

A Comparison of Public and Private Health Care Systems

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Abstract

A nation's health care system is imperative in determining the health of its citizenry. Currently, there exists considerable global diversity in the methods of health care delivery and controversy regarding which health care model is most ideal. Specifically, the role of government and the role of the private sector in the health care system remains at the very core of the exhaustive macro and micro debates. There are two contrasting opinions which are most prevalent. On the one hand, it is suggested that health care be considered a marketable commodity and thus be subject to the forces of free market competition. This economic view contends that the invisible hand of the open market, guided by consumer choice, will invariably produce a health care system that fulfills the needs of the public. On the other hand, it is argued that health care is a fundamental human right that should be governed by the moral and ethical principles reflecting the social fabric of society, rather than economic theory, even if this results in inefficiency. In the health care world today, situational factors tend to dictate what is best for the given circumstances. The interplay of political, economic and ethical factors determines what shape the health care system takes. Ideally a system will be chosen that will be the best in optimizing effectiveness, fairness, and efficiency.

Introduction

Denizens, politicians, ethicists, patients' rights groups, health care workers and economists have differing opinions about which approach to health care is best. Many observers, including the World Health Organization, view Canada's healthcare system as lacking in efficiency (<http://www.who.int/>).¹ Canada's population is aging, medical treatments are becoming increasingly expensive, and consumer demand is rising. Many feel the current health care system will buckle under the burden of increased stresses. Indeed, public confidence in the current health care system is eroding.² Some argue that the old paradigms such as the *Canada Health Act* are obsolete. These critics see privatization of the universal health care system as the inevitable shining light that will give Canadians a sustainable health care system. However, others that are

adamantly behind the principles upon which the present system is founded argue that the current hysteria about health care is fabricated. Supporters of the *Canada Health Act* proclaim that there has been an increasing amount of unfounded rhetoric created by those with a vested interest in the lucrative private health care market.³ It is the goal of this article to explore the differences in publicly and privately financed systems. Using comparative analysis between the American and Canadian systems, the pros and cons of the differing health care systems is examined. Moreover the recent changes in Alberta via the Tory introduced Bill 11 has stirred much controversy and raised important questions. Examining this situation may give a glimpse into the future of private-public health care.

Comparison of Canadian and U.S. Health Care Systems

The Canadian health care system is quite complex. It is best defined as a publicly financed but privately delivered health insurance plan (<http://www.hc-sc.gc.ca/>).⁴ Citizens, through various channels of taxation, contribute to a public pool of funds which serves to support the health care system. The medicare system pays for all health care services described as medically necessary, including hospital visits, drugs given in hospital, necessary diagnostic services, and family doctor and specialist consultations. The main criticisms of this system are that public financing curtails efficiency, is not conducive to accountability, limits a patient's autonomy to choose to privately pay for health care, and is subject to abuse and overuse of resources. Also, economists argue that under the current system patients are not directly aware of health care costs, and this leads to over-utilization of the system with extra visits, unnecessary follow-up and emergency room visits, and the seeking of medical attention in inappropriate cases. Therefore the system cannot become as efficient as one in which the true costs of care are transparent.⁵

Of all the health care systems across the globe, the health care system of the United States is perhaps the system that most closely resembles a free market model. Medicare and Medicaid are government funded health plans which are available for the elderly and economically disadvantaged, respectively. The remainder have pri-

vate insurance (widely varying in coverage) or no health insurance coverage at all. Currently over 42 million American citizens are uninsured and live without a health plan.⁶

Comparing the amount of money spent on health care and resulting health outcomes sheds light on the efficiency of a health care system. In 1998, Canadian health care expenditures were approximately \$1800 per capita (8.6% of GDP) as compared to \$3700 per capita (13.7% of GDP) in the U.S.⁵ In terms of health outcomes, Canada fared better than the U.S. in several poignant indicators. For example, the Canadian infant mortality rate was lower (6.0 for Canada vs. 7.8 for the U.S.). In addition, the amount of productive years of life lost (PYLL) was much higher in the U.S. (5000 for Canada vs. 8400 for the U.S.). Therefore, it is argued that in comparison with Canada, the U.S. spends more money per capita on health care but has a poorer overall health status, being among the worst in the Western world.¹ In fact the World Health Organization has criticised the U.S. on numerous occasions for providing an inadequate level of health care to all of its citizens.

It is puzzling that the increased spending of the U.S. does not translate into increased health status, but this can be understood after considering several points. First, since the health care system is itself but one factor amongst a multitude of determinants of health, increased expenditures in health care do not necessarily correlate with increased general health. Further, the fact that the American system is not accessible to the economically disadvantaged means that health care resources are not being equally distributed to the entire population. Finally, it may be the case that a health care system open to the free market does not result in more efficient health care delivery. It may be the case that the money spent under the rubric of “health care” does not end up being spent on needed health care but rather is spent running the health care industry itself. For example, 12.5% of total U.S. expenditures on health care are for administrative overhead as compared to less than 3% in Canada.⁷ Other studies comparing the administrative cost in terms of insurance overhead, hospital administration, nursing home administration, and physicians’ billing and overhead expenses have also showed that the administrative structure of the U.S. system is inefficient as compared with that of Canada’s national health program.⁹ It is no wonder that some physicians believe that “the only thing protecting us from U.S.-style health economics is the spectacular and well-documented failure of that system, not anything we are doing to protect ourselves from American encroachment”.⁹

Thus it is understandable that some economists would call health care a public good and thereby argue for funding and supporting the system with tax dollars. Public goods are defined by economists as things that can be consumed by everybody in a society. They have three characteristics. They are (i) non-rival – one person consuming them does not stop another person from consuming them; (ii) non-excludable – if one person can consume them, it is impossible to stop another person from consuming them; (iii) non-rejectable – people cannot choose not to consume them even if they want to.¹⁰ These three characteristics and their applicability to health care can be endlessly debated. However it is

worth noting that there are elements of a public good in health care. Those for a publicly funded health care system in the U.S. use this economic argument that private markets will never provide goods at an economic price of zero and will always underprovide public goods. These proponents of public health go on further to state the private health care system in the U.S. has created dangerous moral hazards, especially when one party to a transaction has both the incentive and ability to shift costs onto the other party, often arising from insurance contracts (<http://www.newyorktimes.com>).¹¹ Hence the existence of insurance markets, which ideally merely spread existing risk, has increased the total amount of risk present because of moral hazard – this can be seen in the higher insurance premiums that both health care providers and users pay for in the United States.¹²

Nonetheless, what economists associate with a public good is the free-rider problem, which follows from the fact that it is difficult to prevent people from using public goods.¹³ Ideally the government should provide up to the point where the sum of everyone’s individual valuations of the good is just equal to the marginal cost of providing the good (Pareto efficiency). For instance, similar to the Tragedy of Commons described by William Forster Lloyd in the 19th century, a common resource like health care in Canada may be destroyed because no individual, firm or group has meaningful property rights and/or understanding of the value of the resource. Thus they will increase their usage of the resources to maintain its perceived value, resulting in a further deterioration in the resources value, and so on, until no value remains. Efficiency requires that social marginal cost be equal to social marginal benefit. This is a difficult ideal to achieve in reality. In other words this economic problem is seen in Canada as people often misuse, overuse, and abuse the system – and this may have led to the perceived decline in Canadian health care.

The realities in Canada

From an economic standpoint, the U.S. system has some distinct advantages over the Canadian system: more resources are available, waiting lists are shorter, and there is greater consumer choice with less taxes. For example, the amount of CT scanners per capita is 26.9 in the U.S. versus only 7.9 per million in Canada. In actual fact, Canada fares quite poorly in terms of its overall availability of medical technological, particularly MRI and PET scanners.¹⁴ An American patient willing to pay up-front can receive the diagnostic imaging necessary at any given time whereas his or her Canadian counterpart may have to perilously wait until the next day.

Many health care economists, politicians, and physicians in Canada have advocated an increased role of the private sector in health care to absorb the increased costs. Under the leadership of Ralph Klein and the Conservatives, Alberta has been the first province to experiment with private sector health care. Proclaimed law in September 2000, the *Health Care Protection Act*, also known as Bill 11, permits for-profit corporations to operate facilities for “day surgery” procedures, including some that require an overnight stay. Surgeons continue to bill the provincial health plan, with no direct charges to the patient. For-profit facilities are reimbursed by the government, using public funds in a manner previously reserved

for not-for-profit institutions. Additionally, these facilities may provide “enhanced” non-medical services for which the patient may choose to pay, but further charges for routine care are proscribed.¹⁵ Klein and his followers believe that this “innovation” will reduce waiting lists while placing no cost burden on patients. So far, studies are inconclusive as to the effects of this bill. The vast majority of health care workers and citizens in both Alberta and the rest of Canada are opposed to Bill 11 – there has been a “public outcry” against private-public health care.¹⁵ As there is continuing opposition to this trend in health care by the majority of Canadians it can be reasonably speculated that the advantages of a pseudo private-public partnership have not overcome the public’s distrust, nor convinced Albertans and Canadians alike that they are receiving better health care. In all likelihood, the private industry will undoubtedly be called upon as health care reform begins.

Conclusion

From the evidence presented, the Canadian system has been demonstrated to be more efficient, cost-effective and accessible than market-driven systems.¹ However, the system is under considerable stress. Health care costs continue to rise, waiting lists are lengthy, health care workers are appealing for better remuneration, and public expectations have risen. Clearly, changes are needed if Canada is to keep its commitment to quality and equity. The world sees Canada’s health care as one that supports the principles of accountability, cost-effectiveness and one in which equity of access, universality and the ethical principles of distributive justice are maintained.¹⁶ With increased pressures on the system, will it be feasible to maintain health care standards that are extolled across the world?

Some have suggested a move to user fees, medical savings accounts or a health benefits tax to decrease the burden on their accounts.^{16,17} Health economists like David Gratzner and Alberta’s health minister Gary Mar advocate the medical savings account to improve efficiency of health care. There is generally a mixed consensus among physicians: some like Dr. Elizabeth Hall-Findlay welcome privatisation to avoid bureaucracy and to increase efficiency on multiple fronts (competitive wages for health care workers, wages based on performance, and ultimately better service for patients).¹⁸ Others work diligently with health economists and policy makers to alter health care in a way that will maintain the universal access principle upon which the Canada Health Act was founded. There is also growing concern that international trade tribunals “will intrude into our domestic health policy” and lead to a for-profit firm based health care system.¹⁸

It is unclear at the moment what the future holds for Canada’s health care system. There is a strong call from health care analysts that greater emphasis should be placed on prevention and the determinants of health. It is argued that more government funds allocated into public health initiatives and social programs would have a large influence on the health care system. It is believed that encouraging individuals to make healthier lifestyle choices for themselves such as quitting smoking and undertaking regular physical activity will, in the long term, provide the greatest relief for the system. According to The National Forum on Health in 1997: “We have known for some time that the better off people are in

terms of income, social status, social networks, sense of control over their lives, self-esteem and education, the healthier they are likely to be”.¹⁹ Thus, great strides can be made by ensuring citizens are not living in poverty, and that education and employment are accessible – areas currently not considered in the domain of health care policy. It is hoped that instituting such changes will result in a practical and sustainable system that encompasses the beliefs of the Canadian public.

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