



## Editorial

# Why U.S. Healthcare Costs So Damn Much?

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The U.S. health care system is in crisis and unsustainable if it continues on the current path [1,2]. The Institute of Medicine Report (2012) [1] estimates that about \$750 billion, or 30 cents of every medical dollar, is squandered in unnecessary health spending annually. According to the report, unnecessary services (\$210 billion), overpriced services (\$105 billion), excessive administrative costs (\$190 billion), and inefficiently delivered services (\$130 billion) are all contributing to the current mess in health care.

Per capita spending on health care in U.S. towers over all other developed nations, and yet health care outcomes as reflected in key health indicators are at best average. In other words, the U.S. health care system consumes far more resources to produce the same or lesser outcomes as compared to health care systems elsewhere. For example, the U.S. spent \$9,024 per capita in 2014 compared to \$4,506 in Canada, \$3,971 in Britain, \$4,152 in Japan, and \$3,620 which is the OECD average [2].

In total health care spending, U.S. spends 17.7 percent of its Gross Domestic Product, which is almost the double of the average spending of 9.3 percent of Gross Domestic Product for the OECD countries. Indeed, soaring costs of health care in U.S. are a source of severe financial burden and distress to Americans as evident from the fact that 62.1 per cent of all personal bankruptcies in 2007 were medical [3].

Obviously, the dysfunctional U.S. health care system needs to be fixed urgently. If left unchanged, it will continue to underperform, cause unnecessary harm, make U.S. firms and economy less competitive, and strain national, state, and family budgets. A headline by US News in an article dated July 14, 2017, 'Health Care Will Bankrupt the Nation', captures the extent of the problem in the U.S. health care system succinctly.

What lies at the core of dysfunction in health care system? While there are many plausible explanations, if I have to pick one explanation then my unequivocal answer is crony capitalism or greed. A politicized or rigged economic system is dubbed as crony capitalism to distinguish it from a system of free markets and lim-

ited government. Crony capitalism is the deliberate, systematic use of public policy to rig markets in ways that benefit politically connected actors.

In crony capitalism, power and favors are wielded, exchanged, and acquired via an intricate system of personal contacts, favoritism, and championing of interests. Holcombe (2012) [4] characterizes crony capitalism as a system in which the profitability of a business depends on political connections. Crony capitalism results when those in political power use it to their advantage by altering the structure of incentives that firms face by providing profit opportunities for firms that invest in political lobbying, campaigning, and relationships rather than in true profit opportunities [5].

Crony capitalism engenders a higher return on developing lobbying and political skills - to becoming a crony - rather than to developing economically productive skills. Business activities end up in the hands of those who are good at political connections (political entrepreneurs) but not in the hands of those who are innovative and risk-takers (market entrepreneurs). Consequently, unimaginative, unproductive, inefficient, and wasteful initiatives, programs, and businesses are likely to be the hallmarks of an economic system riddled with crony capitalism. Cronyism, by creating privilege, transfers wealth from the many to the favored few. Crony capitalist coalitions invariably encompass big businesses and are built on unsustainable policies that produce adverse effects and hurt a society's most vulnerable populations [6]. Markets are less competitive, rent-seeking intensifies, and innovation is short-changed.

Cronies often stonewall establishment of fair and transparent laws, because such laws hamper their free wheeling and dealing [4]. To the extent a system rife with cronyism has a certain degree of legitimacy in the general public, this legitimacy seems to exist only thanks to certain amount of stealth behavior and deception on the part of the privileged economic groups and politicians complicit in providing those privileges [7]. Under crony capitalism, the politicians, government officials, and businesses must be able to make deals in smoke-filled rooms, without public review and approval.

The dynamics of crony capitalism described above applies so aptly to the current U.S. health care system. The current health care crisis is perhaps even more serious than the mortgage financial crisis back in 2007, which was chiefly driven by the greed of financial institutions. For more than 30 years, the cost of health care has been draining the wallets of citizens and the government alike. The main interest groups in the health care industry are physicians, pharmaceutical industry, insurance industry, hospitals, medical device industry, and more recently health IT industry.

For example, the four largest players in U.S. health care spending in 2015 include private health insurance with a total of \$1.1 trillion accounting for one-third of the U.S. health care spending, hospitals with a total spending of \$1 trillion accounted for 32 percent of the U.S. health care spending, physician and clinical services totaled \$634.9 billion in spending and accounted for 20 percent of overall the U.S. health care spending, and prescription drug spending totaled \$324.6 billion and accounted for 10 percent of the overall U.S. health care spending.

These powerful interest groups have over 2,400 lobbyists representing health care industry meaning there are six lobbyists for each member of the Congress. Pharmaceutical industry alone has 1,100 lobbyists. So many lobbyists working full-time have turned U.S health system into one big scam. According to urban dictionary, a scam is a contrived scheme or process designed to surreptitiously, deceitfully, and materially benefit the perpetrator(s) at the expense of the victim(s). Such behavior captures well the behavior that routinely goes on in U.S. health care industry.

For example, MapLight analysis in its report dated June 21, 2017 reported that the small group of senators secretly crafting the bill to eliminate the Affordable Care Act collected on an average of \$214,000 in campaign contributions from health insurance and pharmaceutical industries between November 2010 and November 2016. The Affordable Care Act was also drafted mainly by various interest groups. It is not difficult to imagine what would happen if the fox is guarding the henhouse.

These interest groups have unprecedented influence and control over health care policies and prices of health care products

and services. Especially, drug makers, device makers, and hospitals continue to raise prices of products and services at will. They are able to do so because they have captured the regulatory process and blunted the forces of competition.

For example, thanks to the pharmaceutical industry, prescription drug programs prohibit federal government from negotiating the cheaper drug prices and ban importing prescription drugs. Another example, the cost of health care is not regulated by the government rather prices are set by private for profit organization, Specialty Society Relative Value Scale Update Committee under the auspices of the American Medical Association. Similarly, hospitals rather than focusing on improving efficiencies and reducing costs are more concerned with how to limit competition from each other by way of mergers or alliances or networks.

In conclusion, the U.S. health care system is in a deep crisis. It is causing ridiculous amount of turmoil in the American society. I have identified the ailment that lies at its core: Greed or Crony capitalism. Unless this problem is addressed, the U.S. health care system is only likely to get worse rather than getting better.

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