets.⁴⁵ The United States ranks twelfth in this index.⁴⁶ Ten of the eleven countries outranking the United States have government-directed universal care systems. [See Table 1].

Table 1: Heritage Foundation / Wall Street Journal Index of Economic Freedom, 2014

| Country (Rank) | Has a Government-Directed Universal Healthcare System |
|--------------------------|--|
| 1. Hong Kong | Yes |
| 2. Singapore | Yes |
| 3. Australia | Yes |
| 4. Switzerland | No |
| 5. New Zealand | Yes |
| 6. Canada | Yes |
| 7. Chile | Yes |
| 8. Mauritius | Yes |
| 9. Ireland | Yes |
| 10. Denmark | Yes |
| 11. Estonia | Yes |
| 12. United States | No |

Sources: Heritage Foundation and Public Citizen Analysis of National Health Care Systems

On another list, the Organisation for Economic Co-operation and Development (OECD) ranks its members on what it terms the “employer enterprise birth rate,” which it defines as the rate at which new enterprises with at least one employee are formed.⁴⁷ The United States ranked last or second-to-last in this category in every year from 2008 to 2011, the most recent year for which United States data are available.⁴⁸ In fairness, these years mostly coincided with the worst recession in the United States since the Great Depression. But those seeking to find solace in pre-recession data will be disappointed. The United States ranked twenty-one out of twenty-six countries included in the OECD’s rankings for 2006.⁴⁹ [See Table 2].

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ OECD, BIRTH RATE OF EMPLOYER ENTERPRISES, ENTREPRENEURSHIP AT A GLANCE (2013), available at http://dx.doi.org/10.1787/entrepreneur_aag-2013-en.

⁴⁸ *Id.*

⁴⁹ *Id.*

Table 2: Employer-Enterprise Birth Rate, Total Economy

| Country (Rank) | Has a Government-Directed Universal Healthcare System |
|--------------------------|--|
| 1. Estonia | Yes |
| 2. Australia | Yes |
| 3. Portugal | Yes |
| 4. Romania | Yes |
| 5. Italy | Yes |
| 6. New Zealand | Yes |
| 7. Netherlands | Yes |
| 8. Denmark | Yes |
| 9. Lithuania | Yes |
| 10. Hungary | Yes |
| 11. Spain | Yes |
| 12. Luxembourg | Yes |
| 13. Brazil | Yes |
| 14. Finland | Yes |
| 15. Czech Republic | Yes |
| 16. Slovak Republic | Yes |
| 17. Bulgaria | Yes |
| 18. Sweden | Yes |
| 19. Slovenia | Yes |
| 20. Canada | Yes |
| 21. United States | No |
| 22. Israel | Yes |
| 23. Austria | Yes |
| 24. Norway | Yes |
| 25. Latvia | Yes |

Source: Organisation for Economic Cooperation and Development, <http://stats.oecd.org/>, and Public Citizen Analysis of National Health Care Systems

Patents are indicative of business innovation and economic performance.⁵⁰ The OECD also ranks its members on the rate of patents issued by start-ups younger than five years old in relation to each country's GDP.⁵¹ Here, the United States ranks nine out of twenty-

⁵⁰ PATENTS AND INNOVATION: TRENDS AND POLICY CHANGES, OECD 5 (2004), available at <http://www.oecd.org/science/sci-tech/24508541.pdf>.

⁵¹ Jordan Weissman, *Think We're The Most Entrepreneurial Country in the World? Not So Fast*, ATLANTIC (Oct. 2, 2012, 10:01 AM), <http://www.theatlantic.com/business/archive/2012/10/think-were-the-most-entrepreneurial-country-in-the-world-not-so-fast/263102/>.

two countries, another indicator that the United States is not as strong at innovation as several other countries.⁵² [See Table 3].

Table 3: Rate of Patenting Firms Less Than Five Years Old (per GDP)

| Country (Rank) | Has a Government-Directed Universal Healthcare System |
|-------------------------|--|
| 1. Denmark | Y |
| 2. Sweden | Y |
| 3. Finland | Y |
| 4. Norway | Y |
| 5. Netherlands | Y |
| 6. Ireland | Y |
| 7. Austria | Y |
| 8. United Kingdom | Y |
| 9. United States | N |
| 10. Germany | Y |

Source: Organisation for Economic Cooperation and Development, <http://stats.oecd.org/>, and *Public Citizen Analysis of National Health Care Systems*

B. How the Employer-Funded United States Healthcare System Harms Businesses

United States businesses that furnish healthcare benefits are shouldering costs that go well beyond their own employees' needs. A health insurance premium paid by a business in the United States has been characterized as a triple tax (and in reality might conceivably be called a quadruple tax).⁵³ First, as might be expected, part of the payments cover insurance for their employees (and often their employees' families), but that is just a portion of what business' healthcare premiums cover.⁵⁴ Secondly, the payments indirectly subsidize Medicaid and, possibly, Medicare.⁵⁵ This is because hospitals pad their bills to private insurance companies to compensate for lower Medicaid and Medicare reimbursements.⁵⁶ This phenomenon is known as "cost shifting."⁵⁷ Third, the

⁵² The United States does fare well by some measures. For example, the Global Entrepreneurship Monitor ranks the United States number one in the world in the rate of start-up businesses. Donna J. Kelly et al., *GLOBAL ENTREPRENEURSHIP MONITOR: 2011 GLOBAL REPORT 11* (2012), available at <http://www.gemconsortium.org/docs/download/2409>.

⁵³ Toni Johnson, *Healthcare Costs and U.S. Competitiveness*, COUNCIL ON FOREIGN RELATIONS (March 26, 2012), <http://www.cfr.org/competitiveness/healthcare-costs-us-competitiveness/p13325>.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ The extent of cost-shifting as applied to Medicare is controversial. Some contend that Medicare reimbursements are adequate to cover costs. *See, e.g.*, Steven Brill, *Bitter Pills*, TIME (Feb. 20, 2013), healthland.time.com/2013/02/20/bitter-pill-why-medical-bills-are-killing-us/print/ ("When

amounts hospitals bill private insurance companies is also increased to help hospitals recoup losses for services rendered to uninsured patients who are unable to pay their bills.⁵⁸

A fourth “tax” wrapped up in hospitals’ insurance payments is a subset of the first item listed above—money that pays for benefits to employees or their families. Employers that provide healthcare benefits are often covering costs for other businesses that avoid doing so. For example, in 2004, seventy-one percent of PepsiCo’s hourly employees were covered on someone else’s healthcare.⁵⁹ This suggests that PepsiCo was foisting costs onto other businesses that would be its responsibility if it were to pay its fair share.⁶⁰ These costs hurt those businesses doing the right thing.

Companies in the United States that must pay large amounts to private insurance companies to cover their employees with healthcare are at a competitive disadvantage against companies in countries with single-payer healthcare or other universal healthcare systems. This is illustrated in cases in which different divisions of the same company operate in different countries.⁶¹ In 2002, Ford Motor Co., General Motors, and DaimlerChrysler signed a joint letter entreating the Canadian government to take steps to preserve the Canadian National Health System.⁶² In it, they specifically cited the fact that labor costs in Canada are lower than in the United States in part because businesses do not have to pay for their employees’ health insurance.⁶³ Savings for Canadian divisions amounted to as much as “several dollars per hour of labor worked.”⁶⁴ This savings is a “significant factor in maintaining and attracting new auto investment to Canada.”⁶⁵

Although this letter was written in 2002, it is important to note that the cost of employer-sponsored health insurance in the United States has escalated greatly since then. Between 2000 and 2011, the cost of the average annual employer-sponsored premiums in the United States doubled.⁶⁶ In fact, General Motors estimated as recently as 2012 that the rising healthcare costs it faces in the United States add “between \$1,500 and

hospitals say they are losing money on Medicare, my reaction is that Central Florida is overflowing with Medicare patients and all those hospitals are expanding and advertising for Medicare patients,” says [Jonathan] Blum, deputy administrator of the Centers for Medicare and Medicaid Services. “Hospitals don’t lose money when they serve Medicare patients.”)

⁵⁸ *Id.*

⁵⁹ Morton Mintz, *Single Payer: Good for Business*, THE NATION (Oct. 28, 2004), <http://www.thenation.com/article/single-payer-good-business?page=0,3>.

⁶⁰ *Id.*

⁶¹ *General Motors, Ford, DaimlerChrysler, Big Three Auto Joint Letter on Publicly Funded Health Care, Canadian Auto Workers Union* (June 7, 2012), <http://www.caw.ca/en/campaigns-issues-past-campaigns-issues-big-three-auto-joint-letter-on-publicly-funded-health-care.htm> (last viewed Apr. 27, 2014).

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Number of Americans Obtaining Health Insurance Through an Employer Declines Steadily Since 2000*, ROBERT WOOD JOHNSON FOUND. (Apr. 11, 2013), <http://www.rwjf.org/en/about-rwjf/newsroom/>

\$2,000 to the sticker price of every automobile it makes.”⁶⁷ Len Nichols, Director of the Health Policy Program at the New American Foundation, estimates that United States manufacturing companies spend almost three times as much on healthcare per worker per hour as foreign companies do.⁶⁸

C. Why a Universal Care System Would Lessen Burdens on Businesses

No universal care systems, including pure single-payer systems, are a free lunch for businesses. In one way or another, often through a payroll tax, businesses end up providing at least some of the money to finance the system.⁶⁹

There are several reasons to believe that a universal care system would mitigate this impact on businesses. Primarily, such a system would cause future costs to be lower, or at least stem the trend of cost-increases far exceeding inflation.⁷⁰ Secondly, businesses’ overall share of healthcare bills would likely be lower.⁷¹ Finally, a universal care system would distribute costs far more equitably among businesses.⁷²

1. Future Overall Healthcare Costs Would be Lower Across the Board

There are two primary reasons that future costs in a government-directed, universal care system would be lower than they would be if we remained on our current trajectory: such a system would result in reduced administrative costs and would lower costs for procedures and prescriptions.⁷³

A 2003 study published in the *New England Journal of Medicine* concluded that administrative costs account for thirty-one percent of healthcare spending in the United States compared to just 16.7 percent in Canada, which has a single-payer system.⁷⁴ United States healthcare costs in 2011 were about \$2.7 trillion.⁷⁵ If the United States

newsroom-content/2013/04/number-of-americans-obtaining-health-insurance-through-an-employ.html.

⁶⁷ Toni Johnson, *Healthcare Costs and U.S. Competitiveness*, COUNCIL ON FOREIGN RELATION (Mar. 26, 2012), <http://on.cfr.org/J0oMeD>.

⁶⁸ Len Nichols, Paul N. Van de Water et al., *Squaring Healthcare With the Economy*, COUNCIL ON FOREIGN RELATIONS (Dec. 8, 2009), <http://on.cfr.org/1cxaIkJ>.

⁶⁹ See e.g., *Single Payer*, SINGLE PAYER NEW YORK (2011), <http://www.singlepayernewyork.org/single-payer/> (last viewed Apr. 27, 2014) (suggesting employers would fund a single-payer system through a payroll tax).

⁷⁰ See Gerald Friedman, FUNDING HR 676: THE EXPANDED AND IMPROVED MEDICARE FOR ALL ACT 1 (July 2013), available at http://www.pnhp.org/sites/default/files/Funding%20HR%20676_Friedman_7.31.13_proofed.pdf (noting that a single-payer system would “bend the cost curve” and save approximately \$ 1.8 trillion in health costs over the next decade).

⁷¹ See e.g., *Single Payer*, SINGLE PAYER NEW YORK (2011), <http://www.singlepayernewyork.org/single-payer/> (last viewed Apr. 27, 2014).

⁷² See Mintz *supra* note 59.

⁷³ See Friedman *supra* note 70, at 5.

⁷⁴ Steffie Woolhandler et al., *Costs of Health Care Administration in the United States and Canada*, 349 NEW ENG. J. MED. 768, 772 (Aug. 31, 2003), available at <http://www.pnhp.org/publications/nejmadmin.pdf>.

⁷⁵ *National Health Expenditures; Aggregate and Per Capita Amounts, Annual Percent Change and Percent Distribution: Selected Calendar Years 1960-2011*, CENTERS FOR MEDICARE AND MEDICAID

were able to shave 14.3 percent off of its healthcare bill, it would save approximately \$415 billion a year.⁷⁶

Additionally, governments that coordinate their countries' healthcare delivery are able to negotiate lower rates for procedures and prescription drugs.⁷⁷ The example below compares costs for medical procedures and prescriptions in the United States with those in France, which the World Health Organization in 2000 ranked as having the best healthcare services in the world.⁷⁸ [See Table 4].

Table 4: Comparison of Costs for Selected Procedures and Drugs, United States v. France

| | United States | France | Pct. Difference |
|--|---------------|---------|-----------------|
| Angiogram | \$914 | \$264 | +246.2% |
| CT scan, abdomen | \$630 | \$183 | +244.3% |
| CT scan, head | \$566 | \$183 | +209.3% |
| CT scan, pelvis | \$567 | \$183 | +209.8% |
| MRI | \$1,121 | \$363 | +208.8% |
| Total hosp. & phys. cost: Appendectomy | \$13,851 | \$4,463 | +210.4% |
| Total hosp. & phys. cost: normal delivery | \$9,775 | \$3,541 | +176.1% |
| Cost of hospital per day | \$4,287 | \$853 | +402.6% |
| Drugs: Nasonex | \$108 | \$17 | +535.3% |
| Drugs: Lipitor | \$124 | \$48 | +158.3% |
| Drugs: Nexium | \$373 | \$30 | +1,143.3% |

Source: International Federation of Health Plans. <http://bit.ly/J0rQYi>

It is doubtful that costs for procedures and drugs would be cut to the levels in France if the United States were to adopt a government-directed, universal care system as that would require reducing drug and provider reimbursement rates in Medicare, which is extremely difficult politically. A more likely scenario is that the rate of increase of payments to providers in the United States would be slowed or temporarily stopped.⁷⁹

A window of insight into the potential cost savings that could be realized by converting to a universal care system can be gleaned by comparing the rate of increase in per-patient private insurance costs versus per-patient Medicare costs. Although some single-payer purists disagree with this characterization, Medicare is essentially a single-payer system for people sixty-five years of age and older. Advocates for single-payer systems

SERVICES, <http://go.cms.gov/1fhvt7k>.

⁷⁶ See Woolhandler, *supra* note 74, at 772. (such an astounding outcome would likely be unrealistic to achieve, but even saving half that much would be a widely welcomed development.)

⁷⁷ See *id.*

⁷⁸ IMPROVING PERFORMANCE, WORLD HEALTH ORGANIZATION 153 (2000).

⁷⁹ See *id.*

often express their proposed policy as Medicare for All or Improved Medicare for All.⁸⁰ Private insurance costs outpaced Medicare over the four decades concluding in 2010.⁸¹ The discrepancy was particularly pronounced for the most recent decade. [See Table 5].

Table 5: Annual Growth Rate in Per-Capita Healthcare Spending, Common Benefits

| | Private Insurance | Medicare |
|-----------|-------------------|----------|
| 1969-2010 | 9.4% | 8.1% |
| 2001-2010 | 7.8% | 5.2% |

Source: *New York Times* (citing Kaiser Family Foundation data), <http://nyti.ms/18qo4n9>

Critics of the hypotheses that a universal Medicare system would generate cost savings argue that hospitals simply charge private sector insurers more to compensate for insufficient payments from Medicare.⁸² But many dispute this “cost shifting” theory. Anecdotally, as noted above, Medicare payments have been sufficiently large to fund vast expansions of medical infrastructure.⁸³ Meanwhile, hospitals spend money on advertising to compete for Medicare patients, which defies common sense because this would never happen if Medicare were not at least covering providers’ costs.⁸⁴

A study published in 2011 by Austin Frakt of the Veterans Affairs Administration concluded that cost-shifting is a factor in determining medical providers’ pricing but only one of many factors.⁸⁵ “Policymakers should take hospital and insurance industry claims of inevitable, large scale cost shifting with a grain of salt,” Frakt wrote.⁸⁶ “Though a modest degree of costs shifting may result from changes in public payment policy, it is just one of many possible effects. Moreover, changes in the balance of market power between hospitals and healthcare plans also have a significant impact on private prices.”⁸⁷

2. Businesses’ Overall Share of Costs Would Be Lower

Nearly every European country has a more regulated healthcare system than the United States, and most have provisions in place to ensure virtual universal coverage of their residents. A 2010 survey of financing systems published by Kaiser Permanente and a series of reports by the World Health Organization indicate that European systems are funded by an array of sources, often including general taxes and payroll taxes in

⁸⁰ See H.R. 676, The Improved Medicare for All Act.

⁸¹ Brill, *supra* note 57.

⁸² *Id.*

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ Austin Frakt, *How Much Do Hospitals Cost Shift? A Review of the Evidence*, 3 HEALTH CARE FINANCING & ECONOMICS, WORKING PAPER NO. 2011-01 (2010), available at <http://1.usa.gov/1908e0A>.

⁸⁶ *Id.*

⁸⁷ *Id.*

which employers and employees pay equal shares, as well as individual user fees.⁸⁸ If a universal healthcare system were implemented in the United States, chances are that the burden would be lifted at least to some extent from employers and thus reduce the overall costs.⁸⁹ Residents would probably be required to pay some additional taxes that would be dedicated to healthcare, but their contribution would likely be mitigated because they would no longer have to pay private health insurance premiums.⁹⁰

3. Healthcare Costs Would be Distributed More Equitably In a Universal Care System

To the extent that a single-payer or other government-directed universal care system would be funded with payments from businesses, those payments would likely be made according to a formula to ensure equity.⁹¹ This type of system would protect businesses in low-margin industries that currently seek to provide their employees with access to healthcare because it would ensure that those businesses' competitors are not gaining an advantage by dodging the cost. Thus, businesses would pay more in healthcare fees on behalf of employees whom they pay more and less on behalf of lower-paid employees.

CONCLUSION

If the United States were to implement a system to ensure universal care, American companies would no longer face a disadvantage in competing with businesses from countries, such as Canada, that provide national healthcare systems. Additionally, healthcare would cease to be a large factor guiding individuals' career decisions. A national, universal care system would level the playing field among domestic businesses, and eradicate the free-rider problem. For all of the above reasons, economic growth would likely improve, which would yield additional self-perpetuating benefits.

There is an argument that the taxes to finance such a system would constrain business. This claim is seriously undercut by examples from around the world. For instance, Hong Kong, viewed by many as a "beacon of capitalism," has universal healthcare. So does Denmark, which has higher levels of entrepreneurship than the United States.⁹² What is becoming increasingly clear now is that the current employer-sponsored healthcare system in the United States does hurt business.

⁸⁸ See, e.g., *Selected European Countries' Health Care Systems and the United States*, KAISER PERMANENTE INT'L (2010), available at <http://bit.ly/1dpBOfe>.

⁸⁹ See OECD, *supra* note 47.

⁹⁰ See *id.*

⁹¹ See *id.*

⁹² Andrew McMurphy, *The Conservative Case for Single Payer Health Care (It's the Competitiveness, Stupid)*, FREE REPUBLIC (June 16, 2012), <http://www.freerepublic.com/focus/news/2896163/posts>; see also *Number of Americans Obtaining Health Insurance Through an Employer Declines Steadily Since 2000*, ROBERT WOOD JOHNSON FOUND. (April 11, 2013), <http://www.rwjf.org/en/about-rwjf/newsroom/newsroom-content/2013/04/number-of-americans-obtaining-health-insurance-through-an-employer.html>.